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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

For the Quarterly Period Ended June 30, 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	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 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 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 ¨ (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 x

As of July 31, 2015, the number of shares of the Registrant’s common stock outstanding was approximately 215.5 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 $17.0 billion.

DAVITA HEALTHCARE PARTNERS INC.

INDEX

		Page No.
PART I. FINANCIAL INFORMATION		
Item 1.	Condensed Consolidated Financial Statements:	
	Consolidated Statements of Income for the three and six months ended June 30, 2015 and June 30, 2014	1
	Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2015 and June 30, 2014	2
	Consolidated Balance Sheets as of June 30, 2015 and December 31, 2014	3
	Consolidated Statements of Cash Flows for the six months ended June 30, 2015 and June 30, 2014	4
	Consolidated Statements of Equity for the six months ended June 30, 2015 and for the year ended December 31, 2014	5
	Notes to Condensed Consolidated Financial Statements	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	30
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	47
Item 4.	Controls and Procedures	48
PART II. OTHER INFORMATION		
Item 1.	Legal Proceedings	49
Item 1A.	Risk Factors	49
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	71
Item 6.	Exhibits	73
	Signature	74

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

DAVITA HEALTHCARE PARTNERS INC.

CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

(dollars in thousands, except per share data)

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Patient service revenues	$2,363,579	$2,187,249	$4,635,394	$4,301,347
Less: Provision for uncollectible accounts	(105,965)	(88,052)	(205,129)	(171,249)
Net patient service revenues	2,257,614	2,099,197	4,430,265	4,130,098
Capitated revenues	866,190	799,369	1,716,705	1,586,934
Other revenues	310,814	273,923	575,613	498,233
Total net revenues	3,434,618	3,172,489	6,722,583	6,215,265
Operating expenses and charges:				
Patient care costs and other costs	2,446,076	2,246,538	4,808,688	4,426,310
General and administrative	352,025	298,636	693,826	582,697
Depreciation and amortization	158,843	145,907	312,632	288,486
Provision for uncollectible accounts	2,159	3,208	3,986	5,719
Equity investment income	(5,033)	(6,095)	(7,941)	(13,467)
Settlement charge	—	—	495,000	—
Total operating expenses and charges	2,954,070	2,688,194	6,306,191	5,289,745
Operating income	480,548	484,295	416,392	925,520
Debt expense	(104,248)	(106,132)	(201,640)	(212,467)
Debt redemption and refinancing charges	(48,072)	(97,548)	(48,072)	(97,548)
Other income, net	2,311	1,693	1,778	3,391
Income before income taxes	330,539	282,308	168,458	618,896
Income tax expense	122,762	100,887	36,829	225,738
Net income	207,777	181,421	131,629	393,158
Less: Net income attributable to noncontrolling interests	(37,300)	(33,738)	(71,769)	(62,186)
Net income attributable to DaVita HealthCare Partners Inc.	$170,477	$147,683	$59,860	$330,972
Earnings per share:				
Basic net income per share attributable to DaVita HealthCare Partners Inc.	$0.80	$0.70	$0.28	$1.56
Diluted net income per share attributable to DaVita HealthCare Partners Inc.	$0.78	$0.68	$0.27	$1.53
Weighted average shares for earnings per share:				
Basic	212,991,606	212,258,994	213,188,268	211,817,893
Diluted	217,606,198	216,720,944	217,790,617	216,420,713

See notes to condensed consolidated financial statements.

1

DAVITA HEALTHCARE PARTNERS INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

(dollars in thousands)

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Net income	$207,777	$181,421	$131,629	$393,158
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	(2,453)	(5,209)	(8,213)	(7,714)
Reclassifications of net swap and cap agreements realized loss into net income	789	4,997	1,601	8,356
Unrealized (losses) gains on investments:				
Unrealized (losses) gains on investments	(99)	578	283	909
Reclassification of net investment realized gains into net income	(16)	—	(173)	(207)
Foreign currency translation adjustments	5,025	1,939	(12,860)	1,967
Other comprehensive income (loss)	3,246	2,305	(19,362)	3,311
Total comprehensive income	211,023	183,726	112,267	396,469
Less: Comprehensive income attributable to noncontrolling interests	(37,300)	(33,738)	(71,769)	(62,186)
Comprehensive income attributable to DaVita HealthCare Partners Inc.	$173,723	$149,988	$40,498	$334,283

See notes to condensed consolidated financial statements.

DAVITA HEALTHCARE PARTNERS INC.

CONSOLIDATED BALANCE SHEETS

(unaudited)

(dollars in thousands, except per share data)

	June 30, 2015	December 31, 2014
ASSETS		
Cash and cash equivalents	$933,735	$965,241
Short-term investments	942,141	337,399
Accounts receivable, less allowance of $265,797 and $242,674	1,666,969	1,525,849
Inventories	159,353	136,085
Other receivables	456,502	400,916
Other current assets	189,528	186,842
Income tax receivable	193,681	83,839
Deferred income taxes	239,012	240,626
Total current assets	4,780,921	3,876,797
Property and equipment, net of accumulated depreciation of $2,207,320 and $2,029,506	2,564,708	2,469,099
Intangibles, net of accumulated amortization of $706,413 and $621,891	1,868,432	1,949,498
Equity investments	67,173	65,637
Long-term investments	92,864	89,389
Other long-term assets	121,774	77,000
Goodwill	9,450,946	9,415,295
	$18,946,818	$17,942,715
LIABILITIES AND EQUITY		
Accounts payable	$490,460	$445,453
Other liabilities	716,250	510,223
Accrued compensation and benefits	678,853	698,475
Medical payables	339,932	314,347
Current portion of long-term debt	108,795	120,154
Total current liabilities	2,334,290	2,088,652
Long-term debt	9,101,052	8,383,280
Other long-term liabilities	400,475	389,806
Deferred income taxes	900,959	890,701
Total liabilities	12,736,776	11,752,439
Commitments and contingencies:		
Noncontrolling interests subject to put provisions	863,126	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; 216,533,208 and 215,640,968 shares issued and 215,466,069 and 215,640,968 shares outstanding, respectively)	217	216
Additional paid-in capital	1,128,161	1,108,211

Retained earnings	4,146,963	4,087,103
Treasury stock (1,067,139 shares)	(84,113)	—
Accumulated other comprehensive loss	(44,379)	(25,017)
Total DaVita HealthCare Partners Inc. shareholders’ equity	5,146,849	5,170,513
Noncontrolling interests not subject to put provisions	200,067	189,798
Total equity	5,346,916	5,360,311
	$18,946,818	$17,942,715

See notes to condensed consolidated financial statements.

3

DAVITA HEALTHCARE PARTNERS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(dollars in thousands)

	Six months ended June 30, 2015	2014
Cash flows from operating activities:		
Net income	$131,629	$393,158
Adjustments to reconcile net income to cash provided by operating activities:		
Settlement charge	495,000	—
Settlement payments	(493,775)	—
Depreciation and amortization	312,632	288,470
Debt redemption and refinancing charges	48,072	97,548
Stock-based compensation expense	28,299	29,699
Tax benefits from stock award exercises	28,040	42,110
Excess tax benefits from stock award exercises	(16,913)	(30,238)
Deferred income taxes	4,418	13,826
Equity investment income, net	5,257	2,257
Other non-cash charges and loss on disposal of assets	24,718	22,861
Changes in operating assets and liabilities, other than from acquisitions and divestitures:		
Accounts receivable	(142,950)	(65,079)
Inventories	(22,780)	(10,731)
Other receivables and other current assets	(50,362)	(95,580)
Other long-term assets	378	2,158
Accounts payable	50,823	(46,022)
Accrued compensation and benefits	(26,316)	19,912
Other current liabilities	177,733	31,970
Income taxes	(109,460)	2,886
Other long-term liabilities	(2,912)	(17,707)
Net cash provided by operating activities	441,531	681,498
Cash flows from investing activities:		
Additions of property and equipment	(290,873)	(278,593)
Acquisitions	(45,059)	(98,442)
Proceeds from asset and business sales	3,415	215
Purchase of investments available for sale	(3,872)	(6,117)
Purchase of investments held-to-maturity	(1,039,632)	(121,333)
Proceeds from sale of investments available for sale	1,550	1,277
Proceeds from investments held-to-maturity	434,684	64,561
Purchase of intangible assets	—	(10)
Purchase of equity investments	(7,550)	(4,750)
Distributions received on equity investments	—	337
Net cash used in investing activities	(947,337)	(442,855)
Cash flows from financing activities:		

Borrowings	28,144,986	33,136,743
Payments on long-term debt and other financing costs	(27,476,994)	(32,788,307)
Deferred financing costs and debt redemption and refinancing costs	(58,539)	(106,937)
Purchase of treasury stock	(84,113)	—
Distributions to noncontrolling interests	(79,040)	(65,818)
Stock award exercises and other share issuances, net	4,680	7,274
Excess tax benefits from stock award exercises	16,913	30,238
Contributions from noncontrolling interests	18,040	28,265
Proceeds from sales of additional noncontrolling interests	—	933
Purchase of noncontrolling interests	(10,840)	(5,743)
Net cash provided by financing activities	475,093	236,648
Effect of exchange rate changes on cash and cash equivalents	(793)	(567)
Net (decrease) increase in cash and cash equivalents	(31,506)	474,724
Cash and cash equivalents at beginning of the year	965,241	946,249
Cash and cash equivalents at end of the period	$933,735	$1,420,973

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								Non-controlling interests not subject to put provisions
		Common stock		Additional paid-in capital	Retained earnings	Treasury stock		Accumulated other comprehensive loss	Total	
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 loss	—							(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	41,876									22,779

noncontrolling interests										
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	46,363				59,860				59,860	25,406
Other comprehensive loss								(19,362)	(19,362)	
Stock unit shares issued		337	—	5					5	
Stock-settled SAR shares issued		555	1	(1)					—	
Stock-settled stock-based compensation expense				28,466					28,466	
Excess tax benefits from stock awards exercised				16,913					16,913	
Distributions to noncontrolling	(47,761)								—	(31,279)

interests										
Contributions from noncontrolling interests	7,935								—	10,105
Assumptions of additional noncontrolling interests	12,031								—	6,037
Purchase of noncontrolling interests	(2,419)			(8,421)					(8,421)	
Changes in fair value of noncontrolling interests	17,012			(17,012)					(17,012)	
Purchase of treasury stock						(1,067)	(84,113)		(84,113)	
Balance at June 30, 2015	$863,126	216,533	$217	$1,128,161	$4,146,963	(1,067)	$(84,113)	$(44,379)	$5,146,849	$200,067

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 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 six months ended June 30, 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 per share

Basic net income per share is calculated by dividing net income 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 per share includes the dilutive effect, of outstanding stock-settled stock appreciation rights and unvested stock units (under the treasury stock method) as well as contingently returnable shares held in escrow.

