

RENAL CARE GROUP INC

Form PRE 14A

April 26, 2004

**SCHEDULE 14A
(Rule 14a-101)**

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

**Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)**

Filed by the Registrant x

Filed by a Party other than the Registrant o

Check the appropriate box:

x Preliminary Proxy Statement

o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

o Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

Renal Care Group, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

o Fee paid previously with preliminary materials:

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

Edgar Filing: RENAL CARE GROUP INC - Form PRE 14A

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

RENAL CARE GROUP, INC.

2525 West End Avenue, Suite 600
Nashville, Tennessee 37203

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

Wednesday, June 9, 2004

To the shareholders of Renal Care Group, Inc.:

We will hold the 2004 annual meeting of the shareholders of Renal Care Group, Inc. at the Nashville Marriott at Vanderbilt University, 2555 West End Avenue, Nashville, Tennessee. The annual meeting will be on Wednesday, June 9, 2004 beginning at 9:00 a.m. (Central Daylight Time) for the following purposes:

(1) To elect three Class II directors to serve for a term of three (3) years;

(2) To consider and vote on a proposal to approve the Renal Care Group, Inc. 2004 Stock and Incentive Compensation Plan, which we refer to in the accompanying proxy statement as the 2004 Incentive Plan;

(3) To consider and vote upon a proposal to amend the Renal Care Group, Inc. 1996 Stock Option Plan for Outside Directors, which we refer to in the accompanying proxy statement as the Directors Plan, to allow the grant of options to directors who are medical directors and the Chairman or Vice Chairman of the board of directors, if such director is not also an employee of the company;

(4) To amend our Certificate of Incorporation to increase the number of authorized shares of \$0.01 par value common stock from 90,000,000 shares to 150,000,000 shares; and

(5) To transact such other business as may properly come before the annual meeting or any adjournment or postponement.

Shareholders of record at the close of business on April 12, 2004 will be entitled to vote at the annual meeting or any adjournment or postponement.

Please review the proxy statement accompanying this notice for more complete information regarding the matters to be acted upon at the annual meeting.

By Order of the Board of Directors

DOUGLAS B. CHAPPELL,
Secretary

May [6], 2004

IMPORTANT

YOUR VOTE IS IMPORTANT. WHETHER OR NOT YOU EXPECT TO BE PRESENT AT THE ANNUAL MEETING, PLEASE COMPLETE, SIGN, DATE AND RETURN THE ENCLOSED PROXY CARD. YOU MAY REVOKE YOUR PROXY PRIOR TO THE VOTING BY FILING WITH OUR SECRETARY A WRITTEN REVOCATION OR A DULY EXECUTED PROXY BEARING A LATER DATE OR BY ATTENDING THE ANNUAL MEETING AND VOTING IN PERSON.

RENAL CARE GROUP, INC.

2525 West End Avenue
Suite 600
Nashville, Tennessee 37203

PROXY STATEMENT

ANNUAL MEETING OF SHAREHOLDERS

To Be Held June 9, 2004

We are furnishing this proxy statement to solicit proxies on behalf of the board of directors for the 2004 annual meeting of shareholders of Renal Care Group, Inc. These proxies will be voted at the 2004 annual meeting of shareholders and at any adjournments or postponements. We will hold the 2004 annual meeting at 9:00 a.m. (Central Daylight Time) on Wednesday, June 9, 2004, at the Nashville Marriott at Vanderbilt University, 2555 West End Avenue, Nashville, Tennessee.

Shareholders of record as of the close of business on April 12, 2004 will be entitled to vote at the 2004 annual meeting and any adjournments. Each share of common stock is entitled to one vote on all matters presented at the meeting. Shareholders do not have the right to cumulate their votes for directors. As of April 12, 2004, there were 44,471,840 shares of common stock outstanding. Renal Care Group is first distributing the notice of the 2004 annual meeting, this proxy statement and the proxy form to shareholders on or about May [6], 2004.

We will have a quorum at the annual meeting if a majority of the outstanding shares of common stock entitled to vote at the meeting are represented in person or by proxy. If a quorum is not present at the annual meeting, or if for any reason we believe that additional time should be allowed for the solicitation of proxies, then we may adjourn or postpone the meeting with or without a vote of the shareholders. If we propose adjournment, the people named in the enclosed proxy will vote all shares for which they have proxies in favor of adjournment.

The people named in the enclosed proxy will vote all shares of common stock represented by properly executed proxies in accordance with the instructions indicated on the proxy card, unless the proxy is revoked prior to or at the 2004 annual meeting. If a shareholder gives no instructions, the people named in the enclosed proxy will vote a properly executed proxy in favor of the matters listed in the proxy card. Directors must be elected by a plurality of votes cast. The proposed amendment of our Certificate of Incorporation to increase the number of authorized shares of common stock must be approved by the holders of a majority of our outstanding shares of common stock. The proposed adoption of the 2004 Incentive Plan, the proposed amendment to the Directors Plan and any other matters will be determined based upon the vote of the majority of votes cast, provided that the total vote cast on the proposal represents over 50% in interest of all securities entitled to vote on the proposal.

Shares represented by proxies that are marked `withhold authority` or `abstain` will be counted as shares present for purposes of establishing a quorum. Shares represented by proxies that include broker non-votes will also be counted as shares present for purposes of establishing a quorum. A broker non-vote occurs when a broker or nominee holding shares for a beneficial owner votes on one proposal but does not vote on another proposal because the broker or nominee does not have discretionary voting power and has not received instructions from the beneficial owner. Neither withholding authority to vote with respect to one or more nominees nor a broker non-vote will affect the outcome of the election of directors or the approval of the 2004 Incentive Plan or amendment of the Directors Plan. Withholding authority to vote or a broker non-vote on the proposal to amend our Certificate of Incorporation will have the same effect as a vote against the proposal, since that proposal must be approved by a majority of our outstanding common stock.

With respect to the approval of the 2004 Incentive Plan or amendment of the Directors Plan, brokers or other nominees who are New York Stock Exchange (NYSE) members will not have discretionary voting authority. As a result, if your shares are being voted by a broker or other nominee who is a NYSE member, then your shares will be voted in favor of (or against) the proposal only if you provide specific voting instructions to your broker or other nominee. Failure to provide such instructions will result in a broker non-vote.

We will pay all expenses of the 2004 annual meeting, including the cost of soliciting proxies. We may reimburse people holding shares in their names for others, or holding shares for others who have the right to give voting instructions, such as brokers, banks, fiduciaries and nominees, for their reasonable expenses in forwarding the proxy materials to their principals.

Any shareholder returning a proxy may revoke that proxy at any time prior to the annual meeting by (a) giving written notice of revocation to Renal Care Group, (b) voting in person at the annual meeting, or (c) executing and delivering to Renal Care Group a proxy bearing a later date.

PROPOSALS FOR SHAREHOLDER ACTION

PROPOSAL 1

ELECTION OF CLASS II DIRECTORS

Our board of directors is composed of three classes, designated Class I, Class II, and Class III. The term of the Class II directors expires at the 2004 annual meeting. The current Class II directors are Joseph C. Hutts, Harry R. Jacobson, M.D. and Thomas A. Lowery, M.D. The nominating and governance committee of the board of directors has designated Joseph C. Hutts, Harry R. Jacobson, M.D. and Thomas A. Lowery, M.D. as the nominees for election as Class II directors at the 2004 annual meeting.

The term of the Class III directors will expire at the 2005 annual meeting, and the term of the Class I directors will expire at the 2006 annual meeting. The term of a director in each class will be three years or until his or her successor is elected. The continuing Class I directors are Gary A. Brukart, Stephen D. McMurray, M.D. and William V. Lapham, and the continuing Class III directors are Peter J. Grua, William P. Johnston and C. Thomas Smith.

The nominees for election at the 2004 annual meeting have consented to be named as candidates in this proxy statement and to serve, if elected. We know of no reason why any nominee may be unwilling or unable to serve as a director. If any nominee is unwilling or unable to serve, the people named in the enclosed proxy will vote the shares represented by all valid proxies for such other person as the nominating and governance committee of our board of directors may recommend.

Directors are elected by a plurality of the votes cast by the shares of common stock represented at the 2004 annual meeting. Therefore, the nominees for election as Class II directors who receive the greatest number of votes cast at the 2004 annual meeting will be elected as Class II directors. Unless the shareholder gives other instructions, the people named in the accompanying proxy will vote FOR Joseph C. Hutts, Harry R. Jacobson, M.D. and Thomas A. Lowery, M.D. as Class II directors.

Information as to each nominee as a Class II director and the directors continuing as Class I directors and Class III directors follows:

Class II Directors Nominees for Election at the 2004 Annual Meeting Term Expiring at the 2007 Annual Meeting

Joseph C. Hutts

Age 62

Mr. Hutts has been a director since 1995. He currently serves as President and Chief Executive Officer of Surgis, Inc., a company that acquires, develops and operates outpatient surgery centers. He was Chairman of the Board, President and Chief Executive Officer of PhyCor, Inc., an operator of multi-specialty medical

Edgar Filing: RENAL CARE GROUP INC - Form PRE 14A

clinics, from 1988 until his resignation in 2000. Mr. Hutts was formerly with Hospital Corporation of America in various positions, the last of which was President, HCA Health Plans. From 1986 to 1988, Mr. Hutts was Vice Chairman and Chief Operating Officer of Equitable HCA Corporation, which did business as Equicor.

Harry R. Jacobson, M.D.

Age 56

Dr. Jacobson has been a director since 1995 and was Chairman of the Board of Directors from 1995 to 1997. He currently serves as Vice Chancellor for Health Affairs at Vanderbilt University Medical Center, a position he has held since 1997. He also currently serves as Professor of Medicine at Vanderbilt University Medical Center, a position he has held since 1985. Dr. Jacobson is a member of the Institute of Medicine of the National Academy of Sciences. Dr. Jacobson received a B.S. degree from the University of Illinois and his M.D. from the University of Illinois Abraham Lincoln School of Medicine. He completed his internal medicine training at Johns Hopkins Hospital and his nephrology training at Southwestern Medical School in Dallas, Texas.

Thomas A. Lowery, M.D.

Age 60

Dr. Lowery has been a director since 1996. He is a kidney specialist trained at Baylor College of Medicine and the University of Alabama, Birmingham. He is the Director of the Renal Transplant Program of East Texas Medical Center in Tyler, Texas and is on the Board of the Southwest Transplant Alliance. Dr. Lowery was also a long-time member of the Executive Committee of the Southwest Organ Bank. In addition, he was the founder and remains a partner of Tyler Nephrology Associates, P.A. He has been with that group and its predecessors since 1979. Dr. Lowery was a founder of one of the companies included in the formation of Renal Care Group in February 1996.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF THE NOMINEES NAMED ABOVE AS CLASS II DIRECTORS.

Current Directors Whose Terms Are Not Expiring at the 2004 Annual Meeting:

Class III Directors Term Expiring at the 2005 Annual Meeting

Peter J. Grua

Age 49

Mr. Grua has been a director since January 2004. Mr. Grua is Managing Partner of HLM Venture Partners, based in Boston, Massachusetts. Before joining HLM in [1992,] Mr. Grua was a Managing Director at the investment banking firm of Alex. Brown and Sons, Inc. from [1986 to 1992] where he directed health care services and managed care research. Prior to Alex. Brown, Mr. Grua was a research analyst at William Blair & Company and a strategy consultant at Booz, Allen and Hamilton. Currently, Mr. Grua serves on the board of directors of HealthCare REIT, FamilyMeds, and Mavix Radiology Systems. Mr. Grua received his undergraduate degree from Bowdoin College and his M.B.A. from Columbia University.

