

DAVITA HEALTHCARE PARTNERS INC.  
Form 10-Q  
May 05, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

For the Quarterly Period Ended March 31, 2015

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

Commission File Number: 1-14106

DAVITA HEALTHCARE PARTNERS INC.

2000 16th Street

Denver, CO 80202

Telephone number (303) 405-2100

Delaware  
(State of incorporation) 51-0354549  
(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  No

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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  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

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

As of April 30, 2015, the number of shares of the Registrant’s common stock outstanding was approximately 215.0 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 \$17.4 billion.

DAVITA HEALTHCARE PARTNERS INC.

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

## DAVITA HEALTHCARE PARTNERS INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

(dollars in thousands, except per share data)

	Three months ended	
	March 31,	
	2015	2014
Patient service revenues	\$2,271,815	\$2,114,098
Less: Provision for uncollectible accounts	(99,164 )	(83,197 )
Net patient service revenues	2,172,651	2,030,901
Capitated revenues	850,515	787,565
Other revenues	264,799	224,310
Total net revenues	3,287,965	3,042,776
Operating expenses and charges:		
Patient care costs and other costs	2,362,612	2,179,772
General and administrative	341,801	284,061
Depreciation and amortization	153,789	142,579
Provision for uncollectible accounts	1,827	2,511
Equity investment income	(2,908 )	(7,372 )
Loss contingency accrual	495,000	—
Total operating expenses and charges	3,352,121	2,601,551
Operating (loss) income	(64,156 )	441,225
Debt expense	(97,392 )	(106,335 )
Other (loss) income, net	(533 )	1,698
(Loss) income before income taxes	(162,081 )	336,588
Income tax (benefit) expense	(85,933 )	124,851
Net (loss) income	(76,148 )	211,737
Less: Net income attributable to noncontrolling interests	(34,469 )	(28,448 )
Net (loss) income attributable to DaVita HealthCare Partners Inc.	\$(110,617 )	\$183,289
Earnings per share:		
Basic net (loss) income per share attributable to DaVita HealthCare Partners Inc.	\$(0.52 )	\$0.87
Diluted net (loss) income per share attributable to DaVita HealthCare Partners Inc.	\$(0.52 )	\$0.85
Weighted average shares for earnings per share:		
Basic	213,387,253	211,375,232
Diluted	213,387,253	216,118,922

See notes to condensed consolidated financial statements.



## DAVITA HEALTHCARE PARTNERS INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

(dollars in thousands)

	Three months ended March 31,	
	2015	2014
Net (loss) income	\$(76,148 )	\$211,737
Other comprehensive (loss) income, net of tax:		
Unrealized losses on interest rate swap and cap agreements:		
Unrealized loss on interest rate swap and cap agreements	(5,760 )	(2,505 )
Reclassifications of net swap and cap agreements realized loss into net income	812	3,359
Unrealized gains on investments:		
Unrealized gains on investments	382	331
Reclassification of net investment realized gains into net income	(157 )	(207 )
Foreign currency translation adjustments	(17,885 )	28
Other comprehensive (loss) income	(22,608 )	1,006
Total comprehensive (loss) income	(98,756 )	212,743
Less: Comprehensive income attributable to noncontrolling interests	(34,469 )	(28,448 )
Comprehensive (loss) income attributable to DaVita HealthCare Partners Inc.	\$(133,225 )	\$184,295

See notes to condensed consolidated financial statements.

## DAVITA HEALTHCARE PARTNERS INC.

## CONSOLIDATED BALANCE SHEETS

(unaudited)

(dollars in thousands, except per share data)

	March 31, 2015	December 31, 2014
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,011,271	\$ 965,241
Short-term investments	422,365	337,399
Accounts receivable, less allowance of \$255,146 and \$242,674	1,675,182	1,525,849
Inventories	145,740	136,085
Other receivables	423,713	400,916
Other current assets	186,165	186,842
Income tax receivable	—	83,839
Deferred income taxes	436,359	240,626
Total current assets	4,300,795	3,876,797
Property and equipment, net of accumulated depreciation of \$2,123,818 and \$2,029,506	2,500,596	2,469,099
Intangibles, net of accumulated amortization of \$666,995 and \$621,891	1,904,176	1,949,498
Equity investments	70,017	65,637
Long-term investments	91,441	89,389
Other long-term assets	68,248	77,000
Goodwill	9,431,390	9,415,295
	<b>\$ 18,366,663</b>	<b>\$ 17,942,715</b>
<b>LIABILITIES AND EQUITY</b>		
Accounts payable	\$ 423,986	\$ 445,453
Other liabilities	581,411	506,579
Accrued compensation and benefits	733,708	698,475
Medical payables	304,205	314,347
Loss contingency	495,000	3,644
Current portion of long-term debt	118,076	120,154
Income tax payable	23,130	—
Total current liabilities	2,679,516	2,088,652
Long-term debt	8,380,153	8,383,280
Other long-term liabilities	407,068	389,806
Deferred income taxes	880,820	890,701
Total liabilities	12,347,557	11,752,439
Commitments and contingencies		
Noncontrolling interests subject to put provisions	848,392	829,965
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;	216	216
215,949,997 and 215,640,968 shares issued and 215,058,568 and 215,640,968 shares		

