IMPERIAL CAPITAL BANCORP, INC.
Form DEF 14A
July 01, 2008

Table of Contents

**SCHEDULE 14A INFORMATION**
**(Rule 14a-101)**
**PROXY STATEMENT PURSUANT TO SECTION 14(a) OF**
**THE SECURITIES EXCHANGE ACT OF 1934 (Amendment No. )**

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:
o Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to sec. 240.14a-11(c) or sec. 240.14a-12

**Imperial Capital Bancorp, Inc.**

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):
þ No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

o Fee paid previously with preliminary materials.
o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

---

**Table of Contents**

**IMPERIAL CAPITAL BANCORP, INC.**
**888 Prospect Street, Suite 110**
**La Jolla, California 92037**
**(858) 551-0511**

July 1, 2008

Dear Fellow Shareholder:

On behalf of the Board of Directors and management of Imperial Capital Bancorp, Inc., we cordially invite you to attend our Annual Meeting of Shareholders. The meeting will be held at 2:00 p.m., California time, on August 6, 2008 at the Loews Coronado Bay Resort, located at 4000 Coronado Bay Road, Coronado, California.

An important aspect of the meeting is the shareholder vote on corporate business items. I urge you to exercise your rights as a shareholder to vote and participate in this process. Shareholders are being asked to consider and vote upon (i) the election of two directors of the Company and (ii) the ratification of the appointment of Ernst & Young LLP as our independent auditors for the year ending December 31, 2008. Your Board of Directors unanimously recommends that you vote FOR the Board s nominees for election as directors and FOR the ratification of the appointment of Ernst & Young LLP.

We encourage you to attend the meeting in person. Whether or not you plan to attend, however, please read the enclosed proxy statement and then complete, sign and date the enclosed proxy and return it in the accompanying postpaid return envelope as promptly as possible. If your shares are held in street name with a bank or broker, check your proxy card to see if you can also vote by telephone or the internet. Voting as early as possible will save us the additional expense of soliciting proxies and will ensure that your shares are represented at the meeting.

Thank you for your attention to this important matter.

Very truly yours,

George W. Haligowski
*Chairman of the Board, President and*
*Chief Executive Officer*

---

**TABLE OF CONTENTS**

PROXY STATEMENT
ANNUAL MEETING OF SHAREHOLDERS
VOTING RIGHTS AND PROXY INFORMATION
BENEFICIAL STOCK OWNERSHIP OF GREATER THAN 5% SHAREHOLDERS AND MANAGEMENT
PROPOSAL I -- ELECTION OF DIRECTORS
INFORMATION AS TO NOMINEES AND CONTINUING DIRECTORS
INFORMATION AS TO EXECUTIVE OFFICERS WHO ARE NOT ALSO DIRECTORS
BOARD MEETINGS, BOARD COMMITTEES AND CORPORATE GOVERNANCE MATTERS
AUDIT COMMITTEE REPORT
RELATIONSHIP WITH INDEPENDENT AUDITORS
DIRECTOR COMPENSATION
EXECUTIVE COMPENSATION Compensation Discussion and Analysis
Additional Information Regarding Executive Compensation
TRANSACTIONS WITH CERTAIN RELATED PERSONS
SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE
PROPOSAL II -- RATIFICATION OF THE APPOINTMENT OF INDEPENDENT AUDITORS
SHAREHOLDER PROPOSALS
OTHER MATTERS

Table of Contents

**IMPERIAL CAPITAL BANCORP, INC.**
**888 Prospect Street, Suite 110**
**La Jolla, California 92037**
**(858) 551-0511**

## NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
**To Be Held on August 6, 2008**

Notice is hereby given that the Annual Meeting of Shareholders (the Meeting ) of Imperial Capital Bancorp, Inc. ( ICB ) will be held at the Loews Coronado Bay Resort, located at 4000 Coronado Bay Road, Coronado, California, on August 6, 2008 at 2:00 p.m., California time.

A Proxy Card and a Proxy Statement for the Meeting are enclosed.

The Meeting is for the purpose of considering and acting upon:

1. The election of two (2) directors of ICB;
2. The ratification of the appointment of Ernst & Young LLP as independent auditors for ICB for the year ending December 31, 2008; and

such other matters as may properly come before the Meeting, or any adjournments or postponements thereof. The Board of Directors is not aware of any other business to come before the Meeting.

Any action may be taken on the foregoing proposals at the Meeting on the date specified above, or on any date or dates to which the Meeting may be adjourned or postponed. Shareholders of record at the close of business on June 20, 2008 are the shareholders entitled to vote at the Meeting and any adjournments or postponements thereof. A complete list of shareholders entitled to vote at the Meeting will be available for inspection by shareholders at the main office of ICB during the ten days prior to the Meeting, as well as at the Meeting.

You are requested to complete, sign and date the enclosed form of proxy, which is solicited on behalf of the Board of Directors, and to mail it promptly in the enclosed envelope. If your shares are held in street name with a bank or broker, check your proxy card to see if you can also vote by telephone or the internet. The proxy will not be used if you attend and vote at the Meeting in person.

By Order of the Board of Directors

George W. Haligowski
*Chairman of the Board, President and*
*Chief Executive Officer*

La Jolla, California
July 1, 2008

**IMPORTANT: THE PROMPT RETURN OF PROXIES WILL SAVE ICB THE EXPENSE OF FURTHER REQUESTS FOR PROXIES TO ENSURE A QUORUM AT THE MEETING. A SELF-ADDRESSED ENVELOPE IS ENCLOSED FOR YOUR CONVENIENCE. NO POSTAGE IS REQUIRED IF MAILED WITHIN THE UNITED STATES.**

---

Table of Contents

**IMPERIAL CAPITAL BANCORP, INC.**
**888 Prospect Street, Suite 110**
**La Jolla, California 92037**
**(858) 551-0511**

## PROXY STATEMENT

## ANNUAL MEETING OF SHAREHOLDERS
**To Be Held August 6, 2008**

This Proxy Statement is furnished in connection with the solicitation, on behalf of the Board of Directors of Imperial Capital Bancorp, Inc. ( we, our, us, ICB or the Company ), of proxies to be used at the Annual Meeting of Shareh of ICB (the Meeting ), and all adjournments or postponements of the Meeting. The Meeting will be held at the Loews Coronado Bay Resort, located at 4000 Coronado Bay Road, Coronado, California, on August 6, 2008 at 2:00 p.m., California time. The accompanying Notice of Annual Meeting of Shareholders and form of proxy and this Proxy Statement are first being mailed to shareholders on or about July 1, 2008. Certain of the information provided herein relates to Imperial Capital Bank, a wholly owned subsidiary of ICB (sometimes referred to below as the Bank ).

At the Meeting, our shareholders are being asked to consider and vote upon: (i) the election of two directors of ICB and (ii) the ratification of the appointment of Ernst & Young LLP as our independent auditors for the year ending December 31, 2008.

## VOTING RIGHTS AND PROXY INFORMATION

All shares of our common stock, par value $.01 per share ( Common Stock ), represented at the Meeting by properly executed proxies received prior to or at the Meeting and not revoked will be voted at the Meeting in accordance with the instructions thereon. If no instructions are indicated, properly executed proxies will be voted FOR the election of the nominees named in this Proxy Statement and FOR the ratification of the appointment of Ernst & Young LLP. We do not know of any matters, other than as described in the Notice of Annual Meeting of Shareholders, that are to come before the Meeting. If any other matters are properly presented at the Meeting for action, our Board of Directors, as proxy for the shareholder, will have the discretion to vote on such matters in accordance with its best judgment.

Directors will be elected by a plurality of the votes cast. The ratification of the appointment of Ernst & Young LLP as our independent auditors requires the affirmative vote of a majority of the votes cast on the matter. In the election of directors, shareholders may vote FOR both nominees for election or withhold their votes from either or both nominees for election. Votes that are withheld and shares held by a broker, as nominee, that are not voted (so-called broker non-votes ) in the election of directors will not be included in determining the number of votes cast. For the proposal to

ratify the appointment of the independent auditors, shareholders may vote FOR, AGAINST or ABSTAIN with respect to this proposal. Proxies marked to abstain will have the same effect as votes against this proposal and broker non-votes will have no effect on this proposal. The holders of at least one-third of the outstanding shares of our Common Stock, present in person or represented by proxy, will constitute a quorum for purposes of the Meeting. Proxies marked to abstain and broker non-votes will be counted for purposes of determining a quorum.