William P. Johnston

Age 58

Mr. Johnston has been a director since November 2002. He was named Chairman of the Board on March 20, 2003, following the death of Sam Brooks, one of our founders and our Chairman, Chief Executive Officer and President. Mr. Johnston was Managing Director of SunTrust Robinson Humphrey, the investment banking division of SunTrust Capital Markets, Inc., from August 2001 to December 2002. Previously, Mr. Johnston was Vice Chairman of SunTrust Equitable Securities Corporation, an investment banking affiliate of SunTrust Banks, Inc., from 1998 through 2001 where he was also Chief Executive Officer from 1998 through April 2000. From 1994 through 1998, he held the positions of Chief Executive Officer,

Managing Director and member of the board of directors of Equitable Securities Corporation, an investment banking firm that was acquired by SunTrust Banks, Inc. in January 1998. He began his professional career practicing law at Waller Lansden Dortch & Davis.

C. Thomas Smith

Age 65

Mr. Smith has been a director since January 2004. He recently retired as President, Chief Executive Officer and a director of VHA, Inc., a position he held from 1991 until 2003. VHA is a hospital cooperative based in Irving, Texas, which has more than 2,200 members in 48 states, representing approximately one-quarter of U.S. community-owned hospitals. From 1977 through 1991, Mr. Smith was President and a Trustee of Yale-New Haven Hospital in New Haven, Connecticut. From 1987 to 1992, Mr. Smith served as a trustee of the American Hospital Association (AHA) and was Chairman of AHA in 1991. From 1994 to 1998, he was Chairman of the Board of The Jackson Hole Group, a strategic consulting forum, and from 1986 to 1999, he served on the board of directors of Genentech, Inc. Mr. Smith currently serves on the board of directors of InPatient Consultants Management, Inc., Kinetic Concepts and Neoforma. Mr. Smith holds a B.A. from Baylor University and a M.B.A. from the University of Chicago.

Class I Directors Term Expiring at the 2006 Annual Meeting

Gary A. Brukardt

Age 58

Mr. Brukardt has been a director since May 2003. Mr. Brukardt was Executive Vice President and Chief Operating Officer of Renal Care Group from 1996 until he was elected President and Chief Executive Officer in April 2003. From 1991 to 1996, he served as Executive Vice President of Baptist Health Care Affiliates in Nashville, Tennessee, where he was responsible for the development and operation of physician practice management organizations and the management of four hospitals and 22 outpatient facilities. In addition, from 1991 to 1996, Mr. Brukardt served as Chairman and President of HealthNet Management, Inc., a managed care company. Mr. Brukardt received his B.A. at the University of Wisconsin at Oshkosh and his M.B.A. in International Management from the American Graduate School of International Management.

Stephen D. McMurray, M.D.

Age 56

Dr. McMurray has been a director since 1996. He graduated from Indiana University and Indiana University Medical Center. Dr. McMurray has been a practicing kidney specialist in Fort Wayne, Indiana, since 1977. Dr. McMurray is a member of Indiana Medical Associates, a 46-member multi-specialty physician practice group. He is a member of the board of the Renal Physicians Association, an organization representing kidney physicians in the United States. Dr. McMurray was also a founder of D.M.N. Professional Corporation, one of the companies included in the formation of Renal Care Group in February 1996.

William V. Lapham

Age 65

Mr. Lapham has been a director since 1999. He served as acting Chief Financial Officer of Uptons, a division of American Retail Group, from January 1999 to June 1999. From 1962 until his retirement in 1998, Mr. Lapham was associated with Ernst & Young LLP and its predecessors, serving as a partner for the last 26 years of his tenure. He was a member of Ernst & Young's International Council for eight years ending in December 1997. Mr. Lapham is a director of LifePoint Hospitals, Inc., an operator of general, acute care hospitals in non-urban areas, and Avado Brands, Inc., a full-service, casual dining restaurant company. Mr. Lapham chairs the audit committees of both LifePoint Hospitals and Avado Brands.

Additional Information Concerning the Board of Directors

Independence

Following the 2004 annual meeting, provided that Mr. Hutts and Dr. Jacobson are reelected to the board, the board of directors has determined that a majority of the directors will be independent as required by the recently amended New York Stock Exchange listing requirements. The board has affirmatively determined by resolution that Messrs. Grua, Hutts, Lapham and Smith and Dr. Jacobson are independent within the meaning of the NYSE listing requirements, and the board has determined that none of them has a material relationship with Renal Care Group that would impair his independence from management or otherwise compromise his ability to act as an independent director.

Committees

The board of directors has established three committees, the nominating and governance committee, the audit and compliance committee and the compensation committee, each of which is composed solely of directors who the board of directors has determined are independent for purposes of the NYSE listing requirements. The committees are described below.

Nominating and Governance Committee. Renal Care Group's nominating and governance committee is composed solely of independent directors and operates under a written charter that is available on our website at www.renalcaregroup.com (follow the Investors tab to Corporate Governance). This committee assists the board of directors in fulfilling its oversight responsibilities under the NYSE listing requirements and Delaware law. This committee is responsible for identifying individuals qualified to serve on the board of directors and recommending director nominees for selection by the full board of directors or shareholders in accordance with Delaware law and our Certificate of Incorporation and Bylaws. This committee is also responsible for identifying individuals qualified to serve as Chief Executive Officer and recommending CEO candidates to the full board of directors. This committee is also responsible for (1) adopting and evaluating our corporate governance guidelines and (2) periodically evaluating those guidelines for the purpose of suggesting appropriate improvements.

The board of directors has adopted Corporate Governance Guidelines recommended by the nominating and governance committee, which are available on our website at www.renalcaregroup.com (follow the Investors tab to Corporate Governance). The nominating and governance committee is chaired by Dr. Jacobson and also includes Mr. Lapham and Mr. Smith. The nominating and governance committee has recommended the reelection of Mr. Hutts and Drs. Jacobson and Lowery at the 2004 annual meeting of shareholders.

The nominating and governance committee evaluates candidates for the board of directors identified by its members, other board members, the company's management and shareholders. The nominating and governance committee from time to time may also retain a third-party search firm to identify qualified candidates for membership on the board of directors. A shareholder who wishes to recommend a prospective nominee for consideration by the nominating and governance committee should follow the procedures set forth below under Shareholder Proposals to be Presented at Next Annual Meeting.

Once the nominating and governance committee has identified a prospective nominee, it makes an initial determination as to whether to conduct a full evaluation. In evaluating a prospective nominee, the committee may consider, among other things, the following:

- the ability of the prospective nominee to represent the interests of our shareholders;
- the prospective nominee's standards of integrity, commitment and independence of thought and judgment;
- the prospective nominee's ability to dedicate sufficient time, energy and attention to the performance of his or her duties;

the extent to which the prospective nominee contributes to the range of talent, skill and expertise of the board of directors; and

the extent to which the prospective nominee helps the board of directors reflect the diversity of the company's shareholders, associates and patients.

After completing the evaluation, the nominating and governance committee makes a recommendation to the board of directors.

Audit and Compliance Committee. The members of Renal Care Group's audit and compliance committee are all financially literate and independent for purposes of audit committee membership under the NYSE listing requirements and rules of the Securities and Exchange Commission (SEC). The audit and compliance committee operates under a written charter that was included as an appendix to our proxy statement for the 2003 annual meeting of shareholders. The charter is also available on our website at www.renalcaregroup.com (follow the Investors tab to Corporate Governance). The audit and compliance committee engages the independent auditors, reviews the independence of the independent auditors, approves all audit and non-audit fees for services rendered by the independent auditors, approves the scope of the annual activities of the independent auditors and reviews audit results. This committee also reviews the accounting principles we use in financial reporting, our internal auditing procedures and the adequacy of our internal control procedures, all in conjunction with Renal Care Group's independent auditor. The audit and compliance committee also oversees the activities of our internal compliance committee and program and receives reports from that committee and our Compliance Officer.

In addition, the audit and compliance committee has established procedures for the receipt, retention and treatment of complaints received by Renal Care Group regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by employees of Renal Care Group of concerns regarding questionable accounting and auditing matters. The audit and compliance committee is chaired by Mr. Lapham and also includes Mr. Hutts, Mr. Grua and Mr. Smith. The board of directors has determined that Mr. Lapham qualifies as an audit committee financial expert under the SEC rules and also possesses accounting or related financial management expertise under the NYSE listing requirements.

Compensation Committee. Renal Care Group's compensation committee is composed solely of independent directors and operates under a written charter that is available on our website at www.renalcaregroup.com (follow the Investors tab to Corporate Governance). It is responsible for establishing salaries, bonuses and other compensation for our executive officers, including the Chief Executive Officer, and for administering Renal Care Group's stock option plans. The compensation committee is chaired by Mr. Hutts and also includes Mr. Grua and Dr. Jacobson.

Meetings

During 2003, the board of directors held four regularly scheduled meetings and nine special meetings. In addition, during 2003, the compensation committee met four times; the audit and compliance committee met four times; and the nominating and governance committee met three times. In addition, the chairman of the audit and compliance committee and other committee members met by telephone conference call with management and our internal and independent auditors to review our quarterly results before we released those results to the public. Each director attended at least 75% of the total number of meetings held by the board and its committees on which he served.

In addition, the non-management directors, Messrs. Grua, Hutts, Lapham and Smith and Drs. Jacobson and Lowery meet at regularly scheduled executive sessions without management. The independent directors under the NYSE listing requirements also meet separately in executive session at least once a year. The chair of our nominating and governance committee, audit and compliance committee and compensation committee rotate serving as the presiding director at the executive sessions of our non-management directors and independent directors. Interested parties may send communications to the chair of each of our standing board committees or the non-management directors as a group by writing to Non-Management Directors, c/o Secretary, Renal Care Group, Inc., 2525 West End Avenue, Suite 600, Nashville, Tennessee 37203.

Communications with the Board of Directors

Shareholders may send communications to the board of directors, or any individual member of the board, in accordance with the process discussed on our website at www.renalcaregroup.com (follow the Investor tab to Corporate Governance).

Compensation of Directors

Members of the board of directors who are employees of Renal Care Group do not receive any compensation for serving on the board of directors. In 2004, each non-employee member of the board will receive an annual retainer of \$30,000, a fee of \$5,000 for each meeting of the board he attends and a fee of \$1,000 for each committee meeting he attends. In 2004, committee chairs will receive an additional annual fee of \$5,000. In 2004, Mr. Johnston, as Chairman of the Board, will receive base compensation in the amount of \$420,000. He will receive no additional per meeting fees. Mr. Johnston will be eligible for bonuses in the discretion of the board and stock option grants in the discretion of the compensation committee. Mr. Johnston was paid \$292,308 during 2003 for his services as Chairman and was granted options to purchase 16,875 shares of common stock with an exercise price of \$30.00 per share.

All directors, including members who are employees, receive reimbursement of out-of-pocket expenses incurred in connection with attending meetings of the board of directors or its committees.

