

DaVita 4th Quarter 2011 Results

DENVER--(BUSINESS WIRE)--Feb. 16, 2012-- DaVita Inc. (NYSE: DVA) today announced results for the quarter and year ended December 31, 2011. Income from continuing operations attributable to DaVita Inc. for the quarter and year ended December 31, 2011 was \$149.4 million and \$496.2 million, or \$1.58 and \$5.14 per share, respectively, which for the year ended December 31, 2011 excludes an after-tax non-cash goodwill impairment charge of approximately \$14.4 million, or \$0.15 per share, that was recorded in the second quarter of 2011 related to our infusion therapy business. Income from continuing operations attributable to DaVita Inc. for the year ended December 31, 2011 including this item was \$481.8 million, or \$4.99 per share.

Income from continuing operations attributable to DaVita Inc. for the quarter and year ended December 31, 2010 was \$111.9 million and \$450.8 million, or \$1.13 and \$4.37 per share, respectively, which excludes after-tax debt refinancing and redemption charges of \$42.9 million and \$45.4 million, or \$0.43 per share and \$0.44 per share, respectively. Income from continuing operations attributable to DaVita Inc. for the quarter and year ended December 31, 2010 including these items was \$68.9 million and \$405.4 million, or \$0.70 per share and \$3.93 per share, respectively.

Financial and operating highlights include:

- **Cash Flow:** For the year ended December 31, 2011 operating cash flow was \$1,180 million and free cash flow was \$855 million. For the three months ended December 31, 2011 operating cash flow was \$151 million and free cash flow was \$32 million.
- **Operating Income:** Operating income for the quarter and year ended December 31, 2011 was \$330 million and \$1,155 million, respectively, which for the year ended December 31, 2011, excludes the pre-tax non-cash goodwill impairment charge of \$24 million. Operating income for the year ended December 31, 2011 including this item was \$1,131 million. Operating income for the quarter and year ended December 31, 2010 was \$255 million and \$997 million, respectively.
- **Volume:** Total U.S. treatments for the fourth quarter of 2011 were 5,227,167, or 66,167 treatments per day, representing a per day increase of 12.4% over the fourth quarter of 2010. Non-acquired treatment growth in the quarter was 4.4% over the prior year's fourth quarter. Our normalized non-acquired treatment growth in the quarter was 4.8% over the prior year's fourth quarter.
- **Effective Tax Rate:** Our effective tax rate was 34.1% and 35.4% for the quarter and year ended December 31, 2011, respectively. This effective tax rate is impacted by the amount of third party owners' income attributable to non-tax paying entities. The effective tax rate attributable to DaVita Inc. was 38.0% and 39.6% for the quarter and year ended December 31, 2011, respectively. We currently expect our 2012 effective tax rate attributable to DaVita Inc. to be in the range of 40.0% to 41.0%.
- **Center Activity:** As of December 31, 2011, we operated or provided administrative services at 1,809 outpatient dialysis centers located in the United States serving approximately 142,000 patients and 11 outpatient dialysis centers that are located in three countries outside of the United States. A total of 1,784 centers are consolidated in our financial statements, of which eight centers are located outside of the United States. During the fourth quarter of 2011, we acquired and opened a total of 45 centers, and divested two centers in connection with the acquisition of DSI.

Outlook

Our operating income guidance for 2012 is still expected to be in the range of \$1,200 million to \$1,300 million. We also expect our operating cash flows for 2012 to be in the range of \$950 million to \$1,050 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.

We will be holding a conference call to discuss our results for the fourth quarter ended December 31, 2011 on February 16, 2012 at 5:00 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, www.davita.com, for the following 30 days.

This release contains forward-looking statements, within the meaning of the federal securities laws, including statements related to our 2012 operating income, our 2012 operating cash flows and our 2012 expected effective tax rate attributable to DaVita Inc. Factors that could impact future results include the uncertainties associated with governmental regulations, general economic and other market conditions, competition, accounting estimates, the variability of our cash flows and the risk factors set forth in our SEC filings, including our annual report on Form 10-K for the year ended December 31, 2010, our quarterly report on Form 10-Q for the third quarter ended September 30, 2011 and subsequent quarterly reports to be filed on Form 10-Q. 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,*
- *a reduction in government payment rates under the Medicare End Stage Renal Disease program or other government-based programs,*

- the impact of health care 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,
- current or potential investigations by various government entities and related government or private-party proceedings,
- 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
- expansion of our operations and services to markets outside the United States, or to businesses outside of dialysis.

