DAVITA INC
Form 10-Q
November 06, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

For the Quarterly Period Ended

September 30, 2008

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 1-14106

DAVITA INC.

601 Hawaii Street

El Segundo, California 90245

Telephone number (310) 536-2400

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 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 ¨ Smaller reporting company ¨

(Do not check if a 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 October 31, 2008, the number of shares of the Registrant s common stock outstanding was approximately 103.8 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 $5.9 billion.

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Note: Items 3, 4 and 5 of Part II are omitted because they are not applicable.

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DAVITA INC.

CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

(dollars in thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2008	**2007**	**2008**	**2007**
Net operating revenues	$ 1,447,135	$ 1,318,381	$ 4,199,163	$ 3,909,282
Operating expenses and charges:				
Patient care costs	1,005,648	890,243	2,909,143	2,662,841
General and administrative	128,617	120,596	374,581	356,249
Depreciation and amortization	54,970	49,230	160,673	142,078
Provision for uncollectible accounts	37,305	34,107	109,433	101,686
Minority interests and equity income, net	12,711	11,793	35,168	34,757
Valuation gain on alliance and product supply agreement				(55,275)
Total operating expenses and charges	1,239,251	1,105,969	3,588,998	3,242,336
Operating income	207,884	212,412	610,165	666,946
Debt expense	(54,505)	(62,715)	(168,891)	(194,496)
Other income	2,481	6,278	10,331	17,131
Income before income taxes	155,860	155,975	451,605	489,581
Income tax expense	61,950	61,520	175,810	193,520
Net income	$ 93,910	$ 94,455	$ 275,795	$ 296,061
Earnings per share:				
Basic earnings per share	$ 0.90	$ 0.89	$ 2.61	$ 2.80
Diluted earnings per share	$ 0.89	$ 0.88	$ 2.59	$ 2.76
Weighted average shares for earnings per share:				
Basic	104,556,770	106,171,473	105,569,971	105,558,536
Diluted	105,577,823	107,561,139	106,421,184	107,129,135

See notes to condensed consolidated financial statements.

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DAVITA INC.

CONSOLIDATED BALANCE SHEETS

(unaudited)

(dollars in thousands, except per share data)

	September 30, 2008	December 31, 2007
ASSETS		
Cash and cash equivalents	$ 387,947	$ 447,046
Short-term investments	51,614	40,278
Accounts receivable, less allowance of $204,594 and $195,953	1,056,691	927,949
Inventories	82,494	80,173
Other receivables	230,073	198,744
Other current assets	36,010	34,482
Deferred income taxes	219,160	247,578
Total current assets	2,063,989	1,976,250
Property and equipment, net	1,011,702	939,326
Amortizable intangibles, net	165,270	183,042
Investments in third-party dialysis businesses	19,239	19,446
Long-term investments	6,930	22,562
Other long-term assets	48,162	35,401
Goodwill	3,856,601	3,767,933
	$ 7,171,893	$ 6,943,960
LIABILITIES AND SHAREHOLDERS EQUITY		
Accounts payable	$ 212,661	$ 225,461
Other liabilities	515,989	486,151
Accrued compensation and benefits	330,838	334,961
Current portion of long-term debt	64,262	23,431
Income taxes payable		16,492
Total current liabilities	1,123,750	1,086,496
Long-term debt	3,643,275	3,683,887
Other long-term liabilities	83,494	83,448
Alliance and product supply agreement, net	37,310	41,307
Deferred income taxes	214,477	166,055
Minority interests (fair value subject to potential put obligations $296,000 and $330,000)	162,908	150,517
Commitments and contingencies		
Shareholders equity:		
Preferred stock ($0.001 par value, 5,000,000 shares authorized; none issued)		
Common stock ($0.001 par value, 450,000,000 shares authorized; 134,862,283 shares issued; 104,787,536 and 107,130,127 shares outstanding)	135	135
Additional paid-in capital	755,579	707,080
Retained earnings	1,791,085	1,515,290
Treasury stock, at cost (30,074,747 and 27,732,156 shares)	(635,274)	(487,744)
Accumulated other comprehensive loss	(4,846)	(2,511)
Total shareholders equity	1,906,679	1,732,250

	$ 7,171,893	$ 6,943,960

See notes to condensed consolidated financial statements.

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DAVITA INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(dollars in thousands)

