

DAVITA HEALTHCARE PARTNERS INC.  
Form DEF 14A  
April 30, 2015

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No.        )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material under §240.14a-12

**DAVITA HEALTHCARE PARTNERS INC.**

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
  - (1) Title of each class of securities to which transaction applies:
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    - (2) Form, Schedule or Registration Statement No.:
    - (3) Filing Party:
    - (4) Date Filed:
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May 7, 2015

Dear Fellow Stockholder:

We are pleased to invite you to attend the DaVita HealthCare Partners Inc. annual meeting of stockholders. The annual meeting will be held on Tuesday, June 16, 2015, at 5:30 p.m., Mountain Time, at DaVita HealthCare Partners Inc., 2000 16<sup>th</sup> Street, Denver, Colorado 80202. The attached Notice of Annual Meeting and Proxy Statement will serve as your guide to the business to be conducted at the meeting.

Among other items, the Proxy Statement includes information about the qualifications of our director nominees and the compensation of our executive officers that is relevant to matters that will be presented at the annual meeting. During the meeting, we will also report to you on the Company and provide an opportunity for stockholders to engage in a dialogue with management.

We hope that you will participate in the annual meeting, either by attending and voting in person or voting by other available methods as promptly as possible. Voting by any of the available methods will ensure that you are represented at the annual meeting, even if you are not present. You may vote your proxy via the Internet, by telephone, or by mail. Please follow the instructions on the Notice of Internet Availability of Proxy Materials that you receive in the mail and/or your proxy card.

Your vote is very important to us and to our business. Please take the first opportunity to ensure that your shares are represented at the annual meeting.

Thank you very much for your continued interest in our business.

Sincerely,

Kent J. Thiry  
Co-Chairman of the Board,  
Chief Executive Officer  
DaVita HealthCare Partners Inc., and  
Chief Executive Officer, HealthCare Partners

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**Tuesday, June 16, 2015**

**5:30 p.m., Mountain Time**

DaVita HealthCare Partners Inc.

2000 16<sup>th</sup> Street

Denver, Colorado 80202

**The 2015 annual meeting of the stockholders of DaVita HealthCare Partners Inc., a Delaware corporation, will be held on Tuesday, June 16, 2015 at 5:30 p.m., Mountain Time, at DaVita HealthCare Partners Inc., 2000 16th Street, Denver, Colorado 80202, for the following purposes, which are further described in the accompanying Proxy Statement:**

To vote upon the election of the nine directors identified in the attached Proxy Statement to the Board of Directors to serve for a term of one year or until their successors are duly elected and qualified;

To ratify the appointment of KPMG LLP as our independent registered public accounting firm for fiscal year 2015;

To hold an advisory vote on executive compensation;

To consider and vote upon a stockholder proposal, if properly presented at the annual meeting; and

To transact such other business as may properly come before the annual meeting or any adjournment thereof.

We will mail, on or about May 7, 2015, a Notice of Internet Availability of Proxy Materials to stockholders of record and beneficial owners as of the close of business on April 24, 2015. On the date of mailing of the Notice of Internet Availability of Proxy Materials, the proxy materials will be accessible on a website referred to in the Notice of Internet Availability of Proxy Materials. These proxy materials will be available free of charge.

The Notice of Internet Availability of Proxy Materials will also identify the date, time, and location of the annual meeting; the matters to be acted upon at the annual meeting and the Board of Directors' recommendation with regard to each matter; a toll-free telephone number, an e-mail address, and a website where stockholders can request a paper or e-mail copy of the Proxy Statement, our Annual Report to Stockholders, and a form of proxy relating to the annual meeting; information on how to access the form of proxy over the Internet and how to vote over the Internet; and information on how to obtain directions to attend the annual meeting and vote in person. If you attend the annual meeting and previously used the telephone or Internet voting systems, or mailed your completed proxy card, you may vote in person at the meeting if you wish to change your vote in any way.

Please note that all votes cast via telephone or the Internet must be cast prior to 11:59 p.m., Eastern Time, on Monday, June 15, 2015.

By order of the Board of Directors,

**Martha Ha**

Corporate Secretary

DaVita HealthCare Partners Inc.

May 7, 2015

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## General Information

We are delivering this Proxy Statement in connection with the solicitation of proxies by our Board of Directors (the "Board"), for use at our 2015 annual meeting of stockholders, which we will hold on Tuesday, June 16, 2015 at 5:30 p.m., Mountain Time, at DaVita HealthCare Partners Inc. (the "Company"), 2000 16<sup>th</sup> Street, Denver, Colorado 80202. The proxies will remain valid for use at any meetings held upon adjournment of that meeting. The record date for the annual meeting is the close of business on April 24, 2015. All holders of record of our common stock on the record date are entitled to notice of the annual meeting and to vote at the annual meeting and any meetings held upon adjournment of that meeting. Our principal executive offices are located at 2000 16<sup>th</sup> Street, Denver, Colorado, 80202, and our telephone number is (303) 405-2100. To obtain directions to our annual meeting, visit our website, located at <http://www.davita.com>.

In accordance with rules and regulations adopted by the Securities and Exchange Commission (the "SEC"), instead of mailing a printed copy of our proxy materials to each stockholder of record or beneficial owner, we are furnishing the proxy materials to our stockholders over the Internet, which include this Proxy Statement and the accompanying Notice of Meeting, Proxy Card, and Annual Report to Stockholders. Because you received a Notice of Internet Availability of Proxy Materials by mail, you will not receive a printed copy of the proxy materials, unless you have previously made a permanent election to receive these materials in paper copy. Instead, the Notice of Internet Availability of Proxy Materials instructs you as to how you may access and review all of the important information contained in the proxy materials, and how you may submit your vote by proxy on the Internet. If you received a Notice of Internet Availability of Proxy Materials by mail and would like to receive a printed copy of our proxy materials, you should follow the instructions for requesting such materials included in the Notice of Internet Availability of Proxy Materials.

The Notice of Internet Availability of Proxy Materials will be first mailed on or about May 7, 2015 to all stockholders of record as of April 24, 2015.

Whether or not you plan to attend the annual meeting in person, please vote by telephone, Internet, or request a Proxy Card to complete, sign, date and return by mail to ensure that your shares will be voted at the annual meeting. You may revoke your proxy at any time prior to its use by filing with our secretary an instrument revoking it or a duly executed proxy bearing a later date or by attending the annual meeting and voting in person.

**If you plan to attend the annual meeting in person, please so indicate when you submit your proxy by mail, by telephone or via the Internet and bring with you the items that are required pursuant to the Company's admission process for the 2015 Annual Meeting. A description of the admission process can be found below in this Proxy Statement under the heading "General Information Admission to Annual Meeting."**

Unless you instruct otherwise in the proxy, any proxy that is given and not revoked will be voted at the annual meeting:

For each of the nine nominees to the Board identified in this Proxy Statement;

For the ratification of the appointment of KPMG LLP as our independent registered public accounting firm for fiscal year 2015;

For the approval, on an advisory basis, of the compensation of our named executive officers;

Against the stockholder proposal, if properly presented at the annual meeting; and

As determined by the proxy holders named in the Proxy Card in their discretion, with regard to all other matters as may properly come before the annual meeting or any adjournment thereof.

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## Voting Information

Our only voting securities are the outstanding shares of our common stock. At the record date, we had approximately 214,941,142 shares of common stock outstanding. Each stockholder is entitled to one vote per share on each matter that we will consider at this meeting. Stockholders are not entitled to cumulate votes. Under the rules of the New York Stock Exchange, your bank, broker, or other nominee may not vote your uninstructed shares in the election of directors and certain other matters on a discretionary basis. Accordingly, brokers holding shares of record for their customers generally are not entitled to vote on these matters unless their customers give them specific voting instructions. If the broker does not receive specific instructions, the broker will note this on the proxy form or otherwise advise us that it lacks voting authority. Thus, if you hold your shares in "street name," meaning that your shares are registered in the name of your bank,

broker, or other nominee, and you do not instruct your bank, broker, or other nominee how to vote in the election of directors, the proposal regarding the advisory vote on executive compensation, or on the stockholder proposal, if properly brought before the annual meeting, no votes will be cast on your behalf. The votes that the brokers would have cast if their customers had given them specific instructions are commonly called "broker non-votes." If the stockholders of record present in person or represented by their proxies and entitled to vote at the annual meeting hold at least a majority of our shares of common stock outstanding as of the record date, a quorum will exist for the transaction of business at the annual meeting. Stockholders attending the annual meeting in person or represented by proxy at the annual meeting who abstain from voting and broker non-votes are counted as present for quorum purposes.

## Votes Required for Proposals

Directors are elected by a majority of votes cast, which means that the number of shares voted "for" each of the nine nominees for election to the Board must exceed 50% of the number of votes cast with respect to each nominee's election. Abstentions and broker non-votes will not be counted as votes cast and will have no effect on the election of directors. In the event that the number of nominees exceeds the number of directors to be elected, which is a situation that we do not anticipate, directors will be elected by a plurality of the shares represented in person or by proxy at any such meeting and entitled to vote on the election of directors.

The ratification of the appointment of KPMG LLP as our independent registered public accounting firm for fiscal year 2015, the approval of the proposal regarding the advisory vote on executive compensation, and the stockholder proposal, if properly brought before the annual meeting, each require the affirmative vote of a

majority of the shares of common stock present at the annual meeting in person or by proxy and entitled to vote thereon. Because your vote on executive compensation and the stockholder proposal is advisory, the results of those votes will not be binding on the Company or the Board. However, the Board and any applicable Board committee will consider the voting results as appropriate when making future decisions regarding executive compensation and the topic of the stockholder proposal. Abstentions are considered present and entitled to vote with respect to these proposals and will, therefore, have the same effect as votes against these proposals. Broker non-votes with respect to the approval of the proposal regarding the advisory vote on executive compensation, and the stockholder proposal will not be considered as present and entitled to vote on these proposals, and will therefore have no effect on the number of affirmative votes needed to approve these proposals.

## Proxy Solicitation Costs

We will pay for the cost of preparing, assembling, printing and mailing of the Notice of Internet Availability of Proxy Materials, this Proxy Statement and the accompanying Notice of Meeting, Proxy Card, and Annual Report to Stockholders to our stockholders, as well as the cost of our solicitation of proxies relating to

the annual meeting. We may request banks and brokers to solicit their customers who beneficially own our common stock listed of record in names of nominees. We will reimburse these banks and brokers for their reasonable out-of-pocket expenses regarding these solicitations. We have also retained MacKenzie

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Partners, Inc. ("MacKenzie") to assist in the distribution and solicitation of proxies and to verify records related to the solicitation at a fee of \$15,000 plus reimbursement for all reasonable out-of-pocket expenses incurred during the solicitation. MacKenzie and our officers, directors and employees may supplement the original solicitation by mail of proxies, by telephone,

facsimile, e-mail and personal solicitation. We will pay no additional compensation to our officers, directors and employees for these activities. We have agreed to indemnify MacKenzie against liabilities and expenses arising in connection with the proxy solicitation unless caused by MacKenzie's negligence or intentional misconduct.

## Delivery of Proxy Statement and Annual Report

Beneficial owners, but not record holders, of our common stock who share a single address may receive only one copy of the Notice of Internet Availability of Proxy Materials and, as applicable, an Annual Report to Stockholders and Proxy Statement, unless their broker has received contrary instructions from any beneficial owner at that address. This practice, known as "householding," is designed to reduce printing and mailing costs. If any beneficial owner at such an address wishes to discontinue householding and receive a separate copy of the Notice of Internet Availability of Proxy Materials and, if applicable, an Annual Report to

Stockholders and Proxy Statement, they should notify their broker. Beneficial owners sharing an address to which a single copy of the Notice of Internet Availability of Proxy Materials and, if applicable, an Annual Report to Stockholders and Proxy Statement was delivered can also request prompt delivery of a separate copy of the Notice of Internet Availability of Proxy Materials and, if applicable, an Annual Report to Stockholders and Proxy Statement by contacting Investor Relations at the following address: Attn: Investor Relations, DaVita HealthCare Partners Inc., 2000 16<sup>th</sup> Street, Denver, Colorado 80202, (888) 484-7505.

## Admission to Annual Meeting

Admission to the annual meeting will be limited to holders of the Company's common stock, family members accompanying holders of the Company's common stock, persons holding executed proxies from stockholders who held the Company's common stock as of the close of business on April 24, 2015 and such other persons as the chair of the annual meeting shall determine.

If you are a holder of the Company's common stock, you must bring certain documents with you in order to be admitted to the annual meeting and in order to bring family members with you. The purpose of this requirement is to help us verify that you are actually a holder of the Company's common stock. Please read the following procedures carefully, because they specify the documents that you must bring with you to the annual meeting in order to be admitted. The items that you must bring with you differ depending upon whether or not you were a record holder of the Company's common stock as of the close of business on April 24, 2015. A "record holder" of stock is someone whose shares of stock are registered in his or her name in the records of the Company's transfer agent. Many stockholders are not record holders because their shares of stock are held in "street name," meaning that the shares are registered in the name of their broker, bank or other nominee, and the broker, bank or other nominee is the record holder instead. If you are unsure as to whether you were a record holder of the Company's common stock as of the

close of business on April 24, 2015, please call the Company's transfer agent, Computershare, at (877) 899-2012.

If you were a record holder of the Company's common stock as of the close of business on April 24, 2015, then you must bring:

a valid personal photo identification (such as a driver's license or passport).

At the annual meeting, we will check your name for verification purposes against our list of record holders as of the close of business on April 24, 2015.

If a broker, bank or other nominee was the record holder of your shares of the Company's common stock as of the close of business on April 24, 2015, then you must bring:

valid personal photo identification (such as a driver's license or passport); and

proof that you owned shares of the Company's common stock as of the close of business on April 24, 2015.

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Examples of proof of ownership include the following: (i) an original or a copy of the voting instruction from your bank or broker with your name on it, (ii) a letter

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from your bank or broker stating that you owned the Company's common stock as of the close of business on April 24, 2015, or (iii) a brokerage account statement indicating that you owned the Company's common stock as of the close of business on April 24, 2015.

If you acquired your shares of the Company's common stock at any time after the close of business on April 24, 2015, you do not have the right to vote at the annual meeting, but you may attend the meeting if you bring with you:

valid personal photo identification (such as a driver's license or passport); and

proof that you own shares of the Company's common stock.

Examples of proof of ownership include the following:

if a broker, bank or other nominee is the record holder of your shares of the Company's common stock: (i) a letter from your bank or broker stating that you acquired the Company's common stock after April 24, 2015, or (ii) a brokerage account statement as of a date after April 24, 2015 indicating that you own the Company's common stock; or

if you are the record holder of your shares of the Company's common stock, a copy of your stock certificate or a confirmation acceptable to the Company that you bought the stock after April 24, 2015.

If you are a proxy holder for a stockholder of the Company who owned shares of the Company's common stock as of the close of business on April 24, 2015, then you must bring:

the executed proxy naming you as the proxy holder, signed by a stockholder of the Company who owned shares of the Company's common stock as of the close of business on April 24, 2015;

valid personal photo identification (such as a driver's license or passport); and

if the stockholder whose proxy you hold was not a record holder of the Company's common stock as of the close of business on April 24, 2015, proof of the stockholder's ownership of shares of the Company's common stock as of the close of business on April 24, 2015, in the form of (i) an original or a copy of the voting instruction form from the stockholder's bank or broker with the stockholder's name on it, or (ii) a letter or statement from a bank, broker or other nominee indicating that the stockholder owned the Company's common stock as of the close of business on April 24, 2015.

No cameras, recording equipment, electronic devices, large bags, briefcases or packages will be permitted at the annual meeting. Shares may be voted in person at the annual meeting only by (a) the record holder as of the close of business on April 24, 2015 or (b) a person holding a valid proxy executed by such record holder.

## Electronic Availability of Proxy Materials for the 2015 Annual Meeting

**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting to Be Held on June 16, 2015. This Proxy Statement and the Annual**

**Report to Stockholders and Form 10-K for fiscal year 2014 are available electronically at [www.proxyvote.com](http://www.proxyvote.com).**

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Proxy Statement 

## Proposal 1 Election of Directors

At the annual meeting, you will elect nine directors to serve until the 2016 annual meeting of stockholders or until their respective successors are elected and qualified, subject to such director's earlier death, resignation, disqualification or removal.

