

DAVITA HEALTHCARE PARTNERS INC.

Form 10-Q

May 02, 2014

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

For the Quarterly Period Ended March 31, 2014

**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 16<sup>th</sup> Street

Denver, CO 80202

Telephone number (303) 405-2100

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**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

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 28, 2014, the number of shares of the Registrant's common stock outstanding was approximately 214.2 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 \$14.8 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 HEALTHCARE PARTNERS INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**

(unaudited)

(dollars in thousands, except per share data)

|   | Three months ended |              |
|---|--------------------|--------------|
|   | March 31,          |              |
|   | 2014               | 2013         |
| Patient service revenues  | \$ 2,114,098       | \$ 1,979,873 |
| Less: Provision for uncollectible accounts  | (83,197)           | (70,057)     |
| Net patient service revenues  | 2,030,901          | 1,909,816    |
| Capitated revenues  | 787,565            | 762,615      |
| Other revenues  | 224,310            | 157,151      |
| Total net revenues  | 3,042,776          | 2,829,582    |
| Operating expenses and charges:   |                    |              |
| Patient care costs and other costs  | 2,179,772          | 1,960,891    |
| General and administrative  | 284,061            | 284,410      |
| Depreciation and amortization   | 142,579            | 125,909      |
| Provision for uncollectible accounts  | 2,511              | 878          |
| Equity investment income  | (7,372)            | (9,367)      |
| Loss contingency reserve  |                    | 300,000      |
| Total operating expenses and charges  | 2,601,551          | 2,662,721    |
| Operating income  | 441,225            | 166,861      |
| Debt expense  | (106,335)          | (105,817)    |
| Other income, net   | 1,698              | 598          |
| Income from continuing operations before income taxes   | 336,588            | 61,642       |
| Income tax expense  | 124,851            | 15,144       |
| Income from continuing operations   | 211,737            | 46,498       |
| Discontinued operations:  |                    |              |
| Loss from operations of discontinued operations, net of tax                                       |                    | (139)        |
| Gain on disposal of discontinued operations, net of tax   |                    | 13,375       |
| Net income  | 211,737            | 59,734       |
| Less: Net income attributable to noncontrolling interests   | (28,448)           | (29,570)     |
| Net income attributable to DaVita HealthCare Partners Inc.  | \$ 183,289         | \$ 30,164    |
| <b>Earnings per share:</b>  |                    |              |
| Basic income from continuing operations per share attributable to DaVita HealthCare Partners Inc. | \$ 0.87            | \$ 0.08      |
| Basic net income per share attributable to DaVita HealthCare Partners Inc.                        | \$ 0.87            | \$ 0.14      |

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|   |    |             |    |             |
|---|----|-------------|----|-------------|
| Diluted income from continuing operations per share attributable to DaVita HealthCare Partners Inc. | \$ | 0.85        | \$ | 0.08        |
| Diluted net income per share attributable to DaVita HealthCare Partners Inc.                        | \$ | 0.85        | \$ | 0.14        |
| <b>Weighted average shares for earnings per share:</b>  |    |             |    |             |
| Basic   |    | 211,375,232 |    | 208,968,952 |
| Diluted   |    | 216,118,922 |    | 214,127,266 |
| <b>Amounts attributable to DaVita HealthCare Partners Inc.:</b>                                     |    |             |    |             |
| Income from continuing operations   | \$ | 183,289     | \$ | 16,915      |
| Discontinued operations   |    |             |    | 13,249      |
| Net income  | \$ | 183,289     | \$ | 30,164      |

See notes to condensed consolidated financial statements.

**Table of Contents****DAVITA HEALTHCARE PARTNERS INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(unaudited)****(dollars in thousands)**

|  | <b>Three months ended</b> |             |
|--|---------------------------|-------------|
|  | <b>March 31,</b>          |             |
|  | <b>2014</b>               | <b>2013</b> |
| Net income   | \$ 211,737                | \$ 59,734   |
| 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                       | (2,505)                   | (2,369)     |
| Reclassifications of net swap and cap agreements realized losses into net income | 3,359                     | 2,507       |
| Unrealized gains on investments:   |                           |             |
| Unrealized gain on investments   | 331                       | 618         |
| Reclassification of net investment realized gains into net income                | (207)                     | (94)        |
| Foreign currency translation adjustments   | 28                        | (2,106)     |
| Other comprehensive income (loss)  | 1,006                     | (1,444)     |
| Total comprehensive income   | 212,743                   | 58,290      |
| Less: Comprehensive income attributable to noncontrolling interests              | (28,448)                  | (29,570)    |
| Comprehensive income attributable to DaVita HealthCare Partners Inc.             | \$ 184,295                | \$ 28,720   |

See notes to condensed consolidated financial statements.