	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Cash flows from operating activities:		
Net income	$ 275,795	$ 296,061
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	160,673	142,078
Valuation gain on alliance and product supply agreement		(55,275)
Stock-based compensation expense	29,975	25,260
Tax benefits from stock award exercises	10,174	27,000
Excess tax benefits from stock award exercises	(5,054)	(23,632)
Deferred income taxes	56,157	25,645
Minority interests in income of consolidated subsidiaries	35,822	35,703
Distributions to minority interests	(43,391)	(35,216)
Equity investment income	(654)	(946)
Loss (gain) on disposal of assets	9,688	(4,944)
Non-cash debt and non-cash rent charges	9,971	11,810
Changes in operating assets and liabilities, other than from acquisitions and divestitures:		
Accounts receivable	(130,022)	(32,425)
Inventories	(1,248)	15,144
Other receivables and other current assets	(28,684)	(42,818)
Other long-term assets	(12,761)	(11,921)
Accounts payable	(12,800)	(6,458)
Accrued compensation and benefits	(11,752)	(17,347)
Other current liabilities	29,838	(26,151)
Income taxes	(3,129)	(13,072)
Other long-term liabilities	3,163	1,214
Net cash provided by operating activities	371,761	309,710
Cash flows from investing activities:		
Additions of property and equipment, net	(223,851)	(176,078)
Acquisitions and purchases of other ownership interests	(101,166)	(81,782)
Proceeds from asset sales	451	4,643
Purchase of investments available for sale	(1,695)	(21,363)
Purchase of investments held-to-maturity	(19,005)	(20,839)
Proceeds from sale of investments available for sale	5,323	32,138
Proceeds from maturities of investments held-to-maturity	18,728	4,780
Contributions from minority owners	22,749	16,204
Purchase of intangible assets	(65)	(556)
Net cash used in investing activities	(298,531)	(242,853)
Cash flows from financing activities:		
Borrowings	12,937,047	10,405,556
Payments on long-term debt	(12,938,297)	(10,451,891)

Deferred financing costs	(130)	(4,462)
Purchase of treasury stock	(169,673)	(6,350)
Excess tax benefits from stock award exercises	5,054	23,632
Stock award exercises and other share issuances, net	33,670	47,756
Net cash (used in) provided by financing activities	(132,329)	14,241
Net (decrease) increase in cash and cash equivalents	(59,099)	81,098
Cash and cash equivalents at beginning of period	447,046	310,202
Cash and cash equivalents at end of period	$ 387,947	$ 391,300

See notes to condensed consolidated financial statements.

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DAVITA INC.

CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY

AND

COMPREHENSIVE INCOME

(unaudited)

(dollars and shares in thousands)

	Common Stock		Additional paid-in capital	Retained earnings	Treasury stock		Accumulated other comprehensive income (loss)	Total
	Shares	Amount			Shares	Amount		
Balance at December 31, 2006	134,862	$ 135	$ 630,091	$ 1,129,621	(30,226)	$ (526,920)	$ 12,997	$ 1,245,924
Comprehensive income:								
Net income				381,778				381,778
Unrealized losses on interest rate swaps, net of tax							(7,169)	(7,169)
Less reclassification of net swap realized gains into net income, net of tax							(8,858)	(8,858)
Unrealized gain on investments, net of tax							4,211	4,211
Less reclassification of net investment realized gains into net income, net of tax							(3,692)	(3,692)
Total comprehensive income								366,270
Cumulative effect of change in accounting principle SFAS Interpretation No. (FIN) 48				3,891				3,891
Stock purchase shares issued			3,831		124	2,160		5,991
Stock unit shares issued			(1,848)		120	2,098		250
Stock options and SSARs exercised			13,429		2,361	41,268		54,697
Stock-based compensation expense			34,149					34,149
Excess tax benefits from stock awards exercised			27,428					27,428
Purchase of treasury stock					(111)	(6,350)		(6,350)
Balance at December 31, 2007	134,862	135	707,080	1,515,290	(27,732)	(487,744)	(2,511)	1,732,250
Comprehensive income:								
Net income				275,795				275,795
Unrealized losses on interest rate swaps, net of tax							(3,972)	(3,972)
Less reclassification of net swap realized losses into net income, net of tax							2,243	2,243
Unrealized losses on investments, net of tax							(536)	(536)
Less reclassification of net investment realized gains into net income, net of tax							(70)	(70)
Total comprehensive income								273,460
Stock purchase shares issued			2,981		98	1,730		4,711
Stock unit shares issued			(2,379)		167	3,253		874
Stock options and SSARs exercised			12,716		853	17,160		29,876
Stock-based compensation expense			29,975					29,975
Excess tax benefits from stock awards exercised			5,206					5,206
Purchase of treasury stock					(3,461)	(169,673)		(169,673)

Balance at September 30, 2008	134,862	$	135	$	755,579	$ 1,791,085	(30,075)	$ (635,274)	$	(4,846)	$ 1,906,679

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)

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 revenue 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 nine months ended September 30, 2008 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, 2007. Prior year balances and amounts have been classified to conform to the current year presentation.

DAVITA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

(dollars and shares in thousands)

2. Earnings per share

Basic net income per share is calculated by dividing net income 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 options, stock-settled stock appreciation rights and unvested stock units (under the treasury stock method).

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

	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
	(shares in thousands)			
Basic:				
Net income	$ 93,910	$ 94,455	$ 275,795	$ 296,061
Weighted average shares outstanding during the period	104,548	106,126	105,561	105,514
Vested stock units	9	45	9	45
Weighted average shares for basic earnings per share calculation	104,557	106,171	105,570	105,559
Basic net income per share	$ 0.90	$ 0.89	$ 2.61	$ 2.80
Diluted:				
Net income	$ 93,910	$ 94,455	$ 275,795	$ 296,061
Weighted average shares outstanding during the period	104,548	106,126	105,561	105,514
Vested stock units	9	45	9	45
Assumed incremental shares from stock plans	1,021	1,390	851	1,570
Weighted average shares for diluted earnings per share calculation	105,578	107,561	106,421	107,129
Diluted net income per share	$ 0.89	$ 0.88	$ 2.59	$ 2.76
Shares subject to anti-dilutive awards excluded from calculation (1)	6,333	305	10,218	930

