DAVITA INC
Form 10-Q
May 02, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

For the Quarterly Period Ended

March 31, 2012

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 1-14106

DAVITA INC.

1551 Wewatta Street

Denver, CO 80202

Telephone number (303) 405-2100

Delaware	**51-0354549**
(State of incorporation)	**(I.R.S. Employer Identification No.)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of April 27, 2012, the number of shares of the Registrant s common stock outstanding was approximately 94.0 million shares and the aggregate market value of the common stock outstanding held by non-affiliates based upon the closing price of these shares on the New York Stock Exchange was approximately $8.4 billion.

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DAVITA INC.

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DAVITA INC.

CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

(dollars in thousands, except per share data)

	Three months ended March 31, 2012	2011
Patient service operating revenues	$ 1,763,700	$ 1,497,434
Less: Provision for uncollectible accounts related to patient service operating revenues	(53,008)	(41,071)
Net patient service operating revenues	1,710,692	1,456,363
Other revenues	155,943	105,950
Total net operating revenues	1,866,635	1,562,313
Operating expenses and charges:		
Patient care costs	1,263,159	1,114,086
General and administrative	207,389	151,602
Depreciation and amortization	75,975	61,838
Provision for uncollectible accounts	2,024	972
Equity investment income	(2,632)	(1,519)
Total operating expenses and charges	1,545,915	1,326,979
Operating income	320,720	235,334
Debt expense	(61,381)	(58,595)
Other income	1,039	841
Income from continuing operations before income taxes	260,378	177,580
Income tax expense	95,495	62,959
Income from continuing operations	164,883	114,621
Discontinued operations:		
Income from operations of discontinued operations, net of tax		131
Net income.	164,883	114,752
Less: Net income attributable to noncontrolling interests	(24,763)	(20,250)
Net income attributable to DaVita Inc.	$ 140,120	$ 94,502
Earnings per share:		
Basic income from continuing operations per share attributable to DaVita Inc.	$ 1.49	$ 0.98
Basic net income per share attributable to DaVita Inc.	$ 1.49	$ 0.98
Diluted income from continuing operations per share attributable to DaVita Inc.	$ 1.46	$ 0.96
Diluted net income per share attributable to DaVita Inc.	$ 1.46	$ 0.96

Weighted average shares for earnings per share:		
Basic	93,769,092	96,263,802
Diluted	95,729,105	98,378,371
Amounts attributable to DaVita Inc.:		
Income from continuing operations	$ 140,120	$ 94,371
Discontinued operations		131
Net income	$ 140,120	$ 94,502

See notes to condensed consolidated financial statements.

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DAVITA INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

(dollars in thousands, except per share data)

	Three months ended March 31,	
	2012	2011
Net income	$ 164,883	$ 114,752
Other comprehensive income (loss), net of tax:		
Unrealized losses on interest rate swap and cap agreements:		
Unrealized losses on interest rate swap and cap agreements	(2,261)	(4,134)
Less: Reclassifications of net swap and cap agreements realized losses into net income	2,520	1,743
Unrealized gains on investments:		
Unrealized gains on investments	1,146	268
Less: Reclassification of net investment realized gains into net income	(75)	(57)
Foreign currency translation adjustments	(619)	
Other comprehensive income (loss)	711	(2,180)
Total comprehensive income	165,594	112,572
Less: Comprehensive income attributable to the noncontrolling interest	(24,763)	(20,250)
Comprehensive income attributable to DaVita Inc.	140,831	$ 92,322

See notes to condensed consolidated financial statements.

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DAVITA INC.

CONSOLIDATED BALANCE SHEETS

(unaudited)

(dollars in thousands, except per share data)

	March 31, 2012	December 31, 2011
ASSETS		
Cash and cash equivalents	$ 449,290	$ 393,752
Short-term investments	8,616	17,399
Accounts receivable, less allowance of $289,238 and $250,343	1,266,869	1,195,163
Inventories	72,285	75,731
Other receivables	216,493	269,832
Other current assets	47,492	49,349
Deferred income taxes	313,355	280,382
Total current assets	2,374,400	2,281,608
Property and equipment, net	1,490,572	1,432,651
Amortizable intangibles, net	160,617	159,491
Equity investments	26,956	27,325
Long-term investments	9,897	9,890
Other long-term assets	30,065	34,231
Goodwill	5,064,577	4,946,976
	$ 9,157,084	$ 8,892,172
LIABILITIES AND EQUITY		
Accounts payable	$ 269,029	$ 289,653
Other liabilities	347,096	325,734
Accrued compensation and benefits	455,825	412,972
Current portion of long-term debt	89,646	87,345
Income tax payable	80,519	37,412
Total current liabilities	1,242,115	1,153,116
Long-term debt	4,401,865	4,417,624
Other long-term liabilities	139,656	132,006
Alliance and product supply agreement, net	18,655	19,987
Deferred income taxes	448,372	423,098
Total liabilities	6,250,663	6,145,831
Commitments and contingencies		
Noncontrolling interests subject to put provisions	504,491	478,216
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; 93,983,930 and 93,641,363 shares outstanding)	135	135
Additional paid-in capital	575,364	596,300
Retained earnings	3,335,938	3,195,818
Treasury stock, at cost (40,878,353 and 41,220,920 shares)	(1,618,134)	(1,631,694)
Accumulated other comprehensive loss	(18,773)	(19,484)

Total DaVita Inc. shareholders equity	2,274,530	2,141,075
Noncontrolling interests not subject to put provisions	127,400	127,050
Total equity	2,401,930	2,268,125
	$ 9,157,084	$ 8,892,172

See notes to condensed consolidated financial statements.

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DAVITA INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(dollars in thousands)

	Three months ended March 31,	
	2012	**2011**
Cash flows from operating activities:		
Net income	$ 164,883	$ 114,752
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	75,975	62,037
Stock-based compensation expense	12,550	9,716
Tax benefits from stock award exercises	10,890	13,868
Excess tax benefits from stock award exercises	(6,101)	(7,196)
Deferred income taxes	(13,335)	18,221
Equity investment income, net	483	1,420
Loss on disposal of assets and other non-cash charges	7,125	5,506
Changes in operating assets and liabilities, other than from acquisitions and divestitures:		
Accounts receivable	(71,706)	(20,461)
Inventories	4,851	7,429
Other receivables and other current assets	56,452	24,922
Other long-term assets	3,742	990
Accounts payable	(20,624)	26,565
Accrued compensation and benefits	41,623	31,542
Other current liabilities	17,462	9,483
Income taxes	43,072	29,878
Other long-term liabilities	4,532	1,111
Net cash provided by operating activities	331,874	329,783
Cash flows from investing activities:		
Additions of property and equipment, net	(112,459)	(67,530)
Acquisitions	(132,699)	(81,523)
Proceeds from asset sales	825	2,812
Purchase of investments available for sale	(489)	(298)
Purchase of investments held-to-maturity	(3,212)	(15,161)
Proceeds from sale of investments available for sale	6,791	1,149
Proceeds from maturities of investments held-to-maturity	7,551	15,163
Distributions received on equity investments	2	
Net cash used in investing activities	(233,690)	(145,388)
Cash flows from financing activities:		
Borrowings	8,634,603	10,983,125
Payments on long-term debt	(8,658,001)	(11,000,635)
Interest rate cap premiums and other deferred financing costs	3	(13,399)
Distributions to noncontrolling interests	(26,405)	(22,187)
Stock award exercises and other share issuances, net	1,663	3,410
Excess tax benefits from stock award exercises	6,101	7,196
Contributions from noncontrolling interests	3,651	3,959

Proceeds from sales of additional noncontrolling interests	100	785
Purchases from noncontrolling interests	(4,372)	(756)
Net cash used in financing activities	(42,657)	(38,502)
Effect of exchange rate changes on cash and cash equivalents	11	
Net increase in cash and cash equivalents	55,538	145,893
Cash and cash equivalents at beginning of period	393,752	860,117
Cash and cash equivalents at end of period	$ 449,290	$ 1,006,010

See notes to condensed consolidated financial statements.

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DAVITA INC.

CONSOLIDATED STATEMENTS OF EQUITY

(unaudited)

(dollars and shares in thousands)

		DaVita Inc. Shareholders Equity							
	Non-controlling interests subject to put provisions	Common stock		Additional paid-in capital	Retained earnings	Treasury stock		Accumulated other comprehensive income (loss)	Total	Non-controlling interests not subject to put provisions
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
Comprehensive income:										
Net income	59,135				478,001				478,001	36,259
Other comprehensive loss								(19,987)	(19,987)	
Stock purchase shares issued				4,268		175	6,554		10,822	
Stock unit shares issued				(2,866)		78	2,866			
Stock options and SSARs exercised				(37,370)		1,182	42,813		5,443	
Stock-based compensation expense				48,718					48,718	
Excess tax benefits from stock awards exercised				20,834					20,834	
Distributions to noncontrolling interests	(61,343)									(39,310)
Contributions from noncontrolling interests	12,547									8,463
Sales and assumptions of additional noncontrolling interests	49,343			(1,299)					(1,299)	55,566
Purchases from noncontrolling interests	(2,103)			(9,486)					(9,486)	(2,100)
Changes in fair value of noncontrolling interests	63,762			(63,762)					(63,762)	
Expired put provision	(26,177)			16,717					16,717	9,460
Purchase of treasury stock						(3,795)	(323,348)		(323,348)	
Balance at December 31, 2011	$ 478,216	134,862	$ 135	$ 596,300	$ 3,195,818	(41,221)	$ (1,631,694)	$ (19,484)	$ 2,141,075	$ 127,050
Comprehensive income:										
Net income	15,775				140,120				140,120	8,988
Other comprehensive income								711	711	
Stock unit shares issued				(1,095)		28	1,095			
Stock options and SSARs exercised				(11,074)		315	12,465		1,391	
Stock-based compensation expense				12,550					12,550	
Excess tax benefits from stock awards exercised				6,101					6,101	
Distributions to noncontrolling interests	(15,394)									(11,011)
Contributions from noncontrolling interests	2,843									808
Sales and assumptions of additional noncontrolling interests				5					5	1,565

Purchases from noncontrolling interests	(3,475)			(897)					(897)	
Changes in fair value of noncontrolling interests	26,526			(26,526)					(26,526)	
Balance at March 31, 2012	$ 504,491	134,862	$ 135	$ 575,364	$ 3,335,938	(40,878)	$ (1,618,134)	$ (18,773)	$ 2,274,530	$ 127,400

See notes to condensed consolidated financial statements.

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DAVITA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(dollars and shares in thousands, except per share data)

Unless otherwise indicated in this Quarterly Report on Form 10-Q the Company , we , us , our and similar terms refer to DaVita Inc. and its consolidated subsidiaries.

1. Condensed consolidated interim financial statements

The condensed consolidated interim financial statements included in this report are prepared by the Company without audit. In the opinion of management, all adjustments consisting only of normal recurring items necessary for a fair presentation of the results of operations are reflected in these consolidated interim financial statements. All significant intercompany accounts and transactions have been eliminated. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The most significant estimates and assumptions underlying these financial statements and accompanying notes generally involve revenues recognition and provisions for uncollectible accounts, impairments and valuation adjustments, fair value estimates, accounting for income taxes, variable compensation accruals, purchase accounting valuation estimates and stock-based compensation. The results of operations for the three months ended March 31, 2012 are not necessarily indicative of the operating results for the full year. The consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2011. Prior year balances and amounts have been classified to conform to the current year presentation. The Company has evaluated subsequent events through the date these condensed consolidated financial statements were issued and has included all necessary disclosures.

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DAVITA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

(dollars and shares in thousands, except per share data)

2. Earnings per share

Basic net income per share is calculated by dividing net income attributable to DaVita Inc., net of the decrease 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 earnings per share are as follows:

	Three months ended March 31,	
	2012	2011
Basic:		
Income from continuing operations attributable to DaVita Inc.	$ 140,120	$ 94,371
Decrease in noncontrolling interest redemption rights in excess of fair value		27
Income from continuing operations for basic earnings per share calculation	$ 140,120	$ 94,398
Discontinued operations attributable to DaVita Inc.		131
Net income attributable to DaVita Inc. for basic earnings per share calculation	$ 140,120	$ 94,529
Weighted average shares outstanding during the period	93,766	96,258
Vested stock units	3	6
Weighted average shares for basic earnings per share calculation	93,769	96,264
Basic income from continuing operations per share attributable to DaVita Inc.	$ 1.49	$ 0.98
Basic net income per share attributable to DaVita Inc.	$ 1.49	$ 0.98
Diluted:		
Income from continuing operations attributable to DaVita Inc.	$ 140,120	$ 94,371
Decrease in noncontrolling interest redemption rights in excess of fair value		27
Income from continuing operations for diluted earnings per share calculation	$ 140,120	$ 94,398
Discontinued operations attributable to DaVita Inc.		131
Net income attributable to DaVita Inc. for diluted earnings per share calculation	$ 140,120	$ 94,529
Weighted average shares outstanding during the period	93,766	96,258
Vested stock units	3	6
Assumed incremental shares from stock plans	1,960	2,114

Weighted average shares for diluted earnings per share calculation	95,729	98,378
Diluted income from continuing operations per share attributable to DaVita Inc.	$ 1.46	$ 0.96
Diluted net income per share attributable to DaVita Inc.	$ 1.46	$ 0.96
Anti-dilutive stock-settled awards excluded from calculation [(1)]	2,309	558

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

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DAVITA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

(dollars and shares in thousands, except per share data)

3. Stock-based compensation and other common stock transactions

Stock-based compensation recognized in a period represents the 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. Shares issued upon exercise of stock awards are generally issued from shares in treasury. The Company has used the Black-Scholes-Merton valuation model for estimating the grant-date fair value of stock-settled stock appreciation rights granted in all periods. During the three months ended March 31, 2012, the Company granted 100 stock-settled stock appreciation rights with an aggregate grant-date fair value of $1,916 and a weighted-average expected life of approximately 3.5 years, and also granted 8 stock units with an aggregate grant-date fair value of $672 and a weighted-average expected life of approximately 2.0 years.

