



Davita.

2010 ANNUAL REPORT



Paulita, a 31-year-old patient with end stage renal disease, has been dialyzing with DaVita® since 2009. With daily 30-minute peritoneal dialysis treatments she can do at home, she has more time for what really matters - her four-year-old daughter. DaVita's peritoneal dialysis (PD) program currently serves more patients than any other PD program in the United States.



Dear Stakeholders:

I will first discuss our 2010 results and then provide a few thoughts on the future.

We had a strong year in 2010.

- Clinical outcomes were once again among the best or were the best in virtually every category compared to national averages and we significantly advanced our clinical care initiatives,
- We delivered strong growth in operating profits, earnings and cash flows,
- We continued to lead the dialysis community in working with CMS and Congress on the rules for the bundled reimbursement that began in January 2011, and
- We made preparations to operate under bundled reimbursement.

**Clinical Outcomes and
Clinical Care Initiatives:**

DaVita and its affiliated physicians collaborated to achieve outstanding clinical outcomes in 2010. For the 10th straight year these were the best patient outcomes in our history. At the end of the year:

- 67% of our patients had an arteriovenous fistula placed for dialysis,
- 87% of our patients achieved an albumin level of 3.5 or better,
- 96% of our patients achieved a Kt/V of 1.2 or better,
- 73% of our patients had a 90-day hemoglobin level between 10 and 12,
- 76% of our patients achieved a calcium phosphorus product <55,
- 91% of our patients were vaccinated for influenza, and
- 90% of our patients were vaccinated for pneumonia.

By the end of 2010 we reduced our patients' catheter rates to 17.5% — our best catheter results ever.

Our patients' 2009 gross mortality rate improved for the third straight year to 16.1%, a 13% improvement from our 2005 mortality rate of 18.5%.

All these results compare quite favorably to those reported publicly for other dialysis providers. These superior clinical outcomes are important in improving the health and quality of life of our patients.

Financial:

Net income was \$451⁽¹⁾ million and earnings per share were \$4.38⁽¹⁾, excluding after-tax debt refinancing and redemption charges, representing a 7% increase in net income and an 8% increase in earnings per share as compared to 2009. Our year-end stock price of \$69.49 was an 18% increase over our closing price on December 31, 2009.

Cash flow from operations was \$840 million and free cash flow was \$597 million⁽¹⁾. These strong cash flows allowed us to repurchase 8.9 million shares of common stock for \$619 million and spend \$308 million for center developments and acquisitions.

In 2010 we refinanced our capital structure, raising \$4.55 billion in debt at attractive rates. In fact, our senior notes were the lowest yielding bond for a

health care company with our debt rating. After the refinancing, our balance sheet remains strong with an end of year leverage ratio of 2.72 times debt to trailing 12 month earnings before interest and taxes⁽¹⁾.

Growth:

We provided 18 million dialysis treatments this year, a 5.6% increase from 2009. Our 2010 non-acquired growth was 4.1% year-over-year.

Public Policy:

The implementation of a bundled Medicare payment system in January 2011 represents the biggest change to dialysis reimbursement in recent history. In 2010 we demonstrated our strong relationship in working with Congress and CMS. Our partnership, founded on high quality data and sound policy positions, has resulted in a bundled payment system that is both reasonable in the short-term and sustainable in the long-term. Especially noteworthy is after years without a guaranteed annual rate update to adjust for inflation, dialysis reimbursement will receive an annual market basket based rate increase.

The reimbursement rule CMS had in place entering 2011 represented a payment reduction significantly greater than the 2% Congress intended in its 2008 MIPPA legislation. The dialysis community has worked with CMS to ensure that the bundling rules provide adequate reimbursement for the dialysis community, and CMS has announced that they will fix reimbursement levels effective April 1, 2011, to reflect the correct number of centers who are moving into the bundle in 2011. This correction represents a restoration of more than 2% of Medicare revenue that we believe had previously been inappropriately taken away from dialysis providers.

While adapting to the new reimbursement rules creates some short term pressure, MIPPA provides for a much needed annual inflation adjustment for payments, beginning in 2012. Additionally, we will continue to work hard to innovate in the \$1.1 billion dollars of cost that is moving to the bundle to find ways to reduce costs while maintaining or improving clinical quality.

As in the past, we continue to seek to build strong relationships with key government stakeholders, including CMS and within Congress, and develop alternative reform proposals for consideration. In 2011, we will continue to improve the care we deliver to our patients while seeking to partner with the government to enhance the longevity of the Medicare Trust Fund.

Corporate Citizenship:

Being a leader in American healthcare means being a responsible corporate community. Community Care, DaVita's vision for social responsibility, is our philosophy for balancing our business responsibilities with our social, economic and environmental ones. For more than a decade, DaVita has had a vision for creating a true community—one that cares for our teammates as well as our patients. This investment in creating a community has inspired our teammates to realize their full potential and to deliver superior quality care to our patients.

Our Community Care programs, including several examples below, enrich the lives of our more than 125,000 patients and 36,500 teammates and their families.

- Bridge of Life—DaVita Medical Missions works with DaVita teammates who volunteer to provide quality dialysis and kidney care to underserved parts of the world;

- Tour DaVita and DaVita Kidney Awareness Run/Walks raise money and awareness to support the Kidney TRUST in its mission to increase kidney disease education and testing;
- DaVita and our teammates reach out to support underprivileged communities at home through Village Service Days and investment in our Minority Bank Initiative; and
- DaVita's Village Green program focuses on reducing waste in our centers and corporate offices, as we strive to be strong stewards of the natural world around us.

We invite you to review our work and be inspired to help change your community. Our 2010 Community Care Responsibility Report will be available on www.DaVita.com later this year.

Outlook:

In 2010, we delivered strong performance to all our stakeholders.

Looking forward, we face significant challenges and opportunities.

Bundling implementation poses short-term challenges as we adapt, but it also provides a longer term incentive to innovate to reduce the cost of care while maintaining or even increasing clinical quality – providing value for patients, taxpayers and our stakeholders.

In the coming years, our suite of value-added businesses including DaVita Rx, Lifeline and Village Health positions us to operate in a world with increasingly integrated care. Congress and CMS have been looking to create programs to improve care for chronic conditions such as ESRD. Our developed capabilities will hopefully allow us to be a significant player in the collective efforts to improve care and generate savings for taxpayers.

In 2010 we announced our intention to expand into international markets, as we plan to be dialyzing patients outside of the US in 2011. The need for dialysis globally is growing much more rapidly than in the US, and health care systems are maturing, presenting an opportunity for scale providers to add value to the provision of dialysis care in a number of markets. This is a long-term initiative, one that will require new capabilities and will add new complexities to our business, but also one that we see as a significant value driver in the latter half of this decade.

Once again, I offer heartfelt thanks to our 36,500 teammates for your accomplishments. Your resilience and tenacity in simultaneously meeting the needs of so many diverse constituencies is remarkable.

Respectfully submitted,



Kent J. Thiry
Chairman and CEO

⁽¹⁾ These are Non-GAAP amounts. For a reconciliation of non-GAAP financial measures to comparable GAAP measures, see our press release for the fourth Quarter and Year Ended 2010 Results, which is on our Website at www.davita.com

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In the interest of our Stakeholders, we have kept the cost of this Annual Report to a minimum. For additional information about the Company, please visit our website at www.davita.com or contact Jim Gustafson at DaVita’s corporate address.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-looking statements

This Management's Discussion and Analysis of Financial Condition and Results of Operations contain statements that are forward-looking statements within the meaning of the federal securities laws. All statements that do not concern historical facts are forward-looking statements and include, among other things, statements about our expectations, beliefs, intentions and/or strategies for the future. These forward-looking statements include statements regarding our future operations, financial condition and prospects, expectations for treatment growth rates, revenue per treatment, expense growth, levels of the provision for uncollectible accounts receivable, operating income, cash flow, operating cash flow, estimated tax rates, capital expenditures, the development of new centers and center acquisitions, government and commercial payment rates, revenue estimating risk and the impact of our related level of indebtedness on our financial performance, including earnings per share. These statements involve substantial known and unknown risks and uncertainties that could cause our actual results to differ materially from those described in the forward-looking statements, including, but not limited to, risks resulting from the regulatory environment in which we operate, economic and market conditions, competitive activities, other business conditions, accounting estimates, the variability of our cash flows, the concentration of profits generated from commercial payor plans, continued downward pressure on average realized payment rates from commercial payors, which may result in the loss of revenue or patients, a reduction in the number of patients under higher-paying commercial plans, a reduction in government payment rates or changes to the structure of payments under the Medicare ESRD program or other government-based programs, including, for example, the implementation of a bundled payment rate system beginning January 2011, which will lower reimbursement for services we provide to Medicare patients, and the impact of health care reform legislation that was enacted in the United States in March 2010, changes in pharmaceutical or anemia management practice patterns, payment policies or pharmaceutical pricing, our ability to maintain contracts with physician medical directors, legal compliance risks, including our continued compliance with complex government regulations, the resolution of ongoing investigations by various federal and state government agencies, continued increased competition from large and medium-sized dialysis providers that compete directly with us, our ability to complete any acquisitions, mergers or dispositions that we might be considering or announce, or integrate and successfully operate any business we may acquire and the risk factors set forth in this Annual Report. We base our forward-looking statements on information currently available to us, and we undertake no obligation to update or revise these statements, whether as a result of changes in underlying factors, new information, future events or otherwise.

The following should be read in conjunction with our consolidated financial statements and "Item 1. Business".

Overview

We are a leading provider of kidney dialysis services in the United States through a network of approximately 1,612 outpatient dialysis centers and approximately 750 hospitals, serving approximately 125,000 patients in 42 states. This represents an approximate 30% market share based upon the number of patients that we serve. In 2010, our overall network of dialysis centers increased by 82 centers primarily as a result of opening new centers and acquisitions and the overall number of patients that we serve increased by approximately 6.0%. Our national scale and size, among other things, allows us to provide industry leading quality care that attracts patients and referring physicians, as well as qualified medical directors, provides our patient base with convenient locations and access to a full range of services and provides us the ability to effectively control certain costs.

Our stated mission is to be the provider, partner and employer of choice. We believe our attention to these three stakeholders—our patients, our business partners, and our teammates—represents the major driver of our long-term performance, although we are subject to the impact of external factors such as government policy and physician practice patterns. Accordingly, two principal non-financial metrics we track are quality clinical outcomes and teammate turnover. We have developed our own composite index for

measuring improvements in our clinical outcomes, which we refer to as the DaVita Quality Index, or DQI. Our clinical outcomes as measured by DQI have improved over each of the past three years. Although it is difficult to reliably measure clinical performance across our industry, we believe our clinical outcomes compare favorably with other dialysis providers in the United States and generally exceed the dialysis outcome quality indicators of the National Kidney Foundation. In addition, over the past several years our teammate turnover has remained relatively constant, which we believe was a major contributor to our continued clinical performance improvements and also a major driver in our ability to improve productivity in 2010. We will continue to focus on these stakeholders and our clinical outcomes as we believe these are fundamental long-term value drivers.

Our overall financial performance was solid for 2010 and was characterized by the following as compared to 2009:

- consolidated revenue growth of approximately 6.0%;
- an increase of approximately 6.0% in the overall number of treatments that we provided;
- consolidated operating income growth of approximately 6.0%; and
- strong operating cash flows of \$840 million.

However, we believe that 2011 will be more challenging as we implement Medicare's new payment system that began in January 2011, in which all ESRD payments will be made under a single bundled payment rate that provides for an annual inflation adjustment based upon a market basket index, less a productivity improvement factor. The new bundled payment rate provides a fixed rate to encompass all goods and services provided during the dialysis treatment, including pharmaceuticals that were historically separately reimbursed irrespective of the level of pharmaceuticals administered or additional services performed.

Approximately 94% of our 2010 consolidated net operating revenues were derived directly from our dialysis and related lab services business. Approximately 83% of our 2010 dialysis and related lab services revenues were derived from outpatient hemodialysis services in the 1,580 centers that we consolidate. Other dialysis services, which are operationally integrated with our dialysis operations, are peritoneal dialysis, home-based hemodialysis, hospital inpatient hemodialysis services and management and administrative services. These services collectively accounted for the balance of our 2010 dialysis and related lab services revenues.

Our other business operations include ancillary services and strategic initiatives which are primarily aligned with our core business of providing kidney dialysis services to our network of patients. These consist primarily of pharmacy services, infusion therapy services, disease management services, vascular access services, ESRD clinical research programs and physician services. These services generated approximately \$374 million of net operating revenues in 2010, representing an 18% increase as compared to 2009. The ancillary services and strategic initiatives net operating revenues in 2010 accounted for approximately 6% of our consolidated net operating revenues. Operating losses from our ancillary services and strategic initiatives decreased from \$12 million in 2009 to \$6 million in 2010, primarily as a result of improved profitability in our pharmacy and disease management businesses. We currently expect to continue to invest in our ancillary services and strategic initiatives as we work to develop successful new business operations. However, any significant change in market conditions, business performance or in the regulatory environment may impact the economic viability of any of these strategic initiatives. Any unfavorable changes could result in a write-off or an impairment of some or all of our investments, including goodwill, in these strategic initiatives, or could also result in significant termination costs if we were to exit a certain line of business.

The principal drivers of our dialysis and related lab services revenues are:

- the number of treatments, which is primarily a function of the number of chronic patients requiring approximately three treatments per week, as well as, to a lesser extent, the number of treatments for peritoneal dialysis services and home-based dialysis and hospital inpatient dialysis services;
- average dialysis revenue per treatment; and
- the number of laboratory patient tests.

The total patient base is a relatively stable factor, which we believe is influenced by a demographically growing need for dialysis services, our relationships with referring physicians together with the quality of our clinical care, and our ability to open and acquire new centers. In 2010, we were able to increase our overall network of patients that we serviced by approximately 6% as compared to 2009.

Average dialysis and related lab services revenue per treatment in 2010 and prior was primarily driven by our mix of commercial and government (principally Medicare and Medicaid) patients, the mix and intensity of physician-prescribed pharmaceuticals, commercial and government payment rates, and our billing and collecting operations performance. Beginning in 2011, with the implementation of Medicare's new single bundled payment rate system, the intensities of physician-prescribed pharmaceuticals will have a lesser impact on our average dialysis and related lab services revenue per treatment since payment for these pharmaceuticals will be included in the bundled payment.

On average, payment rates from commercial payors are significantly higher than Medicare, Medicaid and other government program payment rates, and therefore the percentage of commercial patients to total patients represents a major driver of our total average dialysis revenue per treatment. The percentage of commercial patients covered under contracted plans as compared to commercial patients with out-of-network providers can also significantly affect our average dialysis revenue per treatment. In 2010, the growth of our government-based patients continued to outpace the growth of our commercial patients, which has been a trend that we have experienced for the past two years. We believe the growth in our government-based patients is driven primarily by improved mortality and the current economic recession. This trend has negatively impacted our average dialysis revenue per treatment as a result of receiving a larger proportion of our revenue from lower payment rates associated with these additional government-based patients.

The following table summarizes our dialysis and related lab services revenues for the year ended December 31, 2010:

	<u>Revenues</u>
Medicare and Medicare-assigned plans	57%
Medicaid and Medicaid-assigned plans	6%
Other government-based programs	<u>3%</u>
Total government-based programs	66%
Commercial (including hospital dialysis services)	<u>34%</u>
Total dialysis and related lab services revenues	<u><u>100%</u></u>

Government payment rates are principally determined by federal Medicare and state Medicaid policy. These payment rates have historically had limited potential for rate increases and are sometimes at risk of reduction as federal and state governments face increasing budget pressures. Medicare payment rates for dialysis services through 2008 have not been routinely increased to compensate for the impact of inflation. In July 2008, MIPPA was passed by Congress that provided dialysis providers with an increase in the composite rate of 1.0% that went into effect on January 1, 2009 and an additional 1.0% that went into effect on January 1, 2010. This legislation also changed the way Medicare will pay for dialysis services in 2011. The new payment system also provides for an annual inflation adjustment based upon a market basket index, less a productivity adjustment, beginning in 2012. Also beginning in 2012, the rule provides for up to a 2% annual payment

withhold that can be earned back by facilities that meet certain defined clinical performance standards. The new payment system reimburses providers based on a single bundled or average payment for each Medicare treatment provided. This new bundled payment amount is designed to cover all dialysis services which were historically included in the composite rate and all separately billable ESRD services such as pharmaceuticals and laboratory costs. The new bundled payment rate is adjusted for certain patient characteristics, a geographic wage index and certain other factors. This initial 2011 bundled payment rate includes reductions of 2% and 3.1%, respectively, to conform to the provisions of MIPPA and to establish neutrality. Further, there is a 5.94% reduction tied to an expanded list of case mix adjusters which can be earned back based upon the presence of these certain patient characteristics and co-modalities at the time of treatment. There are also other provisions which may impact payment including an outlier pool and a low volume facility adjustment. We are now at risk for variations in pharmaceutical utilization since reimbursement is set at a fixed average reimbursement rate.

Dialysis payment rates from commercial payors can vary significantly and a major portion of our commercial rates are set at contracted amounts with large payors and are subject to intense negotiation pressure. Our commercial payment rates also include payments for out-of-network patients that on average are higher than our in-network contract rates. In 2010, we were successful in increasing some of our commercial payment rates which contributed to an increase in our average dialysis revenue per treatment and helped offset some of the overall decline in our average dialysis revenue per treatment. In 2010, we also entered into several new commercial contracts with certain commercial payors that will primarily pay us a single bundled payment rate for all dialysis services provided to patients covered by the commercial insurance plans. These contracts contain annual escalators and effectively eliminate all payments for out-of-network patients. We are continuously in the process of negotiating agreements with our commercial payors and payors are aggressive in their negotiations. If our negotiations result in overall commercial rate reductions in excess of overall commercial rate increases, this would have a material adverse effect on our operating results. In addition, if there are sustained or increased job losses in the United States as a result of current economic conditions, or depending upon changes to the healthcare regulatory system, we could experience a decrease in the number of patients under commercial plans.

Approximately 26% of our dialysis and related lab services revenues for the year ended December 31, 2010 were from physician-prescribed pharmaceuticals, with EPO accounting for approximately 18% of our dialysis and related lab services revenues. Therefore, in 2010 and prior, changes in physician practice patterns, pharmaceutical protocols, pharmaceutical intensities and changes in commercial and governmental payment rates for EPO significantly influenced our revenue. For example, in 2010, the intensities of physician-prescribed pharmaceutical decreased significantly from 2009, which negatively impacted our average dialysis revenue per treatment. Beginning in January 2011, the majority of our pharmaceuticals will no longer be separately billable as a result of the new Medicare single bundled payment rate system and as a result of some of our new commercial contracts that also implemented single bundled payment rates.

Our operating performance with respect to dialysis services billing and collection can also be a significant factor in the average dialysis and related lab services revenue per treatment we actually realize. Over the past several years we have invested heavily in new systems and processes that we believe have helped improve our operating performance and reduced our regulatory compliance risks and we expect to continue to improve these systems. In 2010, we continued to upgrade our systems and implemented process changes and will continue to do so in 2011 to effectively capture the necessary patient characteristics and certain other factors under Medicare's new bundled payment system. We believe this will help minimize reductions in our reimbursement amounts from Medicare and enhance our overall billing and collection performance associated with our payors. However, as we implement these system upgrades, our collection performance as well as our dialysis and related lab services revenue per treatment could be negatively impacted.

Our revenue recognition involves significant estimation risks. Our estimates are developed based on the best information available to us and our best judgment as to the reasonably assured collectability of our

billings as of the reporting date based upon our actual historical collection experience. Changes in estimates are reflected in the then-current period financial statements based upon on-going actual experience trends, or subsequent settlements and realizations depending on the nature and predictability of the estimates and contingencies.

Our annual average dialysis and related lab services revenue per treatment was approximately \$337, \$340 and \$334 for 2010, 2009 and 2008, respectively. In 2010, the average dialysis and related lab services revenue per treatment decreased by approximately \$3 per treatment primarily due to a decline in intensities of physician-prescribed pharmaceuticals, a decline in the commercial payor mix, partially offset by an increase of 1.0% in the Medicare composite rate and an increase in some of our commercial payment rates. In 2009, the average dialysis and related lab services revenue per treatment increased by approximately \$6 per treatment primarily due to a 1.0% increase in the Medicare composite rate, an increase in some of our commercial payment rates, an increase in our reimbursement rates for EPO and other pharmaceuticals and an increase in the intensities of physician-prescribed pharmaceuticals, partially offset by a decline in the commercial payor mix. Commercial payment rates, changes in the mix and intensities of physician-prescribed pharmaceuticals billed separately, government payment policies regarding reimbursement amounts for dialysis treatments and pharmaceuticals under the new Medicare bundled payment rate system including our ability to capture all patient characteristics, and changes in the mix of government and commercial patients may materially impact our average dialysis and related lab services revenue per treatment in the future.

The principal drivers of our dialysis and related lab services patient care costs are clinical hours per treatment, labor rates, vendor pricing of pharmaceuticals, utilization levels of pharmaceuticals, business infrastructure, including the operating costs of our dialysis centers, and compliance costs. However, other cost categories can also represent significant cost variability, such as employee benefit costs and insurance costs. Our average clinical hours per treatment decreased in the last two years, primarily because of continued productivity improvements driven by reduced clinical teammate turnover and improved training and processes. We continue to strive for improved productivity levels, however we may not be able to sustain our 2010 performance as changes in federal and state policies can adversely impact our ability to achieve optimal productivity levels. In addition, improvements in the U.S. economy could stimulate additional competition for skilled clinical personnel and result in higher teammate turnover which would adversely affect productivity levels. In 2010 and 2009, we experienced an increase in our clinical labor rates of approximately 2.0% and 2.5%, respectively, as clinical labor rates have increased consistent with general industry trends, mainly due to the demand for skilled clinical personnel, along with general inflation increases. However, in 2010, we were able to initiate certain cost control initiatives to minimize increases in our clinical labor rates. In 2010, we experienced an increase in our EPO costs, which increased by approximately 2%. In addition, our agreement with Amgen for the purchase of EPO provides for specific discount pricing and rebates based on a variety of factors including process improvements targets, patient outcome targets and data submission, which could negatively impact our earnings if we are unable to continue to qualify for discount pricing and rebates. In 2010, we also experienced increases in our infrastructure and operating costs of our dialysis centers, primarily due to the number of new centers opened, and general increases in rent, utilities and repairs and maintenance.

General and administrative expenses have remained relatively constant as a percent of consolidated revenues over the past three years. In 2010, through various cost control initiatives, we were able to control our general and administrative expenses which increased by 0.3% of net operating revenues as compared to 2009. However, this still reflects an increase in the dollar amount of spending related to strengthening our dialysis business, improving our regulatory compliance and other operational processes, responding to certain legal matters and supporting the growth in our ancillary services and strategic initiatives. We expect that these levels of expenditures on general and administrative expenses in 2011 will increase as we continue to make investments in our long-term initiatives, including further investments in our ancillary services and strategic initiatives, our investments in international growth opportunities, our investments in improving our information technology and human resources infrastructure and the level of support for our regulatory compliance and legal matters.

Outlook for 2011. Because of the uncertainties of operating under the new Medicare bundled payment system and the ongoing uncertainties associated with our payor mix, we will not be providing a specific guidance range for 2011 operating income at this time. However, excluding the impact of our recently announced acquisition of DSI Renal, Inc. that is not expected to close until the second or third quarter of this year, our current projections indicate that 2011 operating income will be flat or modestly down compared to 2010. These projections and the underlying assumptions involve significant risks and uncertainties, and actual results may vary significantly from these current projections. These risks and uncertainties, among others, include those relating to the concentration of profits generated from commercial payor plans, continued downward pressure on average realized payment rates from commercial payors, which may result in the loss of revenue or patients, a reduction in the number of patients under higher-paying commercial plans, a reduction in government payment rates or changes to the structure of payments under the Medicare ESRD program or other government-based programs, including, for example, the implementation of a bundled payment rate system beginning in January 2011, which will lower reimbursement for services we provide to Medicare patients, and the impact of health care reform legislation that was enacted in the United States in March 2010, changes in pharmaceutical or anemia management practice patterns, payment policies or pharmaceutical pricing, our ability to maintain contracts with physician medical directors, legal compliance risks, including our continued compliance with complex government regulations, the resolution of ongoing investigations by various federal and state government agencies, continued increased competition from large and medium-sized dialysis providers that compete directly with us, our ability to complete any acquisitions, mergers or dispositions that we might be considering or announce, or integrate and successfully operate any business we may acquire. You should read "Risk Factors" in this Annual Report and the cautionary language contained in the forward-looking statements and associated risks for more information about these and other potential risks. We undertake no obligation to update or revise these statements, whether as a result of changes in underlying factors, new information, future events or otherwise.

Results of operations

We operate principally as a dialysis and related lab services business but also operate other ancillary services and strategic initiatives. These ancillary services and strategic initiatives consist primarily of pharmacy services, infusion therapy services, disease management services, vascular access services, ESRD clinical research programs and physician services. The dialysis and related lab services business qualifies as a separately reportable segment and all of the other ancillary services and strategic initiatives have been combined and disclosed in the other segments category.

Following is a summary of consolidated operating results for reference in the discussion that follows.

	Year ended December 31,					
	2010		2009		2008	
	(dollar amounts rounded to nearest million)					
Net operating revenues:						
Current period services	\$6,447	100%	\$ 6,109	100%	\$5,660	100%
Operating expenses and charges:						
Patient care costs	4,475	69%	4,249	70%	3,920	69%
General and administrative	579	9%	532	9%	508	9%
Depreciation and amortization	234	4%	229	4%	217	4%
Provision for uncollectible accounts	171	3%	162	3%	146	3%
Equity investment income	(9)	—	(2)	—	(1)	—
Total operating expenses and charges	5,450	84%	5,169	85%	4,791	85%
Operating income	\$ 997	16%	\$ 940	15%	\$ 869	15%

The following table summarizes consolidated net operating revenues:

	Year ended		
	2010	2009	2008
	(dollar amounts rounded to nearest million)		
Dialysis and related lab services	\$6,073	\$5,792	\$ 5,415
Other—ancillary services and strategic initiatives	374	317	245
Consolidated net operating revenues	\$6,447	\$6,109	\$5,660

The following table summarizes consolidated operating income:

	Year ended		
	2010	2009 ⁽¹⁾	2008 ⁽¹⁾
	(dollar amounts rounded to nearest million)		
Dialysis and related lab services	\$1,039	\$994	\$939
Other—ancillary services and strategic initiatives loss	(6)	(12)	(30)
Total segment operating income	1,034	982	910
Reconciling items:			
Stock-based compensation	(46)	(44)	(41)
Equity investment income	9	2	1
Consolidated operating income	997	940	869

(1) Certain costs previously reported in ancillary services and strategic initiatives have been reclassified to dialysis and related lab services to conform to the current year presentation.

Consolidated net operating revenues

Consolidated net operating revenues for 2010 increased by approximately \$338 million or approximately 5.5% from 2009. This increase was primarily due to an increase in dialysis and related lab services net revenues of approximately \$281 million, principally due to an increase in the number of treatments, partially offset by a decline of \$3 in the average dialysis revenue per treatment, and an increase of approximately \$57 million in the ancillary services and strategic initiatives net revenues driven primarily from growth in our pharmacy services and from our infusion therapy services.

Consolidated net operating revenues for 2009 increased by approximately \$449 million or approximately 7.9% from 2008. This increase was primarily due to an increase in dialysis and related lab services net revenues of approximately \$377 million, principally due to an increase in the number of treatments, and an increase of approximately \$72 million in the ancillary services and strategic initiatives net revenues driven primarily from growth in our pharmacy services, disease management services and from our infusion therapy services.

Consolidated operating income

Consolidated operating income of \$997 million for 2010 increased by approximately \$57 million, or 6.1%, from 2009. This increase was primarily attributable to an increase in revenue as a result of additional treatments from non-acquired growth and acquisitions in dialysis and related lab services, partially offset by a decline in our average dialysis revenue per treatment of approximately \$3, as described below. Operating income also increased as a result of continued cost control initiatives, improved productivity, overall lower pharmaceutical costs and lower operating losses in our ancillary services and strategic initiatives, partially offset by the negative impact of a decline in the intensities of physician-prescribed pharmaceuticals, higher labor costs and increases in other operating costs of our dialysis centers.

Consolidated operating income of \$940 million for 2009 increased by approximately \$71 million, or 8.2%, from 2008. This increase was primarily attributable to an increase in revenue as a result of non-acquired treatment growth in dialysis and related lab services, as well as an increase in our average dialysis revenue per treatment of approximately \$6 as described below. Operating income also increased as a result of cost control initiatives, improved productivity and lower operating losses in our ancillary services and strategic initiatives, which losses were reduced by approximately \$18 million in 2009, partially offset by the negative impact of higher pharmaceutical, labor and benefit costs, and increases in other operating costs of our dialysis centers.

Operating segments

Dialysis and Related Lab Services

	Year ended		
	2010	2009	2008
	(dollar amounts rounded to nearest million, except per treatment data)		
Revenues	\$ 6,073	\$ 5,792	\$ 5,415
Segment operating income	\$ 1,039	\$ 994	\$ 939
Dialysis treatments	17,992,805	17,010,450	16,217,107
Average dialysis treatments per treatment day	57,485	54,433	51,663
Average dialysis and related lab services revenue per treatment	\$ 337	\$ 340	\$ 334

Net operating revenues

Dialysis and related lab services net operating revenues for 2010 increased by approximately \$281 million or approximately 4.9% from 2009. The increase in net operating revenues was primarily due to an increase in the number of treatments of approximately 5.6%, partially offset by a decline in the average dialysis revenue per treatment of approximately \$3, or 0.9%. The increase in the number of treatments was primarily due to an increase in non-acquired treatment growth at existing and new centers and growth through acquisitions. The decline in the average dialysis revenue per treatment in 2010, as compared to 2009, was primarily due to a decline in the intensities of physician-prescribed pharmaceuticals and a decline in the commercial payor mix, partially offset by a 1% increase in the Medicare composite rate and an increase in some of our commercial payment rates.

Dialysis and related lab services net operating revenues for 2009 increased by approximately \$377 million or approximately 7.0% from 2008. The increase in net operating revenues was primarily due to an increase in the number of treatments of approximately 4.7%, and an increase in the average dialysis revenue per treatment of approximately \$6, or 1.9%. The increase in the number of treatments was primarily due to an increase in non-acquired treatment growth at existing and new centers and growth through acquisitions. The increase in the average dialysis revenue per treatment in 2009, as compared to 2008, was primarily due to a 1% increase in the Medicare composite rate, an increase in some of our commercial payment rates, an increase in our reimbursement rates for EPO and other pharmaceuticals, and an increase in the intensities of physician-prescribed pharmaceuticals, partially offset by a decline in the commercial payor mix.

The following table summarizes our dialysis and related lab services revenues by modality for the year ended December 31, 2010:

	<u>Revenue percentages</u>
Outpatient hemodialysis centers	83%
Peritoneal dialysis and home-based hemodialysis	12%
Hospital inpatient hemodialysis	<u>5%</u>
Total dialysis and related lab services revenues	<u>100%</u>

Approximately 66% of our total dialysis and related lab services revenues for the year ended December 31, 2010 were from government-based programs, principally Medicare, Medicaid, and Medicare-assigned plans, representing approximately 89% of our total patients. Over the last two years, we have been experiencing growth in our government-based patients that has been outpacing the growth in our commercial patients which has negatively impacted our dialysis and related lab services revenue per treatment. In 2010, approximately 11% of our patients and 34% of our revenues were associated with commercial payors, as compared to 12% and 35%, respectively, for 2009. Less than 1% of our dialysis and related lab services revenues are due directly from patients. No single commercial payor accounted for more than 5% of total dialysis and related lab services revenues for the year ended December 31, 2010.