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

3. Stock-based compensation and other equity transactions

Under SFAS No. 123(R), stock-based compensation recognized during a period is based on the estimated grant-date fair value of the portion of the stock-based awards vesting during that period, adjusted for expected forfeitures. Stock-based compensation recognized in these condensed consolidated financial statements for the three and nine months ended September 30, 2008 and 2007 includes compensation cost for stock-based awards granted prior to, but not fully vested as of, December 31, 2005 and subsequent stock-based awards granted through September 30, 2008 and 2007, respectively. 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

DAVITA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

(dollars and shares in thousands)

the grant-date fair value of stock options and stock-settled stock appreciation rights granted in all periods. During the first nine months of 2008, the Company granted 4,491 stock-settled stock appreciation rights with a grant-date fair value of $49,337 and a weighted-average expected life of approximately 3.35 years, and also granted 33 stock units with a grant-date fair value of $1,699 and a weighted-average expected life of approximately 1.24 years.

For the nine months ended September 30, 2008 and September 30, 2007, the Company recognized $29,975 and $25,260, respectively, in stock-based compensation expense for stock options, stock-settled stock appreciation rights, stock units and discounted employee stock plan purchases, which are primarily included in general and administrative expenses. The estimated tax benefit recorded for stock-based compensation through September 30, 2008 and 2007 was $11,306 and $9,475, respectively. As of September 30, 2008, there was $90,065 of total estimated unrecognized compensation cost related to nonvested stock-based compensation arrangements under our equity compensation and stock purchase plans. The Company expects to recognize this cost over a weighted average remaining period of 1.5 years.

During the nine months ended September 30, 2008 and 2007, the Company received $29,876 and $41,275, respectively in cash proceeds from stock option exercises and $10,174 and $27,000, respectively, in actual tax benefits upon the exercise of stock awards.

During the first nine months of 2008, the Company repurchased a total of 3,461 shares of its common stock for $169,673 or an average price of $49.02 per share, pursuant to previously announced authorizations by the Board of Directors. On May 1, 2008, the Company s Board of Directors authorized an increase of an additional $143,500 of share repurchases of the Company s common stock. The Company did not repurchase any additional shares of its common stock during the third quarter of 2008. However, during October 2008, the Company repurchased 1,028 shares of its common stock for $50,000, or an average price of $48.66 per share. As a result of these transactions, the total outstanding authorization for share repurchases is currently $166,600. This stock repurchase program has no expiration date.

4. Long-term debt

Long-term debt was comprised of the following:

	September 30, 2008	December 31, 2007
Senior secured credit facilities:		
Term loan A	$ 227,500	$ 229,250
Term loan B	1,705,875	1,705,875
Senior and senior subordinated notes	1,750,000	1,750,000
Acquisition obligations and other notes payable	14,303	11,047
Capital lease obligations	5,921	6,667
Total debt principal outstanding	3,703,599	3,702,839
Premium on the $6\,^5/8$% senior notes	3,938	4,479
	3,707,537	3,707,318
Less current portion	(64,262)	(23,431)
	$ 3,643,275	$ 3,683,887

DAVITA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

(dollars and shares in thousands)

Scheduled maturities of long-term debt at September 30, 2008 were as follows:

2008	$ 17,568
2009	69,012
2010	89,433
2011	66,896
2012	1,706,942
2013	901,167
Thereafter	852,581

During the third quarter of 2008, the Company made a mandatory principle payment of $1,750 on the term loan A.

As of September 30, 2008, the Company maintained a total of ten interest rate swap agreements with amortizing notional amounts totaling $834,000. These agreements had the economic effect of modifying the LIBOR-based variable interest rate on an equivalent amount of the Company s debt to fixed rates ranging from 3.08% to 4.70%, resulting in an overall weighted average effective interest rate of 5.51% on the hedged portion of the Company s Senior Secured Credit Facilities, including the term loan B margin of 1.50%. The swap agreements expire in 2008 through 2010 and require quarterly interest payments. During the first nine months of 2008, the Company accrued net charges of $3,671 from these swaps which is included in debt expense. As of September 30, 2008, the total fair value of all of the Company s interest rate swaps was a liability of $9,306 and is principally included in other long-term liabilities.

Total comprehensive income for the three and nine months ended September 30, 2008 was $94,115 and $273,460, including adjustments to other comprehensive income for valuation gains (losses) on interest rate swaps net of amounts reclassified into income of $636 and $(1,729), net of tax, respectively, and adjustments to other comprehensive income for unrealized losses on investments net of amounts reclassified into income of ($431) and ($606), net of tax, respectively.

Total comprehensive income for the three and nine months ended September 30, 2007 was $86,452 and $288,074, including reductions to other comprehensive income for valuation losses on interest rate swaps net of amounts reclassified into income of $7,098 and $8,506, net of tax, respectively, and adjustments to other comprehensive income for unrealized (losses) gains on investments, net of amounts reclassified into income of ($905) and $519 net of tax, respectively.

As of September 30, 2008, the interest rates were economically fixed on approximately 43% of the Company s variable rate debt and approximately 70% of its total debt.

As a result of the swap agreements, the overall effective weighted average interest rate on the Senior Secured Credit Facilities was 5.39%, based upon the current margins in effect of 1.50%, as of September 30, 2008.