For the three months ended March 31, 2012 and 2011, the Company recognized $12,550 and $9,716, respectively, in stock-based compensation expense for stock appreciation rights, stock units and discounted employee stock plan purchases, which are primarily included in general and administrative expenses. The estimated tax benefits recorded for stock-based compensation through March 31, 2012 and 2011 was $4,723 and $3,673, respectively. As of March 31, 2012, there was $82,358 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 three months ended March 31, 2012 and 2011, the Company received $1,391 and $2,244, respectively, in cash proceeds from stock option exercises and $10,890 and $13,868, respectively, in actual tax benefits upon the exercise of stock awards.

4. Long-term debt

Long-term debt was comprised of the following:

	March 31, 2012	December 31, 2011
Senior Secured Credit Facilities:		
Term Loan A	$ 937,500	$ 950,000
Term Loan A-2	199,000	199,500
Term Loan B	1,728,125	1,732,500
Senior notes	1,550,000	1,550,000
Acquisition obligations and other notes payable	32,209	37,447
Capital lease obligations	52,104	43,364
Total debt principal outstanding	4,498,938	4,512,811
Discount on long-term debt	(7,427)	(7,842)
	4,491,511	4,504,969
Less current portion	(89,646)	(87,345)
	$ 4,401,865	$ 4,417,624

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DAVITA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

(dollars and shares in thousands, except per share data)

Scheduled maturities of long-term debt at March 31, 2012 were as follows:

2012 (remainder of the year)	58,189
2013	126,747
2014	178,987
2015	678,555
2016	1,861,859
2017	6,098
Thereafter	1,588,503

During the first three months of 2012, the Company made mandatory principal payments under its Senior Secured Credit Facilities totaling $12,500 on the Term Loan A, $500 on the Term Loan A-2 and $4,375 on the Term Loan B.

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 as part of its overall risk management strategy. These agreements are not held for trading or speculative purposes and have the economic effect of converting the LIBOR variable component of the Company s interest rate to a fixed rate. These swap agreements are designated as cash flow hedges, and as a result, hedge-effective gains or losses resulting from changes in the fair values of these swaps are reported in other comprehensive income until such time as each specific swap tranche is realized, at which time the amounts are reclassified into net income. Net amounts paid or received for each specific swap tranche that have settled have been reflected as adjustments to debt expense. In addition, the Company has entered into several interest rate cap agreements that have the economic effect of capping the Company s maximum exposure to LIBOR variable interest rate changes on specific portions of the Company s Term Loan B debt, as described below. These cap agreements are also designated as cash flow hedges and as a result changes in the fair values of these cap agreements are reported in other comprehensive income. The amortization of the original cap premium is recognized as a component of debt expense on a straight line basis over the term on the cap agreements. The swap and cap agreements do not contain credit-risk contingent features.

As of March 31, 2012, the Company maintained a total of nine interest rate swap agreements with amortizing notional amounts totaling $937,500. These agreements had 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 to fixed rates ranging from 1.59% to 1.64%, resulting in an overall weighted average effective interest rate of 4.11%, including the Term Loan A margin of 2.50%. The swap agreements expire by September 30, 2014 and require monthly interest payments. The Company estimates that approximately $11,900 of existing unrealized pre-tax losses in other comprehensive income at March 31, 2012 will be reclassified into income over the next twelve months.

As of March 31, 2012, the Company maintained five interest rate cap agreements with notional amounts totaling $1,250,000. 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.

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DAVITA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

(dollars and shares in thousands, except per share data)

The following table summarizes the Company s derivative instruments as of March 31, 2012 and December 31, 2011:

	March 31, 2012		December 31, 2011	
Derivatives designated as hedging instruments	**Balance sheet location**	**Fair value**	**Balance sheet location**	**Fair value**
Interest rate swap agreements	Other long-term liabilities	$ 23,196	Other long-term liabilities	$ 23,145
Interest rate cap agreements	Other long-term assets	$ 958	Other long-term assets	$ 1,381

The following table summarizes the effects of the Company s interest rate swap and cap agreements for the three months ended March 31, 2012 and 2011:

	Amount of gains (losses) recognized in OCI on interest rate swap and cap agreements Three months ended March 31,		Location of gains (losses) reclassified from accumulated	Amount of gains (losses) reclassified from accumulated OCI into income Three months ended March 31,	
Derivatives designated as cash flow hedges	**2012**	**2011**	**OCI into income**	**2012**	**2011**
Interest rate swap agreements	$ (3,276)	$ (3,200)	Debt expense	$ (3,225)	$ (2,254)
Interest rate cap agreements	(424)	(3,564)	Debt expense	(897)	(598)
Tax benefit	1,439	2,630		1,602	1,109
Total	$ (2,261)	$ (4,134)		$ (2,520)	$ (1,743)

As of March 31, 2012, interest rates on the Company s Term Loan A-2 and Term Loan B debt are set at their interest rate floors. Interest rates on the Company s senior notes and Term Loan A are fixed and economically fixed, respectively, while rates on $1,250,000 of the Company s Term Loan B is subject to interest rate caps.

As a result of the swap and cap agreements, the Company s overall weighted average effective interest rate on the Senior Secured Credit Facilities was 4.63%, based upon the current margins in effect of 2.50% for the Term loan A, 3.50% for the Term Loan A-2 and 3.00% for the Term Loan B, as of March 31, 2012.

The Company s overall weighted average effective interest rate during the first quarter of 2012 was 5.27% and as of March 31, 2012 was 5.28%.

As of March 31, 2012, the Company had undrawn revolving credit facilities totaling $350,000 of which approximately $52,297 was committed for outstanding letters of credit.

5. 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

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DAVITA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

(dollars and shares in thousands, except per share data)

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 and Certain Related Civil Proceedings

2005 U.S. Attorney Investigation: 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 March 2005. 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 Epogen®, or 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 cooperated with the inquiry and has produced the requested records. The subpoenas were 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 investigation. The Company has not received a communication from the St. Louis U.S. Attorney s Office on this matter in over two years.

Woodard Private Civil Suit: 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 cooperated with the inquiry and has produced all previously requested records to date. The Company was contacted by the U.S. Attorney s Office for the Eastern District of Texas, which stated that this was a civil investigation 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 previous requests for information. The Company was subsequently served with a complaint by the relator, Ivey Woodard, purportedly on behalf of the federal government, under the *qui tam* provisions of the federal False Claims Act. The government did not intervene and is not actively pursuing this matter. The relator is pursuing the claims independently and the parties are engaged in active litigation. The complaint contains allegations relating to the Company s EPO practices for the period from 1992 through 2010 and seeks monetary damages and civil penalties as well as costs and expenses. The court has ruled that claims earlier than 1996 are beyond the statute of limitations. The Company believes that there is some overlap between the subject of this complaint and the review of EPO utilization in the 2005 U.S. Attorney investigation described above. The Company is vigorously defending this matter and intends to continue to do so. The Company can make no assurances as to the time or resources that will be needed to devote to this litigation or its final outcome.

Vainer Private Civil Suit: In December 2008, The Company received a subpoena for documents from the OIG relating to the pharmaceutical products Zemplar, Hectorol, Venofer, Ferrlecit and EPO, as well as other related matters. The subpoena covers the period from January 2003 to December 2008. The Company was in contact with the 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 were advised that this was a civil inquiry. On June 17, 2009, the Company learned that the allegations underlying this inquiry were made as part of a civil

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complaint filed by individuals and brought pursuant to the *qui tam* provisions of the federal False Claims Act. On April 1, 2011, the United States District Court for the Northern District of Georgia ordered the case to be unsealed. At that time, the Department of Justice and U.S. Attorney s Office filed a notice of declination stating that the United States would not be intervening and not pursuing the relators allegation in litigation. On July 25, 2011, the relators, Daniel Barbir and Dr. Alon Vainer, filed their amended complaint in the United States District Court for the Northern District of Georgia, purportedly on behalf of the federal government. The allegations in the complaint relate to the Company s drug administration practices for Vitamin D and iron agents for a period from 2003 through 2010. The complaint seeks monetary damages and civil penalties as well as costs and expenses. The Company is vigorously defending this matter and intends to continue to do so. The Company can make no assurances as to the time or resources that will be needed to devote to this litigation or its final outcome.

2010 U.S. Attorney Physician Relationship Investigation: 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 to May 2010, 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 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. The Company can make no assurances as to the time or resources that will be needed to devote to this litigation or its final outcome.

2011 U.S. Attorney Physician Relationship Investigation: In August 2011, the Company announced it had learned that the U.S. Attorney s Office for the District of Colorado would be looking into certain activities of the Company in connection with information being provided to a grand jury. The Company announced further that it understood that this investigation was at a very preliminary stage, and while its precise scope was unclear, it appeared to overlap, at least in part, with the 2010 U.S. Attorney Physician Relationship Investigation described above. Subsequent to the Company s announcement of this 2011 U.S. Attorney Physician Relationship Investigation, it received a subpoena for documents which substantially overlaps with the subpoena in the 2010 U.S. Attorney Physician Relationship Investigation described above and covers the period from January 2006 to September 2011. The Company is cooperating with the government and is producing the requested records. Certain current and former members of the Board and executives received subpoenas in November 2011 and thereafter to testify before the grand jury, and other Company representatives may also receive subpoenas for testimony related to this matter. The Company can make no assurances as to the time or resources that will be needed to devote to this litigation or its final outcome.

2011 U.S. Attorney Medicaid Investigation: In October 2011, the Company announced that it would be receiving a request for documents, which could include an administrative subpoena from the Office of Inspector General for the U.S. Department of Health and Human Services. Subsequent to the Company s announcement of this 2011 U.S. Attorney Medicaid Investigation, the Company received a request for documents in connection with the inquiry by the United States Attorney s Office for the Eastern District of New York. The request relates to payments for infusion drugs covered by Medicaid composite payments for dialysis. The Company believes this inquiry is civil in nature. The Company does not know the time period or scope. The Company understands that certain other providers that operate dialysis clinics in New York may be receiving or have received a similar request for documents. The Company intends to cooperate with the government to provide responsive documents.

Except for the private civil complaints filed by the relators as described above, to the Company s knowledge, no proceedings have been initiated against the Company at this time in connection with any of the

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inquiries by the federal government. Although the Company cannot predict whether or when proceedings might be initiated or when these matters may be resolved, it is not unusual for inquiries such as these to continue for a considerable period of time through the various phases of document and witness requests and on-going discussions with regulators. Responding to the subpoenas or inquiries and defending the Company in the relator proceedings will continue to require management s attention and significant legal expense. Any negative findings in the inquiries or relator proceedings could result in substantial financial penalties or awards 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, possible criminal penalties. At this time, the Company cannot predict the ultimate outcome of these inquiries, or the potential outcome of the relators claims, 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. The Company has received no further indication that any of these claims are active, and some of them may be barred by applicable statutes of limitations. To the extent any of these claims might proceed, the Company intends to defend against them 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.

A wage and hour claim, which has been styled as a class action, is pending against the Company in the Superior Court of California. The Company was served with the complaint in this lawsuit in April 2008, and it has been amended since that time. The lawsuit, as amended, alleges that the Company failed to provide meal periods, failed to pay compensation in lieu of providing rest or meal periods, failed to pay overtime, and failed to comply with certain other California Labor Code requirements. In September 2011, the court denied the plaintiffs motion for class certification. Plaintiffs have appealed that decision. The Company intends to continue to vigorously defend against these claims. Any potential settlement of these claims is 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 June 2004, DVA Renal Healthcare 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 parties reached an agreement last year to fully resolve this matter for an amount that did not materially impact the Company s financial results. That settlement has now received final approval from the court.

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.

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6. Investments in debt and equity securities

Based on the Company s intentions and strategy involving investments in debt and equity securities, 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 certain other debt securities classified as available for sale are recorded at fair value.