We base our forward-looking statements on information currently available to us at the time of this release, and 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. For the reasons stated in the reconciliation schedules, we believe our presentation of non-GAAP financial measures provides useful supplemental information for investors.

DAVITA INC.
CONSOLIDATED STATEMENTS OF INCOME
(unaudited)
(dollars in thousands, except per share data)

| | Three months ended December 31, | | Year ended December 31, | |
|---|------------------------------------|--------------|-------------------------|--------------|
| | 2011 | 2010 | 2011 | 2010 |
| Net operating revenues | \$ 1,862,318 | \$ 1,646,924 | \$ 6,982,214 | \$ 6,438,050 |
| Operating expenses and charges: | | | | |
| Patient care costs | 1,213,912 | 1,133,008 | 4,680,772 | 4,467,107 |
| General and administrative | 193,210 | 157,578 | 691,243 | 579,000 |
| Depreciation and amortization | 72,987 | 59,910 | 266,628 | 233,730 |
| Provision for uncollectible accounts | 54,318 | 43,201 | 197,565 | 170,652 |
| Equity investment income | (2,221) | (2,031) | (8,776) | (8,999) |
| Goodwill impairment charge | - | - | 24,000 | - |
| Total operating expenses and charges | 1,532,206 | 1,391,666 | 5,851,432 | 5,441,490 |
| Operating income | 330,112 | 255,258 | 1,130,782 | 996,560 |
| Debt expense | (61,750) | (53,879) | (241,090) | (181,607) |
| Debt refinancing and redemption charges | - | (70,255) | - | (74,382) |
| Other income | 787 | 1,091 | 2,982 | 3,419 |
| Income from continuing operations before income taxes | 269,149 | 132,215 | 892,674 | 743,990 |
| Income tax expense | 91,710 | 39,863 | 315,744 | 260,052 |
| Income from continuing operations | 177,439 | 92,352 | 576,930 | 483,938 |
| Discontinued operations: | | | | |
| Income (loss) from operations of discontinued operations, net of tax | (239) | 93 | 1,221 | 281 |
| Loss on disposal of discontinued operations, net of tax | (1,068) | - | (4,756) | - |
| Net income. | 176,132 | 92,445 | 573,395 | 484,219 |
| Less: Net income attributable to noncontrolling interests | (28,009) | (23,425) | (95,394) | (78,536) |
| Net income attributable to DaVita Inc. | \$ 148,123 | \$ 69,020 | \$ 478,001 | \$ 405,683 |
| Earnings per share: | | | | |
| Basic income from continuing operations per share attributable to DaVita Inc. | \$ 1.60 | \$ 0.71 | \$ 5.09 | \$ 3.99 |
| Basic net income per share attributable to DaVita Inc. | \$ 1.59 | \$ 0.71 | \$ 5.05 | \$ 4.00 |
| Diluted income from continuing operations per share attributable to DaVita Inc. | \$ 1.58 | \$ 0.70 | \$ 4.99 | \$ 3.93 |
| Diluted net income per share attributable to DaVita Inc. | \$ 1.56 | \$ 0.70 | \$ 4.96 | \$ 3.94 |
| Weighted average shares for earnings per share: | | | | |
| Basic | 93,485,001 | 97,099,341 | 94,658,027 | 101,504,373 |
| Diluted | 94,968,029 | 99,058,745 | 96,532,110 | 103,059,171 |
| Amounts attributable to DaVita Inc.: | | | | |
| Income from continuing operations | \$ 149,430 | \$ 68,927 | \$ 481,755 | \$ 405,402 |
| Discontinued operations | (1,307) | 93 | (3,754) | 281 |
| Net income | \$ 148,123 | \$ 69,020 | \$ 478,001 | \$ 405,683 |