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outstanding, respectively)		
Additional paid-in capital	1,112,396	1,108,211
Retained earnings	3,976,486	4,087,103
Treasury stock (891,429 shares)	(70,063 )	—
Accumulated other comprehensive loss	(47,625 )	(25,017 )
Total DaVita HealthCare Partners Inc. shareholders' equity	4,971,410	5,170,513
Noncontrolling interests not subject to put provisions	199,304	189,798
Total equity	5,170,714	5,360,311
	\$18,366,663	\$17,942,715

See notes to condensed consolidated financial statements.

## DAVITA HEALTHCARE PARTNERS INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(dollars in thousands)

	Three months ended March 31,	
	2015	2014
Cash flows from operating activities:		
Net (loss) income	\$(76,148 )	\$211,737
Adjustments to reconcile net (loss) income to cash provided by operating activities:		
Loss contingency accrual	495,000	—
Depreciation and amortization	153,789	142,565
Stock-based compensation expense	12,762	15,074
Tax benefits from stock award exercises	9,366	22,978
Excess tax benefits from stock award exercises	(7,584 )	(18,336 )
Deferred income taxes (benefit)	(203,940 )	8,902
Equity investment income (loss), net	2,539	(187 )
Other non-cash charges and loss on disposal of assets	7,865	8,346
Changes in operating assets and liabilities, other than from acquisitions and divestitures:		
Accounts receivable	(151,743 )	(54,565 )
Inventories	(9,193 )	(12,280 )
Other receivables and other current assets	(18,619 )	(17,740 )
Other long-term assets	153	1,418
Accounts payable	(10,933 )	(42,558 )
Accrued compensation and benefits	30,638	23,570
Other current liabilities	60,772	20,615
Income taxes	106,970	92,905
Other long-term liabilities	8,395	16,663
Net cash provided by operating activities	410,089	419,107
Cash flows from investing activities:		
Additions of property and equipment	(121,421 )	(126,562 )
Acquisitions	(40,650 )	(67,857 )
Proceeds from asset and business sales	2,565	56
Purchase of investments available for sale	(1,448 )	(1,824 )
Purchase of investments held-to-maturity	(290,774 )	(2,511 )
Proceeds from sale of investments available for sale	1,217	1,262
Proceeds from investments held-to-maturity	205,650	1,508
Purchase of intangible assets	—	(11 )
Purchase of equity investments	(7,426 )	—
Distributions received on equity investments	—	146
Net cash used in investing activities	(252,287 )	(195,793 )
Cash flows from financing activities:		
Borrowings	13,353,767	16,179,463

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Payments on long-term debt and other financing costs	(13,382,203)	(16,244,613)
Purchase of treasury stock	(70,063 )	—
Distributions to noncontrolling interests	(41,499 )	(33,147 )
Stock award exercises and other share issuances, net	5,648	3,450
Excess tax benefits from stock award exercises	7,584	18,336
Contributions from noncontrolling interests	15,898	13,625
Proceeds from sales of additional noncontrolling interests	—	761
Net cash used in financing activities	(110,868 )	(62,125 )
Effect of exchange rate changes on cash and cash equivalents	(904 )	631
Net increase in cash and cash equivalents	46,030	161,820
Cash and cash equivalents at beginning of the year	965,241	946,249
Cash and cash equivalents at end of the period	\$1,011,271	\$1,108,069

See notes to condensed consolidated financial statements.

## DAVITA HEALTHCARE PARTNERS INC.

## CONSOLIDATED STATEMENTS OF EQUITY

(unaudited)

(dollars and shares in thousands)

	Non- controlling interests subject to put provisions	DaVita HealthCare Partners Inc. Shareholders' Equity						Accumulated other comprehensive income (loss) Total	Non- controlling interests not subject to put provisions	
		Common stock	Additional paid-in capital	Retained earnings	Treasury stock					
Balance at December 31, 2013	\$697,300	213,163	\$213	\$1,070,922	\$3,363,989	—	\$—	\$(2,645 )	\$4,432,479	\$173,062
Comprehensive income:										
Net income	88,425				723,114				723,114	51,791
Other comprehensive income	—							(22,372 )	(22,372 )	
Stock purchase shares issued		298		19,010					19,010	
Stock unit shares issued		304	1	(28 )					(27 )	
Stock-settled SAR shares issued		1,876	2	(2 )					—	
Stock-settled stock-based compensation expense				54,969					54,969	
Excess tax benefits from stock awards exercised				45,271					45,271	
Distributions to noncontrolling interests	(93,884 )									(55,455 )