The Company s overall average effective interest rate during the third quarter of 2008 was 5.66% and as of September 30, 2008 was 6.09%.

As of September 30, 2008, the Company has undrawn revolving credit facilities totaling $250,000 of which approximately $47,001 was committed for outstanding letters of credit. The Company also has undrawn

DAVITA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

(dollars and shares in thousands)

revolving credit facilities totaling $10,000 associated with several of its joint ventures. These revolving credit facilities are typically guaranteed by DaVita Inc. or one of its wholly-owned operating subsidiaries based upon its proportionate ownership percentage.

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 fiscal intermediaries or regulatory authorities; (3) differing opinions regarding a patient s medical diagnosis or the medical necessity of services provided; and (4) retroactive applications or interpretations of governmental requirements. In addition, the Company s revenues from commercial payors may be subject to adjustment as a result of potential claims for refunds, as a result of government actions or as a result of other claims by commercial payors.

United States Attorney inquiries

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 Epogen®, or 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 is cooperating with the inquiry and is producing the requested records. The Company has been in contact with the United States Attorney s Office, or U.S. Attorney s Office, for the Eastern District of Texas, which has stated that this is a civil inquiry related to EPO claims. There appears to be substantial overlap between this issue and the ongoing review of EPO utilization and claims by the U.S. Attorney s Office, for the Eastern District of Missouri in St. Louis described below. In addition, on November 4, 2008, the Company received a verbal notice of a forthcoming civil inquiry from the Department of Justice and the U.S. Attorney s Office for the Northern District of Georgia relating to the administration of iron and vitamin D pharmaceuticals. The Company expects to receive a request to produce documents and other information and such request may come in the form of a subpoena. The Company intends to cooperate with any such request. To the Company s knowledge, no proceedings have been initiated against the Company in any of the aforementioned inquiries at this time. Although the Company cannot predict whether or when proceedings might be initiated or when these matters may be resolved, it is not unusual for investigations such as these to continue for a considerable period of time. Responding to these inquiries will continue to require management s attention and significant legal expense. Any negative findings could result in substantial financial penalties against the Company and exclusion from future participation in the Medicare and Medicaid programs.

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 requires production of a wide range of documents relating to our operations, including documents related to, among other things, pharmaceutical and other services provided to patients, relationships with pharmaceutical companies, and financial relationships with physicians and joint ventures. The subpoena covers the period from December 1, 1996 through the present. In October 2005, the Company received a follow-up request for additional documents related to specific medical director and joint venture arrangements. In February 2006, the Company received an additional subpoena for documents, including certain patient records relating to the administration and billing of EPO. In May 2007, the Company received a

DAVITA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

(dollars and shares in thousands)

request for documents related to durable medical equipment and supply companies owned and operated by the Company. The Company is producing documents and providing information to the government. The Company is also cooperating, and intends to continue to cooperate, with the government s investigation, including by participating in discussions and meetings with the government. The subpoenas have been issued in connection with a joint civil and criminal investigation. It is possible that criminal proceedings may be initiated against the Company in connection with this inquiry. Any negative findings could result in substantial financial penalties against the Company, exclusion from future participation in the Medicare and Medicaid programs and criminal penalties. To the Company s knowledge, no proceedings have been initiated against the Company at this time. Although the Company cannot predict whether or when proceedings might be initiated or when these matters may be resolved, it is not unusual for investigations such as this to continue for a considerable period of time. Responding to the subpoenas will continue to require management s attention and significant legal expense.

In October 2004, the Company received a subpoena from the U.S. Attorney s Office for the Eastern District of New York in Brooklyn. The subpoena covers the period from 1996 to present and requires the production of a wide range of documents relating to the Company s operations, including DaVita Laboratory Services. Gambro Healthcare received a similar subpoena in November 2004. The subpoena also includes specific requests for documents relating to testing for parathyroid hormone levels, or PTH, and to products relating to vitamin D therapies. The subpoena has been issued in connection with a joint civil and criminal investigation. It is possible that criminal proceedings may be initiated against the Company in connection with this inquiry. Any negative findings could result in substantial financial penalties against the Company, exclusion from future participation in the Medicare and Medicaid programs and criminal penalties. Other participants in the dialysis industry received a similar subpoena, including Fresenius Medical Group. To the Company s knowledge, no proceedings have been initiated against the Company at this time. Although the Company cannot predict whether or when proceedings might be initiated or when these matters may be resolved, it is not unusual for investigations such as these to continue for a considerable period of time. Responding to the subpoena may continue to require management s attention and significant legal expense.

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) related to historical Gambro Healthcare billing practices and other matters covered by their 2004 settlement agreement with the Department of Justice and certain agencies of the U.S. government. At least one commercial payor has filed an arbitration demand against the Company, as described below, and additional commercial payors have threatened litigation. The Company intends to defend against these claims vigorously; however, the Company may not be successful and these claims may lead to litigation and any such litigation may be resolved unfavorably. Although the ultimate outcome of these claims cannot be predicted at this time, an adverse result in excess of the Company s established reserves, with respect to one or more of these claims could have a material adverse effect on the Company s business, financial condition, results of operations and liquidity.