On average we are paid significantly more for services provided to patients covered by commercial healthcare plans than we are for patients covered by Medicare, Medicaid or other government plans such as Medicare-assigned plans. Patients covered by commercial health plans transition to Medicare coverage after a maximum of 33 months. As a patient transitions from commercial coverage to Medicare or Medicaid coverage, the payment rates normally decline substantially. Medicare payment rates are insufficient to cover our costs associated with providing dialysis treatments, and therefore we lose money on each Medicare treatment.

Nearly all of our net earnings from dialysis and related lab services are derived from commercial payors, some of which pay at negotiated payment rates as established by contract and others of which pay based on our usual and customary fee schedule for our out-of-network patients. If we experience a net overall reduction in our contracted and non-contracted commercial rates as a result of these negotiations or restrictions, it could have a material adverse effect on our operating results.

Our average dialysis and related lab services revenue per treatment can be significantly impacted by several major factors, including our commercial payment rates, changes in the mix and intensities of physician-prescribed pharmaceuticals that are billed separately, government payment policies regarding reimbursement amounts for dialysis treatments and pharmaceuticals under the new Medicare bundled payment rate system, including our ability to capture all patient characteristics, and changes in the mix of government and commercial patients.

Operating expenses and charges

Patient care costs. Dialysis and related lab services patient care costs are those costs directly associated with operating and supporting our dialysis centers and consist principally of labor, pharmaceuticals, medical supplies and operating costs of the dialysis centers. The dialysis and related lab services patient care costs on a per treatment basis were \$232, \$235 and \$230 for 2010, 2009, and 2008, respectively. The \$3 decrease in the per treatment costs in 2010 as compared to 2009 was primarily attributable to a decline in the intensities of physician-prescribed pharmaceuticals, a decrease in our overall pharmaceutical costs and continued improvements in productivity, partially offset by higher labor rates.

Dialysis and related lab services patient care costs on a per treatment basis increased by approximately \$5 in 2009 as compared to 2008. The increase in the per treatment costs was primarily attributable to higher labor rates and benefit costs, an increase in pharmaceutical costs, an increase in other operating costs of our dialysis centers and an increase in the intensities of physician-prescribed pharmaceuticals, partially offset by improved productivity.

General and administrative expenses. Dialysis and related lab services general and administrative expenses for the years ended 2010, 2009 and 2008 were approximately \$471 million, \$428 million and \$402 million, respectively. The increase of approximately \$43 million in 2010 as compared to 2009 was primarily due to increases in labor costs, an increase in our professional expenses for legal and compliance matters and the timing of certain other expenditures. The increase in general and administrative expenses of approximately \$26 million in 2009 as compared to 2008 was primarily due to increases in labor and benefit costs, partially offset by the timing of certain other expenditures.

Depreciation and amortization. Dialysis and related lab services depreciation and amortization expenses for 2010, 2009 and 2008 were approximately \$228 million, \$222 million and \$210 million, respectively. The increase of approximately \$6 million in depreciation and amortization for dialysis and related lab services in 2010 and \$12 million in 2009 were primarily due to growth through new center developments and expansions.

Provision for uncollectible accounts receivable. The provision for uncollectible accounts receivable for dialysis and related lab services was 2.8% for 2010, 2.7% for 2009, and 2.6% for 2008. The increase in the provision for uncollectible accounts in 2010 was primarily to reflect a slowdown in the collection of payments from some of our non-government payors. The current provision level of 2.8% may increase if we encounter problems with our billing and collection process as a result of sustained weakness in the U.S. economy.

Operating income

Dialysis and related lab services operating income for 2010 increased by approximately \$45 million as compared to 2009. The increase in the operating income for 2010 as compared to 2009 was primarily due to growth in the number of dialysis treatments from non-acquired growth and acquisitions, partially offset by a decrease in the average dialysis revenue per treatment of approximately \$3 as described above. The dialysis and related lab services operating income also increased as a result of certain cost control initiatives, improved productivity, and overall lower pharmaceutical costs. However, the dialysis and related lab services operating income was negatively impacted primarily by a decline in the intensities of physician-prescribed pharmaceuticals, higher labor costs and an increase in other operating costs of our dialysis centers.

Dialysis and related lab services operating income for 2009 increased by approximately \$55 million as compared to 2008. The increase in the operating income for 2009 as compared to 2008 was primarily due to growth in the number of dialysis treatments and an increase in the average dialysis revenue per treatment of approximately \$6 as described above. The dialysis and related lab services operating income also increased as

a result of certain cost control initiatives and improved productivity, but was negatively impacted primarily by higher labor and benefit costs, an increase in pharmaceutical costs and an increase in other operating costs of our dialysis centers.

Other—Ancillary services and strategic initiatives

	Year ended		
	2010	2009	2008
	(dollar amounts rounded to nearest million)		
Revenues	\$374	\$317	\$245
Segment operating loss	\$ (6)	\$ (12)	\$ (30)

Net operating revenues

The ancillary services and strategic initiatives net operating revenues for 2010 increased by approximately \$57 million or 18.0% as compared to 2009, primarily from growth in pharmacy services, and from our infusion therapy services, partially offset by a decline in our net operating revenues in our disease management services as a result of discontinuing the full service health care plans at the end of 2009.

The ancillary services and strategic initiatives net operating revenues for 2009 increased by approximately \$72 million or 29.5% as compared to 2008, primarily from growth in pharmacy services, disease management services and from our infusion therapy services.

Operating expenses

Ancillary services and strategic initiatives operating expenses for 2010 increased by approximately \$51 million from 2009, primarily due to an increase in volume in our pharmacy business and an increase in labor costs, partially offset by lower operating costs of our disease management services as a result of discontinuing the full service health care plans at the end of 2009.

Ancillary services and strategic initiatives operating expenses for 2009 increased by approximately \$54 million from 2008, primarily due to an increase in volume in our pharmacy business and an increase in labor and benefit costs, partially offset by lower professional fees.

Operating loss

Ancillary services and strategic initiatives operating losses for 2010 decreased by approximately \$6 million from 2009. The decrease in operating losses was primarily due to volume growth in revenues associated with our pharmacy business, and a decrease in operating losses in our disease management business as a result of discontinuing the full service health care plans at the end of 2009.

Ancillary services and strategic initiatives operating losses for 2009 decreased by approximately \$18 million from 2008. The decrease in operating losses was primarily due to volume growth in revenues outpacing increases in operating expenses, primarily associated with our pharmacy business and our disease management business, partially offset by an increase in operating losses associated with certain new initiatives.

Corporate level charges

Stock-based compensation. Stock-based compensation of approximately \$46 million for 2010 increased by approximately \$2 million from 2009. Stock-based compensation of approximately \$44 million for 2009 increased by approximately \$3 million from 2008. The increase in 2010 resulted principally from an increase

in the overall grant date fair value for the grant years that contributed expense to 2010, driven in part by a substantial increase in the grant date fair value of 2010 grants over that for recent years offset by a significant reduction in the number of awards granted in 2010. The increase in 2009 resulted from increases in both the aggregate quantity of grants and in the overall grant date fair value for the grant years that contributed expense to 2009.

Debt expense. Debt expense for 2010, 2009, and 2008 consisted of interest expense of approximately \$172 million, \$176 million, and \$215 million, respectively, including the amortization and accretion of debt discounts and premiums and the amortization of deferred financing costs of approximately \$9 million in 2010 and \$10 million for 2009 and 2008. The decrease in interest expense in 2010 as compared to 2009 was primarily related to lower average outstanding principal balances on our previously outstanding Term Loan A, lower average outstanding principal balances on our previously outstanding senior notes, lower interest rates associated with the issuance of our New Senior Notes and a decrease in our weighted average effective interest rate on the Term Loan B as a result of lower notional amounts of fixed rate swap agreements that contained higher rates. Our overall weighted average effective interest rate in 2010 was 4.68% as compared to 4.86% in 2009. However, interest expense in the fourth quarter of 2010 was negatively affected by the refinancing of our Senior Secured Credit Facilities that occurred on October 20, 2010, as the interest rates under our new Senior Secured Credit Facilities are substantially higher than the interest rates under the previous facility. Our overall weighted average effective interest rate in the fourth quarter of 2010 was 4.86%. Therefore, we expect our overall interest expense in 2011 will be significantly higher than 2010.

The decrease in interest expense in 2009 as compared to 2008 was primarily attributable to decreases in the LIBOR-based variable interest rates on the unhedged portion of our debt and the result of lower notional amounts of fixed rate swap agreements that contained higher rates. As of December 31, 2009, the notional amounts of our fixed rate swaps were approximately \$389 million as compared to approximately \$790 million at December 31, 2008. Our overall weighted average effective interest rate in 2009 was 4.86% as compared to 5.82% in 2008.

Equity investment income. Equity investment income was approximately \$9.0 million in 2010 as compared to \$2.4 million in 2009. The increase in equity investment income in 2010 as compared to 2009 was primarily due to an increase in the profitability of our nonconsolidated joint ventures. The increase in equity investment income in 2009 as compared to 2008 was primarily due to an increase in the number of equity investments and improved profitability at several joint ventures.

Other income. Other income was approximately \$3 million, \$4 million, and \$12 million in 2010, 2009, and 2008, respectively, and consisted principally of interest income. The decreases in other income in 2010 and 2009 were primarily the result of lower average interest rates, partially offset by higher average cash balances.

Provision for income taxes. The provision for income taxes for 2010 represented an effective annualized tax rate of 35.0%, compared with 36.7% and 35.9% in 2009 and 2008, respectively. The effective tax rate in 2010 was lower primarily due to the impact of net income attributable to noncontrolling interests, and nonrecurring tax benefits associated with closed examinations and statutes. We currently project the effective income tax rate for 2011 to be in the range of 35.0% to 36.0%.

Impairments and valuation adjustments. We perform impairment or valuation reviews for our property and equipment, amortizable intangible assets with finite useful lives, equity investments in non-consolidated businesses, and our investments in ancillary services and strategic initiatives at least annually and whenever a change in condition indicates that an impairment review is warranted. Such changes include shifts in our business strategy or plans, the quality or structure of our relationships with our partners, or when a center

experiences deteriorating operating performance. Goodwill is also assessed at least annually for possible valuation impairment using fair value methodologies. These types of adjustments are charged directly to the corresponding operating segment that incurred the charge. No significant impairments or valuation adjustments were recognized during the periods presented.

Noncontrolling interests

Net income attributable to noncontrolling interests for 2010, 2009 and 2008 was approximately \$79 million, \$57 million and \$47 million, respectively. The increases in noncontrolling interests in 2010 and 2009 were primarily due to increases in the number of new joint ventures and increases in the profitability of our dialysis-related joint ventures. The percentage of dialysis and related lab services net operating revenues generated from dialysis-related joint ventures was approximately 18% in 2010 compared to 16% in 2009.

Accounts receivable

Our accounts receivable balances at December 31, 2010 and 2009 represented approximately 61 and 68 days of revenue, respectively, net of bad debt allowance. The relative decrease in the days of net revenue in accounts receivable as of December 31, 2010 was a result of improved cash collections. However, our cash collections during the first half of 2011 could be negatively impacted as a result of implementing Medicare's new single bundled payment rate system.

As of December 31, 2010 and 2009, approximately \$153 million and \$201 million in unreserved accounts receivable, respectively, representing approximately 15% and 18% of our total accounts receivable balance, respectively, were more than six months old. During 2010, we experienced improved cash collections from certain government payors and certain commercial payors. There were no significant unreserved balances over one year old. Less than 1% of our revenues are classified as "patient pay". Substantially all revenue realized is from government and commercial payors, as discussed above.

Amounts pending approval from third-party payors as of December 31, 2010 and 2009, other than the standard monthly billing, consisted of approximately \$46 million for both years, associated with Medicare bad debt claims, classified as "other receivables". Currently, a significant portion of our Medicare bad debt claims are typically paid to us before the Medicare fiscal intermediary audits the claims. However, the payment received from Medicare is subject to adjustment based upon the actual results of the audits. Such audits typically occur one to four years after the claims are filed. As a kidney dialysis provider, our revenue is not subject to cost report settlements, except for potentially limiting the collectability of these Medicare bad debt claims.

Liquidity and capital resources

Available liquidity. As of December 31, 2010, our cash balance was \$860 million and we had undrawn credit under our Senior Secured Credit Facilities totaling \$250 million, of which approximately \$46 million was committed for outstanding letters of credit. We believe that we will have sufficient liquidity, operating cash flows and access to borrowings to fund our scheduled debt service and other obligations for the foreseeable future. Our primary sources of liquidity are cash from operations and cash from borrowings.

Cash flow from operations during 2010 amounted to \$840 million, compared with \$667 million for 2009. The increase in our operating cash flows in 2010 as compared to 2009 was primarily due to improved cash earnings and an improvement in our accounts receivable collections as described above. Cash flow from operations in 2010 included cash interest payments of approximately \$191 million and cash tax payments of \$207 million. Cash flow from operations in 2009 included cash interest payments of \$186 million and cash tax payments of \$162 million.

Non-operating cash outflows in 2010 included \$279 million for capital asset expenditures, including \$120 million for new center developments and relocations, and \$159 million for maintenance and information technology. We also spent an additional \$189 million for acquisitions. During 2010, we also received \$61 million from the maturity and sale of investments. However, these proceeds were either used to repurchase other investments or were used to fund distributions from our deferred compensation plans. In addition, we received \$60 million associated with stock option exercises and other share issuances and the related excess tax benefits. We also made distributions to noncontrolling interests of \$84 million, and received contributions from noncontrolling interests of \$10 million associated with new joint ventures and from additional equity contributions. We also repurchased 8.9 million shares of our common stock for approximately \$619 million.

Non-operating cash outflows in 2009 included \$275 million for capital asset expenditures, including \$161 million for new center developments and relocations, and \$114 million for maintenance and information technology. We also spent an additional \$88 million for acquisitions. During 2009, we also received \$33 million from the maturity and sale of investments. However, these proceeds were either used to repurchase other investments or were used to fund distributions from our deferred compensation plans. In addition, we received \$75 million associated with stock option exercises and other share issuances and the related excess tax benefits. We also made distributions to noncontrolling interests of \$68 million, and received contributions from noncontrolling interests of \$13 million associated with new joint ventures and from additional equity contributions. We also repurchased 2.9 million shares of our common stock for approximately \$154 million.

During 2010, we acquired a total of 41 dialysis centers, opened 65 new dialysis centers, sold six centers, closed 18 centers and made minority equity investments in three centers that were previously under management and administrative service agreements. During 2009, we acquired a total of 19 dialysis centers, opened 78 new dialysis centers, sold six centers, closed 18 centers, made minority equity investments in six centers and added two centers under management and administrative service agreements.

Acquisition

On February 4, 2011, we entered into a definitive agreement to acquire all of the outstanding equity securities of CDSI I Holding Company, Inc., parent company of dialysis provider DSI Renal, Inc. (DSI), in cash for approximately \$689.2 million, subject to among other things, adjustments for certain items such as working capital, the purchase of noncontrolling interests, capital assets and acquisitions expenditures. DSI currently operates approximately 106 outpatient dialysis centers serving approximately 8,000 patients. The transaction is subject to approval by the Federal Trade Commission (FTC) including Hart-Scott-Rodino antitrust clearance. We anticipate that we will be required by the FTC to divest a certain number of outpatient dialysis centers as a condition of the transaction. The transaction is expected to close in the second or third quarter of fiscal 2011.

2010 capital structure changes and other items

On October 20, 2010, we entered into a \$3,000 million new Senior Secured Credit Agreement (the Credit Agreement), consisting of a five year \$250 million revolving line of credit, a five year \$1,000 million Term Loan A and a six year \$1,750 million Term Loan B. We also have the right to request an increase to the borrowing capacity to a total aggregate principal amount of not more than \$4,000 million subject to bank participation. The revolving line of credit and the Term Loan A will initially bear interest at LIBOR plus an interest rate margin of 2.75% until June 30, 2011, and then is subject to adjustment depending upon our leverage ratio and can range from 2.25% to 2.75%. The Term Loan A requires annual principal payments of \$50 million in 2011, \$50 million in 2012, \$100 million in 2013, and \$150 million in 2014, with the balance of \$650 million due in 2015. The Term Loan B bears interest at LIBOR (floor of 1.50%) plus 3.00% subject to a ratings based step-down to 2.75%. The Term Loan B requires annual principal payments of \$17.5 million in each year from 2011 through 2015 with the balance of \$1,663 million due in 2016. The borrowings under the Credit Agreement are guaranteed by substantially all of our direct and indirect wholly-owned domestic

subsidiaries and are secured by substantially all of DaVita's and its guarantors' assets. The Credit Agreement contains customary affirmative and negative covenants such as various restrictions on investments, acquisitions, the payment of dividends, redemptions and acquisitions of capital stock, capital expenditures and other indebtedness, as well as limitations on the amount of tangible net assets in non-guarantor subsidiaries. However, many of these restrictions will not apply as long as our leverage ratio is below 3.50:1.00. In addition, the Credit Agreement requires compliance with financial covenants including an interest coverage ratio and a leverage ratio that determines the interest rate margins as described above.

On October 20, 2010, we also issued \$775 million aggregate principal amount of 6³/₈% senior notes due 2018 and \$775 million aggregate principal amount of 6⁵/₈% senior notes due 2020 (the New Senior Notes). The New Senior Notes will pay interest on May 1 and November 1, of each year beginning May 1, 2011. The New Senior Notes are unsecured senior obligations and rank equally to other unsecured senior indebtedness. The New Senior Notes are guaranteed by substantially all of our direct and indirect wholly-owned domestic subsidiaries. We may redeem some or all of the 6³/₈% senior notes at any time on or after November 1, 2013 at certain redemption prices and may redeem some or all of the 6⁵/₈% senior notes at any time on or after November 1, 2014 at certain redemption prices.

We received total proceeds of \$4,300 million from these transactions, \$2,750 million from the borrowings on Term Loan A and Term Loan B and an additional \$1,550 million from the issuance of the New Senior Notes. We used a portion of the proceeds to pay-off the outstanding principal balances of our existing senior secured credit facilities plus accrued interest totaling \$1,795 million and to purchase pursuant to a cash tender offer \$558 million of the outstanding principal balances of our \$700 million 6⁵/₈% senior notes due 2013 and \$731 million of the outstanding balances of our \$850 million 7¹/₄% senior subordinated notes due 2015 (the Existing Notes), plus accrued interest totaling \$1,297 million. The total amount paid for the Existing Notes was \$1,019.06 per \$1,000 principal amount of the 6⁵/₈% senior notes and \$1,038.75 per \$1,000 principal amount of the 7¹/₄% senior subordinated notes. This resulted in us paying a cash tender premium of \$39 million in order to extinguish this portion of the Existing Notes. On November 19, 2010, we redeemed the remaining outstanding balance of the existing 6⁵/₈% senior notes of \$142 million at 101.656% per \$1,000 and the remaining outstanding balance of the existing 7¹/₄% senior subordinated notes of \$119 million at 103.625% per \$1,000 plus accrued interest totaling \$265 million. In addition, we paid a call premium totaling \$7 million. We also paid an additional \$74 million in fees, discounts and other expenses. As a result of the above transactions, we received approximately \$823 million in excess cash which we intend to use for general purposes and other opportunities, including share repurchases, potential acquisitions and other growth investments.

In connection with these transactions, we expensed debt refinancing and redemption charges totaling \$70.3 million in the fourth quarter of 2010, which includes the write off of certain existing deferred financing costs and other new financing costs, the cash tender and call premiums, as described above and other expenses.

On June 7, 2010, we redeemed \$200 million aggregate principal amount of our outstanding 6⁵/₈% senior notes due 2013, at a price of 101.656% plus accrued interest. As a result of this transaction, we expensed debt redemption charges of \$4.1 million, which includes the call premium and the net write-off of other finance costs.

During the year ended December 31, 2010 we made mandatory principal payments totaling \$65.6 million on the prior Term Loan A.

Interest rate swaps

In January 2011, we entered into nine interest rate swap agreements with amortizing notional amounts totaling \$1.0 billion that went effective on January 31, 2011. These agreements have the economic effect of

modifying the LIBOR variable component of our interest rate on an equivalent amount of our Term Loan A debt to fixed rates ranging from 1.59% to 1.64%, resulting in an overall weighted average effective interest rate of 4.36% including the Term Loan A margin of 2.75%. The swap agreements expire on September 30, 2014 and require monthly interest payments.

In addition, in January 2011, we also entered into five interest rate cap agreements with notional amounts totaling \$1.25 billion that went effective on January 31, 2011. These agreements have the economic effect of capping the LIBOR variable component of our interest rate at a maximum of 4.00% on an equivalent amount of our Term Loan B debt. The cap agreements expire on September 30, 2014.

Our previous interest rate swap agreements expired on September 30, 2010. The agreements that were effective during 2010 had the economic effect of modifying the LIBOR variable component of our interest rate on an equivalent amount of our debt to fixed rates ranging from 4.05% to 4.70%, resulting in an overall weighted average effective interest rate of 5.84% on the hedged portion of our Senior Secured Credit Facilities, including the Term Loan B margin of 1.50%. During 2010, 2009 and 2008, we accrued net cash obligations of approximately \$9.1 million, \$17.3 million and \$4.2 million, respectively, from these swaps, which are included in debt expense.

As of December 31, 2010, the interest rates were fixed on approximately 77% of our total debt.

Our overall weighted average effective interest rate on the Senior Secured Credit Facilities was 4.05%, based upon the current margins in effect of 2.75% for the Term Loan A and 3.00% for the Term Loan B, as of December 31, 2010.

Our overall weighted average effective interest rate in 2010 was 4.68% and as of December 31, 2010 was 4.94%.

Stock repurchases

During 2010, we repurchased a total of 8,918,760 shares of our common stock for \$618.5 million, or an average price of \$69.35 per share, pursuant to previously announced authorizations by the Board of Directors. On November 3, 2010, we announced that our Board of Directors authorized an increase of an additional \$800 million of share repurchases of our common stock. As a result of these transactions, the total outstanding authorization for share repurchases as of December 31, 2010 was \$682 million. We have not repurchased any additional shares of our common stock from January 1, 2011 through February 25, 2011. This stock repurchase program has no expiration date.

Other items

On July 22, 2010, we entered into a First Amended and Restated National Service Provider Agreement, or the Agreement, with NxStage Medical Inc., or NxStage. The Agreement supersedes the National Service Provider Agreement that we entered into with NxStage on February 7, 2007. Under terms of the Agreement, we will have the ability to continue to purchase NxStage System One hemodialysis machines and related supplies at discounted prices. In addition, under the Agreement, we may earn warrants to purchase NxStage common stock subject to certain requirements, including our ability to achieve certain System One home patient growth targets. The Agreement provides for a range of warrant amounts that may be earned annually depending upon the achievement of various home patient targets. The maximum amount of shares underlying warrants that we can earn over three years is 5.5 million. The exercise price of the warrants is \$14.22 per share. In connection therewith, we entered into a Registration Rights Agreement whereby NxStage has agreed to register any shares issued to us under the warrants. The Agreement expires on June 30, 2013, and will be automatically extended on a monthly basis unless terminated by either party pursuant to the Agreement.

In July 2010, we announced that we will construct a new corporate headquarters in Denver, Colorado. In July 2010, we acquired the land and existing improvements for approximately \$12 million. Effective December 18, 2010, we entered into a construction agreement for the construction of the new building. We currently estimate the total construction costs and other project costs of the building will be approximately \$95 million. Construction is expected to begin in early 2011, and is estimated to be complete in the second half of 2012. In 2010, we paid architecture and other design costs totaling approximately \$5 million.

Stock-based compensation

Stock-based compensation recognized in a period represents the straight-line amortization during that period of the estimated grant-date fair value of stock-based awards over their vesting terms, adjusted for expected forfeitures. Shares issued upon exercise of stock awards are generally issued from shares in treasury. We have utilized the Black-Scholes-Merton valuation model for estimating the grant date fair value of stock options and stock-settled stock appreciation rights granted in all prior periods. During 2010, we granted 2,037,294 stock-settled stock appreciation rights with a grant-date fair value of \$32.3 million and a weighted-average expected life of approximately 3.5 years, and also granted 467,962 stock units with a grant-date fair value of \$29.4 million and a weighted-average expected life of approximately 2.5 years.

For the years ended December 31, 2010 and 2009, we recognized \$45.6 million and \$44.4 million, respectively, in stock-based compensation expense for stock-settled stock appreciation rights, stock options, stock units and discounted employee stock plan purchases, which is primarily included in general and administrative expenses. The estimated tax benefits recorded for this stock-based compensation in 2010 and 2009 were \$17.3 million and \$16.8 million, respectively. As of December 31, 2010, there was \$83.1 million of total estimated unrecognized compensation cost related to nonvested stock-based compensation arrangements under our equity compensation and stock purchase plans. We expect to recognize this cost over a weighted average remaining period of 1.4 years.

During the years ended December 31, 2010 and 2009, we received \$48.7 million and \$63.7 million, respectively, in cash proceeds from stock option exercises and \$26.7 million and \$18.2 million, respectively, in total actual tax benefits upon the exercise of stock awards.

2009 capital structure changes

Term Loan A

During 2009, we made mandatory principal payments totaling \$61.3 million on our previous Term Loan A. As a result of these principal payments, the outstanding balance on Term Loan A as of December 31, 2009 was \$153.1 million and bore interest at LIBOR plus a margin of 1.50%, for an overall weighted average effective rate of 1.74%. The interest rate margin was subject to adjustment depending upon certain financial conditions and could range from 1.50% to 2.25%.

Term Loan B

As of December 31, 2009, the outstanding balance of our Term Loan B was \$1.7 billion and bore interest at LIBOR plus a margin of 1.50% for an overall weighted average effective rate of 2.66%, including the impact of our swap agreements that were in effect. We did not make any principal payments on Term Loan B during 2009, nor were we required to.

Senior and Senior Subordinated Notes

Our senior and senior subordinated notes, as of December 31, 2009, consisted of \$900 million of 6 $\frac{5}{8}$ % senior notes due 2013 and \$850 million of 7 $\frac{1}{4}$ % senior subordinated notes due 2015. The notes were guaranteed by substantially all of our direct and indirect wholly-owned subsidiaries and require semi-annual

interest payments in March and September. We could redeem some or all of the senior notes at any time on or after March 15, 2009 and some or all of the senior subordinated notes at any time on or after March 15, 2010.

All of the outstanding balances under the Term Loan A, Term Loan B and the senior and senior subordinated notes were extinguished as part of our debt refinancing transactions that occurred on October 20, 2010, as described above.

Stock repurchases

During 2009, we repurchased a total of 2,902,619 shares of our common stock for \$153.5 million, or an average price of \$52.88 per share, pursuant to previously announced authorizations by the Board of Directors. On November 3, 2009, we announced that our Board of Directors authorized an increase of an additional \$500 million of share repurchases of our common stock. As a result of these transactions the total outstanding authorization for share repurchases as of December 31, 2009 was \$500 million. This stock repurchase program had no expiration date.

Interest rate swaps

As of December 31, 2009, we maintained a total of eight interest rate swap agreements with amortizing notional amounts totaling \$389 million. These agreements had the economic effect of modifying the LIBOR variable component of our interest rate on an equivalent amount of our debt to fixed rates ranging from 3.88% to 4.70%, resulting in an overall weighted average effective interest rate of 5.78% on the hedged portion of our Senior Secured Credit Facilities, including the Term Loan B margin of 1.50%. The swap agreements expired on September 30, 2010. During 2009, we accrued net cash obligations of approximately \$17.3 million from these swaps, which were included in debt expense.

As of December 31, 2009, the interest rates were economically fixed on approximately 21% of our variable rate debt and approximately 59% of our total debt.

As a result of the swap agreements our overall weighted average effective interest rate on our Senior Secured Credit Facilities was 2.63%, based upon the current margins in effect of 1.50%, as of December 31, 2009.

Our overall weighted average effective interest rate in 2009 was 4.86% and as of December 31, 2009 was 4.68%.

Off-balance sheet arrangements and aggregate contractual obligations

In addition to the debt obligations reflected on our balance sheet, we have commitments associated with operating leases and letters of credit as well as potential obligations associated with our equity investments in nonconsolidated businesses and to dialysis centers that are wholly-owned by third parties. Substantially all of our facilities are leased. We have potential acquisition obligations for several joint ventures and for some of our non-wholly-owned subsidiaries in the form of put provisions. If these put provisions were exercised, we would be required to purchase the third-party owners' noncontrolling interests at either the appraised fair market value or a predetermined multiple of earnings or cash flow attributable to the noncontrolling interests put to us, which is intended to approximate fair value. For additional information see Note 22 to the consolidated financial statements.

We also have potential cash commitments to provide operating capital advances as needed to several other dialysis centers that are wholly-owned by third parties or centers in which we own an equity investment, as well as to physician-owned vascular access clinics that we operate under management and administrative services agreements.

The following is a summary of these contractual obligations and commitments as of December 31, 2010 (in millions):

	<u>Less Than 1 year</u>	<u>2-3 years</u>	<u>4-5 years</u>	<u>After 5 years</u>	<u>Total</u>
Scheduled payments under contractual obligations:					
Long-term debt	\$ 74	\$ 186	\$ 835	\$3,214	\$4,309
Interest payments	104	202	202	379	887
Interest payments on the Term Loan B(1)	96	157	153	61	467
Capital lease obligations	1	2	1	4	8
Operating leases	232	403	326	555	1,516
Construction of the new corporate headquarters	60	30	—	—	90
	<u>\$567</u>	<u>\$980</u>	<u>\$1,517</u>	<u>\$4,213</u>	<u>\$ 7,277</u>
Potential cash requirements under existing commitments:					
Letters of credit	\$ 46	\$ —	\$ —	\$ —	\$ 46
Noncontrolling interests subject to put provisions	225	67	48	43	383
Operating capital advances	2	—	—	—	2
	<u>\$273</u>	<u>\$ 67</u>	<u>\$ 48</u>	<u>\$ 43</u>	<u>\$ 431</u>

(1) Assuming no changes to LIBOR-based interest rates as the Term Loan B currently bears interest at LIBOR (floor of 1.50%) plus an interest rate margin of 3.00%.

Not included above are interest payments related to our Term Loan A. The Term Loan A currently bears interest at LIBOR plus a margin of 2.75%, for an overall weighted average effective interest rate of 3.02% as of December 31, 2010. The interest rate margin is subject to an adjustment depending upon our achievement of certain financial ratios and can range from 2.25% to 2.75%. Interest payments are due at the maturity of specific debt tranches within each Term Loan, currently monthly, which can range in maturity from one month to twelve months. Future interest payments will depend upon the amount of mandatory principal payments and principal prepayments, as well as changes in the LIBOR-based interest rates and changes in the interest rate margins. Assuming no principal prepayments on our Term Loan A during 2011 and no changes in the effective interest rate, including the interest rate margin, approximately \$30 million of interest would be required to be paid in 2011 related to the Term Loan A.

