# DaVita 3rd Quarter 2008 Results

PRNewswire-FirstCall EL SEGUNDO, Calif.

DaVita Inc. today announced results for the quarter ended September 30, 2008. Net income for the three and nine months ended September 30, 2008 was \$93.9 million and \$275.8 million, or \$0.89 per share and \$2.59 per share, respectively.

(Logo: http://www.newscom.com/cgi-bin/prnh/20020729/DAVITALOGO)

Net income for the three months ended September 30, 2007 was \$89.3 million, or \$0.83 per share excluding after-tax gains from insurance settlements and after-tax gains on the sale of investment securities, and was \$94.5 million, or \$0.88 per share including these items.

Net income for the nine months ended September 30, 2007 was \$254.6 million, or \$2.38 per share excluding after-tax gains from insurance settlements, after-tax gains on the sale of investment securities and the valuation gain on the Company's alliance and product supply agreement with Gambro Renal Products, and was \$296.1 million, or \$2.76 per share including these items.

Financial and operating highlights include:

- -- Cash Flow: For the rolling 12 months ended September 30, 2008 operating cash flow was \$595 million and free cash flow was \$491 million. For the three months ended September 30, 2008 operating cash flow was \$146 million and free cash flow was \$119 million.
- -- Operating Income: Operating income for the three and nine months ended September 30, 2008 was \$208 million and \$610 million, respectively. Operating income for the three months ended September 30, 2007 was \$206 million, excluding pre-tax gains from insurance settlements of \$6.8 million. Operating income for the nine months ended September 30, 2007 was \$605 million, excluding pre-tax gains from insurance settlements and the pre-tax valuation gain on the Company's product supply agreement with Gambro Renal Products of \$55 million.
- -- Volume: Total treatments for the third quarter of 2008 were 4,091,099, or 51,786 treatments per day, representing a per day increase of 5.1% over the third quarter of 2007. Non-acquired treatment growth in the quarter was 3.8% over the prior year's third quarter.
- -- Effective Tax Rate: The effective tax rate was 39.8% and 38.9% for the three and nine months ended September 30, 2008, respectively. We are still projecting our 2008 annual effective tax rate to be in the range of 38.5%- 39.5%, and are still projecting our 2009 effective tax rate to return to around 40.0%.
- -- Share Repurchases: During the first nine months of 2008, we repurchased a total of 3,461,353 shares of our common stock for \$169.7 million, or an average price of \$49.02 per share, pursuant to previously announced Board authorizations. We did not repurchase any shares of our common stock during the third quarter of 2008. However, during October 2008, we repurchased 1,027,502 shares of our common stock for \$50 million, or an average price of \$48.66 per share.
- -- Center Activity: As of September 30, 2008, we operated or provided administrative services at 1,425 outpatient dialysis centers serving approximately 111,000 patients, of which 1,402 centers are consolidated in our financial statements. During the third quarter of 2008, we acquired 6 centers, opened 22 new centers, merged 2 centers, closed 1 center, and divested 1 center.

# Outlook

We expect our operating income results for 2008 to be near the middle of the range of our previously provided guidance of \$800-\$840 million. We still expect to generate approximately \$480 million to \$530 million of operating cash flow in 2008. Our operating income guidance for 2009 remains unchanged at a range of \$820-\$880 million. These projections and the underlying assumptions involve significant risks and uncertainties, including those described below and actual results may vary significantly from these current projections.

DaVita will be holding a conference call to discuss its results for the third quarter ended September 30, 2008 on November 3, 2008 at 12:00 p.m. Eastern Time. The dial in number is (800) 399-4406. A replay of the conference call will be available on DaVita's official web page, <a href="http://www.davita.com/">http://www.davita.com/</a>, for the following 30 days.

This release contains forward-looking statements, including statements related to our 2008 and 2009 operating results and our

2009 expected effective tax rate. Factors which could impact future results include the uncertainties associated with governmental regulations, general economic and other market conditions, competition, accounting estimates and the risk factors set forth in the Company's SEC filings, including its Form 10-Q for the quarter ended June 30, 2008. The forward-looking statements should be considered in light of these risks and uncertainties.

These risks and uncertainties 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,
- -- changes in government payment rates or the structure of payments under the Medicare ESRD Program may result in lower reimbursement for services we provide to Medicare patients and could have a material impact on our overall profitability,
- -- 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 and compliance with the corporate integrity agreement applicable to the dialysis centers acquired from Gambro Healthcare and assumed in connection with such acquisition, and
- -- the resolution of ongoing investigations by various federal and state governmental agencies.