In February 2007, the Company was served with a complaint filed in the Superior Court of California by one of its former employees who worked in one of its chronic facilities as a reuse technician. The complaint, which is styled as a class action, alleges, among other things, that the Company failed to provide rest and meal periods, failed to pay compensation in lieu of providing such rest or meal periods, and failed to comply with certain other California labor code requirements. The Company intends to vigorously defend against this claim. The Company also intends to vigorously oppose the certification of this matter as a class action. Although the

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DAVITA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

(dollars and shares in thousands)

ultimate outcome of these claims cannot be predicted, the Company does not expect that an unfavorable result, if any, would have a material adverse effect on the Company s business, financial condition, liquidity or results of operations.

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 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 criminal investigation has been discontinued. The Attorney General s Office further advised the Company that Nevada Medicaid intends to conduct audits of ESRD providers in Nevada, including the Company, and that such audits will relate to the issues that were the subjects of the criminal investigation. Any negative findings could result in substantial financial penalties against the Company and exclusion from future participation in the Medicare and Medicaid programs. To the Company s knowledge, no proceedings have been initiated against the Company at this time.

In August 2007, Sheet Metal Workers National Health Fund and Glenn Randle filed a complaint in the United States District Court for the Central District of California against the Company. The complaint also names as defendants Amgen, Inc. and Fresenius Medical Care Holdings, Inc. The complaint is styled as a class action and alleges four claims against the Company, including violations of the federal RICO statute, California s unfair competition law, California s false advertising law and for unjust enrichment. The complaint s principal allegations against the Company are that the defendants engaged in a scheme to unlawfully promote the administration of EPO to hemodialysis patients intravenously, as opposed to subcutaneously, and to over-utilize EPO. The Company intends to vigorously defend against these claims. The Company also intends to vigorously oppose the certification of this matter as a class action. At this time, the Company cannot predict the ultimate outcome of this matter or the potential range of damages, if any.

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

In June 2004, Gambro 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 (formerly known as Gambro Healthcare) failed to provide overtime wages, defined rest periods and meal periods, or compensation in lieu of such provisions and failed to comply with certain other California labor code requirements. The Company intends to vigorously defend against this claim. The Company also intends to vigorously oppose the certification of this matter as a class action. Although the ultimate outcome of these claims cannot be predicted, the Company does not expect that an unfavorable result, if any, would have a material adverse effect on the Company s business, financial condition, liquidity or results of operations.

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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.

6. Other commitments

The Company has obligations to purchase the 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 interests at either the appraised fair market value or a predetermined multiple of cash flow or earnings attributable to the equity interest put to the Company, which is intended to approximate fair value. During the second quarter of 2008 the Company updated its methodology used to estimate the fair value of these put provisions. The revised methodology now used to estimate the fair values of these put provisions assumes either a predetermined multiple of earnings, or the higher of a liquidation value 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 these put provisions can fluctuate and the implicit multiple of earnings at which these obligations may be ultimately settled will vary depending upon market conditions including the credit and 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 interests.

The following is a reconciliation of the activity of the put provision obligations during the three and nine months ended September 30, 2008:

	Fair value estimates using significant unobservable inputs (Level 3)	
	Three months ended September 30, 2008	Nine months ended September 30, 2008
Beginning balance	$ 292,000	$ 330,000
Changes in fair value and changes due to methodology change	4,000	(68,000)
New agreements		37,000
Purchases pursuant to and exercises of put obligations		(3,000)
Balance at September 30, 2008	$ 296,000	$ 296,000

Additionally, the Company has certain other potential commitments to provide operating capital to several nonconsolidated investments and to third-party owned centers and clinics that the Company operates under administrative service agreements of approximately $25,500.

The Company is obligated under mandatorily redeemable instruments in connection with certain consolidated joint ventures. Future distributions may be required for the minority partners interests in limited-life entities which dissolve after terms of ten to fifty years. As of September 30, 2008, such distributions would be valued below the related minority interests balances in the consolidated balance sheet.

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7. Investments

In accordance with SFAS No. 115 and based on the Company s intentions and strategy involving investments, the Company classifies certain debt securities as held-to-maturity and records them at amortized cost. Equity securities that have readily determinable fair values and certain other debt securities classified as available for sale are recorded at fair value.

The Company s investments consist of the following:

	September 30, 2008			December 31, 2007		
	Held to maturity	Available for sale	Total	Held to maturity	Available for sale	Total
Certificates of deposit and U.S. treasury notes due within one year	$ 20,014	$	$ 20,014	$ 19,804	$	$ 19,804
Investments in mutual funds		38,530	38,530		43,036	43,036
	$ 20,014	$ 38,530	$ 58,544	$ 19,804	$ 43,036	$ 62,840
Short-term investments	$ 20,014	$ 31,600	$ 51,614	$ 19,804	$ 20,474	$ 40,278
Long-term investments		6,930	6,930		22,562	22,562
	$ 20,014	$ 38,530	$ 58,544	$ 19,804	$ 43,036	$ 62,840

The cost of the certificates of deposit and U.S. treasury notes at September 30, 2008 and December 31, 2007 approximates their fair value. As of September 30, 2008 and December 31, 2007, the available for sale investments included ($142) of gross pre-tax unrealized losses and $850 of gross pre-tax unrealized gains, respectively. During the nine months ended September 30, 2008, the Company recorded gross pre-tax unrealized losses of ($878), or ($536), after tax, in other comprehensive income associated with changes in the fair value of these investments. During the nine months ended September 30, 2008, the Company sold investments in mutual funds for net proceeds of $5,323, and recognized a pre-tax gain of $114, or $70 after tax, that was previously recorded in other comprehensive income. During the nine months ended September 30, 2007, the Company sold investments in mutual funds and NxStage, Inc. common stock totaling $32,138 and recognized a pre-tax gain of $6,036, or $3,688 after tax, which was previously recorded in other comprehensive income. The pre-tax gains in each year are included in other income.