Our bylaws require that each director be elected by the majority of votes cast with respect to such director in uncontested elections. In a contested election, where the number of nominees for director exceeds the number of directors to be elected, directors are elected by a plurality of shares represented in person or by proxy at any such meeting and entitled to vote on the election of directors. If a nominee for director who was in office prior to the election is not elected by a majority of votes cast, the director must promptly tender his or her resignation from the Board, and the Nominating and Governance Committee of the Board will make a recommendation to the Board about whether to accept or reject the resignation, or whether to take other action. The Board, excluding the director in question, will act on the recommendation of the Nominating and Governance Committee and publicly disclose its decision and its rationale within 90 days (or, if so extended by the Board in certain circumstances, within 180 days) from the date the election results are certified. If a nominee for director who was not already serving as a director does not receive a majority of votes cast in an uncontested election at the annual meeting, the nominee is not elected to the Board. All 2015 nominees are currently serving on the Board.

None of the nominees has any family relationship with any other nominee or with any of our executive officers and no arrangement or understanding exists between any nominee and any other person or persons pursuant to which a nominee was or is to be selected as a director or nominee.

After a thorough evaluation and assessment, the Nominating and Governance Committee has recommended, and the Board has re-nominated, Pamela M. Arway, Charles G. Berg, Carol Anthony ("John") Davidson, Paul J. Diaz, Peter T. Grauer, John M. Nehra, William L. Roper, Kent J. Thiry and Roger J. Valine for election as directors and has not recommended, and the Board has not re-nominated, Dr. Robert J. Margolis for election as a director. Please see the section titled "Corporate Governance – Selection of Directors" below for more information about the re-nomination process. Accordingly, the Board has reduced the number of directors from ten to nine, effective as of immediately prior to the annual meeting, and Dr. Margolis' current term as a director will expire and he will cease to hold the office of "Co-Chairman."

Eight of the nine nominees for director have been determined to be independent under the listing standards of the New York Stock Exchange ("NYSE"). Please see the section titled "Corporate Governance – Director Independence" below for more information. Each nominee has consented to being named in this Proxy Statement as a nominee and has agreed to serve as a director if elected.

Unless the proxy indicates otherwise, the persons named as proxies in the accompanying proxy have advised us that at the annual meeting they intend to vote the shares covered by the proxies for the election of the nominees named above. If one or more of the nominees are unable or not willing to serve, the persons named as proxies may vote for the election of the substitute nominees that the Board may propose. The accompanying proxy contains a discretionary grant of authority with respect to this matter. The persons named as proxies may not vote for a greater number of persons than the number of nominees named above.

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## Information Concerning Members of the Board Standing for Reelection

A biography of each nominee, current as of March 31, 2015, setting forth his or her age, and describing his or her business experience during the past five years, including other prior relevant business experience is presented below.

**Pamela M. Arway**, 61, has been one of our directors since May 2009. From 2005 to 2007, Ms. Arway served as the president of American Express International, Japan, Asia-Pacific, Australia region, a global payment services and travel company. Ms. Arway joined the American Express Company in 1987 after which she served in various capacities, including as chief executive officer of American Express Australia Limited from 2004 to 2005 and as executive vice president of Corporate Travel, North America from 2000 to 2004. Prior to her retirement in October 2008, she also served as advisor to the American Express Company's chairman and chief executive officer. Ms. Arway has also been a member of the board of the Hershey Company, a chocolate and confectionary company, since May 2010. She currently serves as the Chair of the Governance Committee and as a member of the Audit and Executive Committees of Hershey Company's board. She joined the board of Iron Mountain Incorporated, an enterprise information management services company, in March 2014 and serves as chair of its Compensation Committee. Ms. Arway is an experienced business leader, with extensive management experience.

**Charles G. Berg**, 57, has been one of our directors since March 2007. Mr. Berg served as executive chairman and as a member of the board of directors of WellCare Health Plans, Inc. ("WellCare"), a provider of managed care services for government-sponsored healthcare programs from January 2008 to December 2010. Mr. Berg served as non-executive chairman of the board of directors of WellCare from January 2011 to May 2013. From January 2007 to April 2009, Mr. Berg was a senior advisor to Welsh, Carson, Anderson & Stowe, a private equity firm. From April 1998 to July 2004, Mr. Berg held various executive positions with Oxford Health Plans, Inc. ("Oxford"), a health benefit plan provider, which included chief executive officer from November 2002 to July 2004 when Oxford was acquired by UnitedHealth Group, president and chief operating officer from March 2001 to November 2002 and executive vice president, medical delivery from April 1998 to March 2001. From July 2004 to September 2006, Mr. Berg served as an executive of UnitedHealth Group and was primarily responsible for integrating the Oxford business. Mr. Berg currently serves on the Operating Council of Consonance Capital Partners, a private equity firm. Mr. Berg is an experienced business leader with significant experience in the healthcare industry and brings an understanding of the operational, financial and regulatory aspects of our industry and business.

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**Carol Anthony ("John") Davidson**, 59, has been one of our directors since December 2010. From January 2004 to September 2012, Mr. Davidson served as the senior vice president, controller and chief accounting officer of Tyco International Ltd. ("Tyco"), a provider of diversified industrial products and services. Prior to joining Tyco in January 2004, he spent six years at Dell Inc., a computer and technology services company, where he held various leadership roles, including vice president, audit, risk and compliance, and vice president, corporate controller. In addition, he previously spent 16 years at Eastman Kodak Company, a provider of imaging technology products and services, in a variety of accounting and financial leadership roles. Mr. Davidson is a director of Pentair Plc., a provider of products and solutions in water, fluids, thermal management and equipment protection. He is also a director of Legg Mason Inc., a global asset management firm. Mr. Davidson is a member of the Board of Trustees of the Financial Accounting Foundation which oversees financial accounting and reporting standards setting processes for the United States. Mr. Davidson also serves on the Board of Governors of the Financial Industry Regulatory Authority (FINRA). Mr. Davidson is a CPA with more than 30 years of leadership experience across multiple industries and he brings a strong track record of building and leading global teams and implementing governance and controls processes.

**Paul J. Diaz**, 53, has been one of our directors since July 2007. Mr. Diaz serves as the executive vice chairman of Kindred Healthcare, Inc. ("Kindred"), a provider of long-term healthcare services in the United States, a position he has held since March 2015. He served as Chief Executive Officer of Kindred from January 2004 to March 2015, as well as president from January 2002 to May 2012 and as Chief Operating Officer from January 2002 to December 2003. Prior to joining Kindred, Mr. Diaz was the managing member of Falcon Capital Partners, LLC, a private investment and consulting firm, and from 1996 to July 1998, Mr. Diaz served in various executive capacities with Mariner Health Group, Inc., a health care facility operator, including as executive vice president and chief operating officer. Mr. Diaz serves on the board of Kindred and the board of visitors of Georgetown University Law Center and previously served on the board of PharMerica Corporation. Mr. Diaz is an experienced business leader with significant experience in the healthcare industry and brings an understanding of the operational, financial and regulatory aspects of our industry and business.

**Peter T. Grauer**, 69, has been one of our directors since August 1994 and our lead independent director since 2003. Mr. Grauer has been chairman of the board of Bloomberg, Inc., a business and financial information company, since April 2001, treasurer since March 2001 and was its chief executive officer from March 2002 until July 2011. Mr. Grauer has also served as a non-executive director of Glencore plc, a global mining and commodities firm listed on the London Stock Exchange, since June 2013. From November 2000 until March 2002, Mr. Grauer was a managing director of Credit Suisse First Boston, a financial services firm. From September 1992 until November 2000, upon the merger of Donaldson, Lufkin & Jenrette ("DLJ"), a financial services firm, into Credit Suisse First Boston, Mr. Grauer was a managing director and founding partner of DLJ Merchant Banking Partners. Mr. Grauer has significant experience as a business leader and brings a deep understanding of our business and industry through his over 20 years of service as a member of the Board.

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**John M. Nehra**, 66, has been one of our directors since November 2000. From 1989 until his retirement in August 2014, Mr. Nehra was affiliated with New Enterprise Associates ("NEA"), a venture capital firm, including, from 1993 until his retirement, as general partner of several of its affiliated venture capital limited partnerships. Mr. Nehra also served as managing general partner of Catalyst Ventures, a venture capital firm, from 1989 to 2013. Mr. Nehra served on the boards of a number of NEA's portfolio companies until his retirement in August 2014 and remains a retired special partner of NEA. Mr. Nehra is an experienced business leader with approximately 44 years of experience in investment banking, research and capital markets and he brings a deep understanding of our business and industry through his nearly 15 years of service as a member of the Board as well as significant experience in the healthcare industry through his involvement with NEA's healthcare-related portfolio companies.

**Dr. William L. Roper**, 66, has been one of our directors since May 2001. Dr. Roper has been chief executive officer of the University of North Carolina ("UNC") Health Care System, dean of the UNC School of Medicine and vice chancellor for medical affairs of UNC since March 2004. Dr. Roper also continues to serve as a professor of health policy and administration in the UNC School of Public Health and a professor of pediatrics and of social medicine in the UNC School of Medicine. From 1997 until March 2004, he was dean of the UNC School of Public Health. Before joining UNC in 1997, Dr. Roper served as senior vice president of Prudential Health Care. He also served as director of the Centers for Disease Control and Prevention from 1990 to 1993, on the senior White House staff in 1989 and 1990 and as the administrator of Centers for Medicare & Medicaid Services from 1986 to 1989. Dr. Roper was a member of and is the immediate past chairman of the board of the National Quality Forum, a non-profit organization that aims to improve the quality of healthcare. From December 2007 to November 2011, Dr. Roper served on the board of Medco Health Solutions, Inc., a pharmacy benefits management company, and since November 2011 has served on the board of its successor company, Express Scripts Holding Company. Dr. Roper brings substantial expertise in the medical field, an in-depth understanding of the regulatory aspects of our business as well as clinical, financial and operational experience.

**Kent J. Thiry**, 59, has been our co-chairman of the Board since November 2012 and our chief executive officer since October 1999. In October 2014, Mr. Thiry also became chief executive officer of our integrated care business, HealthCare Partners ("HCP"). From October 1999 until November 2012, Mr. Thiry served as our chairman of the Board. From June 1997 until he joined us in October 1999, Mr. Thiry was chairman of the board and chief executive officer of Vivra Holdings, Inc., which was formed to operate the non-dialysis business of Vivra Incorporated ("Vivra") after Gambro AB acquired the dialysis services business of Vivra in June 1997. From September 1992 to June 1997, Mr. Thiry was the president and chief executive officer of Vivra, a provider of renal dialysis and other healthcare services. From April 1992 to August 1992, Mr. Thiry was president and co-chief executive officer of Vivra, and from September 1991 to March 1992, he was president and chief operating officer of Vivra. From 1983 to 1991, Mr. Thiry was associated with Bain & Company, first as a consultant, and then as vice president. Mr. Thiry previously served on the board of Varian Medical Systems, Inc. from August 2005 to February 2009 and served as the non-executive chairman of Oxford Health Plans, Inc. until it was sold to UnitedHealth Group in July 2004. As a member of management, Mr. Thiry provides significant healthcare industry experience and unique expertise regarding the Company's business and operations as well as executive leadership and management experience.

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**Roger J. Valine**, 66, has been one of our directors since June 2006. From 1993 to his retirement in July 2006, Mr. Valine served as the chief executive officer of Vision Service Plan ("VSP"), the nation's largest provider of eyecare wellness benefits. From January 1991 to February 2006, Mr. Valine served as both the president and chief executive officer of VSP. Upon his retirement, Mr. Valine had worked for VSP for 33 years and provided consulting services to VSP through January 2008. Mr. Valine previously served on the boards of American Specialty Health Incorporated and SureWest Communications. Mr. Valine is an experienced business leader with significant experience in the healthcare industry and brings an understanding of the operational, financial and regulatory aspects of our business as well as extensive management experience.

**The Board recommends a vote FOR the election of each of the named nominees as directors.**

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The general governance framework for the Company is provided by its bylaws, corporate governance guidelines, the charters for each of the Board's committees, the corporate governance code of ethics and corporate code of conduct. These governance documents are available under the Corporate

Governance section of our website, located at <http://www.davita.com/about/corporate-governance>. The Board adopted the corporate governance guidelines to assist the Board and its committees in performing their duties and serving the best interests of the Company and our stockholders.

## Selection of Directors

In making recommendation to the Board, the Nominating and Governance Committee considers a number of factors and assesses the overall mix of qualifications, individual characteristics, experience level, and diverse perspectives and skills that are most beneficial to our Company. The committee also considers the mix of different tenures of the directors, taking into account the benefits of directors with longer tenures, including greater board stability and continuity of organizational knowledge, and the benefits of directors with shorter tenures, helping to foster an openness to new ideas and a willingness to re-examine the status quo. In connection with the re-nomination of current directors, it is the committee's responsibility to determine in each case whether re-nomination is appropriate. The committee assesses each director's performance and contributions to the Board, as well as his or her skills, experience and qualifications, including the continued value to the Company in light of current and future needs, including whether the Company's needs for the director's experience and background have changed. If the incumbent director has not performed or contributed in a meaningful way, the committee should consider whether re-nomination is

appropriate in light of any other relevant facts and circumstances. Another integral part of this process is the individual director evaluations by the Board members. The Company does not have a specific diversity policy. However, as noted in our corporate governance guidelines, when selecting nominees the committee considers diversity of skills, experience, perspective and background. The Nominating and Governance Committee will consider nominees for director recommended by stockholders upon submission in writing to our Corporate Secretary of the names and qualifications of such nominees at the following address, within the timeframe and subject to the other requirements set forth in our bylaws: Corporate Secretary, DaVita HealthCare Partners Inc., 2000 16<sup>th</sup> Street, Denver, Colorado 80202. The committee will evaluate candidates based on the same criteria regardless of whether the candidate was recommended by the Company or a stockholder.

In April 2015, the Nominating and Governance Committee recommended the candidates standing for election at the 2015 annual meeting of stockholders.

## Director Independence

Under the listing standards of the NYSE, a majority of the members of the Board must satisfy the NYSE criteria for "independence." No director qualifies as independent under the NYSE listing standards unless the Board affirmatively determines that the director has no material relationship with the Company (either directly or as a partner, stockholder or officer of an organization that has a relationship with the Company). In addition, the Board has adopted a formal set of standards used to determine director independence. The full text of our director independence standards is available under the Corporate Governance section of our website, located at <http://www.davita.com/about/corporate-governance>.

The Board evaluates the independence of our directors annually and will review the independence of individual directors on an interim basis to consider changes in employment, relationships and other factors. The Board has determined that all of the individuals currently serving, or who served at any time during 2014, as members of the Board, other than Mr. Thiry and Dr. Margolis, are independent under the NYSE listing standards and the Company's independence standards. In evaluating each director's independence, the Board considered the nature of any executive officer's personal investment interest in director affiliated entities (active or passive), the level of involvement by the director or executive officer as a partner in any such director affiliated entities, any special arrangements between the

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Corporate Governance 

parties which would lead to a personal benefit, any personal benefits derived as a result of business relationships with the Company, any other personal benefit derived by any director or executive officer as a result of the disclosed relationships or any other relevant factors.

In assessing director independence, the Board considered investments made by some Board members and executive officers of the Company in the past in certain funds of a venture capital firm of which Mr. Nehra is a retired special partner or that are managed directly or indirectly by the firm of which Mr. Nehra is a retired special partner. The Board also considered transactions in which WellCare has made payments to us for services rendered in the ordinary course of business in the last three years which did not exceed the greater of \$1 million or 2% of WellCare's consolidated gross revenue in each such year. Mr. Berg was a director and non-executive chairman of WellCare until May 2013 and holds less than 10% beneficial interest in WellCare. The Board also considered the \$465,000 of additional fees in the aggregate paid to Mr. Berg in his role as a member of the Board's Compliance Committee, in overseeing the 2010 U.S. Attorney physician relationship investigation and the 2011 U.S. Attorney physician relationship investigation ("PRI"), at the request of the Board. In addition, the Board considered the transactions in which Kindred has

made payments to us for services rendered in the ordinary course of business in the last three years which did not exceed the greater of \$1 million or 2% of Kindred's consolidated gross revenue in each such year. Mr. Diaz is Kindred's executive vice chairman and director, of and has less than 10% beneficial interest in Kindred.