We undertake no obligation to update or revise any forward-looking statements, whether as a result of changes in underlying factors, new information, future events or otherwise.

This release contains non-GAAP financial measures. For reconciliations of these non-GAAP financial measures to their most comparable measure calculated and presented in accordance with GAAP, see the attached reconciliation schedules.

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DAVITA INC.
          CONSOLIDATED STATEMENTS OF INCOME
                (unaudited)
      (dollars in thousands, except per share data)
               Three months ended
                                    Nine months ended
                                   September 30,
                 September 30.
                                 2008
                2008
                        2007
                                          2007
Net operating revenues $1,447,135 $1,318,381 $4,199,163 $3,909,282
Operating expenses and
charges:
 Patient care costs
                    1,005,648 890,243 2,909,143
                                                   2,662,841
 General and
 administrative
                    128,617 120,596
                                        374,581
                                                   356,249
 Depreciation and
                    54,970
                             49,230
                                     160,673
                                                  142,078
 amortization
 Provision for
 uncollectible accounts 37,305
                                34,107
                                         109,433
                                                     101,686
 Minority interests and
 equity income, net
                      12,711
                               11,793
                                         35,168
                                                    34,757
 Valuation gain on
 alliance and product
 supply agreement
                                            (55,275)
  Total operating
   expenses and
                 1,239,251 1,105,969
                                        3,588,998 3,242,336
   charges
Operating income
                      207,884 212,412
                                           610,165 666,946
Debt expense
                     (54,505) (62,715)
                                         (168,891) (194,496)
                               6,278
Other income
                      2.481
                                        10,331
                                                  17,131
Income before income
                 155,860 155,975
                                      451,605 489,581
taxes
                                           175,810 193,520
                                61,520
Income tax expense
                       61,950
                                       $275,795 $296,061
Net income
                    $93,910 $94,455
Earnings per share:
 Basic earnings per
                   $0.90
 share
                           $0.89
                                      $2.61
                                               $2.80
 Diluted earnings per
                   $0.89
                           $0.88
                                      $2.59
                                               $2.76
 share
 Weighted average shares
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for earnings per share:

Basic 104,556,770 106,171,473 105,569,971 105,558,536 Diluted 105,577,823 107,561,139 106,421,184 107,129,135

#### DAVITA INC. CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(dollars in thousands)

Nine months ended September 30, 2008 2007

Cash flows from operating activities:

Net income \$275.795 \$296.061 Adjustments to reconcile net income to cash provided by operating activities: Depreciation and amortization 160,673 142,078 Valuation gain on alliance and product supply agreement (55, 275)Stock-based compensation expense 29,975 25,260 Tax benefits from stock award exercises 10,174 27,000 (5,054)Excess tax benefits from stock award exercises (23,632)Deferred income taxes 25,645 56.157 Minority interests in income of consolidated subsidiaries 35,703 35.822 Distributions to minority interests (43,391)(35,216)Equity investment income (654)(946)Loss (gain) on disposal of assets 9,688 (4,944)Non-cash debt and non-cash rent charges 9,971 11,810 Changes in operating assets and liabilities, other than from acquisitions and divestitures: (130,022)(32,425)Accounts receivable Inventories 15.144 (1,248)Other receivables and other current assets (28,684)(42,818)(12,761)Other long-term assets (11,921)Accounts payable (12,800)(6,458)Accrued compensation and benefits (11,752) (17,347) Other current liabilities 29,838 (26,151)(13,072)(3,129)Income taxes Other long-term liabilities 3,163 1,214 Net cash provided by operating activities 309,710 371,761 Cash flows from investing activities: Additions of property and equipment, net (223,851) (176,078) Acquisitions and purchases of other ownership interests (101, 166)(81,782)Proceeds from asset sales 451 4,643 Purchase of investments available for sale (1,695)(21,363)Purchase of investments held-to-maturity (19,005)(20,839)Proceeds from sale of investments available for sale 5,323 32,138 Proceeds from maturities of investments 18.728 4.780 held-to-maturity Contributions from minority owners 22,749 16,204 Purchase of intangible assets (65)(556)Net cash used in investing activities (298,531) (242,853) Cash flows from financing activities: Borrowings 12,937,047 10,405,556 Payments on long-term debt (12,938,297) (10,451,891) Deferred financing costs (130)(4,462)Purchase of treasury stock (169,673)(6,350)Excess tax benefits from stock award exercises 5,054 23.632 Stock award exercises and other share issuances, 33,670 47,756 net Net cash (used in) provided by financing activities (132, 329)14,241 Net (decrease) increase in cash and cash (59,099)81,098 equivalents Cash and cash equivalents at beginning of period 447,046 310,202 \$391,300 Cash and cash equivalents at end of period \$387,947