In addition to the above commitments, we are obligated to purchase a certain amount of our hemodialysis products and supplies at fixed prices through 2015 from Gambro Renal Products, Inc. in connection with the Product Supply Agreement. Our total expenditures for the years ended December 31, 2010 and 2009 on such products were approximately 2% of our total operating costs in each year. In January 2010, we entered into an agreement with Fresenius which committed us to purchase a certain amount of dialysis equipment, parts and supplies from them through 2013. Our total expenditures for the year ended December 31, 2010 on such products were approximately 2% of our total operating costs.

The actual amount of purchases in future years from Gambro Renal Products and Fresenius will depend upon a number of factors, including the operating requirements of our centers, the number of centers we acquire, growth of our existing centers, and in the case of the Product Supply Agreement, Gambro Renal Products' ability to meet our needs.

Settlements of approximately \$11 million of existing income tax liabilities for unrecognized tax benefits are excluded from the above table as reasonably reliable estimates of their timing cannot be made.

Contingencies

The information in Note 16 to the consolidated financial statements of this report is incorporated by reference in response to this item.

Critical accounting estimates and judgments

Our consolidated financial statements and accompanying notes are prepared in accordance with United States generally accepted accounting principles. These accounting principles require us to make estimates, judgments and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities, and contingencies. All significant estimates, judgments and assumptions are developed based on the best information available to us at the time made and are regularly reviewed and updated when necessary. Actual results will generally differ from these estimates. Changes in estimates are reflected in our financial statements in the period of change based upon on-going actual experience trends, or subsequent settlements and realizations depending on the nature and predictability of the estimates and contingencies. Interim changes in estimates are applied prospectively within annual periods. Certain accounting estimates, including those concerning revenue recognition and accounts receivable, impairments of long-lived assets, accounting for income taxes, quarterly variable compensation accruals, purchase accounting valuation estimates, fair value estimates and stock-based compensation are considered to be critical to evaluating and understanding our financial results because they involve inherently uncertain matters and their application requires the most difficult and complex judgments and estimates.

Revenue recognition and accounts receivable. There are significant estimating risks associated with the amount of revenue that we recognize in a given reporting period. Payment rates are often subject to significant uncertainties related to wide variations in the coverage terms of the commercial healthcare plans under which we receive payments. In addition, ongoing insurance coverage changes, geographic coverage differences, differing interpretations of contract coverage, and other payor issues complicate the billing and collection process. Net revenue recognition and allowances for uncollectible billings require the use of estimates of the amounts that will ultimately be realized considering, among other items, retroactive adjustments that may be associated with regulatory reviews, audits, billing reviews and other matters.

Revenues associated with Medicare and Medicaid programs are recognized based on (a) the payment rates that are established by statute or regulation for the portion of the payment rates paid by the government payor (e.g., 80% for Medicare patients) and (b) for the portion not paid by the primary government payor, the estimated amounts that will ultimately be collectible from other government programs paying secondary coverage (e.g., Medicaid secondary coverage), the patient's commercial health plan secondary coverage, or the patient. Beginning in January 2011, we are also subject to certain variations in our reimbursements from Medicare as we implement Medicare's new single bundled payment rate system whereby our reimbursements can be adjusted for certain patient characteristics and certain other factors. Our revenue recognition will depend upon our ability to effectively capture, document and bill for Medicare's base payment rate and these other factors. In addition, as a result of the potential range of variations that can occur in our reimbursements from Medicare under the new single bundled payment rate system, our revenue recognition will be subject to a greater degree of estimating risk.

Commercial healthcare plans, including contracted managed-care payors, are billed at our usual and customary rates; however, revenue is recognized based on estimated net realizable revenue for the services provided. Net realizable revenue is estimated based on contractual terms for the patients under healthcare plans with which we have formal agreements, non-contracted healthcare plan coverage terms if known, estimated secondary collections, historical collection experience, historical trends of refunds and payor payment adjustments (retractions), inefficiencies in our billing and collection processes that can result in denied claims for payments, slow down in collections, a reduction in the amounts that we expect to collect and regulatory compliance issues. Determining applicable primary and secondary coverage for our more than 125,000 patients at any point in time, together with the changes in patient coverages that occur each month, requires complex, resource-intensive processes. Collections, refunds and payor retractions typically continue to occur for up to three years or longer after services are provided.

We generally expect our range of dialysis and related lab services revenues estimating risk to be within 1% of its revenue, which can represent as much as 6% of consolidated operating income. Changes in

estimates are reflected in the then-current financial statements based on on-going actual experience trends, or subsequent settlements and realizations depending on the nature and predictability of the estimates and contingencies. Changes in revenue estimates for prior periods are separately disclosed and reported if material to the current reporting period and longer term trend analyses, and have not been significant.

Lab service revenues for current period dates of services are recognized at the estimated net realizable amounts to be received.

Impairments of long-lived assets. We account for impairments of long-lived assets, which include property and equipment, equity investments in non-consolidated businesses, amortizable intangible assets with finite useful lives and goodwill, in accordance with the provisions of applicable accounting guidance. Impairment reviews are performed at least annually and whenever a change in condition occurs which indicates that the carrying amounts of assets may not be recoverable.

Such changes include changes in our business strategies and plans, changes in the quality or structure of our relationships with our partners and deteriorating operating performance of individual dialysis centers or other operations. We use a variety of factors to assess the realizable value of assets depending on their nature and use. Such assessments are primarily based upon the sum of expected future undiscounted net cash flows over the expected period the asset will be utilized, as well as market values and conditions. The computation of expected future undiscounted net cash flows can be complex and involves a number of subjective assumptions. Any changes in these factors or assumptions could impact the assessed value of an asset and result in an impairment charge equal to the amount by which its carrying value exceeds its actual or estimated fair value.

Accounting for income taxes. We estimate our income tax provision to recognize our tax expense for the current year, and our deferred tax liabilities and assets for future tax consequences of events that have been recognized in our financial statements, measured using enacted tax rates and laws expected to apply in the periods when the deferred tax liabilities or assets are expected to be realized. We are required to assess our tax positions on a more-likely-than-not criteria and to also determine the actual amount of benefit to recognize in the financial statements. Deferred tax assets are assessed based upon the likelihood of recoverability from future taxable income and, to the extent that recovery is not likely, a valuation allowance is established. The allowance is regularly reviewed and updated for changes in circumstances that would cause a change in judgment about the realizability of the related deferred tax assets. These calculations and assessments involve complex estimates and judgments because the ultimate tax outcome can be uncertain and future events unpredictable.

Variable compensation accruals. We estimate variable compensation accruals quarterly based upon the annual amounts expected to be earned and paid out resulting from the achievement of certain teammate-specific and/or corporate financial and operating goals. Our estimates, which include compensation incentives for bonuses, and other awards, are updated periodically based on changes in our economic condition or cash flows that could ultimately impact the actual final award. Actual results reflected in each fiscal quarter may vary due to the subjectivity involved in anticipating fulfillment of specific and/or corporate goals, as well as the final determination and approval of amounts by our Board of Directors.

Purchase accounting valuation estimates. We make various assumptions and estimates regarding the valuation of tangible and intangible assets, liabilities and contractual as well as non-contractual contingencies associated with our acquisitions. These assumptions can have a material effect on our balance sheet valuations and the related amount of depreciation and amortization expense that will be recognized in the future.

Fair value estimates. We have recorded certain assets, liabilities and noncontrolling interests subject to put provisions at fair value. The FASB defines fair value which is measured based upon certain valuation techniques that include inputs and assumptions that market participants would use in pricing assets, liabilities

and noncontrolling interests subject to put provisions. We have measured the fair values of our applicable assets, liabilities and noncontrolling interests subject to put provisions based upon certain market inputs and assumptions that are either observable or unobservable in determining fair values and have also classified these assets, liabilities and noncontrolling interests subject to put provisions into the appropriate fair value hierarchy levels. The fair value of our investments available for sale are based upon quoted market prices from active markets and the fair value of our swap agreements were based upon valuation models and a variety of techniques as reported by various broker dealers that were based upon relevant observable market inputs such as current interest rates, forward yield curves, and other credit and liquidity market conditions. For our noncontrolling interests subject to put provisions we have estimated the fair values of these based upon either the higher of a liquidation value of net assets or an average multiple of earnings based on historical earnings, patient mix and other performance indicators, as well as other factors. During the second quarter of 2010, we refined the methodology used to estimate the fair value of noncontrolling interests subject to put provisions by eliminating an annual inflation factor that was previously applied to the put provisions until they became exercisable. We believe that eliminating an annual inflation factor will result in a better representation of the estimated actual fair value of the noncontrolling interests subject to put provisions. The estimate of the fair values of the noncontrolling interests subject to put provisions involves significant judgments and assumptions and may not be indicative of the actual values at which the noncontrolling interests may ultimately be settled, which could vary significantly from our current estimates. The estimated fair values of the noncontrolling interests subject to put provisions can also fluctuate and the implicit multiple of earnings at which these noncontrolling interests obligations may be settled will vary depending upon market conditions including potential purchasers' access to the capital markets, which can impact the level of competition for dialysis and non-dialysis related businesses, the economic performance of these businesses and the restricted marketability of the third-party owners' noncontrolling interests.

Stock-based compensation. Stock-based compensation recognized in a period represents the straight-line amortization during that period of the estimated grant-date fair value of stock-based awards over their vesting terms, adjusted for expected forfeitures. We estimate the grant-date fair value of stock awards using complex option pricing models that rely heavily on estimates from us about uncertain future events, including the expected term of the awards, the expected future volatility of our stock price, and expected future risk-free interest rates.

Significant new accounting standards

In August 2010, the FASB issued transition guidance for healthcare entities for measuring charity care that was effective for fiscal years beginning after December 15, 2010. Charity care is defined as healthcare services that are provided but are not expected to result in cash flows where the patients have demonstrated the inability to pay. The guidance requires management to disclose their policy on providing charity care, the level of charity care provided, the measurement of the direct and indirect costs of providing those services, and the amount of any subsidies received for providing charity care. Management can also estimate the costs of those services using reasonable techniques. The guidance shall be applied retrospectively. The adoption of this standard will not have a material impact on our consolidated financial statements.

Effective January 1, 2010, the FASB eliminated the quantitative approach previously required for determining the primary beneficiary of a variable interest entity, and required additional disclosures about an enterprise's involvement in variable interest entities. An entity is required to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity by having both the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and the obligation to absorb losses of the entity, or the right to receive benefits from the entity. In addition, the FASB established new guidance for determining whether an entity is a variable interest entity, requiring an ongoing reassessment of whether an enterprise is the primary beneficiary of a variable interest entity, and adding an additional reconsideration event for determining whether an entity is a variable interest entity when any changes in facts and circumstances occur

such that the holders of the equity investment at risk, as a group, lose the power from voting rights or similar rights of those investments to direct the activities of the entity that most significantly impact the entity's economic performance. See Note 20 to the consolidated financial statements for the impact of adopting these new requirements.

Effective December 15, 2009, FASB amended certain fair value disclosure requirements to include additional disclosures related to significant transfers in and out of the various fair value hierarchy levels and to clarify existing disclosures by providing disaggregate levels for each class of assets and liabilities. We are also required to provide additional disclosures on the valuation techniques and inputs used to measure fair value, as well as changes to the valuation techniques and inputs, for both recurring and nonrecurring assets and liabilities carried at fair value. In addition, we are also required to disclose the reason for making changes to our valuation techniques, assumptions and or other unobservable market inputs. Certain other disclosures on reporting the gross activity rather than the net activity for Level 3 fair value measurements is effective for fiscal years beginning after December 31, 2010. See Note 23 to the consolidated financial statements for further discussion. The adoption of this standard will not have a material impact on our consolidated financial statements.

Management's Report On Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining an adequate system of internal control over financial reporting designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles and which includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

During the last fiscal year, the Company conducted an evaluation, under the oversight of the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's internal control over financial reporting. This evaluation was completed based on the criteria established in the report titled "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based upon our evaluation under the COSO framework, we have concluded that the Company's internal control over financial reporting was effective as of December 31, 2010.

The Company's independent registered public accounting firm, KPMG LLP, has issued an attestation report on the Company's internal control over financial reporting, which report is included in this Annual Report.

Report Of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
DaVita Inc.:

We have audited the accompanying consolidated balance sheets of DaVita Inc. and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of income, equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of DaVita Inc. and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Company adopted Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements (included in FASB ASC Topic 810, Consolidation), on a prospective basis except for the presentation and disclosure requirements which were applied retrospectively for all periods presented effective January 1, 2009.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), DaVita Inc.'s internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 25, 2011 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

KPMG LLP

Seattle, Washington
February 25, 2011

Report Of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
DaVita Inc.:

We have audited DaVita Inc.'s internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). DaVita Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's Report on Internal Control Over Financial Reporting". Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, DaVita Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control—Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of DaVita Inc. and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of income, equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2010, and our report dated February 25, 2011 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Seattle, Washington
February 25, 2011

Consolidated Statements of Income
(dollars in thousands, except per share data)

	Year ended December 31,		
	2010	2009	2008
Net operating revenues	\$ 6,447,391	\$ 6,108,800	\$ 5,660,173
Operating expenses and charges:			
Patient care costs	4,474,735	4,248,668	3,920,487
General and administrative	579,000	531,531	508,240
Depreciation and amortization	234,378	228,986	216,917
Provision for uncollectible accounts	171,250	161,786	146,229
Equity investment income	(8,999)	(2,442)	(796)
Total operating expenses and charges	5,450,364	5,168,529	4,791,077
Operating income	997,027	940,271	869,096
Debt expense	(181,607)	(185,755)	(224,716)
Debt refinancing and redemption charges	(74,382)	—	—
Other income	3,420	3,708	12,411
Income before income taxes	744,458	758,224	656,791
Income tax expense	260,239	278,465	235,471
Net income	484,219	479,759	421,320
Less: Net income attributable to noncontrolling interests	(78,536)	(57,075)	(47,160)
Net income attributable to DaVita Inc.	\$ 405,683	\$ 422,684	\$ 374,160
Earnings per share:			
Basic earnings per share attributable to DaVita Inc.	\$ 4.00	\$ 4.08	\$ 3.56
Diluted earnings per share attributable to DaVita Inc. ...	\$ 3.94	\$ 4.06	\$ 3.53
Weighted average shares for earnings per share:			
Basic	101,504,373	103,603,885	105,149,448
Diluted	103,059,171	104,167,685	105,939,725

See notes to consolidated financial statements.

Consolidated Balance Sheets
(dollars in thousands, except per share data)

	December 31,	
	2010	2009
ASSETS		
Cash and cash equivalents	\$ 860,117	\$ 539,459
Short-term investments	23,003	26,475
Accounts receivable, less allowance of \$235,629 and \$229,317	1,048,976	1,105,903
Inventories	76,008	70,041
Other receivables	304,366	263,456
Other current assets	43,994	40,234
Income tax receivable	40,330	—
Deferred income taxes	226,060	256,953
Total current assets	2,622,854	2,302,521
Property and equipment, net	1,170,808	1,104,925
Amortizable intangibles, net	162,635	136,732
Equity investments	25,918	22,631
Long-term investments	8,848	7,616
Other long-term assets	32,054	32,615
Goodwill	4,091,307	3,951,196
	\$ 8,114,424	\$7,558,236
LIABILITIES AND EQUITY		
Accounts payable	\$ 181,033	\$ 176,657
Other liabilities	342,943	461,092
Accrued compensation and benefits	325,477	286,121
Current portion of long-term debt	74,892	100,007
Income taxes payable	—	23,064
Total current liabilities	924,345	1,046,941
Long-term debt	4,233,850	3,532,217
Other long-term liabilities	89,290	87,692
Alliance and product supply agreement, net	25,317	30,647
Deferred income taxes	421,436	334,855
Total liabilities	5,694,238	5,032,352
Commitments and contingencies		
Noncontrolling interests subject to put provisions	383,052	331,725
Equity:		
Preferred stock (\$0.001 par value, 5,000,000 shares authorized; none issued)		135
Common stock (\$0.001 par value, 450,000,000 shares authorized; 134,862,283 shares issued; 96,001,535 and 103,062,698 shares outstanding)	135	135
Additional paid-in capital	620,546	621,685
Retained earnings	2,717,817	2,312,134
Treasury stock, at cost (38,860,748 and 31,799,585 shares)	(1,360,579)	(793,340)
Accumulated other comprehensive income (loss)	503	(5,548)
Total DaVita Inc. shareholders' equity	1,978,422	2,135,066
Noncontrolling interests not subject to put provisions	58,712	59,093
Total equity	2,037,134	2,194,159
	\$ 8,114,424	\$7,558,236

See notes to consolidated financial statements.

Consolidated Statements Of Cash Flow
(dollars in thousands)

	Year ended December 31,		
	2010	2009	2008
Cash flows from operating activities:			
Net income	\$ 484,219	\$ 479,759	\$ 421,320
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	234,378	228,986	216,917
Stock-based compensation expense	45,551	44,422	41,235
Tax benefits from stock award exercises	26,706	18,241	13,988
Excess tax benefits from stock award exercises	(6,283)	(6,950)	(8,013)
Deferred income taxes	75,399	50,869	94,912
Equity investment income, net	(3,298)	(204)	(796)
Loss on disposal of assets and other non-cash charges	9,585	20,945	27,010
Debt refinancing and redemption charges	74,382	—	—
Changes in operating assets and liabilities, net of effect of acquisitions and divestitures:			
Accounts receivable	55,379	(32,313)	(149,939)
Inventories	(3,892)	15,115	(2,715)
Other receivables and other current assets	(44,719)	(35,104)	(40,960)
Other long-term assets	901	7,288	(11,929)
Accounts payable	4,228	(104,879)	57,422
Accrued compensation and benefits	39,588	(9,138)	(31,602)
Other current liabilities	(111,444)	(43,543)	8,871
Income taxes	(45,737)	44,578	(30,087)
Other long-term liabilities	4,740	(11,362)	8,067
Net cash provided by operating activities	<u>839,683</u>	<u>666,710</u>	<u>613,701</u>
Cash flows from investing activities:			
Additions of property and equipment, net	(273,602)	(274,605)	(317,962)
Acquisitions	(188,502)	(87,617)	(101,959)
Proceeds from asset sales	22,727	7,697	530
Purchase of investments available-for-sale	(1,125)	(2,062)	(2,009)
Purchase of investments held-to-maturity	(56,615)	(22,664)	(21,048)
Proceeds from the sale of investments available-for-sale	900	16,693	21,291
Proceeds from maturities of investments held-to-maturity	59,932	16,380	21,355
Purchase of equity investments and other assets	(709)	(2,429)	(65)
Distributions received on equity investments	361	2,547	908
Other investment activity	—	—	1,220
Net cash used in investing activities	<u>(436,633)</u>	<u>(346,060)</u>	<u>(397,739)</u>
Cash flows from financing activities:			
Borrowings	24,809,258	18,767,592	17,089,018
Payments on long-term debt	(24,134,502)	(18,828,824)	(17,102,569)
Debt refinancing costs including tender and call premiums	(113,810)	(42)	(130)
Purchase of treasury stock	(618,496)	(153,495)	(232,715)
Distributions to noncontrolling interests	(83,591)	(67,748)	(59,357)
Stock award exercises and other share issuances, net	53,760	67,908	40,247
Excess tax benefits from stock award exercises	6,283	6,950	8,013
Contributions from noncontrolling interests	9,510	13,071	19,074
Proceeds from sales of additional noncontrolling interests	3,410	9,375	10,701
Purchases from noncontrolling interests	(14,214)	(6,859)	(24,409)
Net cash used in financing activities	<u>(82,392)</u>	<u>(192,072)</u>	<u>(252,127)</u>
Net increase (decrease) in cash and cash equivalents	320,658	128,578	(36,165)
Cash and cash equivalents at beginning of year	539,459	410,881	447,046
Cash and cash equivalents at end of year	<u>\$ 860,117</u>	<u>\$ 539,459</u>	<u>\$ 410,881</u>

See notes to consolidated financial statements.

Consolidated Statements of Equity and Comprehensive Income
(dollars and shares in thousands)

	Non-controlling interests subject to put provisions	DaVita Inc. Shareholders' Equity							Non-controlling interests not subject to put provisions	Comprehensive income	
		Common stock		Additional paid-in capital	Retained earnings	Treasury stock		Accumulated other comprehensive income (loss)			Total
		Shares	Amount			Shares	Amount				
Balance at December 31, 2007	\$330,467	134,862	\$135	\$ 479,115	\$ 1,515,290	(27,732)	\$(487,744)	\$ (2,511)	\$1,504,285	\$ 48,178	
Comprehensive income:											
Net income	30,401				374,160				374,160	16,759	\$ 421,320
Unrealized losses on interest rate swaps, net of tax								(12,947)	(12,947)		(12,947)
Less reclassification of net swap realized losses into net income, net of tax								2,590	2,590		2,590
Unrealized losses on investments, net of tax								(1,174)	(1,174)		(1,174)
Less reclassification of net investment realized gains into net income, net of tax								(297)	(297)		(297)
Total comprehensive income											<u>\$409,492</u>
Stock purchase shares issued				2,981		98	1,730		4,711		
Stock unit shares issued				(2,670)		181	3,544		874		
Stock options and SARs exercised				12,278		1,133	23,328		35,606		
Stock-based compensation expense				41,235					41,235		
Excess tax benefits from stock awards exercised				8,165					8,165		
Distributions to noncontrolling interests	(40,016)									(19,341)	
Contributions from noncontrolling interests	7,305									11,769	
Sales and assumptions of additional noncontrolling interests	9,389									4,726	
Purchases from noncontrolling interests	(2,347)									(2,334)	
Changes in fair value of noncontrolling interests	(43,254)			43,254					43,254	—	
Other adjustments to noncontrolling interests	(548)									(605)	
Purchase of treasury stock						(4,789)	(232,715)		(232,715)		
Balance at December 31, 2008	\$ 291,397	134,862	\$135	\$584,358	\$1,889,450	(31,109)	\$(691,857)	\$(14,339)	\$1,767,747	\$ 59,152	
Comprehensive income:											
Net income	38,381				422,684				422,684	18,694	\$ 479,759
Unrealized losses on interest rate swaps, net of tax								(2,578)	(2,578)		(2,578)
Less reclassification of net swap realized losses into net income, net of tax								10,542	10,542		10,542
Unrealized gains on investments, net of tax								986	986		986
Less reclassification of net investment realized gains into net income, net of tax								(159)	(159)		(159)
Total comprehensive income											<u>\$488,550</u>

Consolidated Statements of Equity and Comprehensive Income—(Continued)
(dollars and shares in thousands)

	Non-controlling interests subject to put provisions	DaVita Inc. Shareholders' Equity							Non-controlling interests not subject to put provisions	Comprehensive income
		Common stock		Additional paid-in capital	Retained earnings	Treasury stock		Accumulated other comprehensive income (loss)		
		Shares	Amount			Shares	Amount			
Stock purchase shares issued				2,135		107	2,387		4,522	
Stock unit shares issued				(1,570)		69	1,570		—	
Stock options and SSARs exercised				15,598		2,036	48,055		63,653	
Stock-based compensation expense				44,422					44,422	
Excess tax benefits from stock awards exercised				6,150					6,150	
Distributions to noncontrolling interests	(44,277)									(23,471)
Contributions from noncontrolling interests	10,502									2,569
Sales and assumptions of additional noncontrolling interests	13,483			(529)				(529)	4,039	
Purchases from noncontrolling interests	(2,594)			(3,721)				(3,721)	(544)	
Changes in fair value of noncontrolling interests	24,819			(24,819)				(24,819)	—	
Other adjustments	14			(339)				(339)	(1,346)	
Purchase of treasury stock						(2,903)	(153,495)	(153,495)		
Balance at December 31, 2009	\$ 331,725	134,862	\$135	\$ 621,685	\$2,312,134	(31,800)	\$ (793,340)	\$(5,548)	\$2,135,066	\$ 59,093
Comprehensive income:										
Net income	52,589				405,683				405,683	25,947
Unrealized losses on interest rate swaps, net of tax								(134)	(134)	(134)
Less reclassification of net swap realized losses into net income, net of tax								5,557	5,557	5,557
Unrealized gains on investments, net of tax								615	615	615
Less reclassification of net investment realized losses into net income, net of tax								13	13	13
Total comprehensive income										\$490,270
Stock purchase shares issued				2,129		86	2,151		4,280	
Stock unit shares issued				(875)		32	875		—	
Stock options and SSARs exercised				455		1,740	48,231		48,686	
Stock-based compensation expense				45,551					45,551	
Excess tax benefits from stock awards exercised				6,283					6,283	
Distributions to noncontrolling interests	(54,612)									(28,979)
Contributions from noncontrolling interests	5,439									4,071
Sales and assumptions of additional noncontrolling interests	4,059			(298)				(298)	2,308	
Purchases from noncontrolling interests	(4,949)			(5,537)				(5,537)	(3,728)	
Impact on fair value due to change in methodology	(24,571)			24,571				24,571		
Changes in fair value of noncontrolling interests	73,372			(73,372)				(73,372)		
Other adjustments				(46)				(46)		
Purchase of treasury stock						(8,919)	(618,496)	(618,496)		
Balance at December 31, 2010	\$383,052	134,862	\$135	\$620,546	\$2,717,817	(38,861)	\$(1,360,579)	\$ 503	\$1,978,422	\$ 58,712

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

1. Organization and summary of significant accounting policies

Organization

DaVita Inc. principally operates kidney dialysis centers and provides related lab services primarily in dialysis centers and in contracted hospitals across the United States. The Company also operates other ancillary services and strategic initiatives which relate primarily to its core business of providing kidney dialysis services. As of December 31, 2010, the Company operated or provided administrative services to 1,612 outpatient dialysis centers located in 42 states and the District of Columbia, serving approximately 125,000 patients. The Company's dialysis and related lab services business qualifies as a separately reportable segment and all other ancillary services and strategic initiatives have been combined and disclosed in the other segments category.

Basis of presentation

These consolidated financial statements are prepared in accordance with United States generally accepted accounting principles. The financial statements include DaVita and its subsidiaries, partnerships and other entities in which it maintains a 100% or majority voting interest, an other controlling financial interest, or of which it is the primary beneficiary (collectively, the Company). All significant intercompany transactions and balances have been eliminated. Non-marketable equity investments are recorded under the equity or cost method of accounting based upon whether the Company has significant influence over the investee. The Company has evaluated subsequent events through the date these consolidated financial statements were issued, and have included all necessary disclosures.

Use of estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities, contingencies and temporary equity. Although actual results in subsequent periods will differ from these estimates, such estimates are developed based on the best information available to management and management's best judgments at the time made. All significant assumptions and estimates underlying the amounts reported in the financial statements and accompanying notes are regularly reviewed and updated. Changes in estimates are reflected in the financial statements based upon on-going actual experience trends, or subsequent settlements and realizations depending on the nature and predictability of the estimates and contingencies. Interim changes in estimates related to annual operating costs are applied prospectively within annual periods.

The most significant assumptions and estimates underlying these financial statements and accompanying notes involve revenue recognition and provisions for uncollectible accounts, impairments and valuation adjustments, accounting for income taxes, quarterly variable compensation accruals, purchase accounting valuation estimates, fair value estimates and stock-based compensation. Specific estimating risks and contingencies are further addressed within these notes to the consolidated financial statements.

Net operating revenues and accounts receivable

Revenues associated with Medicare and Medicaid programs are recognized based on: (a) the payment rates that are established by statute or regulation for the portion of the payment rates paid by the government payor (e.g., 80% for Medicare patients) and (b) for the portion not paid by the primary government payor, estimates of the amounts ultimately collectible from other government programs paying secondary coverage

(e.g., Medicaid secondary coverage), the patient's commercial health plan secondary coverage, or the patient. Beginning in January 2011, the Company's reimbursements from Medicare are subject to certain variations under Medicare's new single bundled payment rate system, whereby reimbursements can be adjusted for certain patient characteristics and other factors. The Company's revenue recognition will depend upon its ability to effectively capture, document and bill for Medicare's base payment rate as well as these other factors. In addition, as a result of the potential range of variations that can occur in the Company's reimbursements from Medicare under the new single bundled payment rate system, the Company's revenue recognition will be subject to a greater degree of estimating risk.

Revenues associated with commercial health plans are estimated based on contractual terms for the patients under healthcare plans with which the Company has formal agreements, non-contracted health plan coverage terms if known, estimated secondary collections, historical collection experience, historical trends of refunds and payor payment adjustments (retractions), inefficiencies in the Company's billing and collection processes that can result in denied claims for payments, and regulatory compliance issues.

Operating revenues are recognized in the period services are provided. Revenues consist primarily of payments from Medicare, Medicaid and commercial health plans for dialysis and ancillary services provided to patients. A usual and customary fee schedule is maintained for the Company's dialysis treatments and other patient services; however, actual collectible revenue is normally recognized at a discount from the fee schedule.

Commercial revenue recognition involves significant estimating risks. With many larger, commercial insurers the Company has several different contracts and payment arrangements, and these contracts often include only a subset of the Company's centers. It is often not possible to determine which contract, if any, should be applied prior to billing. In addition, for services provided by non-contracted centers, final collection may require specific negotiation of a payment amount, typically at a significant discount from the Company's usual and customary rates.

Services covered by Medicare and Medicaid are less subject to estimating risk. Both Medicare and Medicaid rates use prospective payment methods established in advance with definitive terms. Medicare payments for bad debt claims are subject to individual center profitability, as established by cost reports, and require evidence of collection efforts. As a result, billing and collection of Medicare bad debt claims are often delayed significantly, and final payment is subject to audit.

Medicaid payments, when Medicaid coverage is secondary, can also be difficult to estimate. For many states, Medicaid payment terms and methods differ from Medicare, and may prevent accurate estimation of individual payment amounts prior to billing.

Net revenue recognition and allowances for uncollectible billings require the use of estimates of the amounts that will ultimately be realized considering, among other items, retroactive adjustments that may be associated with regulatory reviews, audits, billing reviews and other matters. The Company's policy is to write-off any uncollectible accounts receivable balance only after all collection efforts have been exhausted or when write-off is mandated by federal or state policies or required by certain payor contracts. It is also the Company's policy to write-off any accounts receivable balance associated with any payors or patients upon the Company receiving notification of a bankruptcy filing.

The Company's range of revenue estimating risk for the dialysis and related lab services segment is generally expected to be within 1% of its revenue. Changes in revenue estimates for prior periods are separately disclosed, if material.

Management and administrative support services are provided to dialysis centers and physician practices and clinics that the Company does not own or in which the Company owns a minority equity investment interest. The management fees are principally determined as a percentage of the managed

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except per share data)

operations' revenues or cash collections and in some cases an additional component based upon a percentage of operating income. Management fees are included in net operating revenues as earned, and represent less than 1% of total consolidated operating revenues.

Other income

Other income includes interest income on cash investments and other non-operating gains from investment transactions.

Cash and cash equivalents

Cash equivalents are short-term highly liquid investments with maturities of three months or less at date of purchase.

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market and consist principally of pharmaceuticals and dialysis-related supplies. Rebates related to inventory purchases are recorded when earned and are based on certain qualification requirements based upon a variety of factors including process improvement targets, patient outcome targets and data submission.

Property and equipment

Property and equipment is stated at cost less accumulated depreciation and amortization and is further reduced by any impairments. Maintenance and repairs are charged to expense as incurred. Depreciation and amortization expenses are computed using the straight-line method over the useful lives of the assets estimated as follows: buildings, 20 to 40 years; leasehold improvements, the shorter of their economic useful life or the expected lease term; and equipment and information systems, principally 3 to 8 years. Disposition gains and losses are included in current operating expenses.

