UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1998

OR

[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 1-4034

TOTAL RENAL CARE HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware	51-0354549
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

21250 Hawthorne Boulevard, Suite 800, Torrance, California 90503-5517
(Address of principal executive offices)

Registrant's telephone number, including area code: (310) 792-2600

Securities registered pursuant to Section 12(b) of the Act: Common Stock, par value $0.001 per share

Name of each exchange on which registered: New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. [X] Yes [_] No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the common stock of the Registrant held by non-affiliates of the Registrant on March 15, 1999, based on the price at which the common stock was sold as of March 15, 1999, was $738,650,481.

The number of shares of the Registrant's common stock outstanding as of March 15, 1999 was 81,054,793 shares.

Documents Incorporated by Reference

None.

As previously announced, we are engaged in discussions with the staff of the SEC in connection with the filing of a registration statement covering the resale of our 7% convertible subordinated notes. The results of these discussions may require us to amend some of the information contained in this Form 10-K. For more details, see Note 17 to our financial statements.

PART I

Item 1. Business.

The following should be read in conjunction with our consolidated financial statements and the related notes contained elsewhere in this Form 10-K. This Form 10-K contains forward-looking statements which involve risks and uncertainties. Our actual results may differ significantly from the results discussed in the forward-looking statements. Unless otherwise indicated, all share and per share data in this Form 10-K reflect all Total Renal Care Holdings, Inc., or TRCH, stock splits and all information in this Form 10-K is as of March 15, 1999.

Overview

We are the largest worldwide independent provider of integrated dialysis services for patients suffering from chronic kidney failure, also known as end stage renal disease, or ESRD. We provide dialysis and ancillary services to more than 41,300 patients through a network of 537 outpatient dialysis facilities, including approximately 3,000 patients and 35 facilities under management, in 34 states, Washington D.C., Puerto Rico, Guam, Argentina, and Europe. Of our 537 facilities, 459 facilities servicing more than 37,500 patients are located in the United States. In addition, we provide inpatient dialysis services at approximately 290 hospitals. We also offer ancillary services including ESRD laboratory and pharmacy services, physician network development and management, pre- and post-transplant services, ESRD clinical research programs, and vascular access management, which is the care of the entry site to a patient's bloodstream.

On February 27, 1998, we acquired Renal Treatment Centers, Inc., or RTC, then the fourth largest provider of integrated dialysis services in the United States, in a stock-for-stock exchange transaction valued at approximately $1.3 billion. The acquisition added 185 facilities servicing approximately 13,200 patients.

Business strategy

We seek to further strengthen our position as the leading independent provider of integrated dialysis services worldwide and to maximize profitability through the following strategies:

- Expand through strategic acquisitions, de novo developments and management agreements

We believe that significant opportunities continue to exist for growing our patient base through strategic acquisitions, building our own facilities, which we refer to as de novo developments, and providing management services to dialysis facilities, both domestically and internationally. Our strategy is to buy, build, or manage facilities in order to leverage our operations in regions where we already have a strong market presence or to establish a strong presence in new markets by acquiring or developing clusters of facilities that can support new regional operations. We also actively market our ability to provide management services that assist dialysis facilities in improving both their financial performance and quality of care. The table below shows our implementation of this strategy by presenting the number of facilities added each year through acquisitions, de novo developments and management agreements:

	Acquisitions	De Novo Developments	Managed Centers
1995	23	3	--
1996	57	9	--
1997	51	12	--
RTC merger (February 27, 1998)	185	--	--
1998 (excluding the RTC merger)	70	24	32
January 1, 1999 through March 15, 1999	23	3	3

. Offer an expanded range of ancillary and "Total Renal Care" services

We are committed to broadening the range of ancillary and "Total Renal Care" services we provide to our ESRD patients. By providing additional ancillary services, we add value for our patients by improving the quality of their care. Such services include ESRD laboratory and pharmacy services, vascular access management, pre- and post-transplant services, nephrology-related clinical research and pediatric dialysis programs. We believe that by providing comprehensive ESRD services, we can generate additional revenues with improved margins, while also providing higher quality service to our patients.

. Achieve Quality/Value/Growth at all of our facilities

Through our Quality/Value/Growth Program, we seek to improve the quality of care our patients receive while enhancing operating efficiencies and growing the patient base at our existing facilities. Our Quality Management Team strives to improve the quality and outcome of dialysis treatments at our facilities and trains the staff of our regional facility networks. Our Value Management Team focuses on improving financial and operational measures while enhancing the quality of care at each center. By providing high-quality, efficient care, we can grow our patient base at our existing facilities.

. Form strategic alliances with managed care organizations

We believe we are well-positioned to form strategic alliances with managed care organizations as a result of our ability to:

(1) Cover a wide geographic area in our markets;

(2) Provide comprehensive, integrated "Total Renal Care" ESRD services; and

(3) Deliver high-quality care while reducing overall healthcare costs.

To date, we have established strategic alliances to provide integrated dialysis and disease management services with leading managed care organizations including Kaiser Permanente in San Diego and Northern California, Group Health Cooperative of Puget Sound, Aetna (New Orleans), and Maxicare (New Orleans).

The dialysis industry

End stage renal disease

ESRD is the state of advanced kidney impairment that is irreversible and requires routine dialysis treatments or kidney transplantation to sustain life. Dialysis is the removal of waste from the blood of ESRD patients by artificial means. Patients suffering from ESRD generally require dialysis three times per week for their entire lives. We estimate that the United States market for outpatient and inpatient services to ESRD patients exceeded $16 billion in 1998.

Trends

The following are some general trends in the dialysis industry:

. Stable and predictable growth in patient base

According to figures published by the Health Care Financing Administration, or HCFA, the number of ESRD patients requiring chronic dialysis services in the United States has increased at an approximate compounded annual growth rate of 8% from approximately 85,000 patients in 1985 to over 250,000 patients in March 1999.

We expect the number of ESRD patients to continue to grow at approximately the historical rate for the foreseeable future due to:

(1) The aging of the general population;

(2) Better treatment and longer survival of patients with diseases that typically lead to ESRD, including diabetes and hypertension; and

(3) Improved medical and dialysis technology.

We believe that the consistent patient growth rate and the necessity of life-long treatment for most ESRD patients translate into predictable top-line revenue for us and the other leading dialysis service providers.

. Significant acquisition opportunities and ongoing industry consolidation

The domestic dialysis services industry has been consolidating, with the five largest dialysis providers increasing their share of dialysis facilities from approximately 30% in 1992 to 53% in 1997. However, the absolute number of facilities owned by parties other than the five largest dialysis providers has not significantly decreased due to the consistent growth in the patient and facility bases.

We expect consolidation by the largest dialysis providers to continue due to their ability to leverage corporate and management resources and increase operating efficiencies. Moreover, the growth of managed care organizations has led physician owners of private facilities to sell their facilities to the multi-facility providers, which are better positioned to meet the challenges of managed care, including the reporting of quality outcomes measures through clinical information systems and the lowering of overall healthcare costs through a reduction in hospitalizations.

. Historically stable Medicare reimbursement environment

Since 1972, reimbursement of dialysis services has been covered universally by the federal government under Medicare regardless of age or income. Under this system, Medicare reimbursement rates are established by Congress. Medicare reimbursement rates for dialysis treatments essentially have been flat since 1983 and have declined over 65% in real dollars since 1972. Although this form of reimbursement limits the allowable charge per treatment, it provides dialysis providers with predictable and recurring per treatment revenues and permits providers to retain any profit earned.

We believe that the fixed-rate, government-reimbursed environment of the dialysis industry favors large providers, like ourselves, able to spread overhead costs across a broad patient base. In addition, the multi-facility providers have adapted to fixed reimbursement by improving operating efficiency, offering ancillary services and accelerating consolidation.

. Attractive international dialysis market

We estimate that there are currently approximately 550,000 to 650,000 ESRD patients outside the United States. We also believe that the international patient base has been growing at a compounded annual growth rate of 8 to 9%. In addition, the international markets are highly fragmented. We estimate that the major multi-facility providers serviced only approximately 5% of all non-US dialysis patients in 1998.

Our international expansion strategy targets countries with dialysis markets similar to that in the United States, characterized by favorable reimbursement environments and universal coverage of dialysis services. These countries include Argentina, Germany, Italy, and the United Kingdom, as well as selected other European and Far Eastern countries. We seek to improve financial performance at acquired international facilities primarily through the application of our purchasing and quality-assurance programs and the streamlining of less efficient operating cost structures.

Treatment options for ESRD

Treatment options for ESRD include: (a) hemodialysis; (b) peritoneal dialysis; and (c) kidney transplantation. ESRD patients are treated predominantly in outpatient treatment facilities. HCFA estimates that, during 1997, 86.4% of the ESRD patients in the United States received hemodialysis treatment in outpatient facilities, with 12.8% of the remaining patients using peritoneal dialysis and 0.8% using home hemodialysis. All ESRD patients require one of the following treatment options to sustain life:

- Hemodialysis

Hemodialysis, the most common form of ESRD treatment, generally is performed either in a freestanding facility or in a hospital-based facility. Hemodialysis uses an artificial kidney, called a dialyzer, to remove certain toxins, fluids and salt from the patient's blood, combined with a machine to control external blood flow and to monitor certain vital signs of the patient. The dialysis process occurs across a semi-permeable membrane that divides the dialyzer into two distinct chambers. While blood is circulated through one chamber, a pre-mixed dialyzer fluid is circulated through the other chamber. The toxins and excess fluid from the blood selectively cross the membrane into the dialyzer fluid, allowing cleansed blood to return into the patient's body. Each hemodialysis treatment usually lasts approximately three and one-half hours and usually is performed three times per week.

- Peritoneal dialysis

Peritoneal dialysis generally is performed by the patient at home. There are several variations of peritoneal dialysis. The most common are continuous ambulatory peritoneal dialysis, or CAPD, and continuous cycling peritoneal dialysis, or CCPD. All forms of peritoneal dialysis use the patient's peritoneal, or abdominal, cavity to eliminate fluid and toxins from the patient.

CAPD introduces dialysis solution into the patient's peritoneal cavity through a surgically placed catheter. Toxins in the blood continuously cross the peritoneal membrane into the dialysis solution. After several hours, the patient drains the used dialysis solution and replaces it with fresh solution. This procedure usually is repeated four times per day.

CCPD is performed in a manner similar to CAPD, but uses a mechanical device to cycle dialysis solution while the patient is sleeping or at rest.

- Transplantation

An alternative treatment that integrated dialysis service companies do not provide is kidney transplantation. However, we do provide both pre- and post-transplant nursing services and transplant pharmaceuticals in selected markets through our pharmacy.

While transplantation, when successful, is generally the most desirable form of therapeutic intervention, the shortage of suitable donors, side effects of immunosuppressive drugs given to transplant recipients and dangers associated with transplant surgery for certain patient populations limit the availability of this treatment option. Only approximately 5% of all dialysis patients received a kidney transplant in 1996 and the number of transplants performed annually has remained relatively stable over the last ten years.

Operations

Location and capacity of facilities

We operate 537 outpatient dialysis facilities. We own, either directly, through wholly-owned subsidiary corporations or through joint ventures with non-physicians, 451 of these facilities. Of the remaining facilities, 32 are partially owned by us with physicians in the United States, and 19 are partially owned by us with physicians in Italy, and 35 are managed by us. Our facilities are located as follows:

State	No. of Facilities
AL	1
AZ	8
CA	92
CO	14
DC	4
DE	1
FL	38
GA	26
Guam	1
HI	4
IL	13
IN	3
KS	8
LA	8
MD	15
MI	9
MN	29
MO	5
NC	30
NE	1
NJ	7
NM	2
NV	3

State	No. of Facilities
NY	19
OH	3
OK	15
PA	22
Puerto Rico	2
RI	3
SC	2
SD	4
TX	42
UT	3
VA	15
WA	5
WI	1
WY	1
Subtotal	459
Country	
Argentina	52
Germany	3
Italy	19
United Kingdom	4
Subtotal	78
Total	537

We also provide acute inpatient dialysis services to approximately 290 hospitals. Network-wide, we provide training, supplies and on-call support services to all of our CAPD and CCPD patients.

We believe we have adequate capacity within our existing facilities network to accommodate greater patient volume. In addition, we currently are expanding capacity at certain of our facilities by adding additional dialysis stations to meet growing demand and building de novo facilities where existing facilities cannot be expanded.

Operation of facilities

Our dialysis facilities are designed specifically for outpatient hemodialysis and generally contain, in addition to space for dialysis treatments, a nurses' station, a patient weigh-in area, a supply room, a water treatment space used to purify the water used in hemodialysis treatments, a dialyzer reprocessing room (where, with both the patient's and physician's consent, the patient's dialyzer is sterilized for reuse), staff work areas, offices and a staff lounge and kitchen. Many of our facilities also have a designated area for training patients in home dialysis. Each facility also offers amenities for the patients, for example a color television with headsets at each dialysis station.

In accordance with conditions for participation in the Medicare ESRD program, each facility has a qualified medical director. See the subheading "Physician relationships." Each facility also has an administrator, typically a registered nurse, who supervises the day-to-day operations of the facility and its staff. The staff of each facility typically consists of registered nurses, licensed practical or vocational nurses, patient care technicians, a social worker, a registered dietician, a unit clerk and bio-medical technicians.

All of our facilities offer high-flux and high-efficiency hemodialysis, which most physicians practicing at our facilities deem suitable for most of their patients. High-flux and high-efficiency hemodialysis utilize machinery that allow patients to dialyze in a shorter period of time per treatment because such methods cleanse the blood at a faster rate than conventional hemodialysis. Many of our facilities also offer conventional hemodialysis. We consider the equipment installed in our facilities to be among the most technologically advanced equipment currently available to the dialysis industry.

Many of our facilities also offer various forms of home dialysis, primarily CAPD and CCPD. Home dialysis services consist of providing equipment and supplies, training, patient monitoring and follow-up assistance to patients who prefer and are able to receive dialysis treatments in their homes. Patients and their families or other patient assistants are trained by a registered nurse to perform either CAPD or CCPD at home. Our training programs for home dialysis generally last two to three weeks. During 1998, approximately 12% of our patients received peritoneal dialysis.

Inpatient dialysis services

We provide inpatient dialysis services, excluding physician professional services, to patients in approximately 290 hospitals. We render these services for a per-treatment fee individually negotiated with each hospital. When a hospital requests our services, we administer the dialysis treatment at the patient's bedside or in a dedicated treatment room in the hospital. Examples of cases in which such inpatient services are required include patients with acute kidney failure resulting from trauma or similar causes, patients in the early stages of ESRD and ESRD patients who require hospitalization for other reasons.

Ancillary services--"Total Renal Care"

We provide a comprehensive range of ancillary services to ESRD patients, including:

- EPO and other pharmaceuticals. The most significant ancillary service that we provide is the administration of pharmaceuticals, including erythropoietin, or EPO, calcium and iron supplements, upon a physician's prescription. EPO is a genetically-engineered form of a naturally occurring protein which stimulates the production of red blood cells and is used in connection with all forms of dialysis to treat anemia, a medical complication frequently experienced by ESRD patients.

- ESRD laboratory services and facilities. We own two licensed clinical laboratories, located in Florida and Minnesota, specializing in ESRD patient testing. Our laboratories provide both routine laboratory tests, some of which are included in the Medicare composite rate for dialysis, and non-routine laboratory tests for which an additional fee is charged. Our laboratories provide these tests for both our own and other ESRD patients throughout the United States. The types of laboratory tests performed at the ESRD laboratories consist of: (a) blood tests to monitor the ESRD condition, some of the costs of which are reimbursed as part of the dialysis composite rate; and (b) blood tests ordered for diseases that the patient has in addition to ESRD. In addition, our Minnesota laboratory provides certain highly-specialized tests, including therapeutic drug monitoring, bone deterioration and renal stone monitoring and certain pre- and post-kidney transplant testing. Our Florida laboratory has additional capacity available to accommodate our expanding patient base. See the subheading "Investigations" under the heading "Risk factors."

- Pharmacy. We opened a licensed pharmacy in California in February 1995 and acquired an additional pharmacy in Texas in May 1998 that provide a comprehensive prescription oral drug program to ESRD patients receiving treatments at certain of our facilities. The pharmacies also provide immuno- suppressive medications that are required to maintain the viability of a transplant patient's new kidney.

- Vascular access management. We are the majority owner of an entity that provides vascular access management services to ESRD patients. Clotting of the hemodialysis vascular access, the entry site to the bloodstream for the dialysis procedure, is one of the most common causes of hospitalization for ESRD patients. Our vascular access management program uses diagnostic and preventive procedures to help keep the access point functioning.

- Transplant services. We have a pre- and post-kidney transplant services program in which transplant nurses and coordinators train and counsel patients and their families while also assisting them in the continuous monitoring required for this population.

- ESRD clinical research programs. Our commitment to improve outcomes, reduce costs and enhance the quality of life for ESRD patients includes participating in research and development of new products and services. Total Renal Research, or TRR, which operated for over 17 years as the Drug Evaluation Unit, became our subsidiary in 1997. TRR conducts Phase I through Phase IV clinical trials on devices, drugs and new technologies in the renal and renal-related fields. This clinical research organization has conducted over 200 clinical trials, working with over 50 drug companies and ten device companies, over the last 12 years.

- Pediatric ESRD services. We are committed to bringing our quality programs and expertise to a national network of pediatric dialysis centers, and we believe we are currently the only non-hospital based provider of comprehensive services to pediatric ESRD patients.

- Ancillary testing. Other ancillary services include doppler flow testing of the effectiveness of the patient's vascular access for dialysis and blood transfusions, electrocardiograms, studies that examine the degree of bone deterioration, and nerve conduction studies that examine the degree of deterioration of nerves.

Physician relationships

A key factor in the success of a dialysis facility is our relationship with local nephrologists. As is often true in the dialysis industry, one or a few physicians account for all or a significant portion of a dialysis facility's patient referral base. Therefore, our selection of a location for a dialysis facility is determined in part by the physician or nephrologist selected to serve as our medical director. An ESRD patient generally seeks treatment at a facility that is near to his or her home and at which his or her nephrologist has practice privileges. Consequently, in order to continue to receive physician referrals of ESRD patients, we rely on our ability to meet the needs of referring physicians. We currently have relationships with more than 600 nephrologists in our markets.

The conditions of participation in the Medicare ESRD program mandate that treatment at a dialysis facility be "under the general supervision of a director who is a physician." We have engaged qualified physicians or groups of qualified physicians to serve as medical directors for each of our facilities. Generally, the medical director must be board eligible or board certified in internal medicine or nephrology and have had at least 12 months of experience or training in the care of patients at dialysis facilities. At some facilities, we also contract with one or more physicians to serve as assistant or associate medical directors or to direct specific programs, such as home dialysis training.

Medical directors, associate medical directors and assistant medical directors enter into written contracts with us for a fixed period of time which specify their duties and establish their compensation. The compensation of the medical directors and other physicians under contract is separately negotiated for each facility and generally depends upon competitive factors in the local market, the physician's professional qualifications, the specific duties and responsibilities of the physician, and the size and utilization of the facility or relevant program.

Generally, we have non-competition agreements with our medical directors or referring physicians. In all cases in which we acquire a facility from one or more physicians, or where one or more physicians own interests in facilities as partners, co-shareholders, or members of a limited liability corporation with us, these physicians have agreed to refrain from owning interests in competing facilities within a defined geographic area for various periods. While infrequent, we have from time to time experienced competition from a dialysis facility established by a former medical director following the termination of his or her relationship with us.

Quality

We believe our leading reputation for quality care is a significant competitive advantage in attracting patients and physicians and in pursuing growth in the managed care environment. We engage in organized and systematic efforts to measure, maintain and improve the quality of services we deliver through the following quality assurance programs:

- Quality Management Program. We have implemented a Quality Management Program designed to measure outcomes and improve the quality of our services. Our Quality Management Program and Clinical Information System have been developed under the direction of our senior vice president, quality management and chief medical officer, who is a clinical professor of medicine at the University of California Medical Center in San Francisco. The Quality Management Program is implemented by our corporate director of quality management and over 30 regional quality management coordinators. We also have a corporate director of integrated quality development who supervises areas that affect the quality of our service like education, training and infection control, adding another dimension to our integrated approach to quality. In addition, our regional biomedical quality management coordinators audit the technical and biomedical quality of our facilities. This corporate quality management team works with each facility's multi-disciplinary quality management team, including the medical director, to implement the program. The Quality Management Program involves all areas of our services, monitoring and evaluating all of our activities with a focus on continuous improvement. We also compile patient hospitalization and related patient treatment outcomes data and have developed standards to evaluate such data as part of our national Quality Management Program.

- Clinical Information System. To support the Quality Management Program and in response to current payor demands for cost-effective healthcare treatments with measurable outcomes, we have developed a proprietary PC-based, networked Clinical Information System that provides facilities and managed care organizations with detailed patient outcome reports and critical clinical information. The Clinical Information System has been installed in many of our facilities. Furthermore, we have connected Kaiser's information system to our Clinical Information System at our three Kaiser-dedicated centers in San Diego.

- H.O.M.E.R. We have entered into a strategic alliance with a software company to further the development of Health Outcomes Management, Evaluation & Research, or H.O.M.E.R., a system that relates treatment parameters to patient problems, creating a versatile outcomes database for clinical patient encounters. We believe this system will enhance our Clinical Information System through its patient-centered, clinical management module and will provide operating efficiencies through its financial module.

- Physician Advisory Boards. We have several Physician Advisory Boards consisting of nephrologists from facilities located in different regions of the country who advise management on our various programs. An Academic Advisory Board, containing representatives from each university program with which we have a relationship, gives senior management access to prominent academic leaders and leading nephrologists who provide advice on quality and clinical issues. In addition, certain community physicians participate on a Physician Advisory Board made up of two components: (a) a Guideline Development Committee that provides assistance with clinical guideline development, quality management, and other related issues; and (b) a Laboratory Advisory Committee that provides feedback on all matters concerning our two clinical laboratories. These boards meet periodically to discuss quality and related operational issues. We believe our reputation for providing quality care is a competitive advantage in attracting new patients and new referring physicians.

- Patient satisfaction. Since 1991, we have retained an independent consulting firm to conduct annual patient satisfaction surveys. These surveys track and identify trends in patient satisfaction indicators that are in turn shared with management, medical directors and patients for discussion. We recently have decided to provide twice-yearly surveys, with rapid feedback to the facilities, in order to enhance this vital area of our Quality Management Program.

Value

Value Management Team

Our Value Management Team is led by a corporate vice president and a group of corporate directors who assist our local and regional operations managers in improving facility operations. The team also includes value management coordinators who work with and train our local and regional managers to analyze staffing levels, monitor drug and supply utilization and review other operational measures. The Value Management Team and Quality Management Team work together to ensure that facilities improve both the quality of services provided and the efficiency with which those services are provided.

Best Demonstrated Practices Program

We have implemented a Best Demonstrated Practices Program as part of our Quality/Value/Growth Program. This program creates value by benchmarking the practices of top performing facilities, analyzing their processes and disseminating this information to all of our facilities to improve the quality of care while enhancing operating efficiencies. Our Best Demonstrated Practices Program assesses the performance of each dialysis center in our entire facility network across a variety of growth, quality, operational, financial and customer satisfaction measures. Once a facility has demonstrated proficiency with a certain practice, information and operational systems supporting this practice are developed and disseminated throughout the organization by our quality management coordinators, regional operations managers and value management coordinators. Some of the key areas of focus are quality measurements, patient satisfaction, staffing levels and supply utilization.

Growth

Our disciplined growth strategy focuses on establishing strong regional networks of facilities through acquisitions, de novo developments and management agreements. The regional networks allow us to realize efficiencies in current operations and to leverage our infrastructure as we expand the number of facilities we operate. We implement our ancillary services and Quality/Value/Growth Program at all of our new facilities. Our growth strategy also focuses on adding additional hospital inpatient contracts in order to increase the number of patients to whom we provide inpatient dialysis services. Since 1995, we have added 201 facilities through acquisitions, exclusive of the merger with RTC in which we added 185 facilities, 48 facilities through de novo developments, and 35 facilities through management contracts.

Acquisitions

Our acquisition strategy is to leverage our operating infrastructure in existing regions by acquiring centers where we already have a strong market presence and to establish a strong presence in new markets by acquiring clusters of facilities that can support new regional operations. In reviewing a potential acquisition, our evaluation includes analyzing financial pro formas, reviewing the local competitive market and assessing the target facility's reputation for providing quality care.

We typically are able to improve an acquired facility's financial performance and quality of care by:

- Reducing supply and labor costs;

- Eliminating a majority of the general and administrative and private company expenses;

- Offering additional ancillary services; and
- Implementing our Quality/Value/Growth Program.

De novo developments

We seek continually to identify locations for de novo developments. We develop new facilities to:

- Further enhance our regional networks;
- Capitalize on referrals by local nephrologists;
- Better serve the managed care market; and
- Accommodate the growing number of ESRD patients.

By developing 51 facilities since 1995, three of which we manage, we believe that we have gained an expertise in the design, construction and operation of new dialysis facilities.

The development of a typical outpatient facility generally requires $1.0 million to $1.2 million for initial construction and equipment and $200,000 to $300,000 for working capital. Based on our experience, a de novo facility typically takes six to nine months to open from the date of the signing of the lease, achieves operating profitability by the ninth to eighteenth month of operation and reaches maturity within three years.

Management agreements

During 1998, we entered into 32 management agreements to assist academic medical centers, community and county hospitals, non-profit organizations and privately owned dialysis facilities to improve both their financial performance and the quality of care they provide. Many of these dialysis facility operators seek our expertise to help manage their operations more effectively due to:

- The rising costs of providing dialysis services without corresponding increases in prices from government payors; and
- Our ability to bring programs like our Quality/Value/Growth Program to local facilities, which would be prohibitively expensive for an individual operator to develop and implement.

These management agreements are a cost-effective form of expansion for us because they require little capital and utilize our existing local infrastructure.

Academic alliances

Academic alliances help us remain on the leading edge of advances in the care of ESRD patients by fostering relationships with ESRD specialists in the academic field. We focus on affiliating with leading nephrologic research institutions to stay abreast of the most current and important ESRD patient care issues. We support the research efforts of leading academic nephrologists by providing these institutions selective access to our Clinical Information System which contains data on much of our large patient base. We have an Academic Advisory Board which meets semi-annually to review clinical programs and to discuss ways in which we and our community physicians can work together on critical research to improve the well being of the growing ESRD patient population. We are actively pursuing alliances with academic medical centers and currently work with the following academic institutions to provide the highest quality care for their ESRD patients:

Children's Memorial Hospital/Northwestern University--Chicago, IL
Children's National Medical Center--Washington, D.C.
Erie County Medical Center/SUNY Buffalo--Buffalo, NY

Georgetown University--Washington, D.C.
Harbor/UCLA Medical Center--Los Angeles, CA
Louisiana State University--New Orleans, LA
The Regional Kidney Disease Program/Minneapolis Medical Research Foundation--Minneapolis, MN
The Rogosin Institute/Cornell University Medical Center--New York, NY
The University of California at Los Angeles--Los Angeles, CA
The University of Minnesota--Minneapolis, MN
The University of Southern California--Los Angeles, CA

Alliances with managed care organizations and physicians

Managed care organizations

We believe we are well-positioned to form strategic alliances with managed care organizations as a result of our ability to:

- Provide access to a large number of dialysis facilities in a single geographic region. Our regional clusters offer managed care payors broad facility networks able to support a large portion of each managed care payor's ESRD patient population.

- Provide comprehensive, integrated "Total Renal Care" ESRD services. Our array of ancillary services allow managed care payors to contract for much of their ESRD patients' healthcare needs through a single contract with us.

- Deliver high-quality care while reducing overall healthcare costs. Through our Quality/Value/Growth Program, managed care payors are assured that their patients will receive high-quality care resulting in lower costs through a reduction in hospital and other healthcare expenses.

The clustering of our facilities has allowed us to offer managed care payors broad facility networks that can support a large segment of each managed care payor's ESRD patient populations within each of our markets. As a result of our managed care programs and the acquisition of RTC, we have approximately 350 contracts with managed care payors including Kaiser Permanente in San Diego and Northern California, Group Health Cooperative of Puget Sound, Aetna (New Orleans), and Maxicare (New Orleans).

Physicians/Networks

We seek to organize and manage networks of nephrologists which further enhance the ability of these nephrologists to provide integrated ESRD services. We have entered into long-term management contracts with leading nephrologists who work in partnership with us to provide high-quality, integrated ESRD services while reducing total costs. These physician networks market the services of participating nephrologists to preferred provider organizations, insurance companies, health maintenance organizations and other third-party payors for ESRD services, both on a discounted fee-for-service basis and on a prepaid basis. Through a long-term management services agreement, we are responsible for providing billing, information systems and other services to the physician networks in return for a management fee.

RTC merger

On February 27, 1998, we acquired RTC, then the fourth largest provider of integrated dialysis services in the United States, in a stock-for-stock exchange transaction valued at approximately $1.3 billion. The acquisition added 185 facilities serving approximately 13,200 patients and strengthened our position as the largest independent dialysis services provider worldwide. The acquisition provided us with the following benefits:

- Critical mass, stronger regional networks and greater geographic reach;

- Enhanced purchasing and operating efficiencies;

. Improved ability to make strategic acquisitions; and

. A platform for international expansion.

RTC's operations added 13 new markets to our existing domestic operations and increased our penetration in 11 existing markets. Following the acquisition, we have strong market positions in: California, Colorado, Florida, Georgia, Kansas, Maryland, Minnesota, North Carolina, Oklahoma, Pennsylvania and Texas. Integrating acquired operations such as RTC involves significant challenges, including the sustainability of synergies or cost savings already achieved, and may lead to unanticipated costs or a diversion of management's attention. See the heading "Risks inherent in growth strategy" in the section "Risk factors."

After the merger, we announced that we had undertaken a detailed review of RTC's accounts receivable and other balance sheet accounts in connection with the completion of the audit of RTC's financial statements for the fiscal year ended December 31, 1997. As a result of this review, we filed a Form 10-K/A for RTC's year ended December 31, 1996 and three 10-Q's for each of RTC's quarters in 1997, which restated RTC's previously audited and unaudited financial statements. See our Current Report on Form 8-K dated April 30, 1998. Our analysis of RTC's accounts receivable continued into the first quarter of 1999. After concluding this analysis, we provided for an additional allowance for doubtful accounts of $11.5 million related to the acquired RTC accounts receivable. As a result, the merger benefits are less than we expected.

Corporate compliance program

We have implemented a company-wide corporate compliance program as part of our commitment to comply fully with all applicable laws and regulations and to maintain high standards of conduct by all of our employees. This program undergoes continuous review and is enhanced as necessary. A purpose of the program is to heighten the awareness of our employees and affiliated professionals of the importance of complying with all applicable laws and regulations in an increasingly complicated regulatory environment and to ensure that steps are taken to resolve instances of non-compliance promptly as they are identified.

The program has been authorized and mandated by our board of directors and combines existing company policies and practices with new procedures designed to address areas of particular sensitivity. As part of the program, we adopted a code of conduct to be followed by each of our employees and affiliated professionals. All management personnel have reviewed and agreed to abide by this code of conduct. The program is administered by our chief compliance officers and a compliance committee consisting of certain of our officers and senior managers. The compliance committee reports to our board of directors.

Sources of revenue reimbursement

The following table provides information for the periods indicated regarding the percentage of our net operating revenues, including RTC for all periods, provided by (a) the Medicare ESRD program; (b) Medicaid; (c) private/alternative payors, such as private insurance and private funds; (d) hospital inpatient dialysis services; and (e) international operations.

	Year Ended December 31,		
	1996	1997	1998
Medicare	60.1%	56.4%	51.3%
Medicaid	4.3	5.0	4.3
Private/alternative payors	30.4	30.8	35.9
Hospital inpatient dialysis services	5.2	4.8	4.3
International operations		3.0	4.2
Total	100.0%	100.0%	100.0%

Medicare reimburses dialysis providers for the treatment of individuals who are diagnosed with ESRD and are eligible for participation in the Medicare ESRD program, regardless of age or financial circumstances. For each treatment, Medicare pays 80% of the amount set by the Medicare reimbursement system. In most cases, a secondary payor, usually Medicare supplemental insurance or the state Medicaid program, pays approximately 20% of the amount set by the Medicare reimbursement system. All of the states in which we operate dialysis facilities provide Medicaid benefits to qualified recipients to supplement their Medicare entitlement.

If a patient does not qualify for Medicaid based on financial need and does not purchase secondary insurance through a private insurer, the dialysis provider may not be reimbursed for the 20% portion of the ESRD composite rate Medicare does not pay. However, a recent Congressional action will allow dialysis providers to pay their patients' premiums for secondary insurance. These premiums are generally less than the 20% co-payment that a private insurer would pay. Dialysis providers would be allowed to capture, as incremental profit, the difference between the premiums paid to these secondary insurers and the reimbursement amounts received from them. We plan to pay for a patient's secondary insurance premium only if the patient does not qualify for Medicaid and the patient demonstrates an inability to pay for this insurance. Dialysis providers will be able to pay directly their patients' premiums for secondary insurance beginning upon the enactment of regulations implementing the Congressional action, which is expected in the third quarter of 1999.

ESRD patients receiving dialysis become eligible for Medicare coverage at various times:

- ESRD patients 65 years of age or older who are not covered by an employer group health plan are immediately eligible for Medicare coverage.

- ESRD patients 65 years of age or older who are covered by an employer group health plan are eligible for Medicare coverage after a 30-month coordination period.

- ESRD patients under 65 years of age who are not covered by an employer group health plan must wait 90 days after beginning dialysis treatments to be eligible for Medicare benefits. During the first 90 days of treatment, the patient, Medicaid or a private insurer is responsible for payment. In the case of the individual covered by private insurance, this responsibility is limited to the terms of the policy, with the patient being responsible for the balance.

- ESRD patients under 65 years of age who are covered by an employer group health plan must wait 33 months after beginning dialysis treatments before Medicare becomes the primary payor. During the first 33 months of treatments, the employer group health plan is responsible for payment at its negotiated rate or, in the absence of such a rate, at our usual and customary rates. The patient is responsible for any deductibles and co-payments under the terms of the employer group health plan.

- ESRD patients with an employer group health plan electing home dialysis training during the first 90 days of dialysis have Medicare as their primary payor after 30 months. If an ESRD patient without an employer group health plan begins home dialysis training during the first three months of dialysis, Medicare immediately becomes the primary payor.

In August 1993, the Omnibus Budget Reconciliation Act of 1993, or OBRA 93, became effective. HCFA originally interpreted certain provisions of OBRA 93 to require employer group health sponsored insurance plans, or private payors, to be the primary payor for patients who became dually entitled to Medicare benefits because they developed ESRD after they had earlier been entitled to Medicare due to age or disability. In July 1994, HCFA instructed the Medicare fiscal intermediaries to apply the provisions of OBRA 93 retroactively to August 10, 1993. Accordingly, we billed the responsible private payors as the primary payors and recognized these revenues, at the generally higher private rates, as services were rendered for periods after August 10, 1993.

In April 1995, HCFA issued instructions of clarification to the fiscal intermediaries which stated that it had misinterpreted the OBRA 93 provisions, and that Medicare would continue as the primary payor despite a patient obtaining dual eligibility status under the Medicare ESRD provisions. Accordingly, we began recognizing revenues at Medicare rates for all such patients going forward from April 1995. We also adjusted our financial statements to reflect revenues earned at Medicare rates for such patients during the period from

August 1993 through April 1995. This resulted in a reduction in revenues for the period August 1993 through April 1995 of approximately $3.1 million as these revenues had been previously recognized at the generally higher private rates.

In June 1995, a federal court issued a preliminary injunction against HCFA prohibiting HCFA from retroactively applying its reinterpretation of the OBRA 93 provisions to periods prior to its April 1995 instructions of clarification. After the issuance of this preliminary injunction, we determined that a permanent injunction would likely be issued, and we adjusted our financial statements to reflect revenues earned during the period from August 1993 through April 1995 at the generally higher private rates. We made no adjustment to revenues recognized going forward from April 1995 because the injunction did not prohibit the prospective effect of HCFA's reinterpretation.

In January 1998, a federal court issued a permanent injunction preventing HCFA from applying its reinterpretation of the OBRA 93 provisions because that application would be unlawful retroactive rulemaking. We did not adjust our revenues in January 1998 in response to the permanent injunction because revenues had already been recognized at the generally higher private rates after the issuance of the preliminary injunction in June 1995.

Medicare reimbursement

Under the Medicare reimbursement system, the reimbursement rates are fixed in advance and have been adjusted from time to time by Congress. Although this form of reimbursement limits the allowable charge per treatment, it provides us with predictable and recurring per treatment revenues and permits us to retain any profit earned.

Medicare has established a composite rate set by HCFA that determines the Medicare reimbursement available for a designated group of dialysis services, including the dialysis treatment, supplies used for that treatment, certain laboratory tests and certain medications. The Medicare composite rate is subject to regional differences based upon certain factors, including regional differences in wage earnings. Certain other services and items are eligible for separate reimbursement under Medicare and are not part of the composite rate, including certain drugs like EPO, Calcijex and iron supplements, blood for amounts in excess of three units per patient per year, and certain physician-ordered tests provided to dialysis patients.

Claims for Medicare reimbursement must generally be presented within 15 to 27 months of treatment depending on the month in which the service was rendered. Claims for Medicaid secondary reimbursement must be presented within 60 to 90 days after payment of the Medicare claim. We generally submit claims monthly and are usually paid by Medicare within 15 days of submission.

We receive reimbursement for outpatient dialysis services provided to Medicare-eligible patients at rates that are currently between $117 and $139 per treatment. This rate is subject to change by legislation. The Medicare ESRD reimbursement rate did not change from commencement of the program in 1972 until 1983. From 1983 through December 1990 numerous Congressional actions resulted in a net reduction of the average reimbursement rate from a fixed fee of $138 per treatment in 1983 to approximately $125 per treatment in 1990.

Congress increased the ESRD reimbursement rate, effective January 1, 1991, by $1.00 per treatment resulting in the current average ESRD reimbursement rate of $126 per treatment. In 1990, Congress required that the Department of Health and Human Services, or HHS, and the Medical Payment Assessment Commission, or MEDPAC, study dialysis costs and reimbursement procedures and make findings as to the appropriateness of ESRD reimbursement rates. In March 1999, MEDPAC recommended a 2.4% to 2.9% increase to the reimbursement rate. However, Congress has not yet acted on this recommendation, is not required to implement this recommendation and could either raise or lower the reimbursement rate.

During the last congressional session, there were various proposals for the reform of numerous aspects of Medicare. We are unable to predict what, if any, changes may occur in the Medicare composite reimbursement rate. Any reductions in the Medicare composite reimbursement rate could have a material adverse effect on our results of operations, financial condition and business.

Demonstration project

In January 1996, HCFA announced a three-year demonstration project involving the enrollment of ESRD patients in managed care organizations. The demonstration project is evaluating the appropriateness of capitation for dialysis services. The project is adjusting capitation rates based upon treatment status, age groups, and the cause of renal failure. There were initially four demonstration project sites selected. Two sites are now actually implementing the pilot program and we are participating in the project with both HMOs.

The ESRD demonstration project and the analysis of the results of the project are expected to continue over the next three to four years. Using the experience of this project, HCFA will seek to evaluate the feasibility of allowing managed care plans to participate in the Medicare ESRD program on a capitated basis. The pilot program, if successful, could result in HCFA allowing ESRD patients to enroll in managed care organizations. The likelihood and timing of this decision is impossible to predict.

EPO reimbursement

On June 1, 1989, the FDA approved the production and sale of EPO, and HCFA approved Medicare reimbursement for EPO's use by dialysis patients. EPO stimulates the production of red blood cells and is beneficial in the treatment of anemia, with the effect of reducing or eliminating the need for blood transfusions for dialysis patients. Physicians began prescribing EPO for their patients in our dialysis facilities in August 1989. Most of our dialysis patients receive EPO.

Approximately 23% of our net operating revenues in fiscal 1998 was generated from the administration of EPO, the majority of which was reimbursed through the Medicare and Medicaid programs. Therefore, EPO reimbursement significantly impacts our net income. The Office of the Inspector General of HHS has recommended that Medicare reimbursement for EPO be reduced from the current amount of $10 to $9 per 1,000 units. HHS has concurred with this recommendation; however, HHS has not determined whether it will pursue this change through the rulemaking process. In addition, President Clinton's proposed budget for fiscal year 2000 includes a reduction in the Medicare reimbursement for EPO of the same amount. Congress has yet to act on this budget proposal. EPO reimbursement programs have been, and in the future may be, subject to these and other legislative or administrative proposals. We cannot predict whether future rate or reimbursement method changes will be made. If such changes are made, they could have a material adverse effect on our business, results of operations or financial condition. Furthermore, EPO is produced by a single manufacturer, Amgen Corporation, and any interruption of supply or product cost increases could adversely affect our operations. For more information, see the subheading "Dependence on Medicare, Medicaid and other sources of reimbursement" under the heading "Risk factors."

In April 1996, HCFA notified providers that reimbursement of EPO administration for a patient with a measurement of red blood cell concentration, known as a hematocrit measurement, exceeding 36% would be available only if the 90-day rolling hematocrit measurement for such patient was 36.5% or less. If the 90-day rolling average hematocrit measure exceeded 36.5%, reimbursement for EPO administration would be denied, except in very limited instances. In connection with this notification, HCFA instructed its fiscal intermediaries to review the rolling three month hematocrit averages and to ascertain compliance therewith. The single fiscal intermediaries for Total Renal Care, Inc., or TRC, and RTC enacted such instructions in December and September, 1997, respectively. Subsequently, HCFA notified its fiscal intermediaries that it was changing the foregoing reimbursement policy. Effective for monthly billing periods beginning on or after March 10, 1998, reimbursement will be available when the 90-day rolling average hematocrit measure exceeds 36.5%, with payment based on the lower of the actual dosage billed for the current month or 80% of the prior month's allowable EPO dosage. In addition, in this notice, HCFA reestablished the authorization to make payment for EPO for a month when the patient's hematocrit exceeds 36%, when accompanied by documentation establishing medical necessity. More specifically, Medicare guidelines now enable dialysis providers to be: (a) fully reimbursed for increased EPO dosage levels when the patient's hematocrit exceeds 36% and there is a medical justification for such dosage; and (b) partially reimbursed for increased EPO dosage levels when the patient's hematocrit exceeds 36% and there is no such medical justification. This change has resulted in additional revenues for dialysis providers.

Other drugs and services delivered at centers

At our facilities we provide most of our patients with intravenous drugs, other ancillary services and testing, representing approximately 8% of our net operating revenues in 1998. The intravenous drugs we administer include Calcijex, iron supplements, various antibiotics and other medications. The ancillary services and testing include studies that examine the degree of bone deterioration, nerve conduction studies that examine the degree of deterioration of nerves, doppler flow testing of the effectiveness of patients' vascular access for dialysis and blood transfusions, and electrocardiograms.

Medicare currently reimburses us separately for the intravenous drugs at a rate of 95% of the average wholesale price of each drug. The Clinton administration has proposed a reduction in the reimbursement rate for outpatient prescription drugs to 83% of the actual wholesale price. We cannot predict whether Congress will approve this rate change, but if such a change is implemented, it could have a material adverse effect on our business, results of operations or financial condition.

With appropriate medical justification, Medicare separately reimburses us for the provision of ancillary services and testing to ESRD patients in accordance with a prescribed fee schedule.

Medicaid reimbursement

Medicaid programs are state administered programs partially funded by the federal government. These programs are intended to provide coverage for patients whose income and assets fall below state defined levels and who are otherwise uninsured. The programs also serve as supplemental insurance programs for the Medicare co-insurance portion and provide certain coverages, like oral medications, that are not covered by Medicare. State regulations generally follow Medicare reimbursement levels and coverages without any co-insurance amounts. Certain states, however, require beneficiaries to pay a monthly share of the cost based upon levels of income or assets. We are a licensed ESRD Medicaid provider in the states in which we conduct our business.

Hospital inpatient dialysis services

We provide inpatient dialysis services, excluding physician professional services, to patients in hospitals pursuant to written agreements with the hospitals. We provide these services for a per-treatment fee which is individually negotiated with each hospital. Some of these agreements provide that we are the exclusive provider of dialysis services to the hospital, but many of them are non-exclusive. Some of these agreements also allow either party to terminate the agreement without cause. Competition for the provision of dialysis services at hospitals with which we have a non-exclusive agreement and the termination of inpatient dialysis services agreements could have an adverse effect on us.

Government regulation

General

Our dialysis operations are subject to extensive federal, state and local governmental regulations. These regulations require us to meet various standards relating to, among other things:

- Premises;
- Management of facilities;
- Personnel;
- The maintenance of proper records;
- Equipment; and
- Quality assurance programs/patient care.

Our dialysis facilities are subject to periodic inspection by state agencies and other governmental authorities to determine if we satisfy applicable standards and requirements. All of our dialysis facilities are certified by HCFA, as is required for receipt of Medicare reimbursement payments.

Our business would be adversely impacted by:

- Any loss or suspension of (a) federal certifications; (b) authorization to participate in the Medicare or Medicaid programs; or (c) licenses under the laws of any state or governmental authority in which we generate substantial revenues; or
- Reduction of dialysis reimbursement or reduction of or elimination of coverage for dialysis services.

To date, we have not had any difficulty in maintaining our licenses or our Medicare and Medicaid authorizations. However, our industry will continue to be subject to government regulation, the scope and effect of which are difficult to predict. This regulation could adversely impact us in a material way. In addition, we periodically may be reviewed or challenged by various governmental authorities which could have an adverse effect on our financial position.

Fraud and abuse under federal law

The "antikickback" statute contained in the Social Security Act imposes criminal and civil sanctions on persons who receive or make payments in return for:

- The referral of a patient for treatment; or
- The ordering or purchasing of items or services that are paid for in whole or in part by Medicare, Medicaid or similar state programs.

Federal penalties for violation of these laws include imprisonment, fines and exclusion of the provider from future participation in the Medicare and Medicaid programs. Civil penalties for violation of these laws include assessments of $2,000 per improper claim for payment plus twice the amount of the claim and suspension from future participation in Medicare and Medicaid. Some state antikickback statutes also include criminal penalties. The federal statute expressly prohibits traditionally criminal transactions, such as kickbacks, rebates or bribes for patient referrals. Court decisions have also said that, under certain circumstances, the statute is also violated when a purpose of a payment is to induce referrals.

In July 1991 and in November 1992, the Secretary of HHS published regulations that create exceptions or "safe harbors" for certain business transactions. Transactions structured within these safe harbors do not violate the antikickback statute. A business arrangement must satisfy each and every element of a safe harbor to be protected by that safe harbor. Transactions that do not satisfy all elements of a relevant safe harbor do not necessarily violate the antikickback statute but may be subject to greater scrutiny by enforcement agencies. We believe our arrangements with referring physicians are in material compliance with these laws. We seek to structure our various business arrangements to satisfy as many safe harbor elements as is practical. Certain of our arrangements with referring physicians do not satisfy all elements of a relevant safe harbor. Although we have never been challenged under these statutes and believe we materially comply with these and other applicable laws and regulations, we could in the future be required to change our practices or experience a material adverse effect as a result of a challenge.