The Board maintains a policy whereby the Board will evaluate the appropriateness of the director's continued service on the Board in the event that the director retires from their principal job, changes their principal job responsibility or experiences a significant event that could negatively affect their service to the Board. In such event, the policy provides that the affected director shall promptly submit his or her resignation to the chairman of the Board and the lead independent director. The members of the Board, excluding the affected director, will determine whether the affected director's continued service on the Board is in the best interests of our stockholders and will decide whether or not to accept the resignation of the director. In addition, the policy provides that prior to accepting an invitation to serve on the board of directors of another public company, a director must advise the chairman of the Board and the lead independent director so that the remaining members of the Board may evaluate any potential conflicts of interest.

## Leadership Structure and Meetings of Independent Directors

Since the completion of our acquisition of HCP LLC, Mr. Thiry and Dr. Margolis have served as co-chairmen of our Board. Following the annual meeting, Mr. Thiry will be our sole chairman. Mr. Thiry is the chief executive officer of the Company and since October 2014, Mr. Thiry has also served as chief executive officer of HCP. Mr. Thiry brings over 15 years of experience with our Company and deep institutional knowledge and experience to the combined role. Dr. Margolis served as the chief executive officer of HCP LLC from May 1982 to November 2012, and the chief executive officer of HealthCare Partners from November 2012 to March 2014.

We believe that Mr. Thiry's experience and knowledge as CEO and co-chairman are essential to the chairman role and is counterbalanced appropriately by the significant role of the lead independent director. After the annual meeting, Mr. Thiry will serve as the sole chairman of the board. Our lead independent director, Mr. Grauer, who was elected by and from the independent board members, plays a significant role in

Board leadership and meetings of the independent directors. Mr. Grauer also chairs our Nominating and Governance Committee, and as chairman of the Nominating and Governance Committee, Mr. Grauer has the authority to call meetings of the committee, whose primary purpose, as outlined in its charter, includes overseeing the evaluation of the Company's management, including the CEO.

As lead independent director, Mr. Grauer serves as liaison between the chairman or co-chairmen and the independent directors, approves information sent to the Board, confers with the CEO/co-chairman in setting and thereafter approving meeting agendas for the Board, approves meeting schedules to assure that there is sufficient time for discussion of all agenda items, and presides at all meetings of the Board at which the chairman or co-chairmen are not present, including executive sessions of independent directors. Additionally, Mr. Grauer facilitates discussions outside of scheduled Board meetings among the independent directors on key issues as required, and decides when

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to engage independent advisors for the Board or a Board committee. Mr. Grauer, in his capacity as lead independent director, also has the authority to call meetings of the Board and the independent directors and, if requested by major stockholders, makes himself available for consultation and direct communication with them.

Independent directors meet regularly in executive sessions without management. Executive sessions are held in conjunction with each regularly scheduled meeting of the Board.

## Communications with the Board

Any interested party who desires to contact the lead independent director, Mr. Grauer, may do so by sending an email to *leaddirector@davita.com*. In addition, any interested party who desires to contact the Board or any member of the Board may do so by writing to: Board of Directors, c/o Corporate Secretary, DaVita HealthCare Partners Inc., 2000 16<sup>th</sup> Street, Denver, Colorado 80202. Copies of any such written

communications received by the Corporate Secretary will be provided to the full Board or the appropriate member depending on the facts and circumstances described in the communication unless they are considered, in the reasonable judgment of the Secretary, to be improper for submission to the intended recipient(s).

## Annual Meeting of Stockholders

We do not have a policy requiring that directors attend the annual meeting of stockholders. At the last annual

meeting of stockholders, our co-chairman and CEO, Mr. Thiry, attended the meeting.

## Information Regarding the Board and its Committees

The Board has established the following committees: the Audit Committee, the Compensation Committee, the Nominating and Governance Committee, the Compliance Committee, the Public Policy Committee, and the Clinical Performance Committee. The Board met 13 times during 2014. Each of our directors attended at

least 75% of the aggregate of the total number of meetings of the Board and the total number of meetings held by all committees of the Board on which he or she served during 2014, other than Mr. Diaz, who attended 74% of such meetings.

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## Committees of the Board

The following chart sets out the current members of our Board Committees and describes the principal functions of each committee of our Board. The charter for each committee is available under the Corporate Governance section of our website, located at <http://www.davita.com/about/corporate-governance>.

### Audit<sup>1</sup>

11

Carol Anthony ("John")  
Davidson *Chair*  
Charles G. Berg  
Roger J. Valine

Assists the Board with oversight of the integrity of our financial statements including the financial reporting and disclosure processes and the integrity and effectiveness of our system of internal control over financial reporting.

Assists the Board with oversight of the independence, qualifications and performance of our independent registered public accounting firm, including a review of the scope and results of their audit, as well as our internal audit function.

Together with the Compliance Committee, assists the Board with oversight of compliance with legal and regulatory requirements, including those that may have a material impact on the Company's financial statements.

Appoints and engages our independent registered public accounting firm, and pre-approves the firm's annual audit services (including related fees), audit-related services, and all other services in accordance with our pre-approval policy.

Monitors our disclosure controls and procedures and compliance with ethical standards.

### Compensation<sup>2</sup>

5

Pamela M. Arway *Chair*  
Paul J. Diaz  
Peter T. Grauer  
Roger J. Valine

Reviews the performance of our chief executive officer and other executives and makes decisions regarding their compensation.

Establishes policies relating to the compensation of our executive officers and other key employees that further the goal of ensuring that our compensation system for our chief executive officer and our other executives, as well as our philosophy for compensation for all employees and the Board, is aligned with the long-term interests of our stockholders.

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Conducts an evaluation of our chief executive officer's performance and the Company's performance and considers a self-assessment prepared by our chief executive officer. Periodically, the Compensation Committee engages an outside consultant to conduct an in-depth analysis of our chief executive officer's performance as a manager during the year.

Has sole authority and discretion to retain or replace its independent compensation consultant.

Annually determines and approves the compensation package for our chief executive officer subject to ratification by the independent members of the Board.

Works closely with and considers the recommendations of our chief executive officer to determine the compensation of our other executive officers.

When determining the compensation of the other executive officers, considers the recommendations of the chief executive officer who conducts a performance and compensation review of each other executive officer and reviews his detailed assessments of the performance of each of the other executive officers with the Compensation Committee.

Reviews the results of advisory stockholder votes and other stockholder feedback on the compensation of our executive officers and considers whether to make adjustments to our compensation policies and practices as a result of such votes.

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**Nominating and Governance<sup>3</sup>**

3

Peter T. Grauer *Chair*

Reviews and makes recommendations to the Board about our governance processes.

Pamela M. Arway

Carol Anthony ("John")  
Davidson

Roger J. Valine

Assists in identifying and recruiting candidates for the Board.

Annually reviews the performance of the individual members of the Board.

Proposes a slate of nominees for election at the annual meeting of stockholders.

Makes recommendations to the Board regarding the membership and chairs of the committees of the Board.

**Compliance Committee<sup>4</sup>**

8

Charles G. Berg *Chair*

Paul J. Diaz

John M. Nehra

Dr. William L. Roper

Reviews and oversees compliance with Federal health care program requirements and the five-year Corporate Integrity Agreement entered into with the Office of the Inspector General.

Oversees and monitors the effectiveness of our healthcare regulatory compliance program, reviews significant healthcare regulatory compliance risk areas, and reviews the steps management is taking to monitor, control and report these risk exposures.

Together with the Audit Committee, assists the Board with oversight of compliance with healthcare regulatory requirements.

Has primary responsibility for oversight of healthcare regulatory requirements and for directing the Company's response to certain pending governmental investigations.

Meets regularly with our chief compliance officer.



**Public Policy**<sup>5</sup>

2

John M. Nehra *Chair*

Pamela M. Arway

Paul J. Diaz

Dr. Robert J. Margolis

Advises the Board on public policy and makes recommendations to the Board as to policies and procedures relating to issues of public policy and government relations.

Oversees the Company's government affairs activity and political spending.

**Clinical Performance**<sup>6</sup>

2

Dr. William L. Roper *Chair*

Carol Anthony ("John")  
Davidson

Dr. Robert J. Margolis

Advises the Board on clinical performance issues facing the Company.

Makes recommendations to management and to the Board as to policies and procedures relating to issues of clinical performance.

1

Ms. Arway served on the Audit Committee until March 6, 2014.

2

Mr. Nehra served as the Chair of the Compensation Committee until January 14, 2014. Ms. Arway was appointed to the Compensation Committee on January 14, 2014, and was appointed Chair of the Compensation Committee on January 14, 2014. Mr. Diaz was appointed to the Compensation Committee on March 6, 2014.

3

Messrs. Berg, Diaz and Nehra and Dr. Roper served on the Nominating and Governance Committee until March 6, 2014.

4

Mr. Roper served as the Chair of the Compliance Committee until October 9, 2014. Ms. Arway and Mr. Grauer served on the Compliance Committee until October 9, 2014. Messrs. Diaz and Nehra were appointed to the Compliance Committee on October 9, 2014. Mr. Berg was appointed Chair of the Compliance Committee on October 9, 2014.

5

Mr. Diaz served as the Chair of the Public Policy Committee until March 6, 2014. Dr. Roper served on the Public Policy Committee until March 6, 2014. Ms. Arway, Mr. Nehra, and Dr. Margolis were appointed to the Public Policy Committee on March 6, 2014, and Mr. Nehra was appointed Chair of the Public Policy Committee on March 6, 2014.

6

Ms. Arway and Mr. Nehra served on the Clinical Performance Committee until March 6, 2014. Mr. Davidson was appointed to the Clinical Performance Committee on March 6, 2014.

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<b>Pamela M. Arway</b> <sup>1</sup>	Yes	2
<b>Charles G. Berg</b> <sup>2</sup>	Yes	0
<b>Carol Anthony ("John") Davidson</b> <sup>2</sup>	Yes	2
<b>Paul J. Diaz</b> <sup>1</sup>	Yes	1
<b>Peter T. Grauer</b> <sup>1,3</sup>	Yes	1
<b>Dr. Robert J. Margolis</b>	No	0
<b>John M. Nehra</b>	Yes	0
<b>Dr. William L. Roper</b>	Yes	1
<b>Kent J. Thiry</b>	No	0
<b>Roger J. Valine</b> <sup>1,2</sup>	Yes	0

1

Member of the Compensation Committee and is (a) independent under the listing standards of the NYSE and the Company's independence standards, (b) a "nonemployee director" under Rule 16b-3 of the Securities Exchange Act of 1934 (the "Exchange Act"), and (c) an "outside director" as defined in Internal Revenue Service regulations.

2

Member of the Audit Committee and qualifies as an "audit committee financial expert" within the meaning of the rules of the SEC and each is "independent" and "financially literate" under the listing standards of the NYSE and the Company's independence standards.

3

Mr. Grauer is our Lead Independent Director.

\*

Current as of March 31, 2015.

**Risk Oversight**

The Board's involvement in risk oversight involves the Audit Committee, the Compliance Committee and the full Board. Each of the Audit Committee and Compliance Committee are comprised of independent non-executive directors. The Audit Committee is responsible for legal and regulatory risk oversight and the Compliance Committee has primary responsibility for oversight of healthcare legal and regulatory compliance requirements. The Audit Committee and the Compliance Committee meet regularly with our chief legal officer and chief compliance officer, and work together to assist the Board with oversight of legal and compliance enterprise risk management and to ensure that management

identifies, monitors, controls and reports such compliance risk exposures. The Compliance Committee reviews significant healthcare legal and regulatory compliance risk areas, and meets on a regular basis and reports directly to the Board on its findings. The Audit Committee receives materials on enterprise risk management on an annual basis. These materials include identification of top

enterprise risks for the Company, the alignment of management's accountability and reporting for these risks, and mapping of the Board's and Audit Committee's oversight responsibilities for key risks. In addition, the Audit Committee and the full Board periodically receive materials to address the identification and status of major risks to the Company. The Audit Committee discusses significant risk areas and the actions management has taken to monitor, control, and report such exposures. The Audit Committee also reviews with the Company's chief legal officer legal matters that may have a material impact on the Company's financial statements, the Company's compliance with applicable laws and regulations, and material reports or inquiries received from governmental agencies, including such matters identified by the Compliance Committee or the chief compliance officer. At each meeting of the full Board, the chairman of the Audit Committee reports on the activities of the Audit Committee, including risks identified and risk oversight.

## Board Share Ownership Policy

We have a share ownership policy that applies to all non-employee members of the Board. The purpose of the policy is to encourage the Board to have an ownership stake in the Company by retaining a specified financial interest in our common stock.

Both shares owned directly and shares underlying vested but unexercised stock appreciation rights ("SARs"), including stock-settled stock appreciation rights ("SSARs"), restricted stock units ("RSUs"), direct stock

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issuances ("DSIs") and stock options are included in the determination of whether the share ownership guidelines have been met. The total net realizable share value retained must have a current market value of not less than the lower of:

25% of the total equity award value realized by the Board member to date in excess of \$100,000; or

three times the annual Board retainer of \$80,000, or \$240,000.

As of December 31, 2014, each of our non-employee members of the Board had met the requirements of our share ownership guidelines. See "Compensation Policies and Practices – Management Share Ownership Policy" on page 46 of this Proxy Statement for more information regarding our management share ownership policy.

## Code of Ethics and Codes of Conduct

We have a code of ethics that applies to our chief executive officer, chief financial officer, controller and chief accounting officer, chief legal officer, and all professionals involved in the accounting and financial reporting functions. We also have a code of conduct that applies to all of our employees, officers and the Board. The code of ethics and the code of conduct are available under the Corporate Governance section of our website, located at <http://www.davita.com/about/corporate-governance>. If the Company amends or waives the code of ethics or the code of conduct with respect to our chief executive officer, chief financial officer, controller or chief

accounting officer, or persons performing similar functions, we will post the amendment or waiver at the same location on our website.

HCP also has a code of conduct that applies to its officers, employees, affiliated physicians, and persons serving on the board of directors of its subsidiaries, and other contracted providers, vendors and all third parties conducting business on behalf of HCP. The HCP code of conduct is available under the Corporate Governance section of our website, located at <http://www.davita.com/about/corporate-governance>.

## Insider Trading Policy

We have adopted an Insider Trading Policy applicable to our directors, executive officers and employees that is intended to ensure that those individuals do not benefit financially from buying or selling shares of our common stock while in the possession of material non-public information. Under our Insider Trading Policy, pre-clearance by our chief legal officer is required for equity and 401(k) plan transactions entered into by our executives and Board members, such as an option or stock appreciation right exercise, or electing to invest in or divest shares of our common stock, as well as certain other transactions involving our common stock. In addition, quarterly trading blackouts are imposed under the Insider Trading Policy upon our directors, executive officers and certain other employees who are deemed to have access to the Company's financial results prior to their becoming final and being publicly disclosed. The Insider Trading Policy states the Company's belief that if our directors, executive officers or employees engage in

certain types of hedging transactions, their interest may no longer be aligned with those of the Company. Accordingly, the Company strongly discourages hedging transactions and no person may engage in a hedging transaction without obtaining the approval of our chief legal officer. No one has ever sought and therefore there has never been any approval of a hedging transaction under our Insider Trading Policy. Moreover, our directors, executive officers and employees are prohibited from pledging Company securities as collateral for a loan, with a limited exception for circumstances in which such a person can clearly demonstrate the financial capacity to repay the loan without resort to the pledged securities. Even in such circumstances, the pledging of Company securities is strongly discouraged and requires pre-approval by our chief legal officer. No one has ever sought and therefore there has never been any approval of a pledge of Company securities under our Insider Trading Policy.

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Independent Registered Public Accounting Firm**

The Audit Committee has appointed KPMG LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2015. Representatives of KPMG LLP are expected to attend the annual meeting in person and will be available to respond to appropriate questions and to make a statement if they so desire. If KPMG LLP should decline to act or otherwise become incapable of acting, or if KPMG LLP's engagement is discontinued for any reason, the Audit Committee will appoint another independent registered public accounting firm to serve as our independent registered public accounting firm for 2015. Although we are not required to seek stockholder ratification of this appointment, the Board believes that doing so is consistent with corporate governance best practices. If the appointment is not ratified, the Audit Committee will explore the reasons for stockholder rejection and will reconsider the appointment.