**Table of Contents****DAVITA HEALTHCARE PARTNERS INC.****CONSOLIDATED BALANCE SHEETS****(unaudited)****(dollars in thousands, except per share data)**

|   | <b>March 31,<br/>2014</b> | <b>December 31,<br/>2013</b> |
|---|---------------------------|------------------------------|
| <b>ASSETS</b>   |                           |                              |
| Cash and cash equivalents   | \$ 1,108,069              | \$ 946,249                   |
| Short-term investments  | 8,080                     | 6,801                        |
| Accounts receivable, less allowance of \$247,108 and \$237,143  | 1,539,728                 | 1,485,163                    |
| Inventories   | 101,173                   | 88,805                       |
| Other receivables   | 374,017                   | 349,090                      |
| Other current assets  | 169,628                   | 176,414                      |
| Income tax receivable   |                           | 10,315                       |
| Deferred income taxes   | 406,538                   | 409,441                      |
| <b>Total current assets</b>   | <b>3,707,233</b>          | <b>3,472,278</b>             |
| Property and equipment, net of accumulated depreciation of \$1,857,718 and \$1,778,259  | 2,224,439                 | 2,189,411                    |
| Intangibles, net of accumulated amortization of \$530,540 and \$483,773   | 2,025,822                 | 2,024,373                    |
| Equity investments  | 40,727                    | 40,686                       |
| Long-term investments   | 81,033                    | 79,557                       |
| Other long-term assets  | 76,909                    | 79,598                       |
| Goodwill  | 9,242,179                 | 9,212,974                    |
|   | <b>\$ 17,398,342</b>      | <b>\$ 17,098,877</b>         |
| <b>LIABILITIES AND EQUITY</b>   |                           |                              |
| Accounts payable  | \$ 392,907                | \$ 435,465                   |
| Other liabilities   | 486,565                   | 464,422                      |
| Accrued compensation and benefits   | 629,669                   | 603,013                      |
| Medical payables  | 284,759                   | 287,452                      |
| Loss contingency reserve  | 397,000                   | 397,000                      |
| Current portion of long-term debt   | 292,220                   | 274,697                      |
| Income tax payable  | 83,054                    |                              |
| <b>Total current liabilities</b>  | <b>2,566,174</b>          | <b>2,462,049</b>             |
| Long-term debt  | 8,071,622                 | 8,141,231                    |
| Other long-term liabilities   | 407,288                   | 380,337                      |
| Deferred income taxes   | 822,842                   | 812,419                      |
| <b>Total liabilities</b>  | <b>11,867,926</b>         | <b>11,796,036</b>            |
| Commitments and contingencies   |                           |                              |
| Noncontrolling interests subject to put provisions  | 692,780                   | 697,300                      |
| 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; 214,045,116 and 213,163,248 shares issued and outstanding at March 31, 2014 and at December 31, 2013, respectively) | 214                       | 213                          |
| Additional paid-in capital  | 1,113,714                 | 1,070,922                    |
| Retained earnings   | 3,547,278                 | 3,363,989                    |
| Accumulated other comprehensive loss  | (1,639)                   | (2,645)                      |

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|   |               |               |
|---|---------------|---------------|
| Total DaVita HealthCare Partners Inc. shareholders equity | 4,659,567     | 4,432,479     |
| Noncontrolling interests not subject to put provisions    | 178,069       | 173,062       |
| Total equity  | 4,837,636     | 4,605,541     |
|   | \$ 17,398,342 | \$ 17,098,877 |

See notes to condensed consolidated financial statements.



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**DAVITA HEALTHCARE PARTNERS INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(unaudited)

(dollars in thousands)

|   | Three months ended<br>March 31, |           |
|---|---------------------------------|-----------|
|   | 2014                            | 2013      |
| <b>Cash flows from operating activities:</b>                                  |                                 |           |
| Net income  | \$ 211,737                      | \$ 59,734 |
| Adjustments to reconcile net income to cash provided by operating activities: |                                 |           |
| Loss contingency reserve  |                                 | 300,000   |
| Depreciation and amortization   | 142,565                         | 125,756   |
| Stock-based compensation expense  | 15,074                          | 16,021    |
| Tax benefits from stock award exercises                                       | 22,978                          | 9,368     |