The certificates of deposit and U.S. treasury notes classified as held to maturity are investments used to initially capitalize the special needs plans of VillageHealth, which is a wholly-owned subsidiary of the Company. The investments in mutual funds classified as available for sale are held in trust to fund existing obligations associated with several of the Company s non-qualified deferred compensation plans.

8. Fair value of financial instruments

On January 1, 2008, the Company adopted SFAS No. 157 *Fair Value Measurements,* except for the nonfinancial assets and liabilities that are subject to a one-year deferral allowed by FASB Staff Position (FSP) FAS 157-2 *Effective Date of FASB Statement No. 157*. This standard establishes a framework for measuring assets and liabilities at fair value and also requires additional disclosures about fair value measurements. The standard applies to assets and liabilities that are carried at fair value on a recurring basis. On February 12, 2008, FSP FAS157-2 was issued delaying the effective date of SFAS No. 157 until fiscal years beginning after November 15, 2008 for nonfinancial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis, at least annually.

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The following table summarizes the Company s assets and liabilities measured at fair value on a recurring basis as of September 30, 2008:

	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	$ 38,530	$ 38,530	$	$
Liabilities				
Interest rate swap agreements	$ 9,306	$	$ 9,306	$
Commitments				
Business interests subject to put obligations	$ 296,000	$	$	$ 296,000

The available for sale securities represent investments in various open or closed-ended registered investment companies, or mutual funds, and are recorded at fair value based upon the quoted market prices as reported by each mutual fund. See Note 7 to the condensed consolidated financial statements for further discussion.

The interest rate swap agreements are recorded at fair value based upon valuation models and a variety of techniques as reported by various broker dealers that are based upon relevant observable market inputs such as current interest rates, forward yield curves, and other credit and liquidity market conditions. The Company does not believe the ultimate amount that could be realized upon settlement of these interest rate swap 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 6 to the condensed consolidated financial statements for a discussion of the Company s methodology for estimating the fair value of the business interests subject to put obligations.

9. Income taxes

As of September 30, 2008, the Company s total liability for unrecognized tax benefits relating to tax positions that do not meet the more-likely-than-not threshold is $10,177, all of which would impact the Company s effective tax rate if recognized. This balance represents a decrease of $15,567 from the December 31, 2007 balance of $25,744 primarily due to a tax accounting method change which was initiated during the quarter ending March 31, 2008.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in its income tax expense. At September 30, 2008, the Company had approximately $1,520 accrued for interest and penalties related to unrecognized tax benefits, net of federal tax benefits.

10. Significant new accounting policies

In March 2008, the Financial Statement Accounting Board, or FASB, issued statement No. 161 *Disclosures about Derivative Instruments and Hedging Activities*, which amends SFAS No. 133 *Accounting for Derivative Instruments and Hedging Activities*. This standard requires enhanced disclosures about an entity s derivative and hedging activities. Entities will be required to provide additional disclosures about (a) how and why an entity

DAVITA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. This standard is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, and encourages but does not require comparative disclosures for earlier periods at the initial adoption. The Company is currently in the process of assessing the expected impact of this standard on its consolidated financial statements.

On January 1, 2008, the Company adopted SFAS No. 159 *Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of SFAS No. 115.* This standard allows companies the alternative to measure certain financial assets and liabilities at fair value on an instrument-by-instrument basis that are currently not required to be measured at fair value. The standard is also designed to reduce the volatility in earnings caused by measuring related assets and liabilities differently and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The implementation of this standard did not have an impact on the Company s consolidated financial statements.

In December 2007, the FASB issued Statement No. 141(R) *Business Combinations,* which replaces SFAS No. 141 *Business Combinations*. This standard requires all business combinations to be accounted for under the acquisition method (previously referred to as the purchase method). Under the acquisition method, the acquirer recognizes the assets acquired, the liabilities assumed, contractual contingencies, as well as any noncontrolling interest in the acquiree at their fair values at the acquisition date. Noncontractual contingencies are recognized at the acquisition date at their fair values only if it is more likely than not that they meet the definition of an asset or a liability in FASB Concepts Statement No. 6 *Elements of Financial Statements.* Transaction costs are excluded from the acquisition accounting and will be expensed as incurred. Any contingent consideration included by the acquirer as part of the purchase price must also be measured at fair value at the acquisition date and will be classified as either equity or a liability. This standard also requires a company that obtains control but acquires less than 100% of an acquiree to record 100% of the fair value of the acquiree assets, liabilities, and noncontrolling interests at the acquisition date. This standard is effective for periods beginning on or after December 15, 2008. The Company is currently in the process of assessing the expected impact of this standard on its consolidated financial statements.