A proxy given pursuant to this solicitation may be revoked at any time before it is voted. Proxies may be revoked by: (i) duly executing and delivering to the Secretary of ICB a subsequent proxy relating to the same shares prior to the exercise of such proxy; (ii) filing with the Secretary of ICB at or before the Meeting a written notice of revocation bearing a later date than the proxy; or (iii) attending the Meeting and voting in person (although attendance at the Meeting will not in and of itself constitute revocation of a proxy). Any written notice revoking a proxy should be delivered to Anthony A. Rusnak, Esq., General Counsel and Secretary of ICB, at Imperial Capital Bancorp, Inc., 888 Prospect Street, Suite 110, La Jolla, California 92037.

Shareholders of record as of the close of business on June 20, 2008 will be entitled to one vote for each share then held, provided, however, that pursuant to Section C of Article Fourth of ICB s certificate of incorporation, no

**Table of Contents**

person who beneficially owns more than 10% of the shares of Common Stock outstanding as of that date may vote any shares owned in excess of that limit. As of that date, we had 5,428,760 shares of Common Stock outstanding.

## BENEFICIAL STOCK OWNERSHIP OF GREATER THAN 5% SHAREHOLDERS AND MANAGEMENT

The following table sets forth, as of June 20, 2008, certain information as to (i) those persons who were believed by our management to be beneficial owners of more than five percent of our Common Stock outstanding; (ii) the shares of our Common Stock beneficially owned by our executive officers named below; and (iii) the shares of Common Stock beneficially owned by all of our executive officers and directors as a group. For information regarding share ownership by directors individually, see Proposal I Election of Directors. The address of each executive officer named in the table is the same address as ICB. An asterisk (*) denotes beneficial ownership of less than one percent.

| Beneficial Owner | Shares Beneficially Owned | Percent of Class |
|---|---|---|
| Fidelity Management & Research Company<br>FMR Co., Inc.<br>82 Devonshire Street<br>Boston, MA 02109 | 538,000(1) | 9.91% |
| Thomson Horstmann & Bryant, Inc.<br>Park 80 West, Plaza One<br>Saddle Brook, NJ 07663 | 478,209(2) | 8.81% |
| Dimensional Fund Advisors, LP<br>1299 Ocean Avenue, 11th Floor<br>Santa Monica, CA 90401 | 449,658(3) | 8.28% |
| Franklin Mutual Advisers, LLC<br>51 John F. Kennedy Parkway<br>Short Hills, NJ 07078 | 445,796(4) | 8.21% |
| George W. Haligowski<br>Chairman of the Board,<br>President and Chief Executive Officer | 409,408(5)(6)(7) | 7.40% |
| Barclays Global Advisors, NA, et. al.<br>45 Fremont Street<br>San Francisco, CA 94105 | 321,121(8) | 5.92% |
| Wellington Management Company, LLP<br>Park 80 West, Plaza One<br>Saddle Brook, NJ 07663 | 313,130(9) | 5.77% |
| Norval L. Bruce<br>Vice Chairman of the Board | 64,815(5)(6)(7) | 1.19% |
| Timothy M. Doyle<br>Executive Managing Director and Chief Financial Officer | 99,930(5)(6)(7) | 1.82% |
| Lyle C. Lodwick<br>Executive Managing Director and Chief Operating Officer | 64,209(5)(6)(7) | 1.17% |
| Phillip E. Lombardi<br>Executive Managing Director and Chief Credit Officer | 42,217(5)(6)(7) | 0.77% |
| All directors and executive officers as a group (nine persons) | 723,079 | 12.63% |

(1) Based on information reported in a Form 13F for the quarter ended March 31, 2008 filed with the Securities and Exchange Commission by FMR, LLC.

(2) As reported by Thomson Horstmann & Bryant, Inc., ( Thomson ) on a Schedule 13G amendment filed on February 6, 2008 with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. Thomson reported sole voting power as to 259,006 shares, sole dispositive power as to all of the 478,209 shares, and shared voting and dispositive power as to none of the 478,209 shares covered by the report.

(3) As reported by Dimensional Fund Advisors, LP ( Dimensional ) on a Schedule 13G amendment filed on February 6, 2008 with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. Dimensional reported sole voting and dispositive powers as to all of the 449,658 shares, and shared voting and dispositive powers as to none of the 449,658 shares covered by the report.

(4) As reported by Franklin Mutual Advisers, LLC ( Franklin ) on a Schedule 13G amendment filed on February 11, 2005 with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. Franklin reported sole voting and dispositive powers as to all of the 445,796 shares, and shared voting and dispositive powers as to none of the 445,796 shares covered by the report.

(5) Includes shares held directly, as well as shares held in retirement accounts or by certain members of the named individual s families or corporations for which an individual is an officer or director or held by trust of which an individual is trustee or a substantial beneficiary, over which shares the individual may be deemed to have sole or shared voting and/or dispositive power.

(6) Includes shares underlying exercisable options and options exercisable within 60 days of June 20, 2008, as follows: Chairman Haligowski 105,833 shares; Vice Chairman Bruce 23,333 shares; Timothy M. Doyle 63,333 shares; Lyle C. Lodwick 50,833 shares; Phillip E. Lombardi 33,333 shares; and all directors and executive officers as a group 296,665 shares.

(7) Includes vested supplemental executive retirement plan ( SERP ) account shares held in the Rabbi Trust we established, as follows: Chairman Haligowski 169,059 shares; Vice Chairman Bruce 39,209 shares; Timothy M. Doyle 32,711 shares; Lyle C. Lodwick 3,376 shares; Phillip E. Lombardi 2,884 shares; and all directors and executive officers as a group 247,239. Also includes shares held in deferred compensation plan accounts in the Rabbi Trust as follows: Mr. Haligowski 134,216 shares; Mr. Bruce 2,073 shares; Mr. Doyle 3,886 shares; and all directors and executive officers as a group 140,175 shares.

(8) As reported by Barclays Global Investors, NA., Barclays Global Fund Advisors, Barclays Global Investors, Ltd., Barclays Global Investors Japan Trust and Banking Company Limited and Barclays Global Investors Japan Limited on a Schedule 13G filed on February 5, 2008 with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. With respect to the 321,121 shares listed, Barclays Global Investors, NA., reported sole voting power as to 186,939 shares, sole dispositive power as to 230,516 shares and shared voting and dispositive powers as to none of such shares, and Barclays Global Fund Advisors reported sole voting and dispositive powers as to 90,605 shares, and shared voting and dispositive powers as to none of such shares.

(9) As reported by Wellington Management Company, LLP ( WMC ) on a Schedule 13G amendment filed on February 14, 2008 with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. WMC reported sole voting and dispositive powers as to none of the 313,130 shares, shared voting power as to 217,100 shares, and shared dispositive power as to all of the 313,130 shares covered by the report.

## PROPOSAL I ELECTION OF DIRECTORS

Our Board of Directors is currently comprised of six members. One-third of our directors are elected annually. Our directors are generally elected to serve for three-year terms or until their respective successors have been elected and qualified.