We maintain the Renal Care Group, Inc. 1996 Stock Option Plan for Outside Directors to provide for grants of options to our non-employee directors. Currently, this plan provides for automatic grants to directors who are (1) not employees; (2) not the Chairman or Vice Chairman of the board of directors; and (3) not a party to, and whose medical practices are not a party to, a medical director agreement with Renal Care Group that is in force. This plan provides for an initial grant to each eligible director of 11,250 shares on the date such person first becomes a director and subsequent annual grants of options to purchase 5,625 shares of common stock following each annual meeting. The annual grants are made on the day following each annual meeting of shareholders. We propose to amend this plan at the 2004 annual meeting. The amendment is described in greater detail under Proposal 3.

PROPOSAL 2

APPROVAL OF THE RENAL CARE GROUP, INC.

2004 STOCK AND INCENTIVE COMPENSATION PLAN

2004 Incentive Plan

On March 11, 2004, the board of directors adopted the Renal Care Group, Inc. 2004 Stock and Incentive Compensation Plan, subject to approval by our shareholders. We have reserved for issuance upon the grant or exercise of awards pursuant to the 2004 Incentive Plan 4,500,000 shares of the authorized but unissued shares of common stock. If you approve this proposal, the 2004 Incentive Plan will be effective on the date of the 2004 annual meeting.

A summary of the 2004 Incentive Plan is set forth below. The summary is qualified in its entirety by reference to the full text of the 2004 Incentive Plan. The full text of the 2004 Incentive Plan is included in this proxy statement as Appendix A.

Summary of the Plan

Purpose. The purpose of the 2004 Incentive Plan is to promote the interests of Renal Care Group and its shareholders by strengthening our ability to attract, motivate, and retain employees and directors upon whose judgment, initiative, and efforts the financial success and growth of Renal Care Group largely depend. The plan is also intended to provide additional incentive for employees, directors, and third-party service providers through stock ownership and other rights that promote and recognize the financial success and growth of Renal Care Group and create value for our shareholders.

Edgar Filing: RENAL CARE GROUP INC - Form PRE 14A

Permissible Awards. The 2004 Incentive Plan authorizes the granting of awards in any of the following forms:

- options to purchase shares of common stock,
- stock appreciation rights,
- restricted stock,
- restricted stock units,
- performance awards payable in stock or cash,
- cash-based awards, and
- other stock-based awards.

Deductibility under Section 162(m). Pursuant to Section 162(m) of the Internal Revenue Code, we may not deduct compensation in excess of \$1 million paid to the Chief Executive Officer and the four next most highly compensated executive officers of Renal Care Group. The 2004 Incentive Plan is designed to comply with Code Section 162(m) so that grants of options and stock appreciation rights under the plan, and other awards that are conditioned on performance goals set forth in the plan, will be excluded from the calculation of annual compensation for purposes of Code Section 162(m) and will be fully deductible.

Shares Available for Awards. Subject to adjustment as provided in the 2004 Incentive Plan, the aggregate number of shares of common stock reserved and available for issuance pursuant to awards granted under the plan is 4,500,000. Except for shares retained to satisfy tax withholding obligations, only shares actually issued under the plan count against the total number of shares available under the plan. Each share issued pursuant to the grant or exercise of a stock option or stock appreciation right reduces the number of shares available for grant under the 2004 Incentive Plan by one share. Each shares issued pursuant to the grant or exercise of other awards settled in stock (such as restricted stock awards) reduces the number of shares available for grant by 1.62 shares.

Limitations on Awards. All 4,500,000 shares authorized under the 2004 Incentive Plan may be issued in the form of stock options (whether as incentive stock options, which meet certain requirements under the tax code, or as non-qualified stock options). Unless the Compensation Committee determines that an award is not intended to qualify as a performance-based award that is exempt from Code Section 162(m), Renal Care Group will not grant, under the plan, more than the number of shares described below to any one participant in any year:

Options: no more than 1,000,000 shares, plus the amount of the participant's unused annual award limit as of the close of the previous year

Stock Appreciation Rights: no more than 1,000,000 shares, plus the amount of the participant's unused annual award limit as of the close of the previous year

Restricted Stock or Restricted Stock Units: no more than 500,000 shares, plus the amount of the participant's unused annual award limit as of the close of the previous year

Performance Units or Performance Shares: no more than 500,000 shares, or an amount equal to the value of 500,000 shares determined as of the date of vesting or payout, as applicable, plus the amount of the participant's unused annual award limit as of the close of the previous year

Cash-Based Awards: no more than \$5,000,000 shares, plus the amount of the participant's unused annual award limit as of the close of the previous year

Other Stock-Based Awards: no more than 500,000 shares, plus the amount of the participant's unused annual award limit as of the close of the previous year

Incentive Pool. In addition to the awards described above, the Compensation Committee may establish an incentive pool for the payment of cash awards to covered employees (the Chief Executive Officer and

the four next most highly compensated executive officers of Renal Care Group), as well as persons it believes may become covered employees. Awards granted under the incentive pool are intended to be exempt from Code Section 162(m), as described above. The total incentive pool for any year will be equal to the greater of:

5% of our net income for such year, or

2.5% of our income from operations, or

2.5% of our net cash provided by operating activities cash flow for such year.

The Compensation Committee will designate the percentage for each covered employee at the beginning of each year. In no event will the incentive pool percentage for any one person exceed forty percent (40%) of the total pool, and the sum of the percentages for all participants cannot exceed one hundred percent (100%).

Administration.

The 2004 Incentive Plan will be administered by the Compensation Committee of the Board of Directors. The Committee will have the authority to

designate participants;

determine the type or types of awards to be granted to each participant and the number, terms and conditions thereof;

establish, adopt or revise any rules and regulations as it deems necessary or advisable to administer the Long-Term Incentive Plan; and

make all other decisions and determinations that may be required under, or as it deems necessary or advisable to administer, the 2004 Incentive Plan.

The Committee may delegate certain of its grant authority to one or more officers of Renal Care Group, subject to restrictions under Delaware law.

Awards

Stock Options. The Committee is authorized to grant incentive stock options or non-qualified stock options under the plan. The terms of an incentive stock option must meet the requirements of Section 422 of the Internal Revenue Code. The exercise price of stock options will be determined by the Committee and may be, but is not required to be, based upon fair market value of the shares on the date of grant, a premium over fair market value, or an index determined by the Committee. No option granted to participants inside the United States will have a term in excess of ten years. In the event that Renal Care Group adopts an accounting standard which requires the expensing of stock options, the Committee may substitute for outstanding options stock appreciation rights payable in stock.

Stock Appreciation Rights. The Committee may also grant stock appreciation rights payable in stock or cash. These provide the holder the right to receive the excess, if any, of the fair market value of one share of common stock on the date of exercise, over the base price of the stock appreciation right as determined by the Committee. The grant price of stock appreciation rights will be determined by the Committee and may be, but is not required to be, based upon fair market value of the shares on the date of grant, a premium over fair market value, or an index determined by the Committee. No stock appreciation rights granted to participants inside the United States will have a term in excess of ten years.

Restricted Stock Awards. The Committee may make awards of restricted stock to participants, which will be subject to such restrictions on transferability and other restrictions as the Committee may impose (including, without limitation, limitations on the right to vote restricted stock or the right to receive dividends, if any, on the restricted stock).

Restricted Stock Unit Awards. The Committee may also make awards of restricted stock units to a participant, which will be subject to such restrictions on transferability and other restrictions as the Committee

Edgar Filing: RENAL CARE GROUP INC - Form PRE 14A

may impose. Upon lapse of such restrictions, shares of common stock will be issued to the participant in settlement of the restricted stock units.

Performance Awards. The Committee may grant performance units and performance shares that are designated in shares of common stock (performance units) or in cash (performance shares). The Committee will have the complete discretion to determine the number of performance awards granted to any participant and to set performance goals and other terms or conditions to payment of the performance awards in its discretion which, depending on the extent to which they are met, will determine the number and value of performance awards that will be paid to the participant.

Cash-Based Award and Other Stock-Based Awards. The Committee may, subject to limitations under applicable law, grant to participants such other cash-based awards and such other awards that are payable in, valued in whole or in part by reference to, or otherwise based on or related to shares of common stock as deemed by the Committee to be consistent with the purposes of the plan. The Committee may not award shares purely as a bonus unless they are granted in lieu of a bonus that otherwise would be paid in cash. The Committee will determine the terms and conditions of any such awards.

Performance Measures. The Committee may designate any award as a qualified performance-based award in order to make the award fully deductible without regard to the \$1,000,000 deduction limit imposed by Code Section 162(m), as described above. If an award is so designated, the Committee must establish objectively determinable performance goals for the award based on one or more of the following business criteria, which may be expressed in terms of company-wide objectives or in terms of objectives that relate to the performance of a division, business unit, affiliate, department or function within the company or an affiliate:

Net earnings or net income (before or after taxes)

Earnings per share

Net sales growth

Net operating profit

Return measures (including but not limited to, return on assets, capital, equity, or sales)

Cash flow (including, but not limited to, operating cash flow, free cash flow, and cash flow return on capital)

Earnings before or after taxes, interest, depreciation, and/or amortization

Gross or operating margins

Productivity ratios

Share price (including, but not limited to, growth measures and total shareholder return)

Expense targets

Margins

Operating efficiency

Customer satisfaction

Working capital targets

EVA

Edgar Filing: RENAL CARE GROUP INC - Form PRE 14A

The Committee must establish such goals prior to the beginning of the period for which such performance goal relates (or such later date as may be permitted under applicable tax regulations) and the Committee may not increase any award or, except in the case of certain qualified terminations of employment, waive the achievement of any specified goal. Any payment of an award granted with performance goals will be

conditioned on the written certification of the Committee in each case that the performance goals and any other material conditions were satisfied.

Termination and Amendment

The Compensation Committee may, at any time and from time to time, terminate or amend the plan, but if an amendment to the plan would require shareholder approval under applicable law, regulation, or stock exchange rule, then such amendment will be subject to shareholder approval. In addition, the Board of Directors or the Committee may condition any amendment on the approval the shareholders for any other reason. No termination or amendment of the plan may adversely affect any award previously granted under the plan without the written consent of the participant.

Certain Federal Tax Effects

Non-qualified Stock Options. There will be no federal income tax consequences to the optionee or to the Company upon the grant of a nonstatutory stock option under the plan. When the optionee exercises a nonstatutory option, however, he or she will recognize ordinary income in an amount equal to the excess of the fair market value of the common stock received upon exercise of the option at the time of exercise over the exercise price, and the Company will be allowed a corresponding deduction. Any gain that the optionee realizes when he or she later sells or disposes of the option shares will be short-term or long-term capital gain, depending on how long the shares were held.

Incentive Stock Options. There typically will be no federal income tax consequences to the optionee or to the Company upon the grant or exercise of an incentive stock option. If the optionee holds the option shares for the required holding period of at least two years after the date the option was granted or one year after exercise, the difference between the exercise price and the amount realized upon sale or disposition of the option shares will be long-term capital gain or loss, and the Company will not be entitled to a federal income tax deduction. If the optionee disposes of the option shares in a sale, exchange, or other disqualifying disposition before the required holding period ends, he or she will recognize taxable ordinary income in an amount equal to the excess of the fair market value of the option shares at the time of exercise over the exercise price, and the Company will be allowed a federal income tax deduction equal to such amount. While the exercise of an incentive stock option does not result in current taxable income, the excess of the fair market value of the option shares at the time of exercise over the exercise price will be an item of adjustment for purposes of determining the optionee's alternative minimum taxable income.