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

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Basic:				
Net income attributable to DaVita HealthCare Partners Inc.	$170,477	$147,683	$59,860	$330,972
Weighted average shares outstanding during the period	215,186	214,451	215,382	214,010
Vested stock units	—	2	—	2
Contingently returnable shares held in escrow for the DaVita HealthCare Partners merger	(2,194)	(2,194)	(2,194)	(2,194)
Weighted average shares for basic earnings per share calculation	212,992	212,259	213,188	211,818
Basic net income per share attributable to DaVita HealthCare Partners Inc.	$0.80	$0.70	$0.28	$1.56
Diluted:				
Net income attributable to DaVita HealthCare Partners Inc.	$170,477	$147,683	$59,860	$330,972
Weighted average shares outstanding during the period	215,186	214,451	215,382	214,010
Vested stock units	—	2	—	2
Assumed incremental shares from stock plans	2,420	2,268	2,409	2,409
Weighted average shares for diluted earnings per share calculation	217,606	216,721	217,791	216,421
Diluted net income per share attributable to DaVita HealthCare Partners Inc.	$0.78	$0.68	$0.27	$1.53
Anti-dilutive potential common shares excluded from calculation (1)	691	990	1,046	1,995

(1) 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 coverage sources or from the patients. For receivables associated with services to patients covered by commercial payors that are either based upon contractual terms or for non-contracted health plan coverage, the Company provides an allowance for doubtful accounts by recording a provision for uncollectible accounts based upon its historical collection experience, potential inefficiencies in its billing processes and for which collectability is determined to be unlikely. Approximately 1% of the Company’s net accounts receivable are associated with patient pay and it is the Company’s policy to reserve 100% of the outstanding accounts receivable balances for dialysis services when those amounts due are outstanding for more than three months.

During the six months ended June 30, 2015, the Company’s allowance for doubtful accounts increased by $23,123. This was primarily due to an increase in U.S. dialysis and lab provision for uncollectible accounts as a result of an increase in write-offs of certain balances. There were no unusual transactions impacting the allowance for doubtful accounts.

4. Investments in debt and equity securities and other investments

Based on the Company’s intentions and strategy concerning investments in debt securities, the Company classifies certain debt securities as held-to-maturity and records them at amortized cost. Equity securities that have readily determinable fair values, including those of mutual funds, common stock and other debt securities, are classified as available-for-sale and recorded at fair value.

The Company's investments in securities consist of the following:

	June 30, 2015			December 31, 2014		
	Held to maturity	Available for sale	Total	Held to maturity	Available for sale	Total
Certificates of deposit and money market funds due within one year	$940,589	$—	$940,589	$335,975	$—	$335,975
Investments in mutual funds and common stock	—	31,238	31,238	—	28,123	28,123
	$940,589	$ 31,238	$971,827	$335,975	$ 28,123	$364,098
Short-term investments	$940,589	$ 1,552	$942,141	$335,975	$ 1,424	$337,399
Long-term investments	—	29,686	29,686	—	26,699	26,699
	$940,589	$ 31,238	$971,827	$335,975	$ 28,123	$364,098

The cost of the certificates of deposit and money market funds at June 30, 2015 and December 31, 2014 approximates their fair value. As of June 30, 2015 and December 31, 2014, the available-for-sale investments included $5,358 and $5,181 of gross pre-tax unrealized gains, respectively. During the six months ended June 30, 2015, the Company recorded gross pre-tax unrealized gains of $461, or $283 after tax, in other comprehensive income associated with changes in the fair value of these investments. During the six months ended June 30, 2015, the Company sold investments in mutual funds for net proceeds of $385 and recognized a pre-tax gain of $284, or $173 after-tax, which was previously recorded in other comprehensive income. During the six months ended June 30, 2014, the Company sold investments in mutual funds for net proceeds of $1,277 and recognized a pre-tax gain of $340, or $207 after-tax, which was previously recorded in other comprehensive income.

The investments in mutual funds classified as available-for-sale are held within a trust to fund existing obligations associated with several of the Company's non-qualified deferred compensation plans.

As of June 30, 2015, the Company held $5,000 of preferred stock in a privately held company that is accounted for under the cost method as this investment does not have a readily determinable fair value.

Certain HCP entities are required to maintain minimum cash balances in order to comply with regulatory requirements in conjunction with medical claim reserves. As of June 30, 2015, this minimum cash balance was approximately $54,200.

5. Goodwill

Changes in goodwill by reportable segments were as follows:

	U.S. dialysis and related lab services	HCP	Other-ancillary services and strategic initiatives	Consolidated total
Balance at January 1, 2014	$ 5,469,473	$3,516,162	$ 227,339	$ 9,212,974
Acquisitions	143,021	48,649	29,844	221,514

Divestitures	(1,851)	—	—	(1,851)
Foreign currency and other adjustments	—	(2,277)	(15,065)	(17,342)
Balance at December 31, 2014	$ 5,610,643	$3,562,534	$ 242,118	$ 9,415,295
Acquisitions	—	24,302	26,773	51,075
Divestitures	—	(446)	—	(446)
Foreign currency and other adjustments	—	—	(14,978)	(14,978)
Balance at June 30, 2015	$ 5,610,643	$3,586,390	$ 253,913	$ 9,450,946

Each of the Company’s operating segments described in Note 17 to these condensed consolidated financial statements represents an individual reporting unit for goodwill impairment testing purposes, except that each sovereign jurisdiction within the Company’s international operating segments is considered a separate reporting unit.

Within the U.S. dialysis and related lab services operating segment, the Company considers each of its dialysis centers to constitute an individual business for which discrete financial information is available. However, since these dialysis centers have similar operating and economic characteristics, and the allocation of resources and significant investment decisions concerning these businesses are highly centralized and the benefits broadly distributed, the Company has aggregated these centers and deemed them to constitute a single reporting unit.

The Company has applied a similar aggregation to the HCP operations in each region, to the vascular access service centers in its vascular access services reporting unit, to the physician practices in its physician services reporting unit, and to the dialysis centers within each sovereign international jurisdiction. For the Company's additional operating segments, no component below the operating segment level is considered a discrete business and therefore these operating segments directly constitute individual reporting units.

HCP's current and expected future operating results have eroded, primarily as a result of recent reductions in its Medicare Advantage reimbursement rates, including the Medicare Advantage final benchmark rates for 2016 announced on April 6, 2015.

As a result, the Company has determined that three of its HCP reporting units, HCP California, HCP Nevada and HCP New Mexico, remain at risk of goodwill impairment. HCP California, HCP Nevada and HCP New Mexico have goodwill of $2,518,569, $517,618, and $71,684, respectively.

The Company obtained preliminary third-party valuations of these three businesses as of June 30, 2015, which indicate that the estimated fair values of HCP California, HCP Nevada and HCP New Mexico exceed their total carrying values by approximately 9.9%, 7.4% and 2.0%, respectively. Further reductions in HCP's reimbursement rates or other significant adverse changes in its expected future cash flows or valuation assumptions could result in a goodwill impairment charge in the future.

For example, a sustained, long-term reduction of 3% in operating income for HCP California, HCP Nevada and HCP New Mexico could reduce their estimated fair values by up to 1.8%, 1.9% and 2.0%, respectively. Separately, an increase in their respective discount rates of 100 basis points could reduce the estimated fair values of HCP California, HCP Nevada and HCP New Mexico by up to 4.2%, 3.1% and 3.6%, respectively.

During the first six months of 2015, the Company recorded an immaterial goodwill impairment charge related to its international operations. Except as described above, no significant goodwill associated with the Company's various other reporting units was considered at risk of impairment as of June 30, 2015. Since the dates of the Company's last annual goodwill impairment tests, there have been certain developments, events, changes in operating performance and other changes in key circumstances that have affected the Company's businesses. However, these did not cause management to believe it is more likely than not that the fair value of any of its reporting units would be less than its carrying amount.

6. Health care costs payable

The following table includes estimates for the cost of professional medical services provided by non-employed physicians and other providers, as well as inpatient and other ancillary costs for all markets other than California. The Company does not include inpatient and other ancillary costs for contracts held by its California licensed health plan and for contracts held by its California medical group entities; only professional medical services are included as state regulation does not allow those medical group entities to assume risk for inpatient services. Health care costs payable are included in medical payables in the condensed consolidated balance sheet.

The following table shows the components of changes in the health care costs payable for the six months ended June 30, 2015:

	Six months ended

	June 30, 2015
Health care costs payable, beginning of the period	$214,405
Add: Components of incurred health care costs	
Current year	783,602
Prior years	838
Total incurred health care costs	784,440
Less: Claims paid	
Current year	623,940
Prior years	191,765
Total claims paid	815,705
Health care costs payable, end of the period	$183,140

The Company's prior year estimates of health care costs payable increased by $838 resulting from certain medical claims being settled in excess of amounts that were originally estimated. When significant increases (decreases) in prior-year health care cost estimates occur that the Company believes significantly impacts its current year operating results, the Company discloses that amount as unfavorable (favorable) development of prior-year's health care cost estimates. Actual claim payments for prior year services have not been materially different from the Company's year-end estimates.