DAVITA INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(dollars in thousands)

| | Year ended December 31, | |
|---|----------------------------|-------------------|
| | 2011 | 2010 |
| Cash flows from operating activities: | | |
| Net income | \$ 573,395 | \$ 484,219 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Depreciation and amortization | 267,315 | 234,378 |
| Stock-based compensation expense | 48,718 | 45,551 |
| Tax benefits from stock award exercises | 38,199 | 26,706 |
| Excess tax benefits from stock award exercises | (20,834) | (6,283) |
| Deferred income taxes | 53,438 | 75,399 |
| Equity investment income, net | 354 | (3,298) |
| Loss on disposal of assets and other non-cash charges | 20,329 | 9,585 |
| Goodwill impairment charge | 24,000 | - |
| Debt refinancing and redemption charges | - | 74,382 |
| Changes in operating assets and liabilities, other than from acquisitions and divestitures: | | |
| Accounts receivable | (88,848) | 55,379 |
| Inventories | 10,270 | (3,892) |
| Other receivables and other current assets | 53,697 | (44,719) |
| Other long-term assets | 2,039 | 901 |
| Accounts payable | 84,400 | 4,228 |
| Accrued compensation and benefits | 77,074 | 39,588 |
| Other current liabilities | (51,979) | (111,444) |
| Income taxes | 77,418 | (45,737) |
| Other long-term liabilities | 11,061 | 4,740 |
| Net cash provided by operating activities | <u>1,180,046</u> | <u>839,683</u> |
| Cash flows from investing activities: | | |
| Additions of property and equipment, net | (400,156) | (273,602) |
| Acquisitions | (1,077,442) | (188,502) |
| Proceeds from asset sales | 75,183 | 22,727 |
| Purchase of investments available for sale | (5,971) | (1,125) |
| Purchase of investments held-to-maturity | (37,628) | (56,615) |
| Proceeds from sale of investments available for sale | 1,149 | 900 |
| Proceeds from maturities of investments held-to-maturity | 47,695 | 59,932 |
| Purchase of equity investments and other assets | (2,398) | (709) |
| Distributions received on equity investments | 340 | 361 |
| Net cash used in investing activities | <u>(1,399,228)</u> | <u>(436,633)</u> |
| Cash flows from financing activities: | | |
| Borrowings | 36,395,105 | 24,809,258 |
| Payments on long-term debt | (36,249,584) | (24,134,502) |
| Interest rate cap premiums and other deferred financing costs | (17,861) | - |
| Debt refinancing costs including tender and call premiums | - | (113,810) |
| Purchase of treasury stock | (323,348) | (618,496) |
| Distributions to noncontrolling interests | (100,653) | (83,591) |
| Stock award exercises and other share issuances, net | 11,316 | 53,760 |
| Excess tax benefits from stock award exercises | 20,834 | 6,283 |
| Contributions from noncontrolling interests | 21,010 | 9,510 |
| Proceeds from sales of additional noncontrolling interests | 9,687 | 3,410 |
| Purchases from noncontrolling interests | (13,689) | (14,214) |
| Net cash used in financing activities | <u>(247,183)</u> | <u>(82,392)</u> |
| Net (decrease) increase in cash and cash equivalents | (466,365) | 320,658 |
| Cash and cash equivalents at beginning of period | 860,117 | 539,459 |
| Cash and cash equivalents at end of period | <u>\$ 393,752</u> | <u>\$ 860,117</u> |