Stock Appreciation Rights. A participant receiving a stock appreciation right will not recognize income, and the Company will not be allowed a tax deduction, at the time the award is granted. When the participant exercises the stock appreciation right, the amount of cash and the fair market value of any shares of common stock received will be ordinary income to the participant and the Company will be allowed as a corresponding federal income tax deduction at that time, subject to any applicable limitations under Code Section 162(m).

Restricted Stock. Unless a participant makes an election to accelerate recognition of the income to the date of grant as described below, the participant will not recognize income, and the Company will not be allowed a tax deduction, at the time a restricted stock award is granted. When the restrictions lapse, the participant will recognize ordinary income equal to the fair market value of the common stock as of that date (less any amount he or she paid for the stock), and the Company will be allowed a corresponding federal income tax deduction at that time, subject to any applicable limitations under Code Section 162(m). If the participant files an election under Code Section 83(b) within 30 days after the date of grant of the restricted stock, he or she will recognize ordinary income as of the date of grant equal to the fair market value of the stock as of that date (less any amount paid for the stock), and the Company will be allowed a corresponding federal income tax deduction at that time, subject to any applicable limitations under Code Section 162(m). Any future appreciation in the stock will be taxable to the participant at capital gains rates. However, if the stock is later forfeited, the participant will not be able to recover the tax previously paid pursuant to the Code Section 83(b) election.

Restricted Stock Units. A participant will not recognize income, and the Company will not be allowed a tax deduction, at the time a restricted stock unit award is granted. Upon issuance of shares of common stock in settlement of a restricted stock unit award, a participant will recognize ordinary income equal to the fair market value of the common stock as of that date (less any amount he or she paid for the stock), and the Company will be allowed a corresponding federal income tax deduction at that time, subject to any applicable limitations under Code Section 162(m).

Performance Awards. A participant generally will not recognize income, and the Company will not be allowed a tax deduction, at the time performance awards are granted. When the participant receives payment of cash or shares under the performance award, the cash amount or the fair market value of the shares of stock will be ordinary income to the participant, and the Company will be allowed a corresponding federal income tax deduction at that time, subject to any applicable limitations under Code Section 162(m).

Benefits to Named Executive Officers and Others

As of the date of the proxy statement, no awards had been granted or approved for grant under the 2004 Incentive Plan. Any awards under the 2004 Incentive Plan will be made at the discretion of the compensation committee. Consequently, we cannot determine, with respect to (1) our executive officers; (2) all current executive officers, as a group; (3) all non-executive directors, as a group; or (4) all eligible participants,

including all current officers who are not executive officers, as a group, either the benefits or amounts that will be received in the future by such persons or groups pursuant to the 2004 Incentive Plan.

Reasons for Adopting the 2004 Incentive Plan

We believe that we must grant equity-based awards to our key employees to attract, retain and motivate qualified employees and consultants. We often grant awards to new employees joining the company whether through recruiting efforts or acquisitions. Management believes that grants to new employees are an important tool, enhancing our ability to recruit employees, to acquire companies and to pursue our growth strategy, by aligning the interests of employees with those of our shareholders. In the past, we also granted options to physicians serving as medical directors of some of our facilities. Of the approximately 5,600,000 options currently outstanding under our existing stock option plans, medical directors hold approximately 1,350,000 options.

There are currently approximately 1,200,000 shares available for grant under our existing stock incentive plans. We do not make grants under option plans of acquired companies.

We believe it is important to make annual grants to current officers and employees that vest over a period of time, so that officers and employees have a continuing incentive to work to improve our performance. In addition, the board of directors believes it is important to have enough shares available to cover several years' awards, so that the compensation committee can implement a consistent compensation program. We are, therefore, requesting 4,500,000 shares for the 2004 Incentive Plan. The board of directors and the compensation committee have expressed their intent that this number of shares will satisfy regular grants for three years, absent unusual circumstances such as a major acquisition.

To be able to continue to use stock-based incentives to attract new employees, to retain and provide incentives for existing employees and to align the incentives of employees of acquired companies with those of Renal Care Group's shareholders, the board of directors recommends the adoption of the 2004 Incentive Plan.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ADOPTION OF THE RENAL CARE GROUP, INC. 2004 STOCK AND INCENTIVE COMPENSATION PLAN

PROPOSAL 3

APPROVAL OF PROPOSED AMENDMENT TO THE

**RENAL CARE GROUP, INC. 1996 STOCK OPTION PLAN
FOR OUTSIDE DIRECTORS**

We maintain the Renal Care Group, Inc. 1996 Stock Option for Outside Directors to provide for grants of options to our non-employee directors. The Directors Plan was adopted in 1996 when the board of directors and shareholders approved it. This plan currently provides for automatic grants to directors who are not:

employees;

the Chairman or Vice Chairman of the board of directors; and

a party to, or whose medical practices are not a party to, a medical director agreement with Renal Care Group that is in force.

Under this plan, we make an initial grant of options to purchase 11,250 shares to each eligible director on the date the director first becomes a director. We make subsequent annual grants of options to purchase 5,625 shares of common stock following each annual meeting. The annual grants are made on the day following each annual meeting of shareholders. The option price for each option granted under the Directors Plan is the Fair Market Value, as that term is defined in the plan, of the shares of common stock subject to the option on the date the option is granted. All options granted under the Directors Plan are immediately exercisable, subject to securities law restrictions, and have a term of ten years.

We propose to amend the Directors Plan to provide that options will be granted under it to all non-employee directors, including members of the board of directors who are also medical directors and the Chairman or Vice Chairman of the Board of Directors.

A summary of the Directors Plan is set forth below. The summary is qualified by reference to the full text of the Directors Plan. We will provide a free copy of the Directors Plan to any shareholder upon written request to the Secretary, Renal Care Group, 2525 West End Avenue, Suite 600, Nashville, Tennessee 37203.

The purpose of the Directors Plan is to promote the success and enhance the value of Renal Care Group by aligning the personal interests of our outside directors with the interests of the shareholders. As of March 31, 2004, there were five persons eligible to participate in the Directors Plan.

Administration

The Directors Plan is administered by the compensation committee of the board of directors, or at the discretion of the board from time to time, by the board or another committee or subcommittee. The committee or subcommittee administering the Directors Plan (the committee) has the power, authority and discretion to:

establish, adopt or revise any rules and regulations as it deems necessary or advisable to administer the Directors Plan; and

make all other decisions and determinations that may be required under, or as it deems necessary or advisable to administer, the Directors Plan.

Awards

The Directors Plan provides for fixed initial and annual grants of options to eligible directors. The options are nonqualified stock options and are evidenced by a written award agreement between the director and us. The exercise price of each option will be the closing market price of a share of the underlying common stock as of the date of the grant.

No option granted under the Directors Plan is assignable or transferable by a participant other than by will or the laws of descent and distribution. However, the committee may (but need not) permit other transfers where the committee concludes that transferability (1) does not result in accelerated taxation, and (2) is otherwise appropriate and desirable, taking into account any factors deemed relevant, including without limitation, state or federal tax or securities laws applicable to transferable awards. A director may, in the manner determined by the committee, designate a beneficiary to exercise his or her rights and to receive any distribution with respect to any award upon his or her death.

Termination and Amendment

The Directors Plan may not be amended or terminated without shareholder approval. No termination, amendment or modification of the Directors Plan may adversely affect any award previously granted under the Directors Plan, without the written consent of the participant.

Certain Federal Income Tax Effects

Under present federal income tax regulations, there will be no federal income tax consequences to either Renal Care Group or the director when we grant a nonqualified stock option under the Directors Plan. However, when a director exercises an option, granted under the Directors Plan, the director will realize ordinary income in an amount equal to the excess of the fair market value of the common stock acquired over the exercise price, and we will receive a corresponding deduction. The gain, if any, realized on the director's subsequent disposition of the common stock will be short-term or long-term capital gain, depending on the director's holding period.

Benefits to Directors

During 2003, we issued options to purchase 5,625 shares of common stock to each of Mr. Hutts, Mr. Lapham and Dr. Jacobson. We issued these options on June 12, 2003 with an exercise price of \$34.89. In addition, in 2004 we issued options to purchase 11,250 shares of common stock to each of Mr. Grua and Mr. Smith. We issued these options on January 5, 2004 with an exercise price of \$41.88.

Whether or not the shareholders approve the proposed amendments to the Directors Plan, on the day after the annual meeting, we will grant each of Mr. Grua, Mr. Hutts, Dr. Jacobson, Mr. Lapham and Mr. Smith an option to purchase 5,625 shares of common stock, with an exercise price equal to the closing price of a share of our common stock on the New York Stock Exchange on that day. If the shareholders approve the amendment to the Directors Plan, on the day after the annual meeting, we will also grant Dr. McMurray and Dr. Lowery an option to purchase 5,625 shares of common stock with the same exercise price. We will make similar grants each year. Since Mr. Johnston is an employee, he will not receive awards under the Directors Plan but may receive awards under our other option plans.

Reason for Amendment of the Directors Plan

We believe that we must continue to align the interests of outside directors with those of our shareholders. We believe that the limitations on grants to the Chairman, Vice Chairman and medical directors were appropriate for Renal Care Group when the Directors Plan was adopted in 1996. At that time, we believed that any Chairman or Vice Chairman would be adequately compensated for his or her efforts through other means such as compensation as an officer or employee or ownership of a significant amount of our common stock.

Following the death of Sam A. Brooks, our prior Chairman and Chief Executive Officer, the board of directors determined to separate the roles of Chairman and Chief Executive Officer. The board of directors appointed a Chairman separate from the Chief Executive Officer primarily to assist the board in more efficiently and effectively providing oversight to management so it will continue to act in the long-term best interests of the company and its shareholders. We believe that if the positions of Chairman and Chief Executive Officer are separate and if the Chairman or Vice Chairman is not an employee, then it is necessary for the Chairman (or Vice Chairman) to remain an independent representative of the board in dealing with management on the shareholders' behalf. We also believe that if there is a Vice Chairman at a time when the positions of Chairman and Chief Executive Officer are held by the same person, then it is appropriate for the Vice Chairman to remain an independent representative of the board in dealing with management on the board's behalf and to receive options under the Directors Plan.

Further, we believed that compensation paid to board members who were medical directors, coupled with stock they received when the company was formed, would adequately compensate these board members. Recent changes in corporate governance have increased the demands on all board members' time. As a result, we believe it is appropriate to compensate all board members for their service including directors who are also medical directors. Therefore, the board of directors recommends the approval of the amendment described above to the 1996 Stock Option Plan for Outside Directors.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE APPROVAL OF THE AMENDMENT TO THE RENAL CARE GROUP, INC. 1996 STOCK OPTION PLAN FOR OUTSIDE DIRECTORS

Securities Authorized for Issuance under Equity Compensation Plans

This table gives information as of December 31, 2003 about the securities authorized for issuance under our existing equity compensation plans.

Plan Category(1)	Number of Shares to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Shares Remaining Available For Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected In Column (a)) (c)
Equity compensation plans approved by shareholders	5,646,000	\$26.50	1,242,000
Equity compensation plans not approved by shareholders(2)	353,000	\$12.86	
Total	5,999,000	\$25.70	1,242,000

- (1) Renal Care Group currently has three option plans that were assumed in connection with a merger, acquisition or other transaction. The first such plan was adopted by Renal Disease Management by Physicians, Inc. (RDM) in 1997, and there are approximately 9,000 options issued and outstanding with a weighted average exercise price of \$19.65 per share. The second plan was adopted by Dialysis Centers of America, Inc. (DCA) in 1995, and there are approximately 16,000 options issued and outstanding at a weighted average exercise price of \$25.58. The third plan was adopted in 1994, and there are approximately 8,000 options issued and outstanding under such plan to purchase shares at a weighted average exercise price of \$3.33.
- (2) These options were issued outside of our existing stock options plans to certain employees, officers, directors, and other key persons. These options vest over various periods up to five years and have a term of ten years from the date of issuance.