7. Income taxes

As of June 30, 2015, the Company's total liability for unrecognized tax benefits relating to tax positions that do not meet the more-likely-than-not threshold is $34,879, all of which would impact the Company's effective tax rate if recognized. This balance represents an increase of $3,002 from the December 31, 2014 balance of $31,877.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in its income tax expense. At June 30, 2015 and December 31, 2014, the Company had approximately $10,337 and $10,123, respectively, accrued for interest and penalties related to unrecognized tax benefits, net of federal tax benefits.

8. Long-term debt

Long-term debt was comprised of the following:

	June 30, 2015	December 31, 2014
Senior Secured Credit Facilities:		
Term Loan A	$950,000	$ 975,000
Term Loan B	3,465,000	3,482,500
Senior notes	4,500,000	3,775,000
Acquisition obligations and other notes payable	62,641	69,045
Capital lease obligations	247,128	218,097
Total debt principal outstanding	9,224,769	8,519,642
Discount on long-term debt	(14,922)	(16,208)
	9,209,847	8,503,434
Less current portion	(108,795)	(120,154)
	$9,101,052	$ 8,383,280

Scheduled maturities of long-term debt at June 30, 2015 were as follows:

2015 (remainder of the year)	56,484
2016	119,993
2017	149,031
2018	159,637
2019	734,147
2020	57,876
Thereafter	7,947,601

During the first six months of 2015, the Company made mandatory principal payments under its Senior Secured Credit Facilities totaling $25,000 on the Term Loan A and $17,500 on the Term Loan B.

In April 2015, the Company issued $1,500,000 5.0% Senior Notes due 2025 (the 5.0% Senior Notes). The 5.0% Senior Notes pay interest on May 1 and November 1 of each year beginning November 1, 2015. The 5.0% Senior

Notes are unsecured senior obligations and rank equally in right of payment with the Company's existing and future unsecured senior indebtedness. The 5.0% Senior Notes are guaranteed by certain of the Company's domestic subsidiaries. The Company may redeem up to 35% of the 5.0% Senior Notes at any time prior to May 1, 2018 at a certain specified price from the proceeds of one or more equity offerings. In addition, the Company may redeem some or all of the 5.0% Senior Notes at any time prior to May 1, 2020 at make whole redemption prices and on or after such date at certain specified redemption prices. The proceeds from the 5.0% Senior Notes were used to repurchase all of the outstanding principal balances of the $775,000 6 % Senior Notes due 2020 (the 6 % Notes) through a combination of a tender offer and a redemption process, to pay fees and expenses, and the remaining proceeds may be used for general corporate purposes, future acquisitions and share repurchases. As a result of these transactions, the Company incurred $48,072 in debt redemption charges consisting of tender and redemption fees as well as the write-off of deferred financing costs associated with the repurchase of the 6 % Senior Notes.

The Company has entered into several interest rate swap agreements as a means of hedging its exposure to and volatility from variable-based interest rate changes as part of its overall interest rate risk management strategy. These agreements are not held for trading or speculative purposes and have the economic effect of converting the LIBOR variable component of the Company's interest rate to a fixed rate. These swap agreements are designated as cash flow hedges, and as a result, hedge-effective gains or losses resulting from changes in the fair values of these swaps are reported in other comprehensive income until such time as the hedged forecasted cash flows occur, at which time the amounts are reclassified into net income. Net amounts paid or received for each specific swap tranche that have settled have been reflected as adjustments to debt expense. In addition, the Company has entered into several interest rate cap agreements and several forward interest rate cap agreements that have the economic effect of capping the

Company's maximum exposure to LIBOR variable interest rate changes on specific portions of the Company's floating rate debt, as described below. The cap agreements are also designated as cash flow hedges and, as a result, changes in the fair values of these cap agreements are reported in other comprehensive income. The amortization of the original cap premium is recognized as a component of debt expense on a straight-line basis over the term of the cap agreements. The swap and cap agreements do not contain credit-risk contingent features.

As of June 30, 2015, the Company maintains several interest rate swap agreements that were entered into in March 2013 with amortizing notional amounts of these swap agreements totaling $807,500. These agreements have the economic effect of modifying the LIBOR variable component of the Company's interest rate on an equivalent amount of the Company's Term Loan A to fixed rates ranging from 0.49% to 0.52%, resulting in an overall weighted average effective interest rate of 2.26%, including the Term Loan A margin of 1.75%. The overall weighted average effective interest rate also includes the effects of $142,500 of unhedged Term Loan A debt that bears interest at LIBOR plus an interest rate margin of 1.75%. The swap agreements expire on September 30, 2016 and require monthly interest payments. During the six months ended June 30, 2015, the Company recognized debt expense of $1,406 from these swaps. As of June 30, 2015, the total fair value of these swap agreements was a net liability of approximately $440. During the six months ended June 30, 2015, the Company recorded a loss of $3,670 in other comprehensive income due to a decrease in the unrealized fair value of these swap agreements. The Company estimates that approximately $1,131 of existing unrealized pre-tax losses in other comprehensive income at June 30, 2015 will be reclassified into income over the next twelve months.

As of June 30, 2015, the Company maintained several forward interest rate cap agreements that were entered into in November 2014 with notional amounts totaling $3,500,000. These forward cap agreements will be effective September 30, 2016 and will have the economic effect of capping the LIBOR variable component of the Company's interest rate at a maximum of 3.50% on an equivalent amount of the Company's debt. The cap agreements expire on June 30, 2018. As of June 30, 2015, the total fair value of these cap agreements was an asset of approximately $3,973. During the six months ended June 30, 2015, the Company recorded a loss of $8,367 in other comprehensive income due to a decrease in the unrealized fair value of these cap agreements.

As of June 30, 2015, the Company maintains several interest rate cap agreements that were entered into in March 2013 with notional amounts totaling $2,735,000 on the Company's Term Loan B debt. These agreements have the economic effect of capping the LIBOR variable component of the Company's interest rate at a maximum of 2.50% on an equivalent amount of the Company's Term Loan B. During the six months ended June 30, 2015, the Company recognized debt expense of $1,220 from these caps. The cap agreements expire on September 30, 2016. As of June 30, 2015, the total fair value of these cap agreements was an asset of approximately $155. During the six months ended June 30, 2015, the Company recorded a loss of $1,439 in other comprehensive income due to a decrease in the unrealized fair value of these cap agreements.

The following table summarizes the Company's derivative instruments as of June 30, 2015 and December 31, 2014:

Derivatives designated as hedging instruments	June 30, 2015 Balance sheet location	Fair value	December 31, 2014 Balance sheet location	Fair value
Interest rate swap agreements	Other short-term liabilities	$ 1,131	Other short-term liabilities	$ 1,457
Interest rate swap agreements	Other long-term assets	$ 691	Other long-term assets	$ 3,281
Interest rate cap agreements	Other long-term assets	$ 4,128	Other long-term assets	$ 13,934

The following table summarizes the effects of the Company's interest rate swap and cap agreements for the three and six months ended June 30, 2015 and 2014:

Derivatives designated as cash flow hedges	Amount of losses recognized in OCI on interest rate swap and cap agreements Three months ended June 30, 2015	2014	Six months ended June 30, 2015	2014	Location of losses reclassified from accumulated OCI into income	Amount of losses reclassified from accumulated OCI into income Three months ended June 30, 2015	2014	Six months ended June 30, 2015	2014
Interest rate swap agreements	$(976)	$(5,022)	$(3,670)	$(7,786)	Debt expense	$(684)	$(6,694)	$(1,406)	$(10,700)
Interest rate cap agreements	(3,049)	(3,527)	(9,806)	(4,874)	Debt expense	(610)	(1,507)	(1,220)	(3,014)
Tax benefit	1,572	3,340	5,263	4,946		505	3,204	1,025	5,358
Total	$(2,453)	$(5,209)	$(8,213)	$(7,714)		$(789)	$(4,997)	$(1,601)	$(8,356)

As of June 30, 2015, the interest rate on the Company’s Term Loan B debt is effectively fixed because of an embedded LIBOR floor which is higher than actual LIBOR as of such date and the Term Loan B is also subject to interest rate caps if LIBOR should rise above 2.50%. See above for further details. Interest rates on the Company’s senior notes are fixed by their terms. The LIBOR variable component of the Company’s interest rate on a majority of the Company’s Term Loan A is economically fixed as a result of interest rate swaps.

As a result of embedded LIBOR floors on the Term Loan B debt agreement and the swap and cap agreements, the Company’s overall weighted average effective interest rate on the Senior Secured Credit Facilities was 3.44%, based upon the current margins in effect of 1.75% for the Term Loan A and 2.75% for the Term Loan B, as of June 30, 2015.

The Company’s overall weighted average effective interest rate during the second quarter of 2015 was 4.42% and as of June 30, 2015 was 4.38%.

As of June 30, 2015, the Company had undrawn revolving credit facilities totaling $1,000,000 of which approximately $93,000 was committed for outstanding letters of credit. In addition, the Company has outstanding letters of credit of approximately $3,000, of which $1,000 is secured by a certificate of deposit. The remaining amount is unencumbered.

9. Contingencies

The majority of the Company’s revenues are from government programs and may be subject to adjustment as a result of: (i) examination by government agencies or contractors, for which the resolution of any matters raised may take extended periods of time to finalize; (ii) differing interpretations of government regulations by different Medicare contractors or regulatory authorities; (iii) differing opinions regarding a patient’s medical diagnosis or the medical necessity of services provided; and (iv) 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.

