

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.

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(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- x No fee required.
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(1) Title of each class of securities to which transaction applies:

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(4) Date Filed:

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## 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.**

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## **RENAL CARE GROUP, INC.**

2525 West End Avenue  
Suite 600  
Nashville, Tennessee 37203

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### **PROXY STATEMENT**

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#### **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.

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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. Brukardt, 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

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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](http://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](http://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](http://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](http://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](http://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.

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*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