The conditions of participation in the Medicare ESRD program require that treatment at a dialysis facility be "under the general supervision of a director who is a physician." Generally, the medical director must be board eligible or board certified in internal medicine or pediatrics and have had at least 12 months of experience or training in the care of patients at ESRD facilities. We have by written agreement engaged qualified physicians or groups of qualified physicians to serve as medical directors for our facilities. At some facilities we also contract with physicians to serve as assistant or associate medical directors, or to direct specific programs such as home dialysis training, or, in a few instances, to provide medical director services for acute dialysis services provided to hospitals. The compensation of the medical directors and other physicians under contract is separately negotiated for each facility and generally depends upon competitive factors in the local market, the physician's professional qualifications, the specific duties and responsibilities of the physician and the size and utilization of the facility or relevant program. Written agreements with the medical directors and other contracted physicians fix their compensation for periods of one year or more.

Because our medical directors and other contract physicians refer patients to our facilities, the federal antikickback statute may apply. We believe our arrangements with these physicians materially comply with the antikickback statute. Among the available safe harbors is one relevant to our arrangements with our medical directors and the other physicians under contract. The safe harbor sets forth six requirements. Certain of our agreements with our medical directors or other physicians under contract do not satisfy all six of these requirements. We believe that, except in cases where a facility is in transition from one medical director to another or where the term of an agreement with a physician has expired and a new agreement is in negotiation, our agreements with our medical directors and other contract physicians satisfy at least five of the six requirements for this safe harbor.

At some of our dialysis facilities, physicians who refer patients to the dialysis facilities hold interests in partnerships or limited liability companies owning the facilities. The antikickback statute may apply in these situations. We believe these business arrangements are in material compliance with the antikickback statute. While none of these arrangements satisfies all elements of a relevant small entity investment interests safe harbor, we believe that each of the partnerships and limited liability companies satisfies a majority of the safe harbor's elements.

We lease some of our dialysis facilities from entities in which interests are held by physicians who refer patients to those facilities, and we sublease space to referring physicians at some of our dialysis facilities. In addition, a medical facility at which we provide ESRD ancillary services is leased from physicians who refer patients for the ancillary services. The antikickback statute may apply in these situations. We believe, however, that these leases are in material compliance with the antikickback statute and that the leases satisfy in all material respects each of the elements of the space rental safe harbor applicable to these arrangements.

On July 21, 1994, the Secretary of HHS proposed a rule that it said "would modify the original set of safe harbor provisions to give greater clarity to the rulemaking's original intent." The proposed rule would, among other things, make changes to the safe harbors discussed in the preceding few paragraphs. We do not believe that our conclusions with respect to the application of these safe harbors to our current arrangements would change if the proposed rule were adopted in the form proposed. It is difficult to predict, however, the outcome of the rulemaking process or whether changes in the safe harbor rules will affect us.

Fraud and abuse under state law

In several states (including California, Florida, Georgia, Kansas, Louisiana, Maryland, New York, Utah and Virginia) in which we operate dialysis facilities jointly owned with referring physicians, statutes prohibit physicians from holding financial interests in various types of medical facilities to which they refer patients. We believe our joint ownership relationships with these physicians are within the exceptions stated in these various state laws, as further described below.

- California. A California statute makes it unlawful for a physician (or an immediate family member) who has a financial interest in an entity to refer a person to that entity for various services, including laboratory services. Under the California statute, "financial interest" includes any type of ownership interest, lease, compensation or other form of payment (whether in money or otherwise) between a physician and the entity to which the physician makes a referral. The statute also prohibits the entity to which the referral was made from presenting a claim for payment to any payor for a service furnished pursuant to a prohibited referral and prohibits a payor from paying for such a service. Violation of the prohibition on submitting a claim is a misdemeanor that subjects the offender to a fine of up to $15,000 for each violation and possible action against licensure.

  Some of our facilities perform laboratory services incidental to dialysis services pursuant to the orders of referring physicians. Although we do not believe that the California statute is intended to apply to laboratory services that are provided incident to dialysis services, it is possible that the California statute could be interpreted to apply to these services. While the California statute includes certain exemptions, it includes no explicit exemption for medical director services or other services for which we contract with and compensate referring physicians in California or for partnership interests of the type held by the referring physicians in eight of our facilities in California. Thus, if the California statute is interpreted to apply to referring physicians with whom we contract for medical director and similar services or to referring physicians who hold partnership interests, we would be required to restructure some or all of our relationships with these referring physicians. We cannot predict the consequences of this type of restructuring.

- Florida. A Florida statute prohibits healthcare providers, defined to include physicians, from referring a patient for the provision of designated health services to an entity in which the healthcare provider has an investment interest. The term "designated health services" includes clinical laboratory services. Further, a healthcare provider may not refer a patient for the provision of any healthcare item or service that is not a "designated health service" to an entity in which the healthcare provider is an investor unless:

  (1) The entity is a corporation with shares publicly traded on a national exchange or on the over-the-counter market with total assets over $50 million or certain disclosure requirements are met;

  (2) No more than 50% of the value of the investment interests are held by investors in a position to make referrals to the entity;

  (3) The terms under which an investment interest is offered to an investor who is in a position to make referrals to the entity are no different from the terms offered to investors who are not in a position to make referrals;

  (4) The terms offered to an investor in a position to make referrals are not related to the previous or expected volume of referrals from that investor to the entity; and

  (5) There is no requirement that an investor make referrals or be in a position to make referrals to the entity as a condition for becoming or remaining an investor.

  The disclosure requirements compel a healthcare provider who makes a permitted referral to provide the patient with a written disclosure form informing the patient of the existence of the investment interest, the names and addresses of at least two alternative sources of such services and the name and address of each applicable entity in which the referring provider is an investor. The Florida statute carries with it penalties of up to $15,000 for each service for any person who presents or causes to be presented a bill or claim for services that the person knows or should know is prohibited. Furthermore, any healthcare provider or other entity that enters into an arrangement or scheme which the physician or entity knows or should know has a principal purpose of assuring referrals by the physician to a particular entity may be subject to a civil penalty of up to $100,000 for each arrangement. A violation of the disclosure requirements constitutes a misdemeanor and may be grounds for disciplinary action. We believe that we and our referring physicians are exempt from the Florida statute.

. Georgia. A Georgia statute prohibits a healthcare provider, defined to include physicians, from referring a patient for the provision of designated health services to an entity in which the healthcare provider has an investment interest, unless the provider satisfies certain disclosure requirements. An "investment interest" is defined as an equity or debt security issued by an entity, including units or other interests in a partnership, but excludes certain investments in publicly-held corporations. A "designated health service" is defined to include clinical laboratory services, pharmaceutical services and outpatient surgical services. To comply with the Georgia statute, the healthcare provider must furnish the patient with a written disclosure form approved by the provider's board of licensure, informing the patient of:

(1) The existence of the investment interest;

(2) The name and address of each entity in which the referring provider is an investor; and

(3) The patient's right to obtain the items or services at the location or from the healthcare provider or supplier of the patient's choice.

In addition, the provider must post a copy of the disclosure form in a conspicuous public place in the provider's office. Neither a healthcare provider nor any entity may present a claim for payment to any individual, third-party payor or other entity for services provided pursuant to a prohibited referral. If the healthcare provider or entity improperly collects any amount, the provider or entity must refund the amount to the payor. Any provider or other entity that enters into an arrangement or scheme which the provider or entity knows or should know has a principal purpose of assuring referrals by the provider to a particular entity is subject to a civil penalty of up to $50,000 for each arrangement or scheme. Furthermore, any person who presents or causes to be presented a bill for a claim for services that the person knows or should know is for a service for which payment may not be made under the Georgia statute is subject to a civil penalty of up to $15,000 for each service. We believe that all physicians with an investment interest who also refer patients to our dialysis facilities are in compliance with the disclosure requirements of the Georgia statute and are thus exempt from this statute.

. Kansas. A Kansas statute provides that a licensee's license may be revoked, suspended or limited in the event the licensee has committed an act of unprofessional conduct. Under the Kansas statute, unprofessional conduct includes referring a patient to a healthcare entity for services if the licensee, defined to include a physician, has a significant investment interest in the healthcare entity, unless the licensee informs the patient in writing of the investment interest and the ability of the patient to obtain services elsewhere. The Kansas statute defines "healthcare entity" to mean any corporation, firm, partnership or other business entity which provides services for diagnosis or treatment of human health conditions and which is owned separately from a referring licensee's principal practice. The Kansas statute also defines "significant investment interest" to mean ownership of at least 10% of the shares of stock of the corporation which owns or leases the healthcare entity. We believe that physicians with a "significant investment interest" who also refer patients to our dialysis facilities are in compliance with the disclosure requirements of the Kansas statute.

. Louisiana. A Louisiana statute prohibits healthcare providers, defined to include physicians, from making referrals outside the same group practice as that of the referring healthcare provider to any other healthcare provider, licensed healthcare facility or provider of healthcare goods and services, including providers of clinical laboratory services, when the referring provider has a financial interest served by such referral. An exclusion from the prohibition will apply if, in advance of any referral, the referring provider discloses to the patient, in writing, the existence of such financial interest. The Louisiana statute defines "financial interest" to mean a significant ownership or investment interest established through debt, equity or other means and held by a healthcare provider or a member of a provider's immediate family, as well as any form of direct or indirect compensation for referral. Any referring healthcare provider with a financial interest who does not comply with the Louisiana statute disclosure requirement must refund all sums the provider received in payment for the goods and services furnished or rendered without disclosure of the financial interest. We believe that all physicians who have a "financial interest" and who also refer patients to our dialysis facilities are in compliance with the Louisiana statute.

- Maryland. A Maryland statute prohibits healthcare practitioners from referring patients to a healthcare entity in which the practitioner or the practitioner's immediate family owns a beneficial interest or has a compensation arrangement. The term "compensation arrangement" does not include an arrangement between a healthcare entity and a healthcare practitioner, or immediate family member of a practitioner, as an independent contractor, if the arrangement is for identifiable services, the amount of the compensation under the arrangement is consistent with the fair market value of the service and is not determined in a manner that takes into account the volume or value of any referrals by the practitioner and the compensation is provided in accordance with an agreement that would be commercially reasonable even if no referrals were made. We believe that we will be exempt from the Maryland statute.

- New York. Several New York statutes relate to self-referrals. A practitioner, defined to include physicians, authorized to order clinical laboratory services or certain other referred services generally may not make a referral for such services to an authorized healthcare provider where such practitioner or an immediate family member has a financial relationship with the healthcare provider receiving the referral. The New York statutes provide that a healthcare provider or a referring practitioner may not present or cause to be presented to any individual or third-party payor or other entity a claim or other demand for payment for clinical laboratory services that is prohibited. Under the New York statutes, a "financial relationship" is defined to mean an ownership interest, investment interest or compensation arrangement.

Generally, the New York statutes exempt from the New York referral prohibition a practitioner's referral to a healthcare provider in which the practitioner or an immediate family member has a financial interest for clinical laboratory services if:

(1) It is related to practitioner services personally provided by the referring practitioner or provided by a practitioner in the same group as the referring practitioner;

(2) It is related to in-office ancillary services;

(3) It is related to a health maintenance organization or other type of managed care program;

(4) It is related to inpatient hospital services;

(5) It is related to referrals by a hospital of patients for clinical laboratory services to be provided by the hospital;

(6) The financial relationship with the hospital does not relate directly to the services for which the referral was made; or

(7) It is determined not to pose a substantial risk of payor or patient abuse.

The New York statutes also make an exception to the New York referral prohibition in the event of an ownership interest or investment interest of the practitioner or immediate family member in a healthcare provider, upon proper disclosure being made, if (a) the services provided and the practitioner or the patient are located in a rural area; or (b) the ownership interest or investment interest is based on the ownership in a general hospital itself, and not merely a subdivision thereof.

In addition to providing the exceptions discussed above, the New York statutes exclude certain types of relationships from the New York referral prohibition. The New York statutes provide that an ownership interest or an investment interest generally does not exist based solely on the ownership of investment securities of a publicly-traded company with total assets of over $100 million. Further, the New York statutes generally exclude the following from their definition of "compensation arrangement":

(1) Payments for the rental or lease of space;

(2) Administrative services arrangements between a general hospital and a practitioner or immediate family member;

(3) Medical director or medical advisory board services arrangements between a healthcare provider, other than a general hospital, and a practitioner;

(4) Recruitment arrangements;

(5) Isolated financial transactions;

(6) Compensation arrangements between a group practice and salaried practitioner of the group practice; and

(7) Other arrangements that are determined not to pose a substantial risk of payor or patient abuse.

A practitioner must disclose to the patient, in the case of referrals not subject to the New York referral prohibition, the financial relationship prior to making the referral if the financial relationship is either (a) an ownership or investment interest in the healthcare provider to which the referral is being made; or (b) a compensation arrangement with such healthcare provider that is in excess of fair market value or that is based upon the volume and value of the providers' services.

Because dialysis itself is not a clinical laboratory service or other service covered by the New York referral prohibition, we believe that only the New York disclosure requirement should need to be satisfied for those joint ownership relationships we maintain with referring physicians. We believe that, to the extent only the New York disclosure requirement is applicable, all physicians who have a financial interest and who also refer patients to the dialysis facilities with which we have consultant contracts are in compliance with the New York statutes. The facilities in New York with which we have consultant contracts may, however, perform laboratory services incidental to dialysis services pursuant to the orders of the referring physicians. Although we do not believe that the New York referral prohibition is intended to apply to laboratory services provided incident to dialysis services, it is possible that the New York referral prohibition could be interpreted to apply to these services. There is no explicit exception to the New York referral prohibition for medical director services or other services for which we contract with and compensate referring physicians in New York. Thus, if the New York Statutes are interpreted to apply to referring physicians with whom we contract, we could be required to restructure these relationships. It is difficult to predict the consequences of this restructuring.

. Utah. A Utah statute prohibits physicians from referring patients, clients, or customers to any clinical laboratory, ambulatory or surgical care facilities, or other treatment or rehabilitation services facilities, in which the physician or a member of the physician's immediate family has any financial relationship, unless the physician at the time of making the referral discloses that relationship, in writing, to the patient, client, or customer and such written disclosure states that the patient may choose any facility or service center for purposes of having the laboratory work or treatment service performed. The Utah statute defines "financial relationship" to generally mean any ownership or investment interest in an entity or any compensation arrangement with an entity. We believe that all physicians who have a "financial relationship" and who also refer patients to our dialysis facilities are in compliance with the Utah statute.

. Virginia. A Virginia statute generally prohibits a physician from referring a patient for health services to an entity outside the physician's office if the physician or any of the physician's immediate family members is an investor in that entity unless (a) the physician directly provides health services within the entity and will be personally involved with the provision of care to the referred patient or (b) has been granted an exception by the Virginia Board of Health Professions, or the VBHP. Violation of the Virginia statute by the physician subjects the entity to a monetary penalty of up to $20,000 per referral or claim if the entity knows or has reason to know that the referral is prohibited by the Virginia statute. Investment interests acquired prior to February 1, 1993, including the minority interests which physicians hold in our Virginia facilities, were required to be in compliance with the Virginia statute by July 1, 1996.

We believe that physicians who refer patients to dialysis facilities directly provide healthcare within such facilities and are "personally involved with the provision of care" to such referred patients within the meaning of the Virginia statute. We also believe that, as a public policy matter, it would be reasonable to argue that the VBHP should grant an exception to a physician who is an investor in a dialysis facility to which the physician refers his or her patients for care. We are unaware, however, of any official interpretation of the Virginia statute or the grant of any exception by the VBHP indicating acceptance of these views. We believe that the ownership of our Virginia facilities could be restructured to conform to the requirements of the Virginia statute if necessary due to future official interpretations differing from our interpretations.

Stark I / Stark II

The Omnibus Budget Reconciliation Act of 1989 includes certain provisions, known as Stark I, that restrict physician referrals for clinical laboratory services to entities with which a physician or an immediate family member has a "financial relationship." Stark I may be interpreted by HCFA to apply to our operations. Regulations interpreting Stark I, however, have created an exception to its applicability regarding services furnished in a dialysis facility if payment for those services is included in the ESRD composite rate. We believe that our compensation arrangements with Medical Directors and other physicians under contract are in material compliance with Stark I.

OBRA 93 contains certain provisions, known as Stark II, that restrict physician referrals for certain "designated health services" to entities with which a physician or immediate family member has a "financial relationship." The entity is prohibited under Stark II, as is the case for entities restricted by Stark I from claiming payment for such services under the Medicare or Medicaid programs, is liable for the refund of amounts received pursuant to prohibited claims, is subject to civil penalties of up to $15,000 per service and can be excluded from future participation in the Medicare and Medicaid programs. Comparable provisions applicable to clinical laboratory services became effective in 1992. Stark II provisions which may be relevant to us became effective on January 1, 1995.

A "financial relationship" under Stark II is defined as the physician's ownership or investment interest in, or a compensation arrangement with, the entity. We have entered into compensation agreements with our medical directors and other referring physicians. Some of our medical directors own equity interests in entities which operate our dialysis facilities. Some of our dialysis facilities are leased from entities in which referring physicians hold interests, and we sublease space to referring physicians at some of our dialysis facilities. In addition, some of the medical directors and other physicians from whom we have acquired dialysis facilities own our common stock or options to acquire our common stock. We believe that the ownership of the stock and stock options and the other ownership interests and lease arrangements for such facilities are in material compliance with Stark II. Proposed Stark II regulations could require us to restructure the stock and stock option ownership.

Stark II includes certain exceptions. A personal services compensation arrangement is excepted from Stark II prohibitions if:

- The arrangement is set out in writing, signed by the parties, and specifies the services covered by the arrangement;

- The arrangement covers all of the services to be provided by the physician, or immediate family member of the physician, to the entity;

- The aggregate services contracted for do not exceed those that are reasonable and necessary for the legitimate business purposes of the arrangement;

- The term of the arrangement is for at least one year;

- The compensation to be paid over the term of the arrangement is set in advance, does not exceed fair market value and is not determined in a manner that takes into account the volume or value of any referrals or other business generated between the parties;

- The services to be performed do not involve a business arrangement or other activity that violates any state or federal law; and

- The arrangement meets other requirements that may be imposed pursuant to regulations promulgated by HCFA.

We believe that our compensation arrangements with medical directors and other contract physicians materially satisfy these exceptions to the Stark II prohibitions.

Payments made by a lessor to a lessee for the use of premises are excepted from Stark II prohibitions if:

- The lease is set out in writing, signed by the parties, and specifies the premises covered by the lease;

- The space rented or leased does not exceed that which is reasonable and necessary for the legitimate business purposes of the lease or rental and is used exclusively by the lessee when being used by the lessee, subject to certain permitted common areas payments;

- The lease provides for a term of rental or lease of at least one year;

- The rental charges over the term of the lease are set in advance, are consistent with fair market value and are not determined in a manner that takes into account the volume or value of any referrals or other business generated between the parties;

- The lease would be commercially reasonable even if no referrals were made between the parties; and

- The lease meets other requirements that may be imposed pursuant to regulations promulgated by HCFA.

We believe that our leases with referring physicians materially satisfy these exceptions to the Stark II prohibitions.

The Stark II exception provisions applicable to physician ownership interests in entities to which they make referrals do not encompass the kinds of ownership arrangements that referring physicians hold in certain of our subsidiaries that operate dialysis facilities.

For purposes of Stark II, "designated health services" include clinical laboratory services, equipment and supplies, home health services, outpatient prescription drugs and inpatient and outpatient hospital services. We believe that the language and legislative history of Stark II and related regulations indicate that Congress did not intend to include dialysis services and the services and items provided incident to dialysis services. Our provision of, or arrangement and assumption of financial responsibility for, outpatient prescription drugs, including EPO and IDPN, clinical laboratory services, facility dialysis services and supplies, home dialysis supplies and equipment and services to hospital inpatients and outpatients under our dialysis services agreements with hospitals, include services and items which could, however, be construed as designated health services within the meaning of Stark II. Although we do not bill Medicare or Medicaid for hospital inpatient and outpatient services, our Medical Directors may request or establish a plan of care that includes dialysis services for hospital inpatients and outpatients that may be considered a referral within the meaning of Stark II.

HCFA may interpret Stark II to apply to our operations. Consequently, Stark II may require us to restructure existing compensation agreements with our medical directors and to repurchase or to request the sale of ownership interests in subsidiaries and partnerships held by referring physicians or, in the alternative, to refuse to accept referrals for designated health services from these physicians. We believe, but cannot assure, that if Stark II is interpreted to apply to our operations, we will be able to bring our financial relationships with referring physicians into material compliance with Stark II. We would be materially impacted if HCFA interprets Stark II to apply to us and we could not achieve that compliance. A broad interpretation of Stark II to include items provided incident to dialysis services would apply to our competitors, as well.

Medicare

Because the Medicare program represents a substantial portion of the federal budget, Congress takes action in almost every legislative session to modify the Medicare program for the purpose of, or with the result of, reducing the amounts payable from the program to healthcare providers. Legislation or regulations may be enacted in the future that may significantly modify the ESRD program or substantially reduce the amount paid for our services. Further, Statutes or regulations may be adopted which impose additional requirements for eligibility to participate in the federal and state payment programs. Any legislation or regulations of this type could adversely affect our business operations in a material way.

International regulation

Our operations are subject to extensive government regulation by virtually every country in which we operate. Although such regulations differ from country to country, in general, non-U.S. regulations are designed to accomplish the same objectives as U.S. regulations regarding the operation of dialysis centers: the provision of quality healthcare for patients, the maintenance of occupational, health, safety and environmental standards and the provision of accurate reporting and billing for government payments and/or reimbursement. In addition, each country has its own payment and reimbursement rules and procedures, and some countries prohibit ownership of healthcare providers by foreign interests or establish other regulatory barriers to direct ownership by foreign companies. In those countries, we work within the framework of local laws to establish alternative contractual arrangements for the management of facilities.

Given the difficulties inherent with any operator entering a market for the first time, there can be no assurance that we will be able to replicate our successful history of completing, and integrating, domestic acquisitions. Any failure to integrate efficiently foreign acquisitions or to realize expected synergies and cost savings could have a material adverse effect on our business, results of operations and financial condition.

Florida laboratory payment dispute

Our Florida-based laboratory subsidiary is the subject of a third-party carrier review relating to certain claims submitted by us for Medicare reimbursement. We understand that similar reviews have been undertaken with respect to other providers' laboratory activities in Florida and elsewhere. The carrier has alleged that 99.3% of the tests performed by this laboratory for the review period it initially identified, from January 1995 to April 1996, were not properly supported by the prescribing physicians' medical justification. The carrier subsequently requested billing records with respect to the additional period from May 1996 to March 1998. The carrier has issued a formal overpayment determination in the amount of $5.6 million and has suspended all payments of claims related to this laboratory. The carrier has withheld approximately $11 million to date. In addition the carrier has informed the local offices of the Department of Justice, or DOJ, and HHS of this matter.

We have consulted with outside counsel, reviewed our records, are disputing the overpayment determination vigorously and have provided extensive supporting documentation of our claims. We have cooperated with the carrier to resolve this matter and have initiated the process of a formal review of the carrier's determination. The first step in this formal review process is a hearing before a hearing officer at the carrier, which is scheduled for June 1999. We have received minimal responses from the carrier to our repeated requests for clarification and information regarding the continuing payment suspension. In February 1999, our Florida-based laboratory subsidiary filed a complaint against the carrier and HHS seeking a court order to lift the payment suspension. We initiated this action only after serious consideration and the unanimous approval of our board of directors, and we believe it is necessary to bring a prompt resolution to this payment dispute. We are unable to determine at this time:

- When this matter will be resolved or when the laboratory's payment suspension will be lifted;

- What, if any, of the laboratory claims will be disallowed;

- What action the carrier, DOJ or HHS may take with respect to this matter;

- What the outcome of the carrier's review of the periods from May 1996 through March 1998 will be and whether it will include the initiation of another payment suspension;

- Whether additional periods may be reviewed by the carrier; or

- Any other outcome of this investigation or our lawsuit.

Any determination adverse to us could have an adverse impact on our business, results of operations or financial condition.

The Health Insurance Portability and Accountability Act of 1996

The Health Insurance Portability and Accountability Act of 1996, or HIPAA, among other things, allows individuals who lose or change jobs to transfer their insurance, limits exclusions for preexisting conditions, and establishes a pilot program for medical savings accounts. In addition, HIPAA also expands federal attempts to combat healthcare fraud and abuse by making amendments to the Social Security Act and the federal criminal code. Among other things, HIPAA creates a new "Health Care Fraud and Abuse Control Account," under which "advisory opinions" are issued by the Office of the Inspector General, or OIG, regarding the application of the antikickback statute, certain criminal penalties for Medicare and Medicaid fraud are extended to other federal healthcare programs, the exclusion authority of the OIG is expanded, Medicare and Medicaid civil monetary penalty provisions are extended to other federal healthcare programs, the amounts of civil monetary penalties are increased, and a criminal health care fraud statute is established.

The False Claims Act

The federal False Claims Act, or FCA, is another means of policing false bills or requests for payment in the healthcare delivery system. In part, the FCA imposes a civil penalty on any person who:

- Knowingly presents, or causes to be presented, to the federal government a false or fraudulent claim for payment or approval;

- Knowingly makes, uses, or causes to be made or used, a false record or statement to get a false or fraudulent claim paid or approved by the federal government;

- Conspires to defraud the federal government by getting a false or fraudulent claim allowed or paid; or

- Knowingly makes, uses or causes to be made or used, a false record or statement to conceal, avoid, or decrease an obligation to pay or transmit money or property to the federal government.

The penalty for a violation of the FCA ranges from $5,000 to $10,000 for each fraudulent claim plus three times the amount of damages caused by each such claim. The FCA has been used widely by the federal government to prosecute Medicare fraud in areas such as coding errors, billing for services not rendered, the submission of false cost reports, billing services at a higher reimbursement rate than is appropriate, billing services under a comprehensive code as well as under one or more component codes, and billing for care which is not medically necessary. Although subject to some dispute, at least two federal district courts have also determined that alleged violations of the federal antikickback statute or Stark I and Stark II are sufficient to state a claim for relief under the FCA. In addition to the civil provisions of the FCA, the federal government can use several criminal statutes to prosecute persons who submit false or fraudulent claims for payment to the federal government.

Other regulations

Our operations are subject to various state hazardous waste and non-hazardous medical waste disposal laws. Those laws do not classify as hazardous most of the waste produced from dialysis services. Occupational Safety and Health Administration regulations require employers to provide workers who are occupationally subject to blood or other potentially infectious materials with certain prescribed protections. These regulatory requirements apply to all healthcare facilities, including dialysis facilities, and require employers to make a determination as to which employees may be exposed to blood or other potentially infectious materials and to have in effect a written exposure control plan. In addition, employers are required to provide or employ hepatitis B vaccinations, personal protective equipment, infection control training, post-exposure evaluation and follow-up, waste disposal techniques and procedures and engineering and work practice controls. Employers are also required to comply with various record-keeping requirements. We believe we are in material compliance with these laws and regulations.

Some states have established certificate of need programs regulating the establishment or expansion of healthcare facilities, including dialysis facilities. We believe we are in material compliance with all applicable state certificate of need laws.

Although we believe we comply materially with current applicable laws and regulations, our industry will continue to be subject to substantial regulation, the scope and effect of which are difficult to predict. We make no assurance as to whether our activities will be reviewed or challenged by regulatory authorities in the future.

Competition

A significant portion of the dialysis industry consists of many small, independent facilities. The dialysis industry is highly competitive, particularly in terms of acquiring existing dialysis facilities and developing relationships with referring physicians. Competition for qualified physicians to act as medical directors is also vigorous. We have also, from time to time, experienced competition from former medical directors or referring physicians who have opened their own dialysis facilities. A portion of our business consists of monitoring and providing supplies for ESRD treatments in patients' homes. Certain physicians also provide similar services, and if the number of such physicians were to increase, our business, results of operations or financial condition could be adversely affected.

As the chart below indicates, the market share of the five largest multi-facility providers has increased significantly over the last five years. However, the absolute number of dialysis facilities owned by hospitals and independent physicians has remained fairly constant.

	January 1, 1993 Facilities/Percentage	January 1, 1998 Facilities/Percentage
Multi-facility providers.........	667/30%	1,720/53%
Independent physicians...........	822/37%	779/24%
Hospital-based facilities........	733/33%	747/23%
Total..........................	2,222/100%	3,246/100%

Large multi-facility dialysis providers that we compete with domestically for acquisitions include Fresenius Medical Care, Gambro Healthcare, Inc., Renal Care Group, Inc. and Everest Healthcare Services Corp. In addition, we estimate that the major international multi-facility providers served only approximately 5% of all non-U.S. dialysis patients in 1998. Certain of our competitors have substantially greater financial resources than us and may compete with us for acquisitions and developments of facilities in markets targeted by us. There are also a number of large healthcare providers that have entered or may decide to enter the dialysis business. We cannot assure that our facilities will continue to compete successfully with the facilities of these other companies.

Insurance

We carry property and general liability insurance, professional liability insurance and other insurance coverage in amounts deemed adequate by our management. However, we cannot assure that any future claims will not exceed applicable insurance coverage. Furthermore, we cannot assure that malpractice and other liability insurance will be available at a reasonable cost or that we will be able to maintain adequate levels of malpractice insurance and other liability insurance in the future. Physicians practicing at our facilities are required to maintain their own malpractice insurance, and our medical directors maintain coverage for their individual private medical practices. We do, however, provide insurance coverage for our medical directors with respect to the performance of their duties as medical directors of our facilities.

Employees

As of March 15, 1999, we had more than 12,300 employees, including a professional staff of approximately 8,500 employees, a corporate and regional staff of approximately 1,200 employees and a facilities support and maintenance staff of approximately 2,600 employees. Approximately 8,600 of our employees are employed on a full-time basis. A small number of our employees are party to collective bargaining agreements. We have experienced limited union organizing activity. However, in general, we believe that our labor relations are good.

Risk factors

In addition to the other information set forth in this Form 10-K, you should note the following risks related to our business.

Dependence on Medicare and Medicaid--Future declines in reimbursement rates will affect a substantial portion of our revenues.

We are reimbursed for dialysis services primarily at fixed rates established in advance under the Medicare ESRD program. Reductions in these rates could have a material adverse effect on our net operating revenues and profits. Approximately 51% of our net operating revenues during fiscal 1998 was funded by Medicare. Since 1983, Congress has changed the Medicare composite reimbursement rate from a national average of $138 per treatment in 1983 to a low of $125 per treatment on average in 1986 and to approximately $126 per treatment on average at present. We cannot predict whether future rate changes will be made. Also, increases in operating costs that are subject to inflation, such as labor and supply costs, may occur without a compensating increase in reimbursement rates.

Since June 1, 1989, the Medicare ESRD program has paid for the administration of EPO to dialysis patients. Approximately 13% of our net operating revenues in 1998 was generated from EPO reimbursement through Medicare and Medicaid programs. Consequently, EPO reimbursement through Medicare and Medicaid programs significantly affects our net income. From time to time, EPO reimbursement programs have been, and in the future may be, subject to various legislative or administrative proposals to reduce the EPO reimbursement rate. For example, HHS and the Clinton administration have endorsed a 10% reduction in Medicare reimbursement for EPO. We cannot predict whether future rate or reimbursement method changes will be made. If such changes are implemented, they could have a material adverse effect on our business, results of operations or financial condition.

Medicare separately reimburses us for other outpatient prescription drugs that we administer to dialysis patients at the rate of 95% of the actual wholesale price of each drug. The Clinton administration has proposed a reduction in the reimbursement rate for outpatient prescription drugs to 83% of actual wholesale price. We cannot predict whether Congress will approve this rate change, or whether other reductions in reimbursement rates for outpatient prescription drugs will be made. If such changes are implemented, they could have a material adverse effect on our business, results of operations or financial condition.

All of the states in which we operate dialysis facilities currently provide benefits to qualified patients to supplement their Medicare entitlement. Approximately 4% of our net operating revenues during fiscal 1998 were funded by Medicaid or comparable state programs. The Medicaid programs are subject to statutory and regulatory changes which may have the effect of decreasing program payments, increasing costs or modifying the way we operate our dialysis business.

For more details, see the heading "The dialysis industry." Also see the subheadings "Medicare reimbursement," "EPO reimbursement," "Other drugs and services delivered at centers" and "Medicaid reimbursement" under the heading "Sources of revenue reimbursement."

Possible changes in Medicare's method of reimbursement--The inclusion in the Medicare composite reimbursement rate of certain services which currently are separately reimbursed or the change to a capitated reimbursement system could have a material adverse effect on our revenues and profits.

We cannot predict whether certain services, for which we currently are reimbursed separately, may in the future be included in the Medicare composite rate. If, in the future, Medicare were to include in its composite reimbursement rate any of the ancillary services presently reimbursed separately, we would not be able to seek separate reimbursement for these services. This would adversely affect our results of operations to the extent a corresponding increase was not provided in the Medicare composite rate.

HCFA already has initiated a pilot demonstration project to test the feasibility of allowing managed care plans to participate in the Medicare ESRD program on a capitated basis. Under a capitated plan we would receive a fixed periodic payment for servicing all of our Medicare-eligible ESRD patients regardless of certain fluctuations in the number of services provided in that period or the number of patients treated.

Other sources of reimbursement--Restrictions on our ability to charge for current services at current rates could materially affect our business.

Approximately 44% of our net operating revenues during fiscal 1998 were from sources other than Medicare and Medicaid. These sources include payments from third-party, non-government payors, at rates that generally exceed the Medicare and Medicaid rates, payments from hospitals which we contract with to provide inpatient dialysis treatments and payments from governments and private payors in overseas markets. Any restriction on our ability to charge for our domestic-market services at rates in excess of those paid by Medicare would adversely affect our business, results of operations or financial condition. We are also a party to nonexclusive agreements with certain third-party payors, and the termination of certain of these agreements could have an adverse effect on our business, results of operations or financial condition.

Source of EPO--Only one company manufactures EPO and interruption of supply or cost increases could materially affect our business.

EPO is produced by a single manufacturer, Amgen Corporation. In the future, Amgen may be unwilling or unable to supply us with EPO. Additionally, shortages in the raw materials or other resources necessary to manufacture EPO, or simply an arbitrary decision on the part of this sole supplier, may result in an increase in the wholesale price of EPO. Interruptions of the supply of EPO or increases in the price we pay for EPO could have a material adverse effect on our financial condition as well as our ability to provide appropriate care to our patients.

Operations subject to government regulation--Our failure to meet current or future government regulations could cause us to incur sanctions or could prevent us from participating in certain government programs or operating in certain geographical areas.

Our dialysis operations are subject to extensive federal, state and local governmental regulations in the U.S. and to extensive government regulation in virtually every country in which we operate. U.S. and non-U.S. regulations are designed to accomplish the same objectives: the provision of quality healthcare for patients, the maintenance of occupational, health, safety and environmental standards and the provision of accurate reporting and billing for government payments and/or reimbursement. Our business would be adversely impacted by any loss of federal certifications, authorization to participate in the Medicare or Medicaid programs, or licenses under the laws of any state or governmental authority in which we generate substantial revenue. Our industry will continue to be subject to intense governmental regulation at the state and federal levels, the scope and effect of which are difficult to predict. This regulation could adversely impact us in a material way. In addition, we periodically may be reviewed or challenged by various governmental authorities which could have a material adverse effect on our business, results of operations or financial condition.

In addition, each foreign country in which we operate has its own payment and reimbursement rules and procedures. Our failure to understand these reimbursement systems could cause us to assess the performance of our operations in other countries incorrectly. Some countries prohibit ownership of healthcare providers by foreign interests or establish other regulatory barriers to direct ownership by foreign companies. Failure to comply with these regulations could have a material adverse effect on our business, results of operations or financial condition. In addition, the relationships we have structured, or may structure in the future, to overcome these regulatory barriers may be challenged. For more details, see the subheading "International regulation" under the heading "Government regulation."

. Our failure to comply with fraud and abuse statutes could result in sanctions

Neither our arrangements with the medical directors of our facilities nor the minority ownership interests of referring physicians in certain of our dialysis facilities meet all of the requirements of published safe harbors to the illegal remuneration provisions of the Social Security Act and similar state laws. These laws impose civil and criminal sanctions on persons who receive or make payments for referring a patient for treatment that is paid for in whole or in part by Medicare, Medicaid or similar state programs. Transactions structured within published safe harbors are deemed not to violate these provisions. Transactions that do not fall within a relevant safe harbor may be subject to greater scrutiny by enforcement agencies. We could in the future be required to change our practices or relationships with our medical directors or with referring physicians holding minority ownership interests or could otherwise be materially affected by any challenge under these statutes.

California law prohibits a physician from making referrals for laboratory services to entities with which they (or their immediate family members) have a financial interest. We currently operate a large number of facilities in California which account for a significant percentage of our business. It is possible that the California statute could apply to laboratory services incidental to dialysis services. If so, we would be required to restructure some relationships with referring physicians who serve as medical directors of our facilities and with the physicians who hold minority interests in some of our facilities. We also provide laboratory services incidental to dialysis services in many other states which have fraud and abuse statutes regulating our relationships with physicians. For more details, see the subheadings "Fraud and abuse under federal law" and "Fraud and abuse under state law" under the heading "Government regulation."

. Our practices may be subject to challenge under Stark I and Stark II

Stark I restricts physicians from making referrals for clinical laboratory services to entities with which they or their immediate family members have a "financial relationship." It is unclear whether certain laboratory services that we provide, which are incidental to dialysis services, fall within the Stark I prohibition. Stark II restricts physicians from making referrals for certain "designated health services" to entities with which they or their immediate family members have a "financial relationship." It is unclear whether some of the services which we provide fall within the Stark II prohibitions.

Violations of Stark I and Stark II are punishable by civil penalties, which may include exclusion or suspension of the provider from future participation in Medicare and Medicaid programs and substantial fines. It is possible that our practices might be challenged under these laws. For more details, see the subheading "Stark I/Stark II" under the heading "Government regulation."

Reimbursement of transportation costs--ESRD patients may not be able to use our services if state programs stop reimbursing their transportation costs.

At present, ESRD patients eligible for the Medicaid programs of certain states, including California, are reimbursed for their transportation costs relating to ESRD treatments. If this practice is changed or deemed to violate applicable federal or state law, our patients may no longer receive this service, and we cannot predict the effect this would have on the desire or ability of patients to use our services.

Investigations--We continuously are subject to regulatory scrutiny and payments of revenues under investigation may be suspended and possibly never collected.

In the ordinary course of business, our operations continuously are subject to regulatory scrutiny, supervision and control. This regulatory scrutiny often includes inquiries, investigations, examinations, audits, site visits and surveys, some of which may be non-routine. If we are found to have engaged in improper practices, we could be subject to civil, administrative, or criminal fines, penalties or restitutionary relief, and reimbursement authorities could also seek our suspension or exclusion from participation in their programs.

Our Florida-based laboratory subsidiary is the subject of a third-party carrier review relating to certain claims submitted by us for Medicare reimbursement. We understand that similar reviews have been undertaken with respect to other providers' laboratory activities in Florida and elsewhere. The carrier has alleged that 99.3% of the tests performed by this laboratory for the review period it initially identified, from January 1995 to April 1996, were not properly supported by the prescribing physicians' medical justification. The carrier subsequently requested billing records with respect to the additional period from May 1996 to March 1998. The carrier has issued a formal overpayment determination in the amount of $5.6 million and has suspended all payments of claims related to this laboratory. The carrier has withheld approximately $11 million to date. In addition, the carrier has informed the local offices of the DOJ and HHS of this matter. In February 1999, our Florida-based laboratory subsidiary filed a complaint against the carrier and HHS seeking a court order to lift the payment suspension. Any determination adverse to us in this, or other potential, future investigations, could have an adverse impact on our business, results of operations or financial condition. For more details, see the subheading "Florida laboratory payment dispute" under the heading "Government regulation."

Risks inherent in growth strategy--The acquisition and development of additional dialysis facilities vital to our business strategy may strain our existing resources and present integration problems or may never be completed.

Our business strategy depends significantly on our ability to acquire or develop, and successfully integrate, additional dialysis facilities. This strategy subjects us to the risk that:

- Suitable acquisition candidates may not be available;

- We may not be able to consummate future acquisitions on acceptable terms;

- We may not be able to integrate future acquisitions successfully;

- We may be inaccurate in assessing the value, strengths and weaknesses of acquisition candidates;

- We may be inaccurate in identifying suitable locations to develop additional facilities;

- Businesses that we acquire may never achieve revenues and profitability that justify our investment in them; and

- Additional financing may not be available to finance future acquisitions.

To the extent that we are unable to acquire or develop facilities in a cost-effective manner, our ability to expand our business and enhance our results of operations and financial condition could be adversely affected. In addition, integrating acquired operations, particularly newly acquired regional networks and large scale acquisitions, such as our acquisition of RTC, present a significant challenge and may lead to unanticipated costs or a diversion of management's attention from day-to-day operations. Despite the pooling of TRCH's and RTC's historical operating results, we have conducted operations as a combined entity only since February 1998. This pooling of the historic results of operations and financial condition of TRCH and RTC on a stand-alone basis may differ from our actual combined results in the future.

Our growth is expected to place significant demands on our financial and management resources and will require us to develop further the management skills of our managers and supervisors, and to continue to train, motivate and effectively manage our employees. There are risks that:

- Our operations and future acquisitions may require additional personnel, assets and cash expenditures and we may not be able to manage effectively the expansion of our operations;

- We may not be able to anticipate and respond to all of the changing demands that our expanding operations, including our acquisition of RTC, will and could continue to have on our management, and information, financial and operating systems; and

- Acquisitions could result in disruptions and unanticipated expenses.

Our failure to meet the challenges of expansion and to manage our prior and future growth could have an adverse effect on our business, results of operations or financial condition. For more details, see the heading "Business strategy."

Dependence on physician referrals--The loss of key referring physicians could reduce our patient base and our revenues.

We depend upon referrals of ESRD patients by physicians specializing in nephrology and practicing in the communities we serve. As generally is true in the dialysis industry, one or a few physicians refer all or a significant portion of the patients at each facility. The loss of one or more key referring physicians at a particular facility could have a material adverse effect on the operations of that facility and could adversely affect our business, results of operations or financial condition. Referring physicians own minority interests in certain of our dialysis facilities. If these interests are deemed to violate applicable federal or state law, these physicians may be forced to dispose of their ownership interests. We cannot predict the effect these dispositions would have on our continuing relationships with these physicians or our business. For more details, see the subheading "Physician relationships" under the heading "Operations."

Operations outside the United States--Certain attributes of foreign companies may make their integration into our operations more difficult.

We are entering certain international markets for the first time and there can be no assurance that we will be able to integrate international acquisitions effectively. Certain attributes of foreign companies and their operations may make their integration into our operations more difficult. These attributes include:

- Differences in accepted clinical standards and practices;

- Differences in management styles and practices;

- The unfamiliarity of foreign companies with United States generally accepted accounting principles; and

- The limiting of employee discharges and disciplinary actions in accordance with local laws.

Any failure to integrate efficiently foreign acquisitions or to realize expected synergies and cost savings could have a material adverse effect on our business, results of operations and financial condition.

Outstanding debt--The large amount of our total outstanding debt and our obligation to service that debt could divert necessary funds from operations, limit our ability to obtain financing for future needs and expose us to interest rate risks, and covenants in our credit facilities may prevent us from taking advantage of business opportunities.

We are highly leveraged, which means that the amount of our outstanding debt is large compared to the net book value of our assets, and have substantial repayment obligations under our outstanding debt. As of December 31, 1998 we had:

- Total consolidated debt of approximately $1.25 billion; and

- Stockholders' equity of approximately $481.8 million.

In addition, as of December 31, 1998, our borrowing availability under our credit facilities was approximately $596.4 million.

Our credit facilities contain numerous financial and operating covenants that limit our ability, and the ability of most of our subsidiaries, to undertake certain transactions. These covenants require that we meet certain interest coverage, net worth and leverage tests. The indentures governing our 7% convertible subordinated notes and RTC's 5 5/8% convertible subordinated notes, collectively referred to throughout this Form 10-K as our notes, and our credit facilities permit us and our subsidiaries to incur or guarantee additional debt, subject to certain limitations in the case of the credit facilities.

Our level of debt and the limitations imposed on us by our debt agreements could have other important consequences to our stockholders and noteholders, including the following:

- We will have to use a portion of our cash flow from operations for debt service, rather than for our operations;

- We may not be able to obtain additional debt financing for future working capital, capital expenditures, acquisitions or other corporate purposes;

- The debt under our credit facilities is at a variable interest rate, making us vulnerable to increases in interest rates; and

- We could be less able to take advantage of significant business opportunities, such as acquisitions, and react to changes in market or industry conditions.

Purchase of notes upon a change of control--We may not have the ability to raise the funds necessary to satisfy the change of control covenants included in the indentures governing our notes.

Under the indentures governing our notes, upon the occurrence of a change of control, as defined in the indentures, our noteholders may require us to repurchase all or a portion of their notes at 100% of the principal amount of the notes plus accrued and unpaid interest and any liquidated damages to the date of purchase. If a change of control occurs, we may not be able to pay the repurchase price for all of the notes submitted for repurchase. In addition, the terms of some of our existing debt agreements, including our credit facilities, prohibit us from purchasing any notes until all debt under these agreements is paid in full. Our future credit agreements or other agreements may contain similar provisions. If a change of control occurs while we are prohibited from purchasing the notes, we could seek the consent of our lenders to the purchase of the notes. We could also attempt to refinance the borrowings that contain the prohibition. If we do not obtain a consent or repay the borrowings, we would remain prohibited from purchasing the notes. In that case, our failure to purchase submitted notes would constitute an event of default under the indentures. This, in turn, would constitute a further default under certain of our existing or future debt agreements, including our credit facilities. In that case, certain persons could declare all debt under the notes or our credit facilities due and payable.

Our inability to pay all debt under our credit facilities, if accelerated, would constitute an event of default under the indentures governing our notes, which could accelerate all debt under the indentures. In the event of a change of control, we might not be able to refinance our credit facilities, which would allow us to repay all tendered notes, and we might not have sufficient assets to satisfy all of our obligations under our credit facilities and the notes. In addition to the above, if we undergo a change of control portions of our debt, including our credit facilities, may be accelerated or we may be required to repurchase such debt.

Antitakeover provisions--Provisions in our charter documents may deter a change of control which our stockholders may otherwise determine to be in their best interests.

Our certificate of incorporation and bylaws and the Delaware General Corporation Law, or DGCL, include provisions which may have the effect of deterring hostile takeovers, delaying or preventing changes in control or changes in our management, or limiting the ability of our stockholders to approve transactions that they may otherwise determine to be in their best interests. These provisions include:

- A provision requiring that any action required or permitted to be taken by our stockholders must be effected at a duly called annual or special meeting of our stockholders and may not be effected by written consent;

- A provision requiring at least 60 days' advance notice by a stockholder of a proposal or director nomination which such stockholder desires to present at any annual or special meeting of stockholders; and

- A provision granting our board of directors the authority to issue up to five million shares of preferred stock and to determine the rights and preferences of the preferred stock without the need for further stockholder approval. The existence of this "blank-check" preferred stock could make more difficult or discourage an attempt to obtain control of us by means of a tender offer, merger, proxy contest or otherwise. Furthermore, this "blank-check" preferred stock may have other rights, including economic rights, senior to our common stock, and, therefore, issuance of the preferred stock could have an adverse effect on the market price of our common stock.

We may, in the future, adopt other measures that may have the effect of delaying, deferring or preventing an unsolicited takeover, even if such a change in control were at a premium price or favored by a majority of unaffiliated stockholders. Certain of these measures may be adopted without any further vote or action by our stockholders.

Year 2000 issues--We may experience material unanticipated negative consequences beginning in the year 2000 due to undetected computer defects.