The following table sets forth the aggregate professional fees billed to us for the years ended December 31,

2014 and 2013 by KPMG LLP, our independent registered public accounting firm:

Audit fees <sup>1</sup>	\$4,760,714	\$4,253,918
Audit-related fees <sup>2</sup>	487,185	1,158,435
Tax fees <sup>3</sup>	445,429	300,482
All other fees		
	<b>\$5,693,328</b>	<b>\$5,712,835</b>

1

Includes aggregate fees for the audit of our consolidated financial statements and the effectiveness of our internal control over financial reporting and the three quarterly reviews of our consolidated financial statements included in our Form 10-Q and other SEC filings. In addition, audit fees include statutory audits in several international countries.

2

Includes fees for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and are not reported as "Audit Fees." The audit-related fees in 2014 and 2013 include fees for audits of our employee benefit plans, audits of one and two of our majority-owned entities, respectively, audits of HCP's risk bearing organizations, and fees of \$264,297 and \$627,253, respectively, for due diligence services relating to potential acquisitions.

3

Includes fees for professional services rendered for tax advice and tax planning as well as \$260,583 in 2013 for tax due diligence services. None of these fees were for tax compliance or tax preparation services.

**Pre-approval Policies and Procedures**

The Audit Committee is required to pre-approve the audit, audit-related, tax and all other services provided by our independent registered public accounting firm in order to assure that the provision of such services does not impair the auditor's independence. The Audit Committee's pre-approval policy provides for pre-approval of all audit, audit-related, tax and all other services provided by the independent registered public accounting firm, KPMG LLP. The Audit Committee

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pre-approved all such services in 2014 and concluded that such services performed by KPMG LLP were compatible with the maintenance of that firm's independence in the conduct of its auditing functions.

**The Board recommends a vote FOR the ratification of the appointment of KPMG LLP as our independent registered public accounting firm for fiscal year 2015.**

*Continues on next page*

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## Proposal 3 Advisory Vote on Executive Compensation

Pursuant to Section 14A of the Exchange Act, we are providing stockholders with a vote to approve, on an advisory basis, the compensation of our named executive officers as disclosed in this Proxy Statement in accordance with SEC rules. The advisory vote on executive compensation described in this proposal is commonly referred to as a "say-on-pay vote."

The Company intends to include in its proxy statement on an annual basis an advisory vote regarding named executive officer compensation.

As disclosed in the Compensation Discussion and Analysis, the Company believes that its executive compensation program is reasonable, competitive and strongly focused on pay-for-performance principles. We design our executive officer compensation program to attract and retain outstanding leaders who possess the skills and talent necessary to achieve our business goals and objectives. Our ultimate objective is to continue to create long-term stockholder value by being a leader in clinical outcomes, generating strong overall revenue growth, market share increases, operating margin growth, increases in Medicare Advantage enrollment and consistently strong total stockholder return ("TSR"). In order to achieve this objective, we have designed our compensation program so it:

rewards superior clinical outcomes;

rewards strong Company performance;

aligns our executives' interests with our stockholders' interests; and

is competitive within the health care services, diagnostics, managed care and solutions markets, so that we can attract and retain outstanding executives.

We believe that the compensation of our named executive officers during fiscal 2014 is consistent with the following achievements and financial performance for 2014:

improvements in our clinical outcomes in our U.S. dialysis operations, including maintaining the

highest ever fistula in use rates at 65.7%, lowest gross mortality rate at 13.5 measured in early first quarter of 2015 and continued maintenance of our lowest ever catheter rates at 13.0%;

five-year compound annual TSR of 20.9%, compared to the median five-year compound annual TSR of 3.1% for our Global Industry Classification Standard group and 18.6% for our comparator peer group;

strong adjusted operating cash flow of \$1,728 million, which excludes the \$269 million after-tax payment made for the settlement of the 2010 and 2011 U.S. Attorney Physician Relationship Investigations, compared to original guidance range of \$1,450 million to \$1,550 million;<sup>1</sup>

consolidated adjusted operating income of \$1,832 million, excluding an adjustment to a loss contingency reserve of \$17 million, compared to original guidance range of \$1,675 million to \$1,850 million;<sup>2</sup>

Kidney Care adjusted operating income of \$1,617 million, excluding an adjustment to a loss contingency reserve of \$17 million, compared to original guidance range of \$1,475 million to \$1,550 million;<sup>3</sup>

normalized non-acquired U.S. dialysis treatment growth of 5.0%;

an increase of 5.7% in the overall number of U.S. dialysis treatments;

HCP's entry into two new markets, Colorado and Pennsylvania;

a \$7.25 billion refinancing of a substantial amount of our existing indebtedness, resulting in lower interest costs, extended maturities and enhanced liquidity; and

an increase of 72,800 in HCP's senior capitated members.

---

1

*Adjusted operating cash flow represents 2014 net cash provided by operating activities of \$1,459 million, plus our 2014 payment in connection with the settlement of the 2010 and 2011 U.S. Attorney physician relationship investigations of \$410 million, each as reported in our consolidated financial statements filed with the Company's Form 10-K for the year ended December 31, 2014, minus the 2014 tax benefit related to that settlement of approximately \$141 million.*

2

*See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Form 10-K for the year ended December 31, 2014 for reconciliation of this metric to the most closely comparable GAAP metric.*

3

*Kidney Care 2014 adjusted operating income represents 2014 consolidated operating income of \$1,815 million, less 2014 HCP segment operating income of \$215 million, plus 2014 loss contingency charges of \$17 million, as reported in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Form 10-K for the year ended December 31, 2014.*



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Corporate Governance 

The Compensation Committee has developed and approved an executive compensation philosophy to provide a framework for the Company's executive compensation program featuring the following policies and practices:

strong pay-for-performance alignment, with equity awards ranging up to 69% of our named executive officers' compensation in 2014, and with short-term cash bonuses and long-term incentive awards of cash and equity tied to the achievement of various performance metrics;

a stock ownership policy that requires our executives to accumulate a meaningful ownership stake in the Company over time to strengthen the alignment of our named executive officers' and stockholders' interests;

a clawback policy that permits the Board to recover bonuses, incentive and equity-based compensation from executive officers and members of the Board whose fraud or intentional misconduct was a significant contributing factor to the Company having to restate all or a portion of its financial statements; and

equity incentive plans that prohibit repricing or replacing underwater stock options or stock appreciation rights without prior stockholder approval.

This proposal gives our stockholders the opportunity to express their views on the overall compensation of our named executive officers and the philosophy, policies and practices described in this Proxy Statement. For the reasons discussed above, we are asking our stockholders to indicate their support for our named executive officer compensation by voting FOR the following resolution at the annual meeting:

"RESOLVED, that the Company's stockholders approve, on an advisory basis, the compensation of the named executive officers, as disclosed in this Proxy Statement pursuant to the compensation disclosure rules of the Securities and Exchange Commission (which disclosure includes the Compensation Discussion and Analysis, the 2014 Summary Compensation Table and the other related tables and disclosure)."

The say-on-pay vote is an advisory vote only, and therefore it will not bind the Company or the Board. However, the Board and the Compensation Committee will consider the voting results as appropriate when making future decisions regarding executive compensation, as they did following the 2014 annual meeting of stockholders.

**The Board recommends a vote FOR the approval of the advisory resolution relating to the compensation of our named executive officers as disclosed in this Proxy Statement.**

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## Proposal 4 Stockholder Proposal Regarding Proxy Access

We expect the following proposal to be presented at the annual meeting by the UAW Retiree Medical Trust, 110 Miller Avenue, Suite 100, Ann Arbor, Michigan 48104, the sponsor of the proposal and a holder of 45,394 shares of the Company's common stock. **The Board has recommended a vote AGAINST this proposal for the reasons set forth following the proposal.** The Board disclaims any responsibility for the content of the proposal and the supporting statement, which are presented exactly in the form received by the Company.

### Stockholder Proposal and Supporting Statement

#### Proxy Access Proposal 4

Resolved: Shareholders of DaVita HealthCare Partners Inc. (the "Company") ask the board of directors (the "Board") to adopt, and present for shareholder approval, a "proxy access" bylaw. Such a bylaw shall require the Company to include in proxy materials prepared for a shareholder meeting at which directors are to be elected the name, Disclosure and Statement (as defined herein) of any person nominated for election to the board by a shareholder [*sic*] or group (the "Nominator") that meets the criteria established below. The Company shall allow shareholders to vote on such nominee on the Company's proxy card.

The number of shareholder-nominated [*sic*] candidates appearing in proxy materials shall not exceed one quarter of the directors then serving. This bylaw, which shall supplement existing rights under Company bylaws, should provide that a Nominator must:

- a) have beneficially owned 3% or more of the Company's outstanding common stock continuously for at least three years before submitting the nomination;
- b) given the Company, within the time period identified in its bylaws, written notice of the information required by the bylaws and any Securities and Exchange Commission rules about (i) the nominee, including consent to being named in the proxy materials and to serving as director if elected; and (ii) the Nominator, including proof it owns the required shares (the "Disclosure"); and
- c) certify that (i) it will assume liability stemming from any legal or regulatory violation arising out of the Nominator's communications with the Company shareholders, including the Disclosure and Statement; (ii) it will comply with all applicable laws and regulations if it uses soliciting material other than the Company's proxy materials; and (c) to the best of its knowledge, the required shares were acquired in the ordinary course of business and not to change or influence control at the Company.

The Nominator may submit with the Disclosure a statement not exceeding 500 words in support of the nominee (the "Statement"). The Board shall adopt procedures for promptly resolving disputes over whether notice of a nomination was timely, whether the Disclosure and Statement satisfy the bylaw and applicable federal regulations, and the priority to be given to multiple nominations exceeding the one-quarter limit.

#### SUPPORTING STATEMENT

We believe proxy access is a fundamental shareholder right that will make directors more accountable and contribute to increased shareholder value. The CFA Institute's 2014 assessment of pertinent academic studies and the use of proxy access in other markets similarly concluded that proxy access:

Would "benefit both the markets and corporate boardrooms, with little cost or disruption."

Has the potential to raise overall US market capitalization by up to \$140.3 billion if adopted market-wide.  
(<http://www.cfapubs.org/dio/pdf/10.2469/ccb.v2014.n9.1>)

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The proposed bylaw terms enjoy strong investor support – votes for similar shareholder proposals averaged 55% from 2012 through September 2014 – and similar bylaws have been adopted by companies of various sizes across industries, including Chesapeake Energy, Hewlett-Packard, Western Union and Verizon.

We urge shareholders to vote FOR this proposal.

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Corporate Governance 

**The Company's Statement in Opposition to Proposal No. 4**

**The Board recommends you vote **AGAINST** the proposal.**

**We believe that the mechanisms for nominating directors are a critical aspect of corporate governance and any proposal that adds to or changes our stockholders' existing right to nominate directors should be carefully considered and thoughtfully tailored to ensure that the interests of all our stockholders are protected in a balanced way. To that end, we are not opposed to an augmentation of the mechanism for stockholder nominations of directors, provided that there are requisite safeguards. We do not believe the UAW proposal meets that standard.**

*UAW's proposal is not in the best interests of our stockholders.*

UAW's proposal is not in the best interests of our stockholders because it does not contain minimum requirements necessary to ensure quality director nominees are proposed by independent and impartial stockholders. Rather, if the UAW proposal were adopted, it could result in a stockholder or group of stockholders advancing their own or their constituencies' short term financial interests, special interests or narrow agendas that may be in direct conflict with the Company's long term interests. Our Nominating and Governance Committee who is subject to a fiduciary duty to the Company and the independence requirements of the NYSE and SEC, identifies recruits and recommends for nomination, director candidates who possess a diverse combination of skills, professional experience and backgrounds necessary to oversee our business. UAW's proposal, on the other hand, would allow stockholders who have no fiduciary duty and are not bound by the Company's Corporate Governance Guidelines or the NYSE or SEC independence rules to advance their own agenda or narrow interests or those of unknown third-parties, without regard to the Company's best interests, by bypassing the existing objective recruiting process the Board of Directors uses to nominate directors. While stockholders would be free to reject nominees, the cost and disruption of having to defend against narrow agenda-driven attacks is not in stockholders' interests. In furtherance of our commitment to good corporate governance and the enhancement of stockholder protections, the Company plans to engage with

stockholders to solicit input and discuss possible changes to enhance our stockholders' right to nominate directors.

*UAW's proposal would cause disruption to the Company's orderly annual election of directors.*

If adopted, UAW's proxy access proposal could result in contested director elections becoming a routine event. Divisive proxy contests could occur every year and substantially disrupt Company affairs and the effective functioning of our Board of Directors without adding any significant value to the current process. This could harm us in various ways, including the potential for high annual turnover of Directors leading to an inexperienced Board of Directors that lacks sufficient knowledge and understanding of the Company's current and past business which is necessary to provide meaningful and effective oversight of the Company's operations and long-term strategies. Abrupt changes in the composition of the Company's Board of Directors could lead to disruptions and possible turnover of our management, which in turn may impair our ability to develop, refine, monitor and execute on long-term plans. In addition, our management and directors would be required to divert their time from managing and overseeing Company business to focus on proxy contests in the election of directors. Disruption of our Board of Directors' functioning could disrupt the ongoing implementation of our successful strategies and put stockholder value at risk.

*Our stockholders are already entitled to recommend Director nominees, and our existing corporate governance practices and stockholder outreach currently encourage stockholder engagement and representation.*

Our stockholders may already recommend one or more director nominees, whom the Board will evaluate under the same criteria it applies to its own candidates. We believe the process currently contained in the Company's Corporate Governance Guidelines best protects the interests of our stockholders by way of requiring thoughtful identification and screening of experienced and diverse director nominees which helps us achieve the optimal balance of directors. Furthermore, our Corporate Governance Guidelines require that we review our process each year to ensure that we are continually striving for an effective board of directors that will best represent and serve our stockholders' long term interests.

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Board members with the right mix of background, expertise, experience and perspective are the fundamental prerequisite for a high-functioning and diverse board. We believe that the selection of such candidates is best left to the members of the Nominating and Governance committee who have a fiduciary duty to our stockholders and the Company and who are bound by NYSE and SEC independence requirements, as well as our Corporate Governance Guidelines with regard to Board nominee qualifications.

We are committed to being a leader in corporate governance and continue our practice of quality stockholder engagement and responsiveness. To that end, we will reach out to a wide range of stockholders, to solicit their input and feedback into augmenting our current process for nominating directors. Our stockholders have direct access to our Board and our Board regularly reviews feedback provided by our stockholders. We value our stockholders' opinions, and

intend to discuss proxy access with them to ensure that any proxy access provision adopted by the Company is thoughtfully designed to protect the best interests of *all* stockholders and mitigate the risk of abuse of the procedure.

\*\*\*\*\*

*We are committed to continuing our practice of quality engagement with and responsiveness to our stockholders. When our stockholders express priorities and concerns to us, we respond and, in the past, have made changes to our governance and policies to address their concerns. We will actively reach out to our stockholders to discuss the most optimal structure and process for proxy access. The Board will be informed by the feedback gathered in such discussion to determine the best action.*

**For all of the foregoing reasons, the Board recommends that you vote **AGAINST** this proposal.**

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The following table sets forth information regarding the ownership of our common stock as of March 31, 2015 by (a) all persons known by us to own beneficially more than 5% of our common stock, (b) each of our directors and named executive officers, and (c) all of our directors and executive officers as a group. We know of no agreements among our stockholders which relate to voting or investment power over our common stock or any arrangement the operation of which may at a subsequent date result in a change of control of the Company.

<b>Warren E. Buffett</b> <sup>2</sup> Berkshire Hathaway Inc. 1440 Kiewit Plaza Omaha, Nebraska 68131	38,565,570	17.9%
<b>The Vanguard Group, Inc.</b> <sup>3</sup> 100 Vanguard Blvd. Malvern, PA 19355	14,374,912	6.7%
<b>Kent J. Thiry</b> <sup>4</sup>	1,820,014	*
<b>Dr. Robert J. Margolis</b> <sup>5</sup>	2,578,820	1.2%
<b>Javier J. Rodriguez</b> <sup>6</sup>	470,313	*
<b>Dennis L. Kogod</b> <sup>7</sup>	383,590	*
<b>Dr. Garry E. Menzel</b>		*
<b>Michael D. Staffieri</b> <sup>8</sup>	122,928	*
<b>Pamela M. Arway</b> <sup>9</sup>	83,102	*
<b>Charles G. Berg</b> <sup>10</sup>	94,731	*
<b>Carol Anthony ("John") Davidson</b> <sup>11</sup>	50,491	*
<b>Paul J. Diaz</b>	9,521	*
<b>Peter T. Grauer</b> <sup>12</sup>	158,777	*
<b>John M. Nehra</b> <sup>13</sup>	206,531	*
<b>Dr. William L. Roper</b> <sup>14</sup>	78,600	*

<b>Roger J. Valine</b> <sup>15</sup>	95,136	*
<b>All directors and executive officers as a group (20 persons)</b> <sup>16</sup>	6,345,489	2.9%

\*

Amount represents less than 1% of our common stock.