Investments

Based upon the Company's intentions and ability to hold certain assets until maturity, the Company classifies certain debt securities as held-to-maturity and measures them at amortized cost. Based upon the Company's other strategies involving investments, the Company classifies equity securities that have readily determinable fair values and certain other debt securities as available for sale and measures them at fair value. Unrealized gains or losses from available for sale investments are recorded in other comprehensive income until realized.

Amortizable intangibles

Amortizable intangible assets and liabilities include non-competition and similar agreements, lease agreements, hospital acute services contracts, deferred debt financing costs and the Alliance and Product Supply Agreement, each of which have finite useful lives. Non-competition and similar agreements are amortized over the terms of the agreements, typically ten years, using the straight-line method. Lease agreements and hospital acute service contracts are amortized on a straight-line basis over the term of the lease and the contract period, respectively. Deferred debt financing costs are amortized to debt expense over the term of the related debt using the effective interest method. The Alliance and Product Supply Agreement intangible liability is being amortized using the straight-line method over the term of the agreement, which is ten years.

Goodwill

Goodwill represents the difference between the fair value of acquired businesses and the fair value of the identifiable tangible and intangible net assets acquired. Goodwill is not amortized, but is assessed for valuation impairment as circumstances warrant and at least annually. An impairment charge would be recorded to the extent the book value of goodwill exceeds its fair value. The Company operates several reporting units for goodwill impairment assessments.

Impairment of long-lived assets

Long-lived assets, including property and equipment, equity investments in non-consolidated businesses, and amortizable intangible assets with finite useful lives, are reviewed for possible impairment at least annually and whenever significant events or changes in circumstances indicate that an impairment may have occurred, including changes in the Company's business strategy and plans, changes in the quality or structure of its relationships with its partners and deteriorating operating performance of individual dialysis centers or other operations. An impairment is indicated when the sum of the expected future undiscounted net cash flows identifiable to an asset or asset group is less than its carrying value. Impairment losses are determined from actual or estimated fair values, which are based on market values, net realizable values or projections of discounted net cash flows, as appropriate. Impairment charges are included in operating expenses.

Income taxes

Federal and state income taxes are computed at current enacted tax rates less tax credits using the asset and liability method. Deferred taxes are adjusted both for items that do not have tax consequences and for the cumulative effect of any changes in tax rates from those previously used to determine deferred tax assets or liabilities. Tax provisions include amounts that are currently payable, changes in deferred tax assets and liabilities that arise because of temporary differences between the timing of when items of income and expense are recognized for financial reporting and income tax purposes, changes in the recognition of tax positions and any changes in the valuation allowance caused by a change in judgment about the realizability of the related deferred tax assets. A valuation allowance is established when necessary to reduce deferred tax assets to amounts expected to be realized.

The Company uses a recognition threshold of more-likely-than not and a measurement attribute on all tax positions taken or expected to be taken in a tax return in order to be recognized in the financial statements. Once the recognition threshold is met, the tax position is then measured to determine the actual amount of benefit to recognize in the financial statements.

Self insurance

The Company maintains insurance reserves for professional and general liability and workers' compensation in excess of certain individual and or aggregate amounts not covered by third-party carriers. The Company estimates the self-insured retention portion of professional and general liability and workers' compensation risks using third-party actuarial calculations that are based upon historical claims experience and expectations for future claims.

Noncontrolling interests

Noncontrolling interests represent the equity interests of third-party owners in consolidated entities which are majority-owned. As of December 31, 2010, third parties held noncontrolling ownership interests in 148 consolidated entities.

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except per share data)

Stock-based compensation

The Company's stock-based compensation awards are measured at their estimated fair value on the date of grant. Stock-based compensation expense recognized in a period represents the straight-line amortization during that period of the estimated grant date fair value of current and prior stock-based awards over their vesting terms, adjusted for expected forfeitures.

Interest rate swap and cap agreements

The Company has entered into several interest rate swap agreements as a means of hedging its exposure to and volatility from variable-based interest rate changes. These agreements are designated as cash flow hedges and are not held for trading or speculative purposes. The swap agreements have the economic effect of converting portions of the Company's variable rate debt to fixed rates. In addition, in January 2011, the Company entered into several interest rate cap agreements that have the economic effect of fixing the maximum exposure to variable-based interest rate changes on other specific portions of the Company's variable-based rate debt. See Note 13 to the consolidated financial statements for further details.

Fair value estimates

The Company currently measures the fair value of certain assets and noncontrolling interests subject to put provisions (temporary equity) based upon certain valuation techniques that include observable or unobservable market inputs and assumptions that market participants would use in pricing these assets and temporary equity. The Company also has classified its assets and temporary equity into the appropriate fair value hierarchy levels as defined by the Financial Accounting Standards Board (FASB). See Note 23 to the consolidated financial statements for further details.

New accounting standards

In August 2010, the FASB issued transition guidance for healthcare entities for measuring charity care that was effective for fiscal years beginning after December 15, 2010. Charity care is defined as healthcare services that are provided but are not expected to result in cash flows where the patients have demonstrated the inability to pay. The guidance requires management to disclose their policy on providing charity care, the level of charity care provided, the measurement of the direct and indirect costs of providing those services and the amount of any subsidies received for providing charity care. Management can also estimate the costs of those services using reasonable techniques. The guidance shall be applied retrospectively. The adoption of this standard will not have a material impact on the Company's consolidated financial statements.

Effective January 1, 2010, the FASB eliminated the quantitative approach previously required for determining the primary beneficiary of a variable interest entity, and required additional disclosures about an enterprise's involvement in variable interest entities. An entity is required to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity by having both the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and the obligation to absorb losses of the entity, or the right to receive benefits from the entity. In addition, the FASB established new guidance for determining whether an entity is a variable interest entity, requiring an ongoing reassessment of whether an enterprise is the primary beneficiary of a variable interest entity, and adding an additional reconsideration event for determining whether an entity is a variable interest entity when any changes in facts and circumstances occur such that the holders of the equity investment at risk, as a group, lose the power from voting rights or similar rights of those investments to direct the activities of the entity that most significantly impact the entity's economic performance. See Note 20 to the consolidated financial statements for the impact of adopting these new requirements.

Effective December 15, 2009, FASB amended certain fair value disclosure requirements to include additional disclosures related to significant transfers in and out of the various fair value hierarchy levels and to clarify existing disclosures by providing disaggregate levels for each class of assets and liabilities. We are also required to provide additional disclosures on the valuation techniques and inputs used to measure fair value, as well as changes to the valuation techniques and inputs, for both recurring and nonrecurring assets and liabilities carried at fair value. In addition, we are also required to disclose the reason for making changes to our valuation techniques, assumptions and or other unobservable market inputs. Certain other disclosures on reporting the gross activity rather than the net activity for Level 3 fair value measurements is effective for fiscal years beginning after December 31, 2010. See Note 23 to the consolidated financial statements for further discussion. The adoption of this standard will not have a material impact on the Company's consolidated financial statements.

Effective January 1, 2009, the Company is required to treat noncontrolling interests as a separate component of equity, but apart from the Company's equity, and not as a liability or other item outside of equity. The Company is also required to identify and present consolidated net income attributable to the Company and to noncontrolling interests on the face of the consolidated statement of income. Previously, the Company had reported minority interests (noncontrolling interests) as a reduction to operating income. In addition, changes in the Company's ownership interest while the Company retains a controlling financial interest should be accounted for as equity transactions. The Company was also required to expand disclosures in the financial statements to include a reconciliation of the beginning and ending balances of the equity attributable to the Company and the noncontrolling owners and a schedule showing the effects of changes in the Company's ownership interest in a subsidiary on the equity attributable to the Company. This change did not have a material impact on the Company's consolidated financial statements; however, it did change the presentation of minority interests (noncontrolling interests) in the Company's consolidated financial statements. In conjunction with adopting these requirements, the Company was required to classify securities with redemption features that are not solely within the Company's control such as the Company's noncontrolling interests that are subject to put provisions outside of permanent equity and to measure these noncontrolling interests at fair value. See Note 22 to the Company's consolidated financial statements for further details. These consolidated financial statements have been recast for all prior periods presented for the retrospective application of these presentation and disclosure requirements.

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except per share data)

The effects of the change upon the retrospective application of these presentation and disclosure requirements were as follows:

Consolidated income statements:

	2008
Operating income:	
Operating income as previously reported	\$ 821,765
Reclassification of noncontrolling interests	47,331
Operating income as adjusted	\$869,096
Income taxes:	
Income taxes as previously reported	\$ 235,300
Income taxes associated with noncontrolling interests	171
Income taxes as adjusted	\$ 235,471

Consolidated statements of cash flow:

	2008
Cash flows from operating activities:	
Net cash provided by operating activities as previously reported	\$555,931
Reclassification of distributions to noncontrolling interests to cash flows from financing activities	57,770
Net cash provided by operating activities as adjusted	\$ 613,701

2. Earnings per share

Basic net income per share is calculated by dividing net income attributable to DaVita Inc., net of the increase in noncontrolling interest redemption rights in excess of fair value, by the weighted average number of common shares and vested stock units outstanding. Diluted net income per share includes the dilutive effect of outstanding stock-settled stock appreciation rights, stock options and unvested stock units (under the treasury stock method).

The reconciliations of the numerators and denominators used to calculate basic and diluted net income per share are as follows:

	Year ended December 31,		
	2010	2009	2008
	(shares in thousands)		
Basic:			
Net income attributable to DaVita Inc.	\$405,683	\$422,684	\$374,160
Increase in noncontrolling interest redemption rights in excess of fair value	(68)	(267)	—
Net income for basic earnings per share calculation	<u>\$ 405,615</u>	<u>\$ 422,417</u>	<u>\$ 374,160</u>
Weighted average shares outstanding during the year	101,497	103,595	105,140
Vested stock units	7	9	9
Weighted average shares for basic earnings per share calculation	<u>101,504</u>	<u>103,604</u>	<u>105,149</u>
Basic net income per share attributable to DaVita Inc.	<u><u>\$ 4.00</u></u>	<u><u>\$ 4.08</u></u>	<u><u>\$ 3.56</u></u>
Diluted:			
Net income attributable to DaVita Inc.	\$405,683	\$422,684	\$374,160
Increase in noncontrolling interest redemption rights in excess of fair value	(68)	(267)	—
Net income for diluted earnings per share calculation	<u>\$ 405,615</u>	<u>\$ 422,417</u>	<u>\$ 374,160</u>
Weighted average shares outstanding during the year	101,497	103,595	105,140
Vested stock units	7	9	9
Assumed incremental shares from stock plans	1,555	564	791
Weighted average shares for diluted earnings per share calculation	<u>103,059</u>	<u>104,168</u>	<u>105,940</u>
Diluted net income per share attributable to DaVita Inc.	<u><u>\$ 3.94</u></u>	<u><u>\$ 4.06</u></u>	<u><u>\$ 3.53</u></u>
Shares subject to anti-dilutive awards excluded from calculation(1)	<u>1,452</u>	<u>9,912</u>	<u>10,053</u>

(1) Shares associated with stock-settled stock appreciation rights and stock options are excluded from the diluted denominator calculation because they are anti-dilutive under the treasury stock method.

3. Accounts receivable

Approximately 15% and 18% of the accounts receivable balances as of December 31, 2010 and 2009, respectively, were more than six months old, and there were no significant balances over one year old. Approximately 2% of our accounts receivable as of December 31, 2010 and 2009, related to amounts due from patients. Accounts receivable are principally from Medicare and Medicaid programs and commercial insurance plans.

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except per share data)

4. Other receivables

Other receivables were comprised of the following:

	December 31,	
	2010	2009
Supplier rebates and other non-trade receivables	\$ 238,156	\$ 195,753
Medicare bad debt claims	46,250	45,600
Operating advances under management and administrative services agreements	19,960	22,103
	\$304,366	\$263,456

Operating advances under management and administrative services agreements are generally unsecured.

5. Other current assets

Other current assets consist principally of prepaid expenses and operating deposits.

6. Property and equipment

Property and equipment were comprised of the following:

	December 31,	
	2010	2009
Land	\$ 23,182	\$ 11,771
Buildings	33,937	34,294
Leasehold improvements	1,106,935	997,668
Equipment and information systems	1,107,778	999,305
New center and capital asset projects in progress	38,721	32,280
	2,310,553	2,075,318
Less accumulated depreciation and amortization	(1,139,745)	(970,393)
	\$ 1,170,808	\$ 1,104,925

Depreciation and amortization expense on property and equipment was \$219,314, \$214,515 and \$201,006 for 2010, 2009 and 2008, respectively.

Interest on debt incurred during the development of new centers and other capital asset projects is capitalized as a component of the asset cost based on the respective in-process capital asset balances. Interest capitalized was \$2,621, \$3,627 and \$4,189 for 2010, 2009 and 2008, respectively.

7. Amortizable intangibles

Amortizable intangible assets were comprised of the following:

	December 31,	
	2010	2009
Noncompetition and other agreements	\$309,405	\$ 291,022
Lease agreements	8,466	8,156
Deferred debt financing costs	61,405	72,656
	<u>379,276</u>	<u>371,834</u>
Less accumulated amortization	(216,641)	(235,102)
Total amortizable intangible assets	<u>\$ 162,635</u>	<u>\$ 136,732</u>

Amortizable intangible liabilities were comprised of the following:

	December 31,	
	2010	2009
Alliance and product supply agreement commitment (See Note 22)	\$ 68,200	\$ 68,200
Less accumulated amortization	(42,883)	(37,553)
	<u>\$ 25,317</u>	<u>\$ 30,647</u>

Net amortization expense from noncompetition and other agreements and the amortizable intangible liabilities was \$15,064, \$14,471 and \$15,911 for 2010, 2009 and 2008, respectively. Lease agreements which are amortized to rent expense were \$480 in 2010, \$565 in 2009 and \$1,420 in 2008, respectively. Deferred debt issuance costs are amortized to debt expense as described in Note 13 to the consolidated financial statements.

Scheduled amortization charges from intangible assets and liabilities as of December 31, 2010 were as follows:

	Noncompetition and other agreements	Deferred debt financing costs	Alliance and Product Supply Agreement liability
2011	21,777	9,742	(5,330)
2012	21,291	9,516	(5,330)
2013	19,152	9,233	(5,330)
2014	17,233	8,760	(5,330)
2015	13,223	7,690	(3,997)
Thereafter	10,993	14,025	—

8. Equity investments

Equity investments in non-consolidated businesses were \$25,918 and \$22,631 at December 31, 2010 and 2009, respectively. During 2010, 2009 and 2008, the Company recognized income of \$8,999, \$2,442 and \$796, respectively, relating to equity investments in non-consolidated businesses under the equity method of accounting. There were no material equity investment transactions in 2010.

See Note 17, section *Changes in DaVita Inc.'s ownership interest in consolidated subsidiaries* to the consolidated financial statements for additional information regarding 2009 equity investment transactions. In 2009, the Company also contributed \$1,100 to an existing joint venture in which the Company owns a 50% equity investment.

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except per share data)

9. Investments in debt and equity securities

Based on the Company's intentions and strategy involving investments, the Company classifies certain debt securities as held-to-maturity and records them at amortized cost. Equity securities that have readily determinable fair values and other debt securities classified as available for sale are recorded at fair value.

The Company's investments consist of the following:

	December 31, 2010			December 31, 2009		
	Held to maturity	Available for sale	Total	Held to maturity	Available for sale	Total
Certificates of deposit, money market funds and U.S. treasury notes due within one year	\$21,803	\$ —	\$ 21,803	\$25,275	\$ —	\$25,275
Investments in mutual funds	—	10,048	10,048	—	8,816	8,816
	<u>\$21,803</u>	<u>\$10,048</u>	<u>\$ 31,851</u>	<u>\$25,275</u>	<u>\$8,816</u>	<u>\$34,091</u>
Short-term investments	\$21,803	\$ 1,200	\$23,003	\$25,275	\$1,200	\$26,475
Long-term investments	—	8,848	8,848	—	7,616	7,616
	<u>\$21,803</u>	<u>\$10,048</u>	<u>\$ 31,851</u>	<u>\$25,275</u>	<u>\$8,816</u>	<u>\$34,091</u>

The cost of the certificates of deposit, money market funds and U.S. treasury notes at December 31, 2010 and 2009 approximates fair value. As of December 31, 2010 and 2009, the available for sale investments included \$824 and (\$205), respectively, of gross pre-tax unrealized gains (losses). During 2010 and 2009 the Company recorded gross pre-tax unrealized gains of \$1,007 and \$1,614, respectively, in other comprehensive income associated with changes in the fair value of these investments. During 2010, the Company sold investments in mutual funds for net proceeds of \$900, and recognized a pre-tax loss of \$22, or \$13 after tax, that was previously recorded in other comprehensive income. During 2009, the Company sold investments in mutual funds for net proceeds of \$16,693, and recognized a pre-tax gain of \$261, or \$159 after tax, that was previously recorded in other comprehensive income. In 2009, the Company also purchased approximately \$6,300 of investments that are classified as held to maturity, net of investments routinely reinvested as required for VillageHealth, see discussion below.

As of December 31, 2010, investments totaling \$18,537 classified as held to maturity are used to maintain certain capital requirements of the special needs plans of VillageHealth, which is a wholly-owned subsidiary of the Company. As of December 31, 2009, the Company discontinued the VillageHealth special needs plans and is in process of paying out all incurred claims. The Company also expects to liquidate its investments that are currently held to maintain certain capital requirements as soon as all of the claims are paid and the various state regulatory agencies approve the release of these investments. The investments in mutual funds classified as available for sale are held within a trust to fund existing obligations associated with several of the Company's non-qualified deferred compensation plans.

On July 22, 2010, the Company entered into a First Amended and Restated National Service Provider Agreement, or the Agreement, with NxStage Medical Inc., or NxStage. The Agreement supersedes the National Service Provider Agreement that the Company entered into with NxStage on February 7, 2007. Under terms of the Agreement, the Company will have the ability to continue to purchase NxStage System One hemodialysis machines and related supplies at discounted prices. In addition, under the Agreement, the Company may earn warrants to purchase NxStage common stock subject to certain requirements, including the Company's ability to achieve certain System One home patient growth targets. The Agreement provides for a range of warrant amounts that may be earned annually depending upon the achievement of various

home patient targets. The maximum amount of shares underlying warrants that the Company can earn over three years in 5,500. The exercise price of the warrants is \$14.22 per share. In connection therewith, the Company entered into a Registration Rights Agreement whereby NxStage has agreed to register any shares issued to the Company under the warrants. The Agreement expires on June 30, 2013, and will be automatically extended on a monthly basis unless terminated by either party pursuant to the Agreement. The overall estimated value of the warrants as of December 31, 2010 that are expected to be earned by the Company and recognized over the first annual reporting period were not material.

10. Goodwill

Changes in the book value of goodwill were as follows:

	Year ended December 31,	
	2010	2009
Balance at January 1	\$ 3,951,196	\$3,876,931
Acquisitions	152,252	78,199
Sales of noncontrolling interests	—	(3,293)
Divestitures	(12,128)	(641)
Other adjustments	(13)	—
Balance at December 31	<u>\$4,091,307</u>	<u>\$ 3,951,196</u>

As of December 31, 2010, there was \$4,022,365 and \$68,942 of goodwill associated with the dialysis and related lab services business and the ancillary services and strategic initiatives, respectively.

As of December 31, 2009, there was \$3,882,254 and \$68,942 of goodwill associated with the dialysis and related lab services business and the ancillary services and strategic initiatives, respectively.

11. Other liabilities

Other accrued liabilities were comprised of the following:

	December 31,	
	2010	2009
Payor refunds and retractions	\$ 216,655	\$ 320,187
Insurance and self-insurance accruals	65,950	59,734
Accrued interest	22,905	36,881
Accrued non-income tax liabilities	9,995	11,581
Interest rate swaps	—	10,792
Other	27,438	21,917
	<u>\$342,943</u>	<u>\$461,092</u>

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except per share data)

12. Income taxes

A reconciliation of the beginning and ending liability for unrecognized tax benefits that do not meet the more-likely-than-not threshold were as follows:

	Year ended December 31,	
	2010	2009
Balance beginning	\$ 30,693	\$ 10,887
Additions for tax positions related to current year	1,515	6,939
Additions for tax positions related to prior years	69	14,941
Reductions for tax positions related to prior years	(24,139)	(1,738)
Settlements	—	(336)
Balance ending	\$ 8,138	\$30,693

As of December 31, 2010, unrecognized tax benefits totaling \$8,138 would affect the Company's effective tax rate, if recognized.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in its income tax expense. At December 31, 2010 and 2009, the Company had approximately \$3,177 and \$3,226, respectively, accrued for interest and penalties related to unrecognized tax benefits, net of federal tax benefits.

The Company and its subsidiaries file U.S. federal income tax returns and various state returns. The Company is no longer subject to U.S. federal, state and local examinations by tax authorities for years before 2005.

Income tax expense consisted of the following:

	Year ended December 31,		
	2010	2009	2008
Current:			
Federal	\$ 153,502	\$ 193,181	\$ 118,764
State	31,338	34,415	20,595
Deferred:			
Federal	67,901	44,376	81,306
State	7,498	6,493	14,806
	\$260,239	\$278,465	\$235,471

Deferred tax assets and liabilities arising from temporary differences were as follows:

	December 31,	
	2010	2009
Receivables	\$ 110,332	\$ 142,315
Alliance and product supply agreement	9,849	11,922
Accrued liabilities	127,073	125,992
Other	60,368	62,208
Deferred tax assets	307,622	342,437
Valuation allowance	(10,998)	(14,191)
Net deferred tax assets	296,624	328,246
Intangible assets	(377,456)	(317,306)
Property and equipment	(110,472)	(84,041)
Other	(4,072)	(4,801)
Deferred tax liabilities	(492,000)	(406,148)
Net deferred tax liabilities	<u>\$ (195,376)</u>	<u>\$ (77,902)</u>

At December 31, 2010, the Company had state net operating loss carryforwards of approximately \$143,568 that expire through 2030, and federal net operating loss carryforwards of \$8,498 that expire through 2030. The utilization of these losses may be limited in future years based on the profitability of certain separate-return entities. The valuation allowance decrease of \$3,193 relates to changes in the estimated tax benefit and utilization of federal and state operating losses of separate-return entities.

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

	Year ended		
	December 31,		
	2010	2009	2008
Federal income tax rate	35.0%	35.0%	35.0%
State taxes, net of federal benefit	3.9	3.7	3.7
Changes in deferred tax valuation allowances	(0.1)	0.2	0.3
Other	0.2	0.8	(0.3)
Impact of noncontrolling interests primarily attributable to non-tax paying entities	(4.0)	(3.0)	(2.8)
Effective tax rate	<u>35.0%</u>	<u>36.7%</u>	<u>35.9%</u>

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except per share data)

13. Long-term debt

Long-term debt was comprised of the following:

	December 31,	
	2010	2009
Senior Secured Credit Facilities:		
Term Loan A	\$1,000,000	\$ 153,125
Term Loan B	1,750,000	1,705,875
Senior and senior subordinated notes	1,550,000	1,750,000
Acquisition obligations and other notes payable	9,049	15,891
Capital lease obligations	8,074	4,635
Total principal debt outstanding	4,317,123	3,629,526
(Discount) premium on long-term debt	(8,381)	2,698
	4,308,742	3,632,224
Less current portion	(74,892)	(100,007)
	\$ 4,233,850	\$ 3,532,217

Scheduled maturities of long-term debt at December 31, 2010 were as follows:

2011	74,892
2012	68,931
2013	118,988
2014	168,435
2015	668,118
Thereafter	3,217,759

Senior Secured Credit Facility

On October 20, 2010, the Company entered into a \$3,000,000 new Senior Secured Credit Agreement (the Credit Agreement), consisting of a five year \$250,000 revolving line of credit, a five year \$1,000,000 Term Loan A and a six year \$1,750,000 Term Loan B. The Company also has the right to request an increase to the borrowing capacity to a total aggregate principal amount of not more than \$4,000,000 subject to bank participation. The revolving line of credit and the Term Loan A will initially bear interest at LIBOR plus an interest rate margin of 2.75% until June 30, 2011, and then is subject to adjustment depending upon the Company's leverage ratio and can range from 2.25% to 2.75%. The Term Loan A requires annual principal payments of \$50,000 in 2011, \$50,000 in 2012, \$100,000 in 2013, and \$150,000 in 2014, with the balance of \$650,000 due in 2015. The Term Loan B bears interest at LIBOR (floor of 1.50%) plus 3.00% subject to a ratings based step-down to 2.75%. The Term Loan B requires annual principal payments of \$17,500 in each year from 2011 through 2015 with the balance of \$1,662,500 due in 2016. The borrowings under the Credit Agreement are guaranteed by substantially all of the Company's direct and indirect wholly-owned domestic subsidiaries and are secured by substantially all of the Company's and its guarantors' assets. The Credit Agreement contains customary affirmative and negative covenants such as various restrictions on investments, acquisitions, the payment of dividends, redemptions and acquisitions of capital stock, capital expenditures and other indebtedness, as well as limitations on the amount of tangible net assets in non-guarantor subsidiaries. However, many of these restrictions will not apply as long as the Company's leverage ratio is below 3.50:1.00. In addition, the Credit Agreement requires compliance with financial covenants including an interest coverage ratio and a leverage ratio that determines the interest rate margins as described above.

On October 20, 2010, the Company also issued \$775,000 aggregate principal amount of 6³/₈% senior notes due 2018 and \$775,000 aggregate principal amount of 6⁵/₈% senior notes due 2020 (collectively the New Senior Notes). The New Senior Notes will pay interest on May 1 and November 1 of each year, beginning May 1, 2011. The New Senior Notes are unsecured senior obligations and rank equally to other unsecured senior indebtedness. The New Senior Notes are guaranteed by substantially all of the Company's direct and indirect wholly owned domestic subsidiaries. The Company may redeem some or all of the 6³/₈% senior notes at any time on or after November 1, 2013 at certain redemption prices and may redeem some or all of the 6⁵/₈% senior notes at any time on or after November 1, 2014 at certain redemption prices.

The Company received total proceeds of \$4,300,000 from these transactions, \$2,750,000 from the borrowings on Term Loan A and Term Loan B and an additional \$1,550,000 from the issuance of the New Senior Notes. The Company used a portion of the proceeds to pay-off the outstanding principal balances of its existing Senior Secured Credit Facilities plus accrued interest totaling \$1,795,363 and to purchase pursuant to a cash tender offer \$557,644 of the outstanding principal balances of the Company's \$700,000 6⁵/₈% senior notes due 2013 and \$730,827 of the outstanding balances of the Company's \$850,000 7¹/₄% senior subordinated notes due 2015, (the Existing Notes), plus accrued interest totaling \$1,297,215. The total amount paid for the Existing Notes was \$1,019.06 per \$1,000 principal amount of the 6⁵/₈% senior notes and \$1,038.75 per \$1,000 principal amount of the 7¹/₄% senior subordinated notes. This resulted in the Company paying a cash tender premium of \$38,933 in order to extinguish this portion of the Existing Notes. On November 19, 2010, the Company redeemed the remaining outstanding balance of the existing 6⁵/₈% senior notes of \$142,356 at 101.656% per \$1,000 and the remaining outstanding balance of the existing 7¹/₄% senior subordinated notes of \$119,173 at 103.625% per \$1,000 plus accrued interest totaling \$264,742. In addition, the Company paid a call premium totaling \$6,677. The Company also paid an additional \$74,431 in fees, discounts and other expenses. As a result of the above transactions, the Company received approximately \$823,000 in excess cash which it intends to use for general purposes and other opportunities, including share repurchases, potential acquisitions and other growth investments.

In connection with these transactions, the Company expensed debt refinancing and redemption charges totaling \$70,255, which includes the write off of certain existing deferred financing costs and other new financing costs, the cash tender and call premiums, as described above and other expenses.

On June 7, 2010, the Company redeemed \$200,000 aggregate principal amount of its outstanding 6⁵/₈% senior notes due 2013, at a price of 101.656% plus accrued interest. As a result of this transaction, the Company expensed debt redemption charges of \$4,127, which includes the call premium and the net write-off of other finance costs.

Term Loans

Term Loan A and Term Loan B total outstanding borrowings can consist of various individual tranches that can range in maturity from one month to twelve months (currently monthly). Each specific tranche for the Term Loan A bears interest at a LIBOR rate determined by the maturity of that specific tranche plus an interest rate margin, currently 2.75%, and the LIBOR variable component of the interest rate is reset as each specific tranche matures. At December 31, 2010, the overall weighted average interest rate for the Term Loan A was determined based upon the LIBOR interest rates in effect for all of the individual tranches plus the interest rate margin. In January 2011, the Company entered into several interest rate swap agreements that have the economic effect of fixing all of the Term Loan A LIBOR variable component of the Company's interest rate, as described below. At December 31, 2010, the Term Loan B bears interest at LIBOR (floor of 1.50%) plus a margin of 3.00%, regardless of the actual LIBOR interest rate associated with each specific tranche, as long as LIBOR interest rates are below 1.50%. If LIBOR interest rates move above 1.50% then the overall weighted average interest rate for the Term Loan B will be determined based upon the LIBOR interest rates in effect for all individual tranches plus the interest rate margin. In January 2011, the Company entered into several interest rate cap agreements that have the effect of capping the LIBOR variable component of the Company's

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except per share data)

interest rate at a maximum of 4.00% on \$1,250,000 notional amount of the Term Loan B, as described below. The remaining \$500 million of outstanding debt on the Term Loan B is subject to LIBOR-based interest rate volatility above a floor of 1.50%.

Revolving Lines of Credit

The Company has an undrawn revolving line under the Senior Secured Credit Facilities totaling \$250,000, of which approximately \$45,789 was committed for outstanding letters of credit.

Interest rate swaps

The Company had entered into several interest rate swap agreements as a means of hedging its exposure to and volatility from variable-based interest rate changes as part of its overall risk management strategy. These agreements were not held for trading or speculative purposes, and had the economic effect of converting portions of our variable rate debt to a fixed rate. These agreements were designated as cash flow hedges, and as a result, hedge-effective gains or losses resulting from changes in the fair values of these swaps were reported in other comprehensive income until such time as each specific swap tranche was realized, at which time the amounts were reclassified into net income. Net amounts paid or received for each specific swap tranche that has settled were reflected as adjustments to debt expense. These agreements did not contain credit-risk contingent features and had expired as of September 30, 2010.

The swap agreements that were effective during 2010 had the economic effect of modifying the LIBOR variable component of the Company's interest rate on an equivalent amount of the Company's debt to fixed rates ranging from 4.05% to 4.70%, resulting in an overall weighted average effective interest rate of 5.84% on the hedged portion of the Company's Senior Secured Credit Facilities, including the margin of 1.50%.