The following discussion about the implementation of our "Year 2000," or Y2K program, the costs expected to be associated with the program and the results we expect to achieve constitute forward-looking information. As noted below, there are many uncertainties involved in the Y2K issue, including the extent to which we will be able to provide adequately for contingencies that may arise, as well as the broader scope of the Y2K issue as it may affect third parties. Accordingly, the costs and results of our Y2K program and the extent of any impact on our results of operations could vary materially from those disclosed below.

The Y2K issue concerns the potential exposures related to the automated generation of misinformation resulting from the use of computer programs which have been written using two digits, rather than four, to define the applicable year of business transactions. We are not currently aware of any material operational issues associated with preparing our internal computer systems, facilities and equipment for Y2K. We cannot assure you, however, due to the overall complexity of the Y2K issues and the uncertainty surrounding third party responses to Y2K issues that we will not experience material unanticipated negative consequences and/or material costs caused by undetected errors or defects in our or third party systems or by our failure to adequately prepare for the results of such errors or defects. The impact of such consequences could have a material adverse effect on our business, financial condition or results of operations.

The extent and magnitude of the Y2K problem as it will affect us, both before, and for some period after, January 1, 2000, are difficult to predict or quantify for a number of reasons. Among the most important are our lack of control over systems that are used by the third parties who are critical to our operations, such as telecommunications and utilities companies and governmental and non-governmental payors, the complexity of testing interconnected networks and applications that depend on third-party networks and the uncertainty surrounding how others will deal with liability issues raised by Y2K-related failures. Moreover, the estimated costs of implementing our plans for fixing Y2K problems do not take into account the costs, if any, that might be incurred as a result of Y2K-related failures that occur despite our implementation of these plans.

For more details see the subheading "Year 2000 considerations" under the heading "Liquidity and capital resources," in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

Goodwill amortization--If our assumptions regarding the beneficial life of our goodwill prove to be inaccurate, or subsequently change, our current earnings may be overstated and future earnings may be understated.

Our balance sheet has an amount designated as "goodwill" that represents 49% of our assets and 197% of our stockholders' equity at December 31, 1998. Goodwill arises when an acquiror pays more for a business than the fair value of the tangible and separately measurable intangible net assets. Generally accepted accounting principles require that goodwill and all other intangible assets be amortized over the period benefited. The current blended average useful life is 34 years for our goodwill and 21 years for all of our intangible assets that relate to business combinations. We have determined that most acquisitions after December 31, 1996 will continue to provide a benefit to us for no less than 40 years after the acquisition. In making this determination, we have reviewed with our independent accountants the significant factors which we considered in arriving at the consideration to be paid for, and the expected period of benefit from, acquired businesses.

If the factors we considered, and which give rise to a material portion of our goodwill, result in an actual beneficial period which is shorter than our determined useful life, earnings reported in periods immediately following certain acquisitions would be overstated. In addition, in later years, we would be burdened by a continuing charge against earnings without the associated benefit to income. Earnings in later years could also be affected significantly if we subsequently determine that the remaining balance of goodwill has been impaired.

Forward-looking statements

This Form 10-K contains statements that are forward-looking statements within the meaning of the federal securities laws. These include statements about our expectations, beliefs, intentions or strategies for the future, which we indicate by words or phrases such as "anticipate," "expect," "intend," "plan," "will," "believe" and similar language. These statements involve known and unknown risks, including risks resulting from economic and market conditions, the regulatory environment in which we operate, competitive activities and other business conditions, and are subject to uncertainties and assumptions set forth elsewhere in this Form 10-K. Our actual results may differ materially from results anticipated in these forward-looking statements. We base our forward-looking statements on information currently available to us, and we assume no obligation to update these statements.

Item 2. Properties.

Thirteen of our dialysis facilities are operated on properties that we own. The remaining 524 dialysis facilities that we operate are located on premises leased by us or our general partnerships, limited liability companies or subsidiary corporations or by entities that we manage. We lease at fair market value certain facilities from entities in which referring physicians hold an interest. Our leases generally cover periods from five to ten years and typically contain renewal options of five to ten years at the fair rental value at the time of renewal or at rates subject to consumer price index increases since the inception of the lease. Our facilities range in size from approximately 500 to 15,900 square feet, with an approximate average size of 4,900 square feet. We operate our corporate headquarters in approximately 35,800 square feet of office space in Torrance, California which we currently lease for a term expiring in 2008. Our general accounting office in Tacoma, Washington, is leased for a term expiring in 2000. We have entered into an additional ten year lease in Tacoma, Washington for an 80,000 square foot facility beginning in April 1999. We maintain a 43,000 square foot facility in Berwyn, Pennsylvania for additional billing and collections purposes and limited corporate and regional staff. The Berwyn lease expires in 2001. Our Florida-based laboratory is located in a 30,000 square foot facility owned by us, with a ground lease, and our Minnesota-based laboratory is located in a 9,500 square foot facility leased by us.

Certain of our facilities are operating at or near capacity. However, we believe that we have adequate capacity within most of our existing facilities to accommodate significantly greater patient volume through increased hours and/or days of operation, or through the addition of dialysis stations at a given facility upon obtaining appropriate governmental approvals. In addition, we have the ability to build de novo facilities if existing facilities reach capacity. With respect to relocating facilities or building de novo facilities, we believe that we can generally lease space at economically reasonable rates in the area planned for each of these facilities. Expansion or relocation of our facilities would be subject to review for compliance with conditions relating to participation in the Medicare ESRD program. In states that require a certificate of need, approval of our application generally would be necessary for expansion or relocation.

Item 3. Legal Proceedings.

Following the announcement on February 18, 1999 of our preliminary results for the fourth quarter of fiscal 1998 and the full year then ended, several class action lawsuits were filed against us and certain of our officers in the U.S. District Court for the Central District of California. The complaints are similar and allege violations of federal securities laws arising from alleged false and misleading statements primarily regarding our accounting for the integration of RTC into TRCH and request unspecified monetary damages. We believe that all of the claims are without merit and we intend to defend ourselves vigorously. We anticipate that the attorneys' fees and related costs of defending these lawsuits should be covered primarily by our directors and officers insurance policies and we believe that any additional costs will not have a material impact on our financial condition, results of operations or cash flows.

In February 1999, our Florida-based laboratory subsidiary filed a complaint against HHS and a third-party carrier. The carrier has suspended all payments for certain claims submitted by the laboratory for Medicare reimbursement pending a review of these claims. The complaint seeks a court order lifting the payment suspension. See the subheading "Florida laboratory payment dispute" under the heading "Government regulation."

In addition, we are subject to claims and suits in the ordinary course of business for which we believe we will be covered by insurance. We do not believe that the ultimate resolution of these additional pending proceedings, whether the underlying claims are covered by insurance or not, will have a material adverse effect on our financial condition, results of operations or financial condition.

Item 4. Submission of Matters to a Vote of Security Holders.

Not applicable.

PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters.

Our common stock is traded on the New York Stock Exchange under the symbol "TRL." The following table sets forth, for the periods indicated, the high and low closing prices for our common stock as reported by the New York Stock Exchange.

	High	Low
Fiscal year ended December 31, 1997		
1st quarter	$21.98	$18.23
2nd quarter	24.11	16.88
3rd quarter	30.08	21.83
4th quarter	33.44	25.06
Fiscal year ended December 31, 1998		
1st quarter	$35.69	$22.88
2nd quarter	36.13	30.31
3rd quarter	35.00	19.00
4th quarter	30.19	19.50

The closing price of our common stock on March 15, 1999 was $9.25 per share. As of March 15, 1999 there were approximately 1,937 holders of our common stock named as holders of record by The Bank of New York, our registrar and transfer agent. Since our recapitalization in 1994, we have not declared or paid cash dividends to holders of our common stock. We do not anticipate paying any cash dividends in the foreseeable future. We are subject to certain restrictions on our ability to pay dividends on our common stock. For more details, see the heading "Liquidity and capital resources" under "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and the notes to our consolidated financial statements.

Item 6. Selected Financial Data.

The following table presents our selected consolidated financial and operating data for the periods indicated. The consolidated financial data as of May 31, 1994 and 1995 and as of December 31, 1995, 1996, 1997 and 1998 and for the years ended May 31, 1994 and 1995, the seven month period ended December 31, 1995, and the years ended December 31, 1996, 1997 and 1998 have been derived from our audited consolidated financial statements. The consolidated financial data for the seven months ended December 31, 1994 and the year ended December 31, 1995 are unaudited and include all adjustments consisting solely of normal recurring adjustments necessary to present fairly our results of operations for the period indicated. The results of operations for the seven month periods ended December 31, 1994 and 1995 are not necessarily indicative of the results which may occur for the full fiscal year. The following financial and operating data should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements filed as part of this report.

	Years ended May 31,(1)		Seven months ended December 31,		Year ended December 31,			
	1994	1995	1994	1995	1995	1996	1997	1998
	(in thousands, except per share)							
Income Statement Data:(2)(8)								
Net operating revenues.....	$153,513	$214,425	$122,065	$176,463	$299,411	$498,024	$760,997	$1,204,894
Total operating expenses(3)	133,211	182,251	104,053	143,196	247,925	427,520	636,217	1,063,076
Operating income	20,302	32,174	18,012	33,267	51,486	70,504	124,780	141,818
Interest expense, net(3) ..	1,549	7,851	3,838	6,831	11,801	9,559	25,039	77,733
Income before income taxes, minority interests, extraordinary item and cumulative effect of change in accounting principle................	18,753	24,323	14,174	26,436	39,685	60,945	99,741	64,085
Income taxes	6,208	7,827	4,759	9,931	13,841	22,960	40,212	41,580
Income before minority interests, extraordinary item and cumulative effect of change in accounting principle................	12,545	16,496	9,415	16,505	25,844	37,985	59,529	22,505
Minority interests in income of consolidated subsidiaries..	1,046	1,593	878	1,784	2,544	3,578	4,502	7,163
Income before extraordinary item and cumulative effect of change in accounting principle	$ 11,499	$ 14,903	$ 8,537	$ 14,721	$ 23,300	$ 34,407	$ 55,027	$ 15,342
Income per share before extraordinary item and cumulative effect of change in accounting principle(4)(5)..........		$ 0.33	$ 0.20	$ 0.26	$ 0.43	$ 0.46	$ 0.71	$ 0.19

	Year ended May 31,		Seven months ended December 31,		Year ended December 31,			
	1994	1995	1994	1995	1995	1996	1997	1998
Ratio of earnings to fixed charges(10)................	6.06	2.97	3.17	3.48	3.22	3.96	3.47	1.59

	May 31,		December 31,			
	1994	1995	1995	1996	1997	1998
	(in thousands)					
Balance Sheet Data:(2)(9)						
Working capital........	$ 33,773	$ 42,918	$ 98,071	$184,975	$ 199,754	$ 385,078
Total assets...........	103,628	218,081	338,866	665,221	1,278,235	1,915,581
Long-term debt	17,531	115,522	96,979	233,126	723,782	1,225,781
Mandatorily redeemable common stock(6).......		3,990				

Stockholders' equity...	65,391	61,749(7)	193,162	359,099	428,830	481,812

(See notes on following page)

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(1) In 1995, we changed our fiscal year end to December 31 from May 31.

(2) Our recapitalization in 1994 and subsequent acquisitions have had a significant impact on our capitalization and equity securities and on our results of operations. Consequently, the balance sheet data as of May 31, 1995 and as of December 31, 1995, 1996, 1997 and 1998 and the income statement data for the fiscal year ended May 31, 1995, for the seven months ended December 31, 1995, and the years ended December 31, 1996, 1997 and 1998 are not directly comparable to corresponding information as of prior dates and for prior periods, respectively.

(3) General and administrative expenses for the fiscal year ended May 31, 1994 include overhead allocations by our former parent of $1,458,000 for the period June 1993 through February 1994. No overhead allocation was made for the period from March 1994 through our recapitalization in 1994 at which time we began to record general and administrative expenses as incurred on a stand-alone basis. General and administrative expenses for the fiscal year ended May 31, 1994 also reflect $458,000 in expenses relating to a terminated equity offering. During the first quarter of 1998 we recorded an expense of $79,435,000 for merger and related costs associated with the RTC merger and during the second quarter we recorded a charge in interest expense of $9,823,000 to terminate interest rate swap agreements on debt that were refinanced.

(4) In December 1995, we recorded an extraordinary loss of $2,555,000, or $0.09 per share, net of tax, on the early extinguishment of debt. In July and September 1996, we recorded a combined extraordinary loss of $7,700,000 or $0.10 per share net of tax, on the early extinguishment of debt. At the time of our merger with RTC we paid off their existing revolving credit agreement and the remaining unamortized deferred financing costs, net of tax, of $2,812,000 or approximately $0.04 per share, was included as an extraordinary loss in 1998. In April 1998 we replaced our existing $1.05 billion credit facilities with a combined total of $1.35 billion in two senior credit facilities. As a result of this refinancing, the remaining net deferred financing costs, net of tax, of $9,932,000 or approximately $0.12 per share, was included as an extraordinary loss in 1998. See Note 8 of our consolidated financial statements.

In the first quarter of 1998 we adopted Statement of Position No. 98-5, Reporting on the Costs for Start-up Activities, or SOP 98-5, which requires that pre-opening and organization costs previously treated as deferred costs should be expensed as incurred. As a result all existing remaining unamortized deferred pre-opening and organizational costs was taken as a charge, net of tax, of $6,896,000 or approximately $0.08 per share, as a cumulative effect of a change in accounting principle. See our consolidated financial statements and related notes.

(5) See additional income per share information in our consolidated statements of income.

(6) Mandatorily redeemable common stock represents shares of common stock issued in certain acquisitions subject to put options that terminated upon the completion of our initial public offering.

(7) In connection with our recapitalization in 1994, we paid a special dividend to Tenet Healthcare Corporation, or Tenet, of $81.7 million, including $75.5 million in cash.

(8) The consolidated income statement data combine our results of operations for the years ended May 31, 1994 and 1995, the seven months ended December 31, 1994 and 1995 and the years ended December 31, 1995, 1996 and 1997 with RTC's results of operations for the years ended December 31, 1993 and 1994, the six months ended December 31, 1994 and 1995 and the years ended December 31, 1995, 1996 and 1997, respectively.

(9) The consolidated balance sheet data combines our balance sheet as of May 31, 1994 and 1995 and December 31, 1995, 1996 and 1997 with RTC's balance sheet as of December 31, 1993, 1994, 1995, 1996 and 1997, respectively.

(10) The ratio of earnings to fixed charges is computed by dividing fixed charges into earnings. Earnings is defined as pretax income from continuing operations adjusted by adding fixed charges and excluding interest capitalized during the period. Fixed charges means the total of interest expense and amortization of financing costs and the estimated interest component of rental expense on operating leases.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following should be read in conjunction with our consolidated financial statements and the related notes contained elsewhere in this Form 10-K.

Background

Our wholly-owned subsidiary TRC, formerly Medical Ambulatory Care, Inc., was organized in 1979 by Tenet, formerly National Medical Enterprises, Inc., to own and operate Tenet's hospital-based dialysis services as freestanding dialysis facilities and to acquire and develop additional dialysis facilities in Tenet's markets. TRCH was organized to facilitate the 1994 sale by Tenet of approximately 75% of its ownership interest to DLJ Merchant Banking Partners, L.P., or DLJMB, and certain of its affiliates, our management and certain holders of our debt securities.

In connection with our recapitalization in 1994, we paid a special dividend to Tenet out of the net proceeds from (a) the issuance of units consisting of $100 million in principal amount at maturity of 12% senior subordinated discount notes due 2004, which were issued at approximately 70% of par, and 1,000,000 shares of common stock and (b) borrowing under TRC's revolving credit facility. We raised additional capital to fund the continuation of our growth strategy through an initial public offering, or IPO, in October 1995 in which we raised gross proceeds of $107 million. Concurrent with the IPO, we listed our common stock on the New York Stock Exchange under the symbol "TRL." Subsequent to the IPO, we changed our fiscal year end from May 31 to December 31.

We raised additional capital to further our growth strategy with two secondary stock offerings in April and October of 1996 which raised gross proceeds to us of approximately $135 million. In October of 1996 we increased our credit facility from $130 million to $400 million. With the proceeds from the IPO, the April 1996 secondary offering and the credit facility, we were able to complete the early retirement of the discount notes. In October 1997 and April 1998, we increased our credit facility to an aggregate of $1.05 billion and $1.35 billion respectively in two bank facilities. In November 1998, we sold $345 million of our 7% convertible subordinated notes.

Following our recapitalization in 1994, we implemented a focused strategy to increase net operating revenues per treatment and improve operating income margins. We have significantly increased per-treatment revenues through improved pricing, the addition of in-house clinical laboratory services, increased utilization of ancillary services and the addition of in-house pharmacy services and other ancillary programs. To improve operating income, we began a systematic review of our vendor relations leading to the renegotiation of a number of supply contracts and insurance arrangements that reduced operating expenses. In addition, we have focused on improving facility operating efficiencies and leveraging corporate and regional management. These improvements have been offset in part by increased amortization of goodwill and other intangible assets relating to our acquisitions (all of which have been accounted for as purchase transactions, except the merger with RTC) and start-up expenses related to de novo developments.

On February 27, 1998, we acquired RTC in a stock for stock transaction valued at approximately $1.3 billion. The transaction was accounted for as a pooling of interests. Accordingly, our consolidated financial statements have been restated to include RTC for all periods presented.

Net operating revenues

Net operating revenues are derived primarily from four sources: (a) outpatient facility hemodialysis services; (b) ancillary services, including EPO administration and other intravenous pharmaceuticals, clinical laboratory services, oral pharmaceutical products and other ancillary services; (c) home dialysis services and related products; (d) inpatient hemodialysis services provided to hospitalized patients pursuant to arrangements with hospitals; and (e) international operations. Additional revenues are derived from the provision of dialysis facility management services to certain subsidiaries and affiliated and unaffiliated dialysis centers. Our dialysis and ancillary services are reimbursed primarily under the Medicare ESRD program in accordance with rates established by HCFA. Payments are also provided by other third party payors, generally at rates higher than those reimbursed by Medicare for up to the first 33 months of treatment as mandated by law. Rates paid for services provided to hospitalized patients are negotiated with individual hospitals. For the years ended December 31, 1996, December 31, 1997 and December 31, 1998, approximately 60%, 56% and 51%, respectively, and 4%, 5% and 4%, respectively of our net patient revenues were derived from reimbursement under Medicare and Medicaid, respectively. For more information, see the subheading "Sources of revenue reimbursement" under "Item 1. Business."

Quarterly results of operations

The following table sets forth selected unaudited quarterly financial and operating information for each of the last two calendar years:

	Quarters ended							
	March 31, 1997	June 30, 1997	September 30, 1997	December 31, 1997	March 31, 1998	June 30, 1998	September 30, 1998	December 31, 1998
	(dollars in thousands, except per share and per treatment data)							
Net operating revenues..	$157,937	$179,715	$197,749	$ 225,596	$ 258,749	$ 288,350	$ 318,585	$ 339,210
Facility operating expenses...............	107,728	121,373	131,670	150,219	166,995	183,324	200,925	221,422
General and administrative expenses...............	9,916	12,120	13,208	14,855	16,910	17,605	18,274	23,040
Operating income (loss)(1)..............	24,596	28,694	33,287	38,203	(30,948)	56,837	66,184	49,745
Income before extraordinary item and cumulative effect of change in accounting principle..............	11,788	13,470	14,632	15,137	(46,088)	17,839	27,381	16,210
Income per share before extraordinary item and cumulative effect of change in accounting principle(3)...........	$ 0.15	$ 0.17	$ 0.18	$ 0.19	$ (0.59)	$ 0.22	$ 0.33	$ 0.20
Outpatient facilities...	267	316	337	380	391	423	477	508
Treatments..............	691,406	803,035	894,067	1,003,163	1,099,627	1,186,597	1,283,734	1,342,386
Net operating revenues per treatment..........	$ 228	$ 224	$ 221	$ 225	$ 235	$ 243	$ 248	$ 253
Operating income margin..	15.6%	16.0%	16.8%	16.9%	18.7%(2)	19.7%	20.8%	14.5%(2)

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(1)The reconciliation between the operating income before merger costs and operating income included in the quarterly results of operations is presented below:

	Quarters ended							
	March 31, 1997	June 30, 1997	September 30, 1997	December 31, 1997	March 31, 1998	June 30, 1998	September 30, 1998	December 31, 1998

(dollars in thousands)

Operating income before merger costs...........	24,596	28,694	33,287	38,203	48,487	56,837	66 ,184	48,498
Merger costs............					(79,435)			1,247
Operating income (loss).................	24,596	28,694	33,287	38,203	(30,948)	56,837	66,184	49,475

(2) Operating income margin is presented prior to the merger with RTC and related costs of $79,435,000 for the quarter ended March 31, 1998 and reduction of cost of $1,247,000 in the quarter ended December 31, 1998.

(3) See additional income per share information in Note 16 to our consolidated financial statements.

Utilization of our services generally is not subject to material seasonal fluctuations. The quarterly variations shown above reflect the impact of increasing labor costs and decreasing margins related to the corresponding costs of providing services and amortization of intangibles from acquired facilities.

Results of operations

The following table sets forth for the periods indicated selected information expressed as a percentage of net operating revenues for such periods:

	Years ended December 31,		
	1996	1997	1998
Net operating revenues	100.0%	100.0%	100.0%
Facility operating expenses	69.1	67.1	64.1
General and administrative expenses	6.5	6.6	6.3
Provision for doubtful accounts	3.2	2.7	3.7
Depreciation and amortization	6.5	7.2	7.6
Merger expenses	0.6		6.5
Operating income	14.2	16.4	11.8
Interest expense	2.7	3.7	6.0
Interest rate swap-early termination costs			0.8
Interest income	0.8	0.4	0.4
Income taxes	4.6	5.3	3.5
Minority interests	0.7	0.6	0.6
Income before extraordinary item and cumulative effect of change in accounting principle	6.9	7.2	1.3

Year ended December 31, 1998 compared to year ended December 31, 1997

Net operating revenues. Net operating revenues consist primarily of dialysis and ancillary fees from patient treatments and reflect the amounts expected to be realized from governmental third-party payors, patients, hospitals and others for services provided. Net operating revenues increased $443,897,000 to $1,204,894,000 for the year ended December 31, 1998 from $760,997,000 for the year ended December 31, 1997, representing a 58.3% increase. Of this increase, $341,197,000 was due to increased treatments from acquisitions, existing facility growth and from de novo developments. The remaining increase of $102,700,000 resulted from an increase in net operating revenues per treatment which increased from $224.37 in 1997 to $245.28 in 1998. The increase in net operating revenues per treatment was attributable to increased ancillary services utilization of $44,581,000, primarily in the administration of EPO of $36,147,000, the overall impact of a rate increase of $32,090,000, $21,912,000 resulting from an increase in the number of services reimbursed by private payors, who pay at higher rates, stemming from HCFA's extension of private payor primary reimbursement obligations for an additional twelve-month period, and expanded laboratory services extended to former RTC facilities of $4,117,000.

Facility operating expenses. Facility operating expenses consist of costs and expenses specifically attributable to the operation of dialysis facilities, including operating and maintenance costs of such facilities, equipment, direct labor, and supply and service costs relating to patient care. Facility operating expenses increased $261,676,000 to $772,666,000 in 1998 from $510,990,000 in 1997 and as a percentage of net operating revenues, facility operating expenses decreased to 64.1% in 1998 from 67.1% in 1997. This decrease primarily was due to decreases in labor and pharmaceutical costs as a percentage of revenues partially offset by an increase in other facility expenses, consisting primarily of rent and medical director fees.

General and administrative expenses. General and administrative expenses include headquarters expense and administrative, legal, quality assurance, information systems and centralized accounting support functions. General and administrative expenses increased $25,730,000 to $75,829,000 in 1998 from $50,099,000 in 1997, and as a percentage of net operating revenues, general and administrative expenses decreased to 6.3% for 1998 from 6.6% in 1997. The decrease of 0.3% of net operating revenues, or approximately $3,493,000, is a result of the elimination of duplicate corporate staff and efficiencies achieved from the RTC merger of $4,100,000 and revenue growth and economies of scale achieved by the leveraging of corporate staff across a higher revenue base of $2,693,000, offset by bonus payments of $3,300,000 made in connection with our merger with RTC.

Provision for doubtful accounts. The provision for doubtful accounts is influenced by the amount of net operating revenues generated from non-governmental payor sources in addition to the relative percentage of accounts receivable by aging category. The provision for doubtful accounts increased $23,840,000 to $44,365,000 in 1998 from $20,525,000 in 1997. As a percentage of net operating revenues, the provision for doubtful accounts increased to 3.7% in 1998 from 2.7% in 1997. This increase was primarily due to an additional allowance of $11,500,000, taken in the fourth quarter of 1998, as a result of the most recent analysis of the remaining RTC accounts receivable that were on the books as of December 31, 1997. The provision for doubtful accounts, as a percentage of net operating revenues for 1998, before considering the additional RTC allowance, was 2.7%.

Depreciation and amortization. Depreciation and amortization increased $37,425,000 to $92,028,000 in 1998 from $54,603,000 in 1997, and as a percentage of net operating revenues, depreciation and amortization increased to 7.6% in 1998 from 7.2% in 1997. This increase primarily was attributable to accelerated depreciation associated with certain incompatible and duplicative software as a result of the merger with RTC. For systems identified to be abandoned, the remaining net book value, less depreciation to the expected date of abandonment, which amounted to approximately $5,900,000, was charged to merger and related costs.

Merger and related expenses.

Merger and related costs recorded during 1998 include transaction costs associated with certain integration activities, and costs of employee severance and amounts due under employment agreements and other compensation programs.

A summary of merger and related costs and accrual activity through December 31, 1998 is as follows:

	Direct Transaction Costs	Severance and Employment Costs	Costs to Integrate Operations	Total
Initial expense	$21,580,000	$ 41,960,000	$15,895,000	$ 79,435,000
Amounts utilized--1st quarter 1998	(7,771,000)	(35,304,000)	(9,474,000)	(52,549,000)
Accrual, March 31, 1998	13,809,000	6,656,000	6,421,000	26,886,000
Amounts utilized--2nd quarter 1998	(5,109,000)	(1,096,000)	(2,427,000)	(8,632,000)
Accrual, June 30, 1998	8,700,000	5,560,000	3,994,000	18,254,000
Amounts utilized--3rd quarter 1998	(837,000)	(458,000)	(1,048,000)	(2,343,000)
Accrual, September 30, 1998	7,863,000	5,102,000	2,946,000	15,911,000
Adjustment of estimates	1,305,000	(959,000)	(1,593,000)	(1,247,000)
Amounts utilized--4th quarter 1998	(9,168,000)	(543,000)	(188,000)	(9,899,000)
Accrual, December 31, 1998	$ --	$ 3,600,000	$ 1,165,000	$ 4,765,000

Direct transaction costs consist primarily of investment banking fees, legal and accounting costs and other costs, including the costs of consultants, printing and registration, which were incurred by both TRCH and RTC in connection with the merger. During the fourth quarter we concluded negotiations pertaining to the amount of certain of these fees and subsequently we paid these amounts.

Severance and employment costs were incurred for the following:

- Severance pay. The RTC merger constituted a constructive termination of employment under various preexisting employment contracts with RTC officers. Terminated RTC officers were entitled to severance payments and tax gross-up payments of approximately $6,500,000. In addition, approximately 80 employees of RTC were informed that their positions would be eliminated. Most of these employees were formerly located in RTC's administrative office and a laboratory under development. The terminations were structured over the integration period, which continued through the end of 1998. The accrued severance payments to these employees amounted to approximately $1,600,000. The remaining balance of severance costs of $600,000 was paid in the first quarter of 1999 and tax gross up payments of approximately $3,000,000 are expected to be paid in the second quarter of 1999.

- Option exercises. Pre-existing terms of RTC stock option grants permitted the exercise of options by tender of RTC shares. Some of the RTC shares tendered had been held for less than six months by the option holders and, as required by Emerging Issues Task Force Issue 84-18, we recognized a noncash expense of approximately $16,000,000 equal to the difference between the exercise price of the options and the market value of the stock on the date of exercise. We also incurred approximately $600,000 of payroll tax related to the exercise of nonqualified stock options.

- Bonuses. RTC and TRCH each awarded special bonuses as a result of the merger, paid in the first quarter in 1998, for which approximately $16,300,000 was included in merger and related costs.

In connection with the RTC merger, we developed a plan which included initiatives to integrate the operations of TRCH and RTC, eliminate duplicative overhead, facilities and systems and improve service delivery. These integration activities were commenced during the first quarter of 1998 and are expected to be substantially completed by approximately July 1, 1999.

We eliminated the following RTC departments: human resources, managed care, laboratory, and all finance functions, with the exception of patient accounting. The finance functions eliminated included payroll, financial reporting and analysis, budgeting, general ledger, accounts payable, and tax functions. The RTC human resources and managed care departments were discontinued in Berwyn, Pennsylvania and consolidated with our respective departments in our Torrance, California headquarters as of September 30, 1998. All finance functions, with the exception of patient accounting, were consolidated into our Tacoma, Washington business office as of December 31, 1998. RTC's laboratory, located in Las Vegas, Nevada, was closed prior to its commencement of operation. All laboratory functions were consolidated into our laboratories in Minnesota and Florida in February 1998.

Costs to integrate operations included the following:

- Laboratory restructuring. As part of our merger integration plan, we decided to restructure our laboratories. To optimize post-merger operations, we terminated a long-term management services agreement with a third party that provided full laboratory management on a contract basis. The termination fee of approximately $3,800,000 was negotiated in the first quarter of 1998. We also immediately halted development of RTC's new laboratory, which was not required for post-merger operations. The RTC laboratory, which was being developed in leased space, is now vacant and a new sublessee is being sought. As a result of this decision, previously capitalized leasehold improvements of $2,600,000 were expensed. Additionally, merger and related costs include approximately $1,000,000 of pre-opening start up costs incurred during the first quarter of 1998 relating to the terminated RTC laboratory and $1,500,000 of remaining lease payments. The accrual for lease payments was not offset by any anticipated sublease income. No such income has been received to date and the remaining balance of this accrual at December 31, 1998 was approximately $1,165,000.

- Initial merger costs. Approximately $5,400,000 was expensed for integration activities which occurred at the time of the merger. These costs include a special training program held in March 1998 and attended by many TRCH and RTC employees, merger related travel costs, consultant costs and other costs attributed to the merger.

The expected savings to be achieved from the elimination of general and administrative expenses will come in the form of reduced compensation in the future as follows:

	1998	1999
Executive management	$2,305,000	$2,766,000
Finance and accounting	631,000	1,285,000
Human resources, facility operations and other	107,000	490,000
Laboratory closing	1,069,000	1,283,000
Total savings	$4,112,000	$5,824,000

No assurance can be given that we will achieve these savings.

Additionally, as the merger has resulted in approximately $67,000,000 of non-recurring cash expenses, there will be an ongoing impact to interest expense of approximately $5,000,000 per year.

Operating income. Operating income increased $17,038,000 to $141,818,000 in 1998 from $124,780,000 in 1997. As a percentage of net operating revenues, operating income decreased to 11.8% in 1998 from 16.4% in 1997. This decrease was due to the costs associated with the RTC merger. Operating income before the merger costs increased to 18.3%, as a percentage of net operating revenues, in 1998. This increase primarily was due to increased revenues, and a general decrease in operating costs partially offset by the additional provision for doubtful accounts recorded in the fourth quarter.

Interest expense. Interest expense increased $44,590,000 to $72,804,000 in 1998 from $28,214,000 in 1997, and as a percentage of net operating revenues, interest expense was 6.0% in 1998 and 3.7% in 1997. The increase in interest expense primarily was due to an increase in borrowings made under our credit facilities to fund acquisitions.

Interest rate swap-early termination costs. In conjunction with the refinancing of our credit facilities, two existing forward interest rate swap agreements were canceled in April 1998. The early termination costs associated with the cancellation of those swaps was $9,823,000.

Interest income. Interest income is generated as a result of the short-term investment of surplus cash from operations and excess proceeds from borrowings under our credit facilities. Interest income increased $1,719,000 to $4,894,000 in 1998 from $3,175,000 in 1997. As a percentage of net operating revenues, interest income remained at 0.4% for both years.

Provision for income taxes. Provision for income taxes increased $1,368,000 to $41,580,000 in 1998 from $40,212,000 in 1997. The effective income tax rate after minority interests increased to 73.1% in 1998 from 42.2% in 1997. The overall increase in the effective tax rate primarily reflects non-deductible merger and related expenses consisting of certain compensation costs and stock issuance costs of $36,000,000 as well as non-deductible goodwill associated with other acquired businesses. Before the non-deductible merger charges, the effective tax rate after minority interests declined to 39.8% in 1998 from 42.2% in 1997 primarily due to the restructuring of our business in Argentina to increase our consolidated tax deductible income by increasing equity and reducing debt in Argentina.

Minority interests. Minority interests represent the pretax income earned by minority partners who directly or indirectly own minority interests in our partnership affiliates and the net income in certain of our corporate subsidiaries. Minority interests increased $2,661,000 to $7,163,000 in 1998 from $4,502,000 in 1997, and as a percentage of net operating revenues, minority interest amounted to 0.6% for both years.

Extraordinary item. On February 27, 1998, in conjunction with our merger with RTC, we terminated RTC's revolving credit agreement and recorded all of the remaining unamortized deferred financing costs as an extraordinary loss of $2,812,000, net of income tax effect. In April 1998, in conjunction with replacing our senior credit facilities, we also recorded all of the remaining related unamortized deferred financing costs as an extraordinary loss of $9,932,000, net of income tax effect.

Cumulative effect of change in accounting principle. Effective January 1, 1998, we adopted SOP 98-5. SOP 98-5 requires that pre-opening and organizational costs incurred in conjunction with pre-opening activities associated with our de novo facilities, which previously had been treated as deferred costs and amortized over five years, should be expensed as incurred. In connection with this adoption, we recorded a charge of $6,896,000, net of income tax effect, as a cumulative effect of change in accounting principle.

Year ended December 31, 1997 compared to year ended December 31, 1996

Net operating revenues. Net operating revenues increased $262,973,000 to $760,997,000 for the year ended December 31, 1997 from $498,024,000 for the year ended December 31, 1996 representing a 52.8% increase. Of this increase, $257,113,000 was due to increased treatments from acquisitions, existing facility growth and de novo developments. The remainder was due to an increase in net operating revenues per treatment which were $224.37 in 1997 compared to $222.64 in 1996. The increase in net operating revenues per treatment was due to increases in ancillary services utilization and in affiliated and unaffiliated facility management fees.

Facility operating expenses. Facility operating expenses increased $166,810,000 to $510,990,000 in 1997 from $344,180,000 in 1996 and as a percentage of net operating revenues, facility operating expenses decreased to 67.1% in 1997 from 69.1% in 1996. This decrease primarily was due to improvements in labor and pharmaceutical costs as a percentage of revenues partially offset by an increase in other facility expenses, consisting primarily of rent and medical director fees. In December 1996, we implemented our Best Demonstrated Practices Program which focuses primarily upon deriving efficiencies in labor and supply costs.

General and administrative expenses. General and administrative expenses increased $17,749,000 to $50,099,000 in 1997 from $32,350,000 in 1996, and as a percentage of net operating revenues, general and administrative expenses increased to 6.6% for 1997 from 6.5% in 1996. The increase was due to additional corporate labor resources added to further our growth via acquisitions proportionately in excess of revenue growth.

Provision for doubtful accounts. The provision for doubtful accounts increased $4,788,000 to $20,525,000 in 1997 from $15,737,000 in 1996. As a percentage of net operating revenues, the provision for doubtful accounts decreased to 2.7% in 1997 from 3.2% in 1996, due to better management of the collection process for patient secondary balances remaining after Medicare, as the primary payor, had paid 80% of the claim.

Depreciation and amortization. Depreciation and amortization increased $22,158,000 to $54,603,000 in 1997 from $32,445,000 in 1996, and as a percentage of net operating revenues, depreciation and amortization increased to 7.2% in 1997 from 6.5% in 1996. This increase was attributable to increased amortization due to acquisition activity and increased depreciation from new center leaseholds and routine capital expenditures.

Merger expenses. Merger expenses include investment banking, legal, accounting and other fees and expenses. There were no merger expenses in 1997, as compared to $2,808,000 in 1996. In 1996, merger expenses were incurred as a result of the mergers by RTC which were completed during 1996 and were accounted for under the pooling-of-interests method of accounting.

Operating income. Operating income increased $54,276,000 to $124,780,000 in 1997 from $70,504,000 in 1996, and as a percentage of net operating revenues, operating income increased to 16.4% in 1997 from 14.2% in 1996. This increase in operating income as a percentage of net operating revenues reflected a decrease in facility operating costs and the provision for doubtful accounts offset by an increase in general and administrative expenses and depreciation and amortization.

Interest expense. Interest expense increased $14,797,000 to $28,214,000 in 1997 from $13,417,000 in 1996, and as a percentage of net operating revenues, interest expense was 3.7% in 1997 and 2.7% in 1996. The increase in interest expense primarily was due to an increase in borrowings made under our credit facilities to fund acquisitions.

Interest Income. Interest income decreased $683,000 to $3,175,000 in 1997 from $3,858,000 in 1996. This decrease was due to the timing of cash receipts and additional borrowings and the use of those funds for acquisitions. As a percentage of net operating revenues, interest income decreased to 0.4% from 0.8% in 1996.

Provision for income taxes. Provision for income taxes increased $17,252,000 to $40,212,000 in 1997 from $22,960,000 in 1996, and the effective income tax rate after minority interests increased to 42.2% in 1997 from 40.0% in 1996. The overall increase in the effective tax rate primarily reflected non-deductible goodwill associated with stock acquired, and to foreign net operating losses, for which no benefit was recognized during 1997, from businesses in Argentina.

Minority interests. Minority interests increased $924,000 to $4,502,000 in 1997 from $3,578,000 in 1996, and as a percentage of net operating revenues, minority interest decreased to 0.6% in 1997 from 0.7% in 1996. This decrease in minority interest as a percentage of net operating revenues was a result of a relative proportionate decrease in the formation of partnership affiliates and subsidiaries as a percentage of total new acquisitions.

Liquidity and capital resources

Sources and uses of cash

Our primary capital requirements have been the funding of our growth through acquisitions and de novo developments and equipment purchases. Net cash provided by operating activities was $17.6 million for the year ended December 31, 1998 and net cash provided by operating activities was $26.7 million for the year ended December 31, 1997. Net cash provided by operating activities consists of our net income (loss), increased by non-cash expenses such as depreciation, amortization, non-cash interest, the provision for doubtful accounts, cumulative change in accounting principle, and extraordinary loss, and adjusted by changes in components of working capital, primarily accounts receivable, and accrued merger and related expenses in 1998. Accounts receivable, before allowance for doubtful accounts, increased during 1998 by $200.3 million, of which approximately $140.6 million was due to the increase in our revenues; $23.7 million was due to a build up of accounts receivable with governmental payors which occurs while these payors process a change of ownership for facilities newly acquired by us, a process that typically can take from three to twelve months; approximately $11.0 million was due to a payment suspension imposed on our Florida-based laboratory by its Medicare carrier; and approximately $9.2 million was due to the change in patient mix toward commercial insurance from Medicare because of the changes in Medicare secondary payor extension, resulting in a longer period for receiving reimbursement because commercial insurance carriers generally process claims less quickly than Medicare.The remaining $15.8 million was due to unresolved collections on accounts primarily attributable to third party private payors. Additionally, the allowance for doubtful accounts increased by $31.2 million, including $11.5 million related to RTC receivables deemed uncollectible at year end.

Net cash used in investing activities was $475.1 million in 1998 and $526.2 million in 1997. Our principal uses of cash in investing activities have been related to acquisitions, purchases of new equipment and leasehold improvements for our facilities, as well as the development of new facilities. Net cash provided by financing activities was $492.8 million for 1998 and $484.3 million in 1997 primarily consisting of borrowings from our credit facilities and the proceeds from our 7% convertible subordinated notes offering. As of December 31, 1998, we had working capital of $385.1 million, including cash of $41.5 million.

We believe that we will have sufficient liquidity to fund our debt service obligations and our growth strategy over the next 12 months.

Expansion

Our strategy is to continue to expand our operations both through the development of de novo facilities and through acquisitions. The development of a typical facility generally requires $1.0 million to $1.2 million for initial construction and equipment and $0.2 million to $0.3 million for working capital. Based on our experience, a de novo facility typically achieves operating profitability, before depreciation and amortization, by the 9th to 18th month of operation. However, the period of time for a de novo facility to break even depends on many factors which can vary significantly from facility to facility, and, therefore, our past experience may not be indicative of the performance of future developed facilities. In 1998, we developed 27 new facilities, three of which we manage, and we expect to develop approximately 40 additional new facilities in 1999. We anticipate that our aggregate capital requirements for purchases of equipment and leasehold improvements for facilities, including de novo facilities, will be approximately $75.0 to $100.0 million for 1999.

During 1998, we paid cash of approximately $338.2 million for a pharmacy, minority interests in certain of our partnerships and 76 facilities. The operations of six of these facilities were not included in our consolidated financial statements until January 1, 1999. Since December 31, 1998, we have acquired 17 additional facilities for approximately $44.6 million.

Credit facilities

In April 1998, we replaced our $1.05 billion bank credit facilities with an aggregate of $1.35 billion in two senior bank facilities. The credit facilities consist of a seven-year $950.0 million revolving senior credit facility maturing on March 31, 2005 and a ten-year $400.0 million senior term facility maturing on March 31, 2008. As of December 31, 1998 the outstanding principal amount outstanding under the revolving facility was $353.6 million and under the term facility was $396.0 million. The term facility requires annual principal payments of $4.0 million, with the $360.0 million balance due on maturity. Therefore, we had $596.4 million available for borrowing under the revolving facility.

The credit facilities contain financial and operating covenants including, among other things, requirements that we maintain certain financial ratios and satisfy certain financial tests, and imposes limitations on our ability to make capital expenditures, to incur other indebtedness and to pay dividends. As of the date hereof, we are in compliance with all such covenants.

Interest rate swaps

During the quarter ended June 30, 1998, we entered into forward interest rate cancelable swap agreements with a combined notional amount of $800.0 million. The lengths of the agreements are between three and ten years with cancellation clauses at the swap holder's option from one to seven years. The underlying blended interest rate is fixed at approximately 5.65% plus an applicable margin based upon our current leverage ratio. Currently, the effective interest rate for these swaps is 6.90%.

Subordinated notes

The $125.0 million outstanding 5 5/8% convertible subordinated notes due 2006 issued by RTC bear interest at the rate of 5 5/8%, payable semi-annually and require no principal payments until 2006. The 5 5/8% notes are convertible into shares of our common stock at an effective conversion price of $25.62 per share and are redeemable by us beginning in July 1999.

In November we issued 7% convertible subordinated notes due 2009 in the aggregate principal amount of $345.0 million. The 7% notes are convertible at any time, in whole or in part, into shares of our common stock at a conversion price of $32.81 and will be redeemable after November 16, 2001. We used the net proceeds from the sale of the 7% notes to pay down debt under the revolving facility, which may be reborrowed.

Year 2000 considerations

Since the summer of 1998, all of our departments have been meeting with our information systems department to determine the extent of our Y2K exposure. Project teams have been assembled to work on correcting Y2K problems and to perform contingency planning to reduce our total exposure. Our goal is to have all corrective action and contingency plans in place by the third quarter of 1999.

Software applications and hardware. Each component of our software application portfolio, or SAP, must be examined with respect to its ability to properly handle dates in the next millennium. As part of our software assessment plan, key users will test each and every component of our SAP. These tests will be constructed to make sure each component operates properly with the system date advanced to the next millennium.

The major phases of our software assessment plan are as follows:

. Complete SAP inventory;

. Implement Y2K compliant software as necessary;

. Analyze which computers have Y2K problems and the cost to repair;

. Test all vendors' representations; and

. Fix any computer-specific problems.

Our billing and accounts receivable software is known to have a significant Y2K problem. We have already addressed this issue by obtaining a new, Y2K compliant version of this software. We expect to complete conversion to this Y2K compliant version by the end of the third quarter of 1999.

Operating systems. We are also reviewing our operating systems to assess possible Y2K exposure. We use several different network operating systems, or NOS, for multi-user access to the software that resides on the respective servers. Each NOS must be examined with respect to its ability to properly handle dates in the next millennium. Key users will test each component of our SAP with a compliant version of the NOS. One level beneath the NOS is a special piece of software that comes into play when the computer is "booted" that potentially has a Y2K problem and that is the basic input output system software, or BIOS. The BIOS takes the date from the system clock and uses it in passing the date to the NOS which in turn passes the date to the desktop operating system. The system clock poses another problem in that some system clocks were only capable of storing a two-digit year while other computer clocks stored a four-digit year. This issue affects each and every computer we have purchased. To remedy these problems, we plan to inventory all computer hardware using a Y2K utility program to determine whether we have a BIOS or a system clock problem. We then intend to perform a BIOS upgrade or perform a processor upgrade to a Y2K compliant processor.

Our financial exposure from all sources of SAP and operating system Y2K issues known to date is approximately $300,000, none of which has been expended.

Dialysis centers, equipment and suppliers. The operations of our dialysis centers can be affected by the Y2K problem so a contingency plan must be in place to prevent the shutdown of these centers. Each center will be responsible for completing a survey of the possible consequences of a failure of the information systems of our vendors and formulating a contingency plan by the third quarter of 1999. Divisional vice presidents will then review these plans to assure compliance.

All of our biomedical devices, including dialysis machines that have a computer chip in them will be checked thoroughly for Y2K compliance. We have contacted or will contact each of the vendors of the equipment we use and ask them to provide us with documentation regarding Y2K compliance. Where it is technically and financially feasible without jeopardizing any warranties, we will test our equipment by advancing the clock to a date in the next millennium.

In general, we expect to have all of our biomedical devices Y2K compliant by the third quarter of 1999. We have not yet been able to estimate the costs of upgrading or replacing certain of our biomedical devices as we do not yet know which of these machines, if any, are not currently Y2K compliant.

In addition to factors noted above which are directly within our control, factors beyond our direct control may disrupt our operations. If our suppliers are not Y2K complaint, we may experience inventory shortages and run short of critical supplies. If the utilities companies, transportation carriers and telecommunications companies which service us experience Y2K difficulties, our operations will also be adversely affected and some of our facilities may need to be closed. We are in the process of taking steps to reduce the impact on our operations in such instances and implementing contingency plans to address any possible unavoidable affect which these difficulties would have on our operations.

To address the possibility of a physical plant failure, we are contacting the landlords of each of our facilities to insure that they will provide access to our staff and any other key service providers. We are also providing written notification to our utilities companies of the locations, schedules and emergency services required of each of our dialysis facilities. In case a physical plant failure should result in an emergency closure of any of our facilities, we are currently:

- Confirming that backup hospital affiliation agreements are up-to-date and complete;
- Reviewing appropriate elements of our disaster preparedness plan with our staff and patients;
- Adopting/modifying emergency treatment orders and rationing plans with our medical directors to provide patient safety; and
- Conducting patient meetings with social workers and dieticians.

To minimize the affect of any Y2K non-compliance on the part of suppliers, we are currently taking steps to:

- Identify our critical suppliers and survey each of them to assess their Y2K compliance status;
- Identify alternative supply sources where necessary;
- Identify Y2K compliant transportation/shipping companies and establish agreements with them to cover situations where our current supplier's delivery systems go down;
- Include language in contracts with new suppliers addressing Y2K performance obligations, requirements and failures;
- Stock our dialysis facilities with one week of additional inventory; the orders will be placed two weeks before January 2000, to ensure receipt;
- Require critical distributors to carry additional inventory earmarked for us; and
- Prepare a critical supplier contact/pager list for Y2K emergency supply problems and ensure that contact persons will be on call 24 hours a day.