1

Unless otherwise set forth in the following table, the address of each beneficial owner is 2000 16th Street, Denver, Colorado, 80202.

2

Based solely on information contained in a Schedule 13G/A No. 4 filed on February 17, 2015 with the SEC by Berkshire Hathaway Inc., a diversified holding company which Mr. Buffett may be deemed to control. Mr. Buffett and Berkshire Hathaway Inc. share voting and dispositive power over 38,565,570 shares of the Company's common stock, which include shares beneficially owned by certain subsidiaries of Berkshire Hathaway Inc. as a result of being a parent holding company or control person.

3

Based solely upon information contained in Amendment No. 4 to Schedule 13G filed with the SEC on February 10, 2015, The Vanguard Group, Inc., an investment adviser, has sole voting power with respect to 299,641 shares, sole dispositive power with respect to 14,093,365 shares and shared dispositive power with respect to 281,547 shares.

4

Includes 247,950 shares held in a family trust and 1,500,000 shares issuable upon the exercise of SSARs and 72,064 restricted stock units, which are exercisable as of, or will become exercisable within 60 days after, March 31, 2015.

5

Includes 2,578,528 shares held in family trusts.

6

Includes 369,583 shares issuable upon the exercise of SSARs and 36,466 restricted stock units, which are exercisable as of, or will become exercisable within 60 days after, March 31, 2015.

7

Includes 306,250 shares issuable upon the exercise of SSARs and 36,466 restricted stock units, which are exercisable as of, or will become exercisable within 60 days after, March 31, 2015.

8

Includes 117,600 shares issuable upon the exercise of SSARs and 4,934 restricted stock units, which are exercisable as of, or will become exercisable within 60 days after, March 31, 2015.

9

Includes 72,000 shares issuable upon the exercise of SSARs, which are exercisable as of, or will become exercisable within 60 days after, March 31, 2015.

10

Includes 72,000 shares issuable upon the exercise of SSARs, which are exercisable as of, or will become exercisable within 60 days after, March 31, 2015.

11

Includes 43,500 shares issuable upon the exercise of SSARs, which are exercisable as of, or will become exercisable within 60 days after, March 31, 2015.

12

Includes 144,000 shares issuable upon the exercise of SSARs, which are exercisable as of, or will become exercisable within 60 days after, March 31, 2015.

13

Includes 62,531 shares held in a family trust and 144,000 shares issuable upon the exercise of SSARs, which are exercisable as of, or will become exercisable within 60 days after, March 31, 2015.

14

Includes 72,000 shares issuable upon the exercise of SSARs, which are exercisable as of, or will become exercisable within 60 days after, March 31, 2015.

15

Includes 78,000 shares issuable upon the exercise of SSARs, which are exercisable as of, or will become exercisable within 60 days after, March 31, 2015.

16

Includes 3,083,070 shares issuable upon the exercise of SSARs and 170,801 restricted stock units, which are exercisable as of, or will become exercisable within 60 days after, March 31, 2015.

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## Information Concerning Our Executive Officers

<b>Kent J. Thiry</b>	59	Co-Chairman of the Board, Chief Executive Officer and Chief Executive Officer, HealthCare Partners
<b>Javier J. Rodriguez</b>	44	Chief Executive Officer, Kidney Care
<b>Michael D. Staffieri</b>	41	Chief Operating Officer, Kidney Care
<b>Dennis L. Kogod</b>	55	President, HealthCare Partners and Chief Executive Officer, International
<b>Dr. Robert J. Margolis</b>	69	Co-Chairman of the Board
<b>Joseph C. Mello</b>	56	Chief Operating Officer, HealthCare Partners
<b>Dr. Garry E. Menzel</b>	50	Former Chief Financial Officer
<b>James K. Hilger</b>	53	Interim Chief Financial Officer and Chief Accounting Officer
<b>Jeanine M. Jiganti</b>	55	Chief Compliance Officer
<b>Laura A. Mildenerger</b>	56	Chief People Officer, Kidney Care
<b>Kim M. Rivera</b>	46	Chief Legal Officer
<b>LeAnne M. Zumwalt</b>	56	Group Vice President, Purchasing and Public Affairs

Our executive officers are appointed by, and serve at the discretion of, the Board. Set forth below is a brief description as of March 31, 2015 of the business experience of all executive officers other than Mr. Thiry, who is also a director and whose business experience is set forth above in the section of this Proxy Statement entitled "Information Concerning Members of the Board Standing for Reelection."

*Javier J. Rodriguez* became our chief executive officer, Kidney Care in March 2014. Since joining the Company in 1998, Mr. Rodriguez has served in a number of different capacities. From February 2012 to March 2014, he served as our president. From April 1, 2006 through February 2012, he served as our senior vice president. Before that, from 2000 to 2006 he served as a vice president of operations and payor contracting. Mr. Rodriguez joined the Company in 1998 as a director of value management. Prior to joining the Company, Mr. Rodriguez worked for Baxter Healthcare Corporation in Finance from 1995 to 1996. He also previously served as director of operations for CBS Marketing Inc. in Mexico City.

*Michael D. Staffieri* became our chief operating officer, Kidney Care, in March 2014. From July 2011 to February 2014, he served as a senior vice president, Kidney Care. From March 2008 to July 2011, he served as our vice president of operations and new center development. Mr. Staffieri joined the Company in July 2000 and has served in several different roles.

Prior to joining us, Mr. Staffieri worked for Arthur Andersen LLP in Finance from 1999 to 2000.

*Dennis L. Kogod* became our president, HealthCare Partners, and chief executive officer, International, effective January 2015. From March 2014 through December 2014, Mr. Kogod served as chief operating officer of our HealthCare Partners division. From January 2009 to March 2014, he served as our chief operating officer, and prior to that, he served as our president-west beginning in October 2005. From January 2004 until joining us, Mr. Kogod served as president and chief operating officer-west of Gambro Healthcare, Inc., which we acquired in October 2005. From July 2000 to January 2004, Mr. Kogod served as president, west division of Gambro Healthcare, Inc. From June 1999 to July 2000, Mr. Kogod was president of Teleflex Medical Group, a medical original equipment manufacturer of medical delivery systems. From January

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1996 to June 1999, Mr. Kogod was corporate vice president of Teleflex Surgical Group, a surgical device and service organization. Mr. Kogod previously served on the board of Arbios Systems, Inc., a medical device and cell-based therapy company.

*Dr. Robert J. Margolis* became our co-chairman of the Board in November 2012 in connection with our acquisition of HCP LLC. He served as the chief executive officer of HCP LLC, from May 1982 to November 2012, and as the chief executive officer of HCP from November 2012 to March 2014. Dr. Margolis is board certified in internal medicine and

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medical oncology having trained at Duke University Medical School and the National Cancer Institute. Dr. Margolis serves on the boards of the Martin Luther King Hospital, the National Committee for Quality Assurance and the California Hospital Medical Center Foundation, Los Angeles. Dr. Margolis also serves as a member of HealthCare Policy Advisory Council for Harvard Medical School and as a member of the advisory board of the USC Schaeffer Center for Health Policy and Economics. Dr. Margolis previously served as the chairman of the boards of the American Medical Group Association, the National Committee for Quality Assurance, and the Unified Medical Group Association.

*Joseph C. Mello* became our chief operating officer, HealthCare Partners, in January 2015. From April 2012 to April 2014, Mr. Mello served on the Board of CapitalSource Inc., a commercial lender, Mr. Mello previously served as our chief operating officer emeritus from January 2009 to December 2012, and chief operating officer from June 2000 to December 2008. From April 1998 to June 2000, Mr. Mello served as president and chief executive officer of Vivra Asthma & Allergy. From August 1994 to April 1998, Mr. Mello held various positions with MedPartners, Inc., including senior vice president/chief operating officer-southeastern region from March 1997 to April 1998. Prior to joining MedPartners, from 1984 to 1994, Mr. Mello was associated with KPMG LLP, where he became a partner in 1989.

*Dr. Garry E. Menzel* served as our chief financial officer from November 2013 through March 2015. Prior to serving as chief financial officer, he served as our senior vice president, finance from September 2013 to November 2013. From December 2010 to June 2013, Dr. Menzel served as chief operating officer of Regulus Therapeutics Inc., a biopharmaceutical company. From August 2008 to November 2010, Dr. Menzel served as their executive vice president for both finance and corporate development. From November 2004 to April 2008, Dr. Menzel served as managing director and global head of life sciences with Credit Suisse Group AG, an investment banking firm. From August 1994 to August 2004, Dr. Menzel served as managing director and global head of biotechnology with The Goldman Sachs Group, Inc., an investment banking firm.

*James K. Hilger* became our interim chief financial officer in March 2015, a position he previously held from April 2012 until November 2013. Mr. Hilger continues to serve as our chief accounting officer, a position he has held since April 2010. Prior to April

2010, Mr. Hilger served as our vice president and controller since May 2006, after having served as our vice president, finance beginning in September 2005. Mr. Hilger was our acting chief financial officer from November 2007 through February 2008. From September 2003 to September 2005, Mr. Hilger served as vice president, finance and administration and chief financial officer of Pyramid Breweries, a brewer of specialty beverages. From December 1998 to July 2003, Mr. Hilger served as chief executive officer and chief financial officer of WorldCatch, Inc., a seafood industry company. From 1987 until joining WorldCatch, Inc., Mr. Hilger held a variety of senior financial positions in the food industry. Mr. Hilger began his career in public accounting with Ernst & Whinney.

*Jeanine M. Jiganti* became our chief compliance officer in March 2013. From July 2012 to March 2013, she served as our vice president, international chief compliance officer and deputy chief compliance officer. Prior to joining us, she served as chief compliance officer for Takeda Pharmaceuticals North America, a subsidiary of a Japanese pharmaceutical company, from October 2005 to March 2012. Additionally, she served as chief compliance officer for several of Takeda Pharmaceutical Company Limited's affiliates including Takeda Global Research and Development and Takeda Pharmaceuticals International Operations. During Ms. Jiganti's career, she has served as general counsel for the Illinois Department of Commerce and Economic Opportunity from September 2003 to September 2005, general counsel of Near North Insurance Company from September 2002 to September 2003 and vice president of litigation at Caremark Inc., a pharmaceutical services company, from 1996 to 2002.

*Laura A. Mildenerberger* became our chief people officer, Kidney Care, in March 2014. From July 2008 to March 2014, she served as our chief people officer. Ms. Mildenerberger joined us in October 2001 as vice president of operations. Prior to joining us, Ms. Mildenerberger served as vice president of operations for the western U.S. for Matrix Rehabilitation, a physical therapy outpatient company, from March 2000 to October 2001. From 1993 to 2000, Ms. Mildenerberger served as a general manager for NovaCare Outpatient Rehabilitation, a provider of physical and occupation therapy services. From 1988 to 1993, Ms. Mildenerberger was the executive vice president/principal of Worker Rehabilitation Services, a multi-site physical rehabilitation company. Ms. Mildenerberger began her career as an occupational therapist at the Mayo Clinic.

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*Kim M. Rivera* became our chief legal officer in July 2011. From January 2010 to December 2013, she served as our corporate secretary. From January 2010 to July 2011, she also served as our vice president and general counsel. Prior to joining us, Ms. Rivera served as vice president and associate general counsel of The Clorox Company, a consumer products company, from February 2006 to November 2009. From August 2004 to February 2006, Ms. Rivera served as vice president law and chief litigation counsel to Rockwell Automation, Inc., a provider of industrial automation control and information solutions. From November 1999 to August 2004, she served as general counsel to Rockwell's Automation Control and Information Group. Prior to joining Rockwell, Ms. Rivera was an attorney at the law firm of Jones Day.

*LeAnne M. Zumwalt* became our group vice president-purchasing and public affairs in July 2011. From January 2000 to July 2011, Ms. Zumwalt served as our

vice president in many capacities. From January 2000 to October 2009, she served as our vice president, investor relations while having other responsibilities. From 1997 to 1999, Ms. Zumwalt served as chief financial officer of Vivra Specialty Partners, Inc. a privately held health care service and technology firm. From 1991 to 1997, Ms. Zumwalt held various executive positions, including chief financial officer, at Vivra Incorporated, a publicly held provider of dialysis services. Prior to joining Vivra Incorporated, Ms. Zumwalt was a senior manager at Ernst & Young, LLP. Ms. Zumwalt serves on the board of The Advisory Board Company.

None of the executive officers has any family relationship with any other executive officer or with any of our directors.

## Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires "insiders," including our executive officers, directors and beneficial owners of more than 10% of our common stock, to file reports of ownership and changes in ownership of our common stock with the SEC and the NYSE, and to furnish us with copies of all Section 16(a) forms they file. Based solely on our review of the copies of such forms received by us, or written representations from reporting persons, we believe that our insiders complied with all applicable Section 16(a) filing requirements during 2014, except that one Form 4 was inadvertently filed late for each of Messrs. Davidson and Valine

relating to a single transaction to acquire shares of the Company's common stock, one Form 3 was inadvertently filed late for Mr. Craig Samitt relating to his appointment as chief executive officer of HCP on March 1, 2014, one Form 4 was inadvertently filed late for Ms. Rivera relating to one transaction to acquire and three transactions to dispose of the Company's common stock, one Form 4 was inadvertently filed late for Ms. Zumwalt relating to a gift of the Company's common stock and one Form 4 was inadvertently filed late for Dr. Margolis relating to a transaction to acquire and a gift of the Company's common stock.

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## Compensation Discussion and Analysis Information

This Compensation Discussion and Analysis (the "CD&A") describes our executive compensation program for the following named executive officers ("NEOs"):

Kent J. Thiry	Co-Chairman of the Board, Chief Executive Officer and Chief Executive Officer, HealthCare Partners <sup>1</sup>
Javier J. Rodriguez	Chief Executive Officer, Kidney Care
Dennis L. Kogod	President, HealthCare Partners and Chief Executive Officer, International <sup>2</sup>
Dr. Garry E. Menzel	Former Chief Financial Officer <sup>3</sup>
Michael D. Staffieri	Chief Operating Officer, Kidney Care <sup>4</sup>

1 Mr. Thiry was appointed Chief Executive Officer, HealthCare Partners effective August 1, 2014.

2 Mr. Kogod served as the Chief Operating Officer of the Company's HealthCare Partners division through December 31, 2014, and became the President of HealthCare Partners and Chief Executive Officer, International effective January 1, 2015.

3 Dr. Menzel served as the Company's Chief Financial Officer from November 7, 2013 to March 30, 2015.

4 Mr. Staffieri became the Chief Operating Officer of the Kidney Care division effective March 6, 2014.

## Executive Summary

### Our Business

The Company consists of two major divisions, Kidney Care and HealthCare Partners ("HCP"). Our Kidney Care division is comprised of our U.S. dialysis and related lab services business, various other ancillary services and strategic initiatives, including our international dialysis operations, and our corporate support costs.

Our largest line of business is our U.S. dialysis and related lab services business, which is a leading provider of kidney dialysis services in the United States. As of December 31, 2014, we operated or provided administrative services through a network of 2,179 outpatient dialysis centers in the U.S., serving approximately 173,000 patients in 46 states and the District of Columbia. We also provide acute inpatient dialysis services in approximately 1,000 hospitals. In 2014, our overall network of U.S. outpatient dialysis centers increased by 105 centers primarily as a result of opening new centers and acquisitions. In addition, the overall number of patients that we serve in the U.S. increased by approximately 6% from 2013.

Our other major line of business is HCP, a patient- and physician-focused integrated health care delivery and management company. For nearly three decades, HCP

has been providing cost-effective coordinated, outcomes-based medical care. Through capitation contracts with some of the nation's leading health plans, HCP had approximately 837,300 members under its care in southern California, central and south Florida, southern Nevada, central New Mexico and central Arizona as of December 31, 2014. In addition to its managed care business, HCP provides care in all of its markets to over 553,000 patients whose health coverage is structured on a fee-for-service basis, including patients enrolled through traditional Medicare and

Medicaid programs, preferred provider organizations and other third party payors.