(dollars in thousands, except per share data)

| | December 31, 2011 | December 31, 2010 |
|--|----------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 393,752 | \$ 860,117 |
| Short-term investments | 17,399 | 23,003 |
| Accounts receivable, less allowance of \$250,343 and \$235,629 | 1,195,163 | 1,048,976 |
| Inventories | 75,731 | 76,008 |
| Other receivables | 269,832 | 304,366 |
| Other current assets | 49,349 | 43,994 |
| Income tax receivables | - | 40,330 |
| Deferred income taxes | 280,382 | 226,060 |
| Total current assets | 2,281,608 | 2,622,854 |
| Property and equipment, net | 1,432,651 | 1,170,808 |
| Amortizable intangibles, net | 159,491 | 162,635 |
| Equity investments | 27,325 | 25,918 |
| Long-term investments | 9,890 | 8,848 |
| Other long-term assets | 34,231 | 32,054 |
| Goodwill | 4,946,976 | 4,091,307 |
| | <u>\$ 8,892,172</u> | <u>\$ 8,114,424</u> |
| LIABILITIES AND EQUITY | | |
| Accounts payable | \$ 289,653 | \$ 181,033 |
| Other liabilities | 325,734 | 342,943 |
| Accrued compensation and benefits | 412,972 | 325,477 |
| Current portion of long-term debt | 87,345 | 74,892 |
| Income tax payable | 37,412 | - |
| Total current liabilities | 1,153,116 | 924,345 |
| Long-term debt | 4,417,624 | 4,233,850 |
| Other long-term liabilities | 132,006 | 89,290 |
| Alliance and product supply agreement, net | 19,987 | 25,317 |
| Deferred income taxes | 423,098 | 421,436 |
| Total liabilities | 6,145,831 | 5,694,238 |
| Commitments and contingencies | | |
| Noncontrolling interests subject to put provisions | 478,216 | 383,052 |
| 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; 93,641,363 and 96,001,535 shares outstanding) | 135 | 135 |
| Additional paid-in capital | 596,300 | 620,546 |
| Retained earnings | 3,195,818 | 2,717,817 |
| Treasury stock, at cost (41,220,920 and 38,860,748 shares) | (1,631,694) | (1,360,579) |
| Accumulated other comprehensive (loss) income | (19,484) | 503 |
| Total DaVita Inc. shareholders' equity | 2,141,075 | 1,978,422 |
| Noncontrolling interests not subject to put provisions | 127,050 | 58,712 |
| Total equity | 2,268,125 | 2,037,134 |
| | <u>\$ 8,892,172</u> | <u>\$ 8,114,424</u> |

DAVITA INC.

SUPPLEMENTAL FINANCIAL DATA

(unaudited)

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

| | Three months ended | | | Year ended December 31, 2011 |
|--|-------------------------|--------------------------|-------------------------|---------------------------------------|
| | December 31, 2011 | September 30, 2011 | December 31, 2010 | |
| 1. Consolidated Financial Results: | | | | |
| Revenues | \$ 1,862 | \$ 1,808 | \$ 1,647 | \$ 6,982 |
| Operating income | \$ 330.1 | \$ 318.7 | \$ 255.3 | \$ 1,130.8 |
| Operating income, excluding the pre-tax non-cash goodwill impairment charge ⁽¹⁾ | \$ 330.1 | \$ 318.7 | \$ 255.3 | \$ 1,154.8 |
| Operating income margin | 17.7 % | 17.6 % | 15.5 % | 16.2 % |

| | | | | |
|---|----------|----------|----------|----------|
| Operating income margin, excluding the pre-tax non-cash goodwill impairment charge ⁽¹⁾ | 17.7 % | 17.6 % | 15.5 % | 16.5 % |
| Income from continuing operations attributable to DaVita Inc. | \$ 149.4 | \$ 138.2 | \$ 68.9 | \$ 481.8 |
| Income from continuing operations attributable to DaVita Inc., excluding the after-tax non-cash goodwill impairment charge and debt refinancing and redemption charges ⁽¹⁾ | \$ 149.4 | \$ 138.2 | \$ 111.9 | \$ 496.2 |
| Diluted income from continuing operations per share attributable to DaVita Inc. | \$ 1.58 | \$ 1.45 | \$ 0.70 | \$ 4.99 |
| Diluted income from continuing operations per share attributable to DaVita Inc., excluding the after-tax non-cash goodwill impairment charge and debt refinancing and redemption charges ⁽¹⁾ | \$ 1.58 | \$ 1.45 | \$ 1.13 | \$ 5.14 |