PROPOSAL 4**PROPOSED AMENDMENT TO THE COMPANY S****CERTIFICATE OF INCORPORATION TO
INCREASE THE AUTHORIZED COMMON STOCK**

Our board of directors has unanimously adopted a resolution proposing that the number of authorized shares of common stock be increased from 90,000,000 to 150,000,000, subject to approval of our shareholders. The relative rights and limitations of the common stock would remain unchanged under the amendment. Our common stock does not have preemptive rights.

As of the Record Date, there were 44,471,840 shares of common stock outstanding and 9,676,200 shares of treasury stock. Approximately 7,200,000 shares of common stock were reserved for issuance under our various stock option plans, plans of certain acquired companies and outstanding freestanding options. Thus, as of April 12, 2004, there were approximately 28,700,000 authorized shares of common stock unissued and not reserved for issuance. Furthermore, if the shareholders approve Proposal 2, 4,500,000 shares of common stock will be reserved under the 2004 Incentive Plan, reducing the authorized shares of common stock unissued and not reserved for issuance to approximately 24,200,000. In addition, our Shareholder Protection Rights Agreement could, in some events, require the issuance of additional shares of common stock.

We believe that increasing the number of authorized shares will provide several long-term advantages to us and our shareholders. The proposed increase will ensure that a sufficient number of shares will be available, if needed, for issuance in connection with possible future transactions approved by the board of directors, such as mergers, acquisitions, financings, stock splits and stock dividends. We believe that the availability of the additional shares of common stock for purposes like these without delay and without a special shareholders

meeting (except as may be required by applicable law or regulatory authorities or by the rules of the New York Stock Exchange or any stock exchange on which our securities may then be listed), will be beneficial to us. Having additional authorized shares will give us flexibility to consider and respond to future business opportunities and needs as they arise. The availability of additional authorized shares of common stock will also enable us to act promptly when the board of directors determines that the issuance of additional shares is advisable.

We have no specific plans or proposals to use any additional authorized shares. We regularly review and evaluate acquisition candidates as part of our growth strategy and are at various stages of evaluation, discussion or negotiation with a number of such candidates, but we are not a party to any definitive agreement or letter of intent regarding any material acquisition.

The proposed increase in the number of authorized shares of common stock could have a number of effects on our shareholders depending upon the exact nature and circumstances of any actual issuances of authorized but unissued shares. The increase could have an anti-takeover effect, in that we could issue additional shares (within the limits imposed by applicable law or New York Stock Exchange rules) in one or more transactions that could make a change in control or takeover more difficult. For example, we could issue additional shares so as to dilute the stock ownership or voting rights of persons seeking to obtain control. Our existing Shareholder Protection Rights Agreement would require such an issuance under certain circumstances. Similarly, the issuance of additional shares to persons allied with our management could make it more difficult to remove our management by diluting the stock ownership or voting rights of persons seeking to cause the removal of management.

Shares of common stock may be issued at a time and under circumstances that may increase or decrease earnings per share and increase or decrease the book value per share of shares presently held. Additional issuances of common stock could also affect the market price of the common stock.

The affirmative vote of the holders of a majority of the outstanding shares of common stock entitled to vote is necessary to adopt the proposed amendment to Article IV of our Certificate of Incorporation. The board of directors believes that it is in the best interests of the company to approve the proposed increase in the authorized common stock. If the proposal is adopted, the amended portion of Article IV of our Certificate of Incorporation will read as follows:

ARTICLE IV

CAPITAL STOCK

Section 4.1. Total Number of Shares of Stock. The total number of shares of stock of all classes that the Company shall have authority to issue is **160,000,000**. The authorized capital stock is divided into 10,000,000 shares of Preferred Stock, \$0.01 par value per share (the Preferred Stock), and **150,000,000** shares of Common Stock, \$0.01 par value per share (the Common Stock).

The only changes in Article IV that will be made as a result of the proposal are the changes to the two numbers set forth in bold face type above. Presently, our Certificate of Incorporation provides that the aggregate number of all classes which we may issue is 100,000,000 of which 90,000,000 are shares of common stock. All other portions of Article IV will remain unchanged, including the authorization of 10,000,000 shares of preferred stock, the preferences of which may be designated by the board. In connection with our Shareholder Protection Rights Agreement, the board has designated 400,000 shares as Series A Junior Participating Preferred Stock.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE APPROVAL OF THE

AMENDMENT TO THE CERTIFICATE

**SECURITY OWNERSHIP OF DIRECTORS,
OFFICERS AND PRINCIPAL SHAREHOLDERS**

The following table sets forth the number of shares of common stock held beneficially, directly or indirectly, as of the Record Date by (a) each shareholder that we know owns more than 5% of our outstanding common stock, (b) each director of Renal Care Group, (c) our named executive officers, and (d) all of our directors and executive officers as a group, together with the percentage of the outstanding shares of common stock which such ownership represents.

COMMON STOCK

Name	Beneficial Ownership(1)	
	Number	Percent
FMR Corp.(2)	6,751,314	15.2
Gary A. Brukardt(3)	412,333	*
Peter J. Grua(4)	11,250	*
Joseph C. Hutts(5)	12,250	*
Harry R. Jacobson, M.D.(6)	386,256	*
William P. Johnston(7)	38,806	*
William V. Lapham(8)	34,350	*
Thomas A. Lowery, M.D.	80,098	*
Stephen D. McMurray, M.D.(9)	34,692	*
C. Thomas Smith(10)	11,250	*
David M. Dill(11)	58,124	*
Raymond M. Hakim, M.D., Ph.D.(12)	361,753	*
Timothy P. Martin(13)	791	*
Douglas B. Chappell(14)	32,834	*
R. Dirk Allison	0	*
Estate of Sam A. Brooks, Jr.	0	*
All executive officers and directors as a group (13 persons)	1,474,787	3.2

* Less than 1% of the outstanding common stock.

- (1) Information relating to the beneficial ownership of common stock by the above individuals is based upon information furnished by each such individual using beneficial ownership concepts set forth in rules promulgated by the Securities and Exchange Commission (the SEC) under Section 13(d) of the Exchange Act. Beneficial ownership includes shares as to which such person or group, directly or indirectly, through any contract, management, understanding, relationship or otherwise has or shares voting power and/or investment power as those terms are defined in Rule 13d-3(a) of the Exchange Act. Except as indicated in other footnotes to this table, each individual listed above possesses sole voting and investment power with respect to all shares set forth by his or its name, except to the extent such power is shared by a spouse under applicable law. Any security that any person named above has the right to acquire within 60 days is deemed to be outstanding for purposes of calculating the ownership percentage by the particular person or group, but are not deemed outstanding for any other purpose.
- (2) The address of FMR Corp. is 82 Devonshire Street, Boston, Massachusetts 02109. Includes shares owned by various individual and institutional investors for which FMR Corp. serves as investment adviser with power to direct investments and/or sole power to vote the indicated shares. For purposes of the reporting requirements of the Exchange Act, FMR Corp. is deemed to be a beneficial owner of such shares; however, FMR Corp. expressly disclaims that it is, in fact the beneficial owner of such shares. This information is based solely on the Schedule 13G filed by FMR Corp. with the SEC in February 2004.

Edgar Filing: RENAL CARE GROUP INC - Form PRE 14A

- (3) Includes 407,750 shares of common stock that may be acquired upon exercise of options. Does not include 375,000 shares of common stock that may be acquired upon exercise of options that are not exercisable within 60 days.
- (4) Includes 11,250 shares of common stock that may be acquired upon exercise of options.
- (5) Includes 11,250 shares of common stock that may be acquired upon exercise of options.
- (6) Includes 91,250 shares of common stock that may be acquired upon exercise of options.
- (7) Includes 28,125 shares of common stock that may be acquired upon exercise of options
- (8) Includes 33,750 shares of common stock that may be acquired upon exercise of options. Does not include 500 shares of common stock held by his spouse.
- (9) Does not include 3,500 shares of common stock that may be acquired upon exercise of options that are held by his spouse.
- (10) Includes 11,250 shares of common stock that may be acquired upon exercise of options.
- (11) Includes 56,250 shares of common stock that may be acquired upon exercise of options. Does not include 168,750 shares of common stock that may be acquired upon exercise of options that are not exercisable within 60 days.
- (12) Includes 317,500 shares of common stock that may be acquired upon exercise of options and 26,667 shares of restricted stock. Does not include 295,000 shares of common stock that may be acquired upon exercise of options that are not exercisable within 60 days.
- (13) Does not include 171,250 shares of common stock that may be acquired upon exercise of options that are not exercisable within 60 days.
- (14) Includes 26,250 shares of common stock that may be acquired upon exercise of options. Does not include 96,250 shares of common stock that may be acquired upon exercise of options that are not exercisable within 60 days.

MANAGEMENT

The names, titles and biographies of our executive officers are set forth below. Biographical information concerning Gary A. Brukardt, who is also a director, is set forth under Proposal 1 in this proxy statement.

Name	Age	Position
Gary A. Brukardt	58	President and Chief Executive Officer
Raymond M. Hakim, M.D., Ph.D.	59	Executive Vice President and Chief Medical Officer
David M. Dill	35	Executive Vice President and Chief Financial Officer
Timothy P. Martin	46	Executive Vice President, Operations
Douglas B. Chappell	42	Senior Vice President, General Counsel and Secretary

Dr. Hakim has been our Executive Vice President and Chief Medical Officer since 1995. He has published extensively on the adequacy of dialysis and the clinical aspects of biocompatibility. From 1992 to 1995, Dr. Hakim served as Medical Director for the Vanderbilt Dialysis Program. He served as a member of the Medical Board of Vanderbilt University Medical Center in 1992, as Chairman of the Ambulatory Services Committee of Vanderbilt University Medical Center in 1990 and 1991, and as Director, Clinical Nephrology of Vanderbilt University Medical Center from 1987 to 1991. He received his M.S. from Rensselaer Polytechnic Institute, his Ph.D. from Massachusetts Institute of Technology and his M.D. from McGill University. Dr. Hakim performed his residency at Royal Victoria Hospital and his renal fellowship at Brigham and Women's Hospital.

Mr. Dill has been our Executive Vice President and Chief Financial Officer since November 2003. Mr. Dill has served in various finance and accounting roles since he joined the company in 1996. Immediately before he was promoted to be Executive Vice President and Chief Financial Officer, Mr. Dill was our Senior Vice President, Finance. Prior to joining Renal Care Group in 1996, Mr. Dill was an accountant with Deloitte & Touche LLP. Mr. Dill is a certified public accountant and holds a B.S. in accounting from Murray State University.

Timothy P. Martin was appointed Executive Vice President, Operations in November 2003. From 1997 until November 2003, Mr. Martin served in various operational positions; most recently he was our Senior Vice President East Group and had operational responsibilities for our University Program, and MidAmerica and East Regions. Prior to joining Renal Care Group in 1997, Mr. Martin was a Vice President for Comprehensive Healthcare of Ohio, a hospital holding company affiliated with the Cleveland Clinic Foundation. He began his business career in operations with Continental Cablevision. He holds a B.A. in political science and a M.B.A. from Case Western Reserve University's Weatherhead School of Business Management.