The patients of HCP's associated physicians, physician groups and independent practice associations benefit from an integrated approach to medical care that places the physician at the center of patient care. As of December 31, 2014, HCP delivered services to its members via a network of over 3,300 associated group and other network primary care physicians, 228 network hospitals, and several thousand associated group and network specialists. Together with hundreds of case managers, registered nurses and other care coordinators, these medical professionals utilize a comprehensive information technology system, sophisticated risk management techniques and clinical protocols to provide high-quality, cost-effective care to HCP's members.

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Compensation Discussion and Analysis 

Our executive compensation program is best understood within the context of the business environment in which we currently operate. This includes increasing regulation by numerous federal, state and local government entities, reductions in reimbursements under federal and state healthcare programs, including Medicare and Medicaid, continued downward pressure on our commercial payment rates, and the integration of HCP into the enterprise.

**Our Executive Compensation Structure**

In March 2014, our Board of Directors and Compensation Committee made substantial changes to our executive compensation program to further align our executive compensation structure with our strategic and financial objectives in creating stockholder value, including short-term and long-term incentive criteria that are more performance-based, reducing the percentage of equity awards that are subject to time-vesting only or a single performance metric, and making long-term incentive awards based on relative metrics and a variety of performance metrics. Our executive compensation structure is comprised of both short and long-term incentives, which include challenging performance goals that we believe are aligned with our strategic objectives to provide high quality care to our patients, increase profitability, maximize growth and increase the value of our common stock to benefit our stockholders.

The 2014 short-term and long-term criteria, described in further detail starting on page 34, emphasized our objectives as a Company, and our resulting compensation structure incorporated incentives tied to clinical care, profit and growth.

We will continue our ongoing engagement with our stockholders on corporate governance items that are of interest to them, and our Compensation Committee will consider the feedback we receive from our stockholders in making future compensation decisions for our named executive officers. We also believe it is important to maintain consistency with our compensation philosophy and approach, described in further detail on page 29 of this Proxy Statement, to continue to incentivize management toward the proper short- and long-term financial and operating goals, which are intended to create long-term stockholder value.

**Consideration of Say-on-Pay Results and Pay for Performance**

In June 2014, approximately 94% of the votes cast by stockholders at the annual meeting were voted in favor of the compensation program applicable to our named executive officers, as described in the 2014 proxy statement. We believe the votes reflect support for our executive compensation program, particularly the scope and effectiveness of the changes we adopted in 2014, and strong pay for performance alignment. As such, the Compensation Committee did not make any changes to the executive compensation program in response to the 2014 say-on-pay vote.

**Our Compensation Design and Philosophy**

Our ability to recruit and retain highly qualified executives is essential to our long-term success. An important goal in the design of our executive compensation program, in addition to clinical differentiation and creating stockholder value, is to attract and retain outstanding leaders who possess the skills and talent necessary to achieve our business goals and objectives, and who embody our mission and values. We believe it is in the best interests of our stockholders to attract and retain talented leaders, and we strive to do so by providing compensation that is reasonable, provides the best value for our stockholders, aligns incentives, and is sufficient to achieve our recruitment and retention objectives.

Our ultimate objective is to continue to create long-term stockholder value by being a leader in clinical differentiation, generating strong overall revenue growth, market share increases, improvements in clinical outcomes, operating margin growth, increases in Medicare Advantage enrollment and consistently strong total stockholder return.

In order to achieve this objective, we have established an executive compensation program that:

- (i) rewards superior clinical outcomes;
- (ii) rewards strong Company performance;
- (iii)



aligns our executives' interests with our stockholders' interests; and

(iv)

is competitive within the health care services, diagnostics, managed care and solutions markets so that we can attract and retain outstanding executives.

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## 2014 Financial and Performance Highlights

Our overall financial and operating performance was strong for 2014 despite the challenges we faced with Medicare reimbursement in the Kidney Care division and Medicare Advantage reimbursement in the HCP division. We believe that the NEOs were instrumental in achieving these results, including the following major achievements and financial operating performance indicators in 2014:

improvements in our clinical outcomes in our U.S. dialysis operations, including maintaining the highest ever fistula in use rates at 65.7%, lowest gross mortality rate at 13.5 measured in early first quarter of 2015 and continued maintenance of our lowest ever catheter rates at 13.0%;

five-year compound annual TSR of 20.9%, compared to the median five-year compound annual TSR of 3.1% for our Global Industry Classifications Standard group and 18.6% for our comparator peer group;

strong adjusted operating cash flow of \$1,728 million, which excludes the \$269 million after-tax payment made for the settlement of the 2010 and 2011 U.S. Attorney Physician Relationship Investigations, compared to original guidance range of \$1,450 million to \$1,550 million;<sup>1</sup>

consolidated adjusted operating income of \$1,832 million, excluding an adjustment to a loss contingency reserve of \$17 million, compared to original guidance range of \$1,675 million to \$1,850 million;<sup>2</sup>

Kidney Care adjusted operating income of \$1,617 million, excluding an adjustment to a loss contingency reserve of \$17 million, compared to original guidance range of \$1,475 million to \$1,550 million;<sup>3</sup>

normalized non-acquired U.S. dialysis treatment growth of 5.0%;

an increase of 5.7% in the overall number of U.S. dialysis treatments;

HCP's entry into two new markets, Colorado and Pennsylvania;

a \$7.25 billion refinancing of a substantial amount of our existing indebtedness, resulting in lower interest costs, extended maturities and enhanced liquidity; and

an increase of 72,800 in HCP's senior capitated members.

The Company's TSR from the first quarter of 2000 (our CEO's first full quarter with the Company) through the fourth quarter of 2014 was approximately 3,300%, putting the Company in the top 10 of all current S&P 500 companies over that period. The Company's TSR over this period also exceeded that of all companies that have been in the S&P 500 during that entire period.

We believe our U.S. dialysis and related lab services clinical outcomes compare favorably with other dialysis providers in the United States and generally exceed the dialysis outcome quality indicators of the National Kidney Foundation. Our clinical outcomes mean better quality of life for the over 173,000 dialysis patients we serve.

## Linking 2014 NEO Compensation to Performance

Our compensation program for our NEOs emphasizes compensation based on performance and are designed to align our NEOs' interests with those of our stockholders and to permit individuals who have performed well in creating and protecting significant long-term value for the Company and its stockholders to share in the value generated. To this end, our compensation program emphasizes variable compensation in the form of cash and equity awards over fixed compensation.

When establishing the compensation for our NEOs for 2014, the Compensation Committee gave significant weight to our sustained record of strong operating performance as highlighted above, our improvement in strategic positioning and our continued strong clinical performance,

particularly in light of ongoing general economic volatility and significant industry regulatory challenges and uncertainty. In 2014, we continued to lead industry public policy efforts, achieving favorable outcomes for the industry and the Company. The Compensation Committee balanced its evaluation of the Company's financial and clinical performance by also considering the Company's implementation of the Corporate Integrity Agreement with the United States Department of Health and Human Services, Office of Inspector General, healthcare reform, changes to

*Continues on next page*

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1

*Adjusted operating cash flow represents 2014 net cash provided by operating activities of \$1,459 million, plus our 2014 payment in connection with the settlement of the 2010 and 2011 U.S. Attorney physician relationship investigations of \$410 million, each as reported in our consolidated financial statements filed with the Company's Form 10-K for the year ended December 31, 2014, minus the 2014 tax benefit related to that settlement of approximately \$141 million.*

2

*See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Form 10-K for the year ended December 31, 2014 for reconciliation of this metric to the most closely comparable GAAP metric.*

3

*Kidney Care 2014 adjusted operating income represents 2014 consolidated operating income of \$1,815 million, less 2014 HCP segment operating income of \$215 million, plus 2014 loss contingency charges of \$17 million, as reported in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Form 10-K for the year ended December 31, 2014.*

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government reimbursement policies, other significant healthcare regulatory changes, as well as the government investigations affecting the Company. When establishing 2014 compensation for our NEOs, the Compensation Committee considered these and other factors in the context of individual NEO performance achieving these results and responding to these challenges. The following table shows the direct compensation for 2014 (base salary, annual performance-based cash award and long-term incentive award) determined by the Compensation Committee for each NEO. This table is not a substitute for the information disclosed in the 2014 Summary Compensation Table and related footnotes, which begin on page 49.

<b>Kent J. Thiry</b>	\$1,200,000	\$2,610,000	\$9,463,889
<b>Javier J. Rodriguez</b>	\$800,000	\$2,000,000	\$5,405,698
<b>Dennis L. Kogod</b>	\$800,000	\$200,000 <sup>3</sup>	\$2,528,218
<b>Dr. Garry E. Menzel</b>	\$510,000		
<b>Michael D. Staffieri</b>	\$515,385	\$1,100,000	\$2,969,152

1

The amounts reported here reflect the base salary amounts actually paid during the 2014 fiscal year.

2

The amounts reported under the Annual LTI Award column consist of the grant date fair value of all 2014 equity awards (both SSARs and PSUs) as well as the target value of the 2014 performance-based cash awards.

3

The amount represents a discretionary bonus paid to Mr. Kogod for advancing strategic initiatives in his role as chief executive officer of our international business, which were not included as performance targets in our 2014 short-term incentive criteria.

Given the emphasis on variable compensation, the Compensation Committee determined to limit increases to fixed compensation amounts in 2014 such that the base salaries of our NEOs were retained at 2013 levels, other than Mr. Staffieri's base salary, which was increased in 2014 in connection with his promotion to Chief Operating Officer of the Company's Kidney Care division. The following pie charts illustrate the allocation of the total direct compensation that the NEOs above earned or, in the case of the long-term incentives, were granted with respect to 2014:

**Compensation Summary**  
**CEO**

**Compensation Summary**  
**Other NEOs**

The Compensation Committee believes that the above compensation structure struck an appropriate balance by promoting long-term stockholder value creation without motivating or rewarding excessive risk-taking.

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The following graph illustrates how cash performance bonuses over the past three years varied with changes in our adjusted operating income:

**3-Yr NEO Performance Cash Bonuses vs.  
Company Adjusted Operating Income\***

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\*

*See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Form 10-K for the year ended December 31, 2014 for reconciliation of this measure to the Company's GAAP consolidated operating income.*

To further illustrate our emphasis on compensation based on performance and our commitment to align the interests of our NEOs with those of our stockholders, the following graph illustrates how our CEO's compensation over the past five years varied with changes in our TSR for the same period (indexed to the commencement year of the graph, i.e., 2010). For purposes of this table, CEO total compensation includes all elements of compensation reflected in the "Total" column of the 2014 Summary Compensation Table on page 49 of this Proxy Statement.

**5-Yr CEO Total Compensation vs. Company TSR**



Table of ContentsCompensation Discussion and Analysis **Stockholder Interest Alignment**

Our executive compensation is designed to focus on pay-for-performance and to align the interests of our executives with the long-term interests of our stockholders. Our incentive criteria focus on performance-based compensation that aligns with our strategic and financial objectives in creating stockholder value. Our CEO receives all long-term compensation in the form of equity compensation. Our other executives receive long-term compensation, consisting of both equity compensation and cash-based incentive compensation. Our long-term equity compensation is comprised of stock-settled stock appreciation rights ("SSARs") and performance stock units ("PSUs"). At least 50% of our CEO's equity awards and at least 25% of the other executive officers' awards

are in the form of PSUs. Relative total stockholder return ("TSR") was selected as the performance criterion for 50% of these PSUs to create close alignment with stockholder value creation. The equity awards are further subject to time vesting equity awards granted in 2014 vest 50% each after three and four years from the date of grant. The combination of performance-based metrics and extended vesting schedules are intended to assist in the long-term retention of such NEOs and further align the interests of our executives with the long-term interests of our stockholders. A key component of our executive compensation philosophy and design is that stock-based compensation creates an incentive for the NEO to contribute to the overall success of the Company and to take actions that result in the creation of long-term stockholder value.

**Key Features of Our Executive Compensation Program**

Have double trigger change in control provisions for acceleration of equity award vesting	Provide excise tax gross-ups on change in control payments for new or materially amended agreements entered into since 2008 <sup>1</sup>
Limit severance payments to not more than three times base salary and bonus	Re-price or replace underwater stock options or stock appreciation rights
Provide for multi-year vesting periods for equity award grants to reinforce a culture in which the Company's long-term success takes precedence over volatile short-term results	Have our Compensation Committee's independent compensation consultant provide any other services to the Company
Use an independent compensation consultant	Have a defined benefit pension plan
Have a clawback policy that permits recovery of bonuses, incentive and equity-based compensation from executives	
Seek stockholder feedback on our executive compensation program	
Apply meaningful stock ownership guidelines to strengthen alignment of executives' and stockholders' interests	
Have policies related to the hedging and pledging of Company's securities	

1

We have not provided for tax gross-ups in any employment agreements or amended employment agreements entered into after July 2008. Our CEO has the only remaining legacy agreement that contains a tax gross-up; however, no gross-up would have been payable under his agreement in any of the prior five years if a change of control had occurred. See "Potential Payments Upon Termination or Change of Control" on pages 54 to 60.



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Table of Contents**Elements of Compensation**

The elements of direct compensation offered under our executive compensation program include both fixed (base salaries) and variable (annual and long-term incentives) compensation.

**Base Salary**

We compensate our NEOs with a base salary because we believe it is appropriate that some portion of compensation be provided in a form that is liquid and assured. Base salaries are initially established at levels necessary to enable us to attract and retain highly qualified executives with reference to comparative pay within the Company for executives with similar levels of responsibility, the prior experience of the executive, and expected contributions to Company performance.

We do not guarantee salary adjustments on an annual basis. During March of each year, the Compensation Committee considers adjustments to base salary as part of the overall annual compensation assessment for our NEOs. Our CEO typically provides the Compensation Committee with his recommendation regarding merit-based increases for each NEO other than himself. The CEO's base salary is determined by the Compensation Committee with input from Compensia, the Compensation Committee's independent compensation consultant, and Compensia's analysis of CEO compensation of our comparator peer group.

Consistent with our emphasis on performance-based compensation and the Compensation Committee's decision to limit increases to fixed compensation amounts in 2014, the Compensation Committee maintained the base salaries of Mr. Thiry, Mr. Rodriguez, Mr. Kogod and Dr. Menzel at 2013 levels. Mr. Staffieri's base salary was increased in 2014 in connection with his promotion from Senior Vice President to Chief Operating Officer of the Company's Kidney Care division. The base salaries for 2013 and 2014 for our NEOs are shown in the table below.

<b>Kent J. Thiry</b>	\$1,200,000	\$1,200,000
<b>Javier J. Rodriguez</b>	\$800,000	\$800,000
<b>Dennis L. Kogod</b>	\$800,000	\$800,000
<b>Dr. Garry E. Menzel</b>	\$510,000	\$510,000
<b>Michael D. Staffieri</b>	\$450,000	\$550,000

1 The amounts reported reflect the annual base salaries approved in March 2013.

2 The amounts reported reflect the annual base salaries approved in March 2014.

**Short-Term Incentive Program (STI Program) for 2014**

The 2014 STI program awards are granted pursuant to the DaVita HealthCare Partners Inc. 2011 Incentive Award Plan, as amended and restated (the "2011 Plan"), which permits the issuance of stock options, stock appreciation rights, restricted stock, restricted stock units, performance stock units, equity and cash-based performance awards, as well as other forms of equity awards.

Under the 2014 STI program, each NEO was eligible for a maximum annual performance-based bonus potential calculated as a multiple of the annual salary approved in March 2014 by the Compensation Committee, and with respect to the CEO, the Board, as summarized in the table below:

Kent. J. Thiry	\$1,200,000	3.0x	\$3,600,000
Javier J. Rodriguez	\$800,000	2.5x	\$2,000,000
Dennis L. Kogod	\$800,000	2.5x	\$2,000,000
Dr. Garry E. Menzel	\$510,000	2.0x	\$1,020,000
Michael D. Staffieri	\$550,000	2.0x	\$1,100,000

Each performance metric under our STI program was assigned a relative weight to determine the percentage of the maximum bonus potential for which each executive was eligible. The percentage of the maximum bonus potential was determined based on results achieved in 2014, and the Compensation Committee then exercised negative discretion to reduce the annual bonus payment based on changed or special circumstances, or factors that may not have been anticipated when the criteria range for the metrics were established. With respect to the 2014 STI, the Compensation Committee reduced the 2014 bonus for Dr. Menzel.