In December 2007, the FASB issued Statement No. 160 *Noncontrolling Interests in Consolidated Financial Statements*, which amends Accounting Research Bulletin No. 51 *Consolidated Financial Statements.* This standard requires noncontrolling interests to be treated as a separate component of equity, but apart from the parent s equity and not as a liability, or as an item outside of equity. This will eliminate diversity that currently exists in accounting for transactions between an entity and its noncontrolling interests. This standard also specifies that consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income, and that changes in the parent s ownership interest while it retains a controlling financial interest should be accounted for as equity transactions. This standard also expands disclosures in the financial statements to include a reconciliation of the beginning and ending balances of the equity attributable to the parent and the noncontrolling owners and a schedule showing the effects of changes in a parent s ownership interest in a subsidiary on the equity attributable to the parent. This standard is effective for periods beginning on or after December 15, 2008. The Company is currently in the process of assessing the expected impact of this standard on its consolidated financial statements.

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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 of infusion therapy services, pharmacy services, vascular access services, physician services, disease management services and full-service special needs plans, as well as clinical research programs. 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 in accordance with SFAS No. 131 *Disclosures about Segments of an Enterprise and Related Information,* as separate financial information is regularly produced and reviewed by the Company s chief operating decision maker in making decisions about allocating resources and assessing financial results. The Company s chief operating decision maker is its Chief Executive Officer. The dialysis and related lab services business qualifies under SFAS No. 131 as a reportable segment, and all of the other ancillary services and strategic initiatives operating segments have been combined and disclosed in the other segments category.

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Segment revenues:				
Dialysis and related lab services [1]	$ 1,377,977	$ 1,285,596	$ 4,025,934	$ 3,820,585
Other Ancillary services and strategic initiatives	69,158	32,785	173,229	88,697
Consolidated revenues	$ 1,447,135	$ 1,318,381	$ 4,199,163	$ 3,909,282
Segment operating margin (loss):				
Dialysis and related lab services	$ 236,062	$ 247,256	$ 702,322	$ 762,440
Other Ancillary services and strategic initiatives	(4,708)	(14,117)	(27,014)	(35,477)
Total segment margin	$ 231,354	$ 233,139	$ 675,308	$ 726,963
Reconciliation of segment margin to income before income taxes:				
Stock-based compensation	(10,759)	(8,934)	(29,975)	(25,260)
Minority interests and equity income, net	(12,711)	(11,793)	(35,168)	(34,757)
Consolidated operating income	207,884	212,412	610,165	666,946
Debt expense	(54,505)	(62,715)	(168,891)	(194,496)
Other income	2,481	6,278	10,331	17,131
Consolidated income before income taxes	$ 155,860	$ 155,975	$ 451,605	$ 489,581

(1) Includes management fees related to providing management and administrative services to nonconsolidated investments and third-party owned dialysis centers.

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DAVITA INC.

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Summary of assets by segment is as follows:

	September 30, 2008	December 31, 2007
Segment assets		
Dialysis and related lab services	$ 6,915,973	$ 6,731,647
Other Ancillary services and strategic initiatives	255,920	212,313
Consolidated assets	$ 7,171,893	$ 6,943,960

12. 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 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 and the senior subordinated notes were issued by the Company and are guaranteed by substantially all of the Company s direct and indirect wholly-owned subsidiaries. Each of the guarantor subsidiaries has guaranteed the notes on a joint and several, full and unconditional basis. Non-wholly-owned subsidiaries, joint venture partnerships and other third parties are not guarantors of these obligations.

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DAVITA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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Condensed Consolidating Statements of Income

For the three months ended September 30, 2008	DaVita Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Total
Net operating revenues	$ 92,199	$ 1,226,156	$ 228,496	$ (99,716)	$ 1,447,135
Operating expenses	59,243	1,077,174	189,839	(99,716)	1,226,540
Minority interests and equity income, net				12,711	12,711
Operating income	32,956	148,982	38,657	(12,711)	207,884
Debt (expense)	(55,565)	(43,574)	(1,832)	46,466	(54,505)
Other income	48,718		229	(46,466)	2,481
Income tax expense (benefit)	10,413	51,743	(206)		61,950
Equity earnings in subsidiaries	78,214	23,487		(101,701)	
Net income	$ 93,910	$ 77,152	$ 37,260	$ (114,412)	$ 93,910
For the three months ended September 30, 2007					
Net operating revenues	$ 89,613	$ 1,135,618	$ 188,032	$ (94,882)	$ 1,318,381
Operating expenses	52,388	978,192	158,478	(94,882)	1,094,176
Minority interests and equity income, net				11,793	11,793
Operating income	37,225	157,426	29,554	(11,793)	212,412
Debt (expense)	(63,535)	(61,609)	(1,566)	63,995	(62,715)
Other income	70,112		161	(63,995)	6,278
Income tax expense	17,313	44,203	4		61,520
Equity earnings in subsidiaries	67,966	15,879		(83,845)	
Net income	$ 94,455	$ 67,493	$ 28,145	$ (95,638)	$ 94,455
For the nine months ended September 30, 2008					
Net operating revenues	$ 270,617	$ 3,570,339	$ 651,147	$ (292,940)	$ 4,199,163
Operating expenses	168,054	3,129,975	548,741	(292,940)	3,553,830
Minority interests and equity income, net				35,168	35,168
Operating income	102,563	440,364	102,406	(35,168)	610,165
Debt (expense)	(171,203)	(141,663)	(5,136)	149,111	(168,891)
Other income	158,897		545	(149,111)	10,331
Income tax expense	35,110	140,253	447		175,810
Equity earnings in subsidiaries	220,648	60,988		(281,636)	
Net income	$ 275,795	$ 219,436	$ 97,368	$ (316,804)	$ 275,795