Inquiries by the Federal Government and Certain Related Civil Proceedings

Vainer Private Civil Suit: In December 2008, the Company received a subpoena for documents from the Office of Inspector General (OIG) for the U.S. Department of Health and Human Services (HHS) relating to the pharmaceutical products Zemplar, Hectorol, Venofer, Ferrlecit and erythropoietin (EPO), as well as other related matters. The subpoena covered the period from January 2003 to December 2008. The Company was advised by the U.S. Attorney’s Office for the Northern District of Georgia and the U.S. Department of Justice in Washington, DC that this was a civil inquiry. On June 17, 2009, the Company learned that the allegations underlying this inquiry were made as part of a civil complaint filed by individuals and brought pursuant to the qui tam provisions of the federal False Claims Act. On April 1, 2011, the U.S. District Court for the Northern District of Georgia ordered the case to be unsealed. At that time, the Department of Justice and U.S. Attorney’s Office filed a notice of declination stating that the federal government would not be intervening and not pursuing the relators’ allegation in litigation. On July 25, 2011, the relators, Daniel Barbir and Dr. Alon Vainer, filed their amended civil complaint in the U.S. District Court for the Northern District of Georgia, purportedly on behalf of the federal government. The amended complaint alleged that the Company’s drug administration practices for the Company’s dialysis operations for Vitamin D and iron agents from 2003 through 2010 fraudulently created unnecessary waste, which was billed to and paid for by the government. The amended complaint sought monetary damages and civil penalties as well as costs and expenses. The parties completed discovery in early 2014; however, in August 2014, the Court granted relators’ motion for sanctions and reopened discovery on a limited basis. In June 2015, the Company finalized the terms of the settlement with plaintiffs, including a settlement amount of $450,000 and attorney fees and other costs of $45,000.

2011 U.S. Attorney Medicaid Investigation: In October 2011, the Company announced that it would be receiving a request for documents, which could include an administrative subpoena from the OIG. Subsequent to the Company’s announcement of this 2011 U.S. Attorney Medicaid Investigation, the Company received a request for documents in connection with the inquiry by the U.S. Attorney's Office for the Eastern District of New York. The request related to payments for infusion drugs covered by Medicaid composite payments for dialysis. It is the Company's understanding that this inquiry is civil in nature. The Company understands further that certain other providers that operate dialysis clinics in New York may have received a similar request for documents. The Company has cooperated with the government and produced the requested documents. In April 2014, the Company reached an agreement in principle with the government to resolve this matter, and is currently in the process of working with the government to finalize the specific terms of the settlement, and has accrued an amount that is immaterial.

Swoben Private Civil Suit: In April 2013, the Company's HealthCare Partners (HCP) subsidiary was served with a civil complaint filed by a former employee of SCAN Health Plan (SCAN), a health maintenance organization (HMO). On July 13, 2009, pursuant to the qui tam provisions of the federal False Claims Act (FCA) and the California False Claims Act, James M. Swoben, as relator, filed a qui tam action in the United States District Court for the Central District of California purportedly on behalf of the United States of America and the State of California against SCAN, and certain other defendants whose identities were under seal. The allegations in the complaint relate to alleged overpayments received from government healthcare programs. In or about August 2012, SCAN entered into a settlement agreement with the United States of America and the State of California. The United States and the State of California partially intervened in the action for the purpose of settlement with and dismissal of the action against SCAN. In or about November 2011, the relator filed his Third Amended Complaint under seal alleging violations of the federal FCA

12

and the California False Claims Act, which named additional defendants, including HCP and certain health insurance companies (the defendant HMOs). The allegations in the complaint against HCP relate to patient diagnosis coding to determine reimbursement in the Medicare Advantage program, referred to as Hierarchical Condition Coding (HCC) and Risk Adjustment Factor (RAF) scores. The complaint sought monetary damages and civil penalties as well as costs and expenses. The United States Department of Justice reviewed these allegations and in January 2013 declined to intervene in the case. On June 26, 2013, HCP and the defendant HMOs filed their respective motions to dismiss the Third Amended Complaint pursuant to Federal Rules of Civil Procedure 12(b)(6) and 9(b), challenging the legal sufficiency of the claims asserted in the complaint. On July 30, 2013, the court granted HCP's motion and dismissed with prejudice all of the claims in the Third Amended Complaint and judgment was entered in September 2013. The court specifically determined that further amendments to the complaint would be futile because, in part, the allegations were publicly disclosed in reports and other sources relating to audits conducted by the Centers of Medicare & Medicaid Services (CMS). In October 2013, the plaintiff appealed to the United States Court of Appeals for the Ninth Circuit and the court's disposition of the appeal is pending.

2015 U.S. Attorney Transportation Investigation: In February 2015, the Company announced that it received six subpoenas from the OIG for medical records from six different dialysis centers in southern California operated by the Company. Specifically, each subpoena seeks the medical records of a single patient of the respective dialysis center. The Company has been advised by an attorney with the Civil Division of the United States Attorney's Office for the Central District of California that the subpoenas relate to an investigation concerning the medical necessity of patient transportation. The Company does not provide transportation or bill for the transport of its dialysis patients. The Company does not know the scope of the investigation by the government, nor what conduct or activities might be the subject of the investigation.

2015 U.S. OIG Medicare Advantage Civil Investigation: In March 2015, JSA HealthCare Corporation (JSA), a subsidiary of HCP, received a subpoena from the OIG. The Company has been advised by an attorney with the Civil Division of the United States Department of Justice in Washington, D.C. that the subpoena relates to an ongoing civil investigation concerning Medicare Advantage service providers' risk adjustment practices and data, including identification and verification of patient diagnoses and factors used in making the diagnoses. The subpoena requests documents and information for the period from January 1, 2008 through December 31, 2013, for certain Medicare Advantage plans for which JSA provided services. It also requests information regarding JSA's communications about patient diagnoses as they relate to certain Medicare Advantage plans generally, and more specifically as related to two Florida physicians with whom JSA previously contracted. The Company is producing the requested information and is cooperating with the government's investigation.

In addition to the subpoena described above, in June 2015, the Company received a subpoena from the OIG. This civil subpoena covers the period from January 1, 2008 through the present and seeks production of a wide range of documents relating to the Company's and its subsidiaries' (including HealthCare Partners and its subsidiary JSA HealthCare Corporation) provision of services to Medicare Advantage plans and related patient diagnosis coding and risk adjustment submissions and payments. The Company believes that the request is part of a broader industry investigation into Medicare Advantage patient diagnosis coding and risk adjustment practices and potential overpayments by the government. Some of the information requested relates to what the Company disclosed in the risk factors of the Company's quarterly report on Form 10-Q for the first quarter of 2015 as a potentially improper historical HCP coding practice related to a particular condition. The practice in question was discontinued following the Company's November 1, 2012 acquisition of HCP and, as the Company previously disclosed, the Company notified CMS of the coding practice and potential overpayments. In connection with the HCP merger, the Company has certain indemnification rights against the sellers and an escrow was established as security for the indemnification. The Company would pursue an indemnification claim against the sellers secured by the escrow for any and all liabilities incurred. The Company can make no assurances that the indemnification and escrow would cover the full amount of the Company's potential losses related to this matter. The Company is cooperating with the government and will gather and produce the requested information.

Except for the private civil complaints filed by the relators as described above, to the Company's knowledge, no proceedings have been initiated against the Company at this time in connection with any of the inquiries by the federal government. Although the Company cannot predict whether or when proceedings might be initiated or when these matters may be resolved, it is not unusual for inquiries such as these to continue for a considerable period of time through the various phases of document and witness requests and on-going discussions with regulators. Responding to the subpoenas or inquiries and defending the Company in the relator proceedings will continue to require management's attention and significant legal expense. Any negative findings in the inquiries or relator proceedings could result in substantial financial penalties or awards against the Company, exclusion from future participation in the Medicare and Medicaid programs and if criminal proceedings were initiated against the Company, possible criminal penalties. At this time, the Company cannot predict the ultimate outcome of these inquiries, or the potential outcome of the relators' claims (except as described above), or the potential range of damages, if any.

Shareholder Derivative Claims

DaVita HealthCare Partners Inc. Derivative Litigation: On January 7, 2014, the U.S. District Court for the District of Colorado consolidated the two previously disclosed shareholder derivative lawsuits: the Haverhill Retirement System action filed on May 17, 2013 and the Clark Shareholder action filed on August 7, 2012. The court appointed Haverhill lead plaintiff. The complaints filed against the directors of the Company and against the Company, as nominal defendant allege, among other things, that the Company's directors breached fiduciary duties to the Company relating to the 2010 and 2011 U.S. Attorney Physician Relationship Investigations described above, the Vainer qui tam private civil suit described above and the Woodard qui tam private civil suit for which the Company previously announced a settlement in July 2012. The Company has entered into a settlement with the lead plaintiff, subject to court approval. The terms of the settlement, which were described in a court-ordered notice sent to shareholders in late January 2015, include enhancements to the Company's corporate governance practices and provides that the Company will not oppose the derivative plaintiff's application for an award of fees and expenses, the dollar amount of which is not material to the Company. On January 8, 2015, the Court entered an order preliminarily approving the settlement, directing that the notice to shareholders be provided as described above and held a settlement fairness hearing on May 1, 2015. During the fairness hearing, the Court approved the settlement and entered an order granting final approval of the settlement on June 5, 2015 and final judgment in the case was entered on June 9, 2015.

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), a subsidiary of the Company, related to historical Gambro Healthcare billing practices and other matters covered by its 2004 settlement agreement with the Department of Justice and certain agencies of the U.S. government. The Company has received no further indication that any of these claims are active, and some of them may be barred by applicable statutes of limitations. To the extent any of these claims might proceed, the Company intends to defend against them vigorously; however, the Company may not be successful and these claims may lead to litigation and any such litigation may be resolved unfavorably. At this time, the Company cannot predict the ultimate outcome of these matters or the potential range of damages, if any.

A wage and hour claim, which has been styled as a class action, is pending against the Company in the Superior Court of California. The Company was served with the complaint in this lawsuit in April 2008, and it has been amended since that time. The complaint, as amended, alleges that the Company failed to provide meal periods, failed to pay compensation in lieu of providing rest or meal periods, failed to pay overtime, and failed to comply with certain other California Labor Code requirements. In September 2011, the court denied the plaintiffs' motion for class certification. Plaintiffs appealed that decision. In January 2013, the Court of Appeals affirmed the trial court's decision on some claims, but remanded the case to the trial court for clarification of its decision on one of the claims. The Company reached an agreement with the plaintiffs to settle the claim that was remanded to the trial court, and that settlement has been finalized. The amount of the settlement is not material to the Company's condensed consolidated financial statements. In June 2015, the Company reached an agreement in principle to resolve the remainder of the claims in this litigation. The settlement must be approved by the court, and the parties are in the process of seeking that approval. The amount of the settlement is not material to the Company's condensed consolidated financial statements.