#### CONSOLIDATED BALANCE SHEETS

(unaudited)

(dollars in thousands, except per share data)

September 30, December 31,

ASSETS 2008 2007

Cash and cash equivalents \$387,947 \$447,046 Short-term investments 51,614 40,278

Accounts receivable, less allowance of

\$204,594 and \$195,953 1,056,691 927,949

Inventories 82,494 80.173 Other receivables 198,744 230,073 34,482 Other current assets 36,010 Deferred income taxes 219.160 247.578 Total current assets 2,063,989 1,976,250 Property and equipment, net 1,011,702 939,326 Amortizable intangibles, net 165,270 183,042

Investments in third-party dialysis

businesses 19,239 19,446
Long-term investments 6,930 22,562
Other long-term assets 48,162 35,401
Goodwill 3,856,601 3,767,933
\$7,171,893 \$6,943,960

#### LIABILITIES AND SHAREHOLDERS' EQUITY

Accounts payable \$212,661 \$225,461 Other liabilities 515,989 486,151

Accrued compensation and benefits 330,838 334,961

 Current portion of long-term debt
 64,262
 23,431

 Income taxes payable
 16,492

 Total current liabilities
 1,123,750
 1,086,496

 Long-term debt
 3,643,275
 3,683,887

Other long-term liabilities 83,494 83,448
Alliance and product supply agreement, net 37,310 41,307

Deferred income taxes 214,477 166,055

Minority interests (fair value subject to potential put obligations . \$296,000 and

\$330,000) 162,908 150,517

Commitments and contingencies

Shareholders' equity:

Preferred stock (\$0.001 par value,

5,000,000 shares authorized; none issued)

Common stock (\$0.001 par value, 450.000,000 shares authorized:

134,862,283 shares issued; 104,787,536

 and 107,130,127 shares outstanding)
 135
 135

 Additional paid-in capital
 755,579
 707,080

 Retained earnings
 1,791,085
 1,515,290

Treasury stock, at cost

(30,074,747 and 27,732,156 shares) (635,274) (487,744) Accumulated other comprehensive loss (4,846) (2,511) Total shareholders' equity 1,906,679 1,732,250

7,171,893 6,943,960

### DAVITA INC. SUPPLEMENTAL FINANCIAL DATA

(unaudited)

(dollars in millions, except for per share and per treatment data)

#### Nine months

Three months ended ended

September 30, June 30, September 30, September 30, 2008 2008 2007 2008

2008 2008 Financial Results

excluding gains

from insurance

from insurance

settlements and

gains on sale of

investment securities

for the three months

ended September 30,

2007:

Net income(1) \$93.9 \$95.0 \$89.3 \$275.8

Diluted earnings per

share(1) Operating incor Operating inco			\$0.83 .6 \$205.6	\$2.59 6 \$610.2
margin(1)	14.4%	14.6%	15.6%	14.5%
Business Metrics Volume	<b>S</b> :			
Treatments Number of treatment day Treatments pe day Per day year o year increase Non-acquired	4,091,099	4,018,763	3,842,76	3 12,044,639
		78.0	78.0	234.4
	51,786 5	51,523 4	9,266	51,385
	5.1%	6.0%	6.1%	5.8%
year over yea	•	4.5%	5.2%	4.4%
Revenue Total operating revenue Dialysis and related lab	g \$1,447	\$1,407	\$1,318	\$4,199
services reve per treatment Per treatment increase (dec	\$336.42	\$335.98	\$333.57	\$333.83
from previous quarter Per treatment increase (dec	0.1% rease)	2.1%	(1.3%)	-
from previous year		0.6%)	0.6%	(0.8%)
Expenses A. Patient care c Percent of reve Per treatment (including gair from insurance settlements of \$1.76 for the third quarter o	enue 69.5% ns e	69.2%	67.5%	69.3%
2007)(2) Per treatment increase (decr from previous	\$245.81 rease)	\$242.19	\$231.67	\$241.53
quarter Per treatment	1.5%	2.4%	(1.4%)	-
increase (decr from previous		3.1%	(0.8%)	2.8%
B. General & adr expenses Percent of reve Per treatment Per treatment increase (decr	enue 8.9% \$31.44	8.9% \$31.15		8.9% \$31.10
from previous quarter	0.9%	1.5%	(2.8%)	-
Per treatment increase (decrease from previous	,	(3.5%)	1.5%	(1.0%)
C. Bad debt expe a percent of current-period revenue		2.7%	2.6%	2.6%
D. Consolidated effective tax ra		38.0%	39.4%	38.9%