Mr. Chappell has been our Senior Vice President, Secretary and General Counsel since 1998. Before he joined the company in 1998, Mr. Chappell practiced law at Alston & Bird LLP from 1994 until 1998 and from 1988 until 1992. At Alston & Bird he specialized in corporate and securities law and mergers and acquisitions. From 1992 until 1994, Mr. Chappell was Senior Counsel at Policy Management Systems Corporation, a NYSE-listed provider of computer software and information services to the insurance industry. Mr. Chappell received his A.B. from Duke University and his J.D. from the University of Texas.

Employment Agreements

We have entered into employment agreements with Mr. Brukardt, Mr. Chappell, Mr. Dill, Dr. Hakim and Mr. Martin, as well as some other key associates. The term of the employment agreement for Mr. Brukardt commenced on April 28, 2003; the term of Mr. Chappell's commenced on January 1, 2004; the term of Mr. Dill's commenced on November 3, 2003; the term of Dr. Hakim's commenced on December 15, 2003; and the term of Mr. Martin's commenced on November 30, 2003. Each of these employment agreements has a term of three years with successive one-year renewal terms. Each of these employment

agreements contains restrictive covenants that prohibit the officer from competing with Renal Care Group for one year after the end of the employment term, unless the employment agreement is terminated following a change in control.

The annual salaries of the executive officers as set forth in the employment agreements are \$550,000, \$270,000, \$275,000, \$400,000 and \$300,000 for Mr. Brukart, Mr. Chappell, Mr. Dill, Dr. Hakim and Mr. Martin, respectively. These salaries are subject to adjustment by the compensation committee. Each executive officer is eligible under his employment agreement for bonuses at the sole discretion of the compensation committee.

The employment agreements also provide for severance of (i) salary for 12 months if the officer is terminated without cause; (ii) salary for one month if the officer is terminated for cause; (iii) salary (plus target bonus) for 36 months if the officer is terminated within 12 months of a change in control of Renal Care Group either (A) without cause or (B) by resignation of the officer as a result of declining to accept reassignment to a job that is not the equivalent of his then current position; or (iv) salary (plus target bonus) for 24 months if the officer resigns 12 months after a change in control. If any of the executive officers receives severance that would result in the imposition of excise tax under Section 4999 of the Code, then he will be entitled to the amount described above plus a gross-up payment, if necessary, to reimburse him for any such excise tax plus all federal, state and local income and excise taxes imposed on such gross-up payment. In addition, following a change in control, if any of the above officers resigns for any reason or is terminated without cause, the non-competition covenants set forth in his employment agreement will become null and void.

Prior to his death, Mr. Brooks was a party to an employment agreement with the company that had substantially similar terms to those of the other executive officers. The company also adopted a defined benefit plan for Mr. Brooks in 2003. That defined benefit plan is discussed below.

Prior to his resignation, Mr. Allison was also a party to an employment agreement with the company that had substantially similar terms to those of the other executive officers. Upon his resignation, Mr. Allison received a severance payment of \$540,000.

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth the annual salaries paid to our executive officers for the fiscal years ended December 31, 2001, 2002 and 2003, if the officer was an executive officer during any part of the year. We refer to Mr. Brooks, Mr. Allison, Mr. Brukardt, Mr. Chappell, Mr. Dill, Dr. Hakim, and Mr. Martin in this proxy statement as the Named Executive Officers. The Named Executive Officers include Mr. Brooks, who was our Chairman, Chief Executive Officer and President until his death on March 20, 2003, and Mr. Allison, our former Chief Financial Officer, who resigned that position effective November 3, 2003 and was not an executive officer of the company as of December 31, 2003.

Name and Principal Position	Year	Annual Compensation		Long-Term Compensation		All Other Compensation
		Salary	Bonus	Restricted Stock Awards(1)	Securities Underlying Options/SARs	
Sam A. Brooks	2003	\$ 175,000	\$ 992,000	\$	0	\$ 22,489(2)
Former Chairman of the Board,	2002	650,000	579,000		250,000	34,023(2)
President and Chief Executive Officer	2001	600,000	352,500	560,200	105,000	20,968(2)
Gary A. Brukardt	2003	501,000	461,250		200,000	19,096(2)
President and Chief Executive Officer	2002	410,000	241,800		150,000	9,174(2)
	2001	380,000	142,500		62,500	9,174(2)
Douglas B. Chappell	2003	253,606	118,125		50,000	529(2)
Senior Vice President, General Counsel and Secretary	2002					
	2001					
David M. Dill	2003	240,137	85,625		130,000	420(2)
Executive Vice President and Chief Financial Officer	2002					
	2001					
Raymond M. Hakim, M.D., Ph.D.	2003	389,231	433,000	1,096,280	120,000	3,074(2)
Executive Vice President and Chief Medical Officer	2002	360,000	221,000		150,000	3,074(2)
	2001	330,000	148,750		62,500	
Timothy P. Martin	2003	246,448	141,000		130,000	
Executive Vice President, Operations	2002					
	2001					
R. Dirk Allison	2003	332,539	371,250		120,000	541,574(3)
Former Executive Vice President, Chief Financial Officer, and Treasurer	2002	330,000	183,000		150,000	1,574(2)
	2001	286,539	93,750		62,500	1,574(2)

- (1) Mr. Brooks was granted a restricted stock award of 20,000 shares on August 2, 2001. The value in the table is based on a closing price of \$28.01 on that date. The award contains restrictions that lapsed on the date of his death. Dr. Hakim was granted a restricted stock award of 26,667 shares on December 15, 2003. The value in the table is based on a closing price of \$41.11 per share on that date.
- (2) The amounts represent premiums we paid in respect of life insurance policies and financial and estate planning services for the benefit of each Named Executive Officer.
- (3) Includes (A) a retention/severance payment of \$540,000, and (B) \$1,574 in premiums we paid in respect of a life insurance policy for the benefit of Mr. Allison.

Option Grants in 2003

The following table is a summary of all stock options granted to the Named Executive Officers during the year ended December 31, 2003. Individual grants are listed separately for each Named Executive Officer. In addition, this table shows the potential gain that could be realized if the price of the common stock were to appreciate at an annual rate of either 5% or 10% over the option term.

Name	Number of Securities Underlying Options Granted(1)	% of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price (\$/share)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(2)	
					5%	10%
Gary A. Brukardt	200,000	10.4	\$ 30.00	4/28/13	3,773,368	9,562,455
Douglas B. Chappell	50,000	2.6	34.65	8/6/13	1,089,560	2,761,159
David M. Dill	30,000	1.6	34.65	8/6/13	653,735	1,656,695
	100,000	5.2	37.81	11/6/13	2,377,851	6,025,940
Raymond M. Hakim, M.D., Ph.D.	120,000	6.2	34.65	8/6/13	2,614,944	6,626,781
Timothy P. Martin	30,000	1.6	34.65	8/6/13	653,735	1,656,695
	100,000	5.2	37.81	11/6/13	2,377,851	6,025,940
R. Dirk Allison	120,000	6.2	34.65	8/6/13	2,614,944	6,626,781

- (1) Options vest as to 25% of the shares one year after the date of grant and an additional 25% on each successive anniversary date.
- (2) The potential realizable value through the expiration date of the options has been determined on the basis of the market price per share at the time of grant compounded annually over the term of the option, net of the exercise price. These values have been determined based upon assumed rates of appreciation mandated by the Securities and Exchange Commission and are not intended to forecast the possible future appreciation, if any, of the price or value of the common stock.

Aggregated Option Exercises In 2003 And Year-End Values

Set forth below is information with respect to exercises of options by the Named Executive Officers during 2003 pursuant to Renal Care Group's stock incentive plans, and information with respect to unexercised options held by the Named Executive Officers as of December 31, 2003.

Name	Number of Shares Acquired on Exercise	Value Realized(1)	Number of Securities Underlying Unexercised Options Held at December 31, 2003		Value of Unexercised In-the-Money Options at December 31, 2003(2)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Sam A. Brooks(3)	900,016	\$ 10,147,424	0	0	\$ 0	\$ 0
Gary A. Brukardt	93,750	2,162,063	407,750	375,000	8,025,717	4,882,438
Douglas B. Chappell	32,500	737,995	26,250	96,250	416,013	1,048,183
David M. Dill	0	0	56,250	168,750	1,183,553	1,143,618
Raymond M. Hakim, M.D., Ph.D.	95,000	2,236,093	365,000	295,000	7,673,563	3,428,438
Timothy P. Martin	47,500	746,776	0	171,250	0	1,176,568
R. Dirk Allison	119,375	1,916,750	0	0	0	0

- (1) These amounts represent the market value of the underlying common stock on the date of exercise, less the applicable exercise price.

- (2) The market value of the common stock on the New York Stock Exchange was \$41.20 per share as of December 31, 2003.
- (3) Includes options exercised and amounts received by Mr. Brooks' estate after his death.

DEFINED BENEFIT PLAN

In January 2004, the board of directors approved a retirement benefit plan for Mr. Brooks, our former Chairman, Chief Executive Officer and President. The plan provides that the company will make 120 monthly payments of \$50,000 to Mr. Brooks or his estate beginning on his death or retirement. Mr. Brooks died in March 2003, and we made the first payment under this plan in May 2003. The plan also provides that the company will maintain health coverage for Mr. Brooks' surviving spouse for ten years.

COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

Introduction

This report is submitted by the compensation committee at the direction of the board of directors. It provides information about the compensation and benefits provided to our Chief Executive Officer and other executive officers. The compensation committee is responsible for all decisions regarding compensation for our executive officers. The compensation committee is composed of three independent directors. Because the committee believes that each executive officer has the potential to affect both our short-term and long-term profitability, the committee places considerable importance on the task of creating and implementing our executive compensation program.

Our executive compensation program is focused on shareholder value, our overall performance, the effect of the executive's performance on our success and the individual performance of the particular executive.

Compensation Philosophy

The committee's philosophy is to integrate the compensation of our executive officers with corporate performance. The committee's objectives are to measure executive performance against short-term and long-term goals, reward performance, and recognize individual initiative and achievements. The committee is also focused on assisting the company in attracting, motivating and retaining qualified executives, while aligning the incentives of management with the interests of shareholders. In administering the compensation policies and programs used by the committee and endorsed by the board of directors, the committee:

recommends total compensation of executive officers in relation to our performance;

aligns compensation amounts with comparable levels paid to executive officers of companies comparable to us in size and performance; and

provides cash bonuses based upon a percentage of annual salary to motivate and retain highly-qualified executive officers.

The compensation committee considers and approves all grants of stock options and restricted stock. Our compensation program currently consists of base salary and annual incentive compensation in the form of cash bonuses and options. In 2003, the committee reviewed, with the assistance of outside consultants, our executive compensation relative to executive compensation of peer groups. Because our compensation plan involves incentives that are contingent upon our performance and individual performance, an executive officer's actual compensation level in any particular year may be above or below the compensation of similarly situated officers of competitors. The committee reviews each element of executive compensation annually. The key components of our executive compensation program are described below.

