TORRANCE, Calif., July 18 /PRNewswire/ -- Total Renal Care Holdings, Inc. (NYSE: TRL) announced today that, based upon preliminary information, the Company anticipates second quarter results will be lower than its previous expectations. The results for the second quarter will reflect the impact of both higher operating expenses and lower net operating revenues per treatment for services billed out of the Company's Tacoma office. This office is responsible for billing approximately 55% of the Company's domestic dialysis revenues. Earnings per share, before the charges discussed below, are currently estimated to be in the range of $0.20 to $0.22.

In addition, the Board of Directors has announced that it has accepted the resignation of John King as Chief Financial Officer. Maris Andersons, a member of the Company's Board of Directors and Senior Advisor, Corporate Finance of Tenet Healthcare Corp. until his retirement in 1997, has been appointed Chairman of a newly formed Finance Committee of the Board of Directors and will work with the Company's financial executives pending the hiring of a new Chief Financial Officer. The Company has engaged Spencer Stuart to conduct a nationwide search for Mr. King's replacement.

Charges for Increased Reserves and Accruals of Operating Expenses. The Company also has determined that reserves against patient accounts receivable and the accrual for operating expenses should be increased. In total these charges are expected to be at least $33 million on a pre-tax basis and $20 million on an after-tax basis. In addition, the Company is reviewing claims for payment from certain of its vendors of approximately $8 to $10 million on a pre-tax basis for which additional accruals will be established if warranted.

* Accounts Receivable - Based upon additional information and analysis of

current collection activity, the Company now estimates an increase in reserves of at least $20 million, on a pre-tax basis, against the accounts receivable billed from its Tacoma office. Such charges will be allocated to increases in contractual allowances and bad debt expense for the second quarter. The portion of such charges allocated to contractual allowances will reduce net operating revenues for the quarter, which are currently estimated to be approximately $370 million prior to such reduction. Improved billing systems and procedures were developed and implemented in late 1998 at the Company's Berwyn billing office, which is responsible for billing approximately 45% of the Company's domestic dialysis revenues. These comprehensive changes have proven very successful. During the first two quarters of 1999, the Berwyn office has collected cash equal to approximately 100% of net operating revenues, after bad debt expense, for the same two quarters. These systems and procedures are now in the process of being implemented in the Tacoma billing office. * Operating Expense Accruals - The increase of accruals for operating expenses as of March 31, 1999 of at least $13 million on a pre-tax basis was related primarily to Epogen and other medical supplies and other services. The under accrual was primarily related to the conversion of the Company's financial software to an improved general ledger system. In addition, as noted above, the Company is reviewing claims for payment from certain of its vendors of approximately $8 to $10 million, on a pre-tax basis, for which additional accruals will be established if warranted.
Increased Operating Expenses and Net Operating Revenues. The Company has experienced an increase in on-going operating expenses, which resulted in lower earnings per share for the second quarter. The increase in ongoing operating expenses are attributable primarily to 1) increased Epogen and other medical supply costs, 2) personnel costs at both the facility and corporate levels, and 3) other facility operating expenses, including repair and maintenance, equipment rental and other purchased services.

Net operating revenues for the second quarter will be approximately $370 million, before any increase in contractual allowances as described above. Although the Company has experienced increased ancillary services revenues on a per treatment basis, in particular for Epogen, these increases have been offset by the decline in net operating revenues per treatment for services billed out of the Company's Tacoma office.

Evaluation of Minority Investments. The Company is also evaluating its minority investments in unconsolidated subsidiaries. The Company's aggregate investment in such subsidiaries totals approximately $35 million in stock and convertible debt. While the Company's evaluation of the investments is not yet complete, the Company does not anticipate that reserves, if any, which may be required for such investments would exceed $10 million, on a pre-tax basis.

Victor M.G. Chaltiel, Chairman and Chief Executive Officer of Total Renal Care stated: "We are very disappointed to discover that we will not be meeting our earnings expectations for the second quarter and for 1999. We have made substantial investments in our human and information system resources and believe that we are putting in place a greatly strengthened infrastructure which should lead to improved operating results. The strong operating environment at Total Renal Care and its growth prospects remain intact."

Mr. Andersons said, "The Board is actively working with the Company to speed the development of the Company's financial and operational infrastructure and processes. We are working with PricewaterhouseCoopers LLP, the Company's independent accountants, and other advisors to achieve these improvements."

George De Huff, President and Chief Operating Officer, who joined the Company on May 17, 1999, added: "Our staff, affiliated physicians, and patients can rest assured that our quality of care and service will continue unaffected and will never be compromised. Our operations remain strong, with same-store volume (treatments) growth of 7.5% for the second quarter of 1999."

The Company expects to release its second quarter earnings, as scheduled, on August 10, 1999 and will hold a conference call on that date.

Torrance, California-based Total Renal Care Holdings, Inc. is the second largest (and largest independent) worldwide provider of integrated dialysis services for patients suffering from chronic kidney failure. The Company owns and operates high-quality, free-standing kidney dialysis centers and home peritoneal dialysis programs in 35 states, as well as Washington, D.C., Puerto Rico, Guam, Argentina and several European countries. It also provides high quality acute hemodialysis services to inpatients at approximately 330 hospitals. As of July 1, 1999, TRL operated 564 outpatient dialysis facilities serving more than 44,000 patients, including more than 3,300 patients in 43 centers under TRL management. TRL also operates ESRD laboratory and pharmacy facilities, as well as vascular access management, transplant services and ESRD clinical research programs.

This release contains forward-looking statements which are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include statements regarding potential strengthening of operations and market opportunities and involve risks and uncertainties that could cause actual results to differ materially from the forward-looking statements. Factors which could cause or contribute to such differences include, but are not limited to, the uncertainties associated with governmental regulation, general economic and other market conditions, and the "risk factors" set forth in the Company's filings with the Securities and Exchange Commission, including but not limited to (1) the risks inherent in the Company's growth strategy,(2) possible changes in Medicare and Medicaid reimbursement rates, (3) dependence on physician referrals, (4) risks associated with operations outside the United States, and (5) the amount of leverage the Company has obligations to pay. The forward-looking statements should be considered in light of these risks and uncertainties.

SOURCE Total Renal Care Holdings, Inc.