<sup>(1)</sup> These are non-GAAP financial measures. For a reconciliation of these non-GAAP financial measures to their most comparable measure calculated and presented in accordance with GAAP, see attached reconciliation schedules.

(2) On a non-GAAP basis patient care costs per treatment excluding gains from insurance settlements of \$1.76 for the third quarter of 2007 would have been \$233.43.

#### DAVITA INC. SUPPLEMENTAL FINANCIAL DATA -- continued (unaudited)

(dollars in millions, except for per share and per treatment data)

#### Nine months

Three months ended ended September 30, June 30, September 30, September 30,

2008 2007 2008 Cash Flow Operating cash flow \$146.2 \$134.5 \$95.8 \$371.8 Operating cash flow, last twelve months \$595.1 \$544.6 \$499.8 \$306.6 Free cash flow(1) \$119.0 \$114.4 \$73.5 Free cash flow, last twelve months(1) \$491.2 \$395.6 \$445.7 Capital expenditures: Development and relocations \$51.6 \$60.2 \$48.5 \$158.0 Routine maintenance/IT \$27.2 \$20.2 \$22.6 \$65.9 other Acquisition expenditures \$31.5 \$60.9 \$75.5 \$101.2 Accounts Receivable \$1,047 Net receivables \$1,057 \$976 DSO 70 70 70

# Debt/Capital Structure

\$3,704 Total debt(2) \$3,705 \$3,701 Net debt, net of cash(2) \$3,316 \$3,309 \$3,378 Leverage ratio (see Note 1) 2.98x 3.07x 3.10x Overall effective weighted average interest rate 6.48% during the quarter 5.66% 5.75%

Overall effective weighted average

interest rate end

6.09% of the quarter 5.68% 6.43% Effective weighted

average interest rate on the Senior Secured Credit Facilities end of

the quarter 5.39% 4.59% 6.00%

Economically fixed interest rates as a percentage of

our total debt 70% 69% 77%

Share repurchases \$-\$137.2 \$-\$169.7

# Clinical (quarterly averages)

Dialysis adequacy -% of patients

with Kt/V > 1.294% 95% 94% Patients with 87% 80% Hb>=10 <=13 86% Patients with arteriovenous fistulas placed 61% 60% 57%

(1) These are non-GAAP financial measures. For a reconciliation of these non-GAAP financial measures to their most comparable measure calculated and presented in accordance with GAAP, see attached

reconciliation schedules.

(2) Excludes an unamortized balance of a debt premium associated with our senior notes that is not actually outstanding debt principal.

DAVITA INC.
SUPPLEMENTAL FINANCIAL DATA -- continued
(unaudited)
(dollars in thousands)

Note 1: Calculation of the Leverage Ratio

Under the Company's current Senior Secured Credit Facilities (Credit Agreement), the leverage ratio is defined as all funded debt plus the face amount of all letters of credit issued, minus cash and cash equivalents, divided by "Consolidated EBITDA". The leverage ratio determines the interest rate margin payable by the Company for its term loan A and revolving line of credit under the Credit Agreement by establishing the margin over the base interest rate (LIBOR) that is applicable. The following leverage ratio was calculated using "Consolidated EBITDA" as defined in the Credit Agreement. The calculation below is based on the last twelve months of "Consolidated EBITDA", pro forma for the routine acquisitions that occurred during the period. The Company's management believes that the presentation of "Consolidated EBITDA" is useful to investors to enhance their understanding of the Company's leverage ratio under its Credit Agreement.

Rolling 12-months ended September 30,

2008

Net income \$361,512 Income taxes \$228,034 Debt expense \$231,542 Depreciation and amortization \$212,065 Minority interests and equity income, net \$45,896 Other \$10,683

Stock-based compensation expense \$38,865 "Consolidated EBITDA" \$1,128,597

September 30, 2008

Total debt, excluding debt premium of

\$3.9 million \$3,703,599 Letters of credit issued 47,001

3,750,600

Less: cash and cash equivalents (387,947)
Consolidated net debt \$3,362,653

Last twelve months "Consolidated EBITDA" \$1,128,597

Leverage ratio 2.98x

In accordance with the Company's Credit Agreement, the Company's leverage ratio cannot exceed 4.75 to 1.0 as of September 30, 2008. At that date, the Company's leverage ratio did not exceed 4.75 to 1.0.