Base Salary

The compensation committee reviews and approves an annual salary plan for our executive officers. In 2003, the salary plan was developed by the chairman of the compensation committee with input from compensation consultants. The committee then reviewed the plan with our new Chairman of the Board and our new Chief Executive Officer. The committee reviewed reports from independent compensation consultants and considered other subjective factors in determining the salary plans for 2003. The committee's goal was to place base compensation at or near the median of peer group companies with bonus compensation and option incentives that could, if we perform well, result in total compensation at or near the 75th percentile of peer group companies.

Among the factors the committee considered in determining base salary were the executive officer's responsibilities, the scope of the position, length of service, corporate and individual performance and salaries paid by other health care services companies to officers in similar positions. The committee then integrated these factors with other relevant factors, including our net income, earnings per share, return on invested capital and growth.

Bonuses

The compensation committee believes that a significant portion of the total cash compensation for executive officers should be based on achievement of specific criteria, including earnings per share, clinical performance and individual performance. Executive officers receive a cash bonus based on a percentage of annual base salary, if the company and the executive officer meet annual performance targets. The performance targets are established and communicated at the beginning of each year. The committee includes clinical performance targets and individual performance targets with earnings-based targets to determine bonuses for the executive officers. The committee believes our long-term success depends not only on earnings per share performance but also on keeping our patients healthy and on having the executive officers take responsibility for meeting their personal goals, both of which may not translate directly into improved financial performance during a particular year. In 2003, the target bonus for the Chief Executive Officer was 100% of base salary; the target bonus for each of the executive vice presidents was 75% of base salary; and the target bonus for Mr. Chappell was 50% of base salary. Maximum bonuses for executive officers in 2003 could have been as much as 150% of base salary in the case of the Chief Executive Officer, 112.5% for executive vice presidents and 75% for Mr. Chappell. As a result, a significant part of each executive's cash compensation package is at risk based on his and our performance.

Long-Term Component, Stock Incentive Plans

To date, we have relied primarily upon stock option and restricted stock awards to provide long-term incentives for executives, align executives' incentives more closely with the interests of shareholders and to allow us to keep the level of base compensation at or near the median for the industry. The compensation committee continues to believe that stock options and restricted stock awards have been and remain an excellent vehicle for providing financial incentives for management. Our stock incentive plans permit us to issue stock options and restricted stock awards to officers, key employees, and consultants. Subject to general limits prescribed by the stock incentive plans, the compensation committee has the authority to determine the individuals to whom stock options and restricted stock awards are granted, the terms of the options and restricted stock awards, and the number of shares subject to each option or restricted stock award.

The size of any particular stock option or restricted stock award is generally based upon the individual executive's position and performance during the related evaluation period. With respect to stock options, because the exercise price of the options is the market price of a share of our common stock on the date of grant and the options generally vest over a period of time, employees benefit only if the value of our common stock increases. Thus, employees with stock options are rewarded for their efforts to improve long-term stock market performance. In this way, the committee works to align the financial interests of management with those of our shareholders. For this reason, we use stock options as our principal long-term incentive program.

Executive officers may also participate in our Employee Stock Purchase Plan. Executive officers participate in the stock purchase plan on the same terms as non-executive employees who meet the applicable eligibility criteria, subject to any legal limitations on the amounts that may be contributed or the benefits that may be payable under the plan. All contributions to the stock purchase plan are made or invested in Renal Care Group's common stock. These features are intended to align the employees' and shareholders' long-term financial interests more closely.

Chief Executive Officer Compensation

The compensation committee's basis for compensation of Mr. Brukardt, during his tenure as our Chief Executive Officer during 2003, was based on the compensation philosophy discussed above. Mr. Brukardt participated in the same executive compensation plans available to the other executive officers. In 2003, the committee set Mr. Brukardt's base salary at \$550,000 after he was named Chief Executive Officer. The compensation committee also approved options to purchase 200,000 shares of common stock for Mr. Brukardt when he was named Chief Executive Officer. The compensation levels established for Mr. Brukardt were in response to the board's and the committee's assessments of our performance and accomplishments in 2003, as well as Mr. Brukardt's position and the nature of his responsibilities and contributions. The committee considered Mr. Brukardt's performance in terms of the company's success in meeting performance targets, from both an operational and a financial standpoint, and in developing and executing our strategic plan.

The compensation committee's basis for compensation of Mr. Brooks during his tenure as our Chief Executive Officer in 2003, was based on the compensation philosophy discussed above. Mr. Brooks' base salary had been established in 2002 and was continued, and the bonus he received in 2003 related to our performance in 2002. The committee, following consultation with a compensation consultant, recommended that the board approve the defined benefit plan for Mr. Brooks. The committee made this recommendation in light of the substantial contribution he had made to the founding and success of the company as well as the fact that we did not have an executive retirement plan. The committee reviewed the practices of other companies in our peer group and determined that such a benefit was appropriate for Mr. Brooks.

Federal Income Tax Deductibility Limitations

The compensation committee intends to work to structure future compensation so that executive compensation paid by Renal Care Group is fully deductible in accordance with Section 162(m) of the Internal Revenue Code. One of the features of the 2004 Incentive Plan discussed above, is a cash incentive provision that would make bonuses granted under it deductible for Section 162(m) purposes. Section 162(m) generally disallows a tax deduction to public companies for compensation over \$1 million paid to certain executive officers unless certain conditions are met. However, the committee may, in a particular case, decide to approve compensation that may prove not to be deductible.

Summary

The compensation committee believes that the company's mix of base salaries, variable cash incentives and the potential for equity ownership is an appropriate balance that serves to motivate the management team to produce strong returns for our shareholders over the long term. The committee also believes this program strikes an appropriate balance between our interests and needs in operating the business and appropriate rewards based on shareholder value.

Submitted by the Compensation Committee

Joseph C. Hutts, Chairman

Peter J. Grua

Harry R. Jacobson, M.D.

SHAREHOLDER RETURN**PERFORMANCE GRAPH**

The graph below shows the comparative performance of our common stock with (a) the performance of a broad equity market indicator and (b) the performance of a published industry index or peer group. The graph compares the percentage change of cumulative total shareholder return on our common stock with (1) the Standard & Poor's 500 Composite Index and (2) the Nasdaq Health Services Stocks, SIC Codes 8000-8099. The graph begins on January 1, 1999. For purposes of preparing the graph, we assumed that an investment of \$100 was made on January 1, 1999 in each of our common stock, the S&P 500 Composite Index and the Nasdaq Health Services Stocks and that all dividends, if any, were reinvested at the time they were paid.

The comparison in the graph below is based on historical data and is not intended to forecast the possible future performance of the common stock.

Comparison of Five-Year Cumulative Total Returns**Performance Graph for Renal Care Group, Inc.**

	12/1998	12/1999	12/2000	12/2001	12/2002	12/2003
Renal Care Group, Inc.	100.0	81.1	95.2	111.4	109.8	143.0
S&P 500 Stocks	100.0	121.1	110.3	97.3	75.8	97.5
Nasdaq Health Services Stocks SIC 8000 8099 US & Foreign	100.0	80.4	110.4	119.4	102.9	157.3

Source: Center for Research in Security Prices

Notes:

- A. The lines represent monthly index levels derived from compounded daily returns that include all dividends.
- B. The indexes are reweighted daily, using the market capitalization on the previous trading day.
- C. If the monthly interval, based on the fiscal year-end, is not a trading day, the preceding trading day is used.
- D. The index level for all series was set to \$100.0 on 12/31/1998.

The report of the compensation committee and the performance graph do not constitute soliciting material and should not be deemed to be filed with the Securities and Exchange Commission or incorporated by reference into any of our other filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that we specifically incorporate the report or performance graph by reference in any of those filings.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Members of the Compensation Committee during 2003 were Mr. Hutts, Mr. Lapham and Dr. Jacobson.

Dr. Jacobson currently serves as Vice Chancellor of Health Affairs at Vanderbilt University. We are a party to two Dialysis Center Management Agreements with Vanderbilt University Medical Center (VUMC) pursuant to which we manage VUMC's outpatient dialysis centers. Each agreement has a one-year term that is automatically renewed each year unless either party cancels the agreement at least 90 days prior to the end of the current term. We received approximately \$805,000 pursuant to these agreements for the year ended December 31, 2003.

AUDIT AND COMPLIANCE COMMITTEE REPORT

The audit and compliance committee of the board of directors oversees our financial reporting process on behalf of the board. The committee operates under a written charter adopted by the board of directors in 1999 and amended in March 2003. This report reviews the actions taken by the audit and compliance committee with regard to our financial reporting process during 2003, particularly with regard to our audited consolidated financial statements as of December 31, 2002 and 2003 and for the years ended December 31, 2001, 2002 and 2003.

All members of the audit and compliance committee are independent, as that term is defined by NYSE listing requirements and the SEC's rules, and the board has determined that Mr. Lapham is a financial expert for purposes of the NYSE listing requirements and the SEC's rules under the Sarbanes-Oxley Act of 2002. None of the members is or has been an officer or employee of Renal Care Group or any of our subsidiaries, and none of them has engaged in any business transaction or has any business or family relationship with Renal Care Group or any of our subsidiaries or affiliates that would cause that member not to be considered independent.

Management has the primary responsibility for our financial statements and reporting process, including the systems of internal controls. Ernst & Young LLP, our independent auditor, is responsible for performing an independent audit of our consolidated financial statements in accordance with auditing standards generally accepted in the United States and issuing a report on those financial statements. The audit and compliance committee monitors and oversees these processes and selects the accountants to serve as our independent auditor for the coming year.

The audit and compliance committee has implemented procedures to guide its activities during the course of each fiscal year. These procedures are designed to allow the committee to devote the attention that it deems necessary or appropriate to fulfill its oversight responsibilities under its charter. To carry out its responsibilities, the committee met four times during 2003. In addition, the committee's chairman and other committee members met with management, our internal and independent auditors prior to the release of quarterly financial information.

In fulfilling its oversight responsibilities, in March 2004, the committee met with management and the independent auditor to review the audited financial statements to be included in Renal Care Group's annual report on Form 10-K for 2003. This review included a discussion of the quality (rather than just the acceptability) of the accounting principles, the reasonableness of significant judgments, the identification and application of significant accounting policies and the clarity of disclosures in the financial statements. The audit and compliance committee also reviewed with our independent auditor its judgments as to the quality (rather than just the acceptability) of our accounting principles, the identification and application of significant accounting policies and the other matters that are required to be discussed with the committee under Statement on Auditing Standards No. 61, *Communication with Audit Committees*, as amended.

The audit and compliance committee obtained a formal written statement from our independent auditor that described all relationships between us and the auditor that might bear on the auditor's independence consistent with Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*. The committee discussed with the independent auditor any relationships that may have an

impact on the independent auditor's objectivity and independence, and the committee determined that the independent auditor is independent. The committee also considered whether the provision of other non-audit services by Ernst & Young is compatible with maintaining Ernst & Young's independence.

Additionally, the committee discussed the overall scope and plan for audits with our internal and independent auditors. The committee met with our internal and independent auditors, with and without management present, to discuss the results of their examinations, their evaluations of our internal controls and the overall quality of our financial reporting.

In reliance on the reviews and discussions referred to above, the audit and compliance committee recommended to the board of directors that the audited financial statements be included in our annual report on Form 10-K for 2003 for filing with the SEC. The audit and compliance committee also resolved to retain Ernst & Young as Renal Care Group's independent auditor for 2004.

