

DAVITA INC  
Form 10-Q  
August 07, 2009  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

For the Quarterly Period Ended

**June 30, 2009**

**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**  
(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  Smaller reporting company

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(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

As of July 31, 2009, the number of shares of the Registrant's common stock outstanding was approximately 104.0 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 \$5.2 billion.

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

**Table of Contents****DAVITA INC.****CONSOLIDATED STATEMENTS OF INCOME****(unaudited)****(dollars in thousands, except per share data)**

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Net operating revenues	\$ 1,519,041	\$ 1,407,304	\$ 2,966,681	\$ 2,752,028
Operating expenses and charges:				
Patient care costs	1,051,879	973,286	2,057,765	1,903,495
General and administrative	132,166	125,199	259,439	245,964
Depreciation and amortization	58,185	52,892	115,308	105,703
Provision for uncollectible accounts	41,233	37,497	77,969	72,128
Equity investment (income) loss	(376)	(4)	(358)	523
Total operating expenses and charges	1,283,087	1,188,870	2,510,123	2,327,813
Operating income	235,954	218,434	456,558	424,215
Debt expense	(47,088)	(55,320)	(95,389)	(114,386)
Other income	1,273	2,987	2,027	7,850
Income before income taxes	190,139	166,101	363,196	317,679
Income tax expense	70,507	58,273	135,290	113,843
Net income	119,632	107,828	227,906	203,836
Less: Net income attributable to noncontrolling interests	(13,813)	(12,877)	(25,876)	(21,951)
Net income attributable to DaVita Inc.	\$ 105,819	\$ 94,951	\$ 202,030	\$ 181,885
<b>Earnings per share:</b>				
Basic earnings per share attributable to DaVita Inc.	\$ 1.02	\$ 0.91	\$ 1.95	\$ 1.71
Diluted earnings per share attributable to DaVita Inc.	\$ 1.02	\$ 0.90	\$ 1.94	\$ 1.70
Weighted average shares for earnings per share:				
Basic	103,705,683	104,814,817	103,791,579	106,082,024
Diluted	103,925,843	105,617,173	104,166,964	106,927,556

See notes to condensed consolidated financial statements.

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

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 544,113	\$ 410,881
Short-term investments	19,109	35,532
Accounts receivable, less allowance of \$222,067 and \$211,222	1,128,330	1,075,457
Inventories	65,354	84,174
Other receivables	226,931	239,165
Other current assets	37,851	33,761
Income tax receivable		32,130
Deferred income taxes	211,709	217,196
<b>Total current assets</b>	<b>2,233,397</b>	<b>2,128,296</b>
Property and equipment, net	1,075,349	1,048,075
Amortizable intangibles, net	148,923	160,521
Investments in third-party dialysis businesses	24,144	19,274
Long-term investments	6,827	5,656
Other long-term assets	44,104	47,330
Goodwill	3,908,290	3,876,931
	<b>\$ 7,441,034</b>	<b>\$ 7,286,083</b>
<b>LIABILITIES AND EQUITY</b>		
Accounts payable	\$ 230,576	\$ 282,883
Other liabilities	453,048	495,239
Accrued compensation and benefits	329,517	312,216
Current portion of long-term debt	92,290	72,725
Income taxes payable	3,409	
<b>Total current liabilities</b>	<b>1,108,840</b>	<b>1,163,063</b>
Long-term debt	3,579,417	3,622,421
Other long-term liabilities	100,209	101,442
Alliance and product supply agreement, net	33,312	35,977
Deferred income taxes	274,303	244,884
<b>Total liabilities</b>	<b>5,096,081</b>	<b>5,167,787</b>
Commitments and contingencies		
Noncontrolling interests subject to put provisions	288,458	291,397
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; 103,989,672 and 103,753,673 shares outstanding)	135	135
Additional paid-in capital	620,259	584,358
Retained earnings	2,091,480	1,889,450
Treasury stock, at cost (30,872,611 and 31,108,610 shares)	(701,783)	(691,857)
Accumulated other comprehensive loss	(10,033)	(14,339)

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Total DaVita Inc. shareholders' equity	2,000,058	1,767,747
Noncontrolling interests not subject to put provisions	56,437	59,152
Total equity	2,056,495	1,826,899
	\$ 7,441,034	\$ 7,286,083

See notes to condensed consolidated financial statements.

**Table of Contents****DAVITA INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(unaudited)****(dollars in thousands)**

	<b>Six months ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 227,906	\$ 203,836
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	115,308	105,703
Stock-based compensation expense	22,412	19,216
Tax benefits from stock award exercises	9,974	5,264
Excess tax benefits from stock award exercises	(7,591)	(3,055)
Deferred income taxes	30,006	17,171
Equity investment (income) loss	(358)	523
Loss on disposal of assets	4,813	4,462
Non-cash debt and non-cash rent charges	6,567	6,953
Changes in operating assets and liabilities, other than from acquisitions and divestitures:		
Accounts receivable	(54,073)	(119,996)
Inventories	19,044	(301)
Other receivables and other current assets	4,026	(12,493)
Other long-term assets	3,324	(10,344)
Accounts payable	(51,960)	(18,255)
Accrued compensation and benefits	37,077	4,091
Other current liabilities	(42,359)	58,078
Income taxes	35,535	(10,074)
Other long-term liabilities	(13,019)	4,178
Net cash provided by operating activities	346,632	254,957
<b>Cash flows from investing activities:</b>		
Additions of property and equipment, net	(138,205)	(145,007)
Acquisitions	(43,314)	(46,763)
Proceeds from asset sales	5,784	125
Purchase of investments available for sale	(1,429)	(1,352)
Purchase of investments held-to-maturity	(15,193)	(15,777)
Proceeds from sale of investments available for sale	16,537	5,321
Proceeds from maturities of investments held-to-maturity	15,620	15,462
Distributions received on equity investments	88	513
Purchase of intangible assets	(260)	(65)
Net cash used in investing activities	(160,372)	(187,543)
<b>Cash flows from financing activities:</b>		
Borrowings	9,114,319	8,397,822
Payments on long-term debt	(9,136,951)	(8,397,476)
Deferred financing costs	(42)	(130)
Purchase of treasury stock	(32,016)	(169,673)
Excess tax benefits from stock award exercises	7,591	3,055

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Stock award exercises and other share issuances, net	16,691	12,770
Distributions to noncontrolling interests	(29,895)	(29,423)