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Compensation Discussion and Analysis 

The tables below summarize the relative weights, criteria range, maximum performance based eligibility range, actual performance and maximum eligible payout achieved for each of the 2014 STI performance metrics, as well as the actual payout percentage and amount for each of the NEOs.

*Kent J. Thiry*

2014 STI Performance Metrics	Maximum Performance Based Eligibility Range	Maximum Eligible Payout Achieved
		\$ 638

**Note 12 Recent Accounting Pronouncements**

In December 2004, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. 109-2 (FSP 109-2), Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004 (the Act). The Act introduced a special one-time dividends received deduction on the repatriation of certain foreign earnings to a U.S. taxpayer (Repatriation Provision), provided certain criteria are met. FSP 109-2 provides accounting and disclosure guidance for the Repatriation Provision. We have completed a preliminary assessment of the effects of repatriating a portion of our undistributed earnings of foreign subsidiaries. At the present time, we have no plans to repatriate any undistributed earnings under the Act through the remainder of fiscal 2006.

In November 2004, the FASB issued SFAS No. 151 (SFAS 151), *Inventory Costs*, an amendment of ARB No. 43, Chapter 4. This statement amends the guidance in ARB No. 43, Chapter 4, *Inventory Pricing*, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Paragraph 5 of ARB No. 43, Chapter 4, previously stated that under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and re-handling costs may be so abnormal as to require treatment as current period charges. SFAS 151 requires that those items be recognized as current-period charges regardless of whether they meet the criterion of so abnormal. In addition, this statement requires that allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities. The provisions of SFAS 151 are to be applied prospectively and are effective for inventory costs incurred during the fiscal years beginning after June 15, 2005, with earlier application permitted for inventory costs incurred during the fiscal years beginning after the date the statement was issued. The adoption of SFAS 151 is not expected to have a material impact on our financial position and results of operations. We expect to adopt SFAS 151 on February 1, 2006.

In December 2004, the FASB issued SFAS No. 153 (SFAS 153), *Exchanges of Nonmonetary Assets*, an amendment of APB Opinion No. 29. The guidance in APB Opinion No. 29 (APB 29), *Accounting for Nonmonetary Transactions*, is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of assets exchanged. The guidance in that opinion, however, included certain exceptions to that principle. SFAS 153 amends APB 29 to eliminate the exception for nonmonetary exchanges of similar productive assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for nonmonetary exchanges occurring in fiscal periods beginning after June 15, 2005. The adoption of SFAS 153 is not expected to have a material impact on our financial position and results of operations.

In June 2005, the FASB issued SFAS No. 154 (SFAS 154), *Accounting Changes and Error Corrections*. SFAS 154 changes the requirements for the accounting for and reporting of a change in accounting principle. This statement requires retrospective applications to prior periods financial statements of a voluntary change in accounting principle unless it is impracticable. In addition, this statement requires that a change in depreciation, amortization, or depletion for long-lived, non-financial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. This new accounting standard is effective February 1, 2006. The adoption of SFAS 154 is not expected to have a material impact on our financial statements.

### Note 13 Warranty Obligations

We record a liability on our consolidated balance sheet for costs related to certain warranties with the sales of our products. This liability is estimated through historical customer claims, product failure rates, material usage and service delivery costs incurred in correcting a product failure. Our warranty obligations were as follows (in thousands):

	2005		2004	
Balance at January 31	\$	1,911	\$	1,610
Accruals for warranties issued during the period		1,065		818
Accruals for pre-existing warranties		52		
Settlements during the period		(1,063)		(715)
Balance at July 31	\$	1,965	\$	1,713

### Note 14 Accumulated Other Comprehensive Income (Loss)

	Accumulated Other Comprehensive Income (Loss)		
Translation Adjustment			Total

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			<b>Minimum Pension Liability</b>		
			<b>Adjustment</b>		
Balance at January 31, 2005	\$	10,075	\$	(2,309)	\$ 7,766
Translation adjustment		(4,593)			(4,593)
Balance at July 31, 2005	\$	5,482	\$	(2,309)	\$ 3,173

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

All references to fiscal periods are defined as periods ending in the year ended January 31, 2005 (fiscal 2005) and the year ending January 31, 2006 (fiscal 2006).

### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our discussion and analysis of financial condition and results of operations is based on our consolidated financial statements which have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. We evaluate our estimates and judgments on an on-going basis, including those related to uncollectible receivables, inventories, goodwill and long-lived assets, warranty obligations, environmental liabilities, share-based compensation and deferred taxes. We base our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. A description of our critical accounting policies and related judgments and estimates that affect the preparation of our consolidated financial statements is set forth on Form 10-K in our Annual Report for the year ended January 31, 2005.

### **COMPARISON OF SECOND QUARTER OF FISCAL 2006 AND FISCAL 2005**

#### **Consolidated Summary**

Net income for the second quarter of fiscal 2006 increased to \$10.8 million (\$0.84 per diluted share) from \$6.5 million (\$0.51 per diluted share) for the second quarter of fiscal 2005. Net sales for the second quarter of fiscal 2006 were \$115.0 million or 24% greater than the second quarter of fiscal 2005. Excluding the effect of foreign currency fluctuations, net sales in North America, Europe and Asia Pacific grew 25%, 18% and 25%, respectively, in the second quarter of fiscal 2006 as compared to the same quarter of the prior year. Our increased sales levels reflect higher volumes of business in all geographic regions.

The gross margin percentage in the second quarter of fiscal 2006 was consistent with the prior year, even with higher sales levels, due to two primary factors. The first factor is the current year sales include a higher percentage of lower margin OEM products. This is due to the expansion of production capacity in North America and Asia Pacific and due to the acquisition of certain fork production assets in Germany. These expansion activities have occurred within the last year but the full effects are being realized in the most recent quarters. The second factor is higher material costs.

Selling and administrative costs increased by 5% in the second quarter of fiscal 2006 over the comparable quarter of the prior year. Excluding foreign currency changes, costs increased 3% over the second quarter of the prior year. The increase is primarily due to share-based compensation costs related to the adoption of SFAS 123R. Selling and administrative costs as a percentage of net sales were 16% and 20% for second quarter of fiscal 2006 and 2005, respectively.

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Effective in the second quarter of the current year we elected to early adopt the new accounting standard for share-based compensation, Statement of Financial Account Standards No. 123R. We applied the standard using a modified prospective method with no restatement of prior periods. Prior to the adoption of 123R we only recognized compensation expense related to stock appreciation rights (SARs). This expense was calculated quarterly, based on our share price at quarter-end, resulting in substantial expense volatility. Under 123R we will be accounting for share-based compensation expense for SARs and options on a fair value method. This will eliminate market related expense volatility and provide a more transparent view of our total share-based compensation expense. Total share-based compensation expense under SFAS 123R was \$597,000 compared to \$340,000 in the second quarter of fiscal 2005. We would have recognized share-based compensation expense of \$4.2 million for the three months ended July 31, 2005 if we had not adopted SFAS 123R.

**North America**

	2005		Three Months Ended July 31		2004		Change	Change %
		%		%		%		
	(In thousands)							
Net sales	\$ 61,793	100%	\$ 49,028	100%	\$ 12,765	26%		
Cost of goods sold	37,730	61%	30,092	61%	7,638	25%		
Gross profit	24,063	39%	18,936	39%	5,127	27%		
Selling and administrative	10,896	18%	10,499	21%	397	4%		
Amortization	37		35		2	6%		
Operating income	\$ 13,130	21%	\$ 8,402	17%	\$ 4,728	56%		

North America net sales were up \$12.8 million or 26% in the second quarter of fiscal 2006 over the same quarter of fiscal 2005. Currency changes accounted for 1% of the increase in sales. Higher volumes of shipments from North American plants accounted for virtually all of the increase. Shipments benefited from a strong lift truck market in the second quarter of fiscal 2006 in comparison with the prior year. As in the first quarter of fiscal 2006, the relation between the U.S. dollar and the



Euro in the second quarter of fiscal 2006 continued to be unfavorable for European imports into the U.S. market when compared to the same quarter of fiscal 2005.

Historically, we have found that changes in the level of our net sales do not correspond directly to the percentage changes in lift truck industry shipments, but industry statistics do provide an indication of the direction of business activity. North American lift truck industry shipments in the second quarter of fiscal 2006 were 17% higher than the second quarter of fiscal 2005.

Gross margin percentages for the second quarter of fiscal 2006 in North America were consistent with the prior year. Our added absorption due to higher volumes and sales price increases essentially offset the impact of increases in the cost of steel.

Selling and administrative costs for the second quarter of fiscal 2006 increased 4% over the same quarter of the prior year. The primary reason for the increase is an additional \$195,000 of share-based compensation costs related to the adoption of SFAS 123R.

## Europe

	2005	Three Months Ended July 31		2004	%	Change	Change %
			%				
(In thousands)							
Net sales	\$ 35,297	100%	\$ 29,485	100%	\$ 5,812	20%	
Cost of goods sold	28,606	81%	23,656	80%	4,950	21%	
Gross profit	6,691	19%	5,829	20%	862	15%	
Selling and administrative	5,384	15%	5,509	19%	(125)	(2)%	
Amortization	723	2%	126		597		
Operating income	\$ 584	2%	\$ 194	1%	\$ 390		

Net sales in Europe for the second quarter of fiscal 2006 increased \$5.8 million or 20% over the same quarter of fiscal 2005. The increase was primarily the result of increased shipments of OEM products due to a strong European lift truck market in fiscal 2006. In the second half of fiscal 2005 we acquired the assets of a major European competitor in Germany. Our current quarter sales also reflect the additional sales volume as a result of this acquisition. Changes in currencies made up 2% of the overall sales increase in Europe.

The gross margin percentage in Europe declined from 20% for the second quarter of fiscal 2005 to 19% for the second quarter of fiscal 2006. The primary factors in this decrease were the announced closure of one of our manufacturing facilities in The Netherlands, increased shipments of certain lower margin OEM products relative to total shipments and increases in steel costs that were not sufficiently offset by customer price increases.

During the second quarter of fiscal 2006, we announced the planned closure of our manufacturing facility in Hoorn, The Netherlands. Production operations in Hoorn will be integrated into other manufacturing facilities in Almere, The Netherlands and Verona, Italy. We believe the plant closure will allow us to eliminate excess capacity for attachment products and reduce overall production costs. We estimate the total direct costs for the plant closure, to be approximately \$1.8 million, which includes \$1.0 million of employee termination costs and \$800,000 of

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costs to move production equipment. During the second quarter we accrued \$275,000 of costs which are recorded in cost of goods sold and as a liability on the July 31, 2005 consolidated balance sheet. We expect the majority of the remaining costs to be recognized in the remaining two quarters of fiscal 2006 as the closure is completed.

Selling and administrative costs in Europe decreased 2% for the second quarter of fiscal 2005 as compared to the second quarter of fiscal 2004 due to lower warranty, marketing and other miscellaneous costs.

Amortization costs in the second quarter of fiscal 2006 increased due to additional amortization of intangible assets related to our fiscal 2004 acquisition in Italy.

**Asia Pacific**

	2005		Three Months Ended July 31		2004		Change	Change %
		%	(In thousands)	%		%		
Net sales	\$ 17,876	100%	\$ 13,863	100%	\$ 4,013	29%		
Cost of goods sold	12,060	67%	9,277	67%	2,783	30%		
Gross profit	5,816	33%	4,586	33%	1,230	27%		
Selling and administrative	2,648	15%	2,058	15%	590	29%		
Amortization	7		6		1	17%		
Operating income	\$ 3,161	18%	\$ 2,522	18%	\$ 639	25%		

Asia Pacific net sales increased \$4.0 million or 29% in the second quarter of fiscal 2006 over fiscal 2005. Excluding the effect of foreign currencies, net sales increased 25%. Virtually all of the Asia Pacific markets experienced strong sales results during the second quarter, with China posting the strongest growth.

Gross margin percentages in the Asia Pacific region remained constant at 33% in the second quarter of fiscal 2006 when compared to the same quarter of the prior year. This reflects the fact that a significant portion of the sales increase for the second quarter related to lower margin OEM products, which reduced the overall margins. Increases in material costs also mitigated the effects of better absorption of costs from higher sales volumes.

Selling and administrative costs in the Asia Pacific region increased 29% for the second quarter of fiscal 2006 as compared to fiscal 2005. Foreign currency fluctuations accounted for 4% of the change. The remainder of the increase was due primarily to continued expansion of our marketing and engineering efforts in China.

**Non-Operating Items**

Interest expense was lower in the second quarter of fiscal 2006 as compared to the same quarter of fiscal 2005 due to the reduction in long-term debt for scheduled debt payments in the fourth quarter of fiscal 2005. See *Financial Condition and Liquidity* for additional discussion of debt levels and payments.

The effective tax rate decreased from 36% in the second quarter of fiscal 2005 to 34% in the current quarter. This was primarily due to higher levels of income in certain foreign jurisdictions, which have lower statutory tax rates.

**COMPARISON OF THE FIRST SIX MONTHS OF FISCAL 2006 AND FISCAL 2005**

**Consolidated Summary**

Net income for the first six months of fiscal 2006 increased to \$23.0 million (\$1.79 per diluted share) from \$14.7 million (\$1.16 per diluted share) for the first six months of fiscal 2005. Net sales for the first six months of fiscal 2006 were \$229.5 million or 23% greater than the first six months of fiscal 2005. Excluding the effect of foreign currency fluctuations, net sales in North America, Europe and Asia Pacific grew 23%, 23% and 12%, respectively, in the first six months of fiscal 2006 as compared to the same period of the prior year. Our increased sales levels reflect higher volumes of business in all geographic regions.

The gross margin percentage in the first six months of fiscal 2006 was down slightly from the prior year. This is due primarily to a higher percentage of sales of lower margin OEM products effects. Higher material costs have also contributed to the lower margins. While we have been able to offset a portion of the increased material costs through price increases and cost controls, the full effect of these increases has reduced our overall margins in comparison with the prior year.

Selling and administrative costs increased by 3% in the first six months of fiscal 2006 over the comparable period of the prior year. Excluding foreign currency changes, costs increased 1% over the second quarter of the prior year. Selling and administrative costs as a percentage of net sales were 16% and 19% for the first six months of fiscal 2006 and 2005, respectively.

Effective in the second quarter of the current year we elected to early adopt the new accounting standard for share-based compensation, Statement of Financial Account Standards No. 123R. We applied the standard using a modified prospective method with no restatement of prior periods. Prior to the adoption of 123R we only recognized compensation expense related to stock appreciation rights (SARs). This expense was calculated quarterly, based on our share price at quarter-end, resulting in substantial expense volatility. Under 123R we will be accounting for share-based compensation expense for SARs and options on a fair value method. This will eliminate market related expense volatility and provide a more transparent view of our total share-based compensation expense. Total share-based compensation expense recorded in the six months ended July 31, 2005 was \$369,000 compared to \$340,000 for the comparable prior year period. We would have recognition share-based compensation expense of \$4.0 million for the six months ended July 31, 2005 if we had not adopted SFAS 123R.

**North America**

	2005	Six Months Ended July 31		%	Change	Change %
		(In thousands)	2004			
Net sales	\$ 123,410	100%	\$ 99,622	100%	\$ 23,788	24%
Cost of goods sold	75,354	61%	60,730	61%	14,624	24%
Gross profit	48,056	39%	38,892	39%	9,164	24%
Selling and administrative	21,323	17%	20,751	21%	572	3%
Amortization	76		70		6	9%
Operating income	\$ 26,657	22%	\$ 18,071	18%	\$ 8,586	48%

North America net sales were up \$23.8 million or 24% in the first six months of fiscal 2006 over the same period of fiscal 2005 primarily due to higher volumes of shipments. Price increases contributed to a lesser extent to the increase. Changes in currencies made up 1% of the overall sales increase.

Historically, we have found that changes in the level of our net sales do not correspond directly to the percentage changes in lift truck industry shipments, but industry statistics do provide an indication of the direction of business activity. North American lift truck industry shipments for the first six months of fiscal 2006 as compared to the first six months of fiscal 2005 increased 19%.