The Company s investments consist of the following:

	March 31, 2012			December 31, 2011		
	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	$ 7,416	$	$ 7,416	$ 11,754	$	$ 11,754
Investments in mutual funds		11,097	11,097		15,535	15,535
	$ 7,416	$ 11,097	$ 18,513	$ 11,754	$ 15,535	$ 27,289
Short-term investments	$ 7,416	$ 1,200	$ 8,616	$ 11,754	$ 5,645	$ 17,399
Long-term investments		9,897	9,897		9,890	9,890
	$ 7,416	$ 11,097	$ 18,513	$ 11,754	$ 15,535	$ 27,289

The cost of the certificates of deposit and money market funds at March 31, 2012 and in addition, U.S. treasury notes at December 31, 2011, approximates their fair value. As of March 31, 2012 and December 31, 2011, the available for sale investments include $1,500 and $(255) of gross pre-tax gains (loss), respectively. During the three months ended March 31, 2012, the Company recorded gross pre-tax unrealized gains of $1,877, or $1,146 after tax, in other comprehensive income associated with changes in the fair value of these investments. During the three months ended March 31, 2012, the Company sold investments in mutual funds and its shares of NxStage common stock for net proceeds of $6,791, and recognized a pre-tax gain of $123, or $75 after tax, that was previously recorded in other comprehensive income. During the three months ended March 31, 2011, the Company sold investments in mutual funds for net proceeds of $1,149, and recognized a pre-tax loss of $93, or $57 after tax, that was previously recorded in other comprehensive income.

As of March 31, 2012, investments totaling approximately $2,900 classified as held to maturity are investments 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 still in process of paying out all incurred claims. During the first quarter of 2012, the Company received a total of $4,339 in cash from various state regulatory agencies. The Company also expects to liquidate these remaining investments as soon as 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.

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7. Fair value of financial instruments

The Company measures the fair value of certain assets, liabilities and noncontrolling interests subject to put provisions (temporary equity) based upon certain valuation techniques that include observable or unobservable inputs and assumptions that market participants would use in pricing these assets, liabilities, temporary equity and commitments. The Company also has classified certain assets, liabilities and temporary equity that are measured at fair value into the appropriate fair value hierarchy levels.

The following table summarizes the Company s assets, liabilities and temporary equity measured at fair value on a recurring basis as of March 31, 2012:

	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	$ 11,097	$ 11,097	$	$
Interest rate cap agreements	$ 958	$	$ 958	$
Liabilities				
Interest rate swap agreements	$ 23,196	$	$ 23,196	$
Temporary equity				
Noncontrolling interests subject to put provisions	$ 504,491	$	$	$ 504,491

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 quoted prices reported by each mutual fund. See Note 6 to the condensed consolidated financial statements for further discussion.

The interest rate swap and cap agreements are recorded at fair value based upon valuation models utilizing the income approach and commonly accepted valuation techniques that use inputs from closing prices for similar assets and liabilities in active markets as well as other relevant observable market inputs at quoted intervals such as current interest rates, forward yield curves, implied volatility and credit default swap pricing. The Company does not believe the ultimate amount that could be realized upon settlement of these interest rate swap and cap agreements would be materially different than the fair values as currently reported. See Note 4 to the condensed consolidated financial statements for further discussion.

See Note 8 to the condensed consolidated financial statements for a discussion of the Company s methodology for estimating the fair value of noncontrolling interests subject to put provisions.

The Company has other financial instruments in addition to the above that 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 condensed consolidated financial statements at March 31, 2012 at their approximate fair values due to the short-term nature of their settlements. The carrying amount of the Company s Senior Secured Credit Facilities totaled $2,857,198 as of March 31, 2012 and the fair value was $2,863,323 based upon quoted market prices.

The fair value of the Company s senior notes was approximately $1,615,720 at March 31, 2012, based upon quoted market prices, as compared to the carrying amount of $1,550,000.

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8. Noncontrolling interests subject to put provisions and other commitments

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. 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 services agreements of approximately $4,000.

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 condensed consolidated balance sheet.

9. Income taxes

As of March 31, 2012, the Company s total liability for unrecognized tax benefits relating to tax positions that do not meet the more-likely-than-not threshold is $9,291, all of which would impact the Company s effective tax rate if recognized. This balance represents an increase of $348 from the December 31, 2011 balance of $8,943 mostly due to the addition of interest in 2012.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in its income tax expense. At March 31, 2012 and December 31, 2011, the Company had approximately $4,040 and $3,420, respectively, accrued for interest and penalties related to unrecognized tax benefits, net of federal tax benefits.

10. Acquisitions

Dialysis and other acquisitions

During the first quarter of 2012, the Company acquired dialysis businesses consisting of 28 dialysis centers located in the United States and one direct primary care business for a total of $132,699 in cash and deferred

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purchase price obligations totaling $286. The assets and liabilities for all acquisitions were recorded at their estimated fair market values at the dates of the acquisitions and are included in the Company s financial statements and operating results from the designated effective dates of the acquisitions.

The following table summarizes the assets acquired and liabilities assumed in these transactions and recognized at their acquisition dates at estimated fair values, as well as the estimated fair value of the noncontrolling interests assumed in these transactions:

	Three months ended March 31, 2012
Tangible assets, principally leasehold improvements and equipment	$ 9,745
Amortizable intangible assets	10,635
Goodwill	117,975
Liabilities assumed	(3,900)
Noncontrolling interests assumed	(1,470)
	$ 132,985

Amortizable intangible assets acquired during the first three months of 2012 had weighted-average estimated useful lives of 9.3 years. The total amount of goodwill deductible for tax purposes associated with these acquisitions is approximately $117 million.

The DSI Renal Inc. purchase price allocations will be finalized upon completion of the final short period tax returns.

11. 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, physician services, direct primary care and the Company s international dialysis operations. 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 U.S. dialysis and related lab services business qualifies as a separately reportable segment and all references to dialysis and related lab services continue to refer only to the Company s U.S. dialysis and related lab services business. All of the other ancillary services and strategic initiatives operating segments, including the Company s international dialysis operations, 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 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.

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

	Three months ended March 31,	
	2012	2011
Segment operating revenues:		
Dialysis and related lab services		
Patient service operating revenues:		
External sources	$ 1,762,578	$ 1,497,434
Intersegment revenues	4,059	2,206
Total dialysis and related lab services patient service operating revenues	1,766,637	1,499,640
Less: Provision for uncollectible accounts related to patient service revenues	(53,008)	(41,071)
Net dialysis and related lab services patient service operating revenues	1,713,629	1,458,569
Other revenues [1]	2,885	2,532
Total net dialysis and related lab services operating revenues	1,716,514	1,461,101
Other Ancillary services and strategic initiatives		
Net patient service operating revenues	$ 1,122	$
External sources	153,058	103,418
Intersegment revenues	2,044	2,297
Total ancillary services and strategic initiatives operating revenues	156,224	105,715
Total net segment operating revenues	1,872,738	1,566,816
Elimination of intersegment revenues	(6,103)	(4,503)
Consolidated net operating revenues	$ 1,866,635	$ 1,562,313
Consolidated operating revenues before provision for uncollectible accounts	$ 1,919,643	$ 1,603,384
Segment operating margin (loss) [2]:		
Dialysis and related lab services	$ 348,030	$ 252,315
Other Ancillary services and strategic initiatives	(17,392)	(8,784)
Total segment margin	330,638	243,531
Reconciliation of segment operating margin to consolidated income before income taxes:		
Stock-based compensation	(12,550)	(9,716)
Equity investment income	2,632	1,519

Consolidated operating income	320,720	235,334
Debt expense	(61,381)	(58,595)
Other income	1,039	841
Consolidated income from continuing operations before income taxes	$ 260,378	$ 177,580

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(1) Includes management fees related to providing management and administrative services to dialysis centers that are wholly-owned by third parties or centers in which the Company owns a minority equity investment.

(2) Certain costs associated with our international operations that were previously reported in the dialysis and related lab services have been reclassified to the ancillary services and strategic initiatives to conform to the current year presentation.

Depreciation and amortization expense for the dialysis and related lab services for the three months ended March 31, 2012 was $73,726 and was $2,249 for the ancillary services and strategic initiatives.

Depreciation and amortization expense for the dialysis and related lab services for the three months ended March 31, 2011 was $60,123, and was $1,715 for the ancillary services and strategic initiatives.

Summary of assets by segment is as follows:

	March 31, 2012	December 31, 2011
Segment assets		
Dialysis and related lab services	$ 8,833,197	$ 8,588,671
Other Ancillary services and strategic initiatives	296,931	276,176
Equity investments	26,956	27,325
Consolidated assets	$ 9,157,084	$ 8,892,172

For the three months ended March 31, 2012, the total amount of expenditures for property and equipment including capital leases for the dialysis and related lab services was $116,456 and was $5,657 for the ancillary services and strategic initiatives.

For the three months ended March 31, 2011, the total amount of expenditures for property and equipment including capital leases for the dialysis and related lab services were $67,119 and were $1,563 for the ancillary services and strategic initiatives.

As of March 31, 2012, there was $4,968,608 and $95,969 of goodwill associated with the dialysis and related lab services business and the ancillary services and strategic initiatives, respectively.

As of December 31, 2011, there was $4,865,864 and $81,112 of goodwill associated with the dialysis and related lab services business and the ancillary services and strategic initiatives, respectively.

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12. 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:

	Three months ended March 31,	
	2012	2011
Net income attributable to DaVita Inc.	$ 140,120	$ 94,502
Increase in paid-in capital for sales of noncontrolling interests	5	27
Decrease in paid-in capital for the purchase of noncontrolling interests	(897)	(614)
Net transfer to noncontrolling interests	(892)	(587)
Change from net income attributable to DaVita Inc. and transfers to noncontrolling interests	$ 139,228	$ 93,915

13. Variable interest entities

The Company is required to consolidate each entity determined to be a variable interest entity for which the Company is the primary beneficiary. Variable interest entities (VIEs) typically include those for which the entity s equity is not sufficient to finance its activities without additional subordinated financial support; those for which the equity holders as a group lack the power to direct the activities that most significantly influence the entity s economic performance, the obligation to absorb the entity s expected losses, or the right to receive the entity s expected returns; or those for which the voting rights of some investors are not proportional to their obligations to absorb the entity s losses.

The Company is deemed to be the primary beneficiary of all the variable interest entities it is associated with. 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 VIEs. 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 VIEs. DaVita Inc. manages these VIEs 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 VIEs as their primary beneficiary. Total assets of these consolidated operating VIEs were approximately $6,000 and their liabilities to unrelated third parties were approximately $5,000 at March 31, 2012.

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

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short-term or long-term investments with matching offsetting liabilities in accrued compensation and benefits and other long-term liabilities. See Note 6 for disclosures on the assets of these consolidated non-qualified deferred compensation plans.

14. Accounts receivable

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the ultimate collectability and net realizable value of the Company s accounts receivable, the Company analyzes its historical cash collection experience and trends for each of its government payors and commercial payors to estimate the adequacy of the allowance for doubtful accounts and the amount of the provision for bad debts. Management regularly updates its analysis based upon the most recent information available to it to determine its current provision for bad debts and the adequacy of its allowance for doubtful accounts. For receivables associated with services provided to patients covered by government payors, like Medicare, the Company receives 80% of the payment directly from Medicare as established under the governments bundled payment system and determines an appropriate allowance for doubtful accounts and provision for bad debts on the remaining balance due depending upon the Company s estimate of the amounts ultimately collectible from other secondary coverage sources or from the patients. For receivables associated with services to patients covered by commercial payors that are either based upon contractual terms or for non-contracted health plan coverage, the Company provides an allowance for doubtful accounts and a provision for bad debts based upon its historical collection experience, potential inefficiencies in its billing processes and for which collectability is determined to be unlikely. Less than 1% of the Company s accounts receivable are associated with patient pay and it is the Company s policy to reserve 100% of these outstanding accounts receivable balances when the amounts due are outstanding for more than four months.

During the quarter ended March 31, 2012, the Company s allowance for doubtful accounts increased by approximately $38,895. This was primarily as a result of the provision for bad debts exceeding the amount of write-offs that occurred during the quarter as well as additional reserves associated with acquisitions. There were no unusual transactions impacting the allowance for doubtful accounts.

15. Goodwill

Each of the Company s operating segments described in Note 11 to the condensed consolidated financial statements is considered to represent an individual reporting unit for goodwill impairment testing purposes, except that our new direct primary care segment is comprised of two reporting units and each sovereign jurisdiction within our new international operations segment is considered a separate reporting unit.

Within the U.S. dialysis and related lab services operating segment, the Company considers each of its dialysis centers to constitute an individual business for which discrete financial information is available. However, since these dialysis centers have similar operating and economic characteristics and resource allocation and significant investment decisions concerning these businesses are highly centralized and the benefits broadly distributed, the Company has aggregated these centers and deemed them to constitute a single reporting unit.

The Company has applied a similar aggregation to the infusion therapy branches in its infusion therapy services reporting unit, to the consolidated vascular access service centers in its vascular access services reporting unit, and to the physician practices in its physician services reporting unit. For the Company s

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operating segments not mentioned above, no component below the level of the operating segment is considered a discrete business and therefore these operating segments directly constitute individual reporting units.