## INFORMATION AS TO NOMINEES AND CONTINUING DIRECTORS

The table below sets forth certain information regarding the composition of our Board of Directors, including the directors terms of office. It is intended that the proxies solicited on behalf of our Board of Directors (other than proxies in which the vote is withheld as to the nominee) will be voted at the Meeting for the election of the nominees identified below. If any nominee is unable to serve, the shares represented by all such proxies will be voted for the election of such substitute as our Board of Directors may recommend, based on the recommendation to the Board by the Corporate Governance/Nominating Committee of the Board. At this time, our Board of Directors knows of no reasons why the nominees might be unable to serve, if elected. There are no arrangements or understandings between any nominee and any other person pursuant to which the nominee was selected. An asterisk (*) denotes beneficial ownership of less than one percent. **Our Board of Directors unanimously recommends that shareholders vote FOR the nominees named below for election as directors.**

| Name | Age(1) | Positions Held In ICB | Director Since | Term to Expire | Shares of Common Stock Beneficially Owned at June 20, 2008(2) | Percent of Class |
|---|---|---|---|---|---|---|
| **Nominees** | | | | | | |
| George W. Haligowski | 53 | Chairman of the Board, President and Chief Executive Officer | 1996 | 2011 | 409,408 | 7.40% |
| Hirotaka Oribe | 73 | Director | 1996 | 2011 | 7,600 | * |
| **Directors Continuing in Office** | | | | | | |
| Norval L. Bruce | 66 | Vice Chairman of the Board | 1997 | 2009 | 64,815 | 1.19% |
| Jeffrey L. Lipscomb | 54 | Director | 1996 | 2009 | 8,600 | * |
| Sandor X. Mayuga | 60 | Director | 1996 | 2010 | 16,300 | * |
| Robert R. Reed | 71 | Director | 1996 | 2010 | 10,000 | * |

(1) As of June 20, 2008.

(2) Includes shares held directly, as well as shares which are subject to immediately exercisable options and options exercisable within 60 days of June 20, 2008, under our stock option plans, shares held under SERP and deferred compensation plan accounts held in the Rabbi Trust, and shares held in other retirement accounts or by certain members of the named individual s families or corporations for which an individual is an officer or director or held by trust of which an individual is trustee or a substantial beneficiary, over which shares the individual may be deemed to have sole or shared voting and/or dispositive power. The above named individuals held exercisable options and options exercisable within 60 days of June 20, 2008 as follows: Chairman Haligowski 105,833 shares; Director Oribe 5,500 shares; Vice Chairman Bruce 23,333 shares; Director Lipscomb 4,500 shares; Director Mayuga 5,500 shares; and Director Reed 4,500 shares.

The business experience of each of our directors for at least the past five years is as follows:

*George W. Haligowski* has served as ICB s Chairman of the Board, President and Chief Executive Officer since inception. He has also served as the Bank s Chairman of the Board and Chief Executive Officer since 1992, and was the Bank s President from 1992 to 1997. In 2000 he was again appointed as President of the Bank. From 1990 to 1992, he served as President, Chief Executive Officer and Principal of Halivest International, Ltd., an international finance and asset management company. He was previously employed as a Vice President by Shearson Lehman Hutton (1988 to 1990) and Prudential-Bache Securities (1983 to 1988), and by Avco Financial Services as Regional Director of its Japanese branch operations (1976 to 1981), as Training Coordinator for Avco Thrift and Loan (1976) and as a Branch Manager (1974 to 1976). Mr. Haligowski s post secondary education consists of the following programs: He graduated from the Securities Industry Institute held at the University of Pennsylvania Wharton School. He also became an alumnus of the Harvard Business School by completing the Owners Presidents Management Program. He completed the Advanced Management Program at the University of Southern California. He received his Masters of Banking diploma from L.S.U. Graduate School of Banking. Mr. Haligowski also serves on several boards, including Operation Hope, and is Chairman of the University of California San Diego Scripps Institute of Oceanography s Advisory Board,

the Director s Cabinet and is a member of the Boards of Trustees for the University of California San Diego Foundation. In addition, Mr. Haligowski is the Chairman Emeritus of the Young Presidents Organization of San Diego.

*Hirotaka Oribe* is a licensed architect with international experience in real estate development and urban planning. Since 1993, Mr. Oribe has served as an advisor to Kajima Development Resources, Inc. From 1979 to 1993, Mr. Oribe was Executive Vice President, Chief Operating Officer and a Director of Kajima Development Corporation, a firm engaged in development and construction of single-family and multi-family housing, office buildings, retail space and land development. Mr. Oribe previously held other positions with affiliates of Kajima Corporation of Japan from 1973 to 1979 and was a practicing architect from 1962 to 1973. Mr. Oribe holds a Bachelor and Masters of Engineering from Waseda University in Tokyo, and holds a Master of Architecture in Urban Design from Harvard University s Graduate School of Design. He is also a licensed architect with the State of California and the Commonwealth of Massachusetts.

Table of Contents

*Norval L. Bruce* has served as the Vice Chairman of the Board of ICB and the Bank since June of 1999. He was also Chief Credit Officer from June 1999 through August 2007 and prior to that he was President and Chief Operating Officer of the Bank from October 1997 to June 1999, and previously was the Executive Vice President and Chief Credit Officer of the Bank from 1990 to October 1997. Mr. Bruce was appointed a director of the Bank and ICB in 1997. From 1988 to 1989, he served as Executive Vice President and Chief Credit Officer of Security Pacific Bank, Nevada. He was previously employed by Security Pacific Bank from 1965 to 1988 in a variety of positions including management positions in which he was responsible for both loan origination and credit quality. Mr. Bruce has an Associates of Arts degree from Clark College of Vancouver Washington, and attended the University of Washington where he studied economics and engineering. He is a graduate of the Southwestern Graduate School of Banking at Southern Methodist University and he has completed the Executive Program in Management from the John E. Anderson Graduate School of Management at UCLA.

*Jeffrey L. Lipscomb* is a Chartered Financial Consultant (ChFC), and an Investment Advisory Associate with AXA Advisors and formerly was a Registered Principal and Assistant Manager of the San Diego office of Equitable Financial Companies since 1986, handling corporate group benefits and personal financial planning. Additionally, he is an Executive Vice-President of Excelsior Financial Network, LLC, a wealth planning management group. Mr. Lipscomb was also with Kidder Peabody from 1983 to 1986. Mr. Lipscomb received a Bachelor of Arts Degree in General Psychology from the University of California, Santa Barbara in 1976.

*Sandor X. Mayuga* is a member of the California State Bar and has been Of Counsel to the law firm of Keesal, Young & Logan since 2004. Prior to that, he was a member of the law firm of Tisdale & Nicholson, LLP since 1994. He conducted his own law practice from 1983 to 1994 and was a partner in the Financial Institutions Department of Finley, Kumble, Wagner, Heine, Underberg, Manly & Casey, a New York-based national law firm, from 1980 to 1983. Previously, he served as Assistant General Counsel of Hunt-Wesson Foods, Inc., a subsidiary of Norton Simon, Inc., and was associated with two large regional law firms in Los Angeles County. Since 1980, Mr. Mayuga s practice has focused on the representation of financial institutions and other finance-related businesses in corporate, transactional and regulatory matters. Mr. Mayuga is a graduate of the University of Pennsylvania School of Law (Juris Doctoris, 1974), and the University of California, Santa Barbara (A.B., Political Science, with High Honors, 1970). While at the University of Pennsylvania, he also studied at The Wharton School of Finance and Commerce. He also earned a Certificate in Private International Law at Academie du Droit Internationale de la Haye (1975).

*Robert R. Reed* is retired from Household International where he was employed in various positions from 1960 to 1992. Mr. Reed served as Vice President of Household Bank from 1980 to 1992. Mr. Reed was previously employed in management positions with Household Financial Corporation from 1962 to 1980. From 1995 to 2000, Mr. Reed served as a director of the Santa Ana City Cable Television Review Board.

## INFORMATION AS TO EXECUTIVE OFFICERS WHO ARE NOT ALSO DIRECTORS

Our executive officers who are not also directors are identified below.

| Name | Age | Position |
|---|---|---|
| Timothy M. Doyle | 52 | Executive Managing Director and Chief Financial Officer of ICB and the Bank |
| Lyle C. Lodwick | 54 | Executive Managing Director and Chief Operating Officer of ICB and the Bank |
| Phillip E. Lombardi | 51 | |

Executive Managing Director and Chief Credit Officer of ICB and the Bank

*Timothy M. Doyle* has served as Executive Managing Director and Chief Financial Officer of ICB and the Bank since August 2005. He was previously Senior Managing Director and Chief Financial Officer of ICB and the Bank from May 2000 to August 2005, and prior to that he was Managing Director and Chief Administrative Officer of ICB and the Bank from May 1996 to May 2000. Before joining the Bank, he was the Controller and Director of Operations at Northeastern Plastics from 1995 to 1996; Assistant Controller of Alpha Wire Corporation from 1992 to 1994; and Vice President and Chief Financial Officer of Halivest International, Ltd. from 1989 to 1991. From 1982 to 1988, he was the Corporate Controller of the Shepaug Corporation. Mr. Doyle graduated with a Bachelor of

**Table of Contents**

Science degree in Accounting from Western New England College, and has completed the International Business Management Senior Executive Program of the London Business School.