2. Consolidated Business Metrics:

Expenses

| | | | | |
|---|--------|--------|--------|--------|
| Patient care costs as a percent of consolidated revenue ⁽²⁾ | 65.2 % | 65.8 % | 68.8 % | 67.0 % |
| General and administrative expenses as a percent of consolidated revenue ⁽²⁾ | 10.4 % | 10.1 % | 9.6 % | 9.9 % |
| Bad debt expense as a percent of consolidated revenue | 2.9 % | 2.9 % | 2.6 % | 2.8 % |
| Consolidated effective tax rate attributable to DaVita Inc. ⁽¹⁾ | 38.0 % | 40.5 % | 36.5 % | 39.6 % |

3. Segment Financial Results: (dollar amounts rounded to nearest million)

Revenues

| | | | | |
|--|----------|----------|----------|----------|
| Dialysis and related lab services | \$ 1,720 | \$ 1,675 | \$ 1,542 | \$ 6,485 |
| Other - Ancillary services and strategic initiatives | 148 | 137 | 107 | 514 |
| Total segment revenue | 1,868 | 1,812 | 1,649 | 6,999 |
| Less elimination of intersegment revenue | (6) | (4) | (2) | (17) |
| Total consolidated revenue | \$ 1,862 | \$ 1,808 | \$ 1,647 | \$ 6,982 |

Operating Income

| | | | | |
|--|--------|--------|--------|----------|
| Dialysis and related lab services | \$ 353 | \$ 332 | \$ 268 | \$ 1,225 |
| Other - U.S. Ancillary services and strategic initiatives | (5) | 2 | (2) | (34) |
| - International operations | (8) | (5) | - | (20) |
| Total other - Ancillary services and strategic initiatives | (13) | (3) | (2) | (54) |
| Total segment operating income | \$ 340 | \$ 329 | \$ 266 | \$ 1,171 |

Reconciling items:

| | | | | |
|-------------------------------|--------|--------|--------|----------|
| Stock-based compensation | (12) | (13) | (12) | (49) |
| Equity investment income | 2 | 3 | 2 | 9 |
| Consolidated operating income | \$ 330 | \$ 319 | \$ 255 | \$ 1,131 |

DAVITA INC.
SUPPLEMENTAL FINANCIAL DATA—continued
(unaudited)
(dollars in millions, except for per share and per treatment data)

| | Three months ended | | | |
|---|----------------------|-----------------------|----------------------|---------------------------------|
| | December 31, 2011 | September 30, 2011 | December 31, 2010 | Year ended December 31, 2011 |
| 4. Segment Business Metrics: | | | | |
| Dialysis and related lab services | | | | |
| Volume | | | | |
| Treatments | 5,227,167 | 5,008,094 | 4,649,610 | 19,599,472 |
| Number of treatment days | 79.0 | 79.0 | 79.0 | 313.0 |
| Treatments per day | 66,167 | 63,394 | 58,856 | 62,618 |
| Per day year over year increase | 12.4 % | 9.6 % | 6.8 % | 9.1 % |
| Non-acquired growth year over year | 4.4 % | 5.0 % | 4.4 % | 4.6 % |
| Revenue | | | | |
| Dialysis and related lab services revenue per treatment | \$ 328.54 | \$ 333.86 | \$ 331.14 | \$ 330.31 |
| Per treatment (decrease) increase from previous quarter | (1.6 %) | 0.5 % | (2.3 %) | |
| Per treatment decrease from previous year | (0.8 %) | (1.5 %) | (2.4 %) | (2.0 %) |
| Percent of consolidated revenue | 92.2 % | 92.5 % | 93.5 % | 92.7 % |
| Expenses | | | | |
| Patient care costs | | | | |
| Percent of segment revenue | 63.4 % | 64.5 % | 67.8 % | 65.7 % |

| | | | | |
|--|-----------|-----------|-----------|-----------|
| Per treatment | \$ 208.66 | \$ 215.66 | \$ 224.86 | \$ 217.32 |
| Per treatment decrease from previous quarter | (3.2 %) | (3.2 %) | (3.4 %) | |
| Per treatment decrease from previous year | (7.2 %) | (7.4 %) | (4.1 %) | (6.2 %) |

