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September 11, 2007

Eric Peter
Health Program Associate
Health Planning & Systems Development Unit
Office of Commissioner
Department of Health and Social Services
P.O. Box 110601
Juneau, Alaska 99811-0601

RE: Certificate of Need Application for Liberty Dialysis – Anchorage Clinic

Dear Mr. Peter,

Thank you for your email dated August 30, 2007 requesting additional information regarding our application to build a 20 station dialysis clinic in Anchorage. For ease of reference, this letter follows the format of your email.

Section III: Description of Facilities and Capacity Indicators

Construction Data- *Have you determined a site yet or are you currently negotiating for a site? If so can you give us a site now? If not, provide us with proposed areas of town you plan to locate in. Let us know as soon as possible when you settle on a location. According to your application, you will be leasing a site for your clinic. Please provide information on what kind of framing, floor systems, number of floors and square footage is planned. Facility site data required for the completeness check include an architectural master plan, schematic floor plan, diagrammatic site plan and legal description. Also, please update us on your acquisition cost.*

We are currently in discussions with landlords with respect to several locations in central Anchorage. The approximately location of these sites is referenced by the yellow flag contained in the map of Anchorage on page 57 of our Certificate of Need application. Each location is approximately 10,000 square feet with a rent per square foot that is at, or very close to, the amount contained in the Certificate of Need application. In each case, we anticipate that the project will consist of standard stick framing on a single level. As soon as we have finalized a location, we will provide updated information to the Department.

The configuration and size of each building is very similar to our clinic in Berlin, New Jersey. As a result, until a location is finalized, we have attached a schematic floor plan of our Berlin clinic. We anticipate that the Anchorage clinic will have substantially the same design.

Existing Capacity Utilization- *You need to demonstrate that existing services in the service area in which the facility is to be located operated at an average of 80% of capacity over the last three years.*

Attached as Appendix A hereto is a schedule showing the average capacity of the existing Anchorage dialysis clinic over the past three years calculated in accordance with the Department of Health and Social Services formula for determining need.

Section IX. Financial Data – All Proposed Activities

Section IX (C) Attach Schedule III Patient per diem costs (page 81 of application)- *You responded "Not applicable." Please provide this information.*

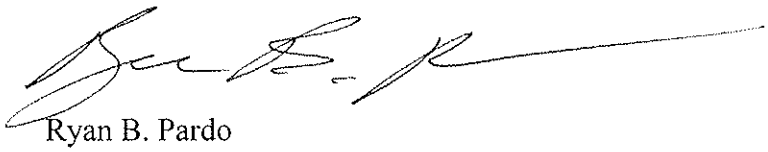
Attached as Appendix B hereto is a schedule showing the estimated per treatment costs.

Section IX (D) Projected capital budget and operating budgets (page 81 of application)- *You responded "Not applicable" in your application. Please provide these projections.*

Attached as Appendix C hereto is a schedule showing the projected capital and operating budgets for the new dialysis clinic.

If you have any questions regarding the information included with this letter, please feel free to call me at (206) 816-6506.

Sincerely,



Ryan B. Pardo
Vice President, Secretary

Cc: David Pierce, Certificate of Need Coordinator

Appendix A

Average Utilization Rate

According to data available from the Northwest Renal Network, the existing Anchorage clinic had the following patient base from 2004 through 2006:

Year	Hemodialysis	Home Hemodialysis	Peritoneal Dialysis	Total
2006	158	0	85	243
2005	139	0	86	225
2004	154	0	86	240
Three year average	**150.33**	**0**	**85.67**	**236**

Using the average hemodialysis patient base over the last three years, the average facility utilization rate can be calculated using a modified version of the Dialysis Station Requirement formula.

STEP ONE: Determine the average ESRD caseload:

C = 150

C (caseload) = the average number of ESRD patients over the previous three years

In this case, we know that average case load over the last three years was 150, so we can set C equal to 150.

STEP TWO: Determine the number of chronic renal dialysis treatments required to meet the caseload using the formula:

DTR = C x PTR

DTR = Dialysis treatments required

C (caseload) = ESRD caseload

PTR = Average ESRD patient treatment rate, defined as 3.0 treatments per patient per week or 156 treatments per patient annually

In this case, we know that C is equal to 150 so:

DTR = C x PTR = 150 x 156 = 23,400

STEP THREE: Determine the number of ESRD dialysis stations required to meet the projected number of treatments using the formula:

DSR= DTR / DSC / TSO

DSR = Dialysis stations required

DTR = Dialysis treatments required

DSC = Average dialysis station capacity, defined as 15.0 treatments per week or 780 treatments per year

TSO = Target ESRD station occupancy

We can determine the actual ESRD station occupancy rate (or TSO) by solving for TSO in this equation and replacing dialysis stations required (DSR) with the actual number of dialysis stations in the Anchorage market, which is 35. The following steps can be taken to solve for TSO.

(a) DSR = DTR / DSC / TSO

(b) TSO * DSR = DTR / DSC

(c) TSO = DTR / DSC / DSR

Now, we can plug in the numbers we have calculated early to determine TSO (which in this case will be the actual average utilization rate over the last three years).

TSO = DTR / DSC / DRS = 23,400 / 780 / 35 = 85.7%

Therefore, average utilization of dialysis stations over the last three years in the Anchorage market was **85.7%.**

Appendix B

Per Treatment Costs

Schedule III. Average Treatment Cost and Revenue Amounts			
Projections For Three Years Beyond Project Completion			
	FY	FY	FY
Revenues	7,327,648	16,194,336	22,053,151
Expenses	2,189,166	3,128,873	3,809,321
Treatments (in Hemo-Equivalents)	4,132	8,785	11,981
Revenue per Treatment	$365	$380	$380
Cost per Treatment	$404	$304	$284
Operating & Capital Budget Summary:			
Gross Revenues	7,327,648	16,194,336	22,053,151
Deductions from Revenue	(5,856,292)	(12,942,592)	(17,624,985)
Net Revenue	1,471,356	3,251,744	4,428,166
Direct Expense	(1,059,302)	(1,885,524)	(2,422,258)
Indirect Expense	(1,129,864)	(1,243,349)	(1,387,063)
Net Income Projected	(717,810)	122,871	618,844

Appendix C

Capital Budget and Operating Budget

Schedule IV. Operating Budget			
Projections For Three Years Beyond Project Completion			
Description:	FY	FY	FY
Number of Stations	20	20	20
Days in a year	365	365	365
Available station days	313	313	313
Percent growth	100%		
Number of Patients	50	72	94
Hemodialysis Composite Rate			
Payer Mix:			
Medicaid	2%	2%	2%
Medicare	92%	92%	92%
Other	6%	6%	6%
Total Revenue	7,327,648	16,194,336	22,053,151
Cost per Treatment	$404	$304	$284