During the first quarter of 2012, the Company did not record any goodwill impairment charges and, as of March 31, 2012, none of the goodwill associated with the Company s various reporting units was considered at risk of impairment. Since the date of the Company s last annual goodwill impairment test, there have been no material developments, events, changes in operating performance or other changes in circumstances that would cause management to believe it is more likely than not that the fair value of any of its reporting units would be less than its carrying amount.

16. Significant new accounting standards

On January 1, 2012, we adopted the Financial Accounting Standards Board s, or FASB, Accounting Standard Update (ASU) No. 2011-08, *Intangibles Goodwill and Other*. This standard amends the current two-step goodwill impairment test required under the existing accounting guidance. This amendment allows entities the option to first assess certain qualitative factors to ascertain whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount to determine if the two-step impairment test is necessary. If an entity concludes that certain events or circumstances prove that it is more likely than not that the fair value of a reporting unit is less than its carrying amount then an entity is required to proceed to step one of the two-step goodwill impairment test. This standard was effective on January 1, 2012. The adoption of this standard did not have a material impact on the Company s consolidated financial statements.

On January 1, 2012, we adopted FASB s ASU No. 2011-07, *Health Care Entities-Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts.* This standard amends the current presentation and disclosure requirements for Health Care Entities that recognize significant amounts of patient service revenues at the time the services are rendered without assessing the patient s ability to pay. This standard requires health care entities to reclassify the provision for bad debts from an operating expense to a deduction from patient service revenues. In addition, this standard requires more disclosure on the policies for recognizing revenue, assessing bad debts, as well as quantitative and qualitative information regarding changes in the allowance for doubtful accounts. This standard was applied retrospectively to all prior periods presented and was effective on January 1, 2012. Upon adoption of this standard, the Company changed its presentation of its provision for uncollectible accounts related to patient service revenues as a deduction from its patient service operating revenues and enhanced its disclosures as indicated above. See Note 14 to the condensed consolidated financial statements for further details.

On January 1, 2012, we adopted FASB s ASU No. 2011-05, *Comprehensive Income Presentation of Comprehensive Income*. This standard amends the current presentation requirements for comprehensive income by eliminating the presentation of the components of other comprehensive income within the statement of equity. This standard allows two options on how to present the various components of comprehensive income. These options are either to report the components of comprehensive income separately on the income statement or to present total other comprehensive income and the components of other comprehensive income in a separate statement. This standard does not change the items that must be reported in other comprehensive income or when an item must be reclassified into net income. The FASB temporarily deferred the requirement to present separate line items on the statement of income for the amounts that would be realized and reclassified out of accumulated other comprehensive income into net income. No timetable has been set for FASB s reconsideration of this item. This standard, except for the requirements that were deferred, as stated above, was applied retrospectively and

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DAVITA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

(dollars and shares in thousands, except per share data)

was effective on January 1, 2012. Upon adoption of this standard, the Company presented total other comprehensive income and the components of other comprehensive income in a separate statement of comprehensive income.

On January 1, 2012, we adopted FASB s ASU No. 2011-04, *Fair Value Measurement.* This standard amends the current fair value measurement and disclosure requirements to improve comparability between U.S. GAAP and International Financial Reporting Standards (IFRS). The intent of this standard is to update the disclosures that describe several of the requirements in U.S. GAAP for measuring fair value and to enhance disclosures about fair value measurements which will improve consistency between U.S. GAAP and IFRS. This standard does not change the application of the requirements on fair value measurements and disclosures. This was applied prospectively and was effective on January 1, 2012. The adoption of this standard did not have a material impact on the Company s consolidated financial statements.

17. Condensed 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 basis. However, the guarantor subsidiaries can be released from their obligations in the event of a sale or other disposition of all or substantially all of the assets of such subsidiary, if such subsidiary guarantor is designated as an unrestricted subsidiary or otherwise ceases to be a restricted subsidiary, and if such subsidiary guarantor no longer guaranties any other indebtedness of the Company. Non-wholly-owned subsidiaries, certain wholly-owned subsidiaries, foreign subsidiaries, joint ventures, partnerships and third parties are not guarantors of these obligations.

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DAVITA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

(dollars and shares in thousands, except per share data)

Condensed Consolidating Statements of Income

For the three months ended March 31, 2012	DaVita Inc.	Guarantor subsidiaries	Non-Guarantor subsidiaries	Consolidating adjustments	Consolidated total
Patient service operating revenues	$	$ 1,315,992	$ 463,090	$ (15,382)	$ 1,763,700
Less: Provision for uncollectible accounts		(38,846)	(14,162)		(53,008)
Net patient service operating revenues		1,277,146	448,928	(15,382)	1,710,692
Other revenues	123,593	146,965	21,255	(135,870)	155,943
Total net operating revenues	123,593	1,424,111	470,183	(151,252)	1,866,635
Operating expenses	93,158	1,230,436	373,573	(151,252)	1,545,915
Operating income	30,435	193,675	96,610		320,720
Debt (expense)	(62,181)	(51,218)	(6,366)	58,384	(61,381)
Other income	58,346	632	445	(58,384)	1,039
Income tax expense	10,773	78,112	6,610		95,495
Equity earnings in subsidiaries	124,293	59,540		(183,833)	
Income from continuing operations	140,120	124,517	84,079	(183,833)	164,883
Discontinued operations					
Net income	140,120	124,517	84,079	(183,833)	164,883
Less: Net income attributable to noncontrolling interests				(24,763)	(24,763)
Net income attributable to DaVita Inc.	$ 140,120	$ 124,517	$ 84,079	$ (208,596)	$ 140,120
For the three months ended March 31, 2011					
Patient service operating revenues	$	$ 1,197,496	$ 310,233	$ (10,295)	$ 1,497,434
Less: Provision for uncollectible accounts		(19,022)	(22,049)		(41,071)
Net patient service operating revenues		1,178,474	288,184	(10,295)	1,456,363
Other revenues	103,273	99,743	15,603	(112,669)	105,950
Total net operating revenues	103,273	1,278,217	303,787	(122,964)	1,562,313
Operating expenses	66,374	1,124,998	258,571	(122,964)	1,326,979
Operating income	36,899	153,219	45,216		235,334
Debt (expense)	(58,865)	(54,140)	(180)	54,590	(58,595)
Other income	54,867	315	249	(54,590)	841
Income tax expense	13,160	49,845	(46)		62,959
Equity earnings in subsidiaries	74,761	25,867		(100,628)	

Income from continuing operations	94,502	75,416	45,331	(100,628)	114,621
Discontinued operations		7	124		131
Net income	94,502	75,423	45,455	(100,628)	114,752
Less: Net income attributable to noncontrolling interests				(20,250)	(20,250)
Net income attributable to DaVita Inc.	$ 94,502	$ 75,423	$ 45,455	$ (120,878)	$ 94,502

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DAVITA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

(dollars and shares in thousands, except per share data)

Condensed Consolidating Balance Sheets

As of March 31, 2012	DaVita Inc.	Guarantor subsidiaries	Non-Guarantor subsidiaries	Consolidating adjustments	Consolidated total
Cash and cash equivalents	$ 421,772	$	$ 27,518	$	$ 449,290
Accounts receivable, net		942,721	324,148		1,266,869
Other current assets	25,683	559,748	72,810		658,241
Total current assets	447,455	1,502,469	424,476		2,374,400
Property and equipment, net	95,309	995,549	399,714		1,490,572
Amortizable intangibles, net	50,356	96,016	14,245		160,617
Investments in subsidiaries	6,928,492	1,127,684		(8,056,176)	
Intercompany receivables		605,935	245,333	(851,268)	
Other long-term assets and investments	10,972	53,728	2,218		66,918
Goodwill		4,002,037	1,062,540		5,064,577
Total assets	$ 7,532,584	$ 8,383,418	$ 2,148,526	$ (8,907,444)	$ 9,157,084
Current liabilities	$ 239,260	$ 888,716	$ 114,139	$	$ 1,242,115
Intercompany payables	365,902		485,366	(851,268)	
Long-term debt and other long-term liabilities	4,321,211	622,545	64,792		5,008,548
Noncontrolling interests subject to put provisions	331,681			172,810	504,491
Total DaVita Inc. shareholders equity	2,274,530	6,872,157	1,184,019	(8,056,176)	2,274,530
Noncontrolling interest not subject to put provisions			300,210	(172,810)	127,400
Total equity	2,274,530	6,872,157	1,484,229	(8,228,986)	2,401,930
Total liabilities and equity	$ 7,532,584	$ 8,383,418	$ 2,148,526	$ (8,907,444)	$ 9,157,084
As of December 31, 2011					
Cash and cash equivalents	$ 365,276	$	$ 28,476	$	$ 393,752
Accounts receivable, net		926,041	269,122		1,195,163
Other current assets	14,665	598,721	79,307		692,693
Total current assets	379,941	1,524,762	376,905		2,281,608
Property and equipment, net	78,038	971,867	382,746		1,432,651
Amortizable intangibles, net	53,276	95,900	10,315		159,491
Investments in subsidiaries	6,696,039	1,089,920		(7,785,959)	
Intercompany receivables		472,200	253,447	(725,647)	
Other long-term assets and investments	11,388	56,134	3,924		71,446
Goodwill		3,903,542	1,043,434		4,946,976

Total assets	$ 7,218,682	$ 8,114,325	$ 2,070,771	$ (8,511,606)	$ 8,892,172
Current liabilities	$ 148,994	$ 889,172	$ 114,950	$	$ 1,153,116
Intercompany payables	271,890		453,757	(725,647)	
Long-term debt and other long-term liabilities	4,351,346	585,675	55,694		4,992,715
Noncontrolling interests subject to put provisions	305,377			172,839	478,216
Total DaVita Inc. shareholders equity	2,141,075	6,639,478	1,146,481	(7,785,959)	2,141,075
Noncontrolling interest not subject to put provisions			299,889	(172,839)	127,050
Total equity	2,141,075	6,639,478	1,446,370	(7,958,798)	2,268,125
Total liabilities and equity	$ 7,218,682	$ 8,114,325	$ 2,070,771	$ (8,511,606)	$ 8,892,172

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DAVITA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

(dollars and shares in thousands, except per share data)

Condensed Consolidating Statements of Cash Flows

For the three months ended March 31, 2012	DaVita Inc.	Guarantor subsidiaries	Non-Guarantor subsidiaries	Consolidating adjustments	Consolidated total
Cash flows from operating activities:					
Net income	$ 140,120	$ 124,517	$ 84,079	$ (183,833)	$ 164,883
Changes in operating assets and liabilities and non-cash items included in net income	(49,986)	60,253	(27,109)	183,833	166,991
Net cash provided by operating activities	90,134	184,770	56,970		331,874
Cash flows from investing activities:					
Additions of property and equipment, net	(18,640)	(58,812)	(35,007)		(112,459)
Acquisitions		(116,269)	(16,430)		(132,699)
Proceeds from asset sales		825			825
Proceeds from investment sales and other items	6,302	4,341			10,643
Net cash used in investing activities	(12,338)	(169,915)	(51,437)		(233,690)
Cash flows from financing activities:					
Long-term debt and related financing costs, net	(17,158)	(10,678)	4,437		(23,399)
Intercompany borrowing	(11,910)	95	11,815		
Other items	7,768	(4,272)	(22,754)		(19,258)
Net cash used in financing activities	(21,300)	(14,855)	(6,502)		(42,657)
Effect of exchange rate changes on cash			11		11
Net increase (decrease) in cash and cash equivalents	56,496		(958)		55,538
Cash and cash equivalents at beginning of period	365,276		28,476		393,752
Cash and cash equivalents at end of period	$ 421,772	$	$ 27,518	$	$ 449,290
For the three months ended March 31, 2011					
Cash flows from operating activities:					
Net income	$ 94,502	$ 75,423	$ 45,455	$ (100,628)	$ 114,752
Changes in operating assets and liabilities and non-cash items included in net income	(18,903)	120,077	13,229	100,628	215,031
Net cash provided by operating activities	75,599	195,500	58,684		329,783
Cash flows from investing activities:					
Additions of property and equipment, net	(6,946)	(41,030)	(19,554)		(67,530)
Acquisitions		(81,523)			(81,523)

Proceeds from asset sales		2,812		2,812
Proceeds from investment sales and other items	850	3		853
Net cash used in investing activities	(6,096)	(119,738)	(19,554)	(145,388)
Cash flows from financing activities:				
Long-term debt and related financing costs, net	(31,425)	(147)	663	(30,909)
Intercompany borrowing	98,982	(75,644)	(23,338)	
Other items	10,606	29	(18,228)	(7,593)
Net cash provided by (used in) financing activities	78,163	(75,762)	(40,903)	(38,502)
Net increase (decrease) in cash and cash equivalents	147,666		(1,773)	145,893
Cash and cash equivalents at beginning of period	856,803		3,314	860,117
Cash and cash equivalents at end of period	$ 1,004,469	$	$ 1,541	$ $ 1,006,010

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Item 2. ***Management s Discussion and Analysis of Financial Condition and Results of Operations.***

Forward-looking statements

This Quarterly Report on Form 10-Q contains 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 uncertainties associated with governmental regulations, general economic and other market conditions, competition, 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 under the Medicare ESRD program or other government-based programs, 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, current or potential investigations by various governmental 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, expansion of our operations and services to markets outside the United States, or to businesses outside of dialysis and the other risk factors set forth in Part II, Item 1A. of this Quarterly Report on Form 10-Q. We base our forward-looking statements on information currently available to us, 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.