General and administrative expenses

| | | | | |
|--|----------|----------|----------|----------|
| Percent of segment revenue | 8.9 % | 8.8 % | 8.4 % | 8.5 % |
| Per treatment | \$ 29.45 | \$ 29.28 | \$ 27.70 | \$ 28.12 |
| Per treatment increase from previous quarter | 0.6 % | 9.3 % | 4.1 % | |
| Per treatment increase from previous year | 6.3 % | 10.0 % | 7.4 % | 7.2 % |

5. Cash Flow:

| | | | | |
|---|------------|------------|----------|------------|
| Operating cash flow | \$ 150.7 | \$ 495.2 | \$ 120.6 | \$ 1,180.0 |
| Operating cash flow, last twelve months | \$ 1,180.0 | \$ 1,149.9 | \$ 839.7 | |
| Free cash flow ⁽¹⁾ | \$ 32.1 | \$ 423.1 | \$ 37.3 | \$ 855.0 |
| Free cash flow, last twelve months ⁽¹⁾ | \$ 855.0 | \$ 860.2 | \$ 599.9 | |
| Capital expenditures: | | | | |
| Routine maintenance/IT/other | \$ 85.3 | \$ 51.1 | \$ 60.8 | \$ 224.4 |
| Development and relocations | \$ 63.1 | \$ 45.7 | \$ 44.5 | \$ 175.8 |
| Acquisition expenditures | \$ 150.3 | \$ 775.9 | \$ 50.9 | \$ 1,077.4 |

6. Accounts Receivable:

| | | | | |
|-----------------|----------|----------|----------|--|
| Net receivables | \$ 1,195 | \$ 1,165 | \$ 1,049 | |
| DSO | 61 | 60 | 61 | |

DAVITA INC.
SUPPLEMENTAL FINANCIAL DATA—continued
(unaudited)
(dollars in millions, except for per share and per treatment data)

| | Three months ended | | | Year ended December 31, 2011 |
|--|-------------------------|--------------------------|-------------------------|------------------------------------|
| | December 31, 2011 | September 30, 2011 | December 31, 2010 | |
| 7. Debt and Capital Structure: | | | | |
| Total debt ⁽³⁾ | \$ 4,513 | \$ 4,508 | \$ 4,317 | |
| Net debt, net of cash ⁽³⁾ | \$ 4,119 | \$ 3,967 | \$ 3,457 | |
| Leverage ratio (see Note 1 on page 9) | 2.72x | 2.73x | 2.72x | |
| Overall weighted average effective interest rate during the quarter | 5.27 % | 5.30 % | 4.86 % | |
| Overall weighted average effective interest rate at end of the quarter | 5.27 % | 5.27 % | 4.94 % | |
| Weighted average effective interest rate on the Senior Secured Credit Facilities at end of the quarter | 4.61 % | 4.61 % | 4.05 % | |
| Effectively fixed interest rates as a percentage of our total debt at December 31, 2011 ⁽⁴⁾ and September 30, 2011 ⁽⁴⁾ and fixed interest rates at December 31, 2010 | 100 % | 100 % | 77 % | |
| Share repurchases | \$ - | \$ 7.3 | \$ 420.0 | \$ 323.3 |
| 8. Clinical: (quarterly averages) | | | | |
| Dialysis adequacy -% of patients with Kt/V > 1.2 at the end of the quarter | 97 % | 97 % | 96 % | |
| Patients with arteriovenous fistulas placed | 69 % | 69 % | 67 % | |