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.

10. Noncontrolling interests subject to put provisions and other commitments

The Company has potential obligations to purchase the noncontrolling interests held by third parties in several of its majority-owned joint ventures, non-owned and minority-owned entities. 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' noncontrolling interests at either the appraised fair market value or a predetermined multiple of earnings or cash flow attributable to the noncontrolling interests put to the Company, which is intended to approximate fair value. The methodology the Company uses to estimate the fair values of noncontrolling interests subject to put provisions assumes the higher of either a liquidation value of net assets or an average multiple of earnings, based on historical earnings, patient mix and other performance indicators that can affect future results, as well as other factors. The estimated fair values of the noncontrolling interests subject to put provisions is a critical accounting estimate that involves significant judgments and assumptions and may not be indicative of the actual values at which the noncontrolling interests may ultimately be settled, which could vary significantly from the Company's current estimates. The estimated fair values of noncontrolling interests subject to put provisions can fluctuate and the implicit multiple of earnings at which these noncontrolling interests obligations may be settled will vary significantly depending upon market conditions including potential purchasers' access to the 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' noncontrolling interests. The amount of noncontrolling interests subject to put provisions that employ a contractually predetermined multiple of earnings rather than fair value are immaterial.

The Company has certain other potential commitments to provide operating capital to several dialysis centers that are wholly-owned by third parties or centers in which the Company owns a minority equity investment as well as to physician-owned vascular access clinics or medical practices that the Company operates under management and administrative services agreements of approximately $1,000.

Certain consolidated joint ventures are contractually scheduled to dissolve after terms ranging from ten to fifty years. Accordingly, the noncontrolling interests in these joint ventures are considered mandatorily redeemable instruments, for which the classification and measurement requirements have been indefinitely deferred. Future distributions upon dissolution of these entities would be valued below the related noncontrolling interest carrying balances in the consolidated balance sheet.

11. Long-term incentive compensation

Long-term incentive program (LTIP) compensation includes both stock-based awards (principally stock-settled stock appreciation rights, restricted stock units and performance stock units) as well as long-term performance-based cash awards. Long-term incentive compensation expense, which was primarily general and administrative in nature, was attributed to the dialysis and related lab services business, the HCP business, corporate support costs, and the ancillary services and strategic initiatives.

The Company's stock-based compensation awards are measured at their estimated fair values on the date of grant if settled in shares or at their estimated fair values at the end of each reporting period if settled in cash. The value of stock-based awards so measured is recognized as compensation expense on a cumulative straight-line basis over the vesting terms of the awards, adjusted for expected forfeitures.

During the six months ended June 30, 2015, the Company granted 811 stock-settled stock appreciation rights with an aggregate grant-date fair value of $14,888 and a weighted-average expected life of approximately 4.1 years, and also granted 265 stock units with an aggregate grant-date fair value of $21,432 and a weighted-average expected life of approximately 3.2 years.

For the six months ended June 30, 2015 and 2014, the Company recognized $69,692 and $52,960, respectively, in total LTIP expense, of which $28,299 and $29,699, respectively, was stock-based compensation expense for stock appreciation rights, stock units and discounted employee stock plan purchases, which are primarily included in general and administrative expenses. The estimated tax benefits recorded for stock-based compensation for the six months ended June 30, 2015 and 2014 was $10,028 and $10,997, respectively. As of June 30, 2015, there was $161,079 of total estimated unrecognized compensation cost for outstanding LTIP awards, including $82,577 related to stock-based compensation arrangements under the Company's equity compensation and stock purchase plans. The Company expects to recognize the performance-based cash component of these LTIP costs over a weighted average remaining period of 1.1 years and the stock-based component of these LTIP costs over a weighted average remaining period of 1.4 years.

For the six months ended June 30, 2015 and 2014, the Company received $28,040 and $42,110, respectively, in actual tax benefits upon the exercise of stock awards.

12. Share repurchases

During the six months ended June 30, 2015, the Company repurchased a total of 1,067 shares of its common stock for $84,113, or an average price of $78.82 per share. The Company has not repurchased any additional shares of its common stock subsequent to June 30, 2015.

On April 14, 2015, the Company's Board of Directors approved additional share repurchases in the amount of $725,944. These recently approved share repurchases are in addition to the $274,056 remaining under the Company's Board of Directors' prior share repurchase approval announced on November 4, 2010. As a result, the Company now has a total of $1,000,000 in outstanding authorizations available for share repurchases. These share repurchase authorizations have no expiration dates. However, the Company is subject to share purchase limitations under the terms of its Senior Secured Credit Facilities and indenture governing its Senior Notes.

13. Comprehensive income

	For the three months ended June 30, 2015				For the six months ended June 30, 2015			
	Interest rate swap and cap agreements	Investment securities	Foreign currency translation adjustments	Accumulated other comprehensive income (loss)	Interest rate swap and cap agreements	Investment securities	Foreign currency translation adjustments	Accumulated other comprehensive income (loss)
Beginning balance	$(6,743)	$3,376	$(44,258)	$(47,625)	$(1,795)	$3,151	$(26,373)	$(25,017)
Unrealized (losses) gains	(4,025)	(83)	5,025	917	(13,476)	461	(12,860)	(25,875)
Related income tax benefit (expense)	1,572	(16)	—	1,556	5,263	(178)	—	5,085
	(2,453)	(99)	5,025	2,473	(8,213)	283	(12,860)	(20,790)
Reclassification from accumulated other comprehensive income into net income	1,294	(27)	—	1,267	2,626	(284)	—	2,342
Related income tax (expense) benefit	(505)	11	—	(494)	(1,025)	111	—	(914)
	789	(16)	—	773	1,601	(173)	—	1,428
Ending balance	$(8,407)	$3,261	$(39,233)	$(44,379)	$(8,407)	$3,261	$(39,233)	$(44,379)

	For the three months ended June 30, 2014				For the six months ended June 30, 2014			
	Interest rate swap and cap agreements	Investment securities	Foreign currency translation adjustments	Accumulated other comprehensive income (loss)	Interest rate swap and cap agreements	Investment securities	Foreign currency translation adjustments	Accumulated other comprehensive income (loss)
Beginning balance	$(1,490)	$3,244	$(3,393)	$(1,639)	$(2,344)	$3,120	$(3,421)	$(2,645)
Unrealized (losses) gains	(8,549)	875	1,939	(5,736)	(12,660)	1,405	1,967	(9,289)
Related income tax benefit (expense)	3,340	(297)	—	3,044	4,946	(496)	—	4,451
	(5,209)	578	1,939	(2,692)	(7,714)	909	1,967	(4,838)
Reclassification from accumulated other comprehensive income into net income	8,201	—	—	8,201	13,714	(340)	—	13,374
Related income tax (expense) benefit	(3,204)	—	—	(3,204)	(5,358)	133	—	(5,225)

	4,997	—	—	4,997	8,356	(207)	—	8,149
Ending balance	$(1,702)	$ 3,822	$ (1,454)	$ 666	$(1,702)	$ 3,822	$ (1,454)	$ 666

The reclassification of net swap and cap realized losses into income are recorded as debt expense in the corresponding condensed consolidated statements of income. See Note 8 to the condensed consolidated financial statements for further details.

The reclassification of net investment realized gains into income are recorded in other income in the corresponding condensed consolidated statements of income. See Note 4 to the condensed consolidated financial statements for further details.

14. Acquisitions

During the first six months of 2015, the Company acquired dialysis businesses and other businesses consisting of one dialysis center located in the U.S., one dialysis center located outside the U.S., three vascular access centers, and other medical businesses for a total of $45,059 in net cash and deferred purchase price obligations totaling $394. The assets and liabilities for all acquisitions were recorded at their estimated fair values at the dates of the acquisitions and are included in the Company’s condensed consolidated financial statements and operating results from the designated effective dates of the acquisitions. Certain income tax amounts are pending final evaluation and quantification of any pre-acquisition tax contingencies. In addition, valuation of medical claims liability and certain other working capital items relating to several of these acquisitions are pending final quantification.

The following table summarizes the assets acquired and liabilities assumed in these transactions and recognized at their acquisition dates at estimated fair values:

	Six months ended June 30, 2015
Current assets	$ 1,545
Property and equipment	9,740
Amortizable intangible and other long-term assets	2,444
Goodwill	51,075
Long-term deferred income taxes	(750)
Noncontrolling interests assumed	(18,068)
Liabilities assumed	(533)
Aggregate purchase price	$ 45,453

Amortizable intangible assets acquired during the first six months of 2015 had weighted-average estimated useful lives of four years. The majority of the intangible assets acquired relate to non-compete agreements, and trade names. The weighted-average amortization period for non-compete agreements was six years. The weighted-average amortization period for trade names was three years. The total amount of goodwill deductible for tax purposes associated with these acquisitions was approximately $33,732.

Contingent earn-out obligations

The Company has several contingent earn-out obligations associated with acquisitions that could result in the Company paying the former shareholders of those acquired companies a total of up to $134,321 if certain EBITDA or operating income performance targets or quality margins are met over the next one to three years. As of June 30, 2015, the Company has estimated the fair value of these contingent earn-out obligations to be $34,957.

Contingent earn-out obligations will be remeasured to fair value at each reporting date until the contingencies are resolved with changes in the liability due to the re-measurement recorded in earnings. See Note 16 to the condensed consolidated financial statements for further details. Of the total contingent earn-out obligations of $34,957 recognized at June 30, 2015, a total of $25,728 is included in other liabilities and the remaining $9,229 is included in other long-term liabilities in the Company’s condensed consolidated balance sheet.