The following should be read in conjunction with our condensed consolidated financial statements.

Results of operations

We operate principally as a dialysis and related lab services business in the United States but also operate other ancillary services and strategic initiatives. These ancillary services and strategic initiatives consist of pharmacy services, infusion therapy services, disease management services, vascular access services, ESRD clinical research programs and physician services, direct primary care and our international dialysis operations. The U.S. dialysis and related lab services business qualifies as a separately reportable segment and all references to dialysis and related lab services continue to refer only to our U.S. dialysis and related lab services business. All of the other ancillary services and strategic initiatives operating segments, including our international dialysis operations, have been combined and disclosed in the other segments category.

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Our consolidated operating results for the first quarter of 2012 compared with the prior sequential quarter and the same quarter of 2011 were as follows:

	Three months ended					
	March 31, 2012		December 31, 2011		March 31, 2011	
	(dollar amounts rounded to nearest million)					
Consolidated operating revenues	$ 1,920	100%	$ 1,862	100%	$ 1,603	100%
Patient service operating revenues	$ 1,764		$ 1,714		$ 1,497	
Less: Provision for uncollectible accounts related to patient service revenues	(53)	3%	(52)	3%	(41)	3%
Net patient service operating revenues	1,711		1,662		1,456	
Other revenues	156		148		106	
Total net operating revenues	1,867		1,810		1,562	
Operating expenses and charges:						
Patient care costs	1,263	66%	1,214	65%	1,114	69%
General and administrative	207	11%	193	10%	152	10%
Depreciation and amortization	76	4%	73	4%	62	4%
Provision for uncollectible accounts	2		3		1	
Equity investment income	(3)		(2)		(2)	
Total operating expenses and charges	1,546	83%[1]	1,480	82%[1]	1,327	85%[1]
Operating income	$ 321	17%	$ 330	18%	$ 235	15%

[1] The percentages include total operating expenses and charges and the provision for uncollectible accounts related to patient service revenues.

The following table summarizes consolidated net operating revenues:

	Three months ended		
	March 31, 2012	December 31, 2011	March 31, 2011
	(dollar amounts rounded to nearest million)		
Dialysis and related lab services patient service operating revenues	$ 1,767	$ 1,717	$ 1,500
Less: Provision for uncollectible accounts related to patient service revenues	(53)	(52)	(41)
Dialysis and related lab services net patient service operating revenues	$ 1,714	$ 1,665	$ 1,459
Other revenues	3	3	2
Total net dialysis and related lab services operating revenues	1,717	1,668	1,461
Other Ancillary services and strategic initiatives	155	147	106
Other Ancillary services and strategic initiatives net patient service operating revenues	1	1	
Total net segment operating revenues	1,873	1,816	1,567

Elimination of intersegment revenues	(6)	(6)	(5)
Consolidated net operating revenues	$ 1,867	$ 1,810	$ 1,562
Consolidated operating revenues	$ 1,920	$ 1,862	$ 1,603

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The following table summarizes consolidated operating income:

	Three months ended		
	March 31, 2012	December 31, 2011	March 31, 2011
	(dollar amounts rounded to nearest million)		
Dialysis and related lab services	$ 348	$ 353	$ 252
Other Ancillary services and strategic initiatives	(17)	(13)	(9)
Total segment operating income	331	340	244
Reconciling items:			
Stock-based compensation	(13)	(12)	(10)
Equity investment income	3	2	2
Consolidated operating income	$ 321	$ 330	$ 235

Consolidated operating revenues

Consolidated operating revenues for the first quarter of 2012 increased by approximately $58 million, or approximately 3.1%, as compared to the fourth quarter of 2011. The increase in consolidated operating revenues was primarily due to an increase in dialysis and related lab services operating revenues of approximately $50 million, principally due to strong volume growth from additional treatments from non-acquired growth and acquisitions, partially offset by a reduction in the number of treatments due to one fewer treatment day in the first quarter of 2012. The increase in the consolidated operating revenues was also due to an increase of approximately $3 in the average dialysis revenue per treatment, as described below.

Consolidated operating revenues for the first quarter of 2012 increased by approximately $317 million, or approximately 19.8%, as compared to the first quarter of 2011. The increase in consolidated operating revenues was primarily due to an increase in dialysis and related lab services operating revenues of approximately $268 million, principally due to strong volume growth from additional treatments from non-acquired treatment growth in existing and new centers and growth through acquisitions, and as a result of one additional treatment day in the first quarter of 2012. The increase in consolidated operating revenues was also due to an increase of approximately $6 in the average dialysis revenue per treatment, as described below, and was also due to an increase of approximately $50 million in the ancillary services and strategic initiatives revenues primarily from growth in our pharmacy services.

Consolidated operating income

Consolidated operating income for the first quarter of 2012 decreased by approximately $9 million, or approximately 2.7%, as compared to the fourth quarter of 2011. The decrease was primarily due to one fewer treatment day in the first quarter of 2012, a decline in productivity, seasonally higher payroll taxes, an increase in our pharmaceuticals costs and an increase in our professional fees for compliance and legal matters, partially offset by strong volume growth in the number of treatments and an increase in the average revenue per treatment in the dialysis and related lab services of approximately $3, as described below.

Consolidated operating income for the first quarter of 2012 increased by approximately $86 million, or approximately 36.6%, as compared to the first quarter of 2011. The increase in consolidated operating income was primarily due to strong volume growth from additional treatments as a result of non-acquired growth in existing and new centers, growth through acquisitions and as a result of one additional treatment day in the first quarter of 2012, as well as from an increase in the average dialysis revenue per treatment of approximately $6, as described below. In addition, consolidated operating income also increased as a result of overall lower pharmaceutical costs mainly from a decline in the intensities of physician-prescribed pharmaceuticals and improvements in productivity, but was negatively impacted by higher labor and benefit costs, an increase in our professional fees for legal and compliance matters, as well as an increase in the operating losses associated with our ancillary services and strategic initiatives.

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Operating segments

Dialysis and related lab services

	Three months ended		
	March 31, 2012	December 31, 2011	March 31, 2011
	(dollar amounts rounded to nearest million, except per treatment data)		
Dialysis and related lab services operating revenues	$ 1,770	$ 1,720	$ 1,502
Patient service operating revenues	$ 1,767	$ 1,717	$ 1,500
Less: Provision for uncollectible accounts related to patient service revenues	(53)	(52)	(41)
Net patient service operating revenues	1,714	1,665	1,459
Other revenues	3	3	2
Total net operating revenues	$ 1,717	$ 1,668	$ 1,461
Segment operating income	$ 348	$ 353	$ 252
Dialysis treatments	5,314,275	5,227,167	4,594,550
Average dialysis treatments per treatment day	68,132	66,167	59,669
Average dialysis revenue per treatment (including lab services)	$ 332	$ 329	$ 326

Operating revenues

Dialysis and related lab services operating revenues for the first quarter of 2012 increased by approximately $50 million, or approximately 2.9%, as compared to the fourth quarter of 2011. The increase in operating revenues was primarily due to an increase in the number of treatments of approximately 1.7% as a result of non-acquired treatment growth in existing and new centers and from growth through acquisitions, partially offset by a reduction in the number of treatments as a result of one fewer treatment day in the first quarter of 2012. The increase in operating revenues was also due to an increase in our average dialysis revenue per treatment of approximately $3, or approximately 1.2%. The increase in the average dialysis revenue per treatment was primarily due to an increase in our Medicare reimbursements and an increase in some of our commercial payment rates, partially offset by a slight decline in our commercial payor mix.

Dialysis and related lab services operating revenues increased by approximately $268 million, or 17.8%, in the first quarter of 2012, as compared to the first quarter of 2011. The increase in operating revenues in the first quarter of 2012 was principally due to strong volume growth from additional treatments of approximately 15.7%, and an increase in the average dialysis revenue per treatment of approximately $6, or approximately 1.8%. The increase in the number of treatments was primarily attributable to non-acquired treatment growth at existing and new centers and growth through acquisitions and as a result of one additional treatment day in the first quarter of 2012. The increase in the average dialysis revenue per treatment was primarily due to an increase in our Medicare reimbursements, an increase in some of our commercial payment rates, partially offset by a decline in our commercial payor mix and a decline in the intensities of physician-prescribed pharmaceuticals.

Operating expenses and charges

Patient care costs. Dialysis and related lab services patient care costs on a per treatment basis in the first quarter of 2012 increased $3 per treatment compared to the fourth quarter of 2011. The increase in patient care costs was primarily due to higher pharmaceuticals costs, a decline in productivity, seasonally higher payroll taxes, partially offset by lower benefit costs.

Dialysis and related lab services patient care costs on a per treatment basis decreased by approximately $11 in the first quarter of 2012 as compared to the first quarter of 2011. The decrease in the per treatment costs was

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primarily attributable to lower pharmaceutical costs mainly from a decline in the intensities of physician-prescribed pharmaceuticals, improvements in productivity, partially offset by higher labor and benefit costs.

General and administrative expenses. Dialysis and related lab services general and administrative expenses of approximately $167 million for the first quarter of 2012 increased by approximately $14 million and $45 million as compared to the fourth quarter of 2011 and first quarter of 2011, respectively. The increase in the first quarter of 2012 as compared to the fourth quarter of 2011 was primarily due to higher labor costs and related payroll taxes, an increase in professional fees in conjunction with compliance and legal matters, partially offset by lower benefit costs. The increase in the first quarter of 2012 as compared to the first quarter of 2011 was primarily due to higher labor and benefit costs and an increase in professional fees in conjunction with compliance and legal matters.

Depreciation and amortization. Depreciation and amortization for dialysis and related lab services was approximately $74 million for the first quarter of 2012, $71 million for the fourth quarter of 2011 and $60 million for the first quarter of 2011. The increases in depreciation and amortization in the first quarter of 2012, as compared to both the fourth quarter of 2011 and the first quarter of 2011, was primarily due to growth in newly developed centers and from acquired centers.

Provision for uncollectible accounts. The provision for uncollectible accounts receivable for dialysis and related lab services was 3.0% for both the first quarter of 2012 and the fourth quarter of 2011, and was 2.7% for the first quarter of 2011. We assess our level of the provision for uncollectible accounts based upon our historical cash collection experience and trends, and have and will continue to adjust the provision as necessary as a result of changes in our cash collections.

Segment operating income

Dialysis and related lab services operating income for the first quarter of 2012 decreased by approximately $5 million, as compared to the fourth quarter of 2011. The decrease in operating income was primarily due to one fewer treatment day in the first quarter of 2012, a decline in productivity, seasonally higher payroll taxes, an increase in pharmaceutical costs and an increase in our professional fees in conjunction with compliance and legal matters. However, operating income benefitted from strong volume growth, an increase in the average dialysis revenue per treatment of approximately $3, as discussed above, and from lower benefit costs.

Dialysis and related lab services operating income for the first quarter of 2012 increased by approximately $96 million, as compared to the first quarter of 2011. The increase in operating income was primarily attributable to strong volume growth in revenues from additional treatments as a result of non-acquired treatment growth and growth through acquisitions, and as a result of one additional treatment day in the first quarter of 2012, as well as from an increase in the average dialysis revenue per treatment of approximately $6, as described above. Dialysis and related lab services operating income also increased as a result of lower overall pharmaceutical costs mainly from a decline in the intensities of physician-prescribed pharmaceuticals and improvements in productivity, but was negatively impacted by higher labor costs and related payroll taxes, additional benefit costs and an increase in professional fees in conjunction with compliance and legal matters.

Other Ancillary services and strategic initiatives

	Three months ended		
	March 31, 2012	**December 31, 2011**	**March 31, 2011**
	(dollar amounts rounded to nearest million)		
Other revenues	$ 155	$ 147	$ 106
Net patient service operating revenues	1	1	
Total net operating revenues	$ 156	$ 148	$ 106
Segment operating loss	$ (17)	$ (13)	$ (9)

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Net operating revenues

The ancillary services and strategic initiatives net operating revenues for the first quarter of 2012 increased by approximately $8 million as compared to the fourth quarter of 2011. The increase was primarily due to an increase in revenues in our pharmacy services due to volume growth and an increase in revenues associated with our disease management services, partially offset by a decrease in revenues associated with our ESRD clinical research programs.

The increase in net operating revenues for the first quarter of 2012 of approximately $50 million, as compared to the first quarter of 2011, was primarily due to volume growth in our pharmacy services, an increase in revenues in our disease management services and in our infusion therapy services.