- (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) Consolidated percentages of revenue are comprised of the dialysis and related lab services business, other ancillary services and strategic initiatives, as well as stock-based compensation expenses.
- (3) The quarters ended December 31, 2011 and September 30, 2011, excludes \$7.8 million and \$8.3 million, respectively, of debt discounts associated with our Term Loan B and our Term Loan A-2 that are not actually outstanding debt principal. The quarter ended December 31, 2010, excludes \$8.4 million of a debt discount associated with our Term Loan B that is not actually outstanding debt principal.
- (4) The Term Loan A-2 and Term Loan B are subject to LIBOR floors of 1.00% and 1.50%, respectively. Because LIBOR, as of December 31, 2011, was lower than either of these floors, the interest rates on the Term Loan A-2 and the Term Loan B are treated as "fixed" for purposes of the table above. We have included both of these Term loans in the fixed rate totals in the table above until such time as the LIBOR-based component of our interest rate exceeds 1.00% on the Term Loan A-2 and 1.50% on the Term Loan B. At such time, we will then be subject to LIBOR-based interest rate volatility on the LIBOR variable component of our interest rate on all of the Term Loan A-2, as well as for the Term Loan B, but limited to a maximum rate of 4.00% on \$1.25 billion of outstanding principal debt on the Term Loan B. The remaining \$483 million outstanding principal balance of the Term Loan B is subject to LIBOR-based interest rate volatility above a floor of 1.50%.

DAVITA INC.
SUPPLEMENTAL FINANCIAL DATA—continued
(unaudited)

| | | | | | |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| Add: Non-cash goodwill impairment charge | - | - | - | 24,000 | - |
| Add: Debt refinancing and redemption charges | - | - | 70,255 | - | 74,382 |
| Less: Related income tax | - | - | (27,329) | (9,600) | (28,935) |
| | <u>\$ 149,430</u> | <u>\$ 138,192</u> | <u>\$ 111,853</u> | <u>\$ 496,155</u> | <u>\$ 450,849</u> |

Diluted income from continuing operations per share attributable to DaVita Inc. excluding an after-tax non-cash goodwill impairment charge and after-tax debt refinancing and redemption charges:

| | Three months ended | | | Year ended | |
|---|--------------------|--------------------|-------------------|-------------------|-------------------|
| | December 31, 2011 | September 30, 2011 | December 31, 2010 | December 31, 2011 | December 31, 2010 |
| Diluted net income per share attributable to DaVita Inc. | \$ 1.56 | \$ 1.42 | \$ 0.70 | \$ 4.96 | \$ 3.94 |
| Discontinued operations | 0.01 | 0.03 | - | 0.04 | (0.01) |
| Rounding | 0.01 | - | - | (0.01) | - |
| Diluted income from continuing operations per share attributable to DaVita Inc. | 1.58 | 1.45 | 0.70 | 4.99 | 3.93 |
| Add: Non-cash goodwill impairment charge | - | - | - | 0.15 | - |
| Add: Debt refinancing and redemption charges | - | - | 0.43 | - | 0.44 |
| | <u>\$ 1.58</u> | <u>\$ 1.45</u> | <u>\$ 1.13</u> | <u>\$ 5.14</u> | <u>\$ 4.37</u> |

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

2. Operating income excluding a pre-tax non-cash goodwill impairment charge.

We believe that operating income excluding a pre-tax non-cash goodwill impairment charge enhances a user's understanding of our normal operating income for these periods by providing a measure that is more meaningful because it excludes a non-cash goodwill impairment charge that resulted from a decrease in the implied fair value of goodwill below its carrying amount associated with our infusion therapy business during the second quarter of 2011 and accordingly, is more comparable to prior periods and indicative of consistent operating income. This measure is not a measure of financial performance under GAAP and should not be considered as an alternative to operating income.

Operating income excluding a pre-tax non-cash goodwill impairment charge:

| | Three months ended | | | Year ended | |
|--|--------------------|--------------------|-------------------|---------------------|-------------------|
| | December 31, 2011 | September 30, 2011 | December 31, 2010 | December 31, 2011 | December 31, 2010 |
| Operating income | \$ 330,112 | \$ 318,712 | \$ 255,258 | \$ 1,130,782 | \$ 996,560 |
| Add: Non-cash goodwill impairment charge | - | - | - | 24,000 | - |
| | <u>\$ 330,112</u> | <u>\$ 318,712</u> | <u>\$ 255,258</u> | <u>\$ 1,154,782</u> | <u>\$ 996,560</u> |

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

3. Effective Income Tax Rates.

We believe that reporting the effective income tax rate attributable to DaVita Inc. enhances an investor's understanding of DaVita's effective income tax rate for the periods presented because it excludes noncontrolling owners' income that primarily relates to non-tax paying entities and accordingly is more comparable to prior periods presentations regarding DaVita's effective income tax rate and is more meaningful to an investor to fully understand the related income tax effects on DaVita Inc.'s operating results. This is not a measure under GAAP and should not be considered as an alternative to the effective income tax rate calculated in accordance with GAAP.