RECONCILIATIONS FOR NON-GAAP MEASURES (unaudited) (dollars in thousands)

1. Net income excluding gains from insurance settlements, gains on the sale of investment securities and the valuation gain on the alliance and product supply agreement (the Product Supply Agreement):

We believe that net income excluding gains from insurance settlements, gains on the sale of investment securities and the valuation gain on the Product Supply Agreement enhances a user's understanding of our normal net income for these periods by providing a measure that is more meaningful because it excludes insurance settlement gains related to insurance proceeds from Hurricane Katrina and from a fire that destroyed one of our centers, as well as non-recurring gains on the sale of investment securities and a non-recurring non-cash item that resulted from the termination of our purchase obligation for dialysis machines from Gambro Renal Products Inc. under the Product Supply Agreement, and accordingly is more comparable to current and prior periods and indicative of consistent net income. This measure is not a measure of financial performance under United States generally accepted accounting principles and should not be considered as an alternative to net income.

Three months ended Nine months ended September 30, June 30, September 30

```
insurance
settlements
                          (6,779)
                                              (6,779)
Gains on
the sale
 of investment
securities
                        (1.634)
                                             (5.868)
Valuation
                                        (55,275)
gain
Add:
Related
                          3,273
income tax
                                             26.422
       $93,910 $94,951
                           $89,315
                                        $275,795
                                                    $254,561
```

2. Operating income excluding pre-tax gains from insurance settlements and the pre-tax valuation gain on the Product Supply Agreement:

We believe that operating income excluding gains from insurance settlements and the valuation gain on the Product Supply Agreement enhances a user's understanding of our normal operating income for these periods by providing a measure that is more meaningful because it excludes insurance settlements gains related to insurance proceeds from Hurricane Katrina and from a fire that destroyed one of our centers and a non-recurring non-cash item that resulted from the termination of our purchase obligation for dialysis machines from Gambro Renal Products Inc. under the Product Supply Agreement and accordingly is more comparable to current and prior periods and indicative of consistent operating income items. This measure is not a measure of financial performance under United States generally accepted accounting principles and should not be considered as an alternative to operating income.

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Three months ended
                                     Nine months ended
     September 30, June 30, September 30, September 30, September 30,
       2008
                2008
                        2007
                                  2008
                                            2007
Operating
income
         $207.884 $205,554 $212,412
                                          $610,165
                                                      $666,946
Less:
Gains on
insurance
settlements
                         (6,779)
                                           (6,779)
Valuation
gain
                                      (55.275)
      $207,884
                 $205,554 $205,633
                                                   $604,892
                                       $610.165
        RECONCILIATIONS FOR NON-GAAP MEASURES
               (unaudited)
             (dollars in thousands)
```

3. Free cash flow

Free cash flow represents net cash provided by operating activities less capital expenditures for routine maintenance and information technology. We believe free cash flow is a useful adjunct to cash flow from operating activities and other measurements under United States generally accepted accounting principles, since free cash flow is a meaningful measure of our ability to fund acquisition and development activities and meet our debt service requirements. Free cash flow is not a measure of financial performance under United States generally accepted accounting principles and should not be considered as an alternative to cash flows from operating, investing or financing activities, as an indicator of cash flows or as a measure of liquidity.

```
Three months ended
                                        Nine months ended
          September 30, June 30, September 30, September 30,
           2008
                     2008
                              2007
                                           2008
Cash provided
by operating
             $146,227 $134,510
activities
                                   $95,778
                                                 $371.761
Less: Expenditures
for routine
maintenance and
information
technology
                (27,217) (20,153) (22,229)
                                                 (65, 197)
                $119,010 $114,357
                                      $73,549
                                                    $306,564
Free cash flow
```

Rolling 12-Month Period September 30, June 30, September 30, 2008 2008 2007

Cash provided by operating

activities \$595,087 \$544,638 \$499,818

Less: Expenditures for routine maintenance and information

technology (103,885) (98,897) (104,189) Free cash flow \$491,202 \$445,741 \$395,629

First Call Analyst:

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