*Lyle C. Lodwick* has served as Executive Managing Director and Chief Operating Officer of ICB and the Bank since August 2005. Prior to joining ICB, Mr. Lodwick served as Executive Vice President and Chief Operating Officer of Sunwest Bank and, prior to that, he served as Executive Vice President and Chief Credit Officer at Pacific Crest Capital, Inc. During his tenure at Pacific Crest Capital, Inc. from 1992 to 2004, he held several senior level positions with the company. From 1982 to 1985, he was Assistant Regional Credit Manager, Western Region, with Commercial Credit Corporation. Mr. Lodwick has a BA from Whittier College and an MBA from the University of LaVerne.

*Phillip E. Lombardi* has served as Executive Managing Director and Chief Credit Officer of ICB and the Bank since August 2005. Prior to joining ICB, he was Vice President and Manager of the Los Angeles Real Estate Industries lending division of Bank of the West (formerly Sanwa Bank of California) from 2001 to 2004. He was previously Vice President and Relationship Manager for Citicorp Real Estate, Inc. and the Commercial Asset Management unit of Citibank, F.S.B. from 1985 through 2000; and Construction Superintendent and later Marketing Director for 666 Venture, Inc. from 1981 to 1985. Mr. Lombardi has an MBA from the University of Chicago with a Specialization in Finance, and a BA from the University of Puget Sound.

## BOARD MEETINGS, BOARD COMMITTEES AND CORPORATE GOVERNANCE MATTERS

Our Board of Directors generally meets every other month and may have additional special meetings from time to time. During the year ended December 31, 2007, our Board of Directors met seven times. No current director attended fewer than 75% of the aggregate of (i) the total number of Board meetings held during the period for which he was a director and (ii) the total number of meetings held by all committees of the Board on which he served during the periods that he served. In addition, all of our Board members are expected to attend our annual meeting of shareholders, although we do not have any written policy as to Board members attendance at the annual meeting of shareholders. Last year s annual meeting of shareholders was attended by the entire Board of Directors.

### Director Independence

Our Board of Directors has affirmatively determined that the following directors, representing a majority of the Board, are independent for purposes of Section 303A of the Listed Company Manual of the New York Stock Exchange (the NYSE Manual ): Jeffrey L. Lipscomb, Sandor X. Mayuga, Hirotaka Oribe and Robert R. Reed.

To assist it in making its independence determinations under Section 303A of the NYSE Manual, our Board of Directors has adopted the categorical standards described below, which are set forth in our corporate governance guidelines (see Availability of Committee Charters, Code of Business Conduct and Ethics and Corporate Governance Guidelines below). Any of the following relationships will be deemed not to be material and therefore will not impair a director s independence under Section 303A of the NYSE Manual, unless our Board of Directors determines otherwise:

1. Lending relationships, deposit relationships, other customer relationships (such as, for example, custodial, cash management and similar services), and other business relationships between ICB and its subsidiaries, on the one hand, and a director, an immediate family member of the director, or an entity with which the director or immediate family member is affiliated by reason of being a director, officer or similar position or an owner of a 10% or greater equity interest therein (a Director-Related Entity ), on the other hand, that meet the following criteria:

i. such relationship is in the ordinary course of business of ICB and its subsidiaries, and is at arms-length and on substantially the same terms as those prevailing at the time for comparable transactions with non-affiliated persons;

ii. with respect to an extension of credit by a subsidiary of ICB: (A) such extension of credit has been made in compliance with applicable laws and regulations, including Regulation O of the Board of Governors of the Federal Reserve System and Section 13(k) of the Securities Exchange Act of 1934, as amended (the Exchange Act ); and (B) such credit has not been criticized or classified (under our

**Table of Contents**

internal loan grading system), placed on non-accrual status, is not past due, has not been restructured or is not otherwise a potential problem credit;

iii. in the event that the relationship did not exist or was terminated in the normal course of business, that action would not reasonably be expected to have a material and adverse effect on our consolidated financial condition, earnings or business, a Director-Related Entity or a director; and

iv. in the case of a director who is an executive officer or an employee, or whose immediate family member is an executive officer, of a company that makes payments to, or receives payments from, ICB for property or services in an amount which, in any single fiscal year during the last three years, does not exceed the greater of $1 million, or 2% of such other company s consolidated gross revenues.

2. In the case of contributions by ICB or any of its subsidiaries to a charitable organization of which a director (or a director s immediate family member) serves as an officer, director or trustee, the annual amount of such contributions were less than the greater of $1 million or 2% of such charitable organization s gross revenues for its last fiscal year.

For business or other relationships not covered by the above categories, our Board of Directors, after considering all of the relevant circumstances, may make a determination as to whether the relationship is not material and whether the director may therefore be considered independent under Section 303A of the NYSE Manual.

In making its independence determination as to Director Mayuga, the Board considered our relationship with Director Mayuga as disclosed under Transactions with Certain Related Persons and determined that this relationship satisfied the categorical standards outlined above.

**Board Committees**

The principal standing committees of our Board of Directors are described below.

*Audit Committee.* The Audit Committee is currently comprised of Messrs. Reed (Chairman), Lipscomb and Oribe, each of whom is independent both for purposes of Section 303A of the NYSE Manual and for purposes of the additional independence requirements for Audit Committee members set forth in Rule 10A-3 under the Exchange Act. Our Board of Directors has determined that Mr. Reed is an audit committee financial expert (as defined in Item 407(d)(5) of Regulation S-K of the Securities and Exchange Commission).

The Audit Committee met seven times during 2007. The Audit Committee assists our Board in its oversight responsibility relating to the integrity of our financial statements and the financial reporting process, the systems of internal accounting and financial controls and compliance with legal and regulatory requirements. The Audit Committee, among other things:

- oversees the entire audit function for ICB, both internal and independent;
- hires, terminates and/or reappoints our independent auditors;
- ensures the existence of effective accounting and internal control systems;
- approves non-audit and audit services to be performed by the independent auditors; and
- reviews and assesses the adequacy of the Audit Committee charter on an annual basis.

The report of the Audit Committee is set forth below under Audit Committee Report.

*Compensation Committee.* The Compensation Committee currently consists of Messrs. Lipscomb, Mayuga and Oribe, each of whom is independent for purposes of Section 303A of the NYSE Manual. The Compensation Committee met one time during 2007. The responsibilities of the Compensation Committee include:

- reviewing from time to time our compensation plans and, if the committee believes it to be appropriate, recommending that the Board amend these plans or adopt new plans;

- annually reviewing and approving corporate goals and objectives relevant to our Chief Executive Officer s compensation, evaluating the Chief Executive Officer s performance in light of these goals and objectives and recommending to the Board the Chief Executive Officer s compensation level based on this evaluation;

overseeing the evaluation of our management, and recommending to the Board the compensation for our executive officers and other key members of management. This includes evaluating performance and recommending to the Board specific awards for executive officers;

recommending to the Board the appropriate level of compensation and the appropriate mix of cash and equity compensation for directors;

administering any benefit plan which the Board has determined should be administered by the committee; and

reviewing, monitoring and reporting to the Board, at least annually, on management development efforts to ensure a pool of candidates for adequate and orderly management succession.

The Compensation Committee s charter authorizes the committee to delegate its authority to subcommittees to the extent permitted by applicable laws, regulations and exchange listing standards. The Compensation Committee s charter also authorizes the committee to retain a compensation consultant to assist the committee in carrying out its responsibilities. As described under Executive Compensation Compensation Discussion and Analysis-Determination of Appropriate Pay Levels-In General, the Committee has utilized the assistance of a compensation consultant in setting the compensation of Mr. Haligowski, our Chief Executive Officer. Mr. Haligowski s role in the determination of executive compensation is described under Executive Compensation Compensation Discussion and Analysis-Role of Executive Officers in Determining Compensation.