Contributions from										
noncontrolling interests	41,876									22,779
Sales and assumptions of										
additional noncontrolling										
interests	25,220			355				355		4,165
Purchases from noncontrolling										
interests	(6,111 )			(5,357 )				(5,357 )		(6,544 )
Other reclassification				210				210		
Changes in fair value of										
noncontrolling interests	77,139			(77,139 )				(77,139 )		
Balance at December 31, 2014	\$829,965	215,641	\$216	\$1,108,211	\$4,087,103	—	\$—	\$(25,017)	\$5,170,513	\$189,798
Comprehensive income:										
Net income (loss)	21,600				(110,617 )			(110,617 )		12,869
Other comprehensive										
loss								(22,608)	(22,608 )	
Stock unit shares issued		5	—	4					4	
Stock-settled SAR shares										
issued		304	—						—	
Stock-settled stock-based										
compensation expense				13,169					13,169	
Excess tax benefits from stock				7,584					7,584	

awards exercised										
Distributions to noncontrolling interests	(25,962 )									(15,537 )
Contributions from noncontrolling interests	6,217									9,681
Assumptions of additional noncontrolling interests										2,493
Changes in fair value of noncontrolling interests	16,572		(16,572 )							(16,572 )
Purchase of treasury stock						(891)	(70,063)			(70,063 )
Balance at March 31, 2015	\$848,392	215,950	\$216	\$1,112,396	\$3,976,486	(891)	\$(70,063)	\$(47,625)	\$4,971,410	\$199,304

See notes to condensed consolidated financial statements

DAVITA HEALTHCARE PARTNERS 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 HealthCare Partners 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 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 the accrual of an estimated loss contingency and its impact on the Company’s income taxes, revenue recognition and accounts receivable, impairments of long-lived assets, fair value estimates, accounting for income taxes, variable compensation accruals, consolidation of variable interest entities, purchase accounting valuation estimates, long-term incentive program compensation and medical liability claims. The results of operations for the three months ended March 31, 2015 are not necessarily indicative of the operating results for the full year. The condensed 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, 2014. Prior year balances and amounts have been reclassified 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 adjustments and disclosures.

2. Earnings (loss) per share

Basic net income (loss) per share is calculated by dividing net income (loss) attributable to the Company, adjusted for any change in noncontrolling interests redemption rights in excess of fair value, by the weighted average number of common shares and vested stock units outstanding, net of shares held in escrow that under certain circumstances may be returned to the Company.

Diluted net income (loss) per share includes the dilutive effect, if any, of outstanding stock-settled stock appreciation rights, stock options and unvested stock units (under the treasury stock method) as well as contingently returnable shares held in escrow.

## DAVITA HEALTHCARE PARTNERS INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(continued)

(unaudited)

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

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

	Three months ended March 31,	
	2015	2014
<b>Basic:</b>		
Net (loss) income attributable to DaVita HealthCare		
Partners Inc.	\$(110,617)	\$183,289
Weighted average shares outstanding during the period	215,581	213,564
Vested stock units	—	5
Contingently returnable shares held in escrow for the		
DaVita HealthCare Partners merger	(2,194 )	(2,194 )
Weighted average shares for basic earnings per share		
calculation	213,387	211,375
Basic net (loss) income per share attributable to		
DaVita HealthCare Partners Inc.	\$(0.52 )	\$0.87
<b>Diluted:</b>		
Net (loss) income attributable to DaVita HealthCare		
Partners Inc.	\$(110,617)	\$183,289
Weighted average shares outstanding during the period	215,581	213,564
Vested stock units	—	5
Contingently returnable shares held in escrow for the		
DaVita HealthCare Partners merger	(2,194 )	—
Assumed incremental shares from stock plans	—	2,550
Weighted average shares for diluted earnings per share		
calculation	213,387	216,119
Diluted net (loss) income per share attributable to		
DaVita HealthCare Partners Inc.	\$(0.52 )	\$0.85
Anti-dilutive potential common shares excluded from	5,992	(1) 2,999 (2)

calculation

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- (1) Shares associated with stock-settled stock appreciation rights and contingently returnable shares that are excluded from the diluted denominator calculation because they are anti-dilutive due to the Company's net loss attributable to DaVita HealthCare Partners Inc.
- (2) Shares associated with stock-settled stock appreciation rights that are excluded from the diluted denominator calculation because they are anti-dilutive under the treasury stock method.

### 3. Accounts receivable

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the ultimate collectability 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 uncollectible accounts. Management regularly updates its analysis based upon the most recent information available to determine its current provision for uncollectible accounts and the adequacy of its allowance for doubtful accounts. For receivables associated with dialysis patient services covered by government payors, like Medicare, the Company receives 80% of the payment directly from Medicare as established under the government's bundled payment system and determines an appropriate allowance for doubtful accounts and provision for uncollectible accounts on the remaining balance due depending upon the Company's estimate of the amounts ultimately collectible from other secondary cove