Submitted by the audit and compliance committee:

William V. Lapham, Chairman
Joseph C. Hutts
Peter J. Grua
C. Thomas Smith

The report of the audit and compliance committee does not constitute soliciting material and should not be deemed to be filed with the Securities and Exchange Commission or incorporated by reference into any of our other filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that we specifically incorporate the report by reference in any of those filings.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Medical Director Arrangements

Dr. Lowery is a partner in Tyler Nephrology Associates, P.A., a practice group currently consisting of eight nephrologists. Renal Care Group entered into a Medical Director Agreement with that practice group effective as of February 12, 2003. The Medical Director Agreement has a term of seven years with successive renewal terms of three years each and provides for medical director fees of \$532,000 subject to agreed adjustments. During 2003, Renal Care Group paid Tyler Nephrology Associates, P.A. a total of \$701,622 under this agreement.

Dr. McMurray is a member of Indiana Dialysis Management, a division of Indiana Medical Associates, a 46-member multi-specialty practice group. Renal Care Group entered into a Medical Director Agreement dated February 12, 1996 with the predecessor of that practice group. The Medical Director Agreement has a term of seven years with successive renewal terms of three years each and provides for medical director fees of \$326,000 subject to agreed adjustments. During 2003, Renal Care Group paid Indiana Dialysis Management a total of \$620,000 under this agreement.

We believe that each of the foregoing agreements was obtained on terms no less favorable to the company than could be obtained from unaffiliated third parties. The terms of each Medical Director Agreement were determined by arm's-length negotiations between Renal Care Group and the practices, with the member of the board of directors taking no part in Renal Care Group's review or negotiation of the relationship.

Consulting Services

Renal Care Group entered into an Independent Contractor Agreement with Dr. McMurray, dated November 20, 1997, pursuant to which Dr. McMurray receives \$12,000 per month in connection with service provided to the company. Dr. McMurray received \$144,000 under this agreement during 2003.

Barbara McMurray, Dr. McMurray's spouse, is an employee of Renal Care Group, serving as Vice President, Operations Development. In 2003, Ms. McMurray received a base salary of \$150,734 plus bonuses of \$50,888.

Relationship with Indiana Dialysis Management

Renal Care Group and Indiana Dialysis Management formed two joint ventures in 2001, each of which owns and operates one dialysis center in or near Fort Wayne, Indiana. Indiana Dialysis Management owns a 30% interest in one of the joint ventures and 40% in the other. The agreements for these joint ventures require all members of the joint venture to contribute in cash their share of all capital (including working capital) to operate the business and provide for distributions out of net cash flow strictly in accordance with the members' interests. During 2001, Indiana Dialysis Management contributed \$380,000 to the capital of one of these two joint ventures and \$351,493 to the capital of the other. During 2003, the members of these joint ventures received distributions equal to \$90,000. The formation of these joint ventures was reviewed by the audit and compliance committee and was approved by the full board of directors, with Dr. McMurray not taking part in the deliberations.

Leases of Real Property

Dr. Lowery owns a 37% interest in real property and improvements that we lease and use in the operation of two of our dialysis centers, are located in Carthage and the other Tyler, Texas. Each lease is a triple net lease with rent payable at \$12.00 per square foot per year. The Tyler lease requires a gross payment of \$20,092 per month, and the Carthage lease requires a gross payment of \$2,479 per month. Each lease has an initial term of ten years with two additional five-year renewal options. The amount of rent is subject to a consumer price index adjustment after the initial five-year period. During 2003, Renal Care Group paid approximately \$260,660 in rent under these leases net of amounts attributable to the subleases.

We believe that the foregoing leases were obtained on terms no less favorable than could be obtained from unaffiliated third parties.

Company Policy

Our policy is that transactions with affiliates must be reviewed by the audit and compliance committee and approved by a majority of the disinterested members of the board of directors and that the transactions will be made on terms no less favorable to Renal Care Group than could be obtained from unaffiliated third parties.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Under Section 16 of the Exchange Act, our directors, executive officers and any person holding more than 10% percent of our common stock are required to report their ownership of common stock and any changes in that ownership to the SEC and the New York Stock Exchange. SEC regulations require these persons to furnish copies of these reports to us. Specific due dates for these reports have been established, and Renal Care Group must report any failure to make required filings in 2003 in this proxy statement. Based solely on a review of the reports furnished to us or written representations from the company's directors, officers and ten percent beneficial owners, all of these reporting requirements were satisfied with the exception of the following: Form 4 filed by each of Messrs. Hutts and Lapham and D. Jacobson in connection with the grant of options to purchase 5,625 shares of common stock to each of them; Form 4 filed by Dr. McMurray in connection with the company's grant of options to purchase 15,000 shares of common stock to his spouse, the exercise of options to purchase 22,500 shares of common stock by his spouse and the sale of 5,000 shares of common stock by Dr. McMurray; Form 4 filed William P. Johnston in connection with the grant of options to purchase 16,875 shares of common stock; and Form 4 filed by Timothy P. Martin in connection with the exercise of options to purchase 16,250 shares of common stock.

AUDITORS

Ernst & Young has served as Renal Care Group's independent auditors since the company's inception and has been selected to serve in that capacity for the fiscal year ended December 31, 2004. A representative of Ernst & Young will attend the 2004 annual meeting to respond to questions from shareholders and to make a statement if necessary.

Audit Fees

The aggregate fees billed by Ernst & Young for professional services rendered for the audit of the company's annual financial statements for the fiscal year ended December 31, 2004, and the reviews of the financial statements included in the company's quarterly reports on Form 10-Q during the fiscal years ended December 31, 2002 and December 31, 2003 were \$254,498 and \$308,000, respectively.

Audit-Related Fees

The aggregate fees billed by Ernst & Young in fiscal 2002 and 2003 for audit-related services were \$142,801 and \$108,000, respectively. These audit-related fees were for reviews of our internal controls as they are maintained using the computer systems that support our financial reporting system.

Tax Fees

The aggregate fees billed by Ernst & Young for tax-related services in fiscal 2002 were \$775,245. Of this amount, \$531,045 related to tax compliance services (principally the preparation and review of tax returns and assistance in responding to audits and reviews by taxing authorities) and \$244,200 related primarily to assistance with federal, state and local tax planning advice. The aggregate fees billed by Ernst & Young for tax-related services in fiscal 2003 were \$812,000. Of this amount, \$622,000 related to tax compliance services

Edgar Filing: RENAL CARE GROUP INC - Form PRE 14A

(principally the preparation and review of tax returns and assistance in audits and reviews by taxing authorities) and \$190,000 related primarily to assistance with federal, state and local tax planning advice.

All Other Fees

There were no fees billed by Ernst & Young for professional services rendered during the fiscal years ended December 31, 2002 or December 31, 2003, other than those described above under the captions Audit Fees, Audit-Related Fees and Tax Fees.

Audit Committee Review

Our audit and compliance committee has reviewed the services rendered and the fees billed by Ernst & Young for the fiscal year ended December 31, 2003. The audit and compliance committee determined that the services rendered and the fees billed last year that were not related to the audit of our financial statements are compatible with the independence of Ernst & Young as our independent auditors. Our audit committee approves all fees to be paid for audit and non-audit services of Ernst & Young prior to engagement.

SHAREHOLDER PROPOSALS TO BE PRESENTED AT NEXT ANNUAL MEETING

Shareholders wishing to submit a proposal pursuant to Rule 14a-8 of the Exchange Act for action at our 2005 annual meeting of shareholders and to have such proposal included in our proxy materials relating to that meeting, must deliver their proposals to us at our principal offices not later than December 30, 2004. Additional legal requirements under Rule 14a-8 apply to any inclusion of shareholder proposals in our proxy materials. Under our bylaws, any shareholder who intends to present a proposal outside of Rule 14a-8 for action at the 2004 annual meeting must file a copy of the proposal with our Secretary at least 60 days before the meeting. However, if we give less than 70 days notice or prior public disclosure of the date of the meeting to shareholders, then notice by the shareholder will be considered timely if we receive it not later than the close of business on the 19th day following the day on which such notice of the date or public disclosure was made. Any notice of a shareholder proposal should be sent to Secretary, Renal Care Group, 2525 West End Avenue, Suite 600, Nashville, Tennessee 37203.

ANNUAL REPORTS

Renal Care Group's 2003 Annual Report to shareholders is being mailed to shareholders with this proxy statement. The Annual Report is not part of the proxy soliciting material.

SHAREHOLDERS MAY OBTAIN A COPY OF OUR ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003, AS FILED WITH THE SEC, FREE OF CHARGE, UPON WRITTEN REQUEST TO INVESTOR RELATIONS, RENAL CARE GROUP, INC., 2525 WEST END AVENUE, SUITE 600, NASHVILLE, TENNESSEE 37203 AND MAY ALSO OBTAIN A COPY AT OUR WEBSITE AT WWW.RENALCAREGROUP.COM.

OTHER MATTERS

Management knows of no other matters to be presented and acted upon at the annual meeting other than those set forth in the accompanying notice. However, if any other matters requiring a vote of the shareholders should properly come before the 2004 annual meeting or any adjournment thereof, each proxy will be voted with respect thereto in accordance with the best judgment of the proxy holder.

RENAL CARE GROUP, INC.
This Proxy is Solicited on Behalf of the Board of Directors.

The undersigned hereby appoints Gary A. Brukart and David M. Dill as Proxies, each with power to appoint his substitute, and hereby authorizes either one or both of them to represent and to vote, as designated below, all the shares of common stock of Renal Care Group, Inc. held of record by the undersigned on April 12, 2004, at the 2004 Annual Meeting of Shareholders to be held on June 9, 2004.

The Board of Directors recommends a vote **FOR** all of the following proposals:

1. ELECTION OF DIRECTORS

- FOR** the nominees listed below
(except as marked to the contrary)
- WITHHOLD AUTHORITY** to vote
for all nominees listed below

(INSTRUCTION: To withhold authority to vote for any individual nominee, write that nominee's name on the space provided below.)

(Joseph C. Hutts, Harry R. Jacobson, M.D. and Thomas A. Lowery, M.D. as Class II Directors)

2. PROPOSAL TO: approve the Renal Care Group, Inc. 2004 Stock and Incentive Compensation Plan;
 FOR **AGAINST** **ABSTAIN**
3. PROPOSAL TO: approve an amendment to the Renal Care Group, Inc. 1996 Stock Option Plan for Outside Directors to allow the grant of options to directors who are medical directors and the Chairman or Vice Chairman of the Board of Directors, if such director is not also an employee of the Company;
 FOR **AGAINST** **ABSTAIN**

(Continued and to be dated and signed on reverse side)

4. PROPOSAL TO: approve an amendment to the Renal Care Group, Inc. Certificate of Incorporation to increase the number of authorized shares of its \$0.01 par value common stock from 90,000,000 shares to 150,000,000 shares; and
o **FOR** o **AGAINST** o **ABSTAIN**

5. In their discretion, the Proxies are authorized to vote upon such other business as may properly come before the meeting.

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER DIRECTED BY THE UNDERSIGNED SHAREHOLDER. IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR THE NOMINEES FOR DIRECTORS LISTED ABOVE AND FOR PROPOSALS 2, 3, AND 4 ABOVE.

Please sign exactly as name appears below. When shares are held by joint tenants, both should sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such.

If a corporation, please sign in full corporate name by President or other authorized officer. If a partnership, please sign in partnership name by authorized person.

DATED: _____, 2004

Signature

Signature if held jointly