The following is a reconciliation of changes in the contingent earn-out obligations for the six months ended June 30, 2015:

Beginning balance, January 1, 2015	$39,129
Remeasurement of fair value for contingent earn-out obligations	(1,834)
Payments on contingent earn-out obligations	(2,338)
	$34,957

15. Variable interest entities

The Company relies on the operating activities of certain entities that it does not directly own or control, but over which it has indirect influence and of which it is considered the primary beneficiary. These entities are subject to the consolidation guidance applicable to variable interest entities (VIEs).

Under U.S. generally accepted accounting principles (GAAP), VIEs typically include (i) those for which the entity's equity is not sufficient to finance its activities without additional subordinated financial support; (ii) those for which the equity holders as a group lack the power to direct the activities that most significantly influence the entity's economic performance, the obligation to absorb the entity's expected losses, or the right to receive the entity's expected returns; or (iii) those for which the voting rights of some investors are not proportional to their obligations to absorb the entity's losses.

Under U.S. GAAP, the Company has determined that substantially all of the entities it is associated with that qualify as VIEs must be included in its consolidated financial statements. The Company manages these entities and provides operating and capital funding as necessary for the entities to accomplish their operational and strategic objectives. A number of these entities are subject to nominee share ownership or share transfer restriction agreements that effectively transfer the majority of the economic risks and rewards of their ownership to the Company. In other cases the Company's management agreements with these entities include both financial terms and protective and participating rights to the entities' operating, strategic and non-clinical governance decisions which transfer substantial powers over and economic responsibility for the entities to the Company. In some cases such entities are subject to broad exclusivity or noncompetition restrictions that benefit the Company. Further, in some cases the Company has contractual arrangements with its related party nominee owners that effectively indemnify these parties from the economic losses from, or entitle the Company to the economic benefits of, these entities.

The analyses upon which these consolidation determinations rest are complex, involve uncertainties, and require significant judgment on various matters, some of which could be subject to different interpretations. At June 30, 2015, these condensed consolidated financial statements include total assets of VIEs of $627,739 and total liabilities and noncontrolling interests of VIEs to third parties of $327,787.

The Company also sponsors certain deferred compensation plans whose trusts qualify as VIEs and the Company consolidates each of these plans as their primary beneficiary. The assets of these plans are recorded in short-term or long-term investments with matching offsetting liabilities recorded in accrued compensation and benefits and other long-term liabilities. See Note 4 for disclosures on the assets of these consolidated non-qualified deferred compensation plans.

16. Fair value of financial instruments

The Company measures the fair value of certain assets, liabilities and noncontrolling interests subject to put provisions (temporary equity) based upon certain valuation techniques that include observable or unobservable inputs and assumptions that market participants would use in pricing these assets, liabilities, temporary equity and commitments. The Company also has classified certain assets, liabilities and temporary equity that are measured at fair value into the appropriate fair value hierarchy levels as defined by the FASB.

The following table summarizes the Company's assets, liabilities and temporary equity measured at fair value on a recurring basis as of June 30, 2015:

	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	$31,238	$ 31,238	$ —	$ —
Interest rate cap agreements	$4,128	$ —	$ 4,128	$ —
Interest rate swap agreements	$691	$ —	$ 691	$ —
Funds on deposit with third parties	$88,092	$ 88,092	$ —	$ —
Liabilities				
Contingent earn-out obligations	$34,957	$ —	$ —	$ 34,957
Interest rate swap agreements	$1,131	$ —	$ 1,131	—

Temporary equity				
Noncontrolling interests subject to put provisions	$863,126	$ —	$ —	$ 863,126

The available for sale securities represent investments in various open-ended registered investment companies, or mutual funds, and are recorded at fair value based upon quoted prices reported by each mutual fund. See Note 4 to these condensed consolidated financial statements for further discussion.

The interest rate swap and cap agreements are recorded at fair value based upon valuation models utilizing the income approach and commonly accepted valuation techniques that use inputs from closing prices for similar assets and liabilities in active markets as well as other relevant observable market inputs at quoted intervals such as current interest rates, forward yield curves, implied volatility and credit default swap pricing. The Company does not believe the ultimate amount that could be realized upon settlement of these interest rate swap and cap agreements would be materially different from the fair values currently reported. See Note 8 to the condensed consolidated financial statements for further discussion.

The funds on deposit with third parties represent funds held with various third parties as required by regulation or contract and invested by those parties in various investments, which are measured at estimated fair value based primarily on quoted market prices.

The estimated fair value measurements of contingent earn-out obligations are primarily based on unobservable inputs including projected EBITDA, estimated probability of achieving gross margins or quality margins of certain medical procedures and the estimated probability of earn-out payments being made using an option pricing technique and a simulation model for expected EBITDA and operating income. In addition, a probability adjusted model was used to estimate the fair value amounts of the quality margins. The estimated fair value of these contingent earn-out obligations will be remeasured as of each reporting date and could fluctuate based upon any significant changes in key assumptions, such as changes in the Company credit risk adjusted rate that is used to discount obligations to present value.

See Note 10 to these condensed consolidated financial statements for a discussion of the Company’s methodology for estimating the fair value of noncontrolling interests subject to put obligations.

Other financial instruments consist primarily of cash, accounts receivable, life insurance contracts, accounts payable, other accrued liabilities and debt. The balances of the non-debt financial instruments are presented in the consolidated financial statements at June 30, 2015 at their approximate fair values due to the short-term nature of their settlements. The carrying balance of the Company’s Senior Secured Credit Facilities totaled $4,415,000 as of June 30, 2015, and the fair value was approximately $4,413,813 based upon quoted market prices. The fair value of the Company’s senior notes was approximately $4,485,000 at June 30, 2015 based upon quoted market prices, as compared to the carrying amount of $4,500,000.

17. Segment reporting

The Company operates two major divisions, Kidney Care and HCP. The Kidney Care division is comprised of the Company’s U.S. dialysis and related lab services business, various other ancillary services and strategic initiatives, including its international dialysis operations, and the Company’s corporate support costs. The Company’s U.S. dialysis and related lab services business is the Company’s largest line of business, and is a leading provider of kidney dialysis services in the U.S. for patients suffering from chronic kidney failure, also known as ESRD. The Company’s HCP division is a patient- and physician-focused integrated health care delivery and management company with nearly three decades of providing coordinated outcomes-based medical care in a cost-effective manner.

As of June 30, 2015, the Company’s ancillary services and strategic initiatives consisted primarily of pharmacy services, disease management services, vascular access services, clinical research programs, physician services, direct primary care and the Company’s international dialysis operations.

The Company’s operating segments have been defined based on the separate financial information that is regularly produced and reviewed by the Company’s chief operating decision maker in making decisions about allocating resources to and assessing the financial results of the Company’s various operating lines of business. The chief operating decision maker for the Company is its Chief Executive Officer.

The Company’s separate operating segments include its U.S. dialysis and related lab services business, its HCP operations in each region, each of its ancillary services and strategic initiatives, and its international operations in the European and Middle Eastern, Asia Pacific, and Latin American regions. The U.S. dialysis and related lab services business and the HCP business each qualify as separately reportable segments, and all of the other ancillary services and strategic initiatives operating segments, including the international operating segments, have been combined and disclosed in the other segments category.

The Company’s operating segment financial information included in this report is prepared on the internal management reporting basis that the chief operating decision maker uses to allocate resources and assess the financial results of the operating segments. For internal management reporting, segment operations include direct segment operating expenses but exclude corporate support costs, which consist primarily of indirect labor, benefits and long-term incentive based compensation of certain departments which provide support to all of the Company's various operating lines of business. Corporate support costs in 2015 have been reduced by internal management fees received from the Company's ancillary lines of businesses.

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

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Segment net revenues:				
U.S. dialysis and related lab services				
Patient service revenues:				
External sources	$2,237,630	$2,096,605	$4,391,924	$4,125,349
Intersegment revenues	13,591	9,084	25,447	16,916
Total dialysis and related lab services revenues	2,251,221	2,105,689	4,417,371	4,142,265
Less: Provision for uncollectible accounts	(101,304)	(84,227)	(198,781)	(165,690)
Net dialysis and related lab services patient service revenues	2,149,917	2,021,462	4,218,590	3,976,575
Other revenues(1)	3,540	3,579	6,724	6,732
Total net dialysis and related lab services revenues	2,153,457	2,025,041	4,225,314	3,983,307
HCP				
HCP revenues:				
Capitated revenues	848,595	783,182	1,681,067	1,554,724
Net patient service revenues	82,236	58,076	162,446	114,297
Other revenues(2)	35,326	46,029	50,379	58,553
Intersegment capitated and other revenues	185	204	222	357
Total revenues	966,342	887,491	1,894,114	1,727,931
Other—Ancillary services and strategic initiatives				
Net patient service revenues	39,052	28,744	74,676	56,143
Capitated revenues	17,595	16,187	35,638	32,210
Other external sources	271,948	224,314	518,510	432,947
Intersegment revenues	5,543	4,474	10,485	9,293
Total ancillary services and strategic initiatives revenues	334,138	273,719	639,309	530,593
Total net segment revenues	3,453,937	3,186,251	6,758,737	6,241,831
Elimination of intersegment revenues	(19,319)	(13,762)	(36,154)	(26,566)
Consolidated net revenues	$3,434,618	$3,172,489	$6,722,583	$6,215,265
Segment operating margin (loss):				
U.S. dialysis and related lab services	$437,844	$407,948	$333,355	$794,648
HCP	72,336	82,048	132,630	136,002
Other—Ancillary services and strategic initiatives	(26,207)	(1,920)	(40,035)	(243)
Total segment operating margin	483,973	488,076	425,950	930,407
Reconciliation of segment operating margin to consolidated income before income taxes:				
Corporate support costs	(3,425)	(3,781)	(9,558)	(4,887)
Consolidated operating income	480,548	484,295	416,392	925,520
Debt expense	(104,248)	(106,132)	(201,640)	(212,467)
Debt redemption and refinancing charges	(48,072)	(97,548)	(48,072)	(97,548)
Other income	2,311	1,693	1,778	3,391
Consolidated income before income taxes	$330,539	$282,308	$168,458	$618,896

(1) Includes management fees for providing management and administrative services to dialysis centers that are wholly-owned by third parties or centers in which the Company owns a minority equity investment.