General. The extent and magnitude of the Y2K problem as it will affect us, both before, and for some period after, January 1, 2000, are difficult to predict or quantify for a number of reasons. Among the most important are our lack of control over systems that are used by the third parties who are critical to our operations, such as telecommunications and utilities companies, the complexity of testing interconnected networks and applications that depend on third-party networks and the uncertainty surrounding how others will deal with liability issues raised by Y2K-related failures. Moreover, the estimated costs of implementing our plans for fixing Y2K problems do not take into account the costs, if any, that might be incurred as a result of Y2K-related failures that occur despite our implementation of these plans.

With respect to third-party non-governmental payors, we are in the process of determining where our exposure is and developing contingency plans to prevent the interruption of cash flow. With respect to Medicare payments, neither HCFA nor its financial intermediaries have any contingency plan in place. However, HCFA has mandated that its financial intermediaries submit a draft of their contingency plans to it by March 1999 and that they be prepared to ensure that no interruption of Medicare payments results from Y2K-related failures of their systems. With respect to MediCal, the largest of our third-party state payors, we are already submitting our claims with a four-digit numerical year in accordance with the current system. We are currently working with our other state payors individually to determine the extent of their Y2K compliance.

Although we currently are not aware of any material operational issues associated with preparing our internal computer systems, facilities and equipment for Y2K, we cannot assure you, due to the overall complexity of the Y2K issues and the uncertainty surrounding third party responses to Y2K issues, that we will not experience material unanticipated negative consequences and/or material costs caused by undetected errors or defects in our or third party systems or by our failure to adequately prepare for the results of such errors or defects, including costs or related litigation, if any. The impact of such consequences could have a material adverse effect on our business, financial condition or results of operations.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Interest rate sensitivity

The table below provides information about our derivative financial instruments and other financial instruments that are sensitive to changes in interest rates, including interest rate swaps and debt obligations. For debt obligations, the table presents principal cash flows and related weighted average interest rates by expected maturity dates. For interest rate swaps, the table presents notional amounts and weighted average interest rates by expected, contractual maturity dates. Notional amounts are used to calculate the contractual payments to be exchanged under the contract. Weighted average variable rates are based on implied forward rates in the yield curve at the reporting date.

	Expected Maturity Date							
	1999	2000	2001	2002	2003	There-after	Total	Fair Value
	(in millions)							
Liabilities								
Long-term debt..........								
Fixed rate						$ 470	$ 470	$ 469
Average interest rate..						6.6%	6.6%	
Variable rate..........	$ 22	$ 11	$ 95	$153	$ 242	$ 255	$ 778	$ 778
Average interest rate..	6.88%	6.88%	6.88%	6.88%	6.88%	6.88%	6.88%	

	Expected Maturity Date							
	1999	2000	2001	2002	2003	There-after	Total	Fair Value
	(in millions)							
Interest rate derivatives								
Interest rate swaps.....								
Variable to fixed......			$ 100		$ 100	$ 600	$ 800	$(32,310)
Average pay rate.......			5.52%		5.51%	5.69%	5.64%	
Average receive rate...			5.25%		5.25%	5.35%	5.32%	

Our swaps have a one-time call provision for our counterparty at varying times based upon the maturity of the underlying swaps as follows:

Swap Maturity	Call Provision	Notional Amount
Ten-year swaps:	Seven-year	$200
	Five-year	200
Seven-year swaps:	Four-year	100
	Three-year	100
Five-year swaps:	Two-year	100
Three-year swaps:	One-year	100
		$800

Exchange rate sensitivity

We have foreign operations in Argentina, Germany, Italy and the United Kingdom. Because the Argentine Peso trades evenly with the U.S. dollar and because our operations in Germany, Italy and the United Kingdom are new and relatively small, we have not experienced significant foreign exchange rate risk. Through December 31, 1998, we have not utilized any derivative financial instruments to manage foreign exchange rate risk.

Item 8. Financial Statements and Supplementary Data.

See the Index included at "Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K."

Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

PART III

Item 10. Directors and Executive Officers of the Registrant.

Information concerning members of our board of directors

The following table sets forth certain information concerning members of our board of directors as of December 31, 1998:

Name	Age	Position
Victor M.G. Chaltiel	57	Chairman of the Board, Chief Executive Officer, President and Director
Maris Andersons	62	Director
Peter T. Grauer	53	Director
Regina E. Herzlinger	55	Director
Shaul G. Massry	68	Director

Victor M.G. Chaltiel has been our Chairman, CEO and President and one of our directors since August 1994. Mr. Chaltiel served as President and CEO of Abbey Healthcare Group, Inc., or Abbey, from November 1993 to February 1994 and prior thereto as Chairman, CEO and President of Total Pharmaceutical Care, Inc., or TPC, from March 1989 to November 1993, when Abbey completed its acquisition of TPC. From May 1985 to October 1988, Mr. Chaltiel served as President, Chief Operating Officer and a director of Salick Health Care, Inc., a publicly-held company focusing on the development of outpatient cancer and dialysis treatment centers. Mr. Chaltiel served in a consulting capacity with Salick Health Care, Inc. from October 1988 until he joined TPC. Prior to May 1985, Mr. Chaltiel was associated with Baxter International, Inc., or Baxter, for 18 years in numerous corporate and divisional management positions, including Corporate Group Vice President with responsibility for the International Group and five domestic divisions with combined revenue in excess of $1 billion, President of Baxter's Artificial Organs Division, Vice President of its International Division, Area Managing Director for Europe and President of its French operations. While at Baxter, Mr. Chaltiel was instrumental in the development and successful worldwide commercialization of Continuous Ambulatory Peritoneal Dialysis, currently the most common mode of home dialysis.

Maris Andersons has been one of our directors since August 1994. Mr. Andersons was a Senior Vice President and Senior Advisor, Corporate Finance, of Tenet Healthcare Corporation, or Tenet, until his retirement in 1997. Mr. Andersons also has held various senior executive offices with Tenet since 1976. Prior to joining Tenet, Mr. Andersons served as a Vice President of Bank of America.

Peter T. Grauer has been one of our directors since August 1994. Mr. Grauer has been a Managing Director of DLJ Merchant Banking, Inc., or DLJMB, since September 1992. From April 1989 to September 1992, he was a Co-Chairman of Grauer & Wheat, Inc., an investment firm specializing in leveraged buyouts. Prior thereto Mr. Grauer was a Senior Vice President of Donaldson, Lufkin & Jenrette Securities Corporation, or DLJ. Mr. Grauer is a director of Ameriserv Food Distribution, Inc., DecisionOne Holdings Corporation, Doane Pet Care Enterprises, Inc., Formica Corporation, Nebco Evans Holding Co., and Thermadyne Holdings Corporation.

Regina E. Herzlinger has been one of our directors since July 1997. Ms. Herzlinger, the Nancy R. McPherson Professor of Business Administration Chair at the Harvard Business School, has been a member of the faculty at the Harvard Business School since 1971. Ms. Herzlinger is a director of C.R. Bard, Inc., Cardinal Health, Inc., Deere & Company, and Schering-Plough Corporation.

Shaul G. Massry has been one of our directors since April 1997. Dr. Massry has been a Professor of Medicine, Physiology and Biophysics and Chief, Division of Nephrology, at the University of Southern California School of Medicine since 1974. Dr. Massry served as the president of the National Kidney Foundation from 1990 through 1992.

No arrangement or understanding exists between any director and any other person or persons pursuant to which any director was or is to be selected as a director other than pursuant to the shareholders agreement described in "Item 13. Certain Relationships and Related Transactions." None of the directors has any family relationship among themselves or with any of our executive officers. Each director is elected to hold office until the next annual meeting of stockholders and until his or her respective successor is elected and qualified.

Information concerning our executive officers

The following table sets forth certain information concerning our executive officers as of December 31, 1998:

Name	Age	Position
Victor M.G. Chaltiel............	57	Chairman of the Board, Chief Executive Officer, President and Director
Leonard W. Frie.................	52	Executive Vice President and Chief Operations Officer, West
Barry C. Cosgrove...............	41	Senior Vice President, General Counsel and Secretary
John E. King....................	38	Senior Vice President, Finance and Chief Financial Officer
Stan M. Lindenfeld..............	51	Senior Vice President, Quality Management and Chief Medical Officer

Our executive officers are elected by and serve at the discretion of our board of directors. Set forth below is a brief description of the business experience of all executive officers other than Mr. Chaltiel, who is also a director. See "Information concerning members of the board of directors."

Leonard W. Frie has been our Executive Vice President and Chief Operations Officer, West since August 1994. Mr. Frie was our President from April 1994 through August 1994. Prior thereto, Mr. Frie served as President of Medical Ambulatory Care, Inc. and its subsidiaries since 1984.

Barry C. Cosgrove was promoted to Senior Vice President in October 1998 from Vice President, a position he held since August 1994. Mr. Cosgrove is also our General Counsel and Secretary, positions he has held since August 1994. Prior to joining us, from May 1991 to April 1994, Mr. Cosgrove served as Vice President, General Counsel and Secretary of TPC. From February 1988 to 1991, Mr. Cosgrove served as Vice President and General Counsel of McGaw Laboratories, Inc. (a subsidiary of the Kendall Company). Prior to February of 1988, Mr. Cosgrove was with the Kendall Company for seven years in numerous corporate, legal and management positions, including Assistant to the General Counsel.

John E. King was promoted to Senior Vice President, Finance in October 1998 from Vice President, Finance, a position he held since August 1994. Mr. King is also our Chief Financial Officer, a position he has held since April 1994. Prior thereto, Mr. King served as Vice President, Finance and Chief Financial Officer with Medical Ambulatory Care, Inc. since May 1993. From December 1990 to April 1993, he was the Chief Financial Officer for one of Tenet's general acute hospitals.

Stan M. Lindenfeld, a nephrologist, was promoted to Senior Vice President, Quality Management in October 1998 from Vice President, Quality Management and Integrated Programs, a position he held since August 1994. Dr. Lindenfeld has also served as our Chief Medical Officer since January 1995 and as one of our medical directors since 1981. Since 1988 he has held the position of Clinical Professor of Medicine at the University of California Medical Center in San Francisco. Dr. Lindenfeld developed the Office of Clinical Resources Management at the University of California Medical Center in San Francisco and served as its director from July 1993 until July 1997.

None of the executive officers has any family relationship among themselves or with any of our directors.

Section 16(a) beneficial ownership reporting compliance

Section 16(a) of the Exchange Act requires "insiders," including our executive officers, directors and beneficial owners of more than 10% of our common stock, to file reports of ownership and changes in ownership of our common stock with the Securities and Exchange Commission and the New York Stock Exchange, and to furnish us with copies of all Section 16(a) forms they file. We became subject to Section 16(a) in conjunction with the registration of our common stock under the Exchange Act effective October 31, 1995. Based solely on our review of the copies of such forms received by us, or written representations from certain reporting persons that no Form 5's were required for those persons, we believe that our insiders complied with all applicable Section 16(a) filing requirements during fiscal 1998.

Item 11. Executive Compensation.

The following table sets forth the compensation paid or accrued by us to our chief executive officer and to each of our four most highly compensated executive officers for each of the fiscal years in the three-year period ended December 31, 1998:

Summary Compensation Table

		Annual Compensation			Long Term Compensation: Awards		Long Term Compensation: Payouts	
Name and Principal Position	Year	Salary ($)	Bonus ($)	Other Annual Compensation ($)	Restricted Stock Award(s) ($)	Securities Underlying Options* (#)	LTIP Payouts ($)	All Other Compensation ($)
Victor M.G. Chaltiel	1998	$315,026	$8,250,000(1)	$3,536(2)	--	1,000,000(3)	--	$ 5,598(4)
Chairman of the Board,	1997	288,652	890,409(5)	--	--	333,334(3)	--	5,522(6)
Chief Executive Officer President and Director	1996	285,186	419,728	--	--	166,667	--	5,366(7)
Leonard W. Frie	1998	200,410	321,254(8)	--	--	150,000	--	13,197(9)
Executive Vice President	1997	182,245	143,754	--	--	111,916	--	14,153(10)
and Chief Operations Officer, West	1996	181,484	139,568	--	--	159,140	--	26,914(11)
Barry C. Cosgrove	1998	182,309	490,004(12)	--	--	200,000	--	40,293(13)
Senior Vice President,	1997	149,817	115,004	--	--	111,916	--	11,582(14)
General Counsel and Secretary	1996	145,189	111,655	--	--	116,083	--	10,556(15)
John E. King	1998	181,154	487,500(16)	--	--	200,000	--	8,620(17)
Senior Vice President,	1997	130,504	112,500	--	--	111,916	--	14,089(18)
Finance and Chief Financial Officer	1996	99,533	93,750	--	--	74,417	--	15,509(19)
Stan M. Lindenfeld	1998	273,883	382,211(20)	--	--	150,000	--	425(21)
Senior Vice President,	1997	214,791	169,020	--	--	58,333	--	--
Quality Management and Chief Medical Officer	1996	121,647	85,302	--	--	136,916	--	192,520(22)

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*Includes options repriced in April 1997.

(1) Consists entirely of a special bonus received for services rendered in connection with the merger with RTC.

(2) Paid as a gross-up adjustment to offset the personal income tax resulting from Mr. Chaltiel's personal use of our leased corporate jet.

(3) In February 1999, Mr. Chaltiel voluntarily cancelled all 1,000,000 of the options granted to him in 1998 and 166,667 of the options granted to him in 1997 to increase the number of options available for grant under our existing stock option plans.

(4) Includes (a) $520 paid by us for an umbrella insurance policy, and (b) $5,078 representing imputed income from Mr. Chaltiel's personal use of our leased corporate jet.

(5) Mr. Chaltiel's 1997 bonus of $451,776 was prepaid in December 1997.

(6) Includes (a) automobile allowance of $5,002, and (b) $520 paid by us for an umbrella insurance policy.

(7) Includes (a) an automobile allowance of $4,846, and (b) $520 paid by us for an umbrella insurance policy.

(8) Includes the first installment, in the amount of $187,500, related to a special bonus received for services rendered in connection with the merger with RTC.
(9) Includes (a) an automobile allowance of $8,827, (b) $520 paid by us for an umbrella insurance policy, and (c) $3,850 in deferred compensation.
(10) Includes (a) an automobile allowance of $8,500, (b) $520 paid by us for an umbrella insurance policy, and (c) $5,133 in deferred compensation.
(11) Includes (a) an automobile allowance of $8,500, (b) $520 paid by us for an umbrella insurance policy, (c) $4,894 in deferred compensation, and (d) $13,000 in payment of cash value of accrued paid time off.
(12) Includes the first installment, in the amount of $375,000, related to a special bonus received for services rendered in connection with the merger with RTC.
(13) Includes (a) an automobile allowance of $8,100, (b) $520 paid by us for an umbrella insurance policy, and (c) $31,673 in the payment of cash value of accrued paid time off.
(14) Includes (a) an automobile allowance of $7,800, (b) $520 paid by us for an umbrella insurance policy, and (c) $3,262 in deferred interest income.
(15) Includes (a) an automobile allowance of $7,800, (b) $520 paid by us for an umbrella insurance policy, and (c) $2,236 in deferred interest income.
(16) Includes the first installment, in the amount of $375,000, related to a special bonus received for services rendered in connection with the merger with RTC.
(17) Includes (a) an automobile allowance of $8,100 and (b) $520 paid by us for an umbrella insurance policy.
(18) Includes (a) an automobile allowance of $7,800, (b) $520 paid by us for an umbrella insurance policy, and (c) $5,769 in payment of cash value of accrued paid time off.
(19) Includes (a) an automobile allowance of $7,800, (b) $520 paid by us for an umbrella insurance policy, (c) housing reimbursement of $3,624, and (d) $3,565 in payment of cash value of accrued paid time off.
(20) Includes the first installment, in the amount of $187,500, related to a special bonus received for services rendered in connection with the merger with RTC.
(21) Consists entirely of a waiver of medical insurance premiums.
(22) Includes (a) $192,000 in medical director fees and (b) $520 paid by us for an umbrella insurance policy.

The following table sets forth information concerning options granted to each of the named executive officers during fiscal 1998:

Option/SAR Grants in Last Fiscal Year

	Individual Grants				
Name	Number of Securities Underlying Options/SARs Granted(#)(1)	% of Total Options/SARs Granted to Employees in Fiscal Year	Exercise or Base Price ($/Sh)	Expiration Date	Grant Date Present Value ($)(2)
Victor M.G. Chaltiel....	1,000,000	18.0%	32.1875	2/27/08	14,236,900
Leonard W. Frie.........	150,000	2.7	32.1875	2/27/08	2,135,535
Barry C. Cosgrove.......	200,000	3.6	32.1875	2/27/08	2,847,380
John E. King............	200,000	3.6	32.1875	2/27/08	2,847,380
Stan M. Lindenfeld......	150,000	2.7	32.1875	2/27/08	2,135,535

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(1) All options are nonqualified stock options and were granted under our 1997 Equity Compensation Plan. The options vest over four year periods at an annual rate of 25% beginning on the first anniversary of the date of grant.
(2) The estimated grant date present value reflected in the above table was determined using the Black-Scholes model. The material assumptions and adjustments incorporated in the Black-Scholes model in estimating the value of the options reflected in the above table include the following: (a) the respective option exercise price for each individual grant, equal to the fair market value of the underlying stock on the date of grant; (b) the exercise of options within six years of the date that they become exerciseable;

(c) a risk-free interest rate of 5.632% per annum; (d) volatility of 34.2 calculated using the daily prices of our common stock; and (e) a dividend yield of 0%. The ultimate values of the options will depend on the future market price of our common stock, which cannot be forecasted with reasonable accuracy. The actual value, if any, an optionee will realize upon exercise of an option will depend on the excess of the market value of our common stock over the exercise price on the date the option is exercised. We cannot assure that the value realized by an optionee will be at or near the value estimated by the Black-Scholes model or any other model applied to value the options.

The following table sets forth information concerning the aggregate number of options exercised by each of the named executive officers during fiscal 1998:

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

Name	Shares Acquired on Exercise(#)	Value Realized($)	Number of Securities Underlying Unexercised Options at FY-End Exercisable/ Unexercisable(#)	Value of Unexercised In-the-Money Options at FY-End Exercisable/ Unexercisable($)(1)
Victor M.G. Chaltiel....	--	--	97,222/1,236,112(2)	929,685/2,257,820
Leonard W. Frie.........	--	--	137,999/ 229,472	3,203,770/ 759,950
Barry C. Cosgrove.......	--	--	94,944/ 279,472	2,023,525/ 759,950
John E. King............	--	--	53,277/ 279,472	881,328/ 759,950
Stan M. Lindenfeld......	--	--	81,055/ 285,027	1,146,955/1,291,194

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(1) Value is determined by subtracting the exercise price from the fair market value of $28.3125 per share, the closing price for our common stock as reported by the New York Stock Exchange as of December 31, 1998, and multiplying the remainder by the number of underlying shares of common stock.

(2) In February 1999, Mr. Chaltiel voluntarily cancelled 1,166,667 of these options to increase the number of options available for grant under our existing stock option plans.

Employment agreements

Mr. Chaltiel entered into an employment agreement with us on August 14, 1994, pursuant to which he was employed by us for an initial term of three years, with one year automatic extensions at the end of each year. We may terminate this agreement at any time, subject, among other things, to severance payments as provided in the employment agreement. His base salary paid during fiscal 1998 was $315,026 and is subject to annual review by our board for possible increases, with a minimum increase tied to the California consumer price index. Until May 31, 1999, Mr. Chaltiel will be entitled to a yearly bonus of up to 150% of his base salary based upon our achieving certain EBITDA performance targets. He also may be awarded an additional bonus at the discretion of the Board if EBITDA targets are exceeded by more than 15%. After May 31, 1999, Mr. Chaltiel will be awarded bonuses in a manner as determined in the sole discretion of the Board, on a basis reasonably consistent with past bonuses for similar performance.

On March 2, 1998 we amended Mr. Chaltiel's employment agreement to ensure that any additional compensation payable to Mr. Chaltiel upon a change in control would not be reduced by certain tax obligations possibly imposed by sections 280G or 4999 of the Internal Revenue Code of 1986.

Mr. Chaltiel also was granted options pursuant to our 1994 Equity Compensation Plan representing a total of approximately 1,477,778 shares of common stock. The options had an exercise price of $0.90. By their terms, half of the options were to vest over a four-year period and the other half were to vest on the ninth anniversary of the date of grant, subject to accelerated vesting in the event that we satisfied certain EBITDA performance targets. On September 18, 1995, our board and our stockholders approved an agreement dated as of the same date by and between Mr. Chaltiel and us pursuant to which the vesting schedule for these options was accelerated so that all of Mr. Chaltiel's outstanding options became vested and exercisable immediately. In connection with this agreement, Mr. Chaltiel agreed to exercise all of his options at that time to purchase 1,477,778 shares of common stock at an exercise price of $0.90 per share. Mr. Chaltiel paid the exercise price pursuant to a $1,330,000 four-year promissory note bearing interest at the lesser of the prime rate or 8%. This note was subject to repayment, in part or in full, to the extent of the receipt of any proceeds received by Mr. Chaltiel upon disposition of such shares of common stock, and Mr. Chaltiel pledged these shares as collateral for repayment of this note. Also, in accordance with the agreement, we agreed to advance Mr. Chaltiel funds of up to $1,521,520 principal amount in the aggregate relating to Mr. Chaltiel's tax liability in connection with additional taxes associated with the exercise of such options. Such loans were evidenced by two additional promissory notes executed by Mr. Chaltiel. The first note for $1,348,447 was executed concurrently with Mr. Chaltiel's exercise of his options. The second note for $173,073 was executed as of April 15, 1996. Simultaneously with the execution of the agreement, we entered into a Release and Pledge Agreement with Mr. Chaltiel whereby we released 1,855,555 shares of common stock owned by Mr. Chaltiel from a previous pledge agreement and substituted the newly acquired 1,477,778 shares of common stock. On March 31, 1998, Mr. Chaltiel repaid his outstanding loan balances with us and we released those shares held as collateral under the Release and Pledge Agreement.

On March 2, 1998 we entered into new employment agreements with each of our executive officers, other than Mr. Chaltiel. These employment agreements provide for an initial term through December 31, 1998 and will continue thereafter with no further action by either party for successive one year terms. Each executive officer's base salary will be subject to annual increases consistent with the California consumer price index. Each executive officer also will be entitled to receive a bonus of up to 75% of his base salary each year. Fifty percent of this bonus will be based upon our achievement of certain earnings per share targets and 50% will be granted at the discretion of the compensation committee. In the event of a constructive discharge following a change in control or a termination for any reason other than material cause, each executive officer will be entitled to a lump sum payment equal to his then-current base salary.

Each of Messrs. Frie, Cosgrove, King and Lindenfeld also have been granted options pursuant to our equity compensation plans. These options vest at a rate of 25% per year over four years. The exercise price of the options ranges from $0.90 per share to $32.1875 per share. Upon voluntary termination of employment, we may have the right to acquire all shares of our common stock held by the terminated employee at fair market value per share, as defined in the employment agreement.

On December 14, 1995, our board amended the stock option agreement of each executive officer, other than Mr. Chaltiel, to provide for the immediate vesting of all of such officers' stock options at any time following the sale of 50% or more of our stock or assets, or upon a merger, consolidation or reorganization in which we do not survive, if any of such officers' employment is terminated for any reason.

Compensation of directors

Directors who are our employees or officers do not receive compensation for service on the board or any committee of the board. Each of our directors who is not one of our officers or employees is entitled to receive $20,000 per year and certain additional compensation for attending more than four board meetings per year. Our directors also are reimbursed for their reasonable out-of-pocket expenses in connection with their travel to and attendance at the meetings of the board. In addition, each director who is not one of our officers or employees is entitled to receive 25,000 options to purchase shares of our common stock each year they are elected to serve on our board. These options have an exercise price equal to the fair market value of our common stock on the date of grant and generally vest over four year periods at an annual rate of 25% beginning on the first anniversary of the date of grant.

Compensation committee interlocks and insider participation

None of our executive officers or directors serves as a member of the board of directors or compensation committee of any other entity which has one or more executive officers serving as a member of our board. During fiscal 1998, Messrs. Chaltiel and Andersons and Dr. Massry were our officers, employees or consultants. Messrs. Andersons and Grauer and Ms. Herzlinger each served as a member of the compensation committee of our board of directors during fiscal 1998.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

The following table sets forth information regarding the ownership of our common stock as of March 15, 1999 by (a) all those persons known by us to own beneficially more than 5% of our common stock, (b) each of our directors and each executive officers, and (c) all directors and executive officers as a group. Except as otherwise noted under "Certain Relationships and Related Transactions," we know of no agreements among our stockholders which relate to voting or investment power over our common stock or any arrangement the operation of which may at a subsequent date result in a change of control of TRCH.

Name of Beneficial Owner	Number of Shares Beneficially Owned	Percentage of Shares Beneficially Owned
Massachusetts Financial Services(1)... 500 Boylston Street Boston, Massachusetts 02116	6,432,000	7.9%
T. Rowe Price Associates, Inc.(2)..... 100 East Pratt Street Baltimore, MD 21202	6,038,712	7.5%
Putnam Investments, Inc.(3)........... One Post Office Square Boston, Massachusetts 02109	4,935,801	6.1%
Victor M.G. Chaltiel(4)...............	1,145,302	1.4%
Leonard W. Frie(5)....................	287,488	*
Barry C. Cosgrove(6)..................	223,982	*
Stan M. Lindenfeld(7).................	196,107	*
John E. King(8).......................	153,051	*
Maris Andersons(9)....................	52,805	*
Shaul G. Massry(10)...................	45,487	*
Regina E. Herzlinger(11)..............	28,750	*
Peter T. Grauer(12)...................	23,125	*
All directors and executive officers as a group (9 persons)(13)..........	2,156,097	2.6%

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* Amount represents less than 1% of our common stock.

(1) Based upon market survey information as of March 3, 1999. The survey was conducted by the Corporate Investor Communication Surveillance Group and has not been independently verified by us.

(2) Based upon information contained in a Schedule 13G filed with the SEC on February 11, 1999.

(3) Represents 4,752,555 shares held by Putnam Investment Management, Inc., or PIM, and 183,246 shares held by Putnam Advisory Company, Inc., or PAC. PIM and PAC are each registered investment advisors that are wholly-owned by Putnam Investments, Inc. The share amounts for PIM and PAC are based upon information contained in an amendment to Schedule 13G filed with the SEC on March 10, 1999.

(4) Includes 111,112 shares issuable upon the exercise of options which are exercisable as of, or will become exercisable within 60 days of, March 15, 1999.

(5) Includes 207,943 shares issuable upon the exercise of options which are exercisable as of, or will become exercisable within 60 days of, March 15, 1999.

(6) Includes 177,388 shares issuable upon the exercise of options which are exercisable as of, or will become exercisable within 60 days of, March 15, 1999.

(7) Includes 178,777 shares issuable upon the exercise of options which are exercisable as of, or will become exercisable within 60 days of, March 15, 1999.

(8) Includes 135,721 shares issuable upon the exercise of options which are exercisable as of, or will become exercisable within 60 days of, March 15, 1999.

(9) Includes 46,917 shares issuable upon the exercise of options which are exercisable as of, or will become exercisable within 60 days of, March 15, 1999.

(10) Includes 45,487 shares issuable upon the exercise of options which are exercisable as of, or will become exercisable within 60 days of, March 15, 1999.

(11) Includes 28,750 shares issuable upon the exercise of options which are exercisable as of, or will become exercisable within 60 days of, March 15, 1999.

(12) Includes 23,125 shares issuable upon the exercise of options which are exercisable as of, or will become exercisable within 60 days of, March 15, 1999.

(13) Includes 955,220 shares issuable upon the exercise of options which are exercisable as of, or will become exercisable within 60 days of, March 15, 1999.

Item 13. Certain Relationships and Related Transactions.

Victor M.G. Chaltiel is our Chairman of the Board, Chief Executive Officer, President and one of our directors. Pursuant to Mr. Chaltiel's employment agreement and the 1994 Equity Compensation Plan, Mr. Chaltiel purchased 1,855,557 shares of common stock at $0.90 per share during the year ended May 31, 1995. Mr. Chaltiel paid $835,000 of the purchase price in cash, with the remainder being evidenced by a four-year promissory note bearing interest at the lesser of the prime rate or 8% per annum, which note is secured by a pledge of certain shares of our stock owned by Mr. Chaltiel. In July 1995, the board approved a one-year deferral of all scheduled principal and accrued interest payments under all outstanding promissory notes from our officers, including this four-year promissory note. In September 1995, we entered into an agreement with Mr. Chaltiel pursuant to which Mr. Chaltiel purchased 1,477,778 shares of common stock upon exercise of options held by him. Mr. Chaltiel paid for such shares with a four-year promissory note for $1,330,000 bearing interest at the lesser of the prime rate or 8%. This note was subject to repayment, in part or in full, to the extent of the receipt of proceeds received by Mr. Chaltiel upon disposition of the shares of common stock, and Mr. Chaltiel pledged these shares as collateral for repayment of this note. We also agreed to advance Mr. Chaltiel funds of up to $1,521,520 principal amount in the aggregate relating to Mr. Chaltiel's tax liability in connection with the shares. Such loans were evidenced by two additional promissory notes executed by Mr. Chaltiel. The first note for $1,348,447 was executed concurrently with Mr. Chaltiel's exercise of his options in September 1995. The second note for $173,073 was executed in April 1996. Simultaneously with the execution of the agreement, we entered into a Release and Pledge Agreement with Mr. Chaltiel whereby we released 1,855,557 shares of common stock owned by Mr. Chaltiel from the previous pledge agreement and substituted the newly acquired 1,477,778 shares of common stock. On March 31, 1998, Mr. Chaltiel repaid his outstanding loan balance with us and we released those shares held as collateral under the related Release and Pledge Agreement.

Certain of our officers and employees have received loans from us in connection with the purchase of shares of our common stock. All of the loans have similar terms. The loans bear interest at the lower of 8% or the prime rate, and are secured by all of the borrower's interests in our common stock, including all vested stock options. When made, the loans had a four-year term and one quarter of the original principal amount thereof plus all accrued interest thereon had to be paid annually, subject to the limitation that the borrower was not required to make any payment that exceeded 50% of the after-tax proceeds of such borrower's bonus from us, based on maximum tax rates then in effect. To date, our board has approved deferrals of all scheduled principal and accrued interest payments under all such loans. No other terms of the loans have been changed.

As of December 31, 1998, Leonard W. Frie, Barry C. Cosgrove and John E. King had loans outstanding from us with principal amounts of $100,000, $70,000 and $25,000, respectively. With respect to Mr. Cosgrove,

$50,000 was borrowed to purchase shares of common stock and $20,000 was borrowed for relocation costs. Mr. Chaltiel had an outstanding loan of $835,000 prior to the addition in September 1995 of $2,678,447 pursuant to similar loans in connection with Mr. Chaltiel's exercise of options for 1,477,778 shares of common stock and related personal income tax obligations, as described above. These loans were secured by a pledge of 1,444,445 shares of our common stock. Mr. Chaltiel received a similar loan from us in April 1996, in the amount of $173,073, in connection with additional taxes associated with the exercise of those options. On March 31, 1998, Mr. Chaltiel repaid his outstanding loan balances with us and we released those shares held as collateral.

Maris Andersons, one of our directors, serves as a consultant to us. He has been granted options, vesting over four years, to purchase an aggregate of 76,792 shares of our common stock in consideration for these services. As of December 31, 1998, Mr. Andersons had exercised 41,666 of said options leaving a balance of 35,126 options to purchase shares of our common stock.

Shaul G. Massry, one of our directors, serves as a consultant to us. In addition to certain compensation as a member of the board, Dr. Massry also receives $120,000 per year and has been granted options, vesting over four years, to purchase an aggregate of 44,722 shares of our common stock in consideration for these services. As of December 31, 1998, Dr. Massry had exercised 11,110 of such options leaving a balance of 33,612 options to purchase shares of our common stock.

We entered into a shareholders' agreement with DLJ Merchant Banking Partners, L.P., or DLJMBP, certain members of management and NME Properties Corporation, a wholly-owned subsidiary of Tenet, in August 1994 pursuant to which, among other provisions, DLJMBP had the right to nominate four of the five members of our board. Although this right has terminated, an affiliate of DLJMBP, Peter T. Grauer, continues to serve on our board. The shareholders' agreement further provides for certain registration rights and for restrictions on transfers of our common stock, certain rights of first refusal in favor of DLJMBP in the event NME proposes to transfer shares of our common stock and certain rights and obligations of NME to participate in transfers of shares by DLJMBP. DLJ and certain of its affiliates from time to time perform various investment banking and other services for us, for which we pay customary consideration.

We have entered into indemnity agreements with each of our directors and all of our officers, which agreements require us, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as our directors, officers, employees or agents, other than liabilities arising from conduct in bad faith or which is knowingly fraudulent or deliberately dishonest, and, under certain circumstances, to advance their expenses incurred as a result of proceedings brought against them.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

(a) Documents filed as part of this Report:

(1) Index to Financial Statements:

(2) Index to Financial Statement Schedules:

(3)(a) Exhibits:

3.1 Amended and Restated Certificate of Incorporation of TRCH, dated December 4, 1995.(1)
3.2 Certificate of Amendment of Certificate of Incorporation of TRCH, dated February 26, 1998.(2)
3.3 Bylaws of TRCH, dated October 6, 1995.(3)
4.1 Shareholders Agreement, dated August 11, 1994, between DLJMB, DLJIP, DLJOP, DLJMBF, NME Properties, Continental Bank, as voting trustee, and TRCH.(4)
4.2 Agreement and Amendment, dated as of June 30, 1995, between DLJMBP, DLJIP, DLJOP, DLJMBF, DLJESC, Tenet, TRCH, Victor M.G. Chaltiel, the Putnam Purchasers, the Crescent Purchasers and the Harvard Purchasers, relating to the Shareholders Agreement dated as of August 11, 1994 between DLJMB, DLJIP, DLJOP, DLJMBF, NME Properties, Continental Bank, as voting trustee, and TRCH.(4)
4.3 Indenture, dated June 12, 1996 by RTC to PNC Bank including form of RTC Note.(12)
4.4 First Supplemental Indenture, dated as of February 27, 1998, among RTC, TRCH and PNC Bank under the 1996 indenture.(2)
4.5 Second Supplemental Indenture, dated as of March 31, 1998, among RTC, TRCH and PNC Bank under the 1996 indenture.(2)
4.6 Indenture, dated as of November 18, 1998, between TRCH and United States Trust Company of New York, as trustee, and Form of Note.(5)
4.7 Registration Rights Agreement, dated as of November 18, 1998, between TRCH and DLJ, BNY Capital Markets, Inc., Credit Suisse First Boston Corporation and Warburg Dillon Read LLC, as the initial purchasers.(5)
4.8 Purchase Agreement, dated as of November 12, 1998, between TRCH and the initial purchasers.(5)
10.1 Noncompetition Agreement, dated August 11, 1994, between TRCH and Tenet.(4)
10.2 Employment Agreement, dated as of August 11, 1994, by and between TRCH and Victor M.G. Chaltiel (with forms of Promissory Note and Pledge and Stock Subscription Agreement attached as exhibits thereto).(4)*

10.3 Amendment to Mr. Chaltiel's employment agreement, dated as of August 11, 1994.(4)*
10.4 Second Amendment to Mr. Chaltiel's employment agreement, dated as of March 2, 1998.*X
10.5 Employment Agreement, dated as of March 2, 1998, by and between TRCH and Barry C. Cosgrove.(6)*
10.6 Employment Agreement, dated as of March 2, 1998, by and between TRCH and Leonard W. Frie.(6)*
10.7 Employment Agreement, dated as of March 2, 1998, by and between TRCH and John E. King.(6)*
10.8 Employment Agreement dated as of March 2, 1998, by and between TRCH and Stan M. Lindenfeld.(6)*
10.9 Amendment to Dr. Lindenfeld's employment agreement, dated September 1, 1998.*X
10.10 First Amended and Restated 1994 Equity Compensation Plan of TRCH (with form of Promissory Note and Pledge attached as an exhibit thereto), dated August 5, 1994.(4)*
10.11 Form of Stock Subscription Agreement relating to the 1994 Equity Compensation Plan.(4)*
10.12 Form of Purchased Shares Award Agreement relating to the 1994 Equity Compensation Plan.(4)*
10.13 Form of Nonqualified Stock Option relating to the 1994 Equity Compensation Plan.(4)*
10.14 1995 Equity Compensation Plan.(3)*
10.15 Employee Stock Purchase Plan.(3)*
10.16 Option Exercise and Bonus Agreement, dated as of September 18, 1995 between TRCH and Victor M.G. Chaltiel.(3)*
10.17 1997 Equity Compensation Plan.(7)
10.18 Amended and Restated Revolving Credit Agreement, dated as of April 30, 1998, by and among TRCH, the lenders party thereto, DLJ Capital Funding, Inc., as Syndication Agent, First Union National Bank, as Documentation Agent, and The Bank of New York, as Administrative Agent.(8)
10.19 Amendment No. 1 and Consent No. 1, dated as of August 5, 1998, to the Revolving Credit Agreement.X
10.20 Amendment No. 2, dated as of November 12, 1998, to the Revolving Credit Agreement.X
10.21 Amended and Restated Term Loan Agreement, dated as of April 30, 1998, by and among TRCH, the lenders party thereto, DLJ Capital Funding, Inc., as Syndication Agent, First Union National Bank, as Documentation Agent, and The Bank of New York, as Administrative Agent.(8)
10.22 Subsidiary Guaranty dated as of October 24, 1997 by Total Renal Care, Inc., TRC West, Inc. and Total Renal Care Acquisition Corp. in favor of and for the benefit of The Bank of New York, as Collateral Agent, the lenders to the Revolving Credit Agreement, the lenders to the Term Loan Agreement, the Term Agent (as defined therein), the Acknowledging Interest Rate Exchangers (as defined therein) and the Acknowledging Currency Exchangers (as defined therein).(9)
10.23 Borrower Pledge Agreement dated as of October 24, 1997 and entered into by and between the Company, and The Bank of New York, as Collateral Agent, the lenders to the Revolving Credit Agreement, the lenders to the Term Loan Agreement, the Term Agent (as defined therein), the Acknowledging Interest Rate Exchangers (as defined therein) and the Acknowledging Currency Exchangers (as defined therein).(9)
10.24 Amendment to Borrower Pledge Agreement, dated February 27, 1998, executed by TRCH in favor of The Bank of New York, as Collateral Agent.X
10.25 Form of Subsidiary Pledge Agreement dated as of October 24, 1997 by Total Renal Care, Inc., TRC West, Inc. and Total Renal Care Acquisition Corp., and The Bank of New York, as Collateral Agent, the lenders to the Revolving Credit Agreement, the lenders to the Term Loan Agreement, the Term Agent (as defined therein), the Acknowledging Interest Rate Exchangers (as defined therein) and the Acknowledging Currency Exchangers (as defined therein).(9)
10.26 Subsidiary Pledge Agreement, dated as of February 27, 1998, by RTC and The Bank of New York, as Collateral Agent, the lenders to the Revolving Credit Agreement, the lenders to the Term Loan Agreement, the Term Agent (as defined therein), the Acknowledging Interest Rate Exchangers (as defined therein) and the Acknowledging Currency Exchangers (as defined therein).X

10.27 Form of First Amendment to Borrower/Subsidiary Pledge Agreement, dated April 30, 1998, by and among TRCH, RTC, TRC and The Bank of New York, as Collateral Agent.(8)

10.28 Form of Acknowledgement and Confirmation, dated April 30, 1998, by TRCH, RTC, TRC West, Inc., Total Renal Care, Inc., Total Renal Care Acquisition Corp., Renal Treatment Centers--Mid-Atlantic, Inc., Renal Treatment Centers--Northeast, Inc., Renal Treatment Centers--California, Inc., Renal Treatment Centers--West, Inc., and Renal Treatment Centers--Southeast, Inc. for the benefit of The Bank of New York, as Collateral Agent and the lenders party to the Term Loan Agreement or the Revolving Credit Agreement.(8)

10.29 Agreement and Plan of Merger dated as of November 18, 1997 by and among TRCH, Nevada Acquisition Corp., a Delaware corporation and wholly-owned subsidiary of TRCH, and RTC.(10)

10.30 First Amendment to the Subsidiary Guaranty dated February 17, 1998.(2)

10.31 Special Purpose Option Plan.(11)

10.32 Guaranty, entered into as of March 31, 1998, by TRCH in favor of and for the benefit of PNC Bank.(2)

12.1 Statement re Computation of Ratios of Earnings to Fixed Charges.X

21.1 List of our subsidiaries.X

23.1 Consent of PricewaterhouseCoopers LLP.X

24.1 Powers of Attorney with respect to TRCH (included on page II-1 hereof). X

27.1 Financial Data Schedule.X

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X Included in this filing.

* Management contract or executive compensation plan or arrangement.

(1) Filed on March 18, 1996 as an exhibit to our Transitional Report on Form 10-K for the transition period from June 1, 1995 to December 31, 1995.

(2) Filed on March 31, 1998 as an exhibit to our Form 10-K for the year ended December 31, 1997.

(3) Filed on October 24, 1995 as an exhibit to Amendment No. 2 to our Registration Statement on Form S-1 (Registration Statement No. 33-97618).

(4) Filed on August 29, 1995 as an exhibit to our Form 10-K for the year ended May 31, 1995.

(5) Filed on December 18, 1998 as an exhibit to our Registration Statement on Form S-3 (Registration Statement No. 333-69227).

(6) Filed as an exhibit to our Form 10-Q for the quarter ended September 30, 1998.

(7) Filed on August 29, 1997 as an exhibit to our Registration Statement on Form S-8 (Registration Statement No. 333-34695).

(8) Filed on May 18, 1998 as an exhibit to Amendment No. 1 to our annual report for the year ended December 31, 1997 on Form 10-K/A.

(9)Filed on December 19, 1997 as an exhibit to our Current Report on Form 8-K.

(10) Filed on December 19, 1997 as Annex A to our Registration Statement on Form S-4 (Registration Statement No. 333-42653).

(11) Filed on February 25, 1998 as an exhibit to our Registration Statement on Form S-8 (Registration Statement No. 333-46887).

(12) Filed as an exhibit to RTC's Form 10-Q for the quarter ended June 30, 1996.

(b) Reports on Form 8-K:

Current Report on Form 8-K, dated November 3, 1998, reporting under Item 5 the issuance of our press releases in connection with the release of our third quarter earnings and the offering of $345 million of our 7% convertible subordinated notes pursuant to Rule 144A.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of
Total Renal Care Holdings, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of stockholders' equity, and of cash flows present fairly, in all material respects, the financial position of Total Renal Care Holdings, Inc. and its subsidiaries at December 31, 1997 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP
Seattle, Washington
March 29, 1999

TOTAL RENAL CARE HOLDINGS, INC.

CONSOLIDATED BALANCE SHEETS

	December 31, 1997	December 31, 1998
Assets		
Cash and cash equivalents	$ 6,143,000	$ 41,487,000
Patient accounts receivable, less allowance for doubtful accounts of $30,695,000 and $61,848,000, respectively	248,408,000	416,472,000
Receivable from Tenet	534,000	350,000
Inventories	15,766,000	23,470,000
Deferred income taxes	9,853,000	31,917,000
Prepaid expenses and other current assets	21,500,000	45,846,000
Total current assets	302,204,000	559,542,000
Property and equipment, net	172,838,000	233,337,000
Notes receivable	14,104,000	29,257,000
Deferred taxes, noncurrent	385,000	
Other long-term assets	14,438,000	9,050,000
Intangible assets, net	774,266,000	1,084,395,000
	$1,278,235,000	$1,915,581,000
Liabilities and Stockholders' Equity		
Accounts payable	$ 33,283,000	$ 41,910,000
Employee compensation and benefits	25,430,000	34,778,000
Other accrued liabilities	15,927,000	67,725,000
Current portion of long-term obligations	27,810,000	21,847,000
Income taxes payable		8,204,000
Total current liabilities	102,450,000	174,464,000
Long-term debt	723,782,000	1,225,781,000
Deferred income taxes	2,500,000	8,212,000
Other long-term liabilities	1,594,000	1,890,000
Minority interests	19,079,000	23,422,000
Commitments and contingencies (Notes 8, 9 and 13)		
Stockholders' equity		
Preferred stock ($0.001 par value; 5,000,000 shares authorized; none outstanding)		
Common stock ($0.001 par value, 195,000,000 shares authorized; 77,991,595 and 81,029,560 shares issued and outstanding)	78,000	81,000
Additional paid-in capital	358,492,000	413,095,000
Notes receivable from stockholders	(3,030,000)	(356,000)
Retained earnings	73,290,000	68,992,000
Total stockholders' equity	428,830,000	481,812,000
	$1,278,235,000	$1,915,581,000

See accompanying notes to consolidated financial statements.

TOTAL RENAL CARE HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
	1996	1997	1998
Net operating revenues	$498,024,000	$760,997,000	$1,204,894,000
Operating expenses			
Facilities	344,180,000	510,990,000	772,666,000
General and administrative	32,350,000	50,099,000	75,829,000
Provision for doubtful accounts	15,737,000	20,525,000	44,365,000
Depreciation and amortization	32,445,000	54,603,000	92,028,000
Merger and related costs	2,808,000		78,188,000
Total operating expenses	427,520,000	636,217,000	1,063,076,000
Operating income	70,504,000	124,780,000	141,818,000
Interest expense, net of capitalized interest	(13,417,000)	(28,214,000)	(72,804,000)
Interest rate swap-early termination costs			(9,823,000)
Interest income	3,858,000	3,175,000	4,894,000
Income before income taxes, minority interests, extraordinary item and cumulative effect of change in accounting principle	60,945,000	99,741,000	64,085,000
Income taxes	22,960,000	40,212,000	41,580,000
Income before minority interests, extraordinary item and cumulative effect of change in accounting principle	37,985,000	59,529,000	22,505,000
Minority interests in income of consolidated subsidiaries	3,578,000	4,502,000	7,163,000
Income before extraordinary item and cumulative effect of change in accounting principle	34,407,000	55,027,000	15,342,000
Extraordinary loss related to early extinguishment of debt, net of tax of $4,923,000 and $7,668,000, respectively	7,700,000		12,744,000
Cumulative effect of change in accounting principle, net of tax of $4,300,000			6,896,000
Net income (loss)	$ 26,707,000	$ 55,027,000	$ (4,298,000)
Earnings (loss) per common share:			
Income before extraordinary item and cumulative effect of change in accounting principle	$ 0.46	$ 0.71	$ 0.19
Extraordinary loss, net of tax	(0.10)		(0.16)
Cumulative effect of change in accounting principle, net of tax			(0.08)
Net income (loss)	$ 0.36	$ 0.71	$ (0.05)
Weighted average number of common shares outstanding	74,042,000	77,524,000	80,143,000
Earnings (loss) per common share--assuming dilution:			
Income before extraordinary item and cumulative effect of change in accounting principle	$ 0.45	$ 0.69	$ 0.19
Extraordinary loss, net of tax	(0.10)		(0.16)
Cumulative effect of change in accounting principle, net of tax			(0.08)
Net income (loss)	$ 0.35	$ 0.69	$ (0.05)
Weighted average number of common shares and equivalents outstanding--assuming dilution	77,225,000	79,975,000	81,701,000

See accompanying notes to consolidated financial statements.