Operating expenses

Ancillary services and strategic initiatives operating expenses for the first quarter of 2012 increased by approximately $12 million as compared to the fourth quarter of 2011. The increase in operating expenses was primarily due to volume growth and an increase in labor costs associated with our pharmacy services, start up costs associated with our new direct primary care services and an increase in expenses in our disease management services.

Ancillary services and strategic initiatives operating expenses for the first quarter of 2012 increased by approximately $58 million as compared to the first quarter in 2011. The increase in operating expenses was primarily due to volume growth in our pharmacy services, an increase in medical supply costs, an increase in labor and benefit costs and start up costs associated with our new direct primary care services.

Segment operating results

Ancillary services and strategic initiatives operating losses increased by approximately $4 million in the first quarter of 2012 as compared to the fourth quarter of 2011. The increase in operating losses was primarily due to a decrease in revenues associated with our ESRD clinical research programs and additional operating losses associated with the start up of our new direct primary care services.

Ancillary services and strategic initiatives operating losses increased by approximately $8 million in the first quarter of 2012, as compared to the first quarter of 2011, which was primarily due to a decline in operating performance in our disease management services and in our ESRD clinical research programs, additional operating losses associated with the start up of our new direct primary care services, as well as additional expenses associated with our international expansion.

Corporate level charges

Stock-based compensation. Stock-based compensation of approximately $12.6 million in the first quarter of 2012 remained flat as compared to the fourth quarter of 2011 and increased by approximately $3 million as compared to the first quarter of 2011. The increase from the first quarter of 2011 was primarily due to an increase in the exercise price and fair value of grants that contributed expense to these respective periods.

Other income. Other income for the first quarter of 2012 increased by approximately $0.3 million as compared to the fourth quarter of 2011 and increased by approximately $0.2 million as compared to the first quarter of 2011.

Debt expense. Debt expense of $61.4 million in the first quarter of 2012 decreased by approximately $0.4 million as compared to the fourth quarter of 2011 and increased by $2.8 million as compared to the first quarter of 2011. The decrease in debt expense in the first quarter of 2012 as compared to the fourth quarter of 2011 was

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primarily due to fewer days outstanding during the first quarter of 2012. The increase in debt expense in the first quarter of 2012 as compared to the first quarter of 2011was primarily due to additional borrowings associated with the new Term Loan A-2 which bear higher interest rates. The overall weighted average effective interest rate for both the first quarter of 2012 and for the fourth quarter of 2011 was 5.27%, compared to 5.20% for the first quarter of 2011.

Equity investment income. Equity investment income was approximately $2.6 million for the first quarter of 2012, as compared to $2.2 million for the fourth quarter of 2011 and $1.5 million for the first quarter of 2011. The increases in equity income in the first quarter of 2012, as compared to the fourth quarter of 2011 and the first quarter of 2011, were primarily due to improvements in the operating performance of certain joint ventures.

Noncontrolling interests

Net income attributable to noncontrolling interests. Net income attributable to noncontrolling interests was $24.8 million for the first quarter of 2012, as compared to $28.0 million for the fourth quarter of 2011 and $20.3 million for the first quarter of 2011. The decrease in net income attributable to noncontrolling interests in the first quarter of 2012 as compared to the fourth quarter of 2011 was primarily due to lower profitability of our dialysis joint ventures. The increase in net income attributable to noncontrolling interests in the first quarter of 2012 as compared to the first quarter of 2011was primarily due to an increase in the overall number of joint ventures and an increase in the overall profitability of our dialysis joint ventures.

Accounts receivable

Our accounts receivable balances at March 31, 2012 and December 31, 2011 were $1,267 million and $1,195 million, respectively, which represented approximately 63 days and 61 days of revenue, respectively, net of bad debt provision. The increase in DSO was primarily the result of a slowdown in our Medicare cash collections as a result of Medicare implementing some additional new billing requirements. Our DSO calculation is based on the current quarter s average revenues per day. There were no significant changes during the first quarter of 2012 from the fourth quarter of 2011 in the amount of unreserved accounts receivable over one year old or the amounts pending approval from third-party payors.

Outlook

We are raising our operating income guidance for 2012 to now be in the range of $1,230 million to $1,310 million. Our previous operating income guidance for 2012 was in the range of $1,200 million to $1,300 million. We also still 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, 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 revenues or patients, a reduction in the number of patients under higher-paying commercial plans, a reduction in government payment rates under the Medicare ESRD program or other government-based programs, the impact of healthcare 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 of the United States, or to businesses outside of dialysis. See Risk Factors in Part II, Item 1A. in this Quarterly Report on Form 10-Q and the cautionary language contained in the forward looking statements and associated risks as discussed under Forward-looking statements on page 27 for more information about these and other potential

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risks. We undertake no obligation to update or revise these projections, whether as a result of changes in underlying factors, new information, future events or otherwise.

Liquidity and capital resources

Liquidity and capital resources. Cash flow from operations during the first quarter of 2012 was $332 million, compared to $330 million during the first quarter of 2011. The increase in operating cash flow was primarily the result of improved cash earnings and the timing of payments for certain working capital expenditures, partially offset by an increase in our accounts receivable from a slowdown in cash collections.
Non-operating cash outflows for the first quarter of 2012 included capital asset expenditures of $112 million, including $57 million for new center developments and relocations and $55 million for maintenance and information technology. We spent an additional $133 million for acquisitions. We paid distributions to noncontrolling interests of $26 million. Non-operating cash outflows for the first quarter of 2011 included capital asset expenditures of $68 million, including $28 million for new center developments and relocations and $40 million for maintenance and information technology. We also spent an additional $82 million for acquisitions and paid distributions to noncontrolling interests of $22 million.

During the first quarter of 2012, we acquired a total of 28 dialysis centers and opened 13 dialysis centers located in the United States. We previously provided management and administrative services to nine of the acquired centers. In addition, we also opened a total of four centers outside of the United States. During the first quarter of 2011, we acquired and opened a total of 33 dialysis centers, sold one center and closed two centers.

During the first three months of 2012, we made mandatory principal payments under our Senior Secured Credit Facilities totaling $12.5 million on the Term Loan A, $0.5 million on the Term Loan A-2 and $4.4 million on the Term Loan B.

As of March 31, 2012, we maintained a total of nine interest rate swap agreements with amortizing notional amounts totaling $938 million. These agreements had the economic effect of modifying the LIBOR variable component of our interest rate on an equivalent amount of our Term Loan A to fixed rates ranging from 1.59% to 1.64%, resulting in an overall weighted average effective interest rate of 4.11%, including the Term Loan A margin of 2.50%. The swap agreements expire by September 30, 2014 and require monthly interest payments. During the three months ended March 31, 2012, we accrued net charges of $3.2 million from these swaps which are included in debt expense. As of March 31, 2012, the total fair value of these swap agreements was a liability of $23.2 million. We estimate that approximately $11.9 million of existing unrealized pre-tax losses in other comprehensive income at March 31, 2012 will be reclassified into income over the next twelve months.

As of March 31, 2012, we maintained five interest rate cap agreements with notional amounts totaling $1.25 billion. 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. As of March 31, 2012, the total fair value of these cap agreements was an asset of $1.0 million. During the three months ended March 31, 2012, we recorded $0.3 million, net of tax, as a decrease to other comprehensive income due to unrealized valuation changes in the cap agreements, net of the amortization of the interest rate cap premiums that were reclassified into net income.

As a result of the swap and cap agreements, our overall weighted average effective interest rate on the Senior Secured Credit Facilities was 4.63%, based upon the current margins in effect of 2.50% for the Term Loan A, 3.50% for the Term Loan A-2 and 3.00% for the Term Loan B, as of March 31, 2012.

As of March 31, 2012, interest rates on our Term Loan A-2 and Term Loan B debt are set at their interest rate floors. Interest rates on our senior notes and Term Loan A are fixed and economically fixed, respectively, while rates on $1.25 billion of our Term Loan B are subject to interest rate caps.

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Our overall weighted average effective interest rate during the first quarter of 2012 was 5.27% and as of March 31, 2012 was 5.28%.

As of March 31, 2012, we had undrawn revolving credit facilities totaling $350 million of which approximately $52 million was committed for outstanding letters of credit.

We believe that we will have sufficient liquidity and will generate significant operating cash flows to fund our scheduled debt service and other obligations for the foreseeable future, including the next 12 months, under the terms of our debt agreements. Our primary sources of liquidity are cash from operations and cash from borrowings.

Stock-based compensation

Stock-based compensation recognized in a period represents the 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. Shares issued upon exercise of stock awards are generally issued from shares in treasury. We have used the Black-Scholes-Merton valuation model for estimating the grant-date fair value of stock-settled stock appreciation rights granted in all periods. During the three months ended March 31, 2012, we granted 0.1 million stock-settled stock appreciation rights with an aggregate grant-date fair value of $1.9 million and a weighted-average expected life of approximately 3.5 years, and also granted 8,000 stock units with an aggregate grant-date fair value of $0.7 million and a weighted-average expected life of approximately 2.0 years.

For the three months ended March 31, 2012 and 2011, we recognized $12.6 million and $9.7 million, respectively, in stock-based compensation expense for stock appreciation rights, stock units and discounted employee stock plan purchases, which are primarily included in general and administrative expenses. The estimated tax benefits recorded for stock-based compensation through March 31, 2012 and 2011was $4.7 million and $3.7 million, respectively. As of March 31, 2012, there was $82.4 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 three months ended March 31, 2012 and 2011, we received $1.4 million and $2.2 million, respectively, in cash proceeds from stock option exercises and $10.9 million and $13.9 million, respectively, in actual tax benefits upon the exercise of stock awards.

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. The methodology we use 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. The estimated fair values of the noncontrolling interests subject to put provisions is a critical accounting estimate that 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 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

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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. For additional information see Note 8 to the condensed consolidated financial statements.

We also have certain potential commitments to provide operating capital to several dialysis centers that are wholly-owned by third parties or centers in which we own a minority 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 March 31, 2012 (in millions):

	Remainder of 2012	1-3 years	4-5 years	After 5 years	Total
Scheduled payments under contractual obligations:					
Long-term debt	$ 56	$ 300	$ 2,535	$ 1,556	$ 4,447
Interest payments on the senior notes	100	202	202	279	783
Interest payments on the Term Loan B [1]	59	155	137		351
Interest payments on Term Loan A-2 [2]	6	18	16		40
Capital lease obligations	2	6	5	39	52
Operating leases	205	473	398	701	1,777
Construction of the new corporate headquarters	30				30
	$ 458	$ 1,154	$ 3,293	$ 2,575	$ 7,480
Potential cash requirements under existing commitments:					
Letters of credit	$ 52	$	$	$	$ 52
Noncontrolling interests subject to put provisions	278	109	71	46	504
Pay-fixed swaps potential obligations	9	14			23
Operating capital advances	4				4
	$ 343	$ 123	$ 71	$ 46	$ 583

(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%.

(2) Assuming no changes to LIBOR-based interest rates as the Term Loan A-2 currently bears interest at LIBOR (floor of 1.00%) plus an interest rate margin of 3.50%.

The pay-fixed swap obligations represent the estimated fair market values of our interest rate swap agreements as reported by various broker dealers that are based upon relevant observable market inputs as well as other current market conditions that existed as of March 31, 2012, and represent the estimated potential obligation that we would be required to pay based upon the estimated future settlement of each specific tranche over the term of the swap agreements, assuming no future changes in the forward yield curve. The actual amount of our obligation associated with these swaps in the future will depend upon changes in the LIBOR-based interest rates that can fluctuate significantly depending upon market conditions, and other relevant factors that can affect the fair market value of these swap agreements.

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 Alliance and Product Supply Agreement. Our total expenditures for the three months ended March 31, 2012 on such products were approximately 2% of our total operating costs. In addition, we are obligated to purchase a certain amount of dialysis equipment, parts and supplies from Fresenius Medical Care, or Fresenius, through

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2013. Our total expenditures for the three months ended March 31, 2012 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 Alliance and Product Supply Agreement, Gambro Renal Products ability to meet our needs.

In November 2011, we entered into a seven year Sourcing and Supply Agreement with Amgen USA Inc. that expires on December 31, 2018. Under the terms of the agreement we will purchase EPO in amounts necessary to meet no less than 90% of our requirements for erythropoiesis stimulating agents. The actual amount of EPO that we will purchase from Amgen will depend upon the amount of EPO administered during dialysis as prescribed by physicians and the overall number of patients that we serve.

The settlements of approximately $13 million of existing income tax liabilities for unrecognized tax benefits are excluded from the above table as reasonably reliable estimates of the timing cannot be made.

Significant new accounting standards

On January 1, 2012, we adopted FASB s Accounting Standard Update (ASU) No. 2011-08, *Intangibles Goodwill and Other*. This standard amends the current two-step goodwill impairment test required under the existing accounting guidance. This amendment allows entities the option to first assess certain qualitative factors to ascertain whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount to determine if the two-step impairment test is necessary. If an entity concludes that certain events or circumstances prove that it is more likely than not that the fair value of a reporting unit is less than its carrying amount then an entity is required to proceed to step one of the two-step goodwill impairment test. This standard was effective on January 1, 2012. The adoption of this standard did not have a material impact on our consolidated financial statements.