(2) Includes payments received for medical consulting services and management fees for providing management and administrative services to an unconsolidated joint venture that provides medical services in which the Company owns a 50% interest, as well as revenue related to the maintenance of existing physician networks.

Depreciation and amortization expense by segment is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
U.S. dialysis and related lab services	$109,461	$99,163	$214,453	$195,606
HCP	43,088	42,260	86,367	83,997
Ancillary services and strategic initiatives	6,294	4,484	11,812	8,883
	$158,843	$145,907	$312,632	$288,486

Summary of assets by segment is as follows:

	June 30, 2015	December 31, 2014
Segment assets		
U.S. dialysis and related lab services (including equity investments of $28,711 and $28,138, respectively)	$11,837,990	$10,959,096
HCP (including equity investments of $16,752 and $15,393, respectively)	6,347,456	6,285,984
Other—Ancillary services and strategic initiatives (including equity investments of $21,710 and $22,106, respectively)	761,372	697,635
Consolidated assets	$18,946,818	$17,942,715

Expenditures for property and equipment by segment is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
U.S. dialysis and related lab services.	$141,656	$136,660	$247,051	$249,869
HCP	12,951	5,777	17,985	10,279
Ancillary services and strategic initiatives	14,845	9,594	25,837	18,445
	$169,452	$152,031	$290,873	$278,593

18. Changes in DaVita HealthCare Partners Inc.'s ownership interest in consolidated subsidiaries

The effects of changes in DaVita HealthCare Partners Inc.'s ownership interest on the Company's equity are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Net income attributable to DaVita HealthCare Partners Inc.	$170,477	$147,683	$59,860	$330,972
(Decrease) increase in paid-in capital for sales of noncontrolling interests	—	(66)	—	15
(Decrease) increase in paid-in capital for the purchase of noncontrolling interests and adjustments to ownership interest	(8,421)	1,247	(8,421)	1,457
Net transfers to noncontrolling interests	(8,421)	1,181	(8,421)	1,472
Net income attributable to DaVita HealthCare Partners Inc., net of transfers to noncontrolling interests	$162,056	$148,864	$51,439	$332,444

19. New accounting standards

In July 2015, the FASB issued Accounting Standards Updated (ASU) No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. The amendments in this ASU apply to all inventory with the exception of inventory measured using last-in, first-out or the retail inventory method. This ASU simplifies the measurement of inventory. Under this new standard, inventory should be measured using the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonable predictable costs of completion, disposal and transportation. The amendments in this ASU are effective for fiscal years beginning after December 15, 2016 and should be applied prospectively. Early adoption is permitted. The adoption of this standard will not have a material impact on the Company’s condensed consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The amendments in this ASU are effective for the Company beginning January 1, 2016. Early adoption is permitted. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The adoption of this standard will not have a material impact on the Company’s condensed consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-05, Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement, which amends ASC 350-40, Intangibles-Goodwill and Other-Internal-Use Software. This ASU provides guidance to customers about whether a cloud computing arrangement includes a software license. If an arrangement includes a software license, the accounting for the license will be consistent with licenses of other intangible assets. If the arrangement does not include a license, the arrangement will be accounted for as a service contract. The effective date will be the first quarter of fiscal year 2017 and can be adopted prospectively or retrospectively. The adoption of this standard will not have a material impact on the Company’s condensed consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. The amendments in the ASU clarify consolidation of VIEs regarding which reporting entity consolidates the legal entity. The amendments in the ASU are effective for the Company January 1, 2016. Early adoption is permitted. The adoption of this standard will not have a material impact on the Company’s condensed consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard as issued is effective for the Company on January 1, 2017. In July 2015, the FASB approved a one-year deferral of the effective date. The final ASU now permits the Company to adopt this standard on January 1, 2018. Early application is permitted as of the initial effective date of January 1, 2017, but not prior to that date. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

20. 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 Company’s consolidated financial statements are fully interdependent and integrated. Revenues and operating expenses of the separate legal entities include intercompany charges for management and other administrative services. The Company’s senior notes are guaranteed by substantially all of its domestic wholly-owned subsidiaries. Each of the guarantor subsidiaries has guaranteed the notes on a joint and several basis. However, the guarantor subsidiaries can be released from their obligations in the event of a sale or other disposition of all or substantially all of the assets of such subsidiary, including by merger or consolidation or the sale of all equity interests in such subsidiary owned by the Company, if such subsidiary guarantor is designated as an unrestricted subsidiary or otherwise ceases to be a restricted subsidiary, and if such subsidiary guarantor no longer guaranties any other indebtedness of the Company. Non-wholly-owned subsidiaries, certain wholly-owned subsidiaries, foreign subsidiaries, joint ventures, partnerships, non-owned entities and third parties are not guarantors of these obligations.

Condensed Consolidating Statements of Income

For the three months ended June 30, 2015	DaVita HealthCare Partners Inc.	Guarantor subsidiaries	Non-Guarantor subsidiaries	Consolidating adjustments	Consolidated total
Patient service revenues	$ —	$ 1,663,352	$ 735,456	$ (35,229)	$ 2,363,579
Less: Provision for uncollectible accounts	—	(70,245)	(35,720)	—	(105,965)
Net patient service revenues	—	1,593,107	699,736	(35,229)	2,257,614
Capitated revenues	—	439,734	426,542	(86)	866,190
Other revenues	189,586	468,821	7,366	(354,959)	310,814
Total net revenues	189,586	2,501,662	1,133,644	(390,274)	3,434,618
Operating expenses	128,643	2,200,706	1,014,995	(390,274)	2,954,070
Operating income	60,943	300,956	118,649	—	480,548
Debt expense, including debt refinancing charges	(150,105)	(85,119)	(11,480)	94,384	(152,320)
Other income	91,000	4,348	1,347	(94,384)	2,311
Income tax expense	(1,667)	133,859	(9,430)	—	122,762
Equity earnings in subsidiaries	166,972	80,646	—	(247,618)	—
Net income	170,477	166,972	117,946	(247,618)	207,777
Less: Net income attributable to noncontrolling interests	—	—	—	(37,300)	(37,300)
Net income attributable to DaVita HealthCare Partners Inc.	$ 170,477	$ 166,972	$ 117,946	$ (284,918)	$ 170,477

For the three months ended June 30, 2014	DaVita HealthCare Partners Inc.	Guarantor subsidiaries	Non-Guarantor subsidiaries	Consolidating adjustments	Consolidated total
Patient service revenues	$ —	$ 1,517,267	$ 697,325	$ (27,343)	$ 2,187,249
Less: Provision for uncollectible accounts	—	(57,281)	(30,771)	—	(88,052)
Net patient service revenues	—	1,459,986	666,554	(27,343)	2,099,197
Capitated revenues	—	414,366	385,029	(26)	799,369
Other revenues	181,199	424,755	6,699	(338,730)	273,923
Total net revenues	181,199	2,299,107	1,058,282	(366,099)	3,172,489
Operating expenses	122,815	2,033,826	897,652	(366,099)	2,688,194
Operating income	58,384	265,281	160,630	—	484,295
Debt expense	(202,258)	(97,382)	(10,180)	106,140	(203,680)
Other income	99,532	7,379	922	(106,140)	1,693
Income tax expense	(17,958)	111,415	7,430	—	100,887
Equity earnings in subsidiaries	174,067	110,204	—	(284,271)	—
Net income	147,683	174,067	143,942	(284,271)	181,421
Less: Net income attributable to noncontrolling interests	—	—	—	(33,738)	(33,738)
Net income attributable to DaVita HealthCare Partners Inc.	$ 147,683	$ 174,067	$ 143,942	$ (318,009)	$ 147,683

23

For the six months ended June 30, 2015	DaVita HealthCare Partners Inc.	Guarantor subsidiaries	Non-Guarantor subsidiaries	Consolidating adjustments	Consolidated total
Patient service revenues	$—	$3,245,311	$1,459,299	$(69,216)	$4,635,394
Less: Provision for uncollectible accounts	—	(134,322)	(70,807)	—	(205,129)
Net patient service revenues	—	3,110,989	1,388,492	(69,216)	4,430,265
Capitated revenues	—	887,072	829,666	(33)	1,716,705
Other revenues	357,851	879,849	13,678	(675,765)	575,613
Total net revenues	357,851	4,877,910	2,231,836	(745,014)	6,722,583
Operating expenses	252,412	4,798,659	2,000,134	(745,014)	6,306,191
Operating income	105,439	79,251	231,702	—	416,392
Debt expense, including debt refinancing charges	(245,583)	(170,902)	(20,766)	187,539	(249,712)
Other income	182,023	4,401	2,893	(187,539)	1,778
Income tax expense	15,847	4,624	16,358	—	36,829
Equity earnings in subsidiaries	33,828	125,702	—	(159,530)	—
Net income	59,860	33,828	197,471	(159,530)	131,629
Less: Net income attributable to noncontrolling interests	—	—	—	(71,769)	(71,769)
Net income attributable to DaVita HealthCare Partners Inc.	$59,860	$33,828	$197,471	$(231,299)	$59,860

For the six months ended June 30, 2014	DaVita HealthCare Partners Inc.	Guarantor subsidiaries	Non-Guarantor subsidiaries	Consolidating adjustments	Consolidated total
Patient service revenues	$—	$3,030,545	$1,324,264	$(53,462)	$4,301,347
Less: Provision for uncollectible accounts	—	(107,160)	(64,089)	—	(171,249)
Net patient service revenues	—	2,923,385	1,260,175	(53,462)	4,130,098
Capitated revenues	—	818,913	768,428	(407)	1,586,934
Other revenues	344,242	818,310	11,408	(675,727)	498,233
Total net revenues	344,242	4,560,608	2,040,011	(729,596)	6,215,265
Operating expenses	235,112	4,014,282	1,769,947	(729,596)	5,289,745
Operating income	109,130	546,326	270,064	—	925,520
Debt expense	(307,541)	(188,806)	(19,932)	206,264	(310,015)
Other income (expense)	199,475	8,935	1,245	(206,264)	3,391
Income tax expense	431	215,546	9,761	—	225,738
Equity earnings in subsidiaries	330,339	179,430	—	(509,769)	—
Net income	330,972	330,339	241,616	(509,769)	393,158
Less: Net income attributable to noncontrolling interests	—	—	—	(62,186)	(62,186)
Net income attributable to DaVita HealthCare Partners Inc.	$330,972	$330,339	$241,616	$(571,955)	$330,972