Effective income tax rate as compared to the effective income tax rate attributable to DaVita Inc. is as follows:

| | Three months ended | | | Year ended |
|---|--------------------|--------------------|-------------------|-------------------|
| | December 31, 2011 | September 30, 2011 | December 31, 2010 | December 31, 2011 |
| Income from continuing operations before income taxes | \$ 269,149 | \$ 258,662 | \$ 132,215 | \$ 892,674 |

| | | | | |
|---|------------------------------|-------------------------------|------------------------------|---|
| Income tax expense | \$ 91,710 | \$ 94,204 | \$ 39,863 | \$ 315,744 |
| Effective income tax rate | 34.1 % | 36.4 % | 30.2 % | 35.4 % |
| | Three months ended | | | |
| | December 31, 2011 | September 30, 2011 | December 31, 2010 | Year ended December 31, 2011 |
| Income from continuing operations before income taxes | \$ 269,149 | \$ 258,662 | \$ 132,215 | \$ 892,674 |
| Less: Noncontrolling owners' income primarily attributable to non-tax paying entities | (28,128) | (26,604) | (23,602) | (96,049) |
| Income before income taxes attributable to DaVita Inc. | \$ 241,021 | \$ 232,058 | \$ 108,613 | \$ 796,625 |
| Income tax expense | 91,710 | 94,204 | \$ 39,863 | \$ 315,744 |
| Less income tax attributable to noncontrolling interests | (119) | (119) | (177) | (655) |
| Income tax attributable to DaVita Inc. | \$ 91,591 | \$ 94,085 | \$ 39,686 | \$ 315,089 |
| Effective income tax rate attributable to DaVita Inc. | 38.0 % | 40.5 % | 36.5 % | 39.6 % |

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

4. Free cash flow.

Free cash flow represents net cash provided by operating activities less income distributions to noncontrolling interests and 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 GAAP, since free cash flow is a meaningful measure of our ability to fund acquisition and development activities and meet our debt service requirements. In addition, free cash flow excluding income distributions to noncontrolling interests provides an investor with an understanding of free cash flows that are attributable to DaVita Inc. Free cash flow is not a measure of financial performance under GAAP 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 | | | Year ended |
|---|------------------------------|-------------------------------|------------------------------|------------------------------|
| | December 31, 2011 | September 30, 2011 | December 31, 2010 | December 31, 2011 |
| Cash provided by operating activities | \$ 150,659 | \$ 495,194 | \$ 120,551 | \$ 1,180,046 |
| Less: Income distributions to noncontrolling interests | (33,245) | (20,985) | (22,479) | (100,653) |
| Cash provided by operating activities attributable to DaVita Inc. | 117,414 | 474,209 | 98,072 | 1,079,393 |
| Less: Expenditures for routine maintenance and information technology | (85,304) | (51,107) | (60,798) | (224,366) |
| Free cash flow | \$ 32,110 | \$ 423,102 | \$ 37,274 | \$ 855,027 |

| | Rolling 12-Month Period | | |
|---|--------------------------------|-------------------------------|------------------------------|
| | December 31, 2011 | September 30, 2011 | December 31, 2010 |
| Cash provided by operating activities | \$ 1,180,046 | \$ 1,149,938 | \$ 839,683 |
| Less: Income distributions to noncontrolling interests | (100,653) | (89,887) | (83,591) |
| Cash provided by operating activities attributable to DaVita Inc. | 1,079,393 | 1,060,051 | 756,092 |
| Less: Expenditures for routine maintenance and information technology | (224,366) | (199,860) | (156,228) |
| Free cash flow | \$ 855,027 | \$ 860,191 | \$ 599,864 |

Source: DaVita Inc.

DaVita Inc.
Jim Gustafson
Investor Relations
310-536-2585