For the nine months ended September 30, 2007					
Net operating revenues	$ 273,418	$ 3,377,045	$ 549,881	$ (291,062)	$ 3,909,282
Operating expenses	154,224	2,895,570	448,847	(291,062)	3,207,579
Minority interests and equity income, net				34,757	34,757
Operating income	119,194	481,475	101,034	(34,757)	666,946
Debt (expense)	(196,570)	(193,853)	(2,039)	197,966	(194,496)
Other income	214,268		829	(197,966)	17,131
Income tax expense	53,525	139,420	575		193,520
Equity earnings in subsidiaries	212,694	64,019		(276,713)	
Net income	$ 296,061	$ 212,221	$ 99,249	$ (311,470)	$ 296,061

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Condensed Consolidating Balance Sheets

As of September 30, 2008	**DaVita Inc.**	**Guarantor Subsidiaries**	**Non-Guarantor Subsidiaries**	**Consolidating Adjustments**	**Consolidated Total**
Cash and cash equivalents	$ 375,655	$	$ 12,292	$	$ 387,947
Accounts receivable, net		911,473	145,218		1,056,691
Other current assets	30,431	543,316	45,604		619,351
Total current assets	406,086	1,454,789	203,114		2,063,989
Property and equipment, net	15,402	832,916	163,384		1,011,702
Amortizable intangibles, net	47,558	116,119	1,593		165,270
Investments in subsidiaries	4,675,445	421,171		(5,096,616)	
Receivables from subsidiaries	487,771		91,957	(579,728)	
Other long-term assets and investments	14,607	15,230	44,494		74,331
Goodwill	51,817	3,543,896	260,888		3,856,601
Total assets	$ 5,698,686	$ 6,384,121	$ 765,430	$ (5,676,344)	$ 7,171,893
Current liabilities	$ 165,280	$ 890,751	$ 67,719	$	$ 1,123,750
Payables to parent		500,064	79,664	(579,728)	
Long-term debt and other long-term liabilities	3,626,727	335,902	15,927		3,978,556
Minority interests				162,908	162,908
Shareholders equity	1,906,679	4,657,404	602,120	(5,259,524)	1,906,679
Total liabilities and shareholders equity	$ 5,698,686	$ 6,384,121	$ 765,430	$ (5,676,344)	$ 7,171,893
As of December 31, 2007					
Cash and cash equivalents	$ 443,157	$	$ 3,889	$	$ 447,046
Accounts receivable, net		786,765	141,184		927,949
Other current assets	26,528	557,357	17,370		601,255
Total current assets	469,685	1,344,122	162,443		1 ,976,250
Property and equipment, net	19,317	766,596	153,413		939,326
Amortizable intangibles, net	55,629	126,202	1,211		183,042
Investments in subsidiaries	4,286,853	427,436		(4,714,289)	
Receivables from subsidiaries	698,868		61,015	(759,883)	
Other long-term assets and investments	22,729	16,052	38,628		77,409
Goodwill	49,791	3,476,124	242,018		3,767,933
Total assets	$ 5,602,872	$ 6,156,532	$ 658,728	$ (5,474,172)	$ 6,943,960
Current liabilities	$ 182,419	$ 856,638	$ 47,439	$	$ 1,086,496

Payables to parent		759,883		(759,883)	
Long-term debt and other long-term liabilities	3,688,203	272,488	14,006		3,974,697
Minority interests				150,517	150,517
Shareholders equity	1,732,250	4,267,523	597,283	(4,864,806)	1,732,250
Total liabilities and shareholders equity	$ 5,602,872	$ 6,156,532	$ 658,728	$ (5,474,172)	$ 6,943,960

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Condensed Consolidating Statements of Cash Flows

For the nine months ended September 30, 2008	DaVita Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Total
Cash flows from operating activities					
Net income	$ 275,795	$ 219,436	$ 97,368	$ (316,804)	$ 275,795
Changes in operating assets and liabilities and non cash items included in net income	(421,137)	339,594	(139,295)	316,804	95,966
Net cash (used in) provided by operating activities	(145,342)	559,030	(41,927)		371,761
Cash flows from investing activities					
Additions of property and equipment, net	(1,308)	(191,272)	(31,271)		(223,851)
Acquisitions and purchases of other ownership interests	(39)	(91,906)	(9,221)		(101,166)
Proceeds form divestitures and asset sales		451			451
Purchase of investments and other items	3,628	(33,121)	55,528		26,035
Net cash provided by (used in) investing activities	2,281	(315,848)	15,036		(298,531)
Cash flows from financing activities					
Long-term debt, net	(4,459)	(444)	3,653		(1,250)
Intercompany borrowing	211,097	(242,738)	31,641		
Other items	(131,079)				(131,079)
Net cash provided by (used in) financing activities	75,559	(243,182)	35,294		(132,329)
Net (decrease) increase in cash and cash equivalents	(67,502)		8,403		(59,099)
Cash and cash equivalents at beginning of period	443,157				