The following table summarizes our derivative instruments as of December 31, 2010 and 2009:

	Interest rate swap liabilities			
	December 31, 2010		December 31, 2009	
	Balance sheet location	Fair value	Balance sheet location	Fair value
Derivatives designated as hedging instruments				
Interest rate swap agreements	Other current liabilities	\$ —	Other current liabilities	\$10,792

The following table summarizes the effects of our interest rate swap agreements for the years ended December 31, 2010, 2009 and 2008:

	Amount of gains (losses) recognized in OCI on interest rate swap agreements			Location of (losses) gains reclassified from accumulated OCI into income	Amount of gains (losses) reclassified from accumulated OCI into income		
	Years ended December 31,				Years ended December 31,		
	2010	2009	2008		2010	2009	2008
Derivatives designated as cash flow hedges							
Interest rate swap agreements	\$(217)	\$(4,220)	\$(21,190)	Debt expense	\$(9,093)	\$(17,253)	\$(4,239)
Tax benefit	83	1,642	8,243		3,536	6,711	1,649
Total	<u>\$(134)</u>	<u>\$(2,578)</u>	<u>\$(12,947)</u>		<u>\$(5,557)</u>	<u>\$(10,542)</u>	<u>\$(2,590)</u>

The Company's overall weighted average effective interest rate in 2010 was 4.68% and as of December 31, 2010 was 4.94%.

In January 2011, the Company entered into nine interest rate swap agreements with amortizing notional amounts totaling \$1,000,000 that went effective on January 31, 2011. These agreements have the economic effect of modifying the LIBOR variable component of the Company's interest rate on an equivalent amount of the Company's Term Loan A debt to fixed rates ranging from 1.59% to 1.64%, resulting in an overall weighted average effective interest rate of 4.36% including the Term Loan A margin of 2.75%. The swap agreements expire on September 30, 2014 and require monthly interest payments.

In addition, in January 2011, the Company also entered into five interest rate cap agreements with notional amounts totaling \$1,250,000 that went effective on January 31, 2011. These agreements have the economic effect of capping the LIBOR variable component of the Company's interest rate at a maximum of 4.00% on an equivalent amount of the Company's Term Loan B debt. The cap agreements expire on September 30, 2014.

Debt expense

Debt expense consisted of interest expense of \$172,265, \$176,100 and \$214,944, including the amortization and accretion of debt discounts and premiums and the amortization of deferred financing costs of \$9,342, \$9,655 and \$9,772 for 2010, 2009 and 2008, respectively. The interest expense amounts are net of capitalized interest.

14. Leases

The majority of the Company's facilities are leased under non-cancelable operating leases, ranging in terms from five to 15 years, which contain renewal options of five to ten years at the fair rental value at the time of renewal. The Company leases are generally subject to periodic consumer price index increases or contain fixed escalation clauses. The Company also leases certain equipment under capital leases.

Future minimum lease payments under non-cancelable operating leases and capital leases are as follows:

	<u>Operating leases</u>	<u>Capital leases</u>
2011	232,415	1,387
2012	212,126	1,412
2013	190,911	1,382
2014	171,474	1,133
2015	154,351	773
Thereafter	554,895	6,066
	<u>\$1,516,172</u>	<u>12,153</u>
Less portion representing interest		(4,079)
Total capital lease obligations, including current portion		<u>\$ 8,074</u>

Rent expense under all operating leases for 2010, 2009, and 2008 was \$267,572, \$248,792 and \$225,531, respectively. Rent expense is recorded on a straight-line basis, over the term of the lease, for leases that contain fixed escalation clauses or include abatement provisions. Leasehold improvement incentives are deferred and amortized to rent expense over the term of the lease. The net book value of property and equipment under capital leases was \$7,579, \$5,432 and \$6,612 at December 31, 2010, 2009 and 2008, respectively. Capital lease obligations are included in long-term debt. See Note 13 to the consolidated financial statements.

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except per share data)

15. Employee benefit plans

The Company has a savings plan for substantially all employees which has been established pursuant to the provisions of Section 401(k) of the Internal Revenue Code, or IRC. The plan allows for employees to contribute a percentage of their base annual salaries on a tax-deferred basis not to exceed IRC limitations. The Company does not provide any matching contributions.

The Company also maintains a voluntary compensation deferral plan, the DaVita Voluntary Deferral Plan. This plan is non-qualified and permits certain employees whose annualized base salary equals or exceeds a minimum annual threshold amount as set by the Company to elect to defer all or a portion of their annual bonus payment and up to 50% of their base salary into a deferral account maintained by the Company. Total contributions to this plan in 2010 and 2009 were \$1,125, and \$2,062, respectively. Deferred amounts are generally paid out in cash at the participant's election either in the first or second year following retirement or in a specified future period at least three to four years after the deferral election was effective. During 2010 and 2009, the Company distributed \$701 and \$601, respectively, to participants. Participants are credited with their proportional amount of annual earnings from the plan. The assets of this plan are held in a "rabbi trust" and as such are subject to the claims of the Company's general creditors in the event of its bankruptcy. As of December 31, 2010 and 2009, the total fair value of assets held in trust were \$8,547 and \$7,246, respectively.

As part of the acquisition of DVA Renal Healthcare on October 5, 2005, the Company acquired an Executive Retirement Plan for certain members of management. This plan is non-qualified and contributions to the plan were made at the discretion of DVA Renal Healthcare based upon a pre-determined percentage of a participant's base salary. Effective November 2005, all contributions to this plan were discontinued and the balance of the plan assets will be paid out upon termination of each individual participant. During 2010 and 2009, the Company distributed \$198 and \$241, respectively, to participants. As of December 31, 2010 and 2009, the total fair value of assets held in trust was \$1,501 and \$1,570, respectively.

The Company maintained a non-qualified deferred compensation plan for key employees. Company contributions were discretionary and were deposited into a rabbi trust. Participants in the plan were subject to a vesting period and typically receive annual distributions from the plan commencing one year after grant date, although in certain situations distributions are paid upon termination or retirement. Participants also had the option to direct their balances into certain investment funds and were credited with their proportional amount of earnings from the investments. The assets of this plan were held in the rabbi trust and were subject to the claims of the Company's general creditors in the event of its bankruptcy. During 2009, the Company distributed \$15,851, including earnings, to eligible participants, which were the total assets held in trust. In 2008, the Company distributed \$5,263 to eligible participants.

The Company also maintained another non-qualified deferred compensation plan for certain employees. Company contributions to the plan were discretionary and were deposited into a rabbi trust that was not subject to general creditors claims in the event of bankruptcy by the Company. Participants in the plan were subject to a vesting period and were credited with their proportional amount of earnings from the investments within the plan. During 2008, the Company distributed \$15,122, including earnings, to all eligible participants, which were the total assets held in trust.

The fair value of all of the assets held in plan trusts as of December 31, 2010, and 2009 totaled \$10,048 and \$8,816, respectively. These assets are available for sale and as such are recorded at fair market value with changes in the fair market values being recorded in other comprehensive income. Any fair market value changes to the corresponding liability balance will be recorded as compensation expense. See Note 9 to the consolidated financial statements.

Most of the Company's outstanding employee stock plan awards include a provision accelerating the vesting of the award in the event of a change of control. The Company also maintains a change of control protection program for its employees who do not have a significant number of stock awards, which has been in place since 2001, and which provides for cash bonuses to employees in the event of a change of control. Based on the market price of the Company's common stock and shares outstanding on December 31, 2010, these cash bonuses would total approximately \$260,000 if a control transaction occurred at that price and the Company's Board of Directors did not modify the program. This amount has not been accrued at December 31, 2010, and would only be accrued upon a change of control. These change of control provisions may affect the price an acquirer would be willing to pay for the Company.

16. Contingencies

The majority of the Company's revenues are from government programs and may be subject to adjustment as a result of: (1) examination by government agencies or contractors, for which the resolution of any matters raised may take extended periods of time to finalize; (2) differing interpretations of government regulations by different Medicare contractors or regulatory authorities; (3) differing opinions regarding a patient's medical diagnosis or the medical necessity of services provided; and (4) retroactive applications or interpretations of governmental requirements. In addition, the Company's revenues from commercial payors may be subject to adjustment as a result of potential claims for refunds, as a result of government actions or as a result of other claims by commercial payors.

Inquiries by the Federal Government

In March 2005, the Company received a subpoena from the U.S. Attorney's Office for the Eastern District of Missouri in St. Louis. The subpoena required production of a wide range of documents relating to the Company's operations, including documents related to, among other things, pharmaceutical and other services provided to patients, relationships with pharmaceutical companies, and financial relationships with physicians and joint ventures. The subpoena covers the period from December 1, 1996 through the present. In October 2005, the Company received a follow-up request for additional documents related to specific medical director and joint venture arrangements. In February 2006, the Company received an additional subpoena for documents, including certain patient records relating to the administration and billing of EPO. In May 2007, the Company received a request for documents related to durable medical equipment and supply companies owned and operated by the Company. The Company is cooperating with the inquiry and has produced the requested records. The subpoenas have been issued in connection with a joint civil and criminal investigation. It is possible that criminal proceedings may be initiated against the Company in connection with this inquiry.

In February 2007, the Company received a request for information from the Office of Inspector General, U.S. Department of Health and Human Services, or OIG, for records relating to EPO claims submitted to Medicare. In August 2007, the Company received a subpoena from the OIG seeking similar documents. The requested documents relate to services provided from 2001 to 2004 by a number of the Company's centers. The request and subpoena were sent from the OIG's offices in Houston and Dallas, Texas. The Company has cooperated with the inquiry and has produced all previously requested records to date. The Company has been in contact with the U.S. Attorney's Office for the Eastern District of Texas, which has stated that this is a civil inquiry related to EPO claims. On July 6, 2009, the United States District Court for the Eastern District of Texas lifted the seal on the civil *qui tam* complaint related to these allegations and the Company was subsequently served with a complaint by the relator. The government did not intervene and is not actively pursuing this matter. The Company believes that there is some overlap between this issue and the ongoing review of EPO utilization and claims by the U.S. Attorney's Office for the Eastern District of Missouri in St. Louis described above.

In December 2008, the Company received a subpoena for documents from the OIG relating to the pharmaceutical products Zemlar, Hectorol, Venofer, Ferrlecit and Epogen[®], or EPO, as well as other related

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except per share data)

matters. The subpoena covers the period from January 2003 to the present. The Company has been in contact with the United States Attorney's Office, or U.S. Attorney's Office, for the Northern District of Georgia and the U.S. Department of Justice in Washington, DC, since November 2008 relating to this matter, and has been advised that this is a civil inquiry. On June 17, 2009, the Company learned that the allegations underlying this inquiry were made as part of a civil qui tam complaint filed by individuals and brought pursuant to the federal False Claims Act. The case remains under seal in the United States District Court for the Northern District of Georgia. The Company is cooperating with the inquiry and is producing the requested records.

In May 2010, the Company received a subpoena from the OIG's office in Dallas, Texas. The subpoena covers the period from January 1, 2005, through the present, and seeks production of a wide range of documents relating to the Company's operations, including documents related to, among other things, financial relationships with physicians and joint ventures. The subject matter of this subpoena overlaps with the subject matter of the investigation being conducted by the United States Attorney's Office for the Eastern District of Missouri in St. Louis as described above. The Company met with representatives of the government to discuss the scope of the subpoena and the production of responsive documents. The Company has been advised that this is a civil investigation. The Company is cooperating with the inquiry and is producing the requested records. It is possible that criminal proceedings may be initiated against the Company in connection with this inquiry.

To the Company's knowledge, no proceedings have been initiated against the Company at this time in connection with any of the inquiries by the federal government as set forth above. Although the Company cannot predict whether or when proceedings might be initiated or when these matters may be resolved, it is not unusual for investigations such as these to continue for a considerable period of time. Responding to the subpoenas will continue to require management's attention and significant legal expense. Any negative findings could result in substantial financial penalties against the Company, exclusion from future participation in the Medicare and Medicaid programs and, to the extent criminal proceedings may be initiated against the Company as indicated above, possible criminal penalties. At this time, the Company cannot predict the ultimate outcome of these inquiries or the potential range of damages, if any.

Other

The Company has received several notices of claims from commercial payors and other third parties related to historical billing practices and claims against DVA Renal Healthcare (formerly known as Gambro Healthcare), a subsidiary of the Company, related to historical Gambro Healthcare billing practices and other matters covered by its 2004 settlement agreement with the Department of Justice and certain agencies of the U.S. government. At least one commercial payor has filed an arbitration demand against the Company, as described below, and additional commercial payors have threatened litigation. The Company intends to defend against these claims vigorously; however, the Company may not be successful and these claims may lead to litigation and any such litigation may be resolved unfavorably. At this time, the Company cannot predict the ultimate outcome of this matter or the potential range of damages, if any.

Several wage and hour claims have been filed against the Company in the Superior Court of California, each of which has been styled as a class action. In February 2007, June 2008, October 2008 and December 2008, the Company was served with five separate complaints in California, including two in October 2008, by various former employees, each of which alleges, among other things, that the Company failed to provide rest and meal periods, failed to pay compensation in lieu of providing such rest or meal periods, failed to pay the correct amount of overtime, failed to pay the rate on the "wage statement," and failed to comply with certain other California Labor Code requirements. The Company has reached a settlement and release of all claims against the Company in connection with the complaints served in February 2007 and December 2008 and

one of the complaints served in October 2008. The Company has fully paid the settlement amount and the case has been dismissed. The overall settlement amount was not material to the Company's consolidated financial statements. The Company has reached an agreement with plaintiffs to settle the claims in the second complaint filed in October 2008. In February 2011, the agreement was approved by the Court, and the amount of the overall settlement was not material. The Company intends to vigorously defend against the remaining claims and to vigorously oppose the certification of the remaining matters as class actions. Any potential settlements of these remaining claims are not anticipated to be material to the Company's consolidated financial statements.

In October 2007, the Company was contacted by the Attorney General's Office for the State of Nevada. The Attorney General's Office informed the Company that it was conducting a civil and criminal investigation of the Company's operations in Nevada and that the investigation related to the billing of pharmaceuticals, including EPO. In February 2008, the Attorney General's Office informed the Company that the civil and criminal investigation had been discontinued. The Attorney General's Office further advised the Company that Nevada Medicaid intended to conduct audits of end stage renal disease (ESRD) dialysis providers in Nevada and such audits would relate to the issues that were the subjects of the investigation. To the Company's knowledge, no court proceedings have been initiated against the Company at this time. Any negative audit findings could result in a substantial repayment by the Company. At this time, the Company cannot predict the ultimate outcome of this matter or the potential range of damages, if any.

In August 2005, Blue Cross/Blue Shield of Louisiana filed a complaint in the United States District Court for the Western District of Louisiana against Gambro AB, DVA Renal Healthcare (formerly known as Gambro Healthcare) and related entities. The plaintiff sought to bring its claims as a class action on behalf of itself and all entities that paid any of the defendants for health care goods and services from on or about January 1991 through at least December 2004. The complaint alleged, among other things, damages resulting from facts and circumstances underlying Gambro Healthcare's 2004 settlement agreement with the Department of Justice and certain agencies of the U.S. government. In March 2006, the case was dismissed and the plaintiff was compelled to seek arbitration to resolve the matter. In November 2006, the plaintiff filed a demand for class arbitration against the Company and DVA Renal Healthcare, a subsidiary of the Company. In February 2011, the arbitration panel denied plaintiff's request to certify a class. The Company intends to vigorously defend against plaintiff's remaining individual claims and any appeal that may be filed. At this time, the Company cannot predict the ultimate outcome of this matter or the potential range of damages, if any.

In June 2004, Gambro Healthcare (now known as DVA Renal Healthcare and a subsidiary of the Company) was served with a complaint filed in the Superior Court of California by one of its former employees who worked for its California acute services program. The complaint, which is styled as a class action, alleges, among other things, that DVA Renal Healthcare failed to provide overtime wages, defined rest periods and meal periods, or compensation in lieu of such provisions and failed to comply with certain other California Labor Code requirements. The Company intends to vigorously defend against these claims. The Company also intends to vigorously oppose the certification of this matter as a class action. At this time, the Company's estimate of the range of possible damages related to this matter is immaterial to the Company's consolidated financial statements.

In addition to the foregoing, the Company is subject to claims and suits, including from time to time, contractual disputes and professional and general liability claims, as well as audits and investigations by various government entities, in the ordinary course of business. The Company believes that the ultimate resolution of any such pending proceedings, whether the underlying claims are covered by insurance or not, will not have a material adverse effect on its financial condition, results of operations or cash flows.

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except per share data)

17. DaVita Inc. stock-based compensation and shareholders' equity

Stock-based compensation

Stock-based compensation recognized in a period represents the straight-line amortization during that period of the estimated grant-date fair value of stock-based awards over their vesting terms, adjusted for expected forfeitures. Shares issued upon exercise of stock awards are generally issued from shares held in treasury.

Stock-based compensation plans and agreements

On June 7, 2010, the Company's stockholders approved an amendment and restatement of the DaVita Inc. 2002 Equity Compensation Plan to increase the number of shares of common stock available for issuance under the plan by 10,000,000 shares.

In connection with this amendment, the Board of Directors has committed to the Company's stockholders that over the three-year period commencing on April 1, 2010 it will not grant a number of shares subject to stock awards under the Company's equity compensation plan, including stock options, stock appreciation rights, restricted stock units or other stock awards, at an average annual rate greater than 4.02% of the number of shares of the Company's common stock that management believes will be outstanding over such three-year period. This 4.02% rate is the average of the 2009 and 2010 three-year average median grant rate plus one standard deviation as published by RiskMetrics Group for the Russell 3000 companies in the GICS 3510 industry segment. Awards that are settled in cash, awards that are granted pursuant to stockholder approved exchange programs, awards sold under our employee stock purchase plan and awards assumed or substituted in business combination transactions will be excluded from our grant rate calculation. For purposes of calculating the number of shares granted, any "full-value" awards (i.e., restricted stock, restricted stock unit, performance share or any other award that does not have an exercise price per share at least equal to the per share fair market value of our common stock on the grant date) will count as equivalent to 3.0 shares. The Company will publicly report its compliance with this three-year average annual grant rate commitment, and the data necessary to independently confirm it, in a public filing shortly after March 31, 2013.

The Company's stock-based compensation plans and agreements are described below.

2002 Plan. The DaVita Inc. 2002 Equity Compensation Plan (the 2002 Plan) is the Company's omnibus equity compensation plan and provides for grants of stock-based awards to employees, directors and other individuals providing services to the Company, except that incentive stock options may only be awarded to employees. The 2002 Plan mandates a maximum award term of five years, and stipulates that stock appreciation rights and stock options be granted with prices not less than the fair market value on the date of grant. The 2002 Plan further requires that full share awards such as restricted stock units reduce shares available under the 2002 Plan at a rate of 3.0:1. The Company's nonqualified stock options, stock appreciation rights and stock units awarded under the 2002 Plan generally vest over 48 to 60 months from the date of grant. At December 31, 2010, there were 11,012,487 stock-settled stock appreciation rights and 501,564 stock units outstanding and 10,908,787 shares available for future grants under the 2002 Plan.

Predecessor plans. Various prior stock-based compensation plans were terminated upon shareholder approval of the 2002 Plan in 2002, and the 1999 Non-Executive Officer and Non-Director Equity Compensation Plan (the 1999 Plan) expired in 2009, both except with respect to option awards then outstanding. Stock options granted under these terminated plans were generally issued with exercise prices equal to the market price of the stock on the date of grant, vested over four years from the date of grant, and

bore maximum award terms of five to 10 years. For these terminated plans, there were 1,000 stock options remaining outstanding under the 1999 Plan as of December 31, 2010.

Deferred stock unit agreements. During 2001 through 2003, the Company made nonqualified stock unit awards to members of the Board of Directors and certain key executive officers under stand-alone contractual deferred stock unit agreements. These awards vested over one to four years and were settled in stock when they vested or at a later date at the election of the recipient. The last 63,636 shares subject to these agreements were issued to their recipients in 2008.

A combined summary of the status of awards under these stock-based compensation plans and agreements, including base shares for stock appreciation rights and shares subject to stock option and stock unit awards, is as follows:

	Year ended December 31, 2010				
	Stock appreciation rights and stock options			Stock units	
	Awards	Weighted average exercise price	Weighted average remaining contractual life	Awards	Weighted average remaining contractual life
Outstanding at beginning of year	13,336,188	\$ 49.41		69,696	
Granted	2,037,294	64.50		467,962	
Exercised	(4,064,277)	50.06		(31,875)	
Cancelled	(295,718)	50.24		(4,219)	
Outstanding at end of period	<u>11,013,487</u>	<u>\$ 51.94</u>	<u>2.7</u>	<u>501,564</u>	<u>1.9</u>
Awards exercisable at end of period	<u>4,560,568</u>	<u>\$49.94</u>	<u>1.8</u>	<u>6,603</u>	<u>0.5</u>
Weighted-average fair value of awards granted during 2010	<u>\$ 15.87</u>			<u>\$ 62.85</u>	
Weighted-average fair value of awards granted during 2009	<u>\$ 12.08</u>			<u>\$ 54.31</u>	
Weighted-average fair value of awards granted during 2008	<u>\$ 11.01</u>			<u>\$ 51.13</u>	
Range of exercise prices		Awards outstanding	Weighted average exercise price	Awards exercisable	Weighted average exercise price
\$ 0.00-\$ 0.00		501,564	\$ —	6,603	\$ —
\$40.01-\$50.00		4,917,961	46.10	2,048,110	46.47
\$50.01-\$60.00		4,073,065	52.74	2,497,126	52.72
\$60.01-\$70.00		1,932,461	64.15	15,332	61.25
\$70.01-\$80.00		90,000	72.69	—	—
Total		<u>11,515,051</u>	<u>\$49.68</u>	<u>4,567,171</u>	<u>\$49.87</u>

For the years ended December 31, 2010, 2009, and 2008, the aggregate intrinsic value of stock awards exercised was \$67,935, \$46,896 and \$35,957, respectively. At December 31, 2010, the aggregate intrinsic value of stock awards outstanding was \$228,440 and the aggregate intrinsic value exercisable was \$89,603.

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except per share data)

Estimated fair value of stock-based compensation awards

The Company has estimated the grant-date fair value of stock-settled stock appreciation rights awards and stock options using the Black-Scholes-Merton valuation model and stock unit awards at intrinsic value on the date of grant. The following assumptions were used in estimating these values and determining the total stock-based compensation attributable to the current period:

Expected term of the awards: The expected term of awards granted represents the period of time that they are expected to remain outstanding from the date of grant. The Company determines the expected term of its stock awards based on its historical experience with similar awards, considering the Company's historical exercise and post-vesting termination patterns, and the terms expected by peer companies in near industries.

Expected volatility: Expected volatility represents the volatility anticipated over the expected term of the award. The Company determines the expected volatility for its awards based on the volatility of the price of its common stock over the most recent retrospective period commensurate with the expected term of the award, considering the volatility expectations implied by the market price of its exchange-traded options and the volatilities expected by peer companies in near industries.

Expected dividend yield: The Company has not paid dividends on its common stock and does not currently expect to pay dividends during the term of stock awards granted.

Risk-free interest rate: The Company bases the expected risk-free interest rate on the implied yield currently available on stripped interest coupons of U.S. Treasury issues with a remaining term equivalent to the expected term of the award.

A summary of the weighted average valuation inputs described above used for estimating the grant-date fair value of stock options and stock-settled stock appreciation rights granted in the periods indicated is as follows:

	Year ended December 31,		
	2010	2009	2008
Expected term	3.5 years	3.5 years	3.4 years
Expected volatility	30%	32%	27%
Expected dividend yield	0.0%	0.0%	0.0%
Risk-free interest rate	1.7%	1.8%	2.4%

The Company estimates expected forfeitures based upon historical experience with separate groups of employees that have exhibited similar forfeiture behavior in the past. Stock-based compensation expense is recorded only for awards that are expected to vest.

Employee stock purchase plan

The Employee Stock Purchase Plan entitles qualifying employees to purchase up to \$25 of the Company's common stock during each calendar year. The amounts used to purchase stock are accumulated through payroll withholdings or through optional lump sum payments made in advance of the first day of the purchase right period. This compensatory plan allows employees to purchase stock for the lesser of 100% of the fair market value on the first day of the purchase right period or 85% of the fair market value on the last day of the purchase right period. Purchase right periods begin on January 1 and July 1, and end on December 31. Payroll withholdings and lump-sum payments related to the plan, included in accrued compensation and benefits that

were used to purchase the Company's common stock were \$4,933, \$4,280, and \$4,522 at December 31, 2010, 2009 and 2008, respectively. Subsequent to December 31, 2010, 2009 and 2008, 83,865, 86,213 and 107,340 shares, respectively, were issued to satisfy obligations under the plan. At December 31, 2010, there were 878,887 shares available for future grants under this plan.

The fair value of employees' purchase rights was estimated as of the beginning dates of the purchase right periods using the Black-Scholes-Merton valuation model with the following weighted average assumptions for purchase right periods in 2010, 2009 and 2008, respectively: expected volatility of 22%, 34% and 24%; risk-free interest rate of 0.3%, 0.2% and 2.5%, and no dividends. Using these assumptions, the weighted average estimated fair value of these purchase rights was \$13.80, \$13.90 and \$13.65 for 2010, 2009 and 2008, respectively.

Stock-based compensation expense and proceeds

For the years ended December 31, 2010, 2009 and 2008, the Company recognized \$45,551, \$44,422 and \$41,235, respectively, in stock-based compensation expense for stock settled-stock appreciation rights, stock options, stock units and discounted employee stock plan purchases, which is primarily included in general and administrative expenses. The estimated tax benefits recorded for this stock-based compensation in 2010, 2009 and 2008 were \$17,273, \$16,810 and \$15,609, respectively. As of December 31, 2010, there was \$83,064 of total estimated unrecognized compensation cost related to nonvested stock-based compensation arrangements under the Company's equity compensation and stock purchase plans. The Company expects to recognize this cost over a weighted average remaining period of 1.4 years.

During the years ended December 31, 2010, 2009 and 2008, the Company received \$48,686, \$63,653 and \$35,606 in cash proceeds from stock option exercises and \$26,706, \$18,241 and \$13,988 in total actual tax benefits upon the exercise of stock awards, respectively.

Stock repurchases

During 2010 and 2009, the Company repurchased a total of 8,918,760 and 2,902,619 shares of its common stock for \$618,496 and \$153,495, or an average price of \$69.35 and \$52.88 per share respectively, pursuant to previously announced authorizations by the Board of Directors. On November 3, 2010, the Company announced that its Board of Directors authorized an increase of an additional \$800,000 of share repurchases of its common stock. As a result of these transactions the total outstanding authorization for share repurchases as of December 31, 2010 was \$681,524. The Company has not repurchased any additional shares of its common stock through February 25, 2011. This stock repurchase program has no expiration date.

Shareholder rights plan

The Company's Board of Directors approved a shareholder rights plan on November 14, 2002. This plan is designed to assure that DaVita Inc.'s shareholders receive fair treatment in the event of any proposed takeover of DaVita Inc.

Pursuant to this plan, the Board approved the declaration of a dividend distribution of one common stock purchase right for each outstanding share of its common stock payable on December 10, 2002 to holders of record of DaVita Inc. common stock on November 29, 2002. This rights distribution was not taxable to DaVita Inc.'s shareholders. As a result of the stock split that occurred during the second quarter of 2004, two-thirds of a right are now attached to each share of the Company's common stock. Two-thirds of a right will also attach to each newly issued or reissued share of common stock. These rights will become exercisable if a person or group acquires, or announces a tender offer for, 15% or more of DaVita Inc.'s outstanding common stock. The triggering person's stock purchase rights will become void at that time and will not become exercisable.

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except per share data)

Each right initially entitles its holder to purchase one share of common stock from the Company at a price of \$125.00. If the rights become exercisable, and subject to adjustment for authorized shares available, each purchase right will then entitle its holder to purchase \$125.00 of common stock at a price per share equal to 50% of the average daily closing price of the Company's common stock for the immediately preceding 30 consecutive trading days. If DaVita Inc. is acquired in a merger or other business combination transaction after the rights become exercisable, provisions will be made to allow the holder of each right to purchase \$125.00 of common stock from the acquiring company at a price equal to 50% of the average daily closing price of that company's common stock for the immediately preceding 30 consecutive trading days.

The Board of Directors may elect to redeem the rights at \$0.01 per purchase right at any time prior to, or exchange common stock for the rights at an exchange ratio of one share per right at any time after, a person or group acquires or announces a tender offer for 15% or more of DaVita Inc.'s outstanding common stock. The exercise price, number of shares, redemption price or exchange ratio associated with each right may be adjusted as appropriate upon the occurrence of certain events, including any stock split, stock dividend or similar transaction. These purchase rights will expire no later than November 14, 2012.

Charter documents & Delaware law

The Company's charter documents include provisions that may deter hostile takeovers, delay or prevent changes of control or changes in management, or limit the ability of stockholders to approve transactions that they may otherwise determine to be in their best interests. These include provisions prohibiting stockholders from acting by written consent, requiring 90 days advance notice of stockholder proposals or nominations to the Board of Directors and granting the Board of Directors the authority to issue up to five million shares of preferred stock and to determine the rights and preferences of the preferred stock without the need for further stockholder approval.

The Company is also subject to Section 203 of the Delaware General Corporation Law that, subject to exceptions, would prohibit the Company from engaging in any business combinations with any interested stockholder, as defined in that section, for a period of three years following the date on which that stockholder became an interested stockholder. These restrictions may discourage, delay or prevent a change in the control of the Company.

Changes in DaVita Inc.'s ownership interest in consolidated subsidiaries

The effects of changes in DaVita Inc.'s ownership interest on the Company's equity are as follows:

	Year ended December 31, 2010	Year ended December 31, 2009
Net income attributable to DaVita Inc.	<u>\$405,683</u>	<u>\$422,684</u>
Decrease in paid-in capital for sales of noncontrolling interest in six and eleven joint ventures, respectively	(298)	(529)
Decrease in paid-in capital for the purchase of a noncontrolling interest in six and six joint ventures, respectively	<u>(5,537)</u>	<u>(3,721)</u>
Net transfer to noncontrolling interests	<u>(5,835)</u>	<u>(4,250)</u>
Change from net income attributable to DaVita Inc. and transfers to noncontrolling interests	<u>\$399,848</u>	<u>\$ 418,434</u>

During 2009, the Company contributed cash and assets in two centers that were previously wholly-owned in exchange for an equity investment of 40% in a newly formed joint venture valued at \$3,600. The Company recognized a pre-tax loss of \$1,928 and deconsolidated these centers as a result of the transaction. In 2009, the Company also sold its controlling financial interest in one entity that contained one center which was previously wholly-owned to an existing joint venture in which the Company owns a 50% equity investment for \$1,750 and recognized a pre-tax loss of \$1,408. The Company deconsolidated this entity as a result of this transaction. The Company was also required to contribute \$1,000 to the joint venture. The estimated fair values of the retained equity investments for both of these transactions were based upon valuation techniques as determined by an outside appraiser. The recognized pre-tax losses for both transactions were recorded in patient care costs in the consolidated statement of income.