Gross margins for the first six months of fiscal 2006 in North America were consistent with the prior year. We benefited from the contribution of additional unit volume through the plants, absorbing more fixed costs than in the first six months of the prior year. However, increases in material costs offset this additional absorption and any sales price increases, resulting in a gross profit percentage consistent with the first six months of fiscal 2005.

Selling and administrative costs for the first six months of fiscal 2006 increased 3% over the same period of the prior year. The increase is due to miscellaneous cost increases.

**Europe**

	2005	Six Months Ended July 31		%	Change	Change %
		%	2004			
(In thousands)						
Net sales	\$ 72,001	100%	\$ 56,904	100%	\$ 15,097	27%
Cost of goods sold	57,016	79%	44,888	79%	12,128	27%
Gross profit	14,985	21%	12,016	21%	2,969	25%
Selling and administrative	10,879	15%	10,848	19%	31	
Amortization	854	1%	223		631	
Operating income	\$ 3,252	5%	\$ 945	2%	\$ 2,307	

Net sales in Europe for the first six months of fiscal 2006 increased \$15.1 million or 27% over the same period of fiscal 2005. The changes in foreign currency rates, primarily the Euro and the British Pound, accounted for 3% of the increase. The remaining increase was the result of increased shipments out of our European plants. Our sales in Europe for the first six months have benefited from both strong demand in the lift truck market and additional production capacity after our purchase of the assets of a major German competitor in late fiscal 2005.

During the second quarter of fiscal 2006 we announced the planned closure of our manufacturing facility in Hoorn, The Netherlands. Production operations in Hoorn will be integrated into other manufacturing facilities in Almere, The Netherlands and Verona, Italy. We believe the plant closure will allow us to eliminate excess capacity for attachment products and reduce overall production costs. We estimate the total direct costs for the plant closure, to be approximately \$1.8 million, which includes \$1.0 million of employee termination costs and \$800,000 of costs to move production equipment. During the second quarter we accrued \$275,000 of costs which are recorded in cost of goods sold and as a liability on the July 31, 2005 consolidated balance sheet. We expect the majority of the remaining costs to be recognized in the remaining two quarters of fiscal 2006.

Gross margins in Europe for the first six months of fiscal 2006 have remained consistent with the prior year. Margins were favorably impacted by improved absorption due to higher sales volumes and negatively impacted by increased shipments of lower margin OEM products and increased steel costs that were not completely offset by price increases.

Selling and administrative costs in Europe for the first six months of fiscal 2006 were comparable to the first six months of fiscal 2005. Excluding the effects of changing currencies, selling and administrative costs decreased 3%.

Amortization costs in the first six months of fiscal 2006 increased due to additional amortization of intangible assets related to our fiscal 2004 acquisition in Italy.

**Asia Pacific**

	2005	Six Months Ended July 31		%	Change	Change %
		%	2004			

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(In thousands)									
Net sales	\$	34,070	100%	\$	29,379	100%	\$	4,691	16%
Cost of goods sold		23,052	68%		19,560	67%		3,492	18%
Gross profit		11,018	32%		9,819	33%		1,199	12%
Selling and administrative		4,844	14%		4,385	15%		459	10%
Amortization		14			14				
Operating income	\$	6,160	18%	\$	5,420	18%	\$	740	14%

Asia Pacific net sales increased \$4.7 million or 16% in the first six months of fiscal 2006 over fiscal 2005. Excluding the effect of foreign currencies, net sales increased 12%. The increase was due to the general strength of the economies in all markets. In particular, net sales in China have increased with both a strong economy and additional production capacity for OEM products.

Gross margin percentages in the Asia Pacific region decreased slightly to 32% for the first six months of fiscal 2006 as compared to 33% in the same period of the prior year. The lower percentage is due primarily to a higher percentage of sales of lower margin OEM products and higher steel costs.

Selling and administrative costs in the Asia Pacific region increased \$459,000 or 10% for the first six months of fiscal 2006 as compared to fiscal 2005. Foreign currency fluctuations accounted for 3% of the increase. The remainder of the increase was due to continued expansion of operations in China.

### **Non-Operating Items**

Interest expense decreased during the first six months of fiscal 2006 as compared to the same period of fiscal 2006 due to scheduled debt payments in the fourth quarter of fiscal 2005. See *Financial Condition and Liquidity* for additional discussion of debt levels and payments.

The effective tax rate decreased 1% in the first six months of fiscal 2006 as compared to the comparable prior year period. This was primarily due to higher levels of income in certain foreign jurisdictions with lower statutory tax rates, primarily China.

## **CASH FLOWS**

The statements of cash flows reflect the changes in cash and cash equivalents for the six months ended July 31, 2005 and July 31, 2004 by classifying transactions into three major categories of activities: operating, investing and financing.

### **Operating**

Our main source of liquidity is cash generated from operating activities. This consists of net income adjusted for noncash operating items such as depreciation and amortization, losses and gains on disposition of assets, share-based compensation, deferred income taxes, and changes in operating assets and liabilities.

Net cash provided by operating activities from continuing operations was \$18.5 million in first six months of fiscal 2006 compared to \$17.9 million for the same period in fiscal 2005. The increase in fiscal 2006 was due to higher levels of net income, depreciation and amortization as well as increases in accounts receivables and inventories. These increases were partially offset by changes in other operating accounts, primarily accounts payable and accrued expenses.

### **Investing**



The principal recurring investing activities are capital expenditures. These expenditures are primarily for equipment and tooling related to product improvements, more efficient production methods, expansion of production capacity and replacement for normal wear and tear. Capital expenditures were \$5.3 million and \$6.6 million in the first six months of fiscal 2006 and 2005, respectively. We expect capital expenditures in the rest of fiscal 2006 to approximate depreciation expense, excluding expenditures related to our expansion plans in China. We plan to invest up to \$18 million related to the expansion of our Chinese operations in the next eighteen months. Depreciation expense for the first six months in fiscal 2006 and fiscal 2005 was \$7.4 million and \$6.8 million, respectively.

Marketable securities consist of auction rate securities issued by various state agencies throughout the United States and variable rate demand notes. We classify these securities as available-for-sale securities. These securities are either insured through third party agencies, reinsured through the U.S. federal government, or secured by a letter of credit from a bank. The specific identification method is used to determine the cost of securities sold. There were no realized or unrealized gains or losses related to our marketable securities during the first six months of fiscal 2006 and fiscal 2005. These securities are long-term instruments maturing through 2035; however, the interest rates and maturities are reset approximately every month, at which time we can sell the securities. Accordingly, we have classified these securities as current assets in our consolidated balance sheets.

### **Financing**

The issuance of common stock related to the exercise of stock options and stock appreciation rights generated \$1.8 million and \$1.1 million of cash for the first six months in fiscal 2006 and 2005, respectively.

We declared dividends totaling \$0.24 and \$0.22 per share during the first six months of fiscal 2006 and 2005, respectively.

## **FINANCIAL CONDITION AND LIQUIDITY**

Our working capital at July 31, 2005 was \$117.3 million as compared to \$94.2 million at January 31, 2005. Our current ratio at July 31, 2005 was 3.0 to 1 as compared to 2.5 to 1 at January 31, 2005.

Total outstanding debt, including notes payable to banks and capital leases, at July 31, 2005 was \$40.2 million in comparison with \$40.6 million at January 31, 2005. Our debt to equity ratio improved to 0.17 to 1 at July 31, 2005 from 0.19 to 1 at January 31, 2005. Our debt agreements contain covenants relating to net worth and leverage ratios. We were in compliance with these covenants at July 31, 2005. Borrowing arrangements currently in place with commercial banks provide lines of credit totaling \$25 million, of which \$2.3 million was used to issue letters of credit. The average interest rate on notes payable to banks was 2.1% at July 31, 2005 and 3.7% at January 31, 2005.

We believe that our cash and cash equivalents, existing credit facilities and cash flows from operations will be sufficient to satisfy our expected working capital, capital expenditure, acquisition and debt retirement requirements for the next twelve months.

## **OTHER MATTERS**

The U.S. dollar strengthened in the second quarter of fiscal 2006 in comparison to most foreign currencies used by our significant foreign operations. As a result, foreign currency translation adjustments decreased shareholders' equity by \$3.8 million in the second quarter of fiscal 2006. The primary currencies driving the decrease in shareholders' equity were the Euro and the British Pound. During the first six months of fiscal 2005, the U.S. dollar strengthened against most currencies, decreasing shareholders' equity by \$4.6 million from January 31, 2005 to July 31, 2005.

## **OFF BALANCE SHEET ARRANGEMENTS**

At July 31, 2005, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or for other contractually narrow or limited purposes. As such, we are not materially exposed to any financing, liquidity market or credit risk that could arise if we had engaged in such relationships.

## **RECENT ACCOUNTING PRONOUNCEMENTS**

In December 2004, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. 109-2 (FSP 109-2), Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004 (the Act). The Act introduced a special one-time dividends received deduction on the repatriation of certain foreign earnings to a U.S. taxpayer (Repatriation Provision), provided certain criteria are met. FSP 109-2 provides accounting and disclosure guidance for the Repatriation Provision. We have completed a preliminary assessment of the effects of repatriating a portion of our undistributed earnings of foreign subsidiaries. At the present time, we have no plans to repatriate any undistributed earnings under the Act through the remainder of fiscal 2006.

In November 2004, the FASB issued SFAS No. 151 (SFAS 151), *Inventory Costs*, an amendment of ARB No. 43, Chapter 4. This statement amends the guidance in ARB No. 43, Chapter 4, *Inventory Pricing*, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Paragraph 5 of ARB No. 43, Chapter 4, previously stated that .under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and re-handling costs may be so abnormal as to require treatment as current period charges. SFAS 151 requires that those items be recognized as current-period charges regardless of whether they meet the criterion of so abnormal. In addition, this statement requires that allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities. The provisions of SFAS 151 are to be applied prospectively and are effective for inventory costs incurred during the fiscal years beginning after June 15, 2005, with earlier application permitted for inventory costs incurred during the fiscal years beginning after the date the statement was issued. The adoption of SFAS 151 is not expected to have a material impact on our financial position and results of operations. We expect to adopt SFAS 151 on February 1, 2006.

In December 2004, the FASB issued SFAS No. 153 (SFAS 153), *Exchanges of Nonmonetary Assets*, an amendment of APB Opinion No. 29. The guidance in APB Opinion No. 29 (APB 29), *Accounting for Nonmonetary Transactions*, is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of assets exchanged. The guidance in that opinion, however, included certain exceptions to that principle. SFAS 153 amends

APB 29 to eliminate the exception for nonmonetary exchanges of similar productive assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for nonmonetary exchanges occurring in fiscal periods beginning after June 15, 2005. The adoption of SFAS 153 is not expected to have a material impact on our financial position and results of operations.

In June 2005, the FASB issued SFAS No. 154 (SFAS 154), Accounting Changes and Error Corrections. SFAS 154 changes the requirements for the accounting for and reporting of a change in accounting principle. This statement requires retrospective applications to prior periods financial statements of a voluntary change in accounting principle unless it is impracticable. In addition, this statement requires that a change in depreciation, amortization, or depletion for long-lived, non-financial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. This new accounting standard is effective February 1, 2006. The adoption of SFAS 154 is not expected to have a material impact on our financial statements.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the potential loss arising from adverse changes in market rates and prices, such as foreign currency exchange rate and interest rate fluctuations. A significant portion of our revenues and expenses are denominated in foreign currencies. As a result, our operating results could become subject to significant fluctuations based upon changes in the exchange rates of the foreign currencies in relation to the U.S. dollar. The table below illustrates the hypothetical increase in net sales for the second quarter of fiscal 2006 resulting from a 10% weaker U.S. dollar during the entire quarter, measured against foreign currencies that affect our operations (in millions):

Euro	\$	2.7
Canadian dollar		0.7
British pound		0.7
Other currencies with net sales less than 17% of consolidated net sales		1.3

We enter into foreign currency forward exchange contracts to offset the impact of currency fluctuations on certain nonfunctional currency assets and liabilities. The principal currencies hedged are denominated in Japanese yen, Canadian dollars, Euros and British pounds. Our foreign currency forward exchange contracts have terms lasting up to six months, but generally less than one month. We do not enter into derivatives or other financial instruments for trading or speculative purposes.

A majority of our products are manufactured using specialty steel as a primary raw material and specialty steel based components as purchased parts. As such, our cost of goods sold is sensitive to fluctuations in specialty steel prices, either directly through the purchase of specialty steel as raw material or indirectly through the purchase of specialty steel based components. Presuming that the full impact of specialty steel cost increases is reflected in all of our steel and steel based component purchases, we estimate our gross margin percentage sensitivity to be approximately 0.3% for each 1.0% increase in steel costs without offsetting sales price increases. For example, if the price of specialty steel increases 1.0%, and the full impact of that increase is reflected in all raw material and component purchases, the net decrease in the gross margin percentage would be approximately 0.3%. Based on our statement of income for the quarter ended July 31, 2005, a 1% increase in specialty steel costs without offsetting sales price increases would have decreased consolidated gross profit by approximately \$314,000.

To date we have been able to mitigate the effect of a portion of the specialty steel cost increases on our gross margins. This has been done through price increases and cost reductions. We have recently been notified of 16% price increase by our largest supplier of steel for certain products manufactured in North America and China which will become effective October 1, 2005. Assuming no recovery of this increase through price increases or other cost savings, we estimate this will negatively impact margins in the second half of the year by less than 1%. We

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intend to continue our efforts in the coming months to mitigate the full impact of any of these steel cost increases. It should be noted that there may be some time lag between the absorption of the specialty steel cost increases and realizing the offsetting benefits of the mitigating measures. It should also be noted that there is no assurance that we can fully mitigate all future steel cost increases through price increases and other measures. In addition, actual cost increases from steel suppliers could differ from cost increases that have been previously communicated to us.

Manufacturing of our products includes the purchase of various raw materials and components. Certain of these items are provided worldwide by a limited number of suppliers. We are not currently experiencing shortages in obtaining the raw materials and components. However, certain specialty steel products obtained in Europe are subject to allocations from suppliers. At this time we believe the current allocation of these products from suppliers is sufficient to meet planned production volumes. Nevertheless, there can be no assurance that these suppliers will be able to meet our future requirements. An extended

delay or interruption in the supply of any components could have a material adverse effect on the Company's business, results of operations and financial condition. We are working to identify alternative supplier sources for these products.

Substantially all of our debt at July 31, 2005 has a fixed interest rate. Any additional payments to prepay scheduled amounts of debt are subject to penalties. At July 31, 2005, the penalties to retire all of our long-term debt were \$1.0 million. A hypothetical immediate increase in market interest rates by 1% would decrease the fair value of our long-term debt outstanding at July 31, 2005 by \$482,000.

#### **Item 4. Controls and Procedures**

As of July 31, 2005, the end of the period covered by this report, the Company reviewed and evaluated, under the supervision and with the participation of management, including its Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) and 15d-15(e)) of the Securities and Exchange Act of 1934 (Exchange Act). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures are effective in ensuring that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There were no changes in the Company's internal controls over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

None

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. Submission of Matters to a Vote of Security Holders**

At our Annual Meeting of Shareholders, held June 7, 2005, the following matters were submitted to a vote of common shareholders:

Election of directors to terms expiring in 2008:

<b>Nominee</b>	<b>Votes For</b>	<b>Votes Withheld</b>
Robert C. Warren, Jr	10,994,513	470,444
Henry W. Wessinger II	10,945,363	519,594

The following individuals continue to serve as directors:

<b>Director</b>	<b>Term Expires</b>
Duane C. McDougall	2006
James S. Osterman	2006
Nicholas R. Lardy, Ph.D.	2007
Nancy A. Wilgenbusch, Ph.D.	2007

Company Proposal:

Proposal	Votes For	Votes Against	Abstentions and Broker Non-Votes
Approval of the Amendment of the Cascade Corporation Stock Appreciation Rights Plan	9,380,190	949,015	1,898,878

**Item 5. Other Information**

None

**Item 6. Exhibits**

- 31.1 Certification of Chief Executive Officer of Cascade Corporation.
- 31.2 Certification of Chief Financial Officer of Cascade Corporation.
- 32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350.



**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CASCADE CORPORATION

September 9, 2005

/s/ Richard S. Anderson

Richard S. Anderson  
*Senior Vice President and  
Chief Financial Officer  
(Principal Financial and Accounting Officer)*