On January 1, 2012, we adopted FASB s ASU No. 2011-07, *Health Care Entities-Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts.* This standard amends the current presentation and disclosure requirements for Health Care Entities that recognize significant amounts of patient service revenues at the time the services are rendered without assessing the patient s ability to pay. This standard requires health care entities to reclassify the provision for bad debts from an operating expense to a deduction from patient service revenues. In addition, this standard requires more disclosure on the policies for recognizing revenue, assessing bad debts, as well as quantitative and qualitative information regarding changes in the allowance for doubtful accounts. This standard was applied retrospectively to all prior periods presented and was effective on January 1, 2012. Upon adoption of this standard, we changed our presentation of our provision for uncollectible accounts related to patient service revenues as a deduction from our patient service operating revenues and enhanced its disclosures as indicated above. See Note 14 to the condensed consolidated financial statements for further details.

On January 1, 2012, we adopted FASB s ASU No. 2011-05, *Comprehensive Income Presentation of Comprehensive Income*. This standard amends the current presentation requirements for comprehensive income by eliminating the presentation of the components of other comprehensive income within the statement of equity. This standard allows two options on how to present the various components of comprehensive income. These options are either to report the components of comprehensive income separately on the income statement or to present total other comprehensive income and the components of other comprehensive income in a separate statement. This standard does not change the items that must be reported in other comprehensive income or when an item must be reclassified into net income. The FASB temporarily deferred the requirement to present separate line items on the statement of income for the amounts that are realized and reclassified out of accumulated other comprehensive income into net income. No timetable has been set for FASB s reconsideration of this item. This

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standard, except for the requirements that were deferred, as stated above, was applied retrospectively and was effective on January 1, 2012. Upon adoption of this standard, we presented total other comprehensive income and the components of other comprehensive income in a separate statement of comprehensive income.

On January 1, 2012, we adopted FASB s ASU No. 2011-04, *Fair Value Measurement.* This standard amends the current fair value measurement and disclosure requirements to improve comparability between U.S. GAAP and International Financial Reporting Standards (IFRS). The intent of this standard is to update the disclosures that describe several of the requirements in U.S. GAAP for measuring fair value and to enhance disclosures about fair value measurements which will improve consistency between U.S. GAAP and IFRS. This standard does not change the application of the requirements on fair value measurements and disclosures. This was applied prospectively and was effective on January 1, 2012. The adoption of this standard did not have a material impact on our consolidated financial statements.

Item 3. ***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. The table below presents principal repayments and current weighted average interest rates on our debt obligations as of March 31, 2012. The variable rates presented reflect the weighted average LIBOR rates in effect for all debt tranches plus interest rate margins in effect as of March 31, 2012. The Term Loan A margin currently in effect is 2.50% 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 A-2 currently bears interest at LIBOR (floor of 1.00%) plus an interest rate margin of 3.50% subject to a ratings based step-down to 3.25%. 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									
	2012	2013	2014	2015	2016	2017	Thereafter	Total	Average interest rate	Fair value
Long term debt:										
Fixed rate	$ 20	$ 25	$ 25	$ 25	$ 1,860	$ 6	$ 1,589	$ 3,550	5.58%	$ 3,608
Variable rate	$ 38	$ 102	$ 154	$ 653	$ 2	$	$	$ 949	2.83%	$ 953

	Notional amount	Contract maturity date					Pay fixed	Receive variable	Fair value
		2012	2013	2014	2015	2016			
	(dollars in millions)								
Swaps:									
Pay-fixed rate	$ 938	$ 38	$ 100	$ 800	$	$	1.59% to 1.64%	LIBOR	$ (23.2)
Cap agreements	$ 1,250	$	$	$ 1,250	$	$		LIBOR above 4.00%	$ 1.0

Our Senior Secured Credit Facilities, which include the Term Loan A, the Term Loan A-2 and the Term Loan B, consist of various individual tranches of debt that can range in maturity from one month to twelve months (currently, all tranches are one month in duration). For the Term Loan A, each tranche bears interest at a LIBOR rate that is determined by the duration of such tranche plus an interest rate margin. The LIBOR variable component of the interest rate for each tranche is reset as such tranche matures and a new tranche is established. LIBOR can fluctuate significantly depending upon conditions in the credit and capital markets.

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 March 31, 2012, 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

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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 $478 million outstanding principal balance of the Term Loan B is subject to LIBOR-based interest rate volatility above a floor of 1.50%.

As of March 31, 2012, we maintained a total of nine interest rate swap agreements with amortizing notional amounts totaling $938 million. These agreements had the economic effect of modifying the LIBOR variable component of our interest rate on an equivalent amount of our Term Loan A to fixed rates ranging from 1.59% to 1.64%, resulting in an overall weighted average effective interest rate of 4.11%, including the Term Loan A margin of 2.50%. The swap agreements expire by September 30, 2014 and require monthly interest payments. During the three months ended March 31, 2012, we accrued net charges of $3.2 million from these swaps which are included in debt expense. As of March 31, 2012, the total fair value of these swap agreements was a liability of $23.2 million. We estimate that approximately $11.9 million of existing unrealized pre-tax losses in other comprehensive income at March 31, 2012 will be reclassified into income over the next twelve months.

As of March 31, 2012, we maintained five interest rate cap agreements with notional amounts totaling $1.25 billion. 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. As of March 31, 2012, the total fair value of these cap agreements was an asset of $1.0 million. During the three months ended March 31, 2012, we recorded $0.3 million, net of tax, as a decrease to other comprehensive income due to unrealized valuation changes in the cap agreements, net of the amortization of the interest rate cap premiums that were reclassified into net income.

As a result of the swap and cap agreements, the overall weighted average effective interest rate on the Senior Secured Credit Facilities was 4.63%, based upon the current margins in effect of 2.50% for the Term Loan A, 3.50% for the Term Loan A-2 and 3.00% for the Term Loan B, as of March 31, 2012.

As of March 31, 2012, interest rates on our Term Loan A-2 and Term Loan B debt are set at their interest rate floors. Interest rates on our senior notes and Term Loan A are fixed and economically fixed, respectively, while rates on $1.25 billion of our Term Loan B are subject to interest rate caps.

The overall weighted average effective interest rate during the first quarter of 2012 was 5.27% and as of March 31, 2012 was 5.28%.

Item 4. ***Controls and Procedures***

Management has established and maintains disclosure controls and procedures designed to ensure that information required to be disclosed in the reports that it files or submits pursuant to the Securities Exchange Act of 1934, as amended, or Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, and that such information is accumulated and communicated to the Company s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow for timely decisions regarding required disclosures.

At the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of the Company s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures in accordance with the Exchange Act requirements. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures are effective for timely identification and review of material information required to be included in the Company s Exchange Act reports, including this report on Form 10-Q. Management recognizes that these controls and procedures can provide only reasonable assurance of desired outcomes, and that estimates and judgments are still inherent in the process of maintaining effective controls and procedures.

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There has not been any change in the Company s internal control over financial reporting that was identified during the evaluation that occurred during the fiscal quarter covered by this report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

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PART II

OTHER INFORMATION

Item 1. ***Legal Proceedings***

The information in Note 5 of the Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this report is incorporated by this reference in response to this item.

Item 1A. ***Risk Factors***

A restated description of the risk factors associated with our business is set forth below. This description includes any material changes to and supersedes the description of the risk factors associated with our business previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2011. 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 Operations .

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 quarter ended March 31, 2012 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 revenues 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

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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 covered 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 Budget Control Act of 2011 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 quarter ended March 31, 2012 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, the Medicare Improvements for Patients and Providers Act of 2008 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 is 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, as well as laboratory testing. In August 2010, the Centers for Medicare & Medicaid Services, or CMS, published the final rule implementing the bundled payment in the Federal Register. The initial 2011 bundled rate included reductions of 2% from the prior reimbursement and further reduced overall rates by 5.94% tied to an expanded list of case-mix adjustors which can be earned back based upon the presence of 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.

Another important provision in the law is an annual adjustment, or market basket update, to the base ESRD Prospective Payment Rate (PPS). Absent action by Congress the PPS base rate will be automatically updated by a formulaic inflation adjustment.

On November 1, 2011, CMS issued the final ESRD PPS rule for 2012. The base will increase by 2.1%, representing a market base of increase of 3.0% less a productivity adjustment of 0.9%. The increase in the final base rate for 2012 (2.1%) is slightly greater than the increase of 1.8% stated in the proposed 2012 ESRD PPS rule published in July 2011, and was made irrespective of the Medicare Payment Advisory Commission, or MedPAC, recommendation for a reduced increase. The MedPAC focus on such a reduction indicates further scrutiny of the annual update is possible.

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We believe the new payment system presents operating, clinical and financial risks. For example, with regard to the expanded list of case-mix adjustors, 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.

Beginning January 1, 2014, certain oral-only ESRD drugs (currently paid separately to pharmacies under Medicare Part D) will be included in the ESRD bundled payment to dialysis facilities. CMS delayed the inclusion of these oral only ESRD drugs until 2014 in order to assess whether the pricing mechanism used for oral drugs with injectable equivalents (included in the bundle beginning January 1, 2011) could be applied to oral only drugs. It is currently unclear how CMS will price the oral-only drugs for inclusion in the ESRD bundle in 2014. Inadequate pricing could have a significant negative financial impact on our dialysis facilities given the volume and value of these drugs.

We expect to continue experiencing 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 in payments under the new bundled payment rate system.

On August 2, 2011, the President signed into law the Budget Control Act of 2011 (Public Law 112-25), which raised the debt ceiling and put into effect a series of actions to reduce the federal budget deficit over ten years. As a result of certain failures to act by a special committee created by the legislation and subsequent failure by Congress to enact deficit reduction legislation, we expect Medicare providers will be cut by 2% of total program costs in 2013.

We also cannot predict whether we will be able to comply with the CMS rules related to the bundled payment system as processes and systems are modified substantially to capture all required data. To the extent we are not able to adequately bill and collect for certain payment adjustors 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. In July 2011, the Department of Health and Human Services, or HHS, issued two proposed rules related to the establishment of health care insurance exchanges due to be operating by 2014 that will provide a marketplace for eligible individuals to purchase health care insurance. The proposed rules provide clarifications on the requirements related to implementation of such exchanges, outline areas of state flexibility in their implementation of such exchanges and provide standards for certain risk adjustment mechanisms. We believe the establishment of health care insurance exchanges could result in a reduction in patients covered by commercial insurance or an increase of patients covered under more restrictive commercial plans with lower reimbursement rates. To the extent that the implementation of such exchanges results 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 October 2011, CMS issued a final rule concerning the Medicare Shared Savings Program established by the health care reform legislation, which under the statute was required to be implemented no later than

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January 1, 2012. The Medicare Shared Savings Program will provide financial incentives to health care providers and suppliers that work together to furnish coordinated, high-quality care to Medicare beneficiaries through accountable care organizations, or ACOs.

To qualify for financial incentives, ACOs must successfully satisfy quality performance standards and also reduce health care costs. ACOs will receive higher percentages of shared savings if they demonstrate they are providing high quality care and achieving a minimum savings based upon the average per capita Medicare expenditures for beneficiaries who have been assigned to the ACOs. Separate expenditure calculations will be made for certain Medicare beneficiary populations, including beneficiaries with ESRD. During an ACO s initial three-year agreement period, the ACO may elect to operate under a one-sided model, where the ACO shares in savings but is not responsible for losses (i.e., costs that exceed a target established by CMS) or a two-sided model, whereby the ACO is eligible for higher sharing rates but in addition to sharing in savings, is at risk for sharing in any losses. During subsequent agreement periods, the ACO must operate under the two-sided model.

CMS will start accepting applications from prospective ACOs in early 2012: ACOs may apply to participate in the program with a start date of April 1, 2012 or July 1, 2012. We are currently uncertain of the extent to which ACOs will impact the health care market. As a provider of dialysis services, we may choose to participate in one or several ACOs. Even if we do not participate in this program, we will need to be aware of how we are performing under the program s criteria. An ACO s quality measures and expenditures include the care furnished by non-participating providers. Therefore, if our patients are assigned to ACOs, the quality and cost of care that we furnish will be included in the ACOs calculations regardless of our participation in the program. We may also be competing against ACOs. If we are unable to perform at the levels established under the program we may be at risk for losing our Medicare patient base, which would have a materially adverse effect on our revenues, earnings and cash flow. Furthermore, even if providers and suppliers elect not to participate in ACOs, there are many similar initiatives with government and private payors that are being implemented and which may arise in the future, including the development of models similar to ACOs, Independent Practice Associations and Integrated Delivery Systems or evolutions of those concepts.