18. Other comprehensive income

Charges and credits to other comprehensive income have been as follows:

	2008		
	Before tax amount	Tax (expense) benefit	Net-of-tax amount
Unrealized losses on interest rate swaps	\$(21,190)	\$ 8,243	\$(12,947)
Less reclassification of net swap realized losses into net income	4,239	(1,649)	2,590
Net swap activity	<u>(16,951)</u>	<u>6,594</u>	<u>(10,357)</u>
Unrealized losses on investments	(1,922)	748	(1,174)
Less reclassification of net investment realized gains into net income ...	<u>(486)</u>	<u>189</u>	<u>(297)</u>
Net investment activity	<u>(2,408)</u>	<u>937</u>	<u>(1,471)</u>
Total	<u>\$(19,359)</u>	<u>\$ 7,531</u>	<u>\$(11,828)</u>

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except per share data)

	2009		
	<u>Before tax amount</u>	<u>Tax (expense) benefit</u>	<u>Net-of-tax amount</u>
Unrealized losses on interest rate swaps	\$(4,220)	\$ 1,642	\$(2,578)
Less reclassification of net swap realized losses into net income	17,253	(6,711)	10,542
Net swap activity	<u>13,033</u>	<u>(5,069)</u>	<u>7,964</u>
Unrealized gains on investments	1,614	(628)	986
Less reclassification of net investment realized gains into net income	(261)	102	(159)
Net investment activity	<u>1,353</u>	<u>(526)</u>	<u>827</u>
Total	<u>\$14,386</u>	<u>\$(5,595)</u>	<u>\$ 8,791</u>

	2010		
	<u>Before tax amount</u>	<u>Tax (expense) benefit</u>	<u>Net-of-tax amount</u>
Unrealized losses on interest rate swaps	\$ (217)	\$ 83	\$ (134)
Less reclassification of net swap realized losses into net income	9,093	(3,536)	5,557
Net swap activity	<u>8,876</u>	<u>(3,453)</u>	<u>5,423</u>
Unrealized gains on investments	1,007	(392)	615
Less reclassification of net investment realized losses into net income ...	22	(9)	13
Net investment activity	<u>1,029</u>	<u>(401)</u>	<u>628</u>
Total	<u>\$9,905</u>	<u>\$(3,854)</u>	<u>\$ 6,051</u>

Changes in accumulated other comprehensive income (loss) has been as follows:

	<u>Interest rate swaps</u>	<u>Investment securities</u>	<u>Accumulated other comprehensive income</u>
Balance December 31, 2008	\$(13,387)	\$(952)	\$(14,339)
Net activity	<u>7,964</u>	<u>827</u>	<u>8,791</u>
Balance December 31, 2009	\$ (5,423)	\$ (125)	\$ (5,548)
Net activity	<u>5,423</u>	<u>628</u>	<u>6,051</u>
Balance December 31, 2010	<u>\$ —</u>	<u>\$ 503</u>	<u>\$ 503</u>

19. Acquisitions

On February 4, 2011, the Company entered into a definitive agreement to acquire all of the outstanding equity securities of CDSI I Holding Company, Inc., parent company of dialysis provider DSI Renal, Inc. (DSI), in cash for approximately \$689,200, subject to among other things, adjustments for certain items such as working capital, the purchase of noncontrolling interests, capital assets and acquisitions expenditures. DSI currently operates approximately 106 outpatient dialysis centers serving approximately 8,000 patients. The transaction is subject to approval by the Federal Trade Commission (FTC) including Hart-Scott-Rodino antitrust clearance. The Company anticipates that it will be required by the FTC to divest a certain number of outpatient dialysis centers as a condition of the transaction. The transaction is expected to close in the second or third quarter of fiscal 2011.

During 2010, 2009, and 2008, the Company acquired dialysis and other businesses as follows:

	Year ended December 31,		
	2010	2009	2008
Cash paid, net of cash acquired	\$188,502	\$ 87,617	\$ 101,959
Deferred purchase price and other acquisition obligations	449	338	2,286
Aggregate purchase cost	<u>\$ 188,951</u>	<u>\$87,955</u>	<u>\$104,245</u>
Number of chronic dialysis centers acquired	<u>41</u>	<u>19</u>	<u>20</u>

In addition in 2010 and 2009, the Company also acquired additional ownership interests in several existing majority-owned joint ventures for \$14,214 and \$6,859, respectively. In 2008, the Company also acquired an 80% ownership interest in one vascular access clinic for \$11,221 and in addition, purchased additional ownership interests in several existing majority-owned joint ventures for \$24,409. The assets and liabilities for all acquisitions were recorded at their estimated fair values at the dates of the acquisitions and are included in the Company's financial statements and operating results from the effective dates of the acquisitions.

The initial purchase cost allocations for acquired businesses are recorded at fair values based upon the best information available to management and are finalized when identified pre-acquisition contingencies have been resolved and other information arranged to be obtained has been received, but in no case in excess of one year from the acquisition date.

The aggregate purchase cost allocations for dialysis and other related businesses were as follows:

	Year ended December 31,		
	2010	2009	2008
Tangible assets, principally leasehold improvements and equipment	\$ 21,257	\$ 11,140	\$ 7,972
Amortizable intangible assets	18,300	6,703	9,988
Goodwill	152,252	78,199	89,234
Noncontrolling interests assumed	(1,171)	(7,567)	(2,732)
Liabilities assumed	<u>(1,687)</u>	<u>(520)</u>	<u>(217)</u>
Aggregate purchase cost	<u>\$188,951</u>	<u>\$87,955</u>	<u>\$104,245</u>

Amortizable intangible assets acquired during 2010, 2009 and 2008 had weighted-average estimated useful lives of nine, seven and nine years, respectively. In 2010 and 2009, \$152,252 and \$78,199 of goodwill was associated with the dialysis and related lab services business. In 2008, \$76,522 of goodwill was associated with the dialysis and related lab services business and \$12,712 was associated with the ancillary services and strategic initiatives. The total amount of goodwill deductible for tax purposes associated with these acquisitions for 2010, 2009, and 2008 was approximately \$154,000, \$72,000 and \$109,000, respectively.

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except per share data)

Pro forma financial information

The following summary, prepared on a pro forma basis, combines the results of operations as if all acquisitions in 2010 and 2009 had been consummated as of the beginning of 2009, after including the impact of certain adjustments such as amortization of intangibles, interest expense on acquisition financing and income tax effects.

	Year ended December 31,	
	2010	2009
	(unaudited)	
Pro forma net revenues	\$6,516,044	\$6,288,217
Pro forma net income attributable to DaVita Inc.	417,818	436,420
Pro forma income from continuing operations attributable to DaVita Inc.	417,818	436,420
Pro forma basic net income per share attributable to DaVita Inc.	4.12	4.21
Pro forma diluted net income per share attributable to DaVita Inc.	4.05	4.19

20. Variable interest entities

Effective January 1, 2010, the FASB eliminated the quantitative approach previously required for determining the primary beneficiary of a variable interest entity, and required additional disclosures about an enterprise's involvement in variable interest entities. An entity is required to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity by having both the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and the obligation to absorb losses of the entity, or the right to receive benefits from the entity. In addition, the FASB established new guidance for determining whether an entity is a variable interest entity, requiring an ongoing reassessment of whether an enterprise is the primary beneficiary of a variable interest entity, and adding an additional reconsideration event for determining whether an entity is a variable interest entity when any changes in facts and circumstances occur such that the holders of the equity investment at risk, as a group, lose the power from voting rights or similar rights of those investments to direct the activities of the entity that most significantly impact the entity's economic performance. Except for the new disclosures requirements, there was no impact to the Company's financial statements as a result of implementing these new requirements.

The Company is deemed to be the primary beneficiary of all of the variable interest entities ("VIEs") with which it is associated. These VIEs are principally operating subsidiaries owned by related party nominee owners for the Company's benefit in jurisdictions in which the Company does not qualify for direct ownership under applicable regulations or joint ventures that require subordinated support in addition to their equity capital to finance operations. These include both dialysis operations and physician practice management entities.

Under the terms of the applicable arrangement, the Company bears substantially all of the economic risks and rewards of ownership for these operating VIE's. In some cases, the Company has contractual arrangements with its respective related party nominee owners which indemnify them from the economic losses, and entitle the Company to the economic benefits, that may result from ownership of these VIE's. DaVita Inc. manages these VIE's and provides operating and capital funding as necessary to accomplish their operational and strategic objectives. Accordingly, since the Company bears the majority of the risks and rewards attendant to their ownership, the Company consolidates these VIE's as their primary beneficiary.

Total assets of these consolidated operating VIEs were approximately \$6,000 and their liabilities to unrelated third parties were approximately \$6,000 at December 31, 2010.

The Company also sponsors certain deferred compensation plans whose trusts qualify as VIEs and as their primary beneficiary the Company consolidates each of these plans. The assets of these plans are recorded in short-term or long-term investments with matching offsetting liabilities in accrued compensation and benefits and other long-term liabilities. See Note 9 for disclosures on the assets of these consolidated non-qualified deferred compensation plans.

21. Concentrations

Approximately 66% of the Company's total dialysis and related lab services revenues in 2010, 65% in 2009 and 65% in 2008 are from government-based programs, principally Medicare and Medicaid. Accounts receivable and other receivables, from Medicare, including Medicare-assigned plans, and Medicaid, including Medicaid-assigned plans, were approximately \$554,300 and \$467,900, respectively as of December 31, 2010 and 2009. No other single payer accounted for more than 5% of total accounts receivable.

A significant physician-prescribed pharmaceutical administered during dialysis, EPO, is provided by a sole supplier and accounted for approximately 18% of the dialysis and related lab services net operating revenues. Although the Company currently receives discounted prices for EPO, the supplier has unilateral pricing discretion and in the future the Company may not be able to achieve the same cost levels historically obtained.

22. Noncontrolling interests subject to put provisions and other commitments

Noncontrolling interests subject to put provisions

The Company has potential obligations to purchase the noncontrolling interests held by third parties in several of its joint ventures and non-wholly-owned subsidiaries. These obligations are in the form of put provisions and are exercisable at the third-party owners' discretion within specified periods as outlined in each specific put provision. If these put provisions were exercised, the Company would be required to purchase the third-party owners' noncontrolling interests at either the appraised fair market value or a predetermined multiple of earnings or cash flow attributable to the noncontrolling interests put to the Company, which is intended to approximate fair value. The methodology the Company uses to estimate the fair values of noncontrolling interests subject to put provisions assumes either the higher of a liquidation value of net assets or an average multiple of earnings, based on historical earnings, patient mix and other performance indicators, as well as other factors. During the second quarter of 2010, the Company refined its methodology used to estimate the fair value of noncontrolling interests subject to put provisions by eliminating an annual inflation factor that was previously applied to the put provisions until they became exercisable. The Company believes that eliminating an annual inflation factor will result in a better representation of the estimated actual fair value of the noncontrolling interests subject to put provisions as of the reporting date. The estimated fair values of the noncontrolling interests subject to put provisions can fluctuate and the implicit multiple of earnings at which these noncontrolling interests obligations may be settled will vary significantly depending upon market conditions including potential purchasers' access to the capital markets, which can impact the level of competition for dialysis and non-dialysis related businesses, the economic performance of these businesses and the restricted marketability of the third-party owners' noncontrolling interests. The amount of noncontrolling interests subject to put provisions that contractually employ a predetermined multiple of earnings rather than fair value are immaterial.

Additionally, the Company has certain other potential commitments to provide operating capital to several dialysis centers that are wholly-owned by third parties or centers in which the Company owns a minority equity investment as well as to physician-owned vascular access clinics that the Company operates under management and administrative service agreements of approximately \$2,100.

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except per share data)

Certain consolidated joint ventures are contractually scheduled to dissolve after terms ranging from ten to fifty years. Accordingly, the noncontrolling interests in these joint ventures are considered mandatorily redeemable instruments, for which the classification and measurement requirements have been indefinitely deferred. Future distributions upon dissolution of these entities would be valued below the related noncontrolling interest carrying balances in the consolidated balance sheet.

Other commitments

In conjunction with the acquisition of DVA Renal Healthcare, Inc., formerly known as Gambro Healthcare, Inc., which occurred in October 2005, the Company entered into an Alliance and Product Supply Agreement (the Product Supply Agreement) with Gambro AB and Gambro Renal Products, Inc (Gambro Renal Products). Because the Product Supply Agreement results in higher costs for most of the products covered by the Product Supply Agreement than would otherwise be available to the Company, the Product Supply Agreement represented an intangible liability initially valued at \$162,100 as of the acquisition date.

The Product Supply Agreement committed the Company to purchase a significant majority of its hemodialysis products, supplies and equipment at fixed prices through 2015. The agreement was amended in 2006 (the Amended Product Supply Agreement) to reduce the Company's purchase obligations for certain hemodialysis product supplies and equipment, and in 2007, the Company terminated its obligation to purchase certain dialysis machines under the Amended Product Supply Agreement. However, the Company continues to be subject to the Product Supply Agreement's requirements to purchase a majority of its hemodialysis non-equipment product supplies, such as dialyzers, from Gambro at fixed prices.

During 2010, 2009 and 2008, the Company purchased \$115,682, \$87,983 and \$83,360 of hemodialysis product supplies from Gambro Renal Products, representing 2% of the Company's total operating costs, for all years presented.

The centers acquired from Gambro Healthcare were subject to a five-year Corporate Integrity Agreement in connection with its December 2004 settlement with the U.S. Government that imposed significant specific compliance operating and reporting requirements, and required an annual audit by an independent reporting organization. The corporate integrity agreement expired on November 30, 2009. The Company submitted its final annual report to the Office of the Inspector General, U.S. Department of Health and Human Services on January 14, 2010. On February 16, 2010, the Company was informed by the OIG that it has received the Company's final annual report and determined that DVA Renal Healthcare, a wholly-owned subsidiary of the Company, complied with the terms of the corporate integrity agreement during the final reporting period and that the Fifth Annual Report is complete. The five year term of the corporate integrity agreement has now concluded and DVA Renal Healthcare is no longer subject to its terms.

In January 2010, the Company entered into an agreement with Fresenius which committed the Company to purchase a certain amount of dialysis equipment, parts and supplies from them through 2013. During 2010, the Company purchased \$103,183 of certain equipment, parts and supplies from Fresenius.

In July 2010, the Company announced that it will construct a new corporate headquarters in Denver, Colorado. In July 2010, the Company acquired the land and existing improvements for approximately \$12,000. Effective December 18, 2010, the Company entered into a construction agreement for the construction of the new building. The Company currently estimates the total construction costs and other project costs of the building will be approximately \$95,000. Construction is expected to begin in early

2011, and is estimated to be complete in the second half of 2012. In 2010, the Company paid architecture and other design costs totaling approximately \$5,000.

Other than operating leases disclosed in Note 14 to the consolidated financial statements, the letters of credit disclosed in Note 13 to the consolidated financial statements, and the arrangements as described above, the Company has no off balance sheet financing arrangements as of December 31, 2010.

23. Fair values of financial instruments

Effective December 15, 2009, FASB amended certain fair value disclosure requirements to include additional disclosures related to significant transfers in and out of the various fair value hierarchy levels and to clarify existing disclosures by providing disaggregate levels for each class of assets and liabilities. The Company is also required to provide additional disclosures on the valuation techniques and inputs used to measure fair value, as well as changes to the valuation techniques and inputs, for both recurring and nonrecurring assets and liabilities carried at fair value. In addition, the Company is also required to disclose the reason for making changes to its valuation techniques, assumptions and or other unobservable market inputs. Certain other disclosures on reporting the gross activity rather than the net activity for Level 3 fair value measurements is effective for fiscal years beginning after December 31, 2010. See Note 22 to the consolidated financial statements for further discussion. The adoption of this standard will not have a material impact on the Company's consolidated financial statements.

The following tables summarize the Company's assets, liabilities and temporary equity measured at fair value on a recurring basis as of December 31, 2010 and 2009:

December 31, 2010				
	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets				
Available for sale securities	\$ 10,048	\$10,048	\$—	\$ —
Temporary equity				
Noncontrolling interests subject to put provisions	\$383,052	\$ —	\$—	\$383,052
December 31, 2009				
	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets				
Available for sale securities	\$ 8,816	\$8,816	\$ —	\$ —
Liabilities				
Interest rate swap agreements	\$ 10,792	\$ —	\$10,792	\$ —
Temporary equity				
Noncontrolling interests subject to put provisions	\$331,725	\$ —	\$ —	\$331,725

The available for sale securities represent investments in various open-ended registered investment companies, or mutual funds, and are recorded at fair value based upon the quoted market prices as reported by each mutual fund. See Note 9 to the consolidated financial statements for further discussion.

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except per share data)

See Note 22 to the consolidated financial statements for a discussion of the Company's methodology for estimating the fair value of noncontrolling interests subject to put obligations.

Other financial instruments consist primarily of cash, accounts receivable, accounts payable, other accrued liabilities and debt. The balances of the non-debt financial instruments are presented in the consolidated financial statements at December 31, 2010 and 2009 at their approximate fair values due to the short-term nature of their settlements. The carrying balance of the Company's Senior Secured Credit Facilities totaled \$2,741,619 as of December 31, 2010, and the fair value was \$2,765,625 based upon quoted market prices. The fair value of the Company's senior notes was approximately \$1,530,625 at December 31, 2010 based upon quoted market prices, as compared to the carrying amount of \$1,550,000.

24. Segment reporting

The Company operates principally as a dialysis and related lab services business but also operates other ancillary services and strategic initiatives. These ancillary services and strategic initiatives consist primarily of pharmacy services, infusion therapy services, disease management services, vascular access services, ESRD clinical research programs and physician services. For internal management reporting the dialysis and related lab services business and each of the ancillary services and strategic initiatives have been defined as separate operating segments by management since separate financial information is regularly produced and reviewed by the Company's chief operating decision maker in making decisions about allocating resources and assessing financial results. The Company's chief operating decision maker is its Chief Executive Officer. The dialysis and related lab services business qualifies as a separately reportable segment and all of the other ancillary services and strategic initiatives operating segments have been combined and disclosed in the other segments category.

The Company's operating segment financial information is prepared on an internal management reporting basis that the Chief Executive Officer uses to allocate resources and analyze the performance of the operating segments. For internal management reporting, segment operations include direct segment operating expenses with the exception of stock-based compensation expense and equity investment income.

The following is a summary of segment revenues, segment operating margin (loss), and a reconciliation of segment margin to income before income taxes:

	Years ended December 31,		
	2010	2009(2)	2008(2)
Segment revenues:			
Dialysis and related lab services(1)	\$6,072,894	\$ 5,791,729	\$5,415,363
Other—Ancillary services and strategic initiatives	374,497	317,071	244,810
Consolidated revenues	<u>\$ 6,447,391</u>	<u>\$6,108,800</u>	<u>\$5,660,173</u>
Segment operating margin (loss):			
Dialysis and related lab services	\$ 1,039,165	\$ 994,477	\$ 939,391
Other—Ancillary services and strategic initiatives	(5,586)	(12,226)	(29,856)
Total segment margin	1,033,579	982,251	909,535
Reconciliation of segment margin to income before income taxes:			
Stock-based compensation	(45,551)	(44,422)	(41,235)
Equity investment income	8,999	2,442	796
Consolidated operating income	997,027	940,271	869,096
Debt expense	(181,607)	(185,755)	(224,716)
Debt refinancing and redemption charges	(74,382)	—	—
Other income	3,420	3,708	12,411
Consolidated income before income taxes	<u>\$ 744,458</u>	<u>\$ 758,224</u>	<u>\$ 656,791</u>

- (1) Includes management fees for providing management and administrative services to dialysis centers in which the Company either owns a minority equity investment or are wholly-owned by third parties.
- (2) Certain costs previously reported in the Ancillary Services and Strategic Initiatives have been reclassified to the dialysis and related lab services to conform to the current year presentation.

Depreciation and amortization expense for the dialysis and related lab services for 2010, 2009 and 2008 were \$227,677, \$221,907 and \$210,143, respectively, and were \$6,701, \$7,079 and \$6,774, respectively, for the ancillary services and strategic initiatives.

Summary of assets by segment is as follows:

	December 31,	
	2010	2009
Segment assets		
Dialysis and related lab services	\$7,862,882	\$ 7,311,604
Other—Ancillary services and strategic initiatives	225,624	224,001
Equity investments	25,918	22,631
Consolidated assets	<u>\$ 8,114,424</u>	<u>\$7,558,236</u>

In 2010 and 2009, the total amount of expenditures for property and equipment for the dialysis and related lab services were \$271,559 and \$271,817, respectively, and were \$7,226 and \$2,788, respectively, for the ancillary services and strategic initiatives.

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except per share data)

25. Supplemental cash flow information

The table below provides supplemental cash flow information:

	Year ended December 31,		
	2010	2009	2008
Cash paid:			
Income taxes	\$207,265	\$ 161,671	\$ 163,147
Interest	190,949	186,280	222,558
Non-cash investing and financing activities:			
Fixed assets under capital lease obligations	3,983	—	—
Assets exchanged for equity investments	—	2,618	—
Assets received for additional noncontrolling interests	—	51	—
Issuance of noncontrolling interests	1,139	—	—

26. Selected quarterly financial data (unaudited)

	2010				2009			
	December 31	September 30	June 30	March 31	December 31	September 30	June 30	March 31
Net operating revenues ...	\$1,649,417	\$1,651,649	\$1,586,907	\$1,559,418	\$1,568,204	\$1,573,915	\$1,519,041	\$1,447,640
Operating income	255,405	256,591	242,365	242,666	238,712	245,001	235,954	220,604
Income before income taxes	132,362	217,860	195,322	198,914	194,563	200,465	190,139	173,057
Net income attributable to DaVita Inc.	69,020	119,387	107,853	109,423	109,724	110,930	105,819	96,211
Basic earnings per share attributable to DaVita Inc.	0.71	1.16	1.05	1.05	1.07	1.07	1.02	0.93
Diluted earnings per share attributable to DaVita Inc.	\$ 0.70	\$ 1.15	\$ 1.04	\$ 1.04	\$ 1.06	\$ 1.06	\$ 1.02	\$ 0.92

27. Consolidating financial statements

The following information is presented in accordance with Rule 3-10 of Regulation S-X. The operating and investing activities of the separate legal entities included in the Company's consolidated financial statements are fully interdependent and integrated. Revenues and operating expenses of the separate legal entities include intercompany charges for management and other services. The senior notes were issued by the Company on October 20, 2010 and are guaranteed by substantially all of its direct and indirect domestic wholly-owned subsidiaries. Each of the guarantor subsidiaries has guaranteed the notes on a joint and several, full and unconditional basis. Non-wholly-owned subsidiaries, certain wholly-owned subsidiaries, foreign subsidiaries, joint ventures, partnerships and third parties are not guarantors of these obligations.

Consolidating Statements of Income

	DaVita Inc.	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Total
For the year ended December 31, 2010					
Net operating revenues	\$ 431,780	\$5,203,528	\$ 1,289,521	\$(477,438)	\$ 6,447,391
Operating expenses	259,302	4,623,508	1,044,992	(477,438)	5,450,364
Operating income	172,478	580,020	244,529	—	997,027
Debt (expense)	(257,243)	(163,034)	(1,277)	165,565	(255,989)
Other income, net	165,934	1,837	1,214	(165,565)	3,420
Income tax expense	31,656	220,982	7,601	—	260,239
Equity earnings in subsidiaries	356,170	157,278	—	(513,448)	—
Net income	405,683	355,119	236,865	(513,448)	484,219
Less: Net income attributable to noncontrolling interests	—	—	—	(78,536)	(78,536)
Net income attributable to DaVita Inc.	<u>\$ 405,683</u>	<u>\$ 355,119</u>	<u>\$ 236,865</u>	<u>\$ (591,984)</u>	<u>\$ 405,683</u>
For the year ended December 31, 2009					
Net operating revenues	\$ 401,058	\$ 5,012,311	\$ 1,149,074	\$(453,643)	\$6,108,800
Operating expenses	246,578	4,381,211	994,383	(453,643)	5,168,529
Operating income	154,480	631,100	154,691	—	940,271
Debt (expense)	(188,109)	(181,853)	(1,721)	185,928	(185,755)
Other income, net	186,189	2,720	727	(185,928)	3,708
Income tax expense	60,414	218,733	(682)	—	278,465
Equity earnings in subsidiaries	330,538	94,964	—	(425,502)	—
Net income	422,684	328,198	154,379	(425,502)	479,759
Less: Net income attributable to noncontrolling interests	—	—	—	(57,075)	(57,075)
Net income attributable to DaVita Inc.	<u>\$ 422,684</u>	<u>\$ 328,198</u>	<u>\$ 154,379</u>	<u>\$ (482,577)</u>	<u>\$ 422,684</u>
For the year ended December 31, 2008					
Net operating revenues	\$ 363,112	\$4,725,932	\$ 986,996	\$(415,867)	\$ 5,660,173
Operating expenses	228,729	4,109,033	869,182	(415,867)	4,791,077
Operating income	134,383	616,899	117,814	—	869,096
Debt (expense)	(227,535)	(210,030)	(2,874)	215,723	(224,716)
Other income, net	206,488	4,579	17,067	(215,723)	12,411
Income tax expense	43,748	191,273	450	—	235,471
Equity earnings in subsidiaries	304,572	82,469	—	(387,041)	—
Net income	374,160	302,644	131,557	(387,041)	421,320
Less: Net income attributable to noncontrolling interests	—	—	—	(47,160)	(47,160)
Net income attributable to DaVita Inc.	<u>\$ 374,160</u>	<u>\$ 302,644</u>	<u>\$ 131,557</u>	<u>\$ (434,201)</u>	<u>\$ 374,160</u>

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except per share data)

Consolidating Balance Sheets

	DaVita Inc.	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Total
As of December 31, 2010					
Cash and cash equivalents	\$ 856,803	\$ —	\$ 3,314	\$ —	\$ 860,117
Accounts receivable, net	—	895,955	153,021	—	1,048,976
Other current assets	11,231	653,670	48,860	—	713,761
Total current assets	868,034	1,549,625	205,195	—	2,622,854
Property and equipment, net	30,409	888,927	251,472	—	1,170,808
Amortizable intangible assets, net	58,967	98,795	4,873	—	162,635
Investments in subsidiaries	6,154,398	555,579	—	(6,709,977)	—
Intercompany receivables	—	516,286	208,030	(724,316)	—
Other long-term assets and investments	8,951	56,996	873	—	66,820
Goodwill	—	3,731,983	359,324	—	4,091,307
Total assets	<u>\$ 7,120,759</u>	<u>\$ 7,398,191</u>	<u>\$ 1,029,767</u>	<u>\$ (7,434,293)</u>	<u>\$ 8,114,424</u>
Current liabilities	\$ 61,384	\$ 786,114	\$ 76,847	\$ —	\$ 924,345
Intercompany payables	611,919	—	112,397	(724,316)	—
Long-term debt and other long-term liabilities	4,210,703	539,620	19,570	—	4,769,893
Noncontrolling interests subject to put provisions	258,331	—	—	124,721	383,052
Total DaVita Inc. shareholders' equity	1,978,422	6,072,457	637,520	(6,709,977)	1,978,422
Noncontrolling interest not subject to put provisions	—	—	183,433	(124,721)	58,712
Total equity	1,978,422	6,072,457	820,953	(6,834,698)	2,037,134
Total liabilities and equity	<u>\$ 7,120,759</u>	<u>\$ 7,398,191</u>	<u>\$ 1,029,767</u>	<u>\$ (7,434,293)</u>	<u>\$ 8,114,424</u>
As of December 31, 2009					
Cash and cash equivalents	\$ 534,550	\$ —	\$ 4,909	\$ —	\$ 539,459
Accounts receivable, net	—	943,236	162,667	—	1,105,903
Other current assets	15,619	593,472	48,068	—	657,159
Total current assets	550,169	1,536,708	215,644	—	2,302,521
Property and equipment, net	11,232	850,985	242,708	—	1,104,925
Amortizable intangible assets, net	30,212	102,112	4,408	—	136,732
Investments in subsidiaries	5,528,112	546,890	—	(6,075,002)	—
Intercompany receivables	—	—	226,862	(226,862)	—
Other long-term assets and investments	7,700	54,283	879	—	62,862
Goodwill	—	3,606,634	344,562	—	3,951,196
Total assets	<u>\$ 6,127,425</u>	<u>\$ 6,697,612</u>	<u>\$ 1,035,063</u>	<u>\$ (6,301,864)</u>	<u>\$ 7,558,236</u>
Current liabilities	\$ 170,061	\$ 768,153	\$ 108,727	\$ —	\$ 1,046,941
Intercompany payables	105,015	18,067	103,780	(226,862)	—
Long-term debt and other long-term liabilities	3,507,753	458,415	19,243	—	3,985,411
Noncontrolling interests subject to put provisions	209,530	—	—	122,195	331,725
Total DaVita Inc. shareholders' equity	2,135,066	5,452,977	622,025	(6,075,002)	2,135,066
Noncontrolling interest not subject to put provisions	—	—	181,288	(122,195)	59,093
Total equity	2,135,066	5,452,977	803,313	(6,197,197)	2,194,159
Total liabilities and equity	<u>\$ 6,127,425</u>	<u>\$ 6,697,612</u>	<u>\$ 1,035,063</u>	<u>\$ (6,301,864)</u>	<u>\$ 7,558,236</u>

Consolidating Statements of Cash Flows

	DaVita Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Total
For the year ended December 31, 2010					
Cash flows from operating activities					
Net income	\$ 405,683	\$ 355,119	\$ 236,865	\$ (513,448)	\$ 484,219
Changes in operating assets and liabilities and non cash items included in net income	(322,388)	139,646	24,758	513,448	355,464
Net cash provided by operating activities	<u>83,295</u>	<u>494,765</u>	<u>261,623</u>	<u>—</u>	<u>839,683</u>
Cash flows from investing activities					
Additions of property and equipment	(24,118)	(199,147)	(50,337)	—	(273,602)
Acquisitions	—	(187,557)	(945)	—	(188,502)
Proceeds from asset sales	—	22,727	—	—	22,727
Other items	(470)	3,214	—	—	2,744
Net cash used in by investing activities	<u>(24,588)</u>	<u>(360,763)</u>	<u>(51,282)</u>	<u>—</u>	<u>(436,633)</u>
Cash flows from financing activities					
Long-term debt	563,350	1,987	(4,391)	—	560,946
Intercompany borrowing	258,649	(125,185)	(133,464)	—	—
Other items	(558,453)	(10,804)	(74,081)	—	(643,338)
Net cash provided by (used in) financing activities	<u>263,546</u>	<u>(134,002)</u>	<u>(211,936)</u>	<u>—</u>	<u>(82,392)</u>
Net increase (decrease) in cash and cash equivalents	322,253	—	(1,595)	—	320,658
Cash and cash equivalents at beginning of the year	534,550	—	4,909	—	539,459
Cash and cash equivalents at the end of the year	<u>\$ 856,803</u>	<u>\$ —</u>	<u>\$ 3,314</u>	<u>\$ —</u>	<u>\$ 860,117</u>
For the year ended December 31, 2009					
Cash flows from operating activities					
Net income	\$ 422,684	\$ 328,198	\$ 154,379	\$ (425,502)	\$ 479,759
Changes in operating assets and liabilities and non cash items included in net income	(257,795)	(58,609)	77,853	425,502	186,951
Net cash provided by operating activities	<u>164,889</u>	<u>269,589</u>	<u>232,232</u>	<u>—</u>	<u>666,710</u>
Cash flows from investing activities					
Additions of property and equipment	(1,748)	(207,738)	(65,119)	—	(274,605)
Acquisitions	—	(87,617)	—	—	(87,617)
Proceeds from asset sales	—	7,697	—	—	7,697
Other items	11,631	(3,166)	—	—	8,465
Net cash provided by (used in) investing activities	<u>9,883</u>	<u>(290,824)</u>	<u>(65,119)</u>	<u>—</u>	<u>(346,060)</u>
Cash flows from financing activities					
Long-term debt	(60,619)	(1,962)	1,307	—	(61,274)
Intercompany borrowing	101,458	20,681	(122,139)	—	—
Other items	(78,637)	2,516	(54,677)	—	(130,798)
Net cash (used in) provided by financing activities	<u>(37,798)</u>	<u>21,235</u>	<u>(175,509)</u>	<u>—</u>	<u>(192,072)</u>
Net increase (decrease) in cash and cash equivalents	136,974	—	(8,396)	—	128,578
Cash and cash equivalents at beginning of the year	397,576	—	13,305	—	410,881
Cash and cash equivalents at the end of the year	<u>\$ 534,550</u>	<u>\$ —</u>	<u>\$ 4,909</u>	<u>\$ —</u>	<u>\$ 539,459</u>
For the year ended December 31, 2008					
Cash flows from operating activities					
Net income	\$ 374,160	\$ 302,644	\$ 131,557	\$ (387,041)	\$ 421,320
Changes in operating assets and liabilities and non cash items included in net income	(379,807)	143,586	41,561	387,041	192,381
Net cash (used in) provided by operating activities	<u>(5,647)</u>	<u>446,230</u>	<u>173,118</u>	<u>—</u>	<u>613,701</u>
Cash flows from investing activities					
Additions of property and equipment	(2,546)	(222,848)	(92,568)	—	(317,962)
Acquisitions	(439)	(101,520)	—	—	(101,959)
Proceeds from asset sales	—	530	—	—	530
Other items	19,281	2,371	—	—	21,652
Net cash provided by (used in) investing activities	<u>16,296</u>	<u>(321,467)</u>	<u>(92,568)</u>	<u>—</u>	<u>(397,739)</u>
Cash flows from financing activities					
Long-term debt	(17,805)	1,664	2,460	—	(13,681)
Intercompany borrowing	146,030	(112,719)	(33,311)	—	—
Other items	(184,455)	(13,708)	(40,283)	—	(238,446)
Net cash used in financing activities	<u>(56,230)</u>	<u>(124,763)</u>	<u>(71,134)</u>	<u>—</u>	<u>(252,127)</u>
Net (decrease) increase in cash and cash equivalents	(45,581)	—	9,416	—	(36,165)
Cash and cash equivalents at the beginning of the year	443,157	—	3,889	—	447,046
Cash and cash equivalents at the end of the year	<u>\$ 397,576</u>	<u>\$ —</u>	<u>\$ 13,305</u>	<u>\$ —</u>	<u>\$ 410,881</u>

Risk Factors

This Annual Report contains statements that are forward-looking statements within the meaning of the federal securities laws. These statements involve known and unknown risks and uncertainties including the risks discussed below. The risks discussed below are not the only ones facing our business. Please read the cautionary notice regarding forward-looking statements under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operation".