The report of the Compensation Committee is set forth below under Executive Compensation Compensation Committee Report.

*Corporate Governance/Nominating Committee.* The Corporate Governance/Nominating Committee is comprised of Directors Mayuga (Chairman), Reed, Oribe and Lipscomb, each of whom is independent for purposes of Section 303A of the NYSE Manual. The Corporate Governance/Nominating Committee met two times during 2007.

The responsibilities of the Corporate Governance/Nominating Committee include:

develop and recommend to the Board a set of corporate governance guidelines, review these guidelines at least annually and recommend changes as necessary;

recommend to the Board the appropriate size of the Board and assist in identifying, interviewing and recruiting candidates for the Board;

recommend candidates (including incumbents) for election and appointment to the Board of Directors, subject to the provisions set forth in our certificate of incorporation and bylaws relating to the nomination or appointment of directors, based on the following criteria: business experience, education, integrity and reputation, independence, conflicts of interest, diversity, age, number of other directorships and commitments (including charitable organizations), tenure on the Board, attendance at Board and committee meetings, stock ownership, specialized knowledge (such as an understanding of banking, accounting, marketing, finance, regulation and public policy) and a commitment to ICB s communities and shared values, as well as overall experience in the context of the needs of the Board as a whole. Final approval of director nominees is determined by the full Board, based on the recommendations of the Corporate Governance/Nominating Committee. The nominees for election at the Meeting identified in this Proxy Statement were recommended to the Board by the Corporate Governance/Nominating Committee;

review nominations submitted by shareholders, which have been addressed to the Corporate Secretary, and which comply with the requirements of our certificate of incorporation and bylaws. Nominations from shareholders will be considered and evaluated using the same criteria as all other nominations;

annually recommend to the Board committee assignments and committee chairs on all committees of the Board, and recommend committee members to fill vacancies on committees as necessary;

recommend to the Board a process for the evaluation of the Board, its committees and management, and oversee this process; and

perform any other duties or responsibilities expressly delegated to the Committee by the Board.

Director nominations must be made pursuant to timely notice in writing to the Corporate Secretary as set forth in Article II, Section 6(c) of our bylaws. Shareholders may recommend candidates for consideration by the Corporate Governance/Nominating Committee by following the procedures set forth in Article II, Section 6(c). As noted above, shareholder-recommended candidates will be considered and evaluated using the same criteria set forth above.

Article II, Section 6(c) of our bylaws provides that nominations for election as directors by shareholders must be made in writing and delivered to the Secretary of ICB at least 90 days prior to the annual meeting date. If, however, the date of the meeting is first publicly disclosed less than 100 days prior to the date of the meeting, nominations must be received by ICB not later than the close of business on the tenth day following the earlier of the day on which notice of the date of the meeting was mailed to shareholders or the day on which public disclosure of the date of the meeting was first made. In addition to meeting the applicable deadline, nominations must be accompanied by certain information specified in Article II, Section 6(c) of our bylaws. This information includes the following:

(i) as to each person whom a shareholder proposes to nominate for election as a director, all information relating to the proposed nominee that is required to be disclosed in the solicitation of proxies for election as directors or is otherwise required pursuant to Regulation 14A under the Exchange Act, including the proposed nominee s written consent to serve as a director, if elected; and

(ii) as to the shareholder giving the notice:

- the name and address, as they appear on our books, of the shareholder; and
- the number of shares of our Common Stock beneficially owned by the shareholder.

The foregoing description is a summary of our nominating process. Any shareholder wishing to nominate a candidate or recommend a nominee to our Corporate Governance/Nominating Committee for its consideration should review and must comply in full with the procedures set forth in our certificate of incorporation and bylaws, and Delaware law.

*Executive Committee.* The primary responsibilities of the Executive Committee are to advise our management on matters when the full Board of Directors is unavailable or to conduct business as specifically designated by the full Board. The current members of the Executive Committee are Messrs. Haligowski, Oribe and Bruce. The Executive Committee held eight meetings in 2007.

**Availability of Committee Charters, Code of Business Conduct and Ethics and Corporate Governance Guidelines**

Each of the Audit, Compensation and Corporate Governance/Nominating Committees operates under a written charter approved by our Board of Directors. Our Board of Directors has also adopted a Code of Business Conduct and Ethics, which applies to all directors and employees of ICB and its subsidiaries, and corporate governance guidelines, which are primarily intended to provide guidelines for the governance of the Board and the Board s committees. These documents are available on our website, www.icbancorp.com, by clicking Investor Relations and then clicking Governance. These documents are also available in print to any shareholder who requests them, by writing to Imperial Capital Bancorp, Inc., Attn: Anthony A. Rusnak, Esq., General Counsel and Secretary, 888 Prospect Street, Suite 110, La Jolla, California 92037.

**Management Succession**

As required by our corporate governance guidelines, the Compensation Committee provides an annual report to our Board of Directors regarding our program for management development and succession.

**Executive Sessions of Non-Management Directors**

Our corporate governance guidelines require that our non-management directors regularly meet in executive session outside the presence of management and that these sessions be chaired by the Chairman of the Corporate Governance/Nominating Committee (currently Mr. Mayuga).

Table of Contents

**Shareholder and Other Interested Party Communications with the Board of Directors**

Shareholders and other interested parties may communicate with our Board of Directors or the non-management directors by writing to: Imperial Capital Bancorp, Inc., Attn: Audit Committee Chairman, 888 Prospect Street, Suite 110, La Jolla, California 92037.

## AUDIT COMMITTEE REPORT

The following report of the Audit Committee of our Board of Directors shall not be deemed to be soliciting material or to be incorporated by reference by any general statement incorporating by reference this proxy statement into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent ICB specifically incorporates this report therein, and shall not otherwise be deemed filed under such Acts.

Management is responsible for ICB s internal controls, financial reporting process and compliance with laws and regulations. The independent auditors are responsible for performing an independent audit of ICB s consolidated financial statements in accordance with generally accepted auditing standards and issuing a report thereon and annually attesting to management s assessment of the effectiveness of our internal control over financial reporting. The Audit Committee s responsibility is to monitor and oversee these processes.

As required by its charter, the Audit Committee received and reviewed the report of Ernst & Young LLP regarding the results of their audit, as well as the written disclosures and the letter from Ernst & Young LLP required by Independence Standards Board Standard No. 1 (Independence Discussion with Audit Committees). The Audit Committee reviewed and discussed the audited financial statements with ICB s management. A representative of Ernst & Young LLP also discussed with the Audit Committee the independence of Ernst & Young LLP from ICB, as well as the matters required to be discussed by Statement of Auditing Standards No. 61 (Communication with Audit Committees).

In fulfilling its oversight responsibility of reviewing the services performed by ICB s independent auditors, the Audit Committee carefully reviews the policies and procedures for the engagement of the independent auditors. The Audit Committee met with the independent auditors to discuss the results of their examinations, the evaluation of ICB s internal controls and the overall quality of ICB s financial reporting. The Audit Committee also reviewed and discussed with the independent auditors the fees paid to the independent auditors; these fees are described under Relationship with Independent Auditors below.

ICB s Chief Executive Officer and Chief Financial Officer also reviewed with the Audit Committee the certifications that each such officer will file with the Securities and Exchange Commission (the SEC ) pursuant to the requirements of Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. Management also reviewed with the Audit Committee the policies and procedures it has adopted to ensure the accuracy of such certifications.

Based on the Audit Committee s review and discussions noted above, it recommended to the Board of Directors that the audited financial statements be included in ICB s Annual Report on Form 10-K for the year ended December 31, 2007, for filing with the SEC.

Respectfully submitted by the members of the Audit Committee of the Board of Directors of Imperial Capital Bancorp, Inc.

Robert R. Reed
Jeffrey L. Lipscomb
Hirotaka Oribe

## RELATIONSHIP WITH INDEPENDENT AUDITORS

**General**

The Audit Committee has reappointed Ernst & Young LLP as the independent public accounting firm to audit our consolidated financial statements for the year ending December 31, 2008, subject to the ratification of the appointment by ICB s shareholders at the Meeting. See Proposal II Ratification of the Appointment of Independent Auditors below.