Condensed Consolidating Statements of Comprehensive Income

For the three months ended June 30, 2015	DaVita HealthCare Partners Inc.	Guarantor subsidiaries	Non-Guarantor subsidiaries	Consolidating adjustments	Consolidated total
Net income	$ 170,477	$ 166,972	$ 117,946	$ (247,618)	$ 207,777
Other comprehensive loss	(1,779)	—	5,025	—	3,246
Total comprehensive income	168,698	166,972	122,971	(247,618)	211,023
Less: comprehensive income attributable to the noncontrolling interests	—	—	—	(37,300)	(37,300)
Comprehensive income attributable to DaVita HealthCare Partners Inc.	$ 168,698	$ 166,972	$ 122,971	$ (284,918)	$ 173,723

For the three months ended June 30, 2014	DaVita HealthCare Partners Inc.	Guarantor subsidiaries	Non-Guarantor subsidiaries	Consolidating adjustments	Consolidated total
Net income	$ 147,683	$ 174,067	$ 143,942	$ (284,271)	$ 181,421
Other comprehensive income	366	—	1,939	—	2,305
Total comprehensive income	148,049	174,067	145,881	(284,271)	183,726
Less: comprehensive income attributable to the noncontrolling interests	—	—	—	(33,738)	(33,738)
Comprehensive income attributable to DaVita HealthCare Partners Inc.	$ 148,049	$ 174,067	$ 145,881	$ (318,009)	$ 149,988

For the six months ended June 30, 2015	DaVita HealthCare Partners Inc.	Guarantor subsidiaries	Non-Guarantor subsidiaries	Consolidating adjustments	Consolidated total
Net income	$ 59,860	$ 33,828	$ 197,471	$ (159,530)	$ 131,629
Other comprehensive loss	(6,502)	—	(12,860)	—	(19,362)
Total comprehensive income	53,358	33,828	184,611	(159,530)	112,267
Less: comprehensive income attributable to the noncontrolling interests	—	—	—	(71,769)	(71,769)
	$ 53,358	$ 33,828	$ 184,611	$ (231,299)	$ 40,498

Comprehensive income attributable to DaVita HealthCare Partners Inc.

For the six months ended June 30, 2014	DaVita HealthCare Partners Inc.	Guarantor subsidiaries	Non-Guarantor subsidiaries	Consolidating adjustments	Consolidated total
Net income	$ 330,972	$ 330,339	$ 241,616	$ (509,769)	$ 393,158
Other comprehensive income	1,344	—	1,967	—	3,311
Total comprehensive income	332,316	330,339	243,583	(509,769)	396,469
Less: comprehensive income attributable to the noncontrolling interests	—	—	—	(62,186)	(62,186)
Comprehensive income attributable to DaVita HealthCare Partners Inc.	$ 332,316	$ 330,339	$ 243,583	$ (571,955)	$ 334,283

25

Condensed Consolidating Balance Sheets

As of June 30, 2015	DaVita HealthCare Partners Inc.	Guarantor subsidiaries	Non-Guarantor subsidiaries	Consolidating adjustments	Consolidated total
Cash and cash equivalents	$685,219	$58,195	$190,321	$—	$933,735
Accounts receivable, net	—	995,284	671,685	—	1,666,969
Other current assets	964,057	1,093,115	123,045	—	2,180,217
Total current assets	1,649,276	2,146,594	985,051	—	4,780,921
Property and equipment, net	196,905	1,499,888	867,915	—	2,564,708
Amortizable intangibles, net	89,029	1,732,254	47,149	—	1,868,432
Investments in subsidiaries	8,768,681	1,541,700	—	(10,310,381)	—
Intercompany receivables	3,783,559	—	578,943	(4,362,502)	—
Other long-term assets and investments	61,452	110,611	109,748	—	281,811
Goodwill	—	8,004,695	1,446,251	—	9,450,946
Total assets	$14,548,902	$15,035,742	$4,035,057	$(14,672,883)	$18,946,818
Current liabilities	38,757	1,808,645	486,888	—	2,334,290
Intercompany payables	—	3,110,636	1,251,866	(4,362,502)	—
Long-term debt and other long-term liabilities	8,818,419	1,347,780	236,287	—	10,402,486
Noncontrolling interests subject to put provisions	544,877	—	—	318,249	863,126
Total DaVita HealthCare Partners Inc. shareholders' equity	5,146,849	8,768,681	1,541,700	(10,310,381)	5,146,849
Noncontrolling interests not subject to put provisions	—	—	518,316	(318,249)	200,067
Total equity	5,146,849	8,768,681	2,060,016	(10,628,630)	5,346,916
Total liabilities and equity	$14,548,902	$15,035,742	$4,035,057	$(14,672,883)	$18,946,818

As of December 31, 2014	DaVita HealthCare Partners Inc.	Guarantor subsidiaries	Non-Guarantor subsidiaries	Consolidating adjustments	Consolidated total
Cash and cash equivalents	$698,876	$77,921	$188,444	$—	$965,241
Accounts receivable, net	—	915,851	609,998	—	1,525,849
Other current assets	362,672	930,093	92,942	—	1,385,707
Total current assets	1,061,548	1,923,865	891,384	—	3,876,797
Property and equipment, net	195,690	1,473,188	800,221	—	2,469,099
Amortizable intangibles, net	85,338	1,811,218	52,942	—	1,949,498
Investments in subsidiaries	8,868,335	1,561,195	—	(10,429,530)	—
Intercompany receivables	3,723,454	—	564,241	(4,287,695)	—
Other long-term assets and investments	70,309	60,385	101,332	—	232,026
Goodwill	—	7,958,221	1,457,074	—	9,415,295
Total assets	$14,004,674	$14,788,072	$3,867,194	$(14,717,225)	$17,942,715
Current liabilities	$180,977	$1,493,243	$414,432	$—	$2,088,652
Intercompany payables	—	3,105,173	1,182,522	(4,287,695)	—
Long-term debt and other long-term liabilities	8,124,863	1,321,321	217,603	—	9,663,787
	528,321	—	—	301,644	829,965

Noncontrolling interests subject to put provisions					
Total DaVita HealthCare Partners Inc. shareholders' equity	5,170,513	8,868,335	1,561,195	(10,429,530)	5,170,513
Noncontrolling interests not subject to put provisions	—	—	491,442	(301,644)	189,798
Total equity	5,170,513	8,868,335	2,052,637	(10,731,174)	5,360,311
Total liabilities and equity	$14,004,674	$14,788,072	$3,867,194	$(14,717,225)	$17,942,715

Condensed Consolidating Statements of Cash Flows

For the six months ended June 30, 2015	DaVita HealthCare Partners Inc.	Guarantor subsidiaries	Non-Guarantor subsidiaries	Consolidating adjustments	Consolidated total
Cash flows from operating activities:					
Net income	$ 59,860	$ 33,828	$ 197,471	$ (159,530)	$ 131,629
Changes in operating assets and liabilities and non-cash items included in net income	(117,778)	215,135	53,015	159,530	309,902
Net cash (used in) provided by operating activities	(57,918)	248,963	250,486	—	441,531
Cash flows from investing activities:					
Additions of property and equipment, net	(21,179)	(147,637)	(122,057)	—	(290,873)
Acquisitions	—	(44,740)	(319)	—	(45,059)
Proceeds from asset and business sales	—	3,415	—	—	3,415
Purchases/proceeds from investment sales and other items	(604,922)	(833)	(9,065)	—	(614,820)
Net cash used in investing activities	(626,101)	(189,795)	(131,441)	—	(947,337)
Cash flows from financing activities:					
Long-term debt and related financing costs, net	682,510	(7,922)	(6,596)	—	667,992
Intercompany borrowing	108,911	(60,132)	(48,779)	—	—
Other items	(121,059)	(10,840)	(61,000)	—	(192,899)
Net cash provided by (used in) financing activities	670,362	(78,894)	(116,375)	—	475,093
Effect of exchange rate changes on cash	—	—	(793)	—	(793)
Net increase (decrease) in cash and cash equivalents	(13,657)	(19,726)	1,877	—	(31,506)
Cash and cash equivalents at beginning of period	698,876	77,921	188,444	—	965,241
Cash and cash equivalents at end of period	$ 685,219	$ 58,195	$ 190,321	$ —	$ 933,735

For the six months ended June 30, 2014	DaVita HealthCare Partners Inc.	Guarantor subsidiaries	Non-Guarantor subsidiaries	Consolidating adjustments	Consolidated total
Cash flows from operating activities:					
Net income	$ 330,972	$ 330,339	$ 241,616	$ (509,769)	$ 393,158
Changes in operating assets and liabilities and non-cash items included in net income	(191,299)	6,934	(37,064)	509,769	288,340
Net cash provided by operating activities	139,673	337,273	204,552	—	681,498
Cash flows from investing activities:					
Additions of property and equipment, net	(25,377)	(123,519)	(129,697)		(278,593)
Acquisitions	—	(97,057)	(1,385)		(98,442)
Proceeds from asset sales	—	215	—		215

Purchases of investments and other items	(58,496)	(5,263)	(2,276)		(66,035)
Net cash used in investing activities	(83,873)	(225,624)	(133,358)	—	(442,855)
Cash flows from financing activities:					
Long-term debt and related financing costs, net	353,406	(7,158)	2,188		348,436
Intercompany borrowing	139,052	(113,906)	(25,146)		—
Other items	(69,425				