If the average rates that commercial payors pay us decline significantly, it would have a material adverse effect on our revenues, earnings and cash flows.

Approximately 34% of our dialysis and related lab services revenues for the year ended December 31, 2010 were generated from patients who have commercial payors as the primary payor. The majority of these patients have insurance policies that pay us on terms and at rates that are generally significantly higher than Medicare rates. The payments we receive from commercial payors generate nearly all of our profit and all of our nonacute dialysis profits come from commercial payors. We continue to experience downward pressure on some of our commercial payment rates and it is possible that commercial payment rates could be materially lower in the future. The downward pressure on commercial payment rates is a result of general conditions in the market, recent and future consolidations among commercial payors, increased focus on dialysis services and other factors.

We are continuously in the process of negotiating our existing or potentially new agreements with commercial payors who tend to be aggressive in their negotiations with us. Sometimes many significant agreements are up for renewal or being renegotiated at the same time. In the event that our continual negotiations result in overall commercial rate reductions in excess of overall commercial rate increases, the cumulative effect could have a material adverse effect on our financial results. Consolidations have significantly increased the negotiating leverage of commercial payors. Our negotiations with payors are also influenced by competitive pressures. We expect that some of our contracted rates with commercial payors may decrease or that we may experience decreases in patient volume as our negotiations with commercial payors continue. In addition to increasing downward pressure on contracted commercial payor rates, payors have been attempting to impose restrictions and limitations on non-contracted or out-of-network providers. In some circumstances for some commercial payors, our centers are designated as out-of-network providers. Rates for out-of-network providers are on average higher than rates for in-network providers. We believe commercial payors have or will begin to restructure their benefits to create disincentives for patients to select or remain with out-of-network providers and to decrease payment rates for out-of-network providers. Decreases in out-of-network rates and restrictions on out-of-network access combined with decreases in contracted rates could result in a significant decrease in our overall revenue derived from commercial payors. If the average rates that commercial payors pay us decline significantly, it would have a material adverse effect on our revenues, earnings and cash flows.

If the number of patients with higher-paying commercial insurance declines, then our revenues, earnings and cash flows would be substantially reduced.

Our revenue levels are sensitive to the percentage of our patients with higher-paying commercial insurance coverage. A patient's insurance coverage may change for a number of reasons, including changes in the patient's or a family member's employment status. Currently, for a patient covered by an employer group health plan, Medicare generally becomes the primary payor after 33 months, or earlier, if the patient's employer group health plan coverage terminates. When Medicare becomes the primary payor, the payment rate we receive for that patient shifts from the employer group health plan rate to the lower Medicare payment rate. We have seen an increase in the number of patients who have government-based programs as their primary payors which we believe is largely a result of improved mortality and recent economic conditions which have a negative impact on the percentage of patients covered under commercial insurance

plans. To the extent there are sustained or increased job losses in the United States, independent of whether general economic conditions might be improving, we could experience a continued decrease in the number of patients under commercial plans. We could also experience a further decrease if changes to the healthcare regulatory system result in fewer patients covered under commercial plans or an increase of patients covered under more restrictive commercial plans with lower reimbursement rates. In addition, our continuous process of negotiations with commercial payors under existing or potentially new agreements could result in a decrease in the number of patients under commercial plans to the extent that we cannot reach agreement with commercial payors on rates and other terms, resulting in termination or non-renewals of existing agreements or our inability to enter into new ones. If there is a significant reduction in the number of patients under higher-paying commercial plans relative to government-based programs that pay at lower rates, it would have a material adverse effect on our revenues, earnings and cash flows.

Changes in the structure of, and payment rates under the Medicare ESRD program, including the implementation of a bundled payment system under MIPPA and other healthcare reform initiatives, could substantially reduce our revenues, earnings and cash flows.

Approximately 49% of our dialysis and related lab services revenues for the year ended December 31, 2010 was generated from patients who have Medicare as their primary payor. Prior to January 1, 2011, the Medicare ESRD program paid us for dialysis treatment services at a fixed composite rate. The Medicare composite rate was the payment rate for a dialysis treatment including the supplies used in those treatments, specified laboratory tests and certain pharmaceuticals. Certain other pharmaceuticals, including EPO, vitamin D analogs and iron supplements, as well as certain specialized laboratory tests, were separately billed.

In July 2008, MIPPA was passed by Congress. This legislation introduced a new payment system for dialysis services beginning in January 2011 whereby payment for dialysis treatment and related services are now made under a bundled payment rate which provides a fixed rate to encompass all goods and services provided during the dialysis treatment, including pharmaceuticals that were historically separately reimbursed to the dialysis providers, such as EPO, vitamin D analogs and iron supplements, and laboratory testing. On August 12, 2010, CMS published the final rule implementing the bundled payment in the Federal Register. The initial 2011 bundled rate includes reductions of 2% and 3.1% to conform to the provisions of MIPPA and to establish budget neutrality, respectively. Further there is a 5.94% reduction tied to an expanded list of case mix adjusters which can be earned back based upon the presence of these certain patient characteristics and co-morbidities at the time of treatment. There are also other provisions which may impact payment including an outlier pool and a low volume facility adjustment.

While we will continue to evaluate and respond to the various components of the new bundled payment rate system and the potential operational, clinical and economic impact it might have on us, the new payment system presents additional risks. For example, with regard to the expanded list of case-mix adjusters, there is a risk that our dialysis centers or billing and other systems may not accurately document and track the appropriate patient-specific characteristics, resulting in a reduction or overpayment in the amounts of the payments that we would otherwise be entitled to receive. The new single bundled payment base rate will also be adjusted annually for inflation based upon a market basket index, less a productivity adjustment, beginning in 2012. Also, beginning in 2012, the rule provides for up to a 2% annual payment withhold that can be earned back by facilities that meet certain defined clinical performance standards; however, to the extent our facilities do not fully meet the established benchmarks, we may not earn back all (or any) of the dollars withheld.

Dialysis providers were given the option to make a one-time election by November 1, 2010 to move fully to the bundled payment system in 2011 or to phase in the payment system over four years, in each case commencing on January 1, 2011. We elected to move fully to the bundled payment system.

Risk Factors (continued)

At this time we cannot predict whether we will be able to reduce our operating costs to a level that will fully offset any reduction in overall reimbursement for services we provide to Medicare patients. In addition, we experience increases in operating costs that are subject to inflation, such as labor and supply costs, regardless of whether there is a compensating inflation-based increase in Medicare payment rates or the new bundled payment rate system. We also cannot predict whether we will be able to satisfy our Medicare and Medicaid regulatory compliance obligations as processes and systems are modified substantially to comply with the rule. To the extent we are not able to adequately bill and collect for certain payment adjusters and are not able to offset the mandated reductions in reimbursement or if we face regulatory enforcement actions and penalties as a result of alleged improper billing of governmental programs, it could have a material adverse effect on our revenues, earnings and cash flows. (For additional details regarding the risks we face for failing to adhere to our Medicare and Medicaid regulatory compliance obligations, see the risk factor below under the heading "If we fail to adhere to all of the complex government regulations that apply to our business, we could suffer severe consequences that would substantially reduce our revenues, earnings and cash flows").

Health care reform could substantially reduce our revenues, earnings and cash flows.

In March 2010, broad health care reform legislation was enacted in the United States. Although many of the provisions of the new legislation do not take effect immediately, and may be modified before they are implemented, the reforms could have an impact on our business in a number of ways. We cannot predict how employers, private payors or persons buying insurance might react to these changes or what form many of these regulations will take before implementation. However, we believe the establishment of health care insurance exchanges under the legislation due to be operating by 2014 that will provide a marketplace for eligible individuals to purchase health care insurance could result in a reduction in patients covered by commercial insurance. To the extent that any modifications to the current health care regulatory system result in a reduction in patients covered by commercial insurance or a reduction in reimbursement rates for our services from commercial and/or government payors, our revenues, earnings and cash flows could be adversely affected.

In addition, the health care reform legislation introduced severe penalties for the knowing and improper retention of overpayments collected from government payors. As a result, we have made significant investments in additional resources to accelerate the time it takes to identify and process overpayments and we may be required to make additional investments in the future. Acceleration in our ability to identify and process overpayments could result in us refunding overpayments to government or other payors sooner than we have in the past, which could have a material adverse effect on our operating cash flows. The failure to return identified overpayments within the specified time frame is now a violation of the federal False Claims Act.

The legislation also reduced the timeline to file Medicare claims, which now must be filed with the government within one calendar year after the date of service. To comply with this reduced timeline, we must deploy significant resources and may change our claims processing methods to ensure that our Medicare claims are filed in a timely fashion. Failure to file a claim within the one year window could result in payment denials, adversely affecting our revenues, earnings and cash flows.

Effective March 2011, CMS will institute new screening procedures and a new \$500 enrollment fee for providers enrolling in government health care programs. A provider will be subject to screening upon initial enrollment and each time the provider re-validates its enrollment application. Screening includes verification of enrollment information and review of various federal databases to ensure the provider has valid tax identification, NPI numbers and is not excluded. We expect this screening process to delay the Medicare contractor approval process, potentially causing a delay in reimbursement. The enrollment fee is also

applicable upon initial enrollment, re-validation, and each time an existing provider adds a new facility location. This fee is an additional expense that must be paid for each center every three years and could be more significant if other government and commercial payors follow this trend. Ultimately, we anticipate the new screening and enrollment requirements will require additional personnel and financial resources and will potentially delay the enrollment and revalidation of our centers which in turn will delay payment.

Other reform measures allow CMS to place a moratorium on new enrollment of providers and to suspend payment to providers upon a credible allegation of fraud from any source. These types of reform measures, depending upon the scope and breadth of the implementing regulations, could adversely impact our revenues, earnings and cash flows.

Changes in state Medicaid or other non-Medicare government-based programs or payment rates could reduce our revenues, earnings and cash flows.

Approximately 17% of our dialysis and related lab services revenues for the year ended December 31, 2010 was generated from patients who have state Medicaid or other non-Medicare government-based programs, such as Medicare-assigned plans or the Veterans Health Administration (VA), as their primary coverage. As state governments and governmental organizations face increasing budgetary pressure, we may in turn face reductions in payment rates, delays in the timing of payments, limitations on eligibility or other changes to the applicable programs. For example, some programs, such as certain state Medicaid programs and the Veterans Health Administration, have recently considered, proposed or implemented rate reductions.

On December 17, 2010, the Department of Veterans Affairs published a final rule in which it materially changed the payment methodology and ultimately the amount paid for dialysis services furnished to veterans in non-VA centers such as ours. In the final rule, the VA adopted the bundled payment system implemented by Medicare and estimated a reduction of 39% in payments for dialysis services to veterans at non-VA centers. Approximately 2% of our dialysis and related lab services revenues for the year ended December 31, 2010 was generated by the VA. The new VA payment methodology will have a significant negative impact on our revenues, earnings and cash flows as a result of the reduction in rates or as a result of the decrease in the number of VA patients we serve. We recently executed multi-year contractual agreements with the Veterans Health Administration and there is some uncertainty as to when this rule will take effect for the patients covered by these contracts. While at this time the contracts remain in force, these agreements provide for the right for either party to terminate the agreement without cause on short notice. Further, patients who are not covered by the contractual arrangements will likely be reimbursed at Medicare rates beginning with the date of implementation of the rule. If the Veterans Health Administration proceeds with payment rate reductions or fails to renew our existing contracts, we might have to cease accepting patients under this program and could even be forced to close centers.

In addition, some state Medicaid program eligibility requirements mandate that citizen enrollees in such programs provide documented proof of citizenship. If our patients cannot meet these proof of citizenship documentation requirements, they may be denied coverage under these programs. If state Medicaid or other non-Medicare government programs reduce the rates paid by these programs for dialysis and related services, delay the timing of payment for services provided, further limit eligibility for coverage or adopt changes to their payment structure which reduces our overall payments from these state Medicaid or non-Medicare government programs, then our revenues, earnings and cash flows could be adversely affected.

Risk Factors (continued)

Changes in clinical practices, payment rates or regulations impacting EPO and other pharmaceuticals could reduce our revenues, earnings and cash flows.

The administration of EPO and other pharmaceuticals accounted for approximately 26% of our dialysis and related lab services revenues for the year ended December 31, 2010, with EPO alone accounting for approximately 18% of our dialysis and related lab services revenues for the same period. Changes in clinical practices that result in further decreased utilization of prescribed pharmaceuticals or changes in payment rates for those pharmaceuticals could reduce our revenues, earnings and cash flows.

Since late 2006, there has been significant media discussion and government scrutiny regarding anemia management practices in the United States which has created confusion and concern in the nephrology community. In late 2006, the U.S. House of Representatives Ways and Means Committee held a hearing on the issue of the utilization of ESAs, which include EPO, and in 2007, the FDA required changes to the labeling of EPO and Aranesp[®] to include a black box warning, the FDA's strongest form of warning label. An FDA advisory panel on ESA use met in October 2010, which meeting was similar to the prior meeting held in 2007 in that there was significant discussion and concern about the safety of ESAs. The panel concluded it would not recommend a change in ESA labeling. However, the FDA is not bound by the panel's recommendation. In addition, in June 2010, CMS opened a National Coverage Analysis (NCA) for ESAs. Further in January 2011, CMS convened a meeting of the Medicare Evidence Development and Coverage Advisory Committee (MEDCAC) to evaluate evidence for the pending NCA. CMS expects to complete its decision memo in March 2011 and issue final guidance in June 2011.

The forgoing congressional and agency activities and related actions could result in further restrictions on the utilization and reimbursement for ESAs. Commercial payors have also increasingly examined their administration policies for EPO and, in some cases, have modified those policies. Inclusion of EPO in the Medicare bundled payment rate, as well as in a bundled payment rate for several of our commercial payors, is expected to mitigate the effect of lower utilization of EPO. However, further changes in labeling of EPO and other pharmaceuticals in a manner that alters physician practice patterns or accepted clinical practices, changes in private and governmental payment criteria, including the introduction of EPO administration policies or the conversion to alternate types of administration of EPO or other pharmaceuticals that result in further decreases in utilization or reimbursement for EPO and other pharmaceuticals, could have a material adverse effect on our revenues, earnings and cash flows.

Changes in EPO pricing could materially reduce our earnings and cash flows and affect our ability to care for our patients.

Amgen Inc. is the sole supplier of EPO and may unilaterally decide to increase its price for EPO at any time during the term of our agreement with Amgen. Future increases in the cost of EPO without corresponding increases in payment rates for EPO from commercial payors and without corresponding increases in the Medicare bundled rate could have a material adverse effect on our earnings and cash flows and ultimately reduce our income. Our agreement with Amgen for EPO provides for discount pricing and rebates for EPO. Some of the rebates are subject to various qualification requirements for which we will be evaluated during the term of the agreement. These qualification requirements are based on a variety of factors, including process improvement targets, patient outcome targets and data submission. In addition, the rebates are subject to certain limitations. We cannot predict whether we will continue to receive the rebates for EPO that we currently receive, or whether we will continue to achieve the same levels of rebates within that structure as we have historically achieved. Factors that could impact our ability to qualify for rebates provided for in our agreement with Amgen in the future include our ability to develop and implement certain process improvements and track certain data elements. Failure to meet certain targets and earn the specified rebates could have a material adverse effect on our earnings and cash flows. Our prior multi-year agreement

with Amgen expired on December 31, 2010, and we entered into a new shorter term agreement with Amgen that commenced January 1, 2011 and ends June 30, 2011. We cannot predict whether any new agreement with Amgen will include the same or similar discount pricing and rebates as provided in our current agreement and, if so, whether we could meet any applicable qualification requirements for receiving them.

We are the subject of a number of inquiries by the federal government, any of which could result in substantial penalties against us, imposition of certain obligations on our practices and procedures, exclusion from future participation in the Medicare and Medicaid programs and, in certain cases, criminal penalties.

We are the subject of a number of inquiries by the federal government. We have received subpoenas from the U.S. Attorney's Office for the Northern District of Georgia, the U.S. Attorney's Office for the Eastern District of Missouri, the U.S. Attorney's Office for the Eastern District of Texas and the OIG's Office in Dallas, Texas. We are cooperating with the U.S. Attorney's Offices and the OIG Office with respect to each of the subpoenas and producing the requested records. Although we cannot predict whether or when proceedings might be initiated by the federal government or when these matters may be resolved, it is not unusual for investigations such as these to continue for a considerable period of time. Responding to the subpoenas will continue to require management's attention and significant legal expense. Any negative findings could result in substantial financial penalties against us, imposition of certain obligations on our practices and procedures, exclusion from future participation in the Medicare and Medicaid programs and, in certain cases, criminal penalties. To our knowledge, no proceedings have been initiated by the federal government against us at this time. See Note 16 to our consolidated financial statements for additional information regarding these inquiries and subpoenas.

Continued inquiries from various governmental bodies with respect to our utilization of EPO and other pharmaceuticals will require management's attention, cause us to incur significant legal expense and could result in substantial financial penalties against us or exclusion from future participation in the Medicare and Medicaid programs, and could have a material adverse effect on our revenues, earnings and cash flows.

In response to clinical studies which identified risks in certain patient populations related to the utilization of EPO and other ESAs, i.e., Aranesp[®], and in response to changes in the labeling of EPO and Aranesp[®], there has been substantial media attention and government scrutiny resulting in hearings and legislation regarding pharmaceutical utilization and reimbursement. Although we believe our anemia management practices and other pharmaceutical administration practices have been compliant with existing laws and regulations, as a result of the current high level of scrutiny and controversy, we may be subject to increased inquiries from a variety of governmental bodies and claims by third parties. For example, the subpoena from the U.S. Attorney's Office for the Northern District of Georgia relates to the pharmaceutical products Zemplar, Hecetrol, Venofer, Ferrlecit, EPO and other related matters. The subpoena from the U.S. Attorney's Office in the Eastern District of Missouri includes requests for documents regarding the administration of, and billing for, EPO. The subpoena from the Office of Inspector General in Houston, Texas requests records relating to EPO claims submitted to Medicare. In addition, in February 2008 the Attorney General's Office for the State of Nevada notified us that Nevada Medicaid intends to conduct audits of ESRD dialysis providers in Nevada relating to the billing of pharmaceuticals, including EPO. Additional inquiries from various agencies and claims by third parties with respect to this issue would continue to require management's attention and significant legal expense and any negative findings could result in substantial financial penalties against us, imposition of certain obligations on our practices and procedures and the attendant financial burden on us to comply, or exclusion from future participation in the Medicare and Medicaid programs, and could have a material adverse effect on our revenues, earnings and cash flows. See Note 16 to our consolidated financial statements for additional information regarding these inquiries and subpoenas.

Risk Factors (continued)

If we fail to adhere to all of the complex government regulations that apply to our business, we could suffer severe consequences that would substantially reduce our revenues, earnings and cash flows.

Our dialysis operations are subject to extensive federal, state and local government regulations, including Medicare and Medicaid payment rules and regulations, federal and state anti-kickback laws, the Stark Law physician self-referral prohibition and analogous state referral statutes, the federal False Claims Act, or FCA, and federal and state laws regarding the collection, use and disclosure of patient health information and storage, handling and administration of pharmaceuticals. The Medicare and Medicaid reimbursement rules related to claims submission, enrollment and licensing requirements, cost reporting, and payment processes impose complex and extensive requirements upon dialysis providers. A violation or departure from any of these requirements may result in government audits, lower reimbursements, significant fines and penalties, the potential loss of certification and recoupments or voluntary repayments. CMS has indicated that after implementation of the Medicare bundled payment system, it will monitor use of EPO and whether blood transfusions replace EPO for anemia management.

The regulatory scrutiny of healthcare providers, including dialysis providers continues to increase. Medicare has increased the frequency and intensity of its certification inspections of dialysis centers. For example, we are required to provide substantial documentation related to the administration of pharmaceuticals, including EPO, and, to the extent that any such documentation is found insufficient, we may be required to refund any amounts received from such administration by government or commercial payors, and be subject to substantial penalties under applicable laws or regulations. In addition, Medicare contractors have increased their prepayment and post-payment reviews.

We endeavor to comply with all of the requirements for receiving Medicare and Medicaid payments, to structure all of our relationships with referring physicians to comply with state and federal anti-kickback laws and physician self-referral law (Stark Law), and for storing, handling and administering pharmaceuticals. However, the laws and regulations in these areas are complex, require considerable resources to comply with and are subject to varying interpretations. For example, if an enforcement agency were to challenge the level of compensation that we pay our medical directors or the number of medical directors that we engage, we could be required to change our practices, face criminal or civil penalties, pay substantial fines or otherwise experience a material adverse effect as a result of a challenge to these arrangements. In addition, recent amendments to the FCA impose severe penalties for the knowing and improper retention of overpayments collected from government payors. These amendments could subject our procedures for identifying and processing overpayments to greater scrutiny. We have made significant investments in additional resources to decrease the time it takes to identify and process overpayments and we may be required to make additional investments in the future. An acceleration in our ability to identify and process overpayments could result in us refunding overpayments to government or other payors sooner than we have in the past. A significant acceleration of these refunds could have a material adverse affect on our operating cash flows. Additionally, amendments to the federal anti-kickback statute in the health reform law make anti-kickback violations subject to FCA prosecution, including qui tam or whistleblower suits.

If any of our operations are found to violate these or other government regulations, we could suffer severe consequences that would have a material adverse effect on our revenues, earnings and cash flows including:

- Suspension or termination of our participation in government payment programs;
- Refunds of amounts received in violation of law or applicable payment program requirements;
- Loss of required government certifications or exclusion from government payment programs;
- Loss of licenses required to operate health care facilities or administer pharmaceuticals in some of the states in which we operate;
- Reductions in payment rates or coverage for dialysis and ancillary services and related pharmaceuticals;

- Fines, damages or monetary penalties for anti-kickback law violations, Stark Law violations, FCA violations, civil or criminal liability based on violations of law, or other failures to meet regulatory requirements;
- Claims for monetary damages from patients who believe their protected health information has been used or disclosed in violation of federal or state patient privacy laws;
- Mandated changes to our practices or procedures that significantly increase operating expenses; and
- Termination of relationships with medical directors.

Delays in state Medicare and Medicaid certification of our dialysis centers could adversely affect our revenues, earnings and cash flows.

Before we can begin billing for patients treated in our outpatient dialysis centers who are enrolled in government-based programs, we are required to obtain state and federal certification for participation in the Medicare and Medicaid programs. As state agencies responsible for surveying dialysis centers on behalf of the state and Medicare program face increasing budgetary pressure, certain states are having difficulty keeping up with certifying dialysis centers in the normal course resulting in significant delays in certification. If state governments continue to have difficulty keeping up with certifying new centers in the normal course and we continue to experience significant delays in our ability to treat and bill for services provided to patients covered under government programs, it could cause us to incur write-offs of investments or accelerate the recognition of lease obligations in the event we have to close centers or our centers' operating performance deteriorates, and it could have an adverse effect on our revenues, earnings and cash flows.

If our joint ventures were found to violate the law, we could suffer severe consequences that would have a material adverse effect on our revenues, earnings and cash flows.

As of December 31, 2010, we owned a controlling interest in numerous dialysis-related joint ventures, which represented approximately 18% of our dialysis and related lab services revenues for the year ended December 31, 2010. In addition, we also owned minority equity investments in several other dialysis related joint ventures. We anticipate that we will continue to increase the number of our joint ventures. Many of our joint ventures with physicians or physician groups also have the physician owners providing medical director services to those centers or other centers we own and operate. Because our relationships with physicians are governed by the federal anti-kickback statute, we have sought to structure our joint venture arrangements to satisfy as many safe harbor requirements as we believe are reasonably possible. However, our joint venture arrangements do not satisfy all elements of any safe harbor under the federal anti-kickback statute. The subpoena and related requests for documents we received from the United States Attorney's Office for the Eastern District of Missouri included requests for documents related to our joint ventures. We were recently advised by the U.S. Department of Justice that it is conducting a civil investigation into our financial relationships with physicians. See Note 16 to our consolidated financial statements for additional information regarding these inquiries and subpoenas.

If our joint ventures are found to be in violation of the anti-kickback statute or the Stark Law provisions, we could be required to restructure the joint ventures or refuse to accept referrals for designated health services from the physicians with whom the joint venture centers have a financial relationship.

We also could be required to repay amounts received by the joint ventures from Medicare and certain other payors to the extent that these arrangements are found to give rise to prohibited referrals, and we could be subject to monetary penalties and exclusion from government healthcare programs. If our joint venture centers are subject to any of these penalties, we could suffer severe consequences that would have a material adverse effect on our revenues, earnings and cash flows.

Risk Factors (continued)

There are significant estimating risks associated with the amount of dialysis revenue and related refund liabilities that we recognize and if we are unable to accurately estimate our revenue and related refund liabilities, it could impact the timing of our revenue recognition or have a significant impact on our operating results.

There are significant estimating risks associated with the amount of dialysis and related lab services revenues and related refund liabilities that we recognize in a reporting period. The billing and collection process is complex due to ongoing insurance coverage changes, geographic coverage differences, differing interpretations of contract coverage, and other payor issues. Determining applicable primary and secondary coverage for approximately 125,000 patients at any point in time, together with the changes in patient coverage that occur each month, requires complex, resource-intensive processes. Errors in determining the correct coordination of benefits may result in refunds to payors. Revenues associated with Medicare and Medicaid programs are also subject to estimating risk related to the amounts not paid by the primary government payor that will ultimately be collectible from other government programs paying secondary coverage, the patient's commercial health plan secondary coverage or the patient. Collections, refunds and payor retractions typically continue to occur for up to three years and longer after services are provided. We generally expect our range of dialysis and related lab services revenues estimating risk to be within 1% of revenues for the segment, which can represent as much as 6% of consolidated operating income. If our estimates of dialysis and related lab services revenues and related refund liabilities are materially inaccurate, it could impact the timing of our revenue recognition and have a significant impact on our operating results.

The ancillary services we provide or the strategic initiatives we invest in may generate losses and may ultimately be unsuccessful. In the event that one or more of these activities is unsuccessful, we may have to write off our investment and incur other exit costs.

Our ancillary services and strategic initiatives include pharmacy services, infusion therapy services, disease management services, vascular access services, ESRD clinical research programs and physician services. Many of these initiatives require investments of both management and financial resources and can generate significant losses for a substantial period of time and may not become profitable. There can be no assurance that any such strategic initiative will ultimately be successful. Any significant change in market conditions, business performance or in the regulatory environment may impact the economic viability of any of these strategic initiatives. For example, during 2010 and 2009, several of our strategic initiatives generated net operating losses and some are expected to generate net operating losses in 2011. If any of our ancillary services or strategic initiatives do not perform as planned, we may incur a material write-off or an impairment of our investment, including goodwill, in one or more of these activities or we could incur significant termination costs if we were to exit a certain line of business.

If a significant number of physicians were to cease referring patients to our dialysis centers, whether due to regulatory or other reasons, it would have a material adverse effect on our revenues, earnings and cash flows.

We believe that physicians prefer to have their patients treated at dialysis centers where they or other members of their practice supervise the overall care provided as medical director of the center. As a result, the primary referral source for most of our centers is often the physician or physician group providing medical director services to the center. Neither our current nor former medical directors have an obligation to refer their patients to our centers. If a medical director agreement terminates, whether before or at the end of its term, and a new medical director is appointed, it may negatively impact the former medical director's decision to treat his or her patients at our center. If we are unable to enforce noncompetition provisions contained in the terminated medical director agreements, former medical directors may choose to provide medical director services for competing providers or establish their own dialysis centers in competition with ours. Also, if the quality of service levels at our centers deteriorates, it may negatively impact patient referrals and treatment volumes.

Our medical director contracts are for fixed periods, generally three to ten years, and at any given time a large number of them could be up for renewal at the same time. Medical directors have no obligation to extend their agreements with us. We may take actions to restructure existing relationships or take positions in negotiating extensions of relationships to assure compliance with the anti-kickback statute, Stark Law and other similar laws. These actions could negatively impact the decision of physicians to extend their medical director agreements with us or to refer their patients to us. If the terms of any existing agreement are found to violate applicable laws, we may not be successful in restructuring the relationship which could lead to the early termination of the agreement, or cause the physician to stop referring patients to our dialysis centers. If a significant number of physicians were to cease referring patients to our dialysis centers, whether due to regulatory or other reasons, then our revenues, earnings and cash flows would be substantially reduced.

Current economic conditions as well as further disruptions in the financial markets could have a material adverse effect on our revenues, earnings and cash flows and otherwise adversely affect our financial condition.