TOTAL RENAL CARE HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Notes Receivable from Stockholders	Retained Earnings (Deficit)	Total
Balance at December 31, 1995	66,780,615	$67,000	$206,750,000	$(2,773,000)	$(10,882,000)	$193,162,000
Net proceeds from stock offerings	6,666,667	7,000	128,311,000			128,318,000
Shares issued in acquisitions	161,095		2,810,000			2,810,000
Shares issued in connection with mergers	2,422,534	2,000	105,000		3,097,000	3,204,000
Shares issued to employees and others	1,883		15,000			15,000
Shares issued to repay debt	190,109		1,474,000			1,474,000
Options exercised	463,461	1,000	3,183,000			3,184,000
Interest accrued on notes receivable, net of payments				(54,000)		(54,000)
Income tax benefit related to stock options exercised			938,000			938,000
Dividend distribution					(659,000)	(659,000)
Net income					26,707,000	26,707,000
Balance at December 31, 1996	76,686,364	77,000	343,586,000	(2,827,000)	18,263,000	359,099,000
Shares issued in acquisitions	17,613		273,000			273,000
Shares issued to employees and others	174,775		1,773,000			1,773,000
Options exercised	447,456		2,019,000			2,019,000
Shares issued to repay debt	664,580	1,000	5,147,000			5,148,000
Interest accrued on notes receivable, net of payments				(203,000)		(203,000)
Income tax benefit related to stock options exercised			5,453,000			5,453,000
Grant of stock options			235,000			235,000
Issuance of treasury stock to repay debt	807		6,000			6,000
Net income					55,027,000	55,027,000
Balance at December 31, 1997	77,991,595	78,000	358,492,000	(3,030,000)	73,290,000	428,830,000
Shares issued in acquisitions	98,549		2,796,000			2,796,000
Shares issued to employees and others	49,060		1,085,000			1,085,000
Options exercised	2,890,356	3,000	36,395,000			36,398,000
Repayment of notes receivable, net of interest accrued				2,674,000		2,674,000
Income tax benefit related to stock options exercised			14,199,000			14,199,000
Grant of stock options			128,000			128,000
Net loss					(4,298,000)	(4,298,000)
Balance at December 31, 1998	81,029,560	$81,000	$413,095,000	$ (356,000)	$ 68,992,000	$481,812,000

See accompanying notes to consolidated financial statements.

TOTAL RENAL CARE HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	1996	1997	1998
Cash flows from operating activities			
Net income (loss)..............	$ 26,707,000	$ 55,027,000	$ (4,298,000)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization.................	32,445,000	54,603,000	92,028,000
Extraordinary loss............	12,623,000		20,412,000
Cumulative change in accounting principle.........			11,196,000
Non-cash interest.............	4,396,000		
Deferred income taxes.........	(1,258,000)	(5,131,000)	(15,967,000)
Compensation expense from stock option exercise........			16,000,000
Income tax benefit related to stock options exercised......	938,000	5,453,000	14,199,000
Provision for doubtful accounts.....................	15,737,000	20,525,000	44,365,000
Loss (gain) on disposition of property and equipment.......	(20,000)	76,000	192,000
Equity in losses (earnings) from affiliate...............	16,000	(40,000)	(157,000)
Minority interests in income of consolidated subsidiaries.................	3,578,000	4,502,000	7,163,000
Stock options issued to consultants..................			128,000
Changes in operating assets and liabilities, net of effect of acquisitions:			
Accounts receivable...........	(52,909,000)	(109,811,000)	(200,251,000)
Inventories...................	(3,030,000)	(1,843,000)	(7,152,000)
Prepaid expenses and other current assets..............	(8,805,000)	(143,000)	(30,247,000)
Other long-term assets........		(9,166,000)	7,652,000
Accounts payable..............	2,147,000	(992,000)	6,331,000
Employee compensation and benefits.....................	6,043,000	8,539,000	8,933,000
Other accrued liabilities.....	(207,000)	2,791,000	34,873,000
Income taxes payable..........	(6,315,000)	2,329,000	12,525,000
Other long-term liabilities...	(222,000)	13,000	(315,000)
Net cash provided by operating activities........	31,864,000	26,732,000	17,610,000
Cash flows from investing activities			
Purchases of property and equipment.................	(41,740,000)	(62,033,000)	(83,012,000)
Additions to intangible assets........................	(10,775,000)	(35,224,000)	(37,891,000)
Cash paid for acquisitions, net of cash acquired.............	(179,002,000)	(455,090,000)	(338,164,000)
Purchase of investments........	(55,311,000)		
Sale of investments............	14,109,000	41,202,000	
Investment in affiliate, net...	(46,000)	(2,935,000)	(1,187,000)
Issuance of long-term notes receivable....................	(540,000)	(12,502,000)	(14,836,000)
Proceeds from disposition of property and equipment........	236,000	365,000	
Net cash used in investing activities.................	(273,069,000)	(526,217,000)	(475,090,000)
Cash flows from financing activities			
Proceeds from long-term borrowings....................	107,000	4,511,000	3,395,000
Principal payments on long-term obligations...................	(8,649,000)	(26,269,000)	(35,675,000)
Proceeds from convertible notes........................	121,250,000		345,000,000
Dividend distribution..........	(659,000)		
Cash paid to retire bonds......	(68,499,000)		
Proceeds from bank credit facility......................	239,835,000	505,000,000	1,567,225,000
Payment of bank credit			

facility	(188,510,000)		(1,407,650,000)
Net proceeds from issuance of common stock	131,517,000	3,792,000	21,483,000
Cash received on notes receivable from stockholders	170,000	35,000	2,674,000
Distributions to minority interests	(2,442,000)	(2,768,000)	(3,628,000)
Net cash provided by financing activities	224,120,000	484,301,000	492,824,000
Net (decrease) increase in cash	(17,085,000)	(15,184,000)	35,344,000
Cash and cash equivalents at beginning of year	38,412,000	21,327,000	6,143,000
Cash and cash equivalents at end of year	$ 21,327,000	$ 6,143,000	$ 41,487,000

Supplemental cash flow information (Note 15)

See accompanying notes to consolidated financial statements

1. Organization and summary of significant accounting policies

Organization

We operate kidney dialysis facilities and provide related medical services in Medicare certified dialysis facilities in various geographic sectors of the United States and also in Argentina, Puerto Rico, Europe and Guam.

On February 27, 1998 we acquired Renal Treatment Centers, Inc., or RTC, with headquarters in Berwyn, Pennsylvania in a merger. In connection with the merger, we issued 34,565,729 shares of our common stock in exchange for all of the outstanding shares of RTC common stock. RTC stockholders received 1.335 shares of our common stock for each share of RTC common stock that they owned. We also issued 2,156,424 options in substitution for previously outstanding RTC stock options, including 1,662,354 of the vested options that were exercised on the merger date or shortly thereafter. In addition, we guaranteed $125,000,000 of RTC's 5 5/8% subordinated convertible notes. In conjunction with this transaction, our board of directors and our stockholders authorized an additional 140,000,000 shares of common stock.

The RTC merger transaction was accounted for as a pooling of interests and as such, these consolidated financial statements have been restated to include RTC for all periods presented. There were no transactions between RTC and us prior to the combination and no adjustments were necessary to conform RTC's accounting policies to ours. Certain reclassifications also were made to the RTC financial statements to conform to our presentations.

The results of operations for Total Renal Care Holdings, Inc., or TRCH, and the combined amounts presented in the consolidated financial statements follow:

	Years Ended December 31,	
	1996	1997
Net operating revenues		
TRCH	$272,947,000	$438,205,000
RTC	225,077,000	322,792,000
	$498,024,000	$760,997,000
Net income before extraordinary item		
TRCH	$ 23,725,000	$ 36,977,000
RTC	10,682,000	18,050,000
	$ 34,407,000	$ 55,027,000
Net income after extraordinary item		
TRCH	$ 16,025,000	$ 36,977,000
RTC	10,682,000	18,050,000
	$ 26,707,000	$ 55,027,000

As a result of the merger, RTC's revolving credit agreement was terminated and the outstanding balance of approximately $297,228,000 was paid off through additional borrowings under our credit facilities. The remaining net unamortized deferred financing costs in the amount of $4,392,000, less tax of $1,580,000, related to RTC's revolving credit agreement were recognized as an extraordinary loss during 1998.

In connection with the merger, we developed a plan which included initiatives to integrate our operations with those of RTC, eliminate duplicative overhead, facilities and systems and improve service delivery. These integration activities were commenced during the first quarter of 1998 and are expected to be substantially completed by approximately July 1, 1999.

Merger and related costs recorded during the first quarter of 1998 include costs associated with certain of the integration activities, transaction costs and costs of employee severance and amounts due under employment agreements and other compensation programs. These amounts are more fully described below and are based on our estimates of those costs.

A summary of merger and related costs and accrual activity through December 31, 1998 is as follows:

	Direct Transaction Costs	Severance and Employment Costs	Costs to Integrate Operations	Total
Initial expense	$21,580,000	$ 41,960,000	$15,895,000	$ 79,435,000
Amounts utilized--1st quarter 1998	(7,771,000)	(35,304,000)	(9,474,000)	(52,549,000)
Accrual, March 31, 1998 (unaudited)	13,809,000	6,656,000	6,421,000	26,886,000
Amounts utilized--2nd quarter 1998	(5,109,000)	(1,096,000)	(2,427,000)	(8,632,000)
Accrual, June 30, 1998 (unaudited)	8,700,000	5,560,000	3,994,000	18,254,000
Amounts utilized--3rd quarter 1998	(837,000)	(458,000)	(1,048,000)	(2,343,000)
Accrual, September 30, 1998 (unaudited)	7,863,000	5,102,000	2,946,000	15,911,000
Adjustment of estimates	1,305,000	(959,000)	(1,593,000)	(1,247,000)
Amounts utilized--4th quarter 1998	(9,168,000)	(543,000)	(188,000)	(9,899,000)
Accrual, December 31, 1998	$ --	$ 3,600,000	$ 1,165,000	$ 4,765,000

Direct transaction costs consist primarily of investment banking fees, legal and accounting costs and other direct transaction costs, including the costs of consultants, printing and registration, which were incurred by both TRCH and RTC in connection with the merger. We concluded negotiations as to certain amounts due in the fourth quarter of 1998 and subsequently we paid these amounts.

Severance and employment costs were incurred for the following:

- Severance pay--The merger constituted a constructive termination of employment under various preexisting employment contracts with RTC officers. Terminated RTC officers were entitled to severance payments and tax gross-up payments of approximately $6,500,000. In addition, approximately 80 employees of RTC were informed that their positions would be eliminated. Most of these employees were formerly located in RTC's administrative office and a laboratory under development. The terminations were structured over the integration period, which continued through the end of 1998. The accrued severance payments to these employees amounted to approximately $1,600,000. The remaining balance of such severance costs of $600,000 was paid in the first quarter of 1999 and tax gross up payments of approximately $3,000,000 are expected to be paid in the second quarter of 1999.

- Option exercises--Pre-existing terms of RTC stock option grants permitted the exercise of options by tender of RTC shares. Some of the RTC shares tendered had been held less than six months by the option holders and, as required by Emerging Issues Task Force Issue 84-18, we recognized a noncash expense of approximately $16,000,000 equal to the difference between the exercise price of the options and the market value of the stock on the date of exercise. We also incurred approximately $600,000 of payroll tax related to the exercise of nonqualified stock options.

- Bonuses--RTC and TRCH each awarded special bonuses as a result of the merger, paid in the first quarter of 1998, for which approximately $16,300,000 was included in merger and related costs.

In connection with the RTC merger, we developed a plan which included initiatives to integrate the operations of TRCH and RTC, eliminate duplicative overhead, facilities and systems and improve service delivery. These integration activities were commenced during the first quarter of 1998 and are expected to be substantially completed by approximately July 1, 1999.

We eliminated the following RTC departments: human resources, managed care, laboratory, and all finance functions, with the exception of patient accounting. The finance functions eliminated included payroll, financial reporting and analysis, budgeting, general ledger, accounts payable, and tax functions. The RTC human resources and managed care departments were discontinued in Berwyn, Pennsylvania and consolidated with our respective departments in our Torrance, California headquarters as of September 30, 1998. All finance functions, with the exception of patient accounting, were consolidated into our Tacoma, Washington business office as of December 31, 1998. RTC's laboratory, located in Las Vegas, Nevada, was closed prior to its commencement of operation. All laboratory functions were consolidated into our laboratories in Minnesota and Florida in February 1998.

Costs to integrate operations include the following:

- Laboratory restructuring--As part of our merger integration plan, we decided to restructure our laboratories. To optimize post-merger operations, we terminated a long-term management services agreement with a third party that provided full laboratory management on a contract basis. The termination fee of approximately $3,800,000 was negotiated in the first quarter of 1998. We also immediately halted development of RTC's new laboratory, which was not required for post-merger operations. The RTC laboratory, which was being developed in leased space, is now vacant and a new sublessee is being sought. As a result of this decision, previously capitalized leasehold improvements of $2,600,000 were expensed. Additionally, merger and related costs include approximately $1,000,000 of pre-opening start up costs incurred during the first quarter of 1998 relating to the terminated RTC laboratory and $1,500,000 of remaining lease payments. The accrual for lease payments was not offset by any anticipated sublease income. No such income has been received to date and the remaining balance of this accrual at December 31, 1998 was approximately $1,165,000.

- Initial merger costs--Approximately $5,400,000 was expensed for integration activities which occurred at the time of the merger. Such costs include a special training program held in March 1998 and attended by many of our employees, including former RTC employees, merger related travel costs, consultant costs and other costs attributed to the merger.

During the fourth quarter of 1998 we reduced the remaining balance of the accrual by $1,247,000 representing differences between initial estimates and actual amounts of expenses incurred.

The accrued merger and related costs initially reported by us in the first quarter of 1998 amounted to $92,835,000. As discussed in Note 17, we have received comments from the Securities and Exchange Commission and have revised our financial reporting relating to certain costs initially included in our merger and related costs and accrual as follows:

	Three months ended				Year ended
	March 31, 1998	June 30, 1998	September 30, 1998	December 31, 1998	December 31, 1998
Operating Expenses					
Facilities	$ 1,700,000				$ 1,700,000
General and administrative		$1,100,000	$1,100,000	$ 1,100,000	3,300,000
Depreciation and amortization	590,000	1,770,000	1,770,000	1,770,000	5,900,000
Merger and related costs	(13,400,000)			(1,247,000)	(14,647,000)
(Decrease) Increase to operating expenses	$(11,110,000)	$2,870,000	$2,870,000	$ 1,623,000	$ (3,747,000)

A summary of the primary revisions is as follows:

.Reclassification of merger charges into operating expenses:

Reclassify inventory writeoff as facility expense	$1,700,000
Amortize merger bonuses with deferred payout schedule in 1998	3,300,000
Amortize remaining book value of incompatible and duplicative software in 1998	5,900,000

.Reversal of accrued expenses within the merger charges:

Reverse accrual of estimated potential tax liability	$2,500,000
Reversal of differences between original estimates and actual amounts of the merger expenses incurred	1,247,000
Total reduction in operating costs	$3,747,000

Basis of presentation

Our consolidated financial statements include our accounts and those of our wholly owned and majority-owned corporate subsidiaries and partnership investments, including certain majority-owned and 50% owned partnerships where we have control. All significant intercompany transactions and balances have been eliminated in consolidation. The results of operations of our foreign-based entities are included through November 30, 1998.

At December 31, 1998 we, through our direct and indirect subsidiaries, were the general partner in 24 partnerships which own and operate 59 dialysis facilities. We consolidate our majority and 50% owned partnership investments because we exercise control through direct ownership and/or the rights to manage the daily operations of the business and the 50% or minority partners have only protective rights on the partnership. Minority-owned partnership investments are recorded under the equity method of accounting.

In February 1996, RTC acquired, through two separate transactions, Intercontinental Medical Services, Inc., or IMS, and Midwest Dialysis Unit and its affiliates, or MDU. In July 1996, RTC acquired Panama City Artificial Kidney Center, Inc. and North Florida Artificial Kidney Center, Inc., or the Kidney Center Group. Accordingly, the consolidated financial statements have been prepared to give retroactive effect to these mergers. Each of the transactions was separately accounted for as a pooling-of-interests. The consolidated financial statements include the results of IMS, MDU and the Kidney Center Group as of January 1, 1996.

Net operating revenues

Revenues are recognized when services and related products are provided to patients in need of ongoing life sustaining kidney dialysis treatments. Operating revenues consist primarily of dialysis and ancillary fees from patient treatments. These amounts are reported at the amounts expected to be realized from governmental and third-party payors, patients and others for services provided. Appropriate allowances are established based upon credit risk of specific third-party payors, historical trends and other factors and are reflected in the provision for doubtful accounts as a component of operating expenses in the consolidated statements of income.

During 1996, 1997 and 1998, we received approximately 64%, 61% and 56% respectively, of our dialysis revenues from Medicare and Medicaid programs. Accounts receivable from Medicare and Medicaid amounted to $205,564,000 and $204,770,000 as of December 31, 1997 and 1998, respectively. Medicare historically pays approximately 80% of government established rates for services provided by us. The remaining 20% typically is paid by state Medicaid programs, private insurance companies or directly by the patients receiving the services.

Medicare and Medicaid programs funded by the U.S. government generally reimburse us under prospective payment systems at amounts different from our established private rates. Revenues under these programs are generally recognized at prospective rates which are subject to periodic adjustment by federal and state agencies. We bill non-governmental third-party payors at established private rates. We have contracts for the provision of dialysis services to members of certain managed care organizations which generally include rate provisions at less than the established private rates.

In August 1993, the Omnibus Budget Reconciliation Act of 1993, or OBRA 93, became effective. The Healthcare Financing Administration, or HCFA, originally interpreted certain provisions of OBRA 93 to require employer group health sponsored insurance plans, or private payors, to be the primary payor for patients who became dually entitled to Medicare benefits because they developed ESRD after they had earlier been entitled to Medicare due to age or disability. In July 1994, HCFA instructed the Medicare fiscal intermediaries to apply the provisions of OBRA 93 retroactively to August 10, 1993. Accordingly, we billed the responsible private payors as the primary payors and recognized these revenues, at the generally higher private rates, as services were rendered for periods after August 10, 1993.

In April 1995, HCFA issued instructions of clarification to the fiscal intermediaries which stated that it had misinterpreted the OBRA 93 provisions, and that Medicare would continue as the primary payor despite a patient obtaining dual eligibility status under the Medicare ESRD provisions. Accordingly, we began recognizing revenues at Medicare rates for all such patients going forward from April 1995. We also adjusted our financial statements to reflect revenues earned at Medicare rates for such patients during the period from August 1993 through April 1995. This resulted in a reduction in revenues for the period August 1993 through April 1995 of approximately $3.1 million as these revenues had been previously recognized at the generally higher private rates.

In June 1995, a federal court issued a preliminary injunction against HCFA prohibiting HCFA from retroactively applying its reinterpretation of the OBRA 93 provisions to periods prior to its April 1995 instructions of clarification. After the issuance of this preliminary injunction, we determined that a permanent injunction would likely be issued, and we adjusted our financial statements to reflect revenues earned during the period from August 1993 through April 1995 at the generally higher private rates. We made no adjustment to revenues recognized going forward from April 1995 because the injunction did not prohibit the prospective effect of HCFA's reinterpretation.

In January 1998, a federal court issued a permanent injunction preventing HCFA from applying its reinterpretation of the OBRA 93 provisions because that application would be unlawful retroactive rulemaking. We did not adjust our revenues in January 1998 in response to the permanent injunction because revenues had already been recognized at the generally higher private rates after the issuance of the preliminary injunction in June 1995.

As a Medicare and Medicaid provider, we are subject to extensive regulation by both the federal government and the states in which we conduct our business. Due to heightened awareness of federal and state budgets, scrutiny is being placed on the health care industry, potentially subjecting us to regulatory investigation and changes in billing procedures (see Note 13).

The provisions of the Kennedy-Kassebaum legislation issued January 1, 1997 may limit our ability to pay for policy premiums for patients even with proven financial hardship. However, we believe that the bill did not intend to limit our ability to pay premiums for insurance coverage to third-party or governmental payors. In the fall of 1997, the Office of Inspector General of the Department of Health and Human Services, of HHS, issued an advisory opinion which would allow us to make grants to a foundation that may provide for these premium payments on behalf of eligible ESRD patients. Furthermore, a recent Congressional action will allow dialysis providers to pay their patients' insurance premiums for secondary insurance. These premiums are generally less than the 20% co-payment that a private insurer would pay. Dialysis providers would be allowed to capture as incremental profit the difference between the premiums paid to these secondary insurers and the reimbursement amounts received from them. We plan to pay for a patient's secondary insurance premium only if the patient does not qualify for Medicaid and the patient demonstrates an inability to pay for this insurance. Dialysis providers will be able to pay directly their patients' premiums for secondary insurance beginning upon the enactment of regulations implementing the Congressional action, which is expected in the third quarter of 1999.

We provide management services to dialysis facilities that we do not own under long-term and short-term agreements. Our fees typically are determined as a percentage of the facilities' patient revenues or operating results. The net fee due us is included in our net operating revenues as earned. Any costs incurred in performing these management services are recognized in facility operating and general and administrative expenses.

Cash and cash equivalents

Cash equivalents are highly liquid investments with original maturities of three months or less.

As part of our cash management strategy, we utilize a zero-balance disbursement account that resulted in a cash overdraft of $10,392,000 as of December 31, 1998. This overdraft has been reclassified and included in other accrued liabilities in these financial statements.

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market and consist principally of drugs and dialysis related supplies.

Supplier rebates associated with medical supplies inventory are based on a percentage of purchases during the contract period and generally are paid to us on a quarterly or semi-annual basis. The percentage rate of rebate recognized by us is based upon expected purchase thresholds to be achieved during the contract period. We recognize supplier rebates in the same period that the related inventory expense is recognized and they are included in facility operating expenses in the consolidated statement of income. A corresponding rebate receivable is included in other current assets in the consolidated balance sheet.

Property and equipment

Property and equipment are stated at cost. Maintenance and repairs are charged to expense as incurred. Depreciation and amortization expense are computed using the straight-line method over the useful lives of the assets estimated as follows: buildings, 20 to 40 years; leaseholds and improvements, over the shorter of their estimated useful life or the lease term; and equipment, 3 to 15 years.

Capitalized interest

We capitalize interest associated with the costs of significant facility expansion and construction. Interest is capitalized by using an interest rate which is equal to the weighted average borrowing rate on our long-term debt. Approximately $685,000 and $804,000 in interest expense was capitalized during 1997 and 1998, respectively.

Intangible assets

Business acquisition costs allocated to patient lists are amortized generally over five to eight years using the straight-line method. Business acquisition costs allocated to covenants not to compete are amortized over the terms of the agreements, typically three to eleven years, using the straight-line method. Deferred debt issuance costs are amortized over the term of the debt using the effective interest method. Pre-opening and development costs are expensed as incurred during 1998.

The excess of aggregate purchase price over the fair value of net assets of businesses acquired is recorded as goodwill. Goodwill is amortized over 15 to 40 years using the straight-line method. Currently, the blended average life of our goodwill is 34 years.

Impairment of Property and Equipment and Intangible Assets

The carrying value of property and equipment and intangible assets are assessed for any permanent impairment by evaluating the operating performance and future undiscounted cash flows from operations of the underlying businesses. Adjustments are made if the sum of the expected future undiscounted net cash flows is less than book value. Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of, or SFAS 121, requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable.

Income taxes

We account for income taxes using an asset and liability approach, which requires recognition of deferred income taxes for all temporary differences between the tax and financial reporting bases of our assets and liabilities based on enacted tax rates applicable to the periods in which the differences are expected to be recovered or settled.

Minority interests

Minority interests represent the proportionate equity interest of other partners and stockholders in our consolidated entities which are not wholly owned. As of December 31, 1998, these included 24 active partnerships and corporations.

Stock-based compensation

Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, or SFAS 123, requires us to elect to account for stock-based compensation on a fair value based model or an intrinsic value based model. We currently use the intrinsic value based model which is the accounting principle prescribed by Accounting Principles Board No. 25, Accounting for Stock Issued to Employees, or APB 25. Under this model, compensation cost is the excess of the quoted market price of the stock at the date of grant or other measurement date over the amount an employee must pay to acquire the stock. The fair value based model prescribed by SFAS 123 requires us to value stock-based compensation using an accepted valuation model. Compensation cost is measured at the grant date based on the value of the award and would be recognized over the service period which is usually the vesting period. SFAS 123 requires us to either reflect the results of the valuation in the consolidated financial statements or alternatively continue to apply the provisions of APB 25 and make appropriate disclosure of the impact of such valuation in the accompanying notes to consolidated financial statements.

We have elected to continue to apply the provisions of APB 25 to our employee stock-based compensation plans and have included the required disclosure of the pro forma impact on net income and earnings per share of the difference between compensation expense using the intrinsic value method and the fair value method (see Note 10).

Options granted to non-employees subsequent to December 15, 1998 are recorded at the fair value based upon the fair value criteria of SFAS 123.

Earnings per share

In February 1997, the Financial Accounting Standards Board issued the Statement of Financial Accounting Standards No. 128, Earnings Per Share, or SFAS 128. SFAS 128 establishes standards for computing and presenting earnings per share. Basic earnings per share is calculated by dividing net income before extraordinary item and net income by the weighted average number of shares of common stock outstanding. Earnings per common share assuming dilution includes the dilutive effects of stock options and warrants, using the treasury stock method, in determining the weighted average number of shares of common stock outstanding. Not currently used in the calculation is the effect of our convertible debt. For 1997 and 1998, the effect of our convertible debt is antidilutive and as such, is not to be included in the diluted EPS calculation. Earnings per share for all periods presented have been restated following the provisions of SFAS 128.

Interest rate swap agreements

We have entered into interest rate swap agreements (see Note 8) as a means of managing our interest rate exposure. We have not entered these agreements for trading or speculative purposes. These agreements have the effect of converting our line of credit obligation from a variable rate to a fixed rate. Net amounts paid or received are reflected as adjustments to interest expense. The counterparties to these agreements are large international financial institutions. These interest rate swap agreements subject us to financial risk that will vary during the life of the agreements in relation to the prevailing market interest rates. We are also exposed to credit loss in the event of non-performance by these counterparties. However, we do not anticipate non-performance by the other parties, and no material loss would be expected from non-performance by the counterparties.

Financial instruments

Our financial instruments consist primarily of cash, accounts receivable, notes receivable, accounts payable, employee compensation and benefits, and other accrued liabilities. These balances, as presented in the financial statements at December 31, 1997 and 1998, approximate their fair value. Borrowings under our credit facilities, of which $749,575,000 was outstanding as of December 31, 1998, reflect fair value as they are subject to fees and rates competitively determined in the marketplace. The fair value of the interest rate swap agreements is based on the present value of expected future cash flows from the agreement and was in a net payable position of $31,300,000 at December 31, 1998. The fair value of our 7% convertible subordinated notes was equal to the carrying book value because of the proximity in the time between the issue date of these notes and December 31, 1998; the fair value of the RTC 5 5/8% convertible subordinated notes was approximately $124,000,000 at December 31, 1998.

Foreign currency translation

Our principal operations outside of the United States are in Argentina and are relatively self-contained and integrated within Argentina. The currency in Argentina, which is considered the functional currency, floats with the U.S. dollar, therefore, there are no significant foreign currency translation adjustments. Our operations in Europe were nominal through December 31, 1998.

Comprehensive income

In June 1997, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income, or SFAS 130, which was adopted by us in the first quarter of 1998. SFAS 130 establishes standards for reporting and displaying comprehensive income and its components (revenues, expenses, gains and losses) in a full set of general-purpose financial statements or as additional line items within the current set of financial statements. Comprehensive income as defined includes certain changes in stockholders' equity during a period from non-income sources. Such items may include foreign currency translation adjustments, unrealized gains/losses from investing and hedging activities, and other transactions. SFAS 130 requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. As we have no components of other comprehensive income through December 1998, there were no disclosure requirements involved in our adoption of SFAS 130. In the future, we are likely to have other comprehensive income that SFAS 130 will require us to disclose.

Segment information

In June 1997, the FASB issued Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information, which requires that we report financial and descriptive information about our reportable operating segments. We have determined that we do not have any separately reportable segments.

Derivative instruments and hedging activities

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, or SFAS 133. SFAS 133 is effective for all fiscal quarters of all fiscal years beginning after June 15, 1999. Accordingly, for us, SFAS 133 will become effective January 1, 2000. SFAS 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. For fair-value hedge transactions in which we are hedging changes in an asset's, liability's, or firm commitment's fair value, changes in the fair value of the derivative instrument will generally be offset in the income statement by changes in the hedged item's fair value. For cash-flow hedge transactions, in which we are hedging the variability of cash flows related to a variable-rate asset, liability, or a forecasted transaction, changes in the fair value of the derivative instrument will be reported in other comprehensive income. The gains and losses on the derivative instrument that are reported in other comprehensive income will be reclassified as earnings in the periods in which earnings are impacted by the variability of the cash flows of the hedged item. The ineffective portion of all hedges will be recognized in current-period earnings.

We have not yet determined the impact that the adoption of SFAS 133 will have on our earnings or statement of financial position.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain prior year balances have been reclassified to conform to the current year presentation.

2. Property and equipment

Property and equipment comprise the following:

	December 31, 1997	December 31, 1998
Land	$ 1,410,000	$ 1,410,000
Buildings	6,463,000	10,622,000
Leaseholds and improvements	78,956,000	113,409,000
Equipment	147,824,000	204,156,000
Construction in progress	7,352,000	11,849,000
	242,005,000	341,446,000
Less accumulated depreciation and amortization	(69,167,000)	(108,109,000)
Property and equipment, net	$172,838,000	$ 233,337,000

Depreciation and amortization expense on property and equipment was $13,903,000, $22,160,000 and $40,032,000 for 1996, 1997, and 1998, respectively.

3. Intangible assets

A summary of intangible assets is as follows:

	December 31, 1997	December 31, 1998
Goodwill	$624,740,000	$ 951,330,000
Patient lists	122,463,000	132,048,000
Noncompetition agreements	61,797,000	96,670,000
Deferred debt issuance costs	23,415,000	19,329,000
Other	18,891,000	
	851,306,000	1,199,377,000
Less accumulated amortization	(77,040,000)	(114,982,000)
	$774,266,000	$1,084,395,000

Amortization expense applicable to intangible assets was $18,542,000, $32,443,000 and $51,996,000 for 1996, 1997 and 1998 respectively.

In April 1998, Statement of Position No. 98-5, Reporting on the Costs of Start-up Activities, or SOP 98-5, was issued. We adopted SOP 98-5 effective January 1, 1998. SOP 98-5 requires that pre-opening and organization costs, incurred in conjunction with facility pre-opening activities, which previously had been treated as deferred costs and amortized over five years, should be expensed as incurred. As a result of the adoption of SOP 98-5, all remaining unamortized pre-opening, development and organizational costs existing prior to January 1, 1998 of $11,196,000 were recognized, net of tax of $4,300,000, as the cumulative effect of a change in accounting principle in 1998.

4. Prepaid expenses and other current assets

Prepaid expenses and other current assets comprise the following:

	December 31, 1997	December 31, 1998
Supplier rebates and other current non-trade receivables	$10,886,000	$37,917,000
Prepaid income taxes	5,501,000	
Prepaid expenses	4,910,000	7,290,000
Deposits	203,000	639,000
	$21,500,000	$45,846,000

5. Notes receivable

During 1997, we entered into various agreements to provide funding for expansion to certain companies that provide renal dialysis or renal related services. These notes receivables are secured by the assets and operations of these companies. A summary of notes receivable is as follows:

	December 31, 1997	December 31, 1998
Convertible note due June 2001 with interest at prime plus 1.5%	$ 7,701,000	$15,919,000
Convertible notes, due in quarterly installments commencing in 2001, with interest at prime plus 1.5%	1,506,000	7,449,000
Note receivable due November 30, 2002 with interest of 8.5%	3,077,000	3,689,000
Note from Victor M.G. Chaltiel, chief executive officer, repaid in 1998	1,820,000	
Convertible note, from a related party, due May 2000 with interest at prime plus 1.5%		2,200,000
	$14,104,000	$29,257,000

6. Other accrued liabilities

Other accrued liabilities comprise the following:

	December 31, 1997	December 31, 1998
Customer refunds	$ 5,278,000	$22,483,000
Purchase price payable (see Note 8)		15,223,000
Accrued interest	5,395,000	10,986,000
Merger accrual		4,765,000
Other	5,254,000	14,268,000
	$15,927,000	$67,725,000

7. Income taxes

Our provision for income taxes consists of the following:

	Years ended December 31,		
	1996	1997	1998
Current			
Federal	$20,655,000	$35,128,000	$ 47,426,000
State	3,562,000	6,430,000	9,069,000
Foreign		1,070,000	1,052,000
Deferred			
Federal	(1,151,000)	(1,963,000)	(14,268,000)
State	(106,000)	(453,000)	(1,699,000)
	$22,960,000	$40,212,000	$ 41,580,000

Temporary differences which give rise to deferred tax assets and liabilities are as follows:

	December 31,	
	1997	1998
Receivables, primarily allowance for doubtful accounts	$ 8,635,000	$22,613,000
Merger costs		6,159,000
Accrued benefits payable	2,114,000	2,821,000
Deferred compensation	67,000	
Foreign NOL carryforward	944,000	944,000
Foreign tax credit carryforward	200,000	200,000
Other	417,000	324,000
Gross deferred tax assets	12,377,000	33,061,000
Fixed assets	(2,821,000)	(4,115,000)
Intangible assets	(657,000)	(4,097,000)
Other	(17,000)	
Gross deferred tax liabilities	(3,495,000)	(8,212,000)
Valuation allowance	(1,144,000)	(1,144,000)
Net deferred tax assets	$ 7,738,000	$23,705,000

The valuation allowance relates to deferred tax assets established under SFAS No. 109 for foreign net operating loss carryforwards of $2.86 million and foreign tax credit carryforwards of $200,000. These unutilized loss and credit carryforwards which expire in 2002, will be carried forward to future years for possible utilization. No benefit of these carryforwards has been recognized on the financial statements.

The reconciliation between our effective tax rate and the U.S. federal income tax rate on income is as follows:

	Years ended December 31,		
	1996	1997	1998
Federal income tax rate	35.0%	35.0%	35.0%
State taxes, net of federal benefit	4.1	4.1	3.1
Foreign income taxes		0.4	
Nondeductible amortization of intangible assets	1.1	0.8	1.7
Valuation allowance		1.2	
Other	(0.2)	0.7	
Effective tax rate	40.0	42.2	39.8
Minority interests in partnerships	(2.3)	(1.9)	(8.2)
Merger charges			33.3
Effective tax rate before minority interests	37.7%	40.3%	64.9%

8. Long-term debt

Long-term debt comprises:

	December 31,	
	1997	1998
Credit facilities	$590,000,000	$ 749,575,000
Convertible subordinated notes, 7%, due 2009		345,000,000
Convertible subordinated notes, 5 5/8%, due 2006	125,000,000	125,000,000
Acquisition obligations and other notes payable	31,412,000	24,160,000
Capital lease obligations (see Note 9)	5,180,000	3,893,000
	751,592,000	1,247,628,000
Less current portion	(27,810,000)	(21,847,000)
	$723,782,000	$1,225,781,000

Maturities of long-term debt are as follows:

1999	$ 21,847,000
2000	10,893,000
2001	94,579,000
2002	153,567,000
2003	241,559,000
Thereafter	725,183,000

12% senior subordinated discount notes

In July and September 1996, we retired the remaining 65% of our 12% senior subordinated discount notes then outstanding for $68,499,000, including consent payments of $1,100,000. An extraordinary loss on the early extinguishment of debt of $12,623,000, net of income tax effect of $4,923,000, was recorded in 1996.

Credit facilities

At December 31, 1998 and 1997, we had outstanding borrowings under our revolving credit facility of $353,575,000 and $353,000,000, respectively, and at December 31, 1998, $396,000,000 was outstanding under our fixed term loan.

On April 30, 1998, we replaced our existing $1,050,000,000 credit facilities with an aggregate of $1,350,000,000 in two senior bank facilities. These credit facilities consist of a seven-year $950,000,000 revolving senior credit facility and a ten-year $400,000,000 senior term facility. Up to $75,000,000 may be utilized for foreign financing. In general, borrowings under the credit facilities bear interest at one of two floating rates selected by us: (a) the Alternate Base Rate (defined as the higher of The Bank of New York's prime rate or the federal funds rate plus 0.5%); or (b) Adjusted LIBOR (defined as the 30-, 60-, 90- or 180-day London Interbank Offered Rate, adjusted for statutory reserves) plus a margin that ranges from 0.45% to 1.75% depending on our leverage ratio. As a result of this financing, remaining net deferred financing costs in the amount of approximately $16,019,000, less tax of $6,087,000, were recognized as an extraordinary loss in 1998.

Maximum borrowings under the $950,000,000 revolving credit facility will be reduced by $89,100,000 on September 30, 2001, $148,400,000 on September 30, 2002, and another $237,500,000 on September 30, 2003, and the revolving credit facility terminates on March 31, 2005. Under the $400,000,000 term facility, payments of $4,000,000 shall be made each consecutive year beginning on September 30, 1998 and continuing through September 30, 2007. The remaining balance of $360,000,000 is due on March 31, 2008 when the term facility terminates. The credit facilities contain financial and operating covenants including, among other things, requirements that we maintain certain financial ratios and satisfy certain financial tests, and impose limitations on our ability to make capital expenditures, to incur other indebtedness and to pay dividends. We are in compliance with all such covenants.

Certain of our subsidiaries, including Total Renal Care, Inc., or TRC, TRC West, Inc., Total Renal Care Acquisition Corp., RTC, Renal Treatment Centers-Mid Atlantic, Inc., Renal Treatment Centers-Northeast, Inc., Renal Treatment Centers-California, Inc., Renal Treatment Centers-West, Inc. and Renal Treatment Centers-Southeast, Inc., have guaranteed our obligations under the credit facilities on a senior basis.

RTC also had a credit agreement which provided for a $350,000,000 revolving credit/term facility available to fund acquisitions and general working capital requirements, of which $237,000,000 was outstanding as of December 31, 1997. The RTC credit agreement was terminated and repaid with borrowings under our credit facilities on February 27, 1998 in connection with the completion of our merger with RTC. The remaining net amortized deferred financing costs in the amount of $4,392,000 related to the RTC credit agreement were recognized as an extraordinary loss, net of tax effect of $1,580,000, in 1998.

5 5/8% convertible subordinated notes

In June 1996, RTC issued $125,000,000 of 5 5/8% convertible subordinated notes due 2006. These notes are convertible, at the option of the holder, at any time after August 12, 1996 through maturity, unless previously redeemed or repurchased, into our common stock at a conversion price of $25.62 principal amount per share, subject to certain adjustments. At any time on or after July 17, 1999, all or any part of these notes will be redeemable at our option on at least 15 and not more than 60 days' notice as a whole or, from time to time, in part at redemption prices ranging from 103.94% to 100% of the principal amount thereof, depending on the year of redemption, together with accrued interest to, but excluding, the date fixed for redemption. These notes are guaranteed by TRCH.

The following is summarized financial information of RTC:

	December 31, 1997	December 31, 1998
Cash and cash equivalents	$ 743,000	$ 5,396,000
Accounts receivable, net	95,927,000	130,129,000
Other current assets	19,484,000	19,106,000
Total current assets	116,154,000	154,631,000
Property and equipment, net	72,777,000	75,641,000
Intangible assets, net	384,529,000	406,562,000
Other assets	12,034,000	9,249,000
Total assets	$585,494,000	$646,083,000
Current liabilities (includes $306,628,000 intercompany payable to TRC at December 31, 1998)	$ 62,673,000	$352,753,000
Long-term debt	367,219,000	125,199,000
Other long-term liabilities	444,000	
Stockholders' equity	155,158,000	168,131,000
Total liabilities and stockholders' equity	$585,494,000	$646,083,000

	Year ended December 31, 1996	1997	1998
Net operating revenues	$225,077,000	$322,792,000	$472,355,000
Total operating expenses	203,402,000	277,869,000	446,438,000
Operating income	21,675,000	44,923,000	25,917,000
Interest expense, net	4,384,000	11,802,000	8,993,000
Income before income taxes	17,291,000	33,121,000	16,924,000
Income taxes	6,609,000	15,071,000	19,930,000
Income before extraordinary item and cumulative effect of change in accounting principle	10,682,000	18,050,000	(3,006,000)
Extraordinary loss related to early extinguishment of debt, net of tax			2,812,000
Cumulative effect of change in accounting principle, net of tax			3,993,000
Net income (loss)	$ 10,682,000	$ 18,050,000	$ (9,811,000)

7% convertible subordinated notes

In November 1998, we issued $345,000,000 of 7% convertible subordinated notes due 2009, or the 7% notes, in a private placement offering. The 7% notes are convertible, at the option of the holder, at any time into common stock at a conversion price of $32.81 principal amount per share. We may redeem the 7% notes on or after November 15, 2001. The 7% notes are general, unsecured obligations junior to all of our existing and future senior debt and, effectively all existing and future liabilities of ours and our subsidiaries. We subsequently filed a registration statement covering the resale of the 7% notes which has not yet been declared effective by the Securities and Exchange Commission (see Note 17).

Acquisition obligations

In 1994, pursuant to a business acquisition, RTC entered into an agreement to pay $7,364,100 in annual installments commencing June 1995 through June 1998. Interest on the unpaid principal amount of the note accrued at an annual rate of 6.5%, payable in arrears each June 1 from 1995 from 1998. The note allowed the seller to convert the principal amount of the note into that number of shares of common stock of RTC based upon the average daily closing sale price of RTC stock during December 1994. During 1997, the note payable was paid in full through the issuance of common stock.

In 1996, pursuant to a business acquisition, RTC entered into an agreement to pay a total of $8,050,000 to the seller in a single installment in January 1997. During 1997, pursuant to several business acquisitions, RTC entered into several other agreements to pay the various sellers a total of $24,468,000 in single installments in January 1998.

In conjunction with certain facility acquisitions, we have issued three letters of credit. Two of these were released on April 1, 1997. The remaining letter of credit of $3,000,000 is being released to the seller in three annual principal installments of $1,000,000 commencing January 1997. We have also agreed to pay the seller interest at 6.50% on the outstanding principal. As of December 31, 1997 and December 31, 1998 the aggregate amount outstanding, including accrued interest, was $2,183,000 and $1,106,000 respectively.

In December 1998, we purchased two facilities for a combined total of $15,223,000 with a short term loan made to the sellers, which subsequently has been repaid. Because of its short term maturity it has been included in other accrued liabilities as of December 31, 1998.

Interest rate swap agreements

On November 25, 1996, we entered into a seven-year interest rate swap agreement involving the exchange of fixed and floating interest payment obligations without the exchange of the underlying principal amounts. At December 31, 1997, the total notional principal amount of this interest rate swap agreement was $100,000,000 and the effective interest rate thereon was 7.57%. On July 24, 1997, we entered into a ten-year interest rate swap agreement. At December 31, 1997, the total notional principal amount of this interest rate swap agreement was $200,000,000 and the effective interest rate thereon was 7.77%. In April 1998, in conjunction with the refinancing of our senior credit facilities, these two forward interest rate swap agreements were cancelled. The loss associated with the early cancellation of those swaps was approximately $9,823,000.

In May 1998, we entered into forward interest rate cancelable swap agreements, with a combined notional amount of $800,000,000. The lengths of the agreements are between three and ten years with cancellation clauses at the swap holders' option from one to seven years. The underlying blended rate is fixed at approximately 5.65% plus an applicable margin based upon our current leverage ratio. At December 31, 1998, the effective interest rate for borrowings under the swap agreement is 6.90%.

9. Leases

We lease the majority of our facilities under noncancelable operating leases expiring in various years through 2021. Most lease agreements cover periods from five to ten years and contain renewal options of five to ten years at the fair rental value at the time of renewal or at rates subject to consumer price index increases since the inception of the lease. In the normal course of business, operating leases are generally renewed or replaced by other similar leases.

Future minimum lease payments under noncancelable operating leases are as follows:

1999	$ 41,794,000
2000	32,317,000
2001	28,388,000
2002	25,784,000
2003	23,545,000
Thereafter	84,908,000
Total minimum lease payments	$236,736,000

Rental expense under all operating leases for 1996, 1997 and 1998 amounted to $15,901,000, $24,589,000 and $38,975,000 respectively.

We also lease certain equipment under capital lease agreements. Future minimum lease payments under capital leases are as follows:

1999	$ 2,675,000
2000	1,303,000
2001	712,000
2002	267,000
2003	91,000
Thereafter	--
Less portion representing interest	(1,155,000)
Total capital lease obligation, including current portion	$ 3,893,000

The net book value of fixed assets under capital lease was $5,649,000 and $4,314,000 at December 31, 1997 and 1998, respectively. Capital lease obligations are included in long-term debt (see Note 8).

10. Stockholders' equity

Public offerings of common stock

On April 3, 1996, and October 31, 1996 we completed equity offerings of 13,416,667 and 4,166,667 shares of our common stock, respectively; 5,833,333 and 833,334, respectively, of which were sold for our account and 7,583,333 and 3,333,333 respectively, of which were sold by certain of our stockholders. The net proceeds received by us of $109,968,000 and $18,350,000, respectively, were used to repay borrowings incurred under our credit facilities in connection with acquisitions, to repurchase and subsequently retire our 12% senior subordinated notes, to finance other acquisitions and de novo developments and for working capital and other corporate purposes.

Change in shares, stock splits and dividends

Dividend distributions paid during 1996 were to the former shareholders of entities acquired by RTC in transactions accounted for as poolings of interests as described in Note 1.

On September 30, 1997 we announced a common stock dividend to all stockholders of record as of October 7, 1997, to be paid on October 20, 1997. Each stockholder received two additional shares of common stock for each three shares held. Fractional shares calculated as a result of the stock dividend were paid out in cash in the amount of approximately $14,000. As such, all share and per share amounts presented in the financial statements and related notes thereto have been retroactively restated to reflect this dividend which was accounted for as a stock split.

Earnings per share

The reconciliation of the numerators and denominators used to calculate earnings per share is as follows:

	Year ended December 31,		
	1996	1997	1998
Income before extraordinary item and cumulative effect of change in accounting principle:			
As reported	$34,407,000	$55,027,000	$15,342,000
Income before extraordinary item and cumulative effect of change in accounting principle--assuming dilution:			
As reported	$34,407,000	$55,027,000	$15,342,000
Add back interest on RTC earnout note, tax effected	233,000	34,000	
	$34,640,000	$55,061,000	$15,342,000
Applicable common shares:			
Average outstanding during the year	74,172,000	77,649,000	80,156,000
Reduction in shares in connection with notes receivable from employees	(130,000)	(125,000)	(13,000)
Weighted average number of shares outstanding for use in computing basic earnings per share	74,042,000	77,524,000	80,143,000
Outstanding stock options (based on the treasury stock method)	2,411,000	2,288,000	1,558,000
Dilutive effect of RTC earnout note	772,000	163,000	
Adjusted weighted average number of common and common share equivalent shares outstanding--assumming dilution	77,225,000	79,975,000	81,701,000
Earnings per common share--basic	$ 0.46	$ 0.71	$ 0.19
Earnings per common share--assuming dilution	$ 0.45	$ 0.69	$ 0.19

Stock-based compensation plans

At December 31, 1998, we had four stock-based compensation plans, which are described below.

1994 plan. In August 1994, we established the Total Renal Care Holdings, Inc. 1994 Equity Compensation Plan which provides for awards of nonqualified stock options to purchase our common stock and other rights to purchase shares of our common stock to certain of our employees, directors, consultants and facility medical directors.