Table of Contents

**Independent Auditing Firm Fees**

During the years ended December 31, 2007 and 2006, Ernst & Young LLP provided various audit, audit related and non-audit services to us. Set forth below are the aggregate fees billed for these services:

(a) Audit Fees: Aggregate fees billed for professional services rendered for the audits of our annual financial statements and internal control over financial reporting, and reviews of financial statements included in our Quarterly Reports on Form 10-Q for those years: $360,000 2007; $332,000 2006.

(b) Audit Related Fees: Aggregate fees billed for professional services rendered related to audits of employee benefit plans, consultation related to the implementation of the Sarbanes-Oxley Act of 2002, and consultation on accounting matters: $21,000 2007; $20,000 2006.

(c) Tax Fees: Aggregate fees billed for professional services rendered related to tax compliance, tax advice and tax return preparation: $105,000 2007; $95,000 2006.

(d) All other fees: Aggregate fees billed for professional services rendered in connection with the review and consultation on various issues relating to employment and other benefit related contracts: $5,000 2007; $22,000 2006.

The Audit Committee pre-approves all audit and permissible non-audit services to be provided by Ernst & Young LLP and the estimated fees for these services. None of the services provided by Ernst & Young LLP described in items (a) (d) above was approved by the Audit Committee pursuant to a waiver of the pre-approved requirements of the SEC s rules and regulations.

## DIRECTOR COMPENSATION

The following table sets forth certain information regarding the compensation earned by or awarded to each director, who is not also a named executive officer (as defined below, under Executive Compensation Compensation Discussion and Analysis ), who served on our Board of Directors in 2007. Directors who are employees of ICB are not compensated for their service as directors.

| Name | Fees Earned or Paid in Cash | Stock Awards | Option Awards(1) | Non-Equity Incentive Plan Compensation | Change in Pension Value and Non-qualified Deferred Compensation Earnings | All Other Compensation(2) | Total |
|---|---|---|---|---|---|---|---|
| Jeffrey L. Lipscomb | $ 44,000 | | | | | $ 7,133 | $ 51,133 |
| Preston Martin(3) | $ 16,250 | | $ 12,380 | | | $ 6,250 | $ 34,880 |
| Sandor X. Mayuga | $ 39,000 | | | | | $ 13,271 | $ 52,271 |
| Hirotaka Oribe | $ 47,000 | | | | | $ 16,074 | $ 63,074 |
| Robert R. Reed | $ 47,000 | | | | | $ 10,376 | $ 57,376 |

(1) Amount in the table represent the compensation cost of stock options recognized for 2007 for financial statement reporting purposes pursuant to Statement of Financial Accounting Standards No. 123(R), Share-Based Payment ( SFAS No. 123(R) ) and includes the cost attributable to grants made in 2007 and in prior years. The assumptions we used in calculating this amount are set forth in our Annual Report on Form 10-K for the year ended December 31, 2007 under Item 8. Financial Statements and Supplementary Data Condensed Consolidated Financial Statements Notes to Financial Statements Note 1 Summary of Significant Accounting Policies Stock-Based Compensation. As of December 31, 2007, total shares underlying stock options held by the directors were as follows: Mr. Lipscomb 6,500 shares; Mr. Martin 10,000 shares; Mr. Mayuga 6,500 shares; Mr. Oribe 6,500 shares; and Mr. Reed 5,500 shares.

(2) Amounts in this column include: (i) for Messrs. Lipscomb, Oribe and Reed, honorariums earned during 2007 of $5,000, $15,000 and $7,500, respectively; (ii) for Messrs. Lipscomb, Mayuga, Oribe and Reed, preferential interest on savings accounts with the Bank (a benefit offered to all directors and employees) paid to them and parties affiliated with them of $2,133, $13,271, $1,074 and $2,876, respectively; and (iii) for Mr. Martin, an annual retainer fee of $6,250, as explained below.

(3) Mr. Martin passed away in May 2007.

*Director Compensation Arrangements.* During 2007, each non-employee director was paid a monthly fee of $2,250 for serving on our Board of Directors and $1,000 for each Board or Committee meeting attended for service on such committee. In addition, Director Reed received an honorarium of $7,500 for his active assistance in legislative and audit committee matters during 2007, Director Lipscomb received an honorarium of $5,000 for his active assistance with compensation matters and chairmanship of the Compensation Committee, and Director Oribe received an honorarium of $15,000 for his extensive work with the Executive Committee and large loan approval process. In 2007, Director Martin received an annual retainer fee of $6,250 for his service as Chairman of the Audit Committee. Directors are also eligible to receive stock options under the Director Stock Option Plan (see Stock Incentive Plans ).

We pay for or reimburse our directors travel, lodging and other reasonable out-of-pocket expenses in connection with attendance at Board, committee and stockholder meetings, and for other reasonable expenses related to Board service such as director education.

*Voluntary Retainer Stock and Deferred Compensation Plan.* In 1996, we adopted the Voluntary Retainer Stock and Deferred Compensation Plan for Outside Directors (the Outside Director Plan ). The Outside Director Plan provides for the deferral of compensation earned by non-employee directors in the form of Stock Units ( Stock Units ) in a Stock Unit account ( Stock Unit Account ). Directors may elect to have up to 100% of their fees converted into stock units.

For dividends paid with respect to our common stock, each non-employee director has credited to his Stock Unit Account an additional number of Stock Units in an amount determined under the Outside Director Plan. Each non-employee director s Stock Unit Account will be settled by delivering to the non-employee director (or his beneficiary) the number of shares of our common stock equal to the number of whole Stock Units then credited to the non-employee director s Stock Unit Account, in either (i) a lump sum or (ii) substantially equal annual installments over a period not to exceed ten years.

To date, no amounts have been deferred under the Outside Director Plan.

## EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

In this section, we provide an overview and analysis of our compensation program and policies, the material compensation decisions we have made under those programs and policies, and the material factors that we considered in making those decisions. Following this section, under the heading Additional Information Regarding Executive Compensation, you will find a series of tables containing specific information about compensation paid or payable to the following individuals, whom we refer to as our named executive officers:

George W. Haligowski, Chairman, President and Chief Executive Officer

Norval L. Bruce, Vice Chairman of the Board

Timothy M. Doyle, Executive Managing Director and Chief Financial Officer

Lyle C. Lodwick, Executive Managing Director and Chief Operating Officer

Phillip E. Lombardi, Executive Managing Director and Chief Credit Officer

The discussion below is intended to help you understand the detailed information provided in those tables and put that information into context within our overall compensation program.

**Compensation Philosophy and Objectives**

The policies of the Compensation Committee of our Board of Directors (the Committee ), with respect to the compensation of executive officers, including the Chief Executive Officer, or CEO, are designed to provide compensation sufficient to attract, motivate and retain executives of outstanding ability and potential. Overall, we seek to provide total compensation packages that are competitive in terms of total potential value to our executives, in order to create a compensation program that will adequately reward our executives for their roles in creating value for our shareholders. We intend to be competitive with other similarly situated companies in the banking and financial services industries.

Table of Contents

Our compensation decisions with respect to executive officer salaries, annual incentives, and long-term incentive compensation opportunities are influenced by (a) the executive s level of responsibility and function within ICB, (b) the performance and profitability of ICB and the individual s performance, and (c) our assessment of the competitive marketplace, including peer companies. Our philosophy is to focus on total direct compensation opportunities through a mix of base salary, annual cash bonus, and long-term incentives, including equity-based awards in the form of stock options, other benefits and perquisites, post-termination severance and acceleration of stock option vesting for certain named executive officers upon termination and/or a change in control. Our other benefits and perquisites for our named executive officers primarily consist of life and health insurance benefits, a qualified 401(k) savings plan, nonqualified deferred compensation plans, reimbursement for certain club memberships, use of a Company-owned automobile or automobile allowance and payment of preferential interest on savings accounts (available to all employees and directors). Mr. Haligowski also receives an allowance for housing related expenses and chartered air travel. Our philosophy is to position the aggregate of these elements at a level that is commensurate with our size and sustained performance, and we believe it is important to maintain a strong link between executive incentives and the creation of shareholder value. The use of these programs enables us to reinforce our pay for performance philosophy, as well as strengthen our ability to attract and retain highly qualified executives. We believe that this combination of programs provides an appropriate mix of fixed and variable pay, balances short-term operational performance with long-term shareholder value, and encourages executive recruitment, motivation and retention.