Current economic conditions could adversely affect our business and our profitability. Among other things, the potential decline in federal and state revenues that may result from such conditions may create additional pressures to contain or reduce reimbursements for our services from Medicare, Medicaid and other government sponsored programs. Increasing job losses or slow improvement in the unemployment rate in the United States as a result of current or recent economic conditions has and may continue to result in a smaller percentage of our patients being covered by an employer group health plan and a larger percentage being covered by lower paying Medicare and Medicaid programs. Employers may also begin to select more restrictive commercial plans with lower reimbursement rates. To the extent that payors are negatively impacted by a decline in the economy, we may experience further pressure on commercial rates, a further slow down in collections and a reduction in the amounts we expect to collect. In addition, uncertainty in the financial markets could adversely affect the variable interest rates payable under our credit facilities or could make it more difficult to obtain or renew such facilities or to obtain other forms of financing in the future. Any or all of these factors, as well as other consequences of the current economic conditions which cannot currently be anticipated, could have a material adverse effect on our revenues, earnings and cash flows and otherwise adversely affect our financial condition.

We may engage in acquisitions, mergers or dispositions, which may affect our results of operations, debt-to-capital ratio, capital expenditures or other aspects of our business.

We may engage in acquisitions, mergers or dispositions, which may affect our results of operations, debt-to-capital ratio, capital expenditures, or other aspects of our business. There can be no assurance that we will be able to identify suitable acquisition targets or merger partners or that, if identified, we will be able to acquire these targets on acceptable terms or agree to terms with merger partners. There can also be no assurance that we will be successful in completing any acquisitions, mergers or dispositions that we might be considering or announce, or integrating any acquired business into our overall operations or operate them successfully as stand-alone businesses, or that any such acquired business will operate profitably or will not otherwise adversely impact our results of operations. Further, we cannot be certain that key talented individuals at the business being acquired will continue to work for us after the acquisition or that they will be able to continue to successfully manage or have adequate resources to successfully operate any acquired business.

Risk Factors (continued)

If we are not able to continue to make acquisitions, or maintain an acceptable level of non-acquired growth, or if we face significant patient attrition to our competitors or a reduction in the number of our medical directors, it could adversely affect our business.

The dialysis industry is highly competitive, particularly in terms of acquiring existing dialysis centers. We continue to face increased competition in the dialysis industry from large and medium-sized providers which compete directly with us for acquisition targets as well as for individual patients and medical directors. Acquisitions, patient retention and medical director retention are an important part of our growth strategy. Because of the ease of entry into the dialysis business and the ability of physicians to be medical directors for their own centers, competition for growth in existing and expanding markets is not limited to large competitors with substantial financial resources. Occasionally, we have experienced competition from former medical directors or referring physicians who have opened their own dialysis centers. In addition, Fresenius, our largest competitor, manufactures a full line of dialysis supplies and equipment in addition to owning and operating dialysis centers. This may give it cost advantages over us because of its ability to manufacture its own products. If we are not able to continue to make acquisitions, continue to maintain acceptable levels of non-acquired growth, or if we face significant patient attrition to our competitors or a reduction in the number of our medical directors, it could adversely affect our business.

If businesses we acquire have liabilities that we are not aware of, we could suffer severe consequences that would substantially reduce our earnings and cash flows.

Our business strategy includes the acquisition of dialysis centers and businesses that own and operate dialysis centers, as well as other ancillary services and strategic initiatives. Businesses we acquire may have unknown or contingent liabilities or liabilities that are in excess of the amounts that we originally estimated. Although we generally seek indemnification from the sellers of businesses we acquire for matters that are not properly disclosed to us, we are not always successful. In addition, even in cases where we are able to obtain indemnification, we may discover liabilities greater than the contractual limits or the financial resources of the indemnifying party. In the event that we are responsible for liabilities substantially in excess of any amounts recovered through rights to indemnification, we could suffer severe consequences that would substantially reduce our earnings and cash flows.

Expansion of our operations to and offering our services in markets outside of the United States subjects us to political, legal, operational and other risks that could have a materially adverse affect on our business, results of operations and cash flows.

We are undertaking an expansion of our operations and beginning to offer our services outside of the United States, which increases our exposure to the inherent risks of doing business in international markets. Depending on the market, these risks include, without limitation, those relating to:

- changes in the local economic environment;
- political instability, armed conflicts or terrorism;
- social changes;
- intellectual property legal protections and remedies;
- trade regulations;
- procedures and actions affecting approval, production, pricing, reimbursement and marketing of products and services;
- foreign currency;
- repatriating or moving to other countries cash generated or held abroad, including considerations relating to tax-efficiencies and changes in tax laws;
- export controls;
- lack of reliable legal systems which may affect our ability to enforce contractual rights;

- changes in local laws or regulations;
- potentially longer payment and collection cycles; and
- financial and operational, and information technology systems integration.

International operations also could require us to devote significant management resources to implement our controls and systems in new markets, to comply with the U.S. Foreign Corrupt Practices Act and similar laws in local jurisdictions and to overcome the numerous new challenges inherent in managing international operations, including those based on differing languages, cultures and regulatory environments.

We expect to expand our international operations through acquisition or otherwise, which would increase these risks. Additionally, though we might invest substantial amounts of capital and incur significant costs in connection with our international operations, there is no assurance that we will be able to operate them profitably anytime soon, if at all. As a result we would expect these costs to be dilutive to our earnings over the next several years as we start-up or acquire new operations.

These risks could have a material adverse effect on our financial condition, results of operations and cash flows.

The level of our current and future debt could have an adverse impact on our business and our ability to generate cash to service our indebtedness depends on many factors beyond our control.

We have substantial debt outstanding and we may incur additional indebtedness in the future. The high level of our indebtedness, among other things, could:

- make it difficult for us to make payments on our debt securities;
- increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions and investments and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the markets in which we operate;
- place us at a competitive disadvantage compared to our competitors that have less debt; and
- limit our ability to borrow additional funds.

Our ability to make payments on our indebtedness and to fund planned capital expenditures and expansion efforts, including any strategic acquisitions we may make in the future, will depend on our ability to generate cash. This, to a certain extent, is subject to general economic, financial, competitive, regulatory and other factors that are beyond our control.

We cannot provide assurance that our business will generate sufficient cash flow from operations in the future or that future borrowings will be available to us in an amount sufficient to enable us to service our indebtedness or to fund other liquidity needs. The borrowings under the Credit Agreement are guaranteed by substantially all of our direct and indirect wholly-owned domestic subsidiaries and are secured by substantially all of DaVita's and its guarantors' assets.

Increases in interest rates may increase our interest expense and adversely affect our earnings and cash flow and our ability to service our indebtedness.

A portion of our outstanding debt bears interest at variable rates. We are subject to LIBOR-based interest rate volatility from a floor of 1.50% to a cap of 4.00% on \$1,250 million of our Term Loan B outstanding debt as a result of several interest rate cap agreements that were entered into in January 2011. The remaining \$500 million of outstanding debt on the Term Loan B is subject to LIBOR-based interest rate volatility above a floor

Risk Factors (continued)

of 1.50%. Our Term Loan A bears interest at LIBOR-based variable rates, however, in January 2011, we entered into several interest rate swap agreements with amortizing notional amounts totaling \$1 billion. These agreements had the economic effect of modifying the LIBOR variable component of our interest rate on an equivalent amount of Term Loan A debt to fixed rates. We also have approximately \$250 million of additional borrowings available under our new Senior Secured Credit Facilities which will bear interest at a variable rate. We may also incur additional variable rate debt in the future. Increases in interest rates would increase our interest expense of the variable portion of our indebtedness, which could negatively impact our earnings and cash flow and our ability to service our indebtedness which would be particularly significant in the event of rapid and substantial increases in interest rates.

Increases in interest rates would increase our interest expense for the variable portion of our indebtedness, which could negatively impact our earnings and cash flow. For example, it is estimated that a hypothetical increase in interest rates of 100 basis points across all variable rate maturities under the existing Senior Secured Credit Facilities would reduce net income by approximately \$6.1 million, for the next twelve months given our current interest rates in effect at December 31, 2010. See "Quantitative and Qualitative Disclosures about Market Risk" for more information. In addition, if we seek to refinance our existing indebtedness under our Senior Secured Credit Facilities, we may not be able to do so on acceptable terms and conditions, which could increase our interest expense or impair our ability to service our indebtedness and fund our operations.

If there are shortages of skilled clinical personnel or if we experience a higher than normal turnover rate, we may experience disruptions in our business operations and increases in operating expenses.

We are experiencing increased labor costs and difficulties in hiring nurses due to a nationwide shortage of skilled clinical personnel. We compete for nurses with hospitals and other health care providers. This nursing shortage may limit our ability to expand our operations. In addition, changes in certification requirements or increases in the required staffing levels for skilled clinical personnel can impact our ability to maintain sufficient staff levels to the extent our teammates are not able to meet new requirements or competition for qualified individuals increases. If we are unable to hire skilled clinical personnel when needed, or if we experience a higher than normal turnover rate for our skilled clinical personnel, our operations and treatment growth will be negatively impacted, which would result in reduced revenues, earnings and cash flows.

Our business is labor intensive and could be adversely affected if we were unable to maintain satisfactory relations with our employees or if union organizing activities were to result in significant increases in our operating costs or decreases in productivity.

Our business is labor intensive, and our results are subject to variations in labor-related costs, productivity and the number of pending or potential claims against us related to labor and employment practices. If political efforts at the national and local level result in actions or proposals that increase the likelihood of union organizing activities at our facilities or if union organizing activities increase for other reasons, or if labor and employment claims, including the filing of class action suits, trend upwards, our operating costs could increase and our employee relations, productivity, earnings and cash flows could be adversely affected.

Upgrades to our billing and collections systems and complications associated with upgrades and other improvements to our billing and collections systems could have a material adverse effect on our revenues, cash flows and operating results.

We are continuously performing upgrades to our billing systems and expect to continue to do so in the near term. In addition, we continuously work to improve our billing and collections performance through process upgrades, organizational changes and other improvements. We may experience difficulties in our ability to successfully bill and collect for services rendered as a result of these changes, including a slow-down of collections, a reduction in the amounts we expect to collect, increased risk of retractions from and refunds to commercial and government payors, an increase in our provision for uncollectible accounts receivable and noncompliance with reimbursement regulations. The failure to successfully implement the upgrades to the billing and collection systems and other improvements could have a material adverse effect on our revenues, cash flows and operating results.

Our ability to effectively provide the services we offer could be negatively impacted if certain of our suppliers are unable to meet our needs or if we are unable to effectively access new technology, which could substantially reduce our revenues, earnings and cash flows.

We have significant suppliers that are either the sole or primary source of products critical to the services we provide, including Amgen, Baxter Healthcare Corporation, NxStage Medical, Inc. and others or to which we have committed obligations to make purchases including Gambro Renal Products and Fresenius Medical Care. If any of these suppliers are unable to meet our needs for the products they supply, including in the event of a product recall, or shortage, and we are not able to find adequate alternative sources, or if some of the drugs that we purchase are not reimbursed through the bundled payment rate by Medicare, our revenues, earnings and cash flows could be substantially reduced. In addition, the technology related to the products critical to the services we provide is subject to new developments and may result in superior products. If we are not able to access superior products on a cost-effective basis or if suppliers are not able to fulfill our requirements for such products, we could face patient attrition which could substantially reduce our revenues, earnings and cash flows.

We may be subject to liability claims for damages and other expenses not covered by insurance that could reduce our earnings and cash flows.

The administration of dialysis and related services to patients may subject us to litigation and liability for damages. Our business, profitability and growth prospects could suffer if we face negative publicity or we pay damages or defense costs in connection with a claim that is outside the scope of any applicable insurance coverage, including claims related to adverse patient events, contractual disputes and professional and general liability claims. In addition, we have received several notices of claims from commercial payors and other third parties related to our historical billing practices and the historical billing practices of the centers acquired from Gambro Healthcare and other matters related to their settlement agreement with the Department of Justice. Although the ultimate outcome of these claims cannot be predicted, an adverse result with respect to one or more of these claims could have a material adverse effect on our financial condition, results of operations, and cash flows. We currently maintain programs of general and professional liability insurance. However, a successful claim, including a professional liability, malpractice or negligence claim which is in excess of our insurance coverage could have a material adverse effect on our earnings and cash flows.

In addition, if our costs of insurance and claims increase, then our earnings could decline. Market rates for insurance premiums and deductibles have been steadily increasing. Our earnings and cash flows could be materially and adversely affected by any of the following:

- the collapse or insolvency of our insurance carriers;
- further increases in premiums and deductibles;

Risk Factors (continued)

- increases in the number of liability claims against us or the cost of settling or trying cases related to those claims; and
- an inability to obtain one or more types of insurance on acceptable terms.

Provisions in our charter documents, compensation programs and Delaware law may deter a change of control that our stockholders would otherwise determine to be in their best interests.

Our charter documents include provisions that may deter hostile takeovers, delay or prevent changes of control or changes in our management, or limit the ability of our stockholders to approve transactions that they may otherwise determine to be in their best interests. These include provisions prohibiting our stockholders from acting by written consent; requiring 90 days advance notice of stockholder proposals or nominations to our Board of Directors; and granting our Board of Directors the authority to issue preferred stock and to determine the rights and preferences of the preferred stock without the need for further stockholder approval. In addition, we have in place a shareholder rights plan that would substantially dilute the interest sought by an acquirer that our Board of Directors does not approve.

Most of our outstanding employee stock options include a provision accelerating the vesting of the options in the event of a change of control. We also maintain a change of control protection program for our employees who do not have a significant number of stock awards, which has been in place since 2001, and which provides for cash bonuses to the employees in the event of a change of control. Based on the market price of our common stock and shares outstanding on December 31, 2010, these cash bonuses would total approximately \$260 million if a change of control transaction occurred at that price and our Board of Directors did not modify this program. These change of control provisions may affect the price an acquirer would be willing to pay for our Company.

We are also subject to Section 203 of the Delaware General Corporation Law that, subject to exceptions, would prohibit us from engaging in any business combinations with any interested stockholder, as defined in that section, for a period of three years following the date on which that stockholder became an interested stockholder.

These provisions may discourage, delay or prevent an acquisition of our Company at a price that our stockholders may find attractive. These provisions could also make it more difficult for our stockholders to elect directors and take other corporate actions and could limit the price that investors might be willing to pay for shares of our common stock.

Selected Financial Data

The following table presents selected consolidated financial and operating data for the periods indicated. Effective January 1, 2009, we were required to present consolidated net income attributable to us and to noncontrolling interests on the face of the consolidated statement of income, which changed the presentation of minority interests (noncontrolling interests) in our consolidated statements of income. These consolidated financial results have been recast for all prior periods presented to reflect the retrospective application of adopting these new presentation and disclosure requirements for noncontrolling interests.

	Year ended December 31,				
	2010	2009	2008	2007	2006
	(in thousands, except share data)				
Income statement data:					
Net operating revenues	\$ 6,447,391	\$ 6,108,800	\$ 5,660,173	\$ 5,264,151	\$ 4,880,662
Operating expenses and charges(1)	5,450,364	5,168,529	4,791,077	4,355,240	4,103,089
Operating income	997,027	940,271	869,096	908,911	777,573
Debt expense(2)	(181,607)	(185,755)	(224,716)	(257,147)	(276,706)
Debt refinancing and redemption charges	(74,382)	—	—	—	—
Other income, net(3)	3,420	3,708	12,411	22,460	13,033
Income from continuing operations before income taxes	744,458	758,224	656,791	674,224	513,900
Income tax expense	260,239	278,465	235,471	245,581	186,430
Income from continuing operations	484,219	479,759	421,320	428,643	327,470
Income from discontinued operations, net of tax(4)	—	—	—	—	1,747
Gain on disposal of discontinued operations, net of tax(4)	—	—	—	—	362
Net income	\$ 484,219	\$ 479,759	\$ 421,320	\$ 428,643	\$ 329,579
Less: Net income attributable to noncontrolling interests(5)	\$ (78,536)	\$ (57,075)	\$ (47,160)	\$ (46,865)	\$ (39,888)
Net income attributable to DaVita Inc.	\$ 405,683	\$ 422,684	\$ 374,160	\$ 381,778	\$ 289,691
Basic earnings per common share from continuing operations attributable to DaVita Inc.(4)	\$ 4.00	\$ 4.08	\$ 3.56	\$ 3.61	\$ 2.79
Diluted earnings per common share from continuing operations attributable to DaVita Inc.(4)	\$ 3.94	\$ 4.06	\$ 3.53	\$ 3.55	\$ 2.73
Weighted average shares outstanding:(7)					
Basic	101,504,000	103,604,000	105,149,000	105,893,000	103,520,000
Diluted	103,059,000	104,168,000	105,940,000	107,418,000	105,793,000
Ratio of earnings to fixed charges(6)	3.44:1	3.58:1	3.01:1	2.92:1	2.38:1
Balance sheet data:					
Working capital	\$ 1,698,509	\$ 1,255,580	\$ 965,233	\$ 889,917	\$ 597,324
Total assets	8,114,424	7,558,236	7,286,083	6,943,960	6,491,816
Long-term debt	4,233,850	3,532,217	3,622,421	3,683,887	3,730,380
Total DaVita Inc. shareholders' equity(7)	1,978,422	2,135,066	1,767,747	1,504,285	1,139,333

(1) Operating expenses and charges include \$55,275 in 2007 and \$37,968 in 2006 of valuation gains on the alliance and product supply agreement with Gambro Renal Products, Inc. Operating expenses and charges in 2007 also includes \$6,779 of gains from insurance settlements related to Hurricane Katrina and a fire that destroyed one center.

- (2) Debt expense in 2007 and 2006 includes the write-off of approximately \$4.4 million and \$3.3 million, respectively, of deferred financing costs associated with our principal prepayments on our term loans.
- (3) Other income, net, includes \$5,868 in 2007 of gains from the sale of investment securities.
- (4) Income for discontinued operations, net of tax, in 2006 includes the sale of three dialysis centers that were part of a larger group of dialysis centers that were required to be divested in conjunction with a consent order issued by the Federal Trade Commission in order for us to complete the acquisition of DVA Renal Healthcare. The majority of the dialysis centers were divested in 2005.
- (5) Net income attributable to noncontrolling interests includes \$1,747 in 2006 of income from discontinued operations.
- (6) The ratio of earnings to fixed charges was computed by dividing earnings by fixed charges. Earnings for this purpose is defined as pretax income from continuing operations adjusted by adding back fixed charges expensed during the period. Fixed charges include debt expense (interest expense and the write-off and amortization of deferred financing costs), the estimated interest component of rental expense on operating leases, and capitalized interest.
- (7) Share repurchases consisted of 8,918,760 shares of common stock for \$618,496 in 2010, 2,902,619 shares of common stock for \$153,495 in 2009, and 4,788,881 shares of common stock for \$232,715 in 2008. Shares issued in connection with stock awards amounted to 1,771,384 in 2010, 2,104,304 in 2009, 1,314,074 in 2008, 2,480,899 in 2007, and 2,620,125 in 2006.

Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

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

	High	Low
Year ended December 31, 2010:		
1st quarter	\$ 64.19	\$58.98
2nd quarter	66.63	60.43
3rd quarter	69.03	56.83
4th quarter	74.11	68.24
Year ended December 31, 2009:		
1st quarter	\$53.04	\$42.34
2nd quarter	49.56	42.36
3rd quarter	56.64	47.78
4th quarter	61.55	53.03

The closing price of our common stock on January 31, 2011 was \$73.85 per share. According to The Bank of New York, our registrar and transfer agent, as of January 31, 2011, there were 7,622 holders of record of our common stock. We have not declared or paid cash dividends to holders of our common stock since 1994. We have no current plans to pay cash dividends and we are restricted from paying dividends under the terms of our Senior Secured Credit Facilities and the indentures governing our senior and senior subordinated notes. Also, see the heading "Liquidity and capital resources" under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the notes to our consolidated financial statements.

Stock Repurchases

The following table summarizes our repurchases of our common stock during 2010:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in millions)
April 1—30, 2010	179,700	\$ 63.16	179,700	\$ 488.7
May 1—31, 2010	1,407,460	63.02	1,407,460	400.0
September 1—30, 2010	1,448,000	68.02	1,448,000	301.5
October 1—31, 2010	4,244,300	71.03	4,244,300	7.2
November 1—30, 2010	1,639,300	72.28	1,639,300	681.5
Total	8,918,760	\$ 69.35	8,918,760	

(1) On November 3, 2009, we announced that the Board of Directors authorized an increase of an additional \$500 million for repurchases of our common stock. On November 3, 2010, we announced that the Board of Directors authorized an increase of an additional \$800 million for repurchases of our common stock.

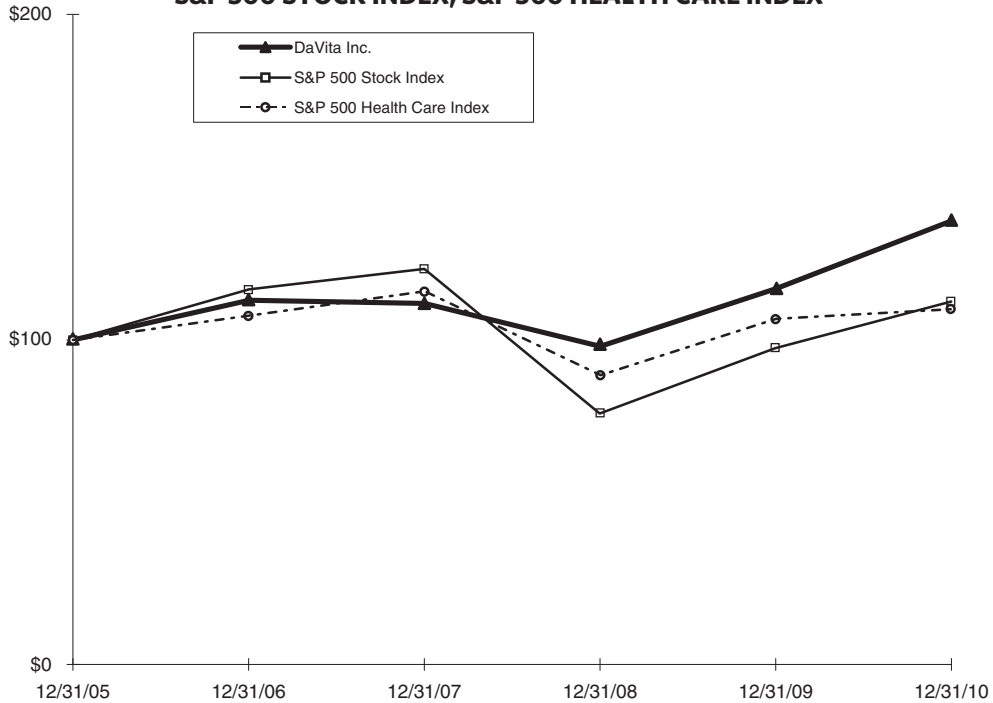
This stock repurchase program has no expiration date. We are authorized to make purchases from time to time in the open market or in privately negotiated transactions, depending upon market conditions and other considerations. However, we are subject to share repurchase limitations under the terms of the Senior Secured Credit Facilities and the indentures governing our senior notes.

Stock Price Performance

The following graph shows a comparison of our cumulative total returns, the Standard & Poor's 500 Stock Index and the S&P 500 Health Care Index. The graph assumes that the value of an investment in our common stock and in each such index was \$100.00 on December 31, 2005 and that all dividends have been reinvested.

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

**COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN AMONG DAVITA INC,
S&P 500 STOCK INDEX, S&P 500 HEALTH CARE INDEX**



	<u>12/31/05</u>	<u>12/31/06</u>	<u>12/31/07</u>	<u>12/31/08</u>	<u>12/31/09</u>	<u>12/31/10</u>
DaVita Inc.	\$100.0	\$ 112.3	\$ 111.3	\$ 97.9	\$ 116.0	\$ 137.2
S&P 500 Stock Index	\$100.0	\$ 115.8	\$ 122.2	\$ 77.0	\$ 97.3	\$ 112.0
S&P 500 Health Care Index	\$100.0	\$ 107.5	\$ 115.2	\$ 88.9	\$ 106.5	\$ 109.5

Quantitative and Qualitative Disclosures about Market Risk

Interest rate sensitivity

The tables below provide information about our financial instruments that are sensitive to changes in interest rates. For our debt obligations the table presents principal repayments and current weighted average interest rates on our debt obligations as of December 31, 2010. The variable rates presented reflect the weighted average LIBOR rates in effect for all debt tranches plus interest rate margins in effect at the end of 2010. The Term Loan A margin currently in effect is 2.75% and along with the revolving line of credit is subject to adjustment depending upon changes in certain of our financial ratios including a leverage ratio. The Term Loan B currently bears interest at LIBOR (floor of 1.50%) plus an interest rate margin of 3.00% subject to a ratings based step-down to 2.75%.

	Expected maturity date						Total	Fair Value	Average interest rate
	2011	2012	2013	2014	2015	Thereafter			
	(dollars in millions)								
Long-term debt:									
Fixed rate	\$ 19	\$ 19	\$ 19	\$ 18	\$ 18	\$ 3,218	\$ 3,311	\$ 3,305	5.49%
Variable rate	\$ 56	\$ 50	\$ 100	\$ 150	\$ 650	\$ —	\$ 1,006	\$ 1,008	3.11%

Our Senior Secured Credit Facilities, which include the Term Loan A and the Term Loan B, consist of various individual tranches that can range in maturity from one month to twelve months (currently monthly). For the Term Loan A each specific tranche would bear interest at a LIBOR rate that is determined by the maturity of that specific tranche plus an interest rate margin. The LIBOR variable component of the interest rate is reset as each specific tranche matures and a new tranche is re-established and can fluctuate significantly depending upon market conditions including the credit and capital markets. In January 2011, we entered into several interest rate swap agreements that have the economic effect of fixing all of the Term Loan A LIBOR variable component of our interest rate, as described below. Our Term Loan B is currently effectively fixed since the LIBOR variable component of our interest rate is set at a LIBOR floor of 1.50%. We have included it in the fixed rate totals in the table above until such time as the LIBOR-based component of our interest rate exceeds 1.50%. We will then be subject to LIBOR-based interest rate volatility on the LIBOR variable component of our interest rate, but only up to 4.00% on \$1.25 billion of outstanding principal debt on the Term Loan B, as described below. The remaining \$500 million of outstanding debt on the Term Loan B is subject to LIBOR-based interest rate volatility above a floor of 1.50%.

In January 2011, we entered into nine interest rate swap agreements with amortizing notional amounts totaling \$1.0 billion that went effective on January 31, 2011. These agreements have the economic effect of modifying the LIBOR variable component of our interest rate on an equivalent amount of our Term Loan A debt to fixed rates ranging from 1.59% to 1.64%, resulting in an overall weighted average effective interest rate of 4.36% including the Term Loan A margin of 2.75%. The swap agreements expire on September 30, 2014 and require monthly interest payments.

In addition, in January 2011, we also entered into five interest rate cap agreements with notional amounts totaling \$1.25 billion that went effective on January 31, 2011. These agreements have the economic effect of capping the LIBOR variable component of our interest rate at a maximum of 4.00% on an equivalent amount of our Term Loan B debt. The cap agreements expire on September 30, 2014.

Our previous interest rate swap agreements expired on September 30, 2010. The agreements that were effective during 2010 had the economic effect of modifying the LIBOR variable component of our interest rate on an equivalent amount of our debt to fixed rates ranging from 4.05% to 4.70%, resulting in an overall weighted average effective interest rate of 5.84% on the hedged portion of our Senior Secured Credit

Facilities, including the Term Loan B margin of 1.50%. During 2010, we accrued net cash obligations of \$9.1 million from these swaps, which are included in debt expense.

As of December 31, 2010, the interest rates were fixed on approximately 77% of our total debt.

Our overall weighted average effective interest rate on the Senior Secured Credit Facilities was 4.05%, based upon the current margins in effect of 2.75% for the Term Loan A and 3.00% for the Term Loan B, as of December 31, 2010.

Our overall weighted average effective interest rate in 2010 was 4.68% and as of December 31, 2010 was 4.94%.

One means of assessing exposure to debt-related interest rate changes is a duration-based analysis that measures the potential loss in net income resulting from a hypothetical increase in interest rates of 100 basis points across all variable rate maturities (referred to as a "parallel shift in the yield curve"). Under this model, with all else constant, it is estimated that such an increase would have reduced net income by approximately \$11.1 million, \$8.5 million, and \$7.1 million, net of tax, for the years ended December 31, 2010, 2009, and 2008, respectively.

Exchange rate sensitivity

We are currently not exposed to any significant foreign currency exchange rate risk.

CORPORATE INFORMATION

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Hearing Impaired 800.231.5469
www.bnymellon.com/shareowner/isd

Annual Meeting of Stockholders
Monday, June 6, 2011

DaVita Inc.
1627 Cole Boulevard
Lakewood, CO 80401

Common Stock Listing
New York Stock Exchange (NYSE)
Symbol: DVA

Form 10-K Request
For a free copy of DaVita's annual report on
Form 10-K for the year ended December 31,
2010 please send a written request to Jim
Gustafson, Vice President, Investor Relations at
DaVita's corporate address.

Corporate Governance Guidelines
DaVita's corporate governance guidelines, Code
of Ethics and Board Committee Charters are
located on DaVita's website

DIRECTORS

Pamela M. Arway
Former President
American Express International,
Japan, Asia-Pacific and
Australia region

Charles G. Berg
Non-Executive Chairman
WellCare Health Plans, Inc.

Former Senior Advisor
Welsh, Carson, Anderson & Stowe

Former Chief Executive Officer
Oxford Health Plans, Inc.

Willard W. Brittain, Jr.
Chairman and Chief Executive Officer
Preod Corporation

Former Chief Operating Officer
PwC Consulting and PricewaterhouseCoopers LLP

Carol Anthony ("John") Davidson
Senior Vice President, Controller and
Chief Accounting Officer
Tyco International Ltd

Paul J. Diaz
President and Chief Executive Officer
Kindred Healthcare, Inc.

Former Managing Member
Falcon Capital Partners, LLC

Former Executive Vice President and
Chief Operations Officer
Mariner Health Group, Inc.

Peter T. Grauer
Chairman of the Board,
Chief Executive Officer and Treasurer
Bloomberg, Inc.

John M. Nehra
General Partner in affiliates of
New Enterprise Associates

Managing General Partner
Catalyst Ventures

William L. Roper
Chief Executive Officer
University of North Carolina
Health Care System

Dean, School of Medicine
Vice Chancellor for Medical Affairs
University of North Carolina at Chapel Hill

Former Director
Centers for Disease Control and Prevention

Former Administrator
Centers for Medicare & Medicaid Services

Roger J. Valine
Chairman of the Audit Committee
Former President and Chief Executive Officer
Vision Service Plan

Kent J. Thiry
Chairman of the Board and
Chief Executive Officer
DaVita Inc.

SECTION 16 OFFICERS

Kent J. Thiry
Chairman of the Board and
Chief Executive Officer

Dennis L. Kogod
Chief Operating Officer

Luis A. Borgen
Chief Financial Officer

James K. Hilger
Chief Accounting Officer

Laura A. Mildenberger
Senior Vice President and
Chief People Officer

Allen R. Nissenson
Chief Medical Officer

Kim M. Rivera
Vice President, General
Counsel and Secretary

Javier J. Rodriguez
Senior Vice President

David T. Shapiro
Chief Compliance Officer
and Senior Vice President

Thomas O. Usilton, Jr.
Senior Vice President and
Chief Development Officer

LeAnne M. Zumwalt
Vice President

CORPORATE OFFICE

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DAVITA.COM

Our Mission

To be the Provider,
Partner and Employer
of Choice

Our Core Values

Service Excellence
Integrity
Team
Continuous Improvement
Accountability
Fulfillment
Fun



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