Under terms of the 1994 plan, we may grant awards for up to 8,474,078 shares of our common stock. Original options granted generally vest on the ninth anniversary of the date of grant, subject to accelerated vesting in the event that we meet certain performance criteria. In April 1996, we changed the vesting schedule for new options granted so that options vest over four years from the date of grant. The exercise price of each option equals the market price of our stock on the date of grant, and an option's maximum term is ten years.

Purchase rights to acquire 1,314,450 common shares for $0.90-$3.60 per share have been awarded to certain employees under the 1994 plan. All of these rights were exercised and we received notes for the uncollected portion of the purchase proceeds. These notes bear interest at the lesser of The Bank of New York's prime rate or 8%, are full recourse to the employees, and are secured by the employees' stock. The notes are repayable four years from the date of issuance, subject to certain prepayment requirements. At December 31, 1997 and 1998 the outstanding notes plus accrued interest totaled $212,000 and $215,000, respectively.

During fiscal 1995, 1,477,778 of the options issued to purchase our common stock were issued to Victor M.G. Chaltiel. These options originally vested 50% over four years and 50% in the same manner as other options granted under the 1994 plan. In September 1995, our board of directors and stockholders agreed to accelerate Mr. Chaltiel's vesting period and all of the options became 100% vested. Pursuant to this action, Mr. Chaltiel exercised all of the stock options through the issuance of a full recourse note of $1,330,000 bearing interest at the lesser of prime or 8%. Additionally, Mr. Chaltiel executed a full recourse note for $1,349,000 bearing interest at the lesser of prime or 8% per annum to meet his tax liability in connection with the stock option exercise. In April 1996, this note was increased by an additional $173,000. These notes were secured by other shares of company stock and matured in September 1999 or upon disposition of the common stock by Mr. Chaltiel. During 1998, this note was repaid in full.

1995 plan. In November 1995, we established the Total Renal Care Holdings, Inc. 1995 Equity Compensation Plan which provides awards of stock options and the issuance of our common shares, subject to certain restrictions, to certain employees, directors and other individuals providing services to us. There are 1,666,667 common shares reserved for issuance under the 1995 plan. Options granted generally vest over four years from the date of grant and an option's maximum term is ten years, subject to certain restrictions. We generally issue awards with the exercise prices equal to the market price of our stock on the date of grant.

1997 plan. In July 1997, we established the Total Renal Care Holdings, Inc. 1997 Equity Compensation Plan which provides awards of stock options and the issuance of our common shares, subject to certain restrictions, to certain employees, directors and other individuals providing services to us. In February 1998, we increased the shares reserved for issuance under the 1997 plan to 7,166,667 common shares. Options granted generally vest over four years from the date of grant and an option's maximum term is ten years. We generally issue awards with the exercise prices equal to the market price of our stock on the date of grant.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions used for grants for 1996, 1997, and 1998, respectively: dividend yield of 0% for all periods; weighted average expected volatility of 36.35%, 35.12% and 33.98%; risk-free interest rates of 6.56%, 6.40% and 5.51% and expected lives of six years for all periods.

A combined summary of the status of the 1994 plan, the 1995 plan, and the 1997 plan as of and for the years ended December 31, 1996, 1997 and 1998 is presented below:

	Year ended December 31, 1996		Year ended December 31, 1997		Year ended December 31, 1998	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of period	1,441,685	$ 1.91	3,118,394	$13.82	5,039,838	$16.01
Granted	1,818,913	22.28	3,931,080	19.74	5,570,567	31.10
Exercised	(111,647)	0.92	(275,620)	3.96	(254,220)	9.48
Forfeited	(30,557)	2.43	(1,734,016)	22.46	(308,401)	28.25
Outstanding at end of year	3,118,394	$13.82	5,039,838	$16.01	10,047,784	24.15
Options exercisable at year end	663,007		797,474		1,959,913	
Weighted-average fair value of options granted during the year		$10.52		$ 9.15		$13.67

Forfeitures and grants include the effects of modifications to the terms of awards as if the original award was repurchased and exchanged for a new award of greater value. On April 24, 1997, 1,649,735 shares were cancelled and reissued at the market price as of that date. The new awards vest annually over three years on the anniversary date of the new award.

The following table summarizes information about fixed stock options outstanding at December 31, 1998:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
$ 0.01-$ 5.00	812,937	5.8 years	$ 1.15	770,474	$ 1.10
$ 5.01-$10.00	16,545	5.8 years	5.40	12,204	5.40
$10.01-$15.00	13,890	6.8 years	11.82	10,705	11.82
$15.01-$20.00	3,650,919	7.9 years	18.68	1,023,984	18.56
$20.01-$25.00	260,891	9.1 years	21.84	36,454	21.76
$25.01-$30.00	435,043	8.9 years	26.31	82,836	26.50
$30.01-$35.00	4,854,559	9.5 years	32.15	23,256	30.79
$35.01-$40.00	3,000	9.2 years	35.58		
	10,047,784	8.6 years	$24.15	1,959,913	$12.12

RTC plans. In September 1990, RTC established a stock plan, which provided for awards of incentive and nonqualified stock options to certain directors, officers, employees and other individuals. In 1995 and 1996, the stock plan was amended to increase the number of RTC common shares available for grant to 3,253,395 and 4,321,395 respectively. In addition, in 1996, RTC established an option plan for outside directors pursuant to which nonqualified stock options to purchase up to 80,100 shares of RTC common stock were reserved for issuance.

Options granted under RTC's plans generally vest from three to five years and an option's maximum term is ten years, subject to certain restrictions. Incentive stock options were granted at an exercise price not less than the fair market value of RTC's common stock on the date of grant. Nonqualified stock options were permitted to be granted as low as 50% of market value, subject to certain floor restrictions. Accordingly, compensation expense for the difference between the fair market value and the exercise price for nonqualified stock options is recorded over the vesting period of these options.

In May 1995, RTC granted 559,557 incentive stock options to certain directors, officers and employees of RTC. These options were granted at an exercise price equal to the fair market value of RTC's common stock on the date of the grant. These options vest over three years. Certain options totaling 407,175 vest upon the earlier of attainment of predetermined earnings per share targets or nine years.

In March 1996, RTC granted 821,495 incentive stock options to certain directors, officers and employees of RTC. These options were granted at an exercise price equal to the fair market value of RTC's common stock on the date of the grant and vest over four years. Certain options aggregating 231,398 vest upon the earlier of attainment of predetermined earnings per share targets or nine years.

In December 1996, RTC granted 133,500 incentive stock options to one of its officers. These options were granted at an exercise price equal to the fair market value of RTC's common stock on the date of the grant and were fully vested on the grant date.

Also in December 1996, RTC granted 40,050 non-qualified stock options in connection with the release of RTC from certain obligations. The options were granted at an exercise price equal to the fair market value of RTC's common stock on the date of grant and were fully vested as of December 31, 1997.

During 1997, RTC granted 1,182,543 incentive stock options to certain directors, officers and employees. These options were granted at an exercise price equal to the fair market value of RTC's common stock on the dates of the grants and vest in two to five years.

In 1997 RTC granted 26,700 options to acquisition consultants for covenants not to compete. These options were granted at a price equal to the fair market values of RTC's common stock on the date of the grant and were valued at $235,000.

Upon consummation of our merger with RTC, all outstanding options were converted to Total Renal Care Holdings Inc. Special Purpose Option Plan options. This plan provides for awards of incentive and nonqualified stock options in exchange for outstanding RTC stock plan options. Options under this plan have the same provisions and terms provided for in the RTC stock plan, including acceleration provisions upon certain sale of assets, mergers and consolidations. On the merger date, there was a conversion of 2,156,426 of RTC's options. Further, options for 1,305,738 shares became fully vested due to change in control accelerated vesting provisions which were contained in the original grants. Options for 1,662,356 shares were exercised subsequent to the merger date. Our Stock Plan Committee has the option of accelerating the remaining options upon certain sales of assets, mergers and consolidations.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions used for 1996 and 1997, respectively: dividend yield of 0% for all periods; weighted average expected volatility of 29.3% and 43%; risk free interest rates of 6.18% and 6.55%; and expected lives of 5.63 and 4.29 years.

A summary of the status of the RTC plans as of and for the years ended December 31, 1996, 1997 and 1998, is presented below:

	Year ended December 31, 1996		Year ended December 31, 1997		Year ended December 31, 1998	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of period	1,658,601	$ 7.33	2,293,483	$11.09	3,285,192	$13.20
Granted	997,376	16.50	1,182,543	16.84		
Exercised	(351,814)	8.73	(171,830)	7.60	(2,901,218)	12.88
Forfeited	(10,680)	9.09	(19,004)	13.09	(16,341)	15.45
Outstanding at end of year	2,293,483	$11.09	3,285,192	$13.33	367,633	15.66
Options exercisable at year end	966,903		1,785,169		248,958	
Weighted-average fair value of options granted during the year		$ 7.35		$ 9.70		

The following table summarizes information about RTC fixed stock options outstanding at December 31, 1998:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
5.01-15.00	30,972	6.0	$ 8.58	24,564	$ 8.57
15.01-20.00	336,661	8.0	16.31	224,394	16.45
	367,633	7.9	$15.66	248,958	$15.68

Stock Purchase Plan. In November 1995, we established the Total Renal Care Holdings, Inc. Employees Stock Purchase Plan which entitles qualifying employees to purchase up to $25,000 of common stock during each calendar year. The amounts used to purchase stock are typically accumulated through payroll withholdings and through an optional lump sum payment made in advance of the first day of the plan. The plan allows employees to purchase stock for the lesser of 100% of the fair market value on the first day of the purchase right period or 85% of the fair market value on the last day of the purchase right period. Each purchase right period begins on January 1 or July 1, as selected by the employee and ends on December 31. Payroll withholdings related to the plan, included in accrued employee compensation and benefits, were $1,120,000 and $1,892,000 at December 31, 1997, and 1998 respectively. Subsequent to December 31, 1996, and December 31, 1997, 174,775 and 49,060 shares, respectively were issued to satisfy our obligations under the plan.

For the November 1995 and July 1996 purchase right periods the fair value of the employees' purchase rights were estimated on the beginning date of the purchase right period using the Black-Scholes model with the following assumptions for grants on November 3, 1995, July 1, 1996, January 1, 1997 and July 1, 1997, respectively: dividend yield of 0% for all periods; expected volatility of 36.6% in 1995 and 1996 and 34.23% in 1997; risk-free interest rate of 5.5%, 6.6%, 6.8% and 6.8% and expected lives of 1.2, 0.5, 1.0, and 0.5 years. Using these assumptions, the weighted-average fair value of purchase rights granted were $2.86, $7.37, $15.31, and $11.17, respectively.

The fair value of the January 1, 1998 and July 1, 1998 purchase right periods were not estimated at December 31, 1998 because of the employees' ability to withdraw from participation through December 31.

Pro forma net income and earnings per share. We applied APB Opinion No. 25 and related interpretations in accounting for all of our plans. Accordingly, no compensation cost has been recognized for our fixed stock option plans and our stock purchase plan. Had compensation cost for our stock-based compensation plans been determined consistent with SFAS 123, our net income and earnings per share would have been reduced to the pro forma amounts indicated below:

	Year ended December 31, 1996	Year ended December 31, 1997	Year ended December 31, 1998
Income before extraordinary item and cumulative effect of change in accounting principle	$28,830,000	$43,282,000	$ 9,154,000
Extraordinary loss	(7,700,000)		(12,744,000)
Cumulative effect of change in accounting principle			(6,896,000)
Net income (loss)	$21,130,000	$43,282,000	$(10,486,000)
Earnings per common share			
Income before extraordinary item	$ 0.39	$ 0.56	$ 0.11
Extraordinary loss	(0.10)		(0.16)
Cumulative effect of change in accounting principle			(0.08)
Net income (loss)	$ 0.29	$ 0.56	$ (0.13)
Weighted average number of common shares and equivalents outstanding	74,042,000	77,524,000	80,143,000
Earnings per common share--assuming dilution:			
Income before extraordinary item	$ 0.35	$ 0.55	$ 0.11
Extraordinary loss	(0.09)		(0.16)
Cumulative effect of change in accounting principle			(0.08)
Net income (loss)	$ 0.26	$ 0.55	$ (0.13)
Weighted average number of common shares and equivalents outstanding--assuming dilution	83,477,000	78,982,000	81,701,000

11. Transactions with related parties

Tenet

Tenet Healthcare Corporation, or Tenet, owns less than 5% of our common stock and we provide dialysis services to Tenet hospital patients under agreements with terms of one to three years. The contract terms are comparable to contracts with unrelated third parties. Included in the receivable from Tenet are amounts related to these services of $534,000 and $350,000 at December 31, 1997 and 1998, respectively. Net operating revenues received from Tenet for these services were $2,260,000, $2,640,000 and $2,424,000 for 1996, 1997 and 1998, respectively.

DLJ

A managing director of Donaldson, Lufkin & Jenrette, or DLJ, serves on our board of directors and, prior to August 1997, an affiliate of DLJ held an ownership interest in us. During 1996 DLJ was one of several underwriters for two public stock offerings in which we issued 11,666,667 and 833,334 shares, respectively. Fees for these transactions to DLJ or its affiliates were $5,075,000, and $780,000, respectively. Effective with the August 1997 public offering of common stock, DLJ and its affiliates no longer own an interest in us. During 1998, DLJ advised us on our acquisition of RTC and assisted us in the issuance of the 7% notes.

12. Employee benefit plan

We have a savings plan for substantially all employees, which has been established pursuant to the provisions of Section 401(k) of the Internal Revenue Code, or IRC. The plan provides for employees to contribute from 1% to 15% of their base annual salaries on a tax-deferred basis not to exceed IRC limitations. We may make a contribution under the plan each fiscal year as determined by our board of directors. We made matched contributions of $58,000, in accordance with specific state requirements, in 1998.

RTC had a defined contribution savings plan covering substantially all of its employees. RTC's contributions under the plan were approximately $548,000, and $1,069,000 and $641,000 for years ended December 31, 1996, 1997 and 1998, respectively. Effective July 1, 1998, the plan was terminated and merged into our plan.

13. Contingencies

Our Florida-based laboratory subsidiary is presently the subject of a Medicare carrier review. The carrier has requested certain medical and billing records for certain patients and we have provided the requested records. The carrier has suspended further payments to the laboratory subsidiary, amounting to approximately $11 million at December 31, 1998, and made a formal overpayment determination. We are appealing the overpayment determination and have filed a suit to lift the payment suspension.

Following the announcement on February 18, 1999 of our preliminary results of the fourth quarter of fiscal 1998 and the full year then ended, several class action lawsuits were filed against us and certain of our officers in the U.S. District Court for the Central District of California. The complaints are similar and allege violations of federal securities laws arising from alleged false and misleading statements primarily regarding our accounting for the integration of RTC into TRCH and request unspecified monetary damages. We believe that all of the claims are without merit and we intend to defend ourselves vigorously. We anticipate that the attorneys' fees and related costs of defending these lawsuits should be covered primarily by our directors and officers insurance policies and we believe that any additional costs will not have a material impact on our financial condition, results of operations or cash flows.

In addition, we are subject to claims and suits in the ordinary course of business for which we believe we will be covered by insurance. We do not believe that the ultimate resolution of these additional pending proceedings, whether the underlying claims are covered by insurance or not, will have a material adverse effect on our financial condition, results of operations or cash flows.

14. Mergers and acquisitions

Mergers

During the fiscal year 1996, RTC completed the following three mergers:

- The Kidney Center Group

On July 23, 1996, RTC acquired the Kidney Center Group. The two dialysis facilities acquired are located in Florida and serviced a total of approximately 185 patients as of the acquisition date. The transaction was accounted for under the pooling-of-interests method of accounting. In the transaction, RTC issued 482,377 shares of its common stock in exchange for all of the outstanding stock of the Kidney Center Group.

- MDU

On February 29, 1996, RTC acquired MDU. The 11 dialysis facilities acquired are located in Oklahoma and serviced a total of approximately 317 patients as of the acquisition date. The transaction was accounted for under the pooling-of-interests method of accounting. In the transaction, RTC issued 767,168 shares of its common stock in exchange for all of the outstanding stock of MDU.

. IMS

On February 20, 1996, RTC acquired IMS. The four dialysis facilities acquired are located in Hawaii and serviced a total of approximately 444 patients as of the acquisition date. The transaction was accounted for under the pooling-of-interests method of accounting. In the transaction, RTC issued 1,047,464 shares of its common stock in exchange for all of the outstanding stock of IMS.

The consolidated financial statements give retroactive effect to the mergers with the Kidney Center Group, IMS and MDU and include the Kidney Center Group, IMS and MDU for all periods presented. The following is a summary of the separate and combined results of operations for 1996:

	RTC	Pooling Companies*	RTC Combined
Net patient revenue	$217,529,000	$7,548,000	$225,077,000
Income from operations	20,495,000	1,180,000	21,675,000
Net income	9,985,000	697,000	10,682,000

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* Includes pooling transactions only for period prior to acquisition. Activity subsequent to acquisition dates is included in RTC.

Acquisitions

We have implemented an acquisition strategy which, through December 31, 1998, has resulted in the acquisition of (a) 396 facilities providing services to ESRD patients; (b) two laboratories; (c) a pharmacy; (d) a vascular access management company; and (e) a clinical research company specializing in renal and renal-related services. The following is a summary of acquisitions that were accounted for as purchases for 1996, 1997 and 1998.

	Year ended December 31,		
	1996	1997	1998
Number of facilities acquired	67	119	76
Number of common shares issued	102,645	17,613	98,549
Estimated fair value of common shares issued	$ 1,830,000	$ 273,000	$ 2,796,000
Acquisition obligations (Note 8)	15,886,000		15,233,000
Cash paid, net of cash acquired	179,002,000	455,090,000	338,164,000
Aggregate purchase price	$196,718,000	$455,363,000	$356,193,000

In addition, during this period we developed 52 de novo facilities, three of which we manage, entered into management contracts covering an additional 29 unaffiliated facilities, and purchased the minority interest at nine of our existing facilities.

The assets and liabilities of the acquired entities in the preceding table were recorded at their estimated fair market values at the dates of acquisition. The initial allocations of fair market value are preliminary and subject to adjustment during the first year following the acquisition. The results of operations of the facilities and laboratories have been included in our financial statements from their respective acquisition dates. These initial allocations were as follows:

	Years ended December 31,		
	1996	1997	1998
Identified intangibles	$ 34,682,000	$ 87,498,000	$ 39,992,000
Goodwill	135,456,000	366,121,000	315,655,000
Tangible assets	44,265,000	47,053,000	30,650,000
Liabilities assumed	(17,685,000)	(45,309,000)	(30,104,000)
Total purchase price	$196,718,000	$455,363,000	$356,193,000

The following summary, prepared on a pro forma basis, combines the results of operations as if the acquisitions had been consummated as of the beginning of each of the periods presented, after including the impact of certain adjustments such as amortization of intangibles, interest expense on acquisition financing and income tax effects.

	Year ended December 31, 1996 (unaudited)	Year ended December 31, 1997 (unaudited)	Year ended December 31, 1998 (unaudited)
Net revenues	$794,235,000	$999,033,000	$1,345,376,000
Net income before extraordinary item and cumulative effect of change in accounting principle	$ 50,253,000	$ 64,467,000	$ 19,530,000
Net income (loss)	42,553,000	64,467,000	(110,000)
Pro forma net income per share before extraordinary item and cumulative effect of change in accounting principle	$ 0.68	$ 0.83	$ 0.24
Pro forma net income per share before extraordinary item and cumulative effect of change in accounting principle--assuming dilution	$ 0.65	$ 0.81	$ 0.24
Pro forma net income (loss) per share	0.57	0.83	0.00
Pro forma net income (loss) per share--assuming dilution	0.55	0.81	0.00

The unaudited pro forma results are not necessarily indicative of what actually would have occurred if the acquisitions had been completed prior to the beginning of the periods presented. In addition, they are not intended to be a projection of future results and do not reflect any of the synergies, additional revenue-generating services or direct facility operating expense reduction that might be achieved from combined operations.

Since December 31, 1998, we have acquired 17 additional facilities in ten separate transactions for an aggregate purchase price of approximately $44.6 million all of which will be accounted for as purchases.

15. Supplemental cash flow information

The table below provides supplemental cash flow information:

	Years ended December 31,		
	1996	1997	1998
Cash paid for:			
Income taxes	$30,069,000	$37,402,000	$13,676,000
Interest	5,730,000	25,039,000	66,409,000
Noncash investing and financing activities:			
Estimated value of stock and options issued in acquisitions	2,810,000	273,000	2,796,000
Fixed assets acquired under capital lease obligations	3,670,000	829,000	583,000
Contribution to partnerships	943,000	2,318,000	2,592,852
Issuance of common stock in connection with earn out note	1,474,000	5,148,000	
Issuance of common stock in connection with Kidney Center Group, IMS and MDU mergers	3,204,000		
Grant of stock options in connection with covenant not to compete		235,000	

16. Selected quarterly financial data (unaudited)

Summary unaudited quarterly financial data for 1997 and 1998 is as follows (in thousands, except per share amounts).

	March 31, 1997	June 30, 1997	September 30, 1997	December 31, 1997	March 31, 1998	June 30, 1998	September 30, 1998	December 31, 1998
Net operating revenues..	$157,937	$179,715	$197,749	$225,596	$258,749	$288,350	$318,585	$339,210
Operating income........	24,596	28,694	33,287	38,203	(30,948)	56,837	66,184	49,745
Income (loss) before extraordinary item and cumulative effect of change in accounting principle.............	11,788	13,470	14,632	15,137	(46,088)	17,839	27,381	16,210
Net income (loss).......	11,788	13,470	14,632	15,137	(55,796)	7,907	27,381	16,210
Income (loss) per common share:								
Income before extraordinary item and cumulative effect of change in accounting principle............	0.15	0.17	0.19	0.19	(0.59)	0.22	0.34	0.20
Extraordinary loss.....					(0.03)	(0.12)		
Cumulative effect of change in accounting principle............					(0.09)			
Net income (loss) per share.................	0.15	0.17	0.19	0.19	(0.71)	0.10	0.34	0.20
Income (loss) per common share--assuming dilution:								
Income (loss) before extraordinary item and cumulative effect of change in accounting principle............	0.15	0.17	0.18	0.19	(0.59)	0.22	0.33	0.20
Extraordinary loss.....					(0.03)	(0.12)		
Cumulative effect of change in accounting principle............					(0.09)			
Net income (loss) per share.................	0.15	0.17	0.18	0.19	(0.71)	0.10	0.33	0.20

A reconciliation of the amounts originally reported for the first three quarters of 1998 to the amounts presented above is as follows:

	March 31, 1998 Original	Adjustment	March 31, 1998 Adjusted	June 30, 1998 Original	Adjustment	June 30, 1998 Adjusted	September 30, 1998 Original	Adjustment	September 30, 1998 Adjusted
Net operating revenues	$258,749		$258,749	$288,350		$288,350	$318,585		$318,585
Operating income	(42,058)	11,110	(30,948)	59,707	(2,870)	56,837	69,054	(2,870)	66,184
Income before extraordinary item and cumulative effect of change in accounting principle	(52,776)	6,688	(46,088)	19,567	(1,728)	17,839	29,109	(1,728)	27,381
Net income (loss)	(62,484)	6,688	(55,796)	9,635	(1,728)	7,907	29,109	(1,728)	27,381
Income (loss) per common share:									
Income before extraordinary item and cumulative effect of change in accounting principle	(0.67)	0.08	(0.59)	0.24	(0.02)	0.22	0.36	(0.02)	0.34
Extraordinary loss	(0.03)		(0.03)	(0.12)		(0.12)			
Cumulative effect of change in accounting principle	(0.09)		(0.09)						
Net income (loss) per share	(0.79)	0.08	(0.71)	0.12	(0.02)	0.10	0.36	(0.02)	0.34
Income (loss) per common share--assuming dilution:									
Income before extraordinary item and cumulative effect of change in accounting principle	(0.67)	0.08	(0.59)	0.24	(0.02)	0.22	0.35	(0.02)	0.33
Extraordinary loss	(0.03)		(0.03)	(0.12)		(0.12)			
Cumulative effect of change in accounting principle	(0.09)		(0.09)						
Net income (loss) per share	(0.79)	0.08	(0.71)	0.12	(0.02)	0.10	0.35	(0.02)	0.33

See Note 1 and Note 17 regarding revisions to 1998 quarterly results.

17. Subsequent events

During 1999, we received a comment letter from the SEC related to the registration statement for our $345 million 7% convertible subordinated notes. We responded to the initial comment letter and recently received a second comment letter from the SEC which requires further analysis and response by us. Based on the results of this process to date, we have made adjustments to our accrual for merger and related charges as described in Note 1 and Note 16. The SEC comment process is not complete and its resolution could require further revisions to our financial statements.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized in the City of Torrance, State of California, on the 30th day of March, 1999.

TOTAL RENAL CARE HOLDINGS, INC.

By: /s/ Victor M.G. Chaltiel

Victor M.G. Chaltiel
Chairman of the Board,
Chief Executive Officer and
President

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Victor M.G. Chaltiel, Barry C. Cosgrove and John E. King, and each of them his or her true and lawful attorneys-in-fact and agents with full power of substitution and resubstitution, for him and in his name or for her and in her name, place and stead, in any and all capacities, to sign any and all amendments to this Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report on Form 10-K has been signed by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Victor M.G. Chaltiel Victor M.G. Chaltiel	Chairman of the Board, Chief Executive Officer, President and Director (Principal Executive Officer)	March 30, 1999
/s/ John E. King John E. King	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	March 30, 1999
/s/ John J. McDonough John J. McDonough	Vice President and Chief Accounting Officer (Principal Accounting Officer)	March 30, 1999
/s/ Maris Andersons Maris Andersons	Director	March 30, 1999
/s/ Peter T. Grauer Peter T. Grauer	Director	March 30, 1999
/s/ Regina E. Herzlinger Regina E. Herzlinger	Director	March 30, 1999
/s/ Shaul G. Massry Shaul G. Massry	Director	March 30, 1999

REPORT OF INDEPENDENT ACCOUNTANTS ON FINANCIAL STATEMENT SCHEDULE

To the Board of Directors
of Total Renal Care Holdings, Inc.

Our audit of the consolidated financial statements referred to in our report dated March 29, 1999, appearing on page F-1 of this Annual Report on Form 10-K also included audits of the information included in the Financial Statement Schedule listed in Item 14(a)(2) of this Form 10-K for the years ended December 31, 1996, 1997 and 1998. In our opinion, based upon our audit, the Financial Statement Schedule presents fairly, in all material respects, the information for the years ended December 31, 1996, 1997 and 1998 set forth therein when read in conjunction with the related consolidated financial statements.

PricewaterhouseCoopers LLP
Seattle, Washington
March 29, 1999

TOTAL RENAL CARE HOLDINGS, INC.

SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at Beginning of Year	Additions: Amounts Charged to Income	Additions: Balances of Companies Acquired	Deductions: Amounts Written off	Balance at End of Year
Allowance for doubtful accounts:					
Year ended December 31, 1996..	$ 9,172,000	$15,737,000	$1,896,000	$11,040,000	$15,765,000
Year ended December 31, 1997..	15,765,000	20,525,000	2,962,000	8,557,000	30,695,000
Year ended December 31, 1998..	30,695,000	44,365,000	1,172,000	14,384,000	61,848,000

EXHIBIT INDEX

Exhibit Number	Description	Page Number
3.1	Amended and Restated Certificate of Incorporation of TRCH, dated December 4, 1995.(1)	
3.2	Certificate of Amendment of Certificate of Incorporation of TRCH, dated February 26, 1998.(2)	
3.3	Bylaws of TRCH, dated October 6, 1995.(3)	
4.1	Shareholders Agreement, dated August 11, 1994, between DLJMB, DLJIP, DLJOP, DLJMBF, NME Properties, Continental Bank, as voting trustee, and TRCH.(4)	
4.2	Agreement and Amendment, dated as of June 30, 1995, between DLJMBP, DLJIP, DLJOP, DLJMBF, DLJESC, Tenet, TRCH, Victor M.G. Chaltiel, the Putnam Purchasers, the Crescent Purchasers and the Harvard Purchasers, relating to the Shareholders Agreement dated as of August 11, 1994 between DLJMB, DLJIP, DLJOP, DLJMBF, NME Properties, Continental Bank, as voting trustee, and TRCH.(4)	
4.3	Indenture, dated June 12, 1996 by RTC to PNC Bank including form of RTC Note.(12)	
4.4	First Supplemental Indenture, dated as of February 27, 1998, among RTC, TRCH and PNC Bank under the 1996 indenture.(2)	
4.5	Second Supplemental Indenture, dated as of March 31, 1998, among RTC, TRCH and PNC Bank under the 1996 indenture.(2)	
4.6	Indenture, dated as of November 18, 1998, between TRCH and United States Trust Company of New York, as trustee, and Form of Note.(5)	
4.7	Registration Rights Agreement, dated as of November 18, 1998, between TRCH and DLJ, BNY Capital Markets, Inc., Credit Suisse First Boston Corporation and Warburg Dillon Read LLC, as the initial purchasers.(5)	
4.8	Purchase Agreement, dated as of November 12, 1998, between TRCH and the initial purchasers.(5)	
10.1	Noncompetition Agreement, dated August 11, 1994, between TRCH and Tenet.(4)	
10.2	Employment Agreement, dated as of August 11, 1994, by and between TRCH and Victor M.G. Chaltiel (with forms of Promissory Note and Pledge and Stock Subscription Agreement attached as exhibits thereto).(4)*	
10.3	Amendment to Mr. Chaltiel's employment agreement, dated as of August 11, 1994.(4)*	
10.4	Second Amendment to Mr. Chaltiel's employment agreement, dated as of March 2, 1998.*X	
10.5	Employment Agreement, dated as of March 2, 1998, by and between TRCH and Barry C. Cosgrove.(6)*	
10.6	Employment Agreement, dated as of March 2, 1998, by and between TRCH and Leonard W. Frie.(6)*	
10.7	Employment Agreement, dated as of March 2, 1998, by and between TRCH and John E. King.(6)*	
10.8	Employment Agreement dated as of March 2, 1998 by and between TRCH and Stan M. Lindenfeld.(6)*	
10.9	Amendment to Dr. Lindenfeld's employment agreement, dated September 1, 1998.*X	
10.10	First Amended and Restated 1994 Equity Compensation Plan of TRCH (with form of Promissory Note and Pledge attached as an exhibit thereto), dated August 5, 1994.(4)*	
10.11	Form of Stock Subscription Agreement relating to the 1994 Equity Compensation Plan.(4)*	

Exhibit Number	Description	Page Number
10.12	Form of Purchased Shares Award Agreement relating to the 1994 Equity Compensation Plan.(4)*	
10.13	Form of Nonqualified Stock Option relating to the 1994 Equity Compensation Plan.(4)*	
10.14	1995 Equity Compensation Plan.(3)*	
10.15	Employee Stock Purchase Plan.(3)*	
10.16	Option Exercise and Bonus Agreement, dated as of September 18, 1995 between TRCH and Victor M.G. Chaltiel.(3)*	
10.17	1997 Equity Compensation Plan.(7)	
10.18	Amended and Restated Revolving Credit Agreement, dated as of April 30, 1998, by and among TRCH, the lenders party thereto, DLJ Capital Funding, Inc., as Syndication Agent, First Union National Bank, as Documentation Agent, and The Bank of New York, as Administrative Agent.(8)	
10.19	Amendment No. 1 and Consent No. 1, dated as of August 5, 1998, to the Revolving Credit Agreement.X	
10.20	Amendment No. 2, dated as of November 12, 1998, to the Revolving Credit Agreement.X	
10.21	Amended and Restated Term Loan Agreement, dated as of April 30, 1998, by and among TRCH, the lenders party thereto, DLJ Capital Funding, Inc., as Syndication Agent, First Union National Bank, as Documentation Agent, and The Bank of New York, as Administrative Agent.(8)	
10.22	Subsidiary Guaranty dated as of October 24, 1997 by Total Renal Care, Inc., TRC West, Inc. and Total Renal Care Acquisition Corp. in favor of and for the benefit of The Bank of New York, as Collateral Agent, the lenders to the Revolving Credit Agreement, the lenders to the Term Loan Agreement, the Term Agent (as defined therein), the Acknowledging Interest Rate Exchangers (as defined therein) and the Acknowledging Currency Exchangers (as defined therein).(9)	
10.23	Borrower Pledge Agreement dated as of October 24, 1997 and entered into by and between the Company, and The Bank of New York, as Collateral Agent, the lenders to the Revolving Credit Agreement, the lenders to the Term Loan Agreement, the Term Agent (as defined therein), the Acknowledging Interest Rate Exchangers (as defined therein) and the Acknowledging Currency Exchangers (as defined therein).(9)	
10.24	Amendment to Borrower Pledge Agreement, dated February 27, 1998, executed by TRCH in favor of The Bank of New York, as Collateral Agent.X	
10.25	Form of Subsidiary Pledge Agreement dated as of October 24, 1997 by Total Renal Care, Inc., TRC West, Inc. and Total Renal Care Acquisition Corp., and The Bank of New York, as Collateral Agent, the lenders to the Revolving Credit Agreement, the lenders to the Term Loan Agreement, the Term Agent (as defined therein), the Acknowledging Interest Rate Exchangers (as defined therein) and the Acknowledging Currency Exchangers (as defined therein).(9)	
10.26	Subsidiary Pledge Agreement, dated as of February 27, 1998, by RTC and The Bank of New York, as Collateral Agent, the lenders to the Revolving Credit Agreement, the lenders to the Term Loan Agreement, the Term Agent (as defined therein), the Acknowledging Interest Rate Exchangers (as defined therein) and the Acknowledging Currency Exchangers (as defined therein).X	

Exhibit Number	Description	Page Number
10.27	Form of First Amendment to Borrower/Subsidiary Pledge Agreement, dated April 30, 1998, by and among TRCH, RTC, TRC and The Bank of New York, as Collateral Agent.(8)	
10.28	Form of Acknowledgement and Confirmation, dated April 30, 1998, by TRCH, RTC, TRC West, Inc., Total Renal Care, Inc., Total Renal Care Acquisition Corp., Renal Treatment Centers--Mid-Atlantic, Inc., Renal Treatment Centers--Northeast, Inc., Renal Treatment Centers--California, Inc., Renal Treatment Centers--West, Inc., and Renal Treatment Centers--Southeast, Inc. for the benefit of The Bank of New York, as Collateral Agent and the lenders party to the Term Loan Agreement or the Revolving Credit Agreement.(8)	
10.29	Agreement and Plan of Merger dated as of November 18, 1997 by and among TRCH, Nevada Acquisition Corp., a Delaware corporation and wholly-owned subsidiary of TRCH, and RTC.(10)	
10.30	First Amendment to the Subsidiary Guaranty dated February 17, 1998.(2)	
10.31	Special Purpose Option Plan.(11)	
10.32	Guaranty, entered into as of March 31, 1998, by TRCH in favor of and for the benefit of PNC Bank.(2)	
12.1	Statement re Computation of Ratios of Earnings to Fixed Charges.X	
21.1	List of our subsidiaries.X	
23.1	Consent of PricewaterhouseCoopers LLP.X	
24.1	Powers of Attorney with respect to TRCH (included on page II-1 hereof). X	
27.1	Financial Data Schedule.X	

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X Included in this filing.
* Management contract or executive compensation plan or arrangement.
(1) Filed on March 18, 1996 as an exhibit to our Transitional Report on Form 10-K for the transition period from June 1, 1995 to December 31, 1995.
(2) Filed on March 31, 1998 as an exhibit to our Form 10-K for the year ended December 31, 1997.
(3) Filed on October 24, 1995 as an exhibit to Amendment No. 2 to our Registration Statement on Form S-1 (Registration Statement No. 33-97618).
(4) Filed on August 29, 1995 as an exhibit to our Form 10-K for the year ended May 31, 1995.
(5) Filed on December 18, 1998 as an exhibit to our Registration Statement on Form S-3 (Registration Statement No. 333-69227).
(6) Filed as an exhibit to our Form 10-Q for the quarter ended September 30, 1998.
(7) Filed on August 29, 1997 as an exhibit to our Registration Statement on Form S-8 (Registration Statement No. 333-34695).
(8) Filed on May 18, 1998 as an exhibit to Amendment No. 1 to our annual report for the year ended December 31, 1997 on Form 10-K/A.
(9) Filed on December 19, 1997 as an exhibit to our Current Report on Form 8-K.
(10) Filed on December 19, 1997 as Annex A to our Registration Statement on Form S-4 (Registration Statement No. 333-42653).
(11) Filed on February 25, 1998 as an exhibit to our Registration Statement on Form S-8 (Registration Statement No. 333-46887).
(12) Filed as an exhibit to RTC's Form 10-Q for the quarter ended June 30, 1996.

EXHIBIT 10.4

SECOND AMENDMENT TO EMPLOYMENT AGREEMENT

This Second Amendment (this "Amendment") to Employment Agreement is made effective as of March 2, 1998 by and between Total Renal Care Holdings, Inc. (the "Company"), a Delaware corporation, and Victor M.G. Chaltiel (the "Executive").

W I T N E S E T H:

WHEREAS, the Company and the Executive are parties to that certain Employment Agreement dated as of August 11, 1994, as amended on that same date (the "Agreement"); and

WHEREAS, the Company and the Executive desire by this Amendment to clarify and amend certain provisions of the Agreement all as more fully hereinafter set forth.

NOW, THEREFORE, in consideration of the mutual covenants and agreements hereinafter set forth and for other good and valuable consideration, the receipt of which the parties hereby acknowledge, the parties hereto, intending to be legally bound hereby, agree as follows:

1. Amendment.

(a) The Company and the Executive agree that the definition of "Change of Control" in Section 1 of the Agreement is hereby amended and restated as follows:

> "Change of Control" shall mean (1) any transaction or series of transactions in which any person or group (within the meaning of Rule 13d-5 under the Exchange Act and Sections 13(d) and 14(d) under the Exchange Act) becomes the direct or indirect "beneficial owner" (as defined under Rule 13d-3 under the Exchange Act), by way of a stock issuance, tender offer, merger, consolidation, other business combination or otherwise, of greater than 50% of the total voting power (on a fully diluted basis as if all convertible securities had been converted and all warrants and options had been exercised) entitled to vote in the election of directors of the Company (including any transaction in which the Company becomes a wholly owned or majority owned subsidiary of another corporation), (ii) any merger or consolidation or reorganization in which the Company does not survive, (iii) any merger or consolidation in which the Company survives, but the shares of the Company's Common Stock outstanding immediately prior to such merger or consolidation represent 50% or less of the voting power of the Company after such merger or consolidation, and (iv) any transaction in which more than 50% of the Company's assets are sold.

(b) The Company and the Executive agree that Section 5 of the Agreement is hereby amended and restated as follows:

> 5. Excess Parachute Payment. In the event that any payment or benefit received or to be received by Executive in connection with a Change of Control, whether payable pursuant to the terms of this Agreement or any other plan, arrangement or agreement by the Company, any predecessor or successor to the Company or any corporation affiliated with the Company or which becomes so affiliated pursuant to the transactions resulting in a Change of Control, both within the meaning of Section 1504 of the Internal Revenue Code of 1986, as amended (the "Code") (collectively all such payments are hereinafter referred to as the "Total Payments") is deemed to be an "Excess Parachute Payment" (in whole or in part) to Executive as a result of Section 280G and/or 4999 of the Code, as in effect at such time, no change shall be made to the Total Payments to be made in connection with the Change of Control, except that, in addition to all other amounts to be paid to Executive by the Company hereunder, the Company shall, within thirty (30) days of the date on which any Excess Parachute Payment is made, pay to Executive, in addition to any other payment, coverage or benefit due and owing hereunder, an amount determined by

(i) multiplying the rate of excise tax then imposed by Code Section 4999 by the amount of the "Excess Parachute Payment" received by Executive (determined without regard to any payments made to Executive pursuant to this Section 5) and (ii) dividing the product so obtained by the amount obtained by subtracting (A) the aggregate local, state and Federal income tax rates (including the value of the loss of itemized deductions under Section 68 of the Internal Revenue Code) applicable to the receipt by Executive of the "Excess Parachute Payment" (taking into account the deductibility for Federal income tax purposes of the payment of state and local income taxes thereon) from (B) the amount obtained by subtracting from 1.00 the rate of excise tax then imposed by Section 4999 of the Code. It is the Company's intention that Executive's net after-tax position be identical to that which would have obtained had Sections 280G and 4999 not been part of the Code. For purposes of implementing this Section 5, (i) no portion, if any, of the Total Payments, the receipt or enjoyment of which Executive shall have effectively waived in writing prior to the date of payment of the Total Payments, shall be taken into account, and (ii) the value of any non-cash benefit or any deferred cash payment included in the Total Payments shall be determined by the Company's independent auditors in accordance with the principles of Sections 280G(d)(3) and (4) of the Code.

2. Ratification and Confirmation. All other terms and conditions of the Agreement are hereby ratified and confirmed and shall continue in full force and effect.

3. Miscellaneous. This Amendment may be executed in two or more counterparts, and by different parties on different counterparts, each of which shall be deemed an original and in making proof of this Amendment it shall be necessary only to produce sufficient counterparts. This Amendment and the rights and obligations of the parties hereunder shall be construed in accordance with and shall be governed by the laws of the State of California, conflict of laws provisions notwithstanding.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as of the day and year first above written.

TOTAL RENAL CARE HOLDINGS, INC.	EXECUTIVE
By:_____________________________________	_____________________________________ Signature
Its:____________________________________	_____________________________________ Victor M.G. Chaltiel

EXHIBIT 10.9

AMENDMENT TO
TERMS OF EMPLOYMENT AGREEMENT

THIS AMENDMENT, is made the 1st day of September 1998, by and between TOTAL RENAL CARE HOLDINGS, INC., a Delaware Corporation ("Company"), and STANLEY M. LINDENFELD, M.D. ("Employee").

WITNESSETH:

WHEREAS, Parties entered into a Employment Agreement effective as of March 2, 1998, ("Agreement"); and

WHEREAS, parties desire to amend the Agreement.

NOW, THEREFORE, in consideration of the foregoing premises and for other good and valuable consideration, receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. Title. Section 1 is deleted in its entirety and replaced with the following new Section 1:

Employment and Duties. The Company shall employ Executive, and Executive accepts such employment, for the Term set forth in Section 3 hereof on the terms and conditions set forth in this Agreement. During the Term, Executive shall serve as Vice President, Quality Management and Chief Medical Officer of the Company and shall perform the duties of such office, as well as such other duties as may be assigned to Executive from time to time during the Term by the Chief Executive Officer of the Company or his designee. Executive shall devote Executive's best efforts and skills to the business and interests of the Company on a full-time basis. For the purposes hereof, full time shall mean ninety percent (90%) of Executive's time. Executive shall not engage in any other business activity during the Term to the extent that such activities adversely affect the performance of Executive's responsibilities to the Company hereunder. Executive shall at all times observe and abide by the Company's policies and procedures as in effect from time to time.

2. No Conflicts. In the event of a conflict between the terms of the Agreement and the Amendment, the terms of this Amendment shall control.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment effective as of the date first above written.

TOTAL RENAL CARE HOLDINGS, INC.	EMPLOYEE
-------------------------------------	-------------------------------------
By: Barry C. Cosgrove	Stanley M. Lindenfeld, M.D.
Its: Vice President, General Counsel	

EXHIBIT 10.19

AMENDMENT NO. 1 AND CONSENT NO. 1
TO
AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT

AMENDMENT NO. 1 AND CONSENT NO. 1 (this "Amendment"), dated as of August 5, 1998, to the Amended and Restated Revolving Credit Agreement (the "Revolving Credit Agreement"), dated as of April 30, 1998, by and among TOTAL RENAL CARE HOLDINGS, INC., a Delaware corporation (the "Borrower"), the lenders party thereto (the "Lenders"), DLJ CAPITAL FUNDING, INC., as Syndication Agent (the "Syndication Agent"), FIRST UNION NATIONAL BANK, as Documentation Agent, and THE BANK OF NEW YORK, as administrative agent (in such capacity, the "Administrative Agent").

RECITALS

I. Capitalized terms used herein which are not otherwise defined herein shall have the respective meanings ascribed thereto in the Revolving Credit Agreement.

II. The Borrower has requested that the Administrative Agent and the Lenders agree to amend the Revolving Credit Agreement upon the terms and conditions contained herein, and the Administrative Agent and the Required Lenders are willing to so agree.

Accordingly, in consideration of the Recitals and the covenants and conditions hereinafter set forth, and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Section 4.19 of the Revolving Credit Agreement is amended and restated in its entirety to read as follows:

The facilities operated by the Borrower and its Subsidiaries (the "Facilities") are qualified for participation in the Medicare and Medicaid programs (together with their respective intermediaries or carriers, the "Government Reimbursement Programs") and are entitled to reimbursement under the Medicare program for services rendered to qualified Medicare beneficiaries, and comply in all material respects with the conditions of participation in all Government Reimbursement Programs. There is no pending or, to Borrower's knowledge, threatened proceeding or investigation by any of the Government Reimbursement Programs with respect to (i) the Borrower's or any of its Subsidiaries' qualification or right to participate in any Government Reimbursement Program, (ii) the compliance or non-compliance by the Borrower or any of its Subsidiaries with the terms or provisions of any Government Reimbursement Program, or (iii) the right of the Borrower or any of its Subsidiaries to receive or retain amounts received or due or to become due from any Government Reimbursement Program, which proceeding or investigation, together with all other such proceedings and investigations, could reasonably be expected to have a Material Adverse Effect.

2. Section 9.1(p) of the Revolving Credit Agreement is amended and restated in its entirety to read as follows:

(p) The Borrower or any Subsidiary, in each case to the extent it is engaged in the business of providing services for which Medicare or Medicaid reimbursement is sought, shall for any reason, including, without limitation, as the result of any finding, designation or decertification, lose its right or authorization, or otherwise fail to be eligible, to participate in Medicaid or Medicare programs or to accept assignments or rights to reimbursements under Medicaid regulations or Medicare regulations, or the Borrower or any Subsidiary has, for any reason, had its right to receive reimbursements under Medicaid or Medicare regulations suspended, and such loss, failure or suspension (together with all such other losses, failures and suspensions continuing at such time) shall have resulted in a Material Adverse Effect.

3. The Administrative Agent and the Lenders, to the extent their consent is required, hereby consent to the amendment of the Term Loan Facility in a manner substantially similar to this Amendment (the "First Term Loan Amendment").

4. Paragraphs 1 through 3 of this Amendment shall become and shall be deemed effective as of April 30, 1998 upon the prior or simultaneous satisfaction of the following condition:

(a) The First Term Loan Amendment shall have become effective, and the Administrative Agent shall have received a copy of the executed First Term Loan Amendment.

5. On the date hereof, each Credit Party hereby (a) reaffirms and admits the validity and enforceability of the Loan Documents (as amended by this Amendment) and all of its obligations thereunder, (b) agrees and admits that it has no defenses to or offsets against any such obligation, and (c) represents and warrants that, after giving effect to the effectiveness of this Amendment, no Default or Event of Default has occurred and is continuing, and that each of the representations and warranties made by it in the Loan Documents (as amended by this Amendment) to which it is a party is true and correct with the same effect as though such representation and warranty had been made on the date hereof.

6. In all other respects, the Loan Documents shall remain in full force and effect, and no amendment in respect of any term or condition of any Loan Document contained herein shall be deemed to be an amendment in respect of any other term or condition contained in any Loan Document.

7. This Amendment may be executed in any number of counterparts all of which, taken together, shall constitute one Amendment. In making proof of this Amendment, it shall only be necessary to produce the counterpart executed and delivered by the party to be charged.