During February 2006, the Committee conducted an overall review of our compensation plans and agreements. This review was prompted by the requirement to conform our compensation plans to Section 409A of the Internal Revenue Code of 1986, as amended (the Code ), and by the fact that all shares of restricted stock under our Recognition and Retention Plan (the RRP ), originally adopted in 1995, were allocated as of December 31, 2005. All shares allocated were also fully vested as of December 31, 2005. Our supplemental executive retirement plan (the SERP ) provided for allocations of restricted stock issued under the RRP on a tax deferred basis through the SERP. Under his employment agreement with us dated January 28, 2000 (the Original Employment Agreement ) and the SERP, Mr. Haligowski was entitled to receive annually an allocation under our SERP of a RRP restricted stock award equal to one-third of his base salary and an additional contribution to his SERP account following a change in control equal to 3.95 times his base salary. The SERP entitled all other SERP participants to receive an annual award equal to one-fifth of base salary. In order to provide our executive officers, including Mr. Haligowski, with a benefit comparable to what we had been providing under the SERP prior to the utilization of all remaining RRP shares in 2005, and to maximize the tax deductibility of compensation payments, we entered into (1) an amendment and restatement of Mr. Haligowski s employment agreement, and executed a non-competition and non-solicitation agreement, with Mr. Haligowski; (2) executed change in control severance agreements with nine executive officers, including Messrs. Bruce, Doyle, Lodwick and Lombardi (in the case of Messrs. Bruce and Doyle these agreements replaced their existing change in control severance agreements with us); (3) amended and restated our employer securities and non-employer securities non-qualified deferred compensation plans (the Deferred Compensation Plans ) and our SERP primarily to conform those plans with Section 409A of the Code; (4) amended and restated our salary continuation plan (the Salary Continuation Plan ) to conform that plan with Section 409A of the Code and to make certain other changes described below; and (5) made a clarifying amendment to our 2005 Re-Designated, Amended and Restated Employee Stock Incentive Plan (the ESIP ) intended to ensure the deductibility under Section 162(m) of the Code of compensation attributable to stock options or stock appreciation rights that may be granted under that plan to executive officers.

Mr. Haligowski s employment agreement was amended and the non-competition and non-solicitation agreement was entered into so that the change in control benefits he would have received under the Original Employment Agreement inclusive of the SERP change in control benefit described above under the Original Employment Agreement, together with the payments to be made to Mr. Haligowski under the non-competition and non-solicitation agreement, would not be substantially greater or less. The Salary Continuation Plan, which was originally adopted by us in March 2000 and in which Mr. Haligowski is currently the only participant, was amended to eliminate an enhanced change in

control benefit, which was to provide for an increased monthly payout over ten years instead of over 15 years as with other types of termination, and to eliminate the reduction in benefit that was to occur if the participant voluntarily terminated his employment before retirement age. In addition, a number of other amendments were made to the Salary Continuation Plan to conform the plan to Section 409A of the Code, including

changes to definitions, the elimination of our ability to accelerate benefits and changes to plan termination provisions. All of these plans and agreements are summarized below under Additional Information Regarding Executive Compensation.

**Determination of Appropriate Pay Levels**

*In General.* Generally, the compensation of our executive officers is currently composed of a base salary, an annual cash bonus and equity awards in the form of stock options. For each of our named executive officers, the Committee reviews and approves all elements of compensation, taking into consideration recommendations from Mr. Haligowski (for compensation other than his own), and the individual contributions of the particular executive. With respect to Mr. Haligowski, the Committee has utilized the assistance of an independent compensation consultant, Nash and Company, Inc., which provides competitive market data with respect to CEO salary compensation. The comparison group includes other banks and thrifts in California with assets ranging from $1.0 to $10.0 billion. In addition to information provided by Nash and Company, Inc., the Committee has historically taken into account information from other sources in setting the compensation for Mr. Haligowski and other executive officers, including information from other independent members of the Board of Directors and publicly available data relating to the compensation practices and policies of other companies within our industry.

The annual cash bonus is a discretionary incentive compensation award determined by the Committee based on its assessment of the achievement of the objectives set forth in our annual business plan, including but not limited to annual loan production, asset quality, performance and earnings and individual performance. In addition, stock options are granted to provide the opportunity for long-term compensation based upon the performance of our common stock over time.

*Base Salary.* We provide the opportunity for our named executive officers and other executives to earn a competitive annual base salary. We provide this opportunity to attract and retain an appropriate caliber of talent for the position, and to provide a base wage that is not subject to our performance risk.

Our base salary levels reflect a combination of factors, including competitive pay levels, the executive s experience and tenure, our overall annual strategic plan for salary increases, the Company s performance, the executive s individual performance, and changes in responsibility. We review salary levels annually to recognize these factors. We do not target base salary at any particular percent of total compensation.

Base salary increases in 2007 for our named executive officers other than our CEO and our Vice Chairman, Mr. Bruce, were generally consistent with the aggregate 5.00% pay increase approved by the Committee for our departments for 2007. For 2007, the average increase in the salaries of the executive officers, excluding the CEO and the Vice Chairman, from 2006 salaries was 6.34%. Base salary increases granted to Messrs. Doyle, Lodwick and Lombardi for 2007 ranged from 5.0 to 8.8% and were established after considering job performance, internal pay alignment and equity, and marketplace competitiveness. Mr. Bruce s base salary was initially left unchanged for 2007 in anticipation of a reduction in his work hours to occur later in the year; as a result of this reduction in Mr. Bruce s work hours, his base salary was reduced by 50% in August 2007. The salary of our CEO is set by the Committee, but in accordance with his employment agreement, was established at $590,000 for 2007, the same as for 2006 and 2005. Although it is generally customary for the Committee to adjust Mr. Haligowski s base salary on a bi-annual basis, and despite Nash and Company, Inc. stating that a 10% to 14% salary increase would be in line with the practices of a peer group of companies, the Committee determined not to adjust Mr. Haligowski s base salary for 2007. For 2008, the Committee determined not to change the base salaries of the named executive officers, due to the Company s 2007 performance and the current operating environment, except that Mr. Bruce s base salary will be further reduced by 50% of his current salary effective July 1, 2008.

*Annual Cash Bonus Plan.* We provide the opportunity for our named executive officers and other executives to earn an annual cash bonus, to be awarded by the Committee in its discretion. We provide this opportunity to attract and retain an appropriate caliber of talent for the position and to motivate executives to achieve our annual business goals. We establish annual maximum potential bonuses annually in December or January expressed as a percentage of base salary to be paid during the ensuing fiscal year. Factors to be considered by the Committee in deciding whether to award bonuses for a particular year include: (i) the extent to which we have achieved goals set forth in our business plan for the year, (ii) individual performance and (iii) the recommendation of the CEO (for awards other than his own).

**Table of Contents**

For 2007, the maximum potential cash bonuses for the named executive officers, other than Mr. Haligowski, were set at up to 50% of base salary and at up to 200% of base salary for Mr. Haligowski. The actual bonuses awarded for 2007 to the named executive officers other than Mr. Haligowski were equal to 25% of each named executive officer s base salary, or 50% of their maximum potential bonus for 2007. The Committee s decision to award 50% of the maximum potential bonus was primarily based on their consideration that the Company achieved many of its business plan financial objectives during the first half of 2007 but failed to achieve its business plan financial objectives for 2007 due to the unexpectedly harsh industry-wide conditions in the second half of 2007. Mr. Haligowski was awarded a bonus for 2007 equal to approximately 82% of his base salary, or approximately 41% of his maximum potential bonus for 2007. In awarding this bonus to Mr. Haligowski, the Committee considered, as it did for the bonuses awarded to the other named executive officers, the fact that the Company did not achieve its targeted business plan financial objectives for 2007 because of the difficult operating environment in the second half of the year. The Committee also considered that, notwithstanding these challenging conditions, the Company remained profitable in the second half of 2007, due largely to Mr. Haligowski s leadership and operational skills.