For example, the CMS Center for Medicare & Medicaid Innovation, or Innovation Center, has developed several other demonstration projects aimed at reforming care delivery that include shared savings, such as the Pioneer Accountable Care Organizations Model, the Bundled Payments for Care Improvement Initiative and the Comprehensive Primary Care Initiative. In addition, the Innovation Center may establish other demonstration projects that involve shared savings in the future and it is possible that partial capitation arrangements and specific diseases or care settings may be targeted. The further development of these types of models could create situations where ACOs or similar entities are accountable for coordinating more care for patients. This shift in accountability may require us to negotiate contracts for services with intermediaries instead of directly with the payors. It is possible that payment rates negotiated with intermediaries could be materially lower in the future, which would have a material adverse effect on our revenues, earnings and cash flows.

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 made initial 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, or FCA.

The health care reform 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.

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Effective March 2011, CMS instituted new screening procedures and a new $500 enrollment fee for providers enrolling and re-enrolling in government health care programs. A provider is 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, or others, depending upon the scope and breadth of the implementing regulations, could adversely impact our revenues, earnings and cash flows.

There are numerous steps required to implement the broad healthcare reform legislation adopted by Congress, and Congress may seek to alter or eliminate some of the provisions described above. Numerous legal challenges have also been raised to the healthcare reform legislation that could alter or eliminate certain provisions. The United States Supreme Court reviewed challenges to the reform legislation during oral arguments in March 2012, including whether, if the health insurance mandate is not constitutional, all or some other portions of the reform legislation are severable and may not be implemented. A decision is expected by the end of June 2012. Further, various health insurance reform proposals are also emerging at the state level. The enacted reforms as well as future legislative changes could have a material adverse effect on our results of operations, including lowering our reimbursement rates and increasing our expenses.

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

Approximately 16% of our dialysis and related lab services revenues for the quarter ended March 31, 2012 was generated from patients who have state Medicaid or other non-Medicare government-based programs, such as Medicare-assigned plans or the 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 VA, 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 quarter ended March 31, 2012 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 contractual agreements with the VA 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 VA 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.

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State Medicaid programs are increasingly adopting Medicare-like bundled payment systems, but sometimes these new payment systems are poorly defined and could include all drugs (even those oral-only drugs that Medicare will not include in the bundled payment until 2014) and are implemented without any claims processing infrastructure, or patient or facility adjusters. If these new payment systems are implemented without any adjusters and claims processing changes, Medicaid payments will be substantially reduced and the costs to submit such claims may increase. 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. These Medicaid payment and enrollment changes, along with similar changes to other non-Medicare government programs could reduce the rates paid by these programs for dialysis and related services, delay the timing of payment for services provided, and further limit eligibility for coverage which could adversely affect our revenues, earnings and cash flows.

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

Historically, Medicare and most Medicaid programs paid for EPO outside of the composite rate. This separate payment has long been the subject of discussions regarding appropriate dosing and payment in an effort to reduce escalating expenditures for EPO. Since January 1, 2011, Medicare has bundled EPO into the prospective payment system such that dosing variations will not change the amount paid to a dialysis facility. Although some Medicaid programs and other payors suggest movement towards a bundled payment system inclusive of EPO, some non-Medicare payors continue to pay for EPO separately from the treatment rate. The administration of EPO and other pharmaceuticals that are separately billable accounted for approximately 5% of our dialysis and related lab services revenues for the quarter ended March 31, 2012, with EPO alone accounting for approximately 3% 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 June 2011, the FDA required that the black box warning be slightly revised and also include more conservative dosing recommendations for patients with chronic kidney disease. In addition, in June 2011, CMS opened a National Coverage Analysis, or NCA, for ESAs. Further in January 2011, CMS convened a meeting of the Medicare Evidence Development and Coverage Advisory Committee, or MEDCAC, to evaluate evidence for the pending NCA. In June 2011, CMS determined not to issue a national coverage determination for ESAs due to a lack of available evidence to establish coverage criteria or limitations.

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. 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.

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

In November 2011, we entered into a seven year Sourcing and Supply Agreement with Amgen USA Inc. Under the agreement we committed to purchase EPO in amounts necessary to meet no less than 90% of our requirements for erythropoiesis stimulating agents. The agreement replaces in its entirety the prior one-year supply agreement between us and Amgen that expired on December 31, 2011. As long as certain conditions are met by us, the agreement limits Amgen s ability to unilaterally decide to increase the price for EPO. 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 discounted pricing and rebates for EPO. Some of the rebates are subject to various conditions including but not limited to future pricing levels of EPO by Amgen and data submission by us. In addition, the rebates are subject to certain limitations. We cannot predict whether, over the seven year term of the agreement, we will continue to receive the rebates for EPO that we have received in the past, or whether we will continue to achieve the same levels of rebates within that structure as we have historically achieved. In the initial years of the agreement, however, the total rebate opportunity is less than what was provided in the agreement that expired at the end of 2011, however, the opportunity for us to earn discounts and rebates increases over the term of the agreement. Factors that could impact our ability to qualify for rebates provided for in our agreement with Amgen in the future include, but are not limited to, our ability to track certain data elements. We cannot predict whether we will be able to meet the applicable qualification requirements for receiving rebates. Failure to meet certain targets and earn the specified rebates could have a material adverse effect on our earnings and cash flows.

We are the subject of a number of inquiries by the federal government and two private civil suits, any of which could result in substantial penalties or awards 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 or other requests for documents from the federal government in connection with the 2005 U.S. Attorney investigation, the Woodard private civil suit, the Vainer private civil suit, the 2010 U.S. Attorney physician relationship investigation, the 2011 U.S. Attorney physician relationship investigation and the 2011 U.S. Attorney Medicaid investigation. Certain current and former members of the Board and executives have been subpoenaed to testify before the grand jury in Colorado, and other Company representatives may also receive subpoenas for testimony related to the 2011 U.S. Attorney physician relationship investigation (see Part I, Item 3, of this report under the caption Legal Proceedings for additional details regarding these matters). After investigation, the government did not intervene and is not actively pursuing either the Woodard or the Vainer private civil suits mentioned above. In each of these private civil suits, a relator has filed a complaint against us in federal court under the *qui tam* provisions of the FCA and is pursuing the claims independently. The parties are engaged in active litigation. We are cooperating with the OIG and those offices of the U.S. Attorney still actively pursuing the matters mentioned above and are producing the requested records. Although we cannot predict whether or when proceedings might be initiated by the federal government, the scope of such proceedings or when these matters may be resolved, it is not unusual for investigations such as these to continue for a considerable period of time through the various phases of document and witness requests and on-going discussions with regulators. Responding to the subpoenas or investigations and defending ourselves in the private civil suits will continue to require management s attention and significant legal expense. Any negative findings could result in substantial financial penalties or awards 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.

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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, repayment obligations 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. Additional inquiries from or audits by various agencies and claims by third parties with respect to these issues would continue to require management s attention and significant legal expense and any negative findings could result in substantial financial penalties or repayments, 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.

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 FCA and federal and state laws regarding the collection, use and disclosure of patient health information and the 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 to government or commercial payors any amounts received for such administration, 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 monitor and implement 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 whom 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, 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

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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;
- Termination of relationships with medical directors; and
- Harm to our reputation, which could impact our business relationships, ability to obtain financing and access to new opportunities.

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 March 31, 2012, we owned a controlling interest in numerous dialysis-related joint ventures, which represented approximately 19% of our dialysis and related lab services revenues for the quarter ended March 31, 2012. In addition, we also owned minority equity investments in several other dialysis related joint ventures. We

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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 (and possibly the Stark Law). The subpoena and related requests for documents we received from the U.S. Attorney s Office for the Eastern District of Missouri in the 2005 U.S. Attorney investigation, the OIG s Office in Dallas in the 2010 U.S. Attorney physician relationship investigation and the U.S. Attorney s Office for the District of Colorado in the 2011 U.S. Attorney physician relationship investigation, included requests for documents related to our joint ventures. We were advised by the U.S. Department of Justice that it is conducting civil and grand jury investigations into our financial relationships with physicians.

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.

There are significant estimating risks associated with the amount of dialysis revenues and related refund liabilities that we recognize and if we are unable to accurately estimate our revenues and related refund liabilities, it could impact the timing and the amount of our revenues 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 145,000 U.S. 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 and the amount of our revenues recognition and have a significant impact on our operating results.

The ancillary services we provide or the strategic initiatives, including our international dialysis operations, that we invest in now or in the future 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 currently include pharmacy services, infusion therapy services, disease management services, vascular access services, ESRD clinical research programs, physician services and our international dialysis operations. We expect to add additional service offerings and pursue

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additional strategic initiatives in the future as circumstances warrant, which could include healthcare services not related to dialysis. Many of these initiatives require or would 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, or business performance, or in the political, legislative or regulatory environment, may impact the economic viability of any of these strategic initiatives. For example, during 2011 and 2010, several of our strategic initiatives generated net operating losses and some are expected to generate net operating losses in 2012. If any of our ancillary services or strategic initiatives, including our international dialysis operations, 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. As an example, during the second quarter of 2011 we recorded a goodwill impairment charge of $24 million related to a decrease in the implied fair value of goodwill below its carrying amount associated with our infusion therapy 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, and there are a number of factors, including opportunities presented by our competitors or different affiliation models in the changing healthcare environment, that could negatively impact their decisions to extend their agreements with us. In addition, 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 also 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

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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 slowdown 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.

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 U.S. 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. In addition, as we continue our international dialysis expansion into various international markets, we will face competition from large and medium-sized providers for these acquisition targets as well. 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 and non-dialysis 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

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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 adversely affect 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.

failure to comply with U.S. or local laws that prohibit us or our intermediaries from making improper payments to foreign officials for the purpose of obtaining or retaining business.

Additionally, some factors that will be critical to the success of our international business and operations will be different than those affecting our domestic business and operations. For example, conducting international operations requires us to devote significant management resources to implement our controls and systems in new markets, to comply with local laws and regulations and to overcome the numerous new challenges inherent in managing international operations, including those based on differing languages, cultures and regulatory environments, and those related to the timely hiring, integration and retention of a sufficient number of skilled personnel in an environment with which we are not familiar to carry out operations.

We anticipate expanding our international operations through acquisitions of varying sizes or through organic growth, which could increase these risks. Additionally, though we might invest material amounts of capital and incur significant costs in connection with the growth and development of 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.

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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 our Senior 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 $1.25 billion notional amounts 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 $478 million of outstanding debt on the Term Loan B is subject to LIBOR-based interest rate volatility above a floor of 1.50%. At March 31, 2012, we were also subject to LIBOR-based interest rate volatility above a floor of 1.00% on $199 million of outstanding debt associated with our Term Loan A-2.

We also have approximately $350 million of additional borrowings available of which approximately $52 million was committed for outstanding letters of credit, under our new Senior Secured Credit Facilities that are subject to LIBOR-based interest rate volatility. 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.

At March 31, 2012, if interest rates were to hypothetically increase by 100 basis points it would increase our interest expense by approximately $0.5 million, which increase solely relates to our Term Loan A-2 that is subject to LIBOR-based interest rate volatility above a floor of 1.00%.

However, interest expense would not be impacted by any LIBOR-based interest rate volatility associated with our other Term Loans since all of our Term Loan A is economically fixed and our Term Loan B is subject to LIBOR-based interest rate volatility above a floor of 1.50%, as described above. The current LIBOR rate in

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effect, plus a hypothetical increase of 100 basis points, is currently less than our Term Loan B floor of 1.50%. Therefore, LIBOR-based interest rates would have to increase above a floor of 1.50% for the Term Loan B to have a negative impact on our financial results. See Item 3 Quantitative and Qualitative Disclosures about Market Risk for more information.

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. 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

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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;
- 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.

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 March 31, 2012, these cash bonuses would total approximately $332 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

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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.

Item 2. ***Unregistered Sales of Equity Securities and Use of Proceeds***

(c) Stock repurchases

The following table summarizes the Company s repurchases of its common stock during the first quarter of 2012:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under the plans or programs (in millions)
January 1-31, 2012		$		$ 358.2
February 1-29, 2012				358.2
March 1-31, 2012				358.2
Total		$		

In November 2010, our Board of directors authorized repurchases of our common stock in an aggregate amount of up to $800 million. 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.

Items 3, 4 and 5 are not applicable

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Item 6. ***Exhibits***

(a) Exhibits

Exhibit Number	
12.1	Ratio of earnings to fixed charges. ü
31.1	Certification of the Chief Executive Officer, dated May 2, 2012, pursuant to Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. ü
31.2	Certification of the Chief Financial Officer, dated May 2, 2012, pursuant to Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. ü
32.1	Certification of the Chief Executive Officer, dated May 2, 2012, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. ü
32.2	Certification of the Chief Financial Officer, dated May 2, 2012, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. ü
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation, Linkbase Document.

ü Filed herewith.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DaVita Inc.

BY: /s/ James K. Hilger
James K. Hilger

Interim Chief Financial Officer and

Chief Accounting Officer*

Date: May 2, 2012

* Mr. Hilger has signed both on behalf of the Registrant as a duly authorized officer and as the Registrant s principal accounting officer.

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