8. THIS AMENDMENT IS BEING EXECUTED AND DELIVERED IN, AND IS INTENDED TO BE PERFORMED IN, THE STATE OF NEW YORK AND SHALL BE CONSTRUED AND ENFORCEABLE IN ACCORDANCE WITH, AND BE GOVERNED BY, THE INTERNAL LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO PRINCIPLES OF CONFLICT OF LAWS.

AMENDMENT NO. 1 AND CONSENT NO. 1
TO
AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT

AS EVIDENCE of the agreement by the parties hereto to the terms and conditions herein contained, each such party has caused this Amendment to be executed on its behalf.

TOTAL RENAL CARE HOLDINGS, INC.

By: ___________________________________

Name: _________________________________

Title: ________________________________

THE BANK OF NEW YORK,
Individually, as the Letter of Credit Issuer, as the Swing Line Lender and as Administrative Agent

By: ___________________________________

Name: _________________________________

Title: ________________________________

DLJ CAPITAL FUNDING, INC.,
Individually and as Syndication Agent

By: ___________________________________

Name: _________________________________

Title: ________________________________

FIRST UNION NATIONAL BANK,
Individually and as Documentation Agent

By: ___________________________________

Name: _________________________________

Title: ________________________________

ABN AMRO BANK N.V.

By: ___________________________________

Name: _________________________________

Title: ________________________________

By: ___________________________________

Name: _________________________________

Title: ________________________________

AMENDMENT NO. 1 AND CONSENT NO. 1
TO
AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT

ALLIED IRISH BANKS, P.L.C.,
CAYMAN ISLANDS BRANCH

By: ________________________________

Name: ______________________________

Title: _____________________________

By: ________________________________

Name: ______________________________

Title: _____________________________

BANCO ESPIRITO SANTO E COMERCIAL DE
LISBOA, NASSAU BRANCH

By: ________________________________

Name: ______________________________

Title: _____________________________

By: ________________________________

Name: ______________________________

Title: _____________________________

BANK LEUMI TRUST COMPANY OF NEW YORK

By: ________________________________

Name: ______________________________

Title: _____________________________

By: ________________________________
Name: ______________________________
Title: _____________________________

THE BANK OF NOVA SCOTIA

By: ________________________________

Name: ______________________________

Title: _____________________________

AMENDMENT NO. 1 AND CONSENT NO. 1
TO
AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT

BANQUE NATIONALE DE PARIS

By: ___________________________________

Name: _________________________________

Title: ________________________________

By: ___________________________________

Name: _________________________________

Title: ________________________________

BHF-BANK AKTIENGESELLSCHAFT

By: ___________________________________

Name: _________________________________

Title: ________________________________

By: ___________________________________

Name: _________________________________

Title: ________________________________

CITY NATIONAL BANK

By: ___________________________________

Name: _________________________________

Title: ________________________________

CREDITANSTALT CORPORATE FINANCE,
INC.

By: ___________________________________

Name: _________________________________

Title: ________________________________

By: ___________________________________

Name: _________________________________

Title: ________________________________

AMENDMENT NO. 1 AND CONSENT NO. 1
TO
AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT

CREDIT LYONNAIS NEW YORK BRANCH

By: ___________________________________

Name: _________________________________

Title: ________________________________

DEUTSCHE BANK AG, NEW YORK AND/OR CAYMAN ISLANDS BRANCHES

By: ___________________________________

Name: _________________________________

Title: ________________________________

By: ___________________________________

Name: _________________________________

Title: ________________________________

DRESDNER BANK AG, NEW YORK BRANCH AND GRAND CAYMAN BRANCH

By: ___________________________________

Name: _________________________________

Title: ________________________________

By: ___________________________________

Name: _________________________________

Title: ________________________________

FLEET NATIONAL BANK

By: ___________________________________

Name: _________________________________

Title: ________________________________

THE FUJI BANK, LIMITED

By: ___________________________________

Name: _________________________________

Title: ________________________________

AMENDMENT NO. 1 AND CONSENT NO. 1
TO
AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT

HIBERNIA NATIONAL BANK

By: ________________________________

Name: ______________________________

Title: _____________________________

THE INDUSTRIAL BANK OF JAPAN, LTD.,
LOS ANGELES AGENCY

By: ________________________________

Name: ______________________________

Title: _____________________________

KBC BANK

By: ________________________________

Name: ______________________________

Title ______________________________

By: ________________________________

Name: ______________________________

Title: _____________________________

LONG TERM CREDIT BANK OF JAPAN, LTD.

By: ________________________________

Name: ______________________________

Title: _____________________________

MELLON BANK, N.A.

By: ________________________________

Name: ______________________________

Title: _____________________________

MICHIGAN NATIONAL BANK

By: ________________________________

Name: ______________________________

Title: _____________________________

AMENDMENT NO. 1 AND CONSENT NO. 1
TO
AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT

THE MITSUBISHI TRUST AND BANKING CORPORATION

By: ___________________________________

Name: _________________________________

Title: ________________________________

NATIONAL CITY BANK OF KENTUCKY

By: ___________________________________

Name: _________________________________

Title: ________________________________

PARIBAS

By: ___________________________________

Name: _________________________________

Title: ________________________________

By: ___________________________________

Name: _________________________________

Title _________________________________

COOPERATIEVE CENTRALE RAIFFEISEN--BOERENLEENBANK B.A, "RABOBANK NEDERLAND", NEW YORK BRANCH

By: ___________________________________

Name: _________________________________

Title: ________________________________

By: ___________________________________

Name: _________________________________

Title: ________________________________

ROYAL BANK OF CANADA

By: ___________________________________

Name: _________________________________

Title: ________________________________

THE ROYAL BANK OF SCOTLAND PLC

By: ___________________________________

Name: _________________________________

Title: ________________________________

THE SANWA BANK, LIMITED

By: ___________________________________

Name: _________________________________

Title: ________________________________

SOCIETE GENERALE

By: ___________________________________

Name: _________________________________

Title: ________________________________

THE SUMITOMO TRUST & BANKING CO.,
LTD., NEW YORK BRANCH

By: ___________________________________

Name: _________________________________

Title: ________________________________

SUNTRUST BANK, NASHVILLE, N.A.

By: ___________________________________

Name: _________________________________

Title: ________________________________

THE TOKAI BANK, LIMITED

By: ___________________________________

Name: _________________________________

Title: ________________________________

AMENDMENT NO. 1 AND CONSENT NO. 1
TO
AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT

THE TOYO TRUST & BANKING CO., LTD.,
Los Angeles Agency

By: ___________________________________

Name: _________________________________

Title: ________________________________

UNION BANK OF CALIFORNIA, N.A.

By: ___________________________________

Name: _________________________________

Title: ________________________________

U.S. BANK NATIONAL ASSOCIATION

By: ___________________________________

Name: _________________________________

Title: ________________________________

AMENDMENT NO. 1 AND CONSENT NO. 1
TO
AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT

AGREED AND CONSENTED TO:

TOTAL RENAL CARE, INC.

By: _____________________________________

Name: ___________________________________

Title: __________________________________

TRC WEST, INC.

By: _____________________________________

Name: ___________________________________

Title: __________________________________

TOTAL RENAL CARE ACQUISITION CORP.

By: _____________________________________

Name: ___________________________________

Title: __________________________________

RENAL TREATMENT CENTERS, INC.

By: _____________________________________

Name: ___________________________________

Title: __________________________________

RENAL TREATMENT CENTERS--MID-ATLANTIC, INC.

By: _____________________________________

Name: ___________________________________

Title: __________________________________

RENAL TREATMENT CENTERS--NORTHEAST, INC.

By: _____________________________________

Name: ___________________________________

Title: __________________________________

AMENDMENT NO. 1 AND CONSENT NO. 1
TO
AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT

RENAL TREATMENT CENTERS--CALIFORNIA, INC.

By: ______________________________________

Name: ____________________________________

Title: ___________________________________

RENAL TREATMENT CENTERS--WEST, INC.

By: ______________________________________

Name: ____________________________________

Title: ___________________________________

RENAL TREATMENT CENTERS--SOUTHEAST, INC.

By: ______________________________________

Name: ____________________________________

Title: ___________________________________

EXHIBIT 10.20

AMENDMENT NO. 2
TO
AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT

AMENDMENT NO. 2 (this "Amendment"), dated as of November 12, 1998, to the Amended and Restated Revolving Credit Agreement, as amended by Amendment No. 1 and Consent No. 1, dated as of August 5, 1998 (the "Revolving Credit Agreement"), dated as of April 30, 1998, by and among TOTAL RENAL CARE HOLDINGS, INC., a Delaware corporation (the "Borrower"), the lenders party thereto (the "Lenders"), DLJ CAPITAL FUNDING, INC., as Syndication Agent (the "Syndication Agent"), FIRST UNION NATIONAL BANK, as Documentation Agent, and THE BANK OF NEW YORK, as administrative agent (in such capacity, the "Administrative Agent").

RECITALS

I. Capitalized terms used herein which are not otherwise defined herein shall have the respective meanings ascribed thereto in the Revolving Credit Agreement.

II. The Borrower has requested that the Administrative Agent and the Lenders agree to amend the Revolving Credit Agreement upon the terms and conditions contained herein, and the Administrative Agent and the Required Lenders are willing to so agree.

Accordingly, in consideration of the Recitals and the covenants and conditions hereinafter set forth, and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Section 2.6(d) of the Revolving Credit Agreement is amended to replace the amount "$200,000,000" with the following:

> the sum of $200,000,000 plus the face principal amount of Subordinated Indebtedness issued by the Borrower in November, 1998 (such sum not to exceed $500,000,000 in the aggregate).

2. Section 4.19 of the Revolving Credit Agreement is amended and restated in its entirety to read as follows:

> The facilities operated by the Borrower and its Subsidiaries (the "Facilities") are qualified for participation in the Medicare and Medicaid programs (together with their respective intermediaries or carriers, the "Government Reimbursement Programs") and are entitled to reimbursement under the Medicare program for services rendered to qualified Medicare beneficiaries, and comply in all material respects with the conditions of participation in all Government Reimbursement Programs. There is no pending or, to Borrower's knowledge, threatened proceeding or investigation by any of the Government Reimbursement Programs with respect to (i) the Borrower's or any of its Subsidiaries' qualification or right to participate in any Government Reimbursement Program, (ii) the compliance or non-compliance by the Borrower or any of its Subsidiaries with the terms or provisions of any Government Reimbursement Program, or (iii) the right of the Borrower or any of its Subsidiaries to receive or retain amounts received or due or to become due from any Government Reimbursement Program, which proceeding or investigation, together with all other such proceedings and investigations, could reasonably be expected to (x) have a Material Adverse Effect or (y) result in Consolidated net operating revenues for any (including any future) four fiscal quarter period of the Borrower constituting less than 95% of Consolidated net operating revenues for the immediately preceding four fiscal quarter period of the Borrower.

3. Section 8.9 of the Revolving Credit Agreement is amended to add a new subsection (e) at the end thereof as follows:

(e) The Borrower will not voluntarily prepay, redeem or repurchase any Subordinated Indebtedness, except that if such Subordinated Indebtedness is convertible into common stock of the Borrower, the Borrower may exercise any right it may have to redeem at any time after November 1, 2001 all or any part of such Subordinated Indebtedness if on the Determination Date the Applicable Premium is at least 1.05. For purposes of this subsection 8.9(e):

"Determination Date" shall mean, as applicable, either (i) the date on which such Subordinated Indebtedness is redeemed if no prior notice of redemption must be given or (ii) if the Borrower is required under the terms of such Subordinated Indebtedness to give prior irrevocable notice of redemption, the date (which date shall not be more than 45 days prior to the redemption date) on which such notice is given;

"Applicable Premium" shall mean the fraction (i) the numerator of which is the "Average Market Value" and (ii) the denominator of which is the then applicable conversion price under the terms of such Subordinated Indebtedness; and

"Average Market Value" shall mean the average of the last sale price of the Borrower's common stock as reported on the New York Stock Exchange (or if not listed for trading thereon, then on the principal national securities exchange or the principal automated quotation system on which such common stock is listed or admitted to trading) for the period of 10 trading days ended two trading days prior to the date of redemption or the date on which notice of redemption is given, whichever is applicable with respect to such Subordinated Indebtedness.

4. Section 9.1(p) of the Revolving Credit Agreement is amended and restated in its entirety to read as follows:

(p) The Borrower or any Subsidiary, in each case to the extent it is engaged in the business of providing services for which Medicare or Medicaid reimbursement is sought, shall for any reason, including, without limitation, as the result of any finding, designation or decertification, lose its right or authorization, or otherwise fail to be eligible, to participate in Medicaid or Medicare programs or to accept assignments or rights to reimbursements under Medicaid regulations or Medicare regulations, or the Borrower or any Subsidiary has, for any reason, had its right to receive reimbursements under Medicaid or Medicare regulations suspended, and such loss, failure or suspension (together with all such other losses, failures and suspensions continuing at such time) shall have resulted in (x) a Material Adverse Effect or (y) Consolidated net operating revenues for the immediately preceding four fiscal quarter period of the Borrower constituting less than 95% of Consolidated net operating revenues for any preceding four fiscal quarter period of the Borrower.

5. This Amendment shall become and shall be deemed effective as of the date hereof upon the prior or simultaneous satisfaction of the following conditions:

(a) Receipt by each Lender that shall have executed and delivered this Amendment (without any reservation or condition) to the Administrative Agent before 3:00 p.m. (New York City time) on November 12, 1998 of a non-refundable fee in an amount equal to 0.25% of the Revolving Credit Commitment of such Lender.

6. On the date hereof, each Credit Party hereby (a) reaffirms and admits the validity and enforceability of the Loan Documents (as amended by this Amendment) and all of its obligations thereunder, (b) agrees and admits that it has no defenses to or offsets against any such obligation, and (c) represents and warrants that, after giving effect to the effectiveness of this Amendment, no Default or Event of Default has occurred and is continuing, and that each of the representations and warranties made by it in the Loan Documents (as amended by this Amendment) to which it is a party is true and correct with the same effect as though such representation and warranty had been made on the date hereof.

7. In all other respects, the Loan Documents shall remain in full force and effect, and no amendment in respect of any term or condition of any Loan Document contained herein shall be deemed to be an amendment in respect of any other term or condition contained in any Loan Document.

8. This Amendment may be executed in any number of counterparts all of which, taken together, shall constitute one Amendment. In making proof of this Amendment, it shall only be necessary to produce the counterpart executed and delivered by the party to be charged.

9. THIS AMENDMENT IS BEING EXECUTED AND DELIVERED IN, AND IS INTENDED TO BE PERFORMED IN, THE STATE OF NEW YORK AND SHALL BE CONSTRUED AND ENFORCEABLE IN ACCORDANCE WITH, AND BE GOVERNED BY, THE INTERNAL LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO PRINCIPLES OF CONFLICT OF LAWS.

AMENDMENT NO. 2
TO
AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT

AS EVIDENCE of the agreement by the parties hereto to the terms and conditions herein contained, each such party has caused this Amendment to be executed on its behalf.

TOTAL RENAL CARE HOLDINGS, INC.

By: ___________________________________

Name: _________________________________

Title: ________________________________

THE BANK OF NEW YORK,
Individually, as the Letter of Credit Issuer, as the Swing Line Lender and as Administrative Agent

By: ___________________________________

Name: _________________________________

Title: ________________________________

DLJ CAPITAL FUNDING, INC.,
Individually and as Syndication Agent

By: ___________________________________

Name: _________________________________

Title: ________________________________

AMENDMENT NO. 2
TO
AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT

FIRST UNION NATIONAL BANK,
Individually and as Documentation Agent

By: ____________________________

Name: ____________________________

Title: ____________________________

ABN AMRO BANK N.V.

By: ____________________________

Name: ____________________________

Title: ____________________________

By: ____________________________

Name: ____________________________

Title: ____________________________

ALLIED IRISH BANKS, P.L.C.,
CAYMAN ISLANDS BRANCH

By: ____________________________

Name: ____________________________

Title: ____________________________

By: ____________________________

Name: ____________________________

Title: ____________________________

BANCO ESPIRITO SANTO E COMERCIAL
DE LISBOA, NASSAU BRANCH

By: ________________________________

Name: ______________________________

Title: _____________________________

By: ________________________________

Name: ______________________________

Title: _____________________________

BANK LEUMI TRUST COMPANY OF
NEW YORK

By: ________________________________

Name: ______________________________

Title: _____________________________

By: ________________________________

Name: ______________________________

Title: _____________________________

THE BANK OF NOVA SCOTIA

By: ________________________________

Name: ______________________________

Title: _____________________________

AMENDMENT NO. 2
TO
AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT

BANQUE NATIONALE DE PARIS

By: ___________________________________

Name: _________________________________

Title: ________________________________

By: ___________________________________

Name: _________________________________

Title: ________________________________

BHF-BANK AKTIENGESELLSCHAFT

By: ___________________________________

Name: _________________________________

Title: ________________________________

By: ___________________________________

Name: _________________________________

Title: ________________________________

CITY NATIONAL BANK

By: ___________________________________

Name: _________________________________

Title: ________________________________

AMENDMENT NO. 2
TO
AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT

CREDITANSTALT CORPORATE FINANCE, INC.

By: ___________________________________

Name: _________________________________

Title: ________________________________

By: ___________________________________

Name: _________________________________

Title: ________________________________

CREDIT LYONNAIS NEW YORK BRANCH

By: ___________________________________

Name: _________________________________

Title: ________________________________

DEUTSCHE BANK AG, NEW YORK
AND/OR CAYMAN ISLANDS BRANCHES

By: ___________________________________

Name: _________________________________

Title: ________________________________

By: ___________________________________

Name: _________________________________

Title: ________________________________

AMENDMENT NO. 2
TO
AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT

DRESDNER BANK AG, NEW YORK BRANCH
AND GRAND CAYMAN BRANCH

By: ___________________________________

Name: _________________________________

Title: ________________________________

By: ___________________________________

Name: _________________________________

Title: ________________________________

FLEET NATIONAL BANK

By: ___________________________________

Name: _________________________________

Title: ________________________________

THE FUJI BANK, LIMITED

By: ___________________________________

Name: _________________________________

Title: ________________________________

HIBERNIA NATIONAL BANK

By: ___________________________________

Name: _________________________________

Title: ________________________________

AMENDMENT NO. 2
TO
AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT

THE INDUSTRIAL BANK OF JAPAN, LTD.,
LOS ANGELES AGENCY

By: ________________________________

Name: ______________________________

Title: _____________________________

KBC BANK

By: ________________________________

Name: ______________________________

Title: _____________________________

By: ________________________________

Name: ______________________________

Title: _____________________________

LONG TERM CREDIT BANK OF JAPAN, LTD.

By: ________________________________

Name: ______________________________

Title: _____________________________

MELLON BANK, N.A.

By: ________________________________

Name: ______________________________

Title: _____________________________

MICHIGAN NATIONAL BANK

By: ________________________________

Name: ______________________________

Title: _____________________________

THE MITSUBISHI TRUST AND
BANKING CORPORATION

By: ________________________________

Name: ______________________________

Title: _____________________________

NATIONAL CITY BANK OF KENTUCKY

By: ________________________________

Name: ______________________________

Title: _____________________________

PARIBAS

By: ________________________________

Name: ______________________________

Title: _____________________________

By: ________________________________

Name: ______________________________

Title: _____________________________

COOPERATIEVE CENTRALE
RAIFFEISEN--BOERENLEENBANK B.A,
"RABOBANK NEDERLAND", NEW YORK
BRANCH

By: ___________________________________

Name: _________________________________

Title: ________________________________

By: ___________________________________

Name: _________________________________

Title: ________________________________

ROYAL BANK OF CANADA

By: ___________________________________

Name: _________________________________

Title: ________________________________

THE ROYAL BANK OF SCOTLAND PLC

By: ___________________________________

Name: _________________________________

Title: ________________________________

THE SANWA BANK, LIMITED

By: ___________________________________

Name: _________________________________

Title: ________________________________

SOCIETE GENERALE

By: ________________________________

Name: ______________________________

Title: _____________________________

THE SUMITOMO TRUST & BANKING CO.,
LTD., NEW YORK BRANCH

By: ________________________________

Name: ______________________________

Title: _____________________________

SUNTRUST BANK, NASHVILLE, N.A.

By: ________________________________

Name: ______________________________

Title: _____________________________

THE TOKAI BANK, LIMITED

By: ________________________________

Name: ______________________________

Title: _____________________________

THE TOYO TRUST & BANKING CO., LTD.,
Los Angeles Agency

By: ________________________________

Name: ______________________________

Title: _____________________________

UNION BANK OF CALIFORNIA, N.A.

By: ________________________________

Name: ______________________________

Title: _____________________________

U.S. BANK NATIONAL ASSOCIATION

By: ________________________________

Name: ______________________________

Title: _____________________________

AMENDMENT NO. 2
TO
AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT

AGREED AND CONSENTED TO:

TOTAL RENAL CARE, INC.

By: ______________________________________

Name: ____________________________________

Title: ___________________________________

TRC WEST, INC.

By: ______________________________________

Name: ____________________________________

Title: ___________________________________

TOTAL RENAL CARE ACQUISITION CORP.

By: ______________________________________

Name: ____________________________________

Title: ___________________________________

RENAL TREATMENT CENTERS, INC.

By: ______________________________________

Name: ____________________________________

Title: ___________________________________

RENAL TREATMENT CENTERS--MID-ATLANTIC, INC.

By: ______________________________________

Name: ____________________________________

Title: ___________________________________

AMENDMENT NO. 2
TO
AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT

RENAL TREATMENT CENTERS--NORTHEAST, INC.

By: ____

Name: ______________________________________

Title: _____________________________________

RENAL TREATMENT CENTERS--CALIFORNIA, INC.

By: ____

Name: ______________________________________

Title: _____________________________________

RENAL TREATMENT CENTERS--WEST, INC.

By: ____

Name: ______________________________________

Title: _____________________________________

RENAL TREATMENT CENTERS--SOUTHEAST, INC.

By: ____

Name: ______________________________________

Title: _____________________________________

EXHIBIT 10.24

PLEDGE AMENDMENT

This Pledge Amendment, dated as of February 27, 1998 is delivered pursuant to Section 7(b) of the Pledge Agreement referred to below. The undersigned hereby agrees that this Pledge Amendment may be attached to the Borrower Pledge Agreement dated as of October 24, 1997, between the undersigned and The Bank of New York, as Collateral Agent (the "Borrower Pledge Agreement," capitalized terms defined therein being used herein as therein defined), and that the Pledged Shares listed on this Pledge Amendment shall be deemed to be part of the Pledged Shares and shall become part of the Pledged Collateral and shall secure all Secured Obligations.

TOTAL RENAL CARE HOLDINGS, INC.

By: /s/ John King

Title: V/P Finance

Stock Issuer	Class of Stock	Stock Certificate Nos.	Par Value	Number of Shares
Renal Treatment Centers, Inc.	Common	1863	$0.01	100

EXHIBIT 10.26

SUBSIDIARY PLEDGE AGREEMENT

This SUBSIDIARY PLEDGE AGREEMENT (as it may be amended, supplemented or otherwise modified from time to time, this "Agreement") is dated as of February 27, 1998 and entered into by and between RENAL TREATMENT CENTERS, INC. a Delaware corporation ("Pledgor"), and THE BANK OF NEW YORK, as collateral agent for and representative of (in such capacity herein called "Collateral Agent") the REVOLVING LENDERS (as hereinafter defined), the TERM LENDERS (as hereinafter defined), the REVOLVING AGENT (as hereinafter defined), the TERM AGENT (as hereinafter defined), the ACKNOWLEDGING INTEREST RATE EXCHANGERS (as hereinafter defined) and the ACKNOWLEDGING CURRENCY EXCHANGERS (as hereinafter defined).

PRELIMINARY STATEMENTS

A. Pledgor is the legal and beneficial owner of the shares of Stock described in Schedule I annexed hereto and issued by the corporations named therein.

B. Total Renal Care Holdings, Inc., a Delaware corporation (the "Borrower"), has entered into that certain Revolving Credit Agreement dated as of October 24, 1997, with the financial institutions parties thereto (the "Revolving Lenders"), DLJ Capital Funding Inc., as Syndication Agent, First Union National Bank, as Documentation Agent, and The Bank of New York, as administrative agent (the "Revolving Agent") (said Revolving Credit Agreement, as amended and as it may hereafter be amended, supplemented or otherwise modified from time to time, being the "Revolving Credit Agreement"), pursuant to which the Revolving Lenders have made certain commitments, subject to the terms and conditions set forth in the Revolving Credit Agreement, to extend certain credit facilities to Borrower.

C. Borrower has entered into that certain Term Loan Agreement dated as of October 24, 1997, with the financial institutions parties thereto (the "Term Lenders"), DLJ Capital Funding Inc., as Syndication Agent, and The Bank of New York, as administrative agent (the "Term Agent") (said Term Loan Agreement, as amended and as it may hereafter be amended, supplemented or otherwise modified from time to time, being the "Term Loan Agreement"), pursuant to which Term Lenders have extended or will extend credit, subject to the terms and conditions set forth in the Term Loan Agreement, to Borrower.

D. It is contemplated that the Borrower may from time to time enter into one or more Interest Rate Agreements with one or more Revolving Lenders or Term Lenders or their respective Affiliates (collectively, the "Interest Rate Exchangers") and it is desired that the obligations of the Borrower under such Interest Rate Agreements, including the obligation to make payments in the event of early termination thereunder, be secured by the collateral described herein; provided that any Interest Rate Exchanger desiring the benefit of such security shall deliver to the Collateral Agent an acknowledgement to the Intercreditor Agreement executed by such Interest Rate Exchanger and the Borrower, pursuant to which such Interest Rate Exchanger agrees to be bound by the terms thereof. Each Interest Rate Exchanger that has executed and delivered to the Collateral Agent an acknowledgement to the Intercreditor Agreement is referred to herein as an "Acknowledging Interest Rate Exchanger", and each Interest Rate Agreement with an Acknowledging Interest Rate Exchanger is referred to herein as a "Secured Interest Rate Agreement".

E. It is contemplated that the Borrower may from time to time enter into one or more Currency Agreements with one or more Revolving Lenders or Term Lenders or their respective Affiliates (collectively, the "Currency Exchangers") and it is desired that the obligations of the Borrower under such Currency Agreements, including the obligation to make payments in the event of early termination thereunder be secured by the collateral described herein; provided that any Currency Exchanger desiring the benefit of such security shall deliver to the Collateral Agent an acknowledgement to the Intercreditor Agreement executed by such Currency Exchanger and the Borrower, pursuant to which such Currency Exchanger agrees to be bound by the terms thereof. Each Currency Exchanger that has executed and delivered to the Collateral Agent an acknowledgement to the Intercreditor Agreement is referred to herein as an "Acknowledging Currency Exchanger" and each Currency Agreement with an Acknowledging Currency Exchanger is referred to herein as a "Secured Currency Agreement".

F. A portion of the proceeds of the Revolving Credit Loans and Term Loans may be advanced to Pledgor and thus the Secured Obligations (as hereinafter defined) are being incurred for and will inure to the benefit of Pledgor (which benefits are hereby acknowledged).

G. Collateral Agent has been appointed as collateral agent hereunder pursuant to the Intercreditor Agreement by the Revolving Agent on behalf of the Revolving Lenders, the Term Agent on behalf of the Term Lenders, and each Interest Rate Exchanger and Currency Exchanger signing an acknowledgement to the Intercreditor Agreement.

H. Borrower has covenanted and agreed under the Revolving Loan Agreement and the Term Loan Agreement to cause Pledgor to grant the security interests and undertake the obligations contemplated by this Agreement.

NOW, THEREFORE, in consideration of the premises and in order to induce the Revolving Lenders to make and continue their respective loans to, and issue Letters of Credit (as hereinafter defined) for the account of, the Borrower, and to induce the Term Lenders to make and continue their respective loans to the Borrower, Pledgor hereby agrees with Collateral Agent as follows:

SECTION 1. Definitions. Capitalized terms used herein without definition shall have the meanings assigned thereto in the Revolving Credit Agreement and, if not defined in the Revolving Credit Agreement, the Term Loan Agreement, in each case as in effect on the date hereof. In addition, as used in this Agreement, the following terms shall have the following meanings unless the context otherwise requires:

"Default" means any "Default" as defined in the Term Loan Agreement or the Revolving Credit Agreement.

"Event of Default" means (i) any of the events specified in Section 9.1 of the Term Loan Agreement or Section 9.1 of the Revolving Credit Agreement, provided that any requirement for the giving of notice, the lapse of time, or any other condition has been satisfied and (ii) following the payment in full of all obligations under the Revolving Loan Documents and the Term Loan Documents, any breach or violation of any Secured Interest Rate Agreement or Secured Currency Agreement.

"Financing Documents" means the Revolving Loan Documents, the Term Loan Documents, the Secured Interest Rate Agreements, the Secured Currency Agreements, and all other documents and agreements executed and issued in connection with the foregoing.

"Intercreditor Agreement" means the Intercreditor Agreement and Collateral Agency, dated as of October 24, 1997, among the Revolving Agent, the Term Agent and The Bank of New York, acting in its capacity as Collateral Agent thereunder, each Acknowledging Interest Rate Exchanger and each Acknowledging Currency Exchanger and the Loan Parties (as defined therein), as amended, supplemented or otherwise modified from time to time.

"Requisite Obligees" has the meaning assigned thereto in the Intercreditor Agreement.

"Revolving Loan Documents" means the "Loan Documents" as defined in the Revolving Credit Agreement.

"SEC" means the Securities and Exchange Commission or any Governmental Authority succeeding to the functions thereof.

"Secured Parties" means, collectively, the Collateral Agent, the Revolving Agent, the Revolving Lenders, the Letter of Credit Issuer, the Term Agent, the Term Lenders, the Acknowledging Interest Rate Exchangers and Acknowledging Currency Exchangers.

"Term Loan Documents" means the "Loan Documents" as defined in the Term Loan Agreement.

"Term Loan Notes" means, collectively, the promissory notes of the Borrower payable to the order of the Term Lenders, each as indorsed or modified from time to time.

"Term Loans" means the term loans made by the Term Lenders to the Borrower under the Term Loan Agreement.

SECTION 2. Pledge of Security. Pledgor hereby pledges and assigns to Collateral Agent for its benefit and the benefit of the Secured Parties, and hereby grants to Collateral Agent for its benefit and the benefit of the Secured Parties, a security interest in, all of Pledgor's right, title and interest in and to the following, in each case whether now owned or existing or hereafter arising or acquired, whether tangible or intangible and wherever located (the "Pledged Collateral"):

(a) all shares of Stock of any Person that is on the date hereof or hereafter becomes a First-Tier wholly-owned Subsidiary of Pledgor or a First-Tier Domestic Subsidiary of Pledgor that is a Guarantor (whether or not wholly-owned by Pledgor) (such shares being the "Pledged Shares"), all securities convertible into and warrants, options and other rights to purchase or otherwise acquire, any Pledged Shares, the certificates or other instruments representing such Pledged Shares, securities, warrants, options or other rights and any interest of Pledgor in the entries on the books of any financial intermediary pertaining to such shares, and all dividends, cash, warrants, rights, instruments and other property or proceeds from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of such Pledged Shares, securities, warrants, options or other rights; provided that Pledgor shall not be required to pledge more than the Maximum Percentage (as hereinafter defined) of the shares of Stock of any Foreign Subsidiary;

(b) all additional shares of, and all securities convertible into and warrants, options and other rights to purchase or otherwise acquire, Stock of any issuer of the Pledged Shares from time to time acquired by Pledgor in any manner (which shares shall be deemed to be part of the Pledged Shares), the certificates or other instruments representing such additional shares, securities, warrants, options or other rights and any interest of Pledgor in the entries on the books of any financial intermediary pertaining to such additional shares, and all dividends, cash, warrants, rights, instruments and other property or proceeds from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of such additional shares, securities, warrants, options or other rights;

(c) to the extent not covered by clauses (a) through (b) above, all proceeds of any or all of the foregoing Pledged Collateral. For purposes of this Agreement, the term "proceeds" has the meaning assigned to it under Article 9 of the New York Uniform Commercial Code and to the extent not otherwise included, shall include whatever is receivable or received when Pledged Collateral or proceeds are sold, exchanged, collected or otherwise disposed of, whether such disposition is voluntary or involuntary, and includes, without limitation, proceeds of any indemnity or guaranty payable to Pledgor or Collateral Agent from time to time with respect to any of the Pledged Collateral.

SECTION 3. Security for Obligations. This Agreement secures, and the Pledged Collateral is collateral security for, the prompt payment or performance in full when due, whether at stated maturity, by required prepayment, declaration, acceleration, demand or otherwise (including the payment of amounts that would become due but for the operation of the automatic stay under Section 362(a) of the Bankruptcy Code, 11 U.S.C. (S)362(a)), of all obligations and liabilities of every nature of Borrower now or hereafter existing under or arising out of or in connection with the Financing Documents, whether for principal, interest (including without limitation interest that, but for the filing of a petition in bankruptcy with respect to Borrower, would accrue on such obligations), reimbursement of amounts drawn under Letters of Credit, fees, expenses, indemnities or otherwise, whether voluntary or involuntary, direct or indirect, absolute or contingent, liquidated or unliquidated, whether or not jointly owed with others, and whether or not from time to time decreased or extinguished and later increased, created or incurred, and all or any portion of such obligations or liabilities that are paid, to the extent all or any part of such payment is avoided or recovered directly or indirectly from Collateral Agent or any Secured Party as a preference, fraudulent transfer or otherwise (all such obligations and liabilities being the "Underlying Debt"), and all obligations of every nature of Pledgor now or hereafter existing under this Agreement (all such obligations of Pledgor, together with the Underlying Debt, being the "Secured Obligations").

SECTION 4. Delivery of Pledged Collateral. All certificates or instruments representing or evidencing the Pledged Collateral shall be delivered to and held by or on behalf of Collateral Agent pursuant hereto and shall be in suitable form for transfer by delivery or, as applicable, shall be accompanied by Pledgor's endorsement, where necessary, or duly executed instruments of transfer or assignment in blank, all in form and substance satisfactory to Collateral Agent. Collateral Agent shall have the right, at any time in its discretion and without notice to Pledgor, to transfer to or to register in the name of Collateral Agent or any of its nominees any or all of the Pledged Collateral, subject only to the revocable rights specified in Section 8(a). In addition, Collateral Agent shall have the right at any time to exchange certificates or instruments representing or evidencing Pledged Collateral for certificates or instruments of smaller or larger denominations.

Collateral Agent acknowledges that, notwithstanding Pledgor's representation and warranty in Section 5(b) hereof, Pledgor may deliver to Collateral Agent stock certificates, together with undated stock powers, representing less than 100% (but no less than 66%) of the outstanding shares of stock of the Foreign Subsidiaries; all outstanding shares of the Foreign Subsidiaries being referred to herein as the "Foreign Shares". Because the intent of Pledgor and Collateral Agent is to grant a security interest in a percentage of the Foreign Shares equal to 66% or such other percentage as is the maximum percentage of the Foreign Shares that can be pledged to the Collateral Agent without constituting an investment of earnings in U.S. property under Section 956 (or any successor provision) of the Code that would trigger an increase in the gross income of Pledgor pursuant to Section 951 (or any successor provision) of the Code (such percentage being the "Maximum Percentage"), Collateral Agent hereby confirms that the Pledged Shares of the Foreign Subsidiaries shall refer only to, and the grants of security interests created hereby shall extend only to, the Maximum Percentage of the Foreign Shares.

If Collateral Agent shall take any action to foreclose on the Foreign Shares, Collateral Agent hereby agrees to act only with regard to the Maximum Percentage of the Foreign Shares; provided, however, that nothing herein shall preclude Collateral Agent from exercising the stock powers with respect to all outstanding Foreign Shares to take such action as may be necessary to transfer the Foreign Shares (the "Remaining Shares") to Pledgor or to such other person or entity as Pledgor designates. The parties hereto agree that Collateral Agent has no fiduciary or other responsibilities or duties with regard to the Remaining Shares and that Collateral Agent is serving only as custodian with respect to the Remaining Shares.

SECTION 5. Representations and Warranties. Pledgor represents and warrants as follows:

(a) Due Authorization, etc. of Pledged Collateral. All of the Pledged Shares have been duly authorized and validly issued and are fully paid and non-assessable.

(b) Description of Pledged Collateral. The Pledged Shares (other than the Foreign Shares) constitute 100% of the issued and outstanding shares of Stock of each issuer thereof, and there are no outstanding warrants, options or other rights to purchase, or other agreements outstanding with respect to, or property that is now or hereafter convertible into, or that requires the issuance or sale of, any Pledged Shares. The Pledged Shares of each Foreign Subsidiary represent the Maximum Percentage of the issued and outstanding shares of Stock of such Foreign Subsidiary.

(c) Ownership of Pledged Collateral. Pledgor is the legal, record and beneficial owner of the Pledged Collateral free and clear of any Lien except for the security interest created by this Agreement and as otherwise permitted under the Revolving Credit Agreement or the Term Loan Agreement, as the case may be.

(d) Governmental Authorizations. Except as may be disclosed on Schedule 5(d) with respect to Pledged Shares of a Foreign Subsidiary (which Schedule 5(d) may be supplemented from time to time in connection with a pledge hereunder of Pledged Shares of a new Foreign Subsidiary) and provided that with respect to any matters disclosed on Schedule 5(d) Pledgor shall as soon as reasonably practicable obtain all such authorizations and approvals, make all such notifications or filings and take all such other actions as may be so disclosed and required under the laws governing such Foreign Subsidiary in connection with the actions described in the following clauses (i)-(iii), no authorization, approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is required for either (i) the pledge by Pledgor of the Pledged Collateral pursuant to this Agreement and the grant by Pledgor of the security interest granted hereby, (ii) the execution, delivery or performance of this Agreement by Pledgor, or (iii) the exercise by Collateral Agent of the voting or other rights, or the remedies in respect of the Pledged Collateral, provided for in this Agreement (except as may be required in connection with a disposition of Pledged Collateral by laws affecting the offering and sale of securities generally).

(e) Perfection. The pledge of the Pledged Collateral pursuant to this Agreement creates a valid and perfected and, except as otherwise permitted under the Revolving Credit Agreement or the Term Loan Agreement, as the case may be, first priority security interest in the Pledged Collateral, securing the payment of the Secured Obligations.

(f) Margin Regulations. The pledge of the Pledged Collateral pursuant to this Agreement does not violate Regulation G, T, U or X of the Board of Governors of the Federal Reserve System.

(g) Other Information. All information heretofore, herein or hereafter supplied to Collateral Agent by or on behalf of Pledgor with respect to the Pledged Collateral is accurate and complete in all material respects.

SECTION 6. Transfers and Other Liens; Additional Pledged Collateral; etc. Pledgor shall:

(a) not, except as expressly permitted by Section 8.7 of the Revolving Credit Agreement and Section 8.7 of the Term Loan Agreement, (i) sell, assign (by operation of law or otherwise) or otherwise dispose of, or grant any option with respect to, any of the Pledged Collateral, (ii) create or suffer to exist any Lien upon or with respect to any of the Pledged Collateral, except for the security interest under this Agreement, or (iii) permit any issuer of Pledged Shares to merge or consolidate unless all the outstanding capital stock of the surviving or resulting corporation is, upon such merger or consolidation, pledged hereunder and no cash, securities or other property is distributed in respect of the outstanding shares of any other constituent corporation; provided that in the event Pledgor makes a sale or disposition permitted by the Revolving Credit Agreement and the Term Loan Agreement and the assets subject to such sale or disposition are Pledged Shares, Collateral Agent shall release the Pledged Shares that are the subject of such sale or disposition to Pledgor free and clear of the lien and security interest under this Agreement concurrently with the consummation of such sale or disposition; provided, further that, as a condition precedent to such release, Collateral Agent shall have received evidence satisfactory to it that arrangements satisfactory to it have been made for delivery to the Revolving Agent and the Term Agent of the proceeds of such sale or disposition to the extent required by the Revolving Credit Agreement and the Term Loan Agreement;

(b)(i) cause each issuer of Pledged Shares not to issue any Stock or other securities in addition to or in substitution for the Pledged Shares issued by such issuer, except to Pledgor, and (ii) pledge hereunder, immediately upon its acquisition (directly or indirectly) thereof, any and all additional shares of Stock or other securities of each issuer of Pledged Shares, (iii) pledge hereunder, immediately upon its acquisition (directly or indirectly) thereof, any and all shares of Stock of any Person that, after the date of this Agreement, becomes, as a result of any occurrence, a First-Tier wholly-owned Domestic Subsidiary of Pledgor, and (iv) pledge hereunder, immediately upon its acquisition (directly or indirectly) thereof, the

Maximum Percentage of shares of Stock or any Person that, after the date of this Agreement, becomes, as a result of any occurrence, a First-Tier Foreign Subsidiary of Pledgor;

(c) promptly notify Collateral Agent of any event of which Pledgor becomes aware causing loss of the Pledged Collateral;

(d) promptly deliver to Collateral Agent all written notices received by it with respect to the Pledged Collateral; and

(e) pay promptly when due all taxes, assessments and governmental charges or levies imposed upon, and all claims against, the Pledged Collateral, except to the extent the validity thereof is being contested in good faith; provided that Pledgor shall in any event pay such taxes, assessments, charges, levies or claims not later than five days prior to the date of any proposed sale under any judgment, writ or warrant of attachment entered or filed against Pledgor or any of the Pledged Collateral as a result of the failure to make such payment.

SECTION 7. Further Assurances; Pledge Amendments.

(a) Pledgor agrees that from time to time, at the expense of Pledgor, Pledgor will promptly execute and deliver all further instruments and documents, and take all further action, that may be necessary or desirable, or that Collateral Agent may request, in order to perfect and protect any security interest granted or purported to be granted hereby or to enable Collateral Agent to exercise and enforce its rights and remedies hereunder with respect to any Pledged Collateral. Without limiting the generality of the foregoing, Pledgor will: (i) execute and file such financing or continuation statements, or amendments thereto, and such other instruments or notices, as may be necessary or desirable, or as Collateral Agent may request, in order to perfect and preserve the security interests granted or purported to be granted hereby and (ii) at Collateral Agent's request, appear in and defend any action or proceeding that may affect Pledgor's title to or Collateral Agent's security interest in all or any part of the Pledged Collateral.

(b) Pledgor further agrees that it will, upon obtaining any additional shares of Stock or other securities required to be pledged hereunder as provided in Section 6(b), promptly (and in any event within thirty Business Days) deliver to Collateral Agent a Pledge Amendment, duly executed by Pledgor, in substantially the form of Schedule II annexed hereto (a "Pledge Amendment"), in respect of the additional Pledged Shares to be pledged pursuant to this Agreement. Pledgor hereby authorizes Collateral Agent to attach each Pledge Amendment to this Agreement and agrees that all Pledged Shares listed on any Pledge Amendment delivered to Collateral Agent shall for all purposes hereunder be considered Pledged Collateral; provided that the failure of Pledgor to execute a Pledge Amendment with respect to any additional Pledged Shares pledged pursuant to this Agreement shall not impair the security interest of Collateral Agent therein or otherwise adversely affect the rights and remedies of Collateral Agent hereunder with respect thereto.

SECTION 8. Voting Rights; Dividends; Etc.

(a) So long as no Event of Default shall have occurred and be continuing:

(i) Pledgor shall be entitled to exercise any and all voting and other consensual rights pertaining to the Pledged Collateral or any part thereof for any purpose not inconsistent with the terms of this Agreement, the Revolving Credit Agreement or the Term Loan Agreement; provided, however, that Pledgor shall not exercise or refrain from exercising any such right if Collateral Agent shall have notified Pledgor that, in Collateral Agent's judgment, such action would have a material adverse effect on the value of the Pledged Collateral or any part thereof; and provided, further, that Pledgor shall give Collateral Agent at least five Business Days' prior written notice of the manner in which it intends to exercise, or the reasons for refraining from exercising, any such right. It is understood, however, that neither (A) the voting by Pledgor of any Pledged Shares for or Pledgor's consent to the election of directors at a regularly scheduled annual or other meeting of stockholders or with respect to incidental matters at any such meeting nor (B) Pledgor's consent to or approval of any action otherwise permitted under this Agreement, the Revolving Credit Agreement and the Term Loan Agreement shall be deemed inconsistent with the terms of this Agreement, the Revolving Credit Agreement or the Term Loan Agreement within the meaning of this Section 8(a)(i), and no notice of any such voting or consent need be given to Collateral Agent;

(ii) Pledgor shall be entitled to receive and retain, and to utilize free and clear of the lien of this Agreement, any and all dividends and interest paid in respect of the Pledged Collateral; provided, however, that any and all

(A) dividends and interest paid or payable other than in cash in respect of, and instruments and other property received, receivable or otherwise distributed in respect of, or in exchange for, any Pledged Collateral,

(B) dividends and other distributions paid or payable in cash in respect of any Pledged Collateral in connection with a partial or total liquidation or dissolution or in connection with a reduction of capital, capital surplus or paid-in-surplus, and

(C) cash paid, payable or otherwise distributed in respect of principal or in redemption of or in exchange for any Pledged Collateral,

shall be, and shall forthwith be delivered to Collateral Agent to hold as, Pledged Collateral and shall, if received by Pledgor, be received in trust for the benefit of Collateral Agent, be segregated from the other property or funds of Pledgor and be forthwith delivered to Collateral Agent as Pledged Collateral in the same form as so received (with all necessary indorsements); and

(iii) Collateral Agent shall promptly execute and deliver (or cause to be executed and delivered) to Pledgor all such proxies, dividend payment orders and other instruments as Pledgor may from time to time reasonably request for the purpose of enabling Pledgor to exercise the voting and other consensual rights which it is entitled to exercise pursuant to paragraph (i) above and to receive the dividends, principal or interest payments which it is authorized to receive and retain pursuant to paragraph (ii) above.

(b) Upon the occurrence and during the continuation of an Event of Default:

(i) upon written notice from Collateral Agent to Pledgor, all rights of Pledgor to exercise the voting and other consensual rights which it would otherwise be entitled to exercise pursuant to Section 8(a)(i) shall cease, and all such rights shall thereupon become vested in Collateral Agent which shall thereupon have the sole right to exercise such voting and other consensual rights;

(ii) all rights of Pledgor to receive the dividends and interest payments which it would otherwise be authorized to receive and retain pursuant to Section 8(a)(ii) shall cease, and all such rights shall thereupon become vested in Collateral Agent which shall thereupon have the sole right to receive and hold as Pledged Collateral such dividends and interest payments; and

(iii) all dividends, principal and interest payments which are received by Pledgor contrary to the provisions of paragraph (ii) of this Section 8(b) shall be received in trust for the benefit of Collateral Agent, shall be segregated from other funds of Pledgor and shall forthwith be paid over to Collateral Agent as Pledged Collateral in the same form as so received (with any necessary indorsements).

(c) In order to permit Collateral Agent to exercise the voting and other consensual rights which it may be entitled to exercise pursuant to Section 8(b)(i) and to receive all dividends and other distributions which it may be entitled to receive under Section 8(a)(ii) or Section 8(b)(ii), (i) Pledgor shall promptly execute and deliver (or cause to be executed and delivered) to Collateral Agent all such proxies, dividend payment orders and other instruments as Collateral Agent may from time to time reasonably request and (ii) without limiting the effect of the immediately preceding clause (i), Pledgor hereby grants to Collateral Agent an irrevocable proxy to vote the Pledged Shares and to exercise all other rights, powers, privileges and remedies to which a holder of the Pledged Shares would be entitled (including, without limitation, giving or withholding written consents of shareholders, calling special meetings of shareholders and voting at such meetings), which proxy shall be effective, automatically and without the necessity of any action (including any transfer of any Pledged Shares on the record books of the issuer thereof) by any other Person (including the issuer of the Pledged Shares or any officer or agent thereof), upon the occurrence of an Event of Default and which proxy shall only terminate upon the payment in full of the Secured Obligations.