For 2008, due to the current difficult operating environment, the Committee determined to reduce the maximum potential bonuses payable to the named executive officers other than Mr. Haligowski from 50% of base salary to 25% of base salary, and to reduce the maximum potential bonus payable to Mr. Haligowski from 200% of base salary to 100% of base salary.

*Equity Awards.* We provide the opportunity for our named executive officers and other executives to earn long-term equity incentive awards. Long-term equity incentive awards provide employees with the incentive to stay with us for longer periods of time, which in turn, provides us with greater stability. Stock options and other equity awards also align the incentives of our executives with the interests of our shareholders and with our long-term success. The Committee and Board develop their equity award determinations based on their judgments as to whether the complete compensation packages provided to our executives, including prior equity awards, are sufficient to retain, motivate and adequately award the executives. We have traditionally used stock options as our form of equity compensation because stock options provide a relatively straightforward incentive for our executives, result in less immediate dilution of existing shareholders interests and, prior to our adoption of SFAS No. 123(R), resulted in less compensation expense for us relative to other types of equity awards.

We grant equity awards to employees through our ESIP, which was adopted by our Board and shareholders to permit the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares and performance units. The material terms of the ESIP are further described below under Additional Information Regarding Executive Compensation Outstanding Equity Awards at December 31, 2007-Stock Incentive Plans.

For the last completed fiscal year, the Committee awarded stock options to our named executive officers to align their interests with ours and our stockholders. For detail regarding these grants, refer below under 2007 Grants of Plan-Based Awards .

We do not coordinate the timing of equity award grants with the release of material non-public information. The exercise price for stock options is established at the fair market value of the closing price of our stock on the date the Committee approves the grant. Our stock options generally have a 10-year contractual exercise term.

Table of Contents

In general, option grants are also subject to the following post-termination and change in control provisions:

| Event | Award Vesting | Post-Termination Exercise Term |
|---|---|---|
| Termination by Us Other than Cause; Disability, Retirement or Death | Vesting continues until expiration of post-termination exercise term | Exercisable until earlier of: (i) three (3) months or (ii) option expiration date |
| Retirement | Vesting continues until expiration of post-termination exercise term | Exercisable until earlier of: (i) six (6) months or (ii) option expiration date |
| Disability or Death | Vesting continues until expiration of post-termination exercise term | Execisable until earlier of: (i) one (1) year or (ii) option expiration date |
| Termination for Cause | Forfeit vested and unvested | Terminates immediately |
| Change in Control | Vesting accelerates* | Exercisable until option expiration date |

* In the event of a change in control as defined in the ESIP, any outstanding awards that are unexercisable or otherwise unvested will become fully vested and immediately exercisable. If there is a termination of employment, the applicable termination provisions regarding exercise term will apply.

**Executive Benefits and Perquisites**

Our named executive officers and other executives participate in our broad based employee benefit plans, including medical, dental, vision, insurance and our 401(k) plan (including matching contributions) and, like all other employees and directors, may receive a preferential interest rate on interest-bearing deposit accounts. These plans and benefits are available to all salaried employees and do not discriminate in favor of executive officers. We also make the SERP available to our named executive officers and the Deferred Compensation Plans available to our named executive officers and other highly compensated employees. Mr. Haligowski is currently the only participant in our Salary Continuation Plan. The material terms of these plans are further described below under Additional Information Regarding Executive Compensation Agreements with Mr. Haligowski Salary Continuation Plan, Nonqualified Deferred Compensation and Supplemental Executive Retirement Plan.

During 2007, we maintained for Messrs. Haligowski and Doyle, and in 2008, we began to also maintain for Messrs. Lodwick and Lombardi, a supplemental term life insurance benefit. We pay the policy premiums and gross-up the officers compensation for the tax liability they incur as a result of this benefit. Per his employment agreement, Mr. Haligowski s policy is for $1,700,000 (four times his base salary). The policy amount for each of Messrs. Doyle, Lodwick and Lombardi is $250,000.

We also provide additional personal benefits and perquisites as an additional incentive for our executives, to remain competitive in the general marketplace for executive talent and to minimize distractions and keep the executive s attention focused on important ICB initiatives. The Committee periodically reviews the levels of perquisites and other personal benefits provided to executive officers. We have no current plans to make material changes to levels of benefits and perquisites provided to our executives.

16

For the last completed fiscal year, we provided the following personal benefits and perquisites to our named executive officers:

| Executive Benefit | Description |
|---|---|
| Automobile Plan | Certain executives are provided with a Company-owned automobile or an automobile allowance pursuant to our automobile policy. |
| Reimbursed Life Insurance Premiums | We reimburse certain executives for certain life insurance premium payments. |
| Computer Equipment and Internet Connection Service | We provide certain executives with computer equipment and an internet connection for use in their homes. |
| Club Memberships | Certain executives have their club membership dues reimbursed. |

In addition, ICB makes available a corporate vehicle and driver to certain executive officers for business use only. Mr. Haligowski also receives a housing allowance, reimbursement for financial counseling and tax preparation, the use of a chartered aircraft for up to 25 hours per year plus up to 10 accumulated unused hours, reimbursement for a non-equity membership in one private club in an initial amount not to exceed $7,500, with monthly dues of $400 (as may be increased or decreased by the club), reimbursement for his reasonable expenses and costs associated with his memberships in the World/Young Presidents Organization, the Harvard Business School Alumni Association and the Harvard Business School Club of New York City, and tax reimbursement payments. The cost for chartered aircraft use is based on the duration of the flight, not on the number of passengers. We do not incur any additional costs for adding passengers when there are seats available on the aircraft. Accordingly, we do not assign any cost for family members accompanying Mr. Haligowski on any of those flights. As a result of Internal Revenue Service rules, however, executives are imputed income for any family members or other personal guests who may accompany the executive officer on any flights. We gross-up Mr. Haligowski s compensation or otherwise reimburse his taxes on any income imputed as a result of personal aircraft usage. In instances where family member or other personal guest attendance has been related to the business purpose of the trip, we have grossed-up Mr. Haligowski s compensation to cover taxes on any income imputed as a result of their attendance. The Committee believes that such benefits are appropriate and often assist with Mr. Haligowski fulfilling his employment obligations.

Attributed costs of the personal benefits described above for the named executive officers for the fiscal year ended December 31, 2007, are included in the All Other Compensation column of the Summary Compensation Table.

**Change in Control and Severance Benefits**

We provide the opportunity for Mr. Haligowski and our executive officers to be protected in the event of a change of control and/or an involuntary termination of employment following a change of control of ICB. Mr. Haligowski may also receive certain payments and benefits pursuant to his employment agreement if his employment is involuntarily terminated not in connection with a change in control. The purpose of providing these change in control payments and benefits is to attract and retain executives of the highest caliber and mitigate the risk to these executives that their employment will be involuntarily terminated in the event we are acquired.

Mr. Haligowski s employment agreement and his non-competition and non-solicitation agreement, and Mr. Bruce s and Mr. Doyle s change of control agreements provide for certain payments and benefits upon a change of control. Each of these agreements were entered into in 2006 and were individually negotiated by the Committee and management. In Mr. Haligowski s case these agreements were negotiated to be generally consistent with the amount of benefits and terms of his prior severance benefits under his original employment agreement. In the case of Messrs. Bruce and Doyle, these agreements replaced the requirement contained in their prior change of control agreements that an

involuntary termination occur with any termination of employment (other than for cause) as a trigger for payment. The Committee eliminated this requirement in recognition of their years of service to us relative to the other executive officers, and that these individuals are not receiving any substituted benefit to make up for the lack of SERP allocations in 2006 and thereafter. A cap was placed on the amount of their cash payment.

The change of control agreements for Messrs. Lodwick and Lombardi provide for certain payments and benefits if their employment is involuntarily terminated in connection with or within 24 months after a change in control of ICB. Each of these change in control severance agreements thus requires a double trigger in order for

any payments or benefits to be provided to the named executive officer in connection with or following a change in control in other words, both a change in control and an involuntary termination of employment (which includes a voluntary termination by the executive following a material reduction in his duties, responsibilities or benefits) must occur. At the same time, the mere sale of ICB will not automatically trigger a payout, as our intention is to induce the executive to remain