SECTION 9. Collateral Agent Appointed Attorney-in-Fact. Pledgor hereby irrevocably appoints Collateral Agent as Pledgor's attorney-in-fact, with full authority in the place and stead of Pledgor and in the name of Pledgor, Collateral Agent or otherwise, from time to time in Collateral Agent's discretion to take any action and to execute any instrument that Collateral Agent may deem necessary or advisable to accomplish the purposes of this Agreement, including without limitation:

(a) to file one or more financing or continuation statements, or amendments thereto, relative to all or any part of the Pledged Collateral without the signature of Pledgor;

(b) after and during the continuance of an Event of Default, to ask, demand, collect, sue for, recover, compound, receive and give acquittance and receipts for moneys due and to become due under or in respect of any of the Pledged Collateral;

(c) after and during the continuance of an Event of Default, to receive, endorse and collect any instruments made payable to Pledgor representing any dividend, principal or interest payment or other distribution in respect of the Pledged Collateral or any part thereof and to give full discharge for the same; and

(d) after and during the continuance of an Event of Default, to file any claims or take any action or institute any proceedings that Collateral Agent may deem necessary or desirable for the collection of any of the Pledged Collateral or otherwise to enforce the rights of Collateral Agent with respect to any of the Pledged Collateral.

SECTION 10. Collateral Agent May Perform. If Pledgor fails to perform any agreement contained herein after the period in which such performance is required, Collateral Agent may itself perform, or cause performance of, such agreement, and the expenses of Collateral Agent incurred in connection therewith shall be payable by Pledgor under Section 15(b).

SECTION 11. Standard of Care. The powers conferred on Collateral Agent hereunder are solely to protect its interest in the Pledged Collateral and shall not impose any duty upon it to exercise any such powers. Except for the exercise of reasonable care in the custody of any Pledged Collateral in its possession and the accounting for moneys actually received by it hereunder, Collateral Agent shall have no duty as to any Pledged Collateral, it being understood that Collateral Agent shall have no responsibility for (a) ascertaining or taking action with respect to calls, conversions, exchanges, maturities, tenders or other matters relating to any Pledged Collateral, whether or not Collateral Agent has or is deemed to have knowledge of such matters, (b) taking any necessary steps (other than steps taken in accordance with the standard of care set forth above to maintain possession of the Pledged Collateral) to preserve rights against any parties with respect to any Pledged Collateral, (c) taking any necessary steps to collect or realize upon the Secured Obligations or any guarantee therefor, or any part thereof, or any of the Pledged Collateral, or (d) initiating any action to protect the Pledged Collateral against the possibility of a decline in market value. Collateral Agent shall be deemed to have exercised reasonable care in the custody and preservation of Pledged Collateral in its possession if such Pledged Collateral is accorded treatment substantially equal to that which Collateral Agent accords its own property consisting of negotiable securities.

SECTION 12. Remedies.

(a) If any Event of Default shall have occurred and be continuing, Collateral Agent may exercise in respect of the Pledged Collateral, in addition to all other rights and remedies provided for herein or otherwise available to it, all the rights and remedies of a secured party on default under the Uniform Commercial Code as in effect in any relevant jurisdiction (the "UCC") (whether or not the UCC applies to the affected Pledged Collateral), and Collateral Agent may also in its sole discretion, without notice except as specified below, sell the Pledged Collateral or any part thereof in one or more parcels at public or private sale, at any exchange or broker's board or at any of Collateral Agent's offices or elsewhere, for cash, on credit or for future delivery, at such time or times and at such price or prices and upon such other terms as Collateral Agent may deem commercially reasonable, irrespective of the impact of any such sales on the market price of the Pledged

Collateral. Collateral Agent may be the purchaser of any or all of the Pledged Collateral at any such public sale and, to the extent permitted by law, private sale, and Collateral Agent, as agent for and representative of Secured Parties (but not any Secured Party or Secured Parties in its or their respective individual capacities unless Requisite Obligees shall otherwise agree in writing), shall be entitled, for the purpose of bidding and making settlement or payment of the purchase price for all or any portion of the Pledged Collateral sold at any such public sale, to use and apply any of the Secured Obligations as a credit on account of the purchase price for any Pledged Collateral payable by Collateral Agent at such sale. Each purchaser at any such sale shall hold the property sold absolutely free from any claim or right on the part of Pledgor, and Pledgor hereby waives (to the extent permitted by applicable law) all rights of redemption, stay and/or appraisal which it now has or may at any time in the future have under any rule of law or statute now existing or hereafter enacted. Pledgor agrees that, to the extent notice of sale shall be required by law, at least ten days' notice to Pledgor of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification. Collateral Agent shall not be obligated to make any sale of Pledged Collateral regardless of notice of sale having been given. Collateral Agent may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned. Pledgor hereby waives any claims against Collateral Agent arising by reason of the fact that the price at which any Pledged Collateral may have been sold at such a private sale was less than the price which might have been obtained at a public sale, even if Collateral Agent accepts the first offer received and does not offer such Pledged Collateral to more than one offeree. If the proceeds of any sale or other disposition of the Pledged Collateral are insufficient to pay all the Secured Obligations, Pledgor shall be liable for the deficiency and the fees of any attorneys employed by Collateral Agent to collect such deficiency.

(b) Pledgor recognizes that, by reason of certain prohibitions contained in the Securities Act of 1933, as from time to time amended (the "Securities Act"), and applicable state securities laws, Collateral Agent may be compelled, with respect to any sale of all or any part of the Pledged Collateral conducted without prior registration or qualification of such Pledged Collateral under the Securities Act and/or such state securities laws, to limit purchasers to those who will agree, among other things, to acquire the Pledged Collateral for their own account, for investment and not with a view to the distribution or resale thereof. Pledgor acknowledges that any such private sales may be at prices and on terms less favorable than those obtainable through a public sale without such restrictions (including, without limitation, a public offering made pursuant to a registration statement under the Securities Act) and, notwithstanding such circumstances and the registration rights granted to Collateral Agent by Pledgor pursuant to Section 13, Pledgor agrees that the effect of the foregoing in respect of any such private sale shall not be deemed per se to cause such private sale to have not been made in a commercially reasonable manner and that Collateral Agent shall have no obligation to engage in public sales and no obligation to delay the sale of any Pledged Collateral for the period of time necessary to permit the issuer thereof to register it for a form of public sale requiring registration under the Securities Act or under applicable state securities laws, even if such issuer would, or should, agree to so register it.

(c) If Collateral Agent determines to exercise its right to sell any or all of the Pledged Collateral, upon written request, Pledgor shall and shall cause each issuer of any Pledged Shares to be sold hereunder from time to time to furnish to Collateral Agent all such information as Collateral Agent may request in order to determine the number of shares and other instruments included in the Pledged Collateral which may be sold by Collateral Agent in exempt transactions under the Securities Act and the rules and regulations of the SEC thereunder, as the same are from time to time in effect.

SECTION 13. Registration Rights. If Collateral Agent shall determine to exercise its right to sell all or any of the Pledged Collateral pursuant to Section 12, Pledgor agrees that, upon request of Collateral Agent (which request may be made by Collateral Agent in its sole discretion), Pledgor will, at its own expense:

(a) execute and deliver, and use its best efforts to cause each issuer of the Pledged Collateral contemplated to be sold and the directors and officers thereof to execute and deliver, all such instruments and documents, and do or cause to be done all such other acts and things, as may be necessary or, in the opinion of Collateral Agent, advisable to file a registration statement covering such Pledged Collateral under the provisions of the Securities Act and to use its best efforts to cause the registration statement relating thereto to become effective and to remain effective for such period as prospectuses are required by law to be furnished, and to make all amendments and supplements thereto and to the related prospectus which, in the opinion of Collateral Agent, are necessary or advisable, all in conformity with the requirements of the Securities Act and the rules and regulations of the SEC applicable thereto;

(b) use its best efforts to qualify the Pledged Collateral under all applicable state securities or "Blue Sky" laws and to obtain all necessary governmental approvals for the sale of the Pledged Collateral, as requested by Collateral Agent;

(c) cause each such issuer to make available to its security holders, as soon as practicable, an earnings statement which will satisfy the provisions of Section 11(a) of the Securities Act;

(d) use its best efforts to do or cause to be done all such other acts and things as may be necessary to make such sale of the Pledged Collateral or any part thereof valid and binding and in compliance with applicable law; and

(e) bear all costs and expenses, including reasonable attorneys' fees, of carrying out its obligations under this Section 13.

Pledgor further agrees that a breach of any of the covenants contained in this Section 13 will cause irreparable injury to Collateral Agent, that Collateral Agent has no adequate remedy at law in respect of such breach and, as a consequence, that each and every covenant contained in this Section 13 shall be specifically enforceable against Pledgor, and Pledgor hereby waives and agrees not to assert any defenses against an action for specific performance of such covenants except for a defense that no default has occurred giving rise to the Secured Obligations becoming due and payable prior to their stated maturities. Nothing in this Section 13 shall in any way alter the rights of Collateral Agent under Section 12.

SECTION 14. Application of Proceeds. Except as expressly provided elsewhere in this Agreement, all proceeds received by Collateral Agent in respect of any sale of, collection from, or other realization upon all or any part of the Pledged Collateral may, in the discretion of Collateral Agent, be held by Collateral Agent as Pledged Collateral for, and/or then, or at any time thereafter, applied in full or in part by Collateral Agent against, the Secured Obligations in the following order of priority:

First: To the payment of all costs and expenses of such sale, collection or other realization, including reasonable compensation to Collateral Agent and its agents and counsel, and all other expenses, liabilities and advances made or incurred by Collateral Agent in connection therewith, and all amounts for which Collateral Agent is entitled to indemnification hereunder and all advances made by Collateral Agent hereunder for the account of Pledgor, and to the payment of all costs and expenses paid or incurred by Collateral Agent in connection with the exercise of any right or remedy hereunder, all in accordance with Section 15;

Second: To the payment of all other Secured Obligations in the order described in Section 3 of the Intercreditor Agreement; and

Third: To the payment to or upon the order of Pledgor, or to whosoever may be lawfully entitled to receive the same or as a court of competent jurisdiction may direct, of any surplus then remaining from such proceeds.

SECTION 15. Indemnity and Expenses.

(a) Pledgor agrees to indemnify Collateral Agent and each other Secured Party from and against any and all claims, losses and liabilities in any way relating to, growing out of or resulting from this Agreement and the transactions contemplated hereby (including, without limitation, enforcement of this Agreement), except to the extent such claims, losses or liabilities result solely from Collateral Agent's or such other Secured Party's gross negligence or willful misconduct as finally determined by a court of competent jurisdiction.

(b) Pledgor shall pay to Collateral Agent upon demand the amount of any and all costs and expenses, including the reasonable fees and expenses of its counsel and of any experts and agents, that Collateral Agent may incur in connection with (i) the administration of this Agreement, (ii) the custody or preservation of, or the sale of, collection from, or other realization upon, any of the Pledged Collateral, (iii) the exercise or enforcement of any of the rights of Collateral Agent hereunder, or (iv) the failure by Pledgor to perform or observe any of the provisions hereof.

(c) In the event of any public sale described in Section 13, Pledgor agrees to indemnify and hold harmless Collateral Agent and each of Collateral Agent's directors, officers, employees and agents from and against any loss, fee, cost, expense, damage, liability or claim, joint or several, to which Collateral Agent or such other persons may become subject or for which any of them may be liable, under the Securities Act or otherwise, insofar as such losses, fees, costs, expenses, damages, liabilities or claims (or any litigation commenced or threatened in respect thereof) arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in any preliminary prospectus, registration statement, prospectus or other such document published or filed in connection with such public sale, or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse Collateral Agent and such other persons for any legal or other expenses reasonably incurred by Collateral Agent and such other persons in connection with any litigation, of any nature whatsoever, commenced or threatened in respect thereof (including without limitation any and all fees, costs and expenses whatsoever reasonably incurred by Collateral Agent and such other persons and counsel for Collateral Agent and such other persons in investigating, preparing for, defending against or providing evidence, producing documents or taking any other action in respect of, any such commenced or threatened litigation or any claims asserted). This indemnity shall be in addition to any liability which Pledgor may otherwise have and shall extend upon the same terms and conditions to each person, if any, that controls Collateral Agent or such persons within the meaning of the Securities Act.

SECTION 16. Suretyship Waivers; Other Limitations.

(a) Pledgor agrees that its obligations hereunder are irrevocable, absolute, independent and unconditional and shall not be affected by any circumstance which constitutes a legal or equitable discharge of a guarantor or surety other than payment in full of the Underlying Debt. In furtherance of the foregoing and without limiting the generality thereof, Pledgor agrees as follows: (i) Collateral Agent or any other Secured Party may from time to time, without notice or demand and without affecting the validity or enforceability of this Agreement or giving rise to any limitation, impairment or discharge of Pledgor's liability hereunder, (A) renew, extend, accelerate or otherwise change the time, place, manner or terms of payment of the Underlying Debt, (B) settle, compromise, release or discharge, or accept or refuse any offer of performance with respect to, or substitutions for, the Underlying Debt or any agreement relating thereto and/or subordinate the payment of the same to the payment of any other obligations, (C) request and accept guaranties of the Underlying Debt and take and hold other security for the payment of the Underlying Debt, (D) release, exchange, compromise, subordinate or modify, with or without consideration, any other security for payment of the Underlying Debt, any guaranties of the Underlying Debt, or any other obligation of any Person with respect to the Underlying Debt, (E) enforce and apply any other security now or hereafter held by or for the benefit of Collateral Agent or any other Secured Party in respect of the Underlying Debt and direct the order or manner of sale thereof, or exercise any other right or remedy that Collateral Agent or other Secured Parties, or any of them, may have against any such security, as Collateral Agent in its discretion may determine consistent with the Revolving Credit Agreement and any applicable security agreement, including foreclosure on any such security pursuant to one or more judicial or nonjudicial sales, whether or not every aspect of any such sale is commercially reasonable, and (F) exercise any other rights available to Collateral Agent or other Secured Parties, or any of them, under the Financing Documents, at law or in equity; and (ii) this Agreement and the obligations of Pledgor hereunder shall be valid and enforceable and shall not be subject to any limitation, impairment or discharge for any reason (other than payment in full of the Underlying Debt), including without limitation the occurrence of any of the following, whether or not Pledgor shall have had notice or knowledge of any of them: (A) any failure to assert or enforce or agreement not to assert or enforce, or the stay or enjoining, by order of court, by operation of law or otherwise, of the exercise or enforcement of, any claim or demand or any right, power or remedy with respect to the Underlying Debt or any agreement relating thereto, or with respect to any guaranty of or other security for the payment of the Underlying Debt, (B) any rescission, waiver, amendment or modification of, or any consent to departure from, any of the terms or provisions (including without limitation provisions relating to events of default) of any of the Financing Documents or any agreement or instrument executed pursuant thereto, or of any guaranty or other security for the Underlying Debt, in each case whether or not in accordance with the terms of any Financing Document or any agreement relating to such guaranty or other security, (C) the Underlying Debt, or any agreement relating thereto, at any time being found to be illegal, invalid or unenforceable in any respect, (D) the application of payments received from any source (other than payments received pursuant to the other Financing Documents or from the proceeds of any security for the Secured Obligations, except to the extent such security also serves as collateral for indebtedness other than the Secured Obligations) to the payment of indebtedness other than the Underlying Debt, even though Collateral Agent or other Secured Parties, or any of them, might have elected to apply such payment to any part or all of the Underlying Debt, (E) any Secured Party's consent to the change, reorganization or termination of the corporate or other structure or existence of Borrower or any of its Subsidiaries and to any corresponding restructuring of the Secured Obligations; (F) any failure to perfect or continue perfection of a security interest in any other collateral which secures any of the Underlying Debt, (G) any defenses, set-offs or counterclaims which Borrower may allege or assert against Collateral Agent or any other Secured Party in respect of the Underlying Debt, including but not limited to failure of consideration, breach of warranty, payment, statute of frauds, statute of limitations, accord and satisfaction and usury, and (H) any other act or thing or omission, or delay to do any other act or thing, which may or might in any manner or to any extent vary the risk of Pledgor as an obligor in respect of the Underlying Debt.

(b) Pledgor hereby waives, for the benefit of other Secured Parties and Collateral Agent: (i) any right to require Collateral Agent or other Secured Parties, as a condition of payment or performance by Pledgor, to (A) proceed against Borrower, any guarantor of the Underlying Debt or any other Person, (B) proceed against or exhaust any other security held from Borrower, any guarantor of the Underlying Debt or any other Person, (C) proceed against or have resort to any balance of any deposit account or credit on the books of Collateral Agent or any other Secured Party in favor of Borrower or any other Person, or (D) pursue any other remedy in the power of Collateral Agent or any other Secured Party whatsoever; (ii) any defense arising by reason of the incapacity, lack of authority or any disability or other defense of Borrower including, without limitation, any defense based on or arising out of the lack of validity or the unenforceability of the Underlying Debt or any agreement or instrument relating thereto or by reason of the cessation of the liability of Borrower from any cause other than payment in full of the Underlying Debt; (iii) any defense based upon any statute or rule of law which provides that the obligation of a surety must be neither larger in amount nor in other respects more burdensome than that of the principal; (iv) any defense based upon Collateral Agent's or any other Secured Party's errors or omissions in the administration of the Underlying Debt, except behavior which amounts to bad faith; (v) (A) any principles or provisions of law, statutory or otherwise, which are or might be in conflict with the terms of this Agreement and any legal or equitable discharge of Pledgor's obligations hereunder, (B) the benefit of any statute of limitations affecting Pledgor's liability hereunder or the enforcement hereof, (C) any rights to set-offs, recoupments and counterclaims, and (D) promptness, diligence and any requirement that Collateral Agent or any other Secured Party protect, secure, perfect or insure any other security interest or lien or any property subject thereto; (vi) notices, demands, presentments, protests, notices of protest, notices of dishonor and notices of any action or inaction, notices of default under the Revolving Credit Agreement, the Term Loan Agreement or any agreement or instrument related thereto, notices of any renewal, extension or modification of the Underlying Debt or any agreement related thereto, notices of any extension of credit to Borrower and notices of any of the matters referred to in the preceding paragraph and any right to consent to any thereof; and (vii) to the fullest extent permitted by law, any defenses or benefits that may be derived from or afforded by law which limit the liability of or exonerate guarantors or sureties, or which may conflict with the terms of this Agreement.

(c) Until the Underlying Debt shall have been paid in full and the commitments to extend credit under the Financing Documents shall have terminated and all Letters of Credit shall have expired or been cancelled, Pledgor shall withhold exercise of (i) any claim, right or remedy, direct or indirect, that Pledgor now has or may hereafter have against Borrower or any of its assets in connection with this Agreement or the performance by Pledgor of its obligations hereunder, in each case whether such claim, right or remedy arises in equity, under contract, by statute (including without limitation under California Civil Code Section 2847, 2848 or 2849), under common law or otherwise and including without limitation (A) any right of subrogation, reimbursement or indemnification that Pledgor now has or may hereafter have against Borrower, (B) any right to enforce, or to participate in, any claim, right or remedy that Collateral Agent or any Secured Party now has or may hereafter have against Borrower, and (C) any benefit of, and any right to participate in, any other collateral or security now or hereafter held by Collateral Agent or any other Secured Party, and (ii) any right of contribution Pledgor may have against any guarantor of any of the Underlying Debt. Pledgor further agrees that, to the extent the waiver of its rights of subrogation, reimbursement, indemnification and contribution as set forth herein is found by a court of competent jurisdiction to be void or voidable for any reason, any rights of subrogation, reimbursement or indemnification Pledgor may have against Borrower or against any other collateral or security, and any rights of contribution Pledgor may have against any such guarantor, shall be junior and subordinate to any rights Collateral Agent or other Secured Parties may have against Borrower, to all right, title and interest Collateral Agent or other Secured Parties may have in any such other collateral or security, and to any right Collateral Agent or other Secured Parties may have against any such guarantor.

(d) Other Secured Parties and Collateral Agent shall have no obligation to disclose or discuss with Pledgor their assessment, or Pledgor's assessment, of the financial condition of Borrower. Pledgor has adequate means to obtain information from Borrower on a continuing basis concerning the financial condition of Borrower and its ability to perform its obligations under the Financing Documents, and Pledgor assumes the responsibility for being and keeping informed of the financial condition of Borrower and of all circumstances bearing upon the risk of nonpayment of the Underlying Debt. Pledgor hereby waives and relinquishes any duty on the part of Collateral Agent or any other Secured Party to disclose any matter, fact or thing relating to the business, operations or condition of Borrower now known or hereafter known by Collateral Agent or any other Secured Party.

(e) As used in this subsection 16(f), any reference to "the principal" includes Borrower, and any reference to "the creditor" includes each Secured Party. In accordance with Section 2856 of the California Civil Code:

(i) each Pledgor agrees (i) to waive any and all rights of subrogation and reimbursement against Borrower or against any collateral or security granted by Borrower for any of the Secured Obligations and (ii) to withhold the exercise of any and all rights of subrogation, reimbursement and contribution against Borrower, against any other provider of collateral support for the Secured Obligations and against any collateral or security granted by any such other provider of collateral support for the Secured Obligations until the Secured Obligations shall have been paid in full and the Revolving Credit Commitments, the Swing Line Commitment and the Term Loan Commitments shall have terminated and all Letters of Credit shall have expired or been cancelled;

(ii) each Pledgor waives any and all other rights and defenses available to such Pledgor by reason of Sections 2787 to 2855, inclusive, 2899 and 3433 of the California Civil Code, including without limitation any and all rights or defenses such Pledgor may have by reason of protection afforded to the principal with respect to any of the Secured Obligations, or to any other provider of collateral support for the Secured Obligations or guarantor of any of the Secured Obligations (including any other Pledgor) with respect to any of such Person's credit support obligations, in either case pursuant to the antideficiency or other laws of the State of California limiting or discharging the principal's indebtedness or such Person's credit support obligations, including without limitation Section 580a, 580b, 580d, or 726 of the California Code of Civil Procedure; and

(iii) each Pledgor waives all rights and defenses arising out of an election of remedies by the creditor, even though that election of remedies, such as a nonjudicial foreclosure with respect to security for any Secured Obligation, has destroyed such Pledgor's rights of subrogation and reimbursement against the principal by the operation of Section 580d of the California Code of Civil Procedure or otherwise; and even though that election of remedies by the creditor, such as nonjudicial foreclosure with respect to security for an obligation of any other provider of collateral support for the Secured Obligations or guarantor of any of the Secured Obligations (including any other Pledgor), has destroyed such Pledgor's rights of contribution against such other Person.

No other provision of this Agreement shall be construed as limiting the generality of any of the covenants and waivers set forth in this subsection 16(f). In accordance with subsection 25 below, this Agreement shall be governed by, and shall be construed and enforced in accordance with, the internal laws of the State of New York, without regard to conflicts of laws principles. This subsection 16(f) is included solely out of an abundance of caution, and shall not be construed to mean that any of the above-referenced provisions of California law are in any way applicable to this Agreement or to any of the Secured Obligations.

(f) Anything contained in this Agreement to the contrary notwithstanding, if any Fraudulent Transfer Law (as hereinafter defined) is determined by a court of competent jurisdiction to be applicable to the obligations of any Pledgor under this Agreement, such obligations of such Pledgor hereunder shall be limited to a maximum aggregate amount equal to the largest amount that would not render its obligations hereunder subject to avoidance as a fraudulent transfer or conveyance under Section 548 of Title 11 of the United States Code or any applicable provisions of comparable state law (collectively, the "Fraudulent Transfer Laws"), in each case after giving effect to all other liabilities of such Pledgor, contingent or otherwise, that are relevant under the Fraudulent Transfer Laws (specifically excluding, however, any liabilities of such Pledgor (x) in respect of intercompany indebtedness to Borrower or other affiliates of Borrower to the extent that such indebtedness would be discharged in an amount equal to the value contributed by such Pledgor hereunder and (y) under any credit support of Subordinated Indebtedness which credit support contains a limitation as to maximum amount similar to that set forth in this subsection, pursuant to which the liability of such Pledgor hereunder is included in the liabilities taken into account in determining such maximum amount) and after giving effect as assets to the value (as determined under the applicable provisions of the Fraudulent Transfer Laws) of any rights to subrogation, reimbursement, indemnification or contribution of such Pledgor pursuant to applicable law or pursuant to the terms of any agreement.

SECTION 17. Continuing Security Interest; Transfer of Loans. This Agreement shall create a continuing security interest in the Pledged Collateral and shall (a) remain in full force and effect until either (i) the payment in full of all Secured Obligations, the cancellation or termination of the Revolving Credit Commitments, the Swing Line Commitment, the Term Loan Commitments and the cancellation or expiration of all outstanding Letters of Credit or (ii) the termination of this Agreement pursuant to Section 18, (b) be binding upon Pledgor, its successors and assigns, and (c) inure, together with the rights and remedies of Collateral Agent hereunder, to the benefit of Collateral Agent and its successors, transferees and assigns. Without limiting the generality of the foregoing clause (c), but subject to the provisions of Section 11.7 of the Revolving Credit Agreement and Section 11.7 of the Term Loan Agreement, any Secured Party may assign or otherwise transfer any Secured Obligations held by it to any other Person, and such other Person shall thereupon become vested with all the benefits in respect thereof granted to Secured Parties herein or otherwise. Upon either (i) the payment in full of all Secured Obligations, the cancellation or termination of the Revolving Credit Commitments, the Swing Line Commitment, the Term Loan Commitments and the cancellation or expiration of all outstanding Letters of Credit or (ii) the termination of this Agreement pursuant to Section 18, the security interest granted hereby shall terminate and all rights to the Pledged Collateral shall revert to Pledgor. Upon any such termination Collateral Agent will, at Pledgor's expense, execute and deliver to Pledgor such documents as Pledgor shall reasonably request to evidence such termination and Pledgor shall be entitled to the return, upon its request and at its expense, against receipt and without recourse to Collateral Agent, of such of the Pledged Collateral as shall not have been sold or otherwise applied pursuant to the terms hereof.

SECTION 18. Termination of Security Interest.

At any time after January 1, 1999, Pledgor may request the release of the Pledged Collateral and the termination of the Collateral Agent's security interest therein by delivering an officers' certificate from the Pledgor certifying that (i) the Leverage Ratio (as such term is defined in the Revolving Credit Agreement) is less than 3.50:1.00 as calculated at the end of each fiscal quarter for the immediately preceding four consecutive fiscal quarters, (ii) no Default or Event of Default exists or would exist immediately before or after giving effect to such release, and (iii) all representations and warranties made by the Credit Parties in the Revolving Loan Documents and the Term Loan Documents are true and correct on the date of such certificate immediately before or after giving effect thereto as though made on that date, except to the extent such representations and warranties specifically related to an earlier date, in which case they were true and correct on such earlier date. Upon receipt by the Collateral Agent of evidence satisfactory to it that the foregoing certifications are true, the Collateral Agent will, at Pledgor's expense, execute and deliver to Pledgor such documents as Pledgor shall reasonably request to evidence the termination of the security interest granted hereby and Pledgor shall be entitled to the return, upon its request and at its expense, against receipt and without recourse to Collateral Agent, of such of the Pledged Collateral as shall not have been sold or otherwise applied pursuant to the terms hereof. Upon such receipt by Pledgor of such remaining Pledged Collateral, the security interest granted hereby shall terminate and all rights to the Pledged Collateral shall revert to Pledgor.

SECTION 19. Collateral Agent.

(a) Collateral Agent has been appointed to act as Collateral Agent hereunder pursuant to the Intercreditor Agreement by the Revolving Agent on behalf of the Revolving Lenders, the Term Agent on behalf of the Term Lenders, each Acknowledging Interest Rate Exchanger and each Acknowledging Currency Exchanger, and shall be entitled to the benefits of the Intercreditor Agreement. Collateral Agent shall be obligated, and shall have the right hereunder, to make demands, to give notices, to exercise or refrain from exercising any rights, and to take or refrain from taking any action (including, without limitation, the release or substitution of Pledged Collateral), solely in accordance with this Agreement, the Intercreditor Agreement and the Financing Documents.

(b) The Collateral Agent may resign or be removed and a successor Collateral Agent may be appointed in the manner provided in the Intercreditor Agreement. Resignation by the Collateral Agent pursuant to subsection 6(g) of the Intercreditor Agreement shall also constitute notice of resignation as Collateral Agent under this Agreement; removal of the Collateral Agent pursuant to subsection 6(g) of the Intercreditor Agreement shall also constitute removal as Collateral Agent under this Agreement; and appointment of a successor Collateral Agent pursuant to subsection 6(g) of the Intercreditor Agreement shall also constitute appointment of a successor Collateral Agent under this Agreement. Upon the acceptance of any appointment as Collateral Agent under subsection 6(g) of the Intercreditor Agreement by a successor Collateral Agent, that successor Collateral Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring or removed Collateral Agent under this Agreement, and the retiring or removed Collateral Agent under this Agreement shall promptly (i) transfer to such successor Collateral Agent all sums, securities and other items of Collateral held hereunder, together with all records and other documents necessary or appropriate in connection with the performance of the duties of the successor Collateral Agent under this Agreement, and (ii) execute and deliver to such successor Collateral Agent such amendments to financing statements, and take such other actions, as may be necessary or appropriate in connection with the assignment to such successor Collateral Agent of the security interests created hereunder, whereupon such retiring or removed Collateral Agent shall be discharged from its duties and obligations under this Agreement. After any retiring or removed Collateral Agent's resignation or removal hereunder as Collateral Agent, the provisions of this Agreement shall inure to its benefit as to any actions taken or omitted to be taken by it under this Agreement while it was Collateral Agent hereunder.

SECTION 20. Amendments; Etc. No amendment, modification, termination or waiver of any provision of this Agreement, and no consent to any departure by Pledgor therefrom, shall in any event be effective unless the same shall be in writing and signed by Collateral Agent and, in the case of any such amendment or modification, by Pledgor. Any such waiver or consent shall be effective only in the specific instance and for the specific purpose for which it was given.

SECTION 21. Notices. Any notice or other communication herein required or permitted to be given shall be in writing and may be personally served, telexed or sent by telefacsimile or United States mail or courier service and shall be deemed to have been given when delivered in person or by courier service, upon receipt of telefacsimile or telex, or three Business Days after depositing it in the United States mail with postage prepaid and properly addressed. For the purposes hereof, the address of each party hereto shall be as set forth under such party's name on the signature pages hereof or, as to either party, such other address as shall be designated by such party in a written notice delivered to the other party hereto.

SECTION 22. Failure or Indulgence Not Waiver; Remedies Cumulative. No failure or delay on the part of Collateral Agent in the exercise of any power, right or privilege hereunder shall impair such power, right or privilege or be construed to be a waiver of any default or acquiescence therein, nor shall any single or partial exercise of any such power, right or privilege preclude any other or further exercise thereof or of any other power, right or privilege. All rights and remedies existing under this Agreement are cumulative to, and not exclusive of, any rights or remedies otherwise available.

SECTION 23. Severability. In case any provision in or obligation under this Agreement shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

SECTION 24. Headings. Section and subsection headings in this Agreement are included herein for convenience of reference only and shall not constitute a part of this Agreement for any other purpose or be given any substantive effect.

SECTION 25. Governing Law; Terms. THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF NEW YORK (INCLUDING WITHOUT LIMITATION SECTION 5-1401 OF THE GENERAL OBLIGATIONS LAW OF THE STATE OF NEW YORK), WITHOUT REGARD TO CONFLICTS OF LAWS PRINCIPLES, EXCEPT TO THE EXTENT THAT THE UCC PROVIDES THAT THE VALIDITY OR PERFECTION OF THE SECURITY INTEREST HEREUNDER, OR REMEDIES HEREUNDER, IN RESPECT OF ANY PARTICULAR PLEDGED COLLATERAL ARE GOVERNED BY THE LAWS OF A JURISDICTION OTHER THAN THE STATE OF NEW YORK. Unless otherwise defined herein, terms used in Articles 8 and 9 of the Uniform Commercial Code in the State of New York are used herein as therein defined.

SECTION 26. Consent to Jurisdiction and Service of Process. ALL JUDICIAL PROCEEDINGS BROUGHT AGAINST PLEDGOR ARISING OUT OF OR RELATING TO THIS AGREEMENT MAY BE BROUGHT IN ANY STATE OR FEDERAL COURT OF COMPETENT JURISDICTION IN THE STATE OF NEW YORK, AND BY EXECUTION AND DELIVERY OF THIS AGREEMENT PLEDGOR ACCEPTS FOR ITSELF AND IN CONNECTION WITH ITS PROPERTIES, GENERALLY AND UNCONDITIONALLY, THE NONEXCLUSIVE JURISDICTION OF THE AFORESAID COURTS AND WAIVES ANY DEFENSE OF FORUM NON CONVENIENS AND IRREVOCABLY AGREES TO BE BOUND BY ANY JUDGMENT RENDERED THEREBY IN CONNECTION WITH THIS AGREEMENT. Pledgor hereby agrees that service of all process in any such proceeding in any such court may be made by registered or certified mail, return receipt requested, to Pledgor at its address as provided in Section 21, such service being hereby acknowledged by Pledgor to be sufficient for personal jurisdiction in any action against Pledgor in any such court and to be otherwise effective and binding service in every respect. Pledgor further designates and appoints CT Corporation System, and such other

Persons as may hereafter be selected by Pledgor irrevocably agreeing in writing to so serve, as its agent to receive on its behalf service of all process in any such proceedings in any such court, such service being hereby acknowledged by Pledgor to be effective and binding service in every respect. Nothing herein shall affect the right to serve process in any other manner permitted by law or shall limit the right of Collateral Agent to bring proceedings against Pledgor in the courts of any other jurisdiction.

SECTION 27. Waiver of Jury Trial. PLEDGOR AND COLLATERAL AGENT HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS AGREEMENT. The scope of this waiver is intended to be all-encompassing of any and all disputes that may be filed in any court and that relate to the subject matter of this transaction, including without limitation contract claims, tort claims, breach of duty claims, and all other common law and statutory claims. Pledgor and Collateral Agent each acknowledge that this waiver is a material inducement for Pledgor and Collateral Agent to enter into a business relationship, that Pledgor and Collateral Agent have already relied on this waiver in entering into this Agreement and that each will continue to rely on this waiver in their related future dealings. Pledgor and Collateral Agent further warrant and represent that each has reviewed this waiver with its legal counsel, and that each knowingly and voluntarily waives its jury trial rights following consultation with legal counsel. THIS WAIVER IS IRREVOCABLE, MEANING THAT IT MAY NOT BE MODIFIED EITHER ORALLY OR IN WRITING, AND THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS AGREEMENT. In the event of litigation, this Agreement may be filed as a written consent to a trial by the court.

SECTION 28. Counterparts. This Agreement may be executed in one or more counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument; signature pages may be detached from multiple separate counterparts and attached to a single counterpart so that all signature pages are physically attached to the same document.

IN WITNESS WHEREOF, Pledgor and Collateral Agent have caused this Agreement to be duly executed and delivered by their respective officers thereunto duly authorized as of the date first written above.

RENAL TREATMENT CENTERS, INC.

By: ___________________________________
Title:

Notice Address:

Renal Treatment Centers, Inc., c/o
Total Renal Care Holdings, Inc.
21250 Hawthorne Blvd., Ste. 800
Torrance, CA 90503-5517
Attention:John E. King
Vice President, Finance and
Chief Financial Officer
Telephone: (310) 792-2600
Fax:(310) 792-8928

THE BANK OF NEW YORK, as Collateral Agent

By: ___________________________________
Title:

Notice Address:

The Bank of New York, as Collateral Agent
One Wall Street
Agency Function Administration
18th Floor
New York, New York 10286
Attention:Kalyani Bose
Telephone: (212) 635-4693
Fax:(212) 635-6365 or 6366 or 6367

with a copy to:

The Bank of New York, as Collateral Agent
10990 Wilshire Blvd., Suite 1125
Los Angeles, California 90024
Attention:Rebecca K. Levine
Vice President
Telephone: (310) 996-8659
Fax:(310) 996-8667

SCHEDULE I

Attached to and forming a part of the Subsidiary Pledge Agreement dated as of February 27, 1998, between RENAL TREATMENT CENTERS, INC., as Pledgor, and The Bank of New York, as Collateral Agent.

Stock Issuer	Class of Stock	Stock Certificate Nos.	Par Value	Number of Shares

SCHEDULE II

PLEDGE AMENDMENT

This Pledge Amendment, dated , , is delivered pursuant to Section 7(b) of the Pledge Agreement referred to below. The undersigned hereby agrees that this Pledge Amendment may be attached to the Subsidiary Pledge Agreement dated as of February 27, 1998, between the undersigned and The Bank of New York, as Collateral Agent (the "Subsidiary Pledge Agreement," capitalized terms defined therein being used herein as therein defined), and that the Pledged Shares listed on this Pledge Amendment shall be deemed to be part of the Pledged Shares and shall become part of the Pledged Collateral and shall secure all Secured Obligations.

RENAL TREATMENT CENTERS, INC.

By: ___________________________________
Title:

Stock Issuer	Class of Stock	Stock Certificate Nos.	Par Value	Number of Shares

EXHIBIT 12.1

TOTAL RENAL CARE HOLDINGS, INC.

RATIO OF EARNINGS TO FIXED CHARGES

The ratio of earnings to fixed charges is computed by dividing fixed charges into earnings. Earnings is defined as pretax income from continuing operations adjusted by adding fixed charges and excluding interest capitalized during the period. Fixed charges means the total of interest expense and amortization of financing costs, and the estimated interest component of rental expense on operating leases. In 1995, we changed our fiscal year end to December 31 from May 31.

	Years ended May 31,		Seven months ended December 31,		Years ended December 31,			
	1994	1995	1994	1995	1995	1996	1997	1998
	(in thousands, except for ratio data)							
Income before income taxes, minority interest, extraordinary items and cumulative effect of a charge in accounting principle ..	$18,753	$24,323	$14,174	$26,436	$39,685	$60,945	$99,741	$64,085
Minority interest.......	1,046	1,593	878	1,784	2,544	3,578	4,502	7,163
	17,707	22,730	13,296	24,652	37,141	57,367	95,239	56,922
Fixed Charges:								
Interest expense and amortization of debt issuance costs and discounts on all indebtedness...........	1,575	9,087	4,676	8,007	13,375	14,075	30,289	83,710
Interest portion of rental expense.........	1,926	2,475	1,438	1,950	3,347	5,301	8,196	12,992
Total fixed charges.....	3,501	11,562	6,114	9,957	16,722	19,376	38,485	152,624
Earnings before income taxes, extraordinary items, cumulative effect of a change in accounting principle and fixed charges......	$21,208	$34,292	$19,410	$34,609	$53,863	$76,743	$133,202	$209,546
Ratio of earnings to fixed charges..........	6.06	2.97	3.17	3.48	3.22	3.96	3.47	1.59

EXHIBIT 21.1

SUBSIDIARIES OF THE COMPANY

Name	Structure	Jurisdiction of Incorporation
Assisi S.r.l.	Sociedad de responsibilidad limitada	(6)
Astro, Hobby, West Mt., Renal Care Ltd. Partnership	Limited Partnership	DE
Bay Area Dialysis Partnership	Partnership	CA
Beta Dial S.r.l.	Sociedad de responsibilidad limitada	(6)
Beverly Hills Dialysis Partnership	Partnership	CA
Burbank Dialysis Partnership	Partnership	CA
Capital Dialysis Partnership	Partnership	CA
Carroll County Dialysis Facility, Inc.	Corporation	MD
Carroll County Dialysis Facility Limited Partnership	Limited Partnership	MD
Cercos S.r.l.	Sociedad de responsibilidad limitada	(6)
Continental Dialysis Center, Inc.	Corporation	VA
Continental Dialysis Center of Springfield-Fairfax, Inc.	Corporation	VA
Crescent City Dialysis Partnership	Partnership	LA
Crystal River Dialysis, LLC	Limited Liability Company	FL
Dallas Specialists of Dallas, Inc.	Corporation	TX
Dialysis Treatment Centers of Macon, LLC	Limited Liability Company	GA
Due Torri S.r.l.	Sociedad de responsibilidad limitada	(6)
East End Dialysis Center, Inc.	Corporation	VA
Eastmont Partnership	Partnership	CA
Eaton Canyon Dialysis Partnership	Partnership	CA
Elberton Dialysis Center, Inc.	Corporation	GA
Enfermedades Renales--Centro de Dialisis S.A.	Sociedad Anonima	(2)
Enne E S.r.l.	Sociedad de responsibilidad limitada	(6)
Flamingo Park Kidney Center, Inc.	Corporation	FL
Garey Dialysis Center Partnership	Partnership	CA
Guam Renal Care Partnership	Partnership	GU
Guam Renal Management Partnership	Partnership	GU
Houston Kidney Center/Total Renal Care Integrated Services Network, LP	Limited Partnership	DE
Hutchinson Dialysis, L.L.C.	Limited Liability Company	KS
Instituto Privado de Nefrologia S.A.	Sociedad Anonima	(7)
Instituto Renal Tucuman S.A.	Sociedad Anonima	(4)
Irno Dial S.r.l.	Sociedad de responsibilidad limitada	(6)
Kenner Regional Dialysis Partnership	Partnership	LA
Lincoln Park Dialysis Services, Inc.	Corporation	IL

SUBSIDIARIES OF THE COMPANY--(Continued)

Name	Structure	Jurisdiction of Incorporation
Los Angeles Dialysis Center	Partnership	CA
Mason-Dixon Dialysis Facilities, Inc.	Corporation	MD
Moncrief Dialysis Center/Total Renal Care, LP	Limited Partnership	DE
Nedial S.r.l.	Sociedad de responsibilidad limitada	(6)
Nedial Napoli S.r.l.	Sociedad de responsibilidad limitada	(6)
Nefrologia S.r.l.	Sociedad de responsibilidad limitada	(6)
II Nefrologia S.r.l.	Sociedad de responsibilidad limitada	(6)
Nefrologia Escobar S.A.	Sociedad Anonima	(3)
New Dial S.r.l.	Sociedad de responsibilidad limitada	(6)
Omnia Dial S.r.l.	Sociedad de responsibilidad limitada	(6)
Open Access Sonography, Inc.	Corporation	FL
Pacific Coast Dialysis Center	Partnership	CA
Pacific Dialysis Partnership	Partnership	GU
Peninsula Dialysis Center, Inc.	Corporation	VA
Peralta Renal Center Partnership	Partnership	CA
Piedmont Dialysis Partnership	Partnership	CA
Renal Diagnostic Laboratories, Inc.	Corporation	DE
Renal Treatment Centers, Inc.	Corporation	DE
Renal Treatment Centers--California	Corporation	DE
Renal Treatment Centers--Hawaii, Inc.	Corporation	DE
Renal Treatment Centers--Illinois, Inc.	Corporation	DE
Renal Treatment Centers--Management Acquisition, Inc.	Corporation	DE
Renal Treatment Centers--Mid-Atlantic, Inc.	Corporation	DE
Renal Treatment Centers--Northeast, Inc.	Corporation	DE
Renal Treatment Centers--Southeast, Inc.	Corporation	DE
Renal Treatment Centers--West, Inc.	Corporation	DE
RTC Argentina S.A.	Sociedad Anonima	(3)
RTC Holdings, Inc.	Corporation	DE
RTC Holdings International, Inc.	Corporation	DE
RTC Supply, Inc.	Corporation	DE
RTC--Texas Acquisition, Inc.	Corporation	TX
RTC TN, Inc.	Corporation	DE
Rusdial S.r.l.	Sociedad de responsibilidad limitada	(6)
San Gabriel Valley Partnership	Partnership	CA
Sunrise Dialysis Partnership	Partnership	CA
Total Acute Kidney Care, Inc.	Corporation	FL
Total Renal Care Acquisition Corp.	Corporation	DE

Name	Structure	Jurisdiction of Incorporation
Total Renal Care, Inc.	Corporation	CA
Total Renal Care of Colorado, Inc.	Corporation	CO
Total Renal Care Hollywood Partnership	Partnership	CA
Total Renal Care International Limited	Corporation	(5)
Total Renal Care of New York, Inc.	Corporation	NY
Total Renal Care of North Carolina, LLC	Limited Liability Company	DE
Total Renal Care of Puerto Rico, Inc.	Corporation	PR
Total Renal Care of Provo, L.L.C.	Limited Liability Company	DE
Total Renal Care of Utah, LLC	Limited Liability Company	DE
Total Renal Care Texas LP	Limited Partnership	DE
Total Renal Care (UK) Limited	Corporation	(5)
Total Renal Italia SRL	Sociedad de responsibilidad limitada	(6)
Total Renal Laboratories, Inc.	Corporation	FL
Total Renal Research Institute, Inc.	Corporation	DE
Total Renal Care Support Services, Inc.	Corporation	DE
Total Renal Support Services of North Carolina, LLC	Limited Liability Company	DE
TRC Dyker Heights, L.P.	Limited Partnership	NY
TRC El Paso Limited Partnership	Partnership	DE
TRC--Georgetown Regional Dialysis LLC	Limited Liability Company	DC
TRC GERMANY GmbH	Gesellschaft mit beschrankter Haftung	(1)
TRC--Richmond Renal Care, LLC	Limited Liability Company	VA
TRC--Petersburg, LLC	Limited Liability Company	DE
TRC--Rogosin Group, L.P.	Limited Partnership	NY
TRC West, Inc.	Corporation	DE
Tri-City Dialysis Center, Inc.	Corporation	VA
Unidad Nefrologica Bustamante S.A.	Sociedad Anonima	(3)
University Park Dialysis Partnership	Partnership	CA
Vega S.r.l.	Sociedad de responsibilidad limitada	(6)
West Coast Dialysis Center, Inc.	Corporation	FL
Wilshire Dialysis Partnership	Partnership	CA

- --------

(1) Germany

(2) Province of Mendoza, Argentina

(3) City of Buenos Aires, Argentina

(4) Province of Tucuman, Argentina

(5) United Kingdom

(6) Italy

(7) Province of Santiago del Estero, Argentina

EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 33-84610, No. 33-83018, No. 33-99862, No. 33-99864, No. 333-1620, No. 333-34693, No. 333-34695 and No. 333-46887) of Total Renal Care Holdings, Inc. of our report dated March 29, 1999, appearing on page F-1 in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report on the Financial Statement Schedule, which appears on page S-1 of this Form 10-K.

PricewaterhouseCoopers LLP

Seattle, Washington
March 29, 1999

YEAR	YEAR
DEC-31-1998	DEC-31-1997
JAN-01-1998	JAN-01-1997
DEC-31-1998	DEC-31-1997
41,487,000	6,143,000
0	0
478,320,000	279,103,000
61,848,000	30,695,000
23,470,000	15,766,000
559,542,000	302,204,000
341,446,000	242,005,000
108,109,000	69,167,000
1,915,581,000	1,278,235,000
174,464,000	102,450,000
470,000,000	125,000,000
0	0
0	0
81,000	78,000
481,731,000	428,752,000
1,915,581,000	1,278,235,000
0	0
1,204,894,000	760,997,000
0	0
1,063,076,000	636,217,000
0	0
44,365,000	20,525,000
82,627,000	28,214,000
56,922,000	95,239,000
41,580,000	40,212,000
15,342,000	55,027,000
0	0
12,744,000	0
6,896,000	0
(4,298,000)	55,027,000
(0.05)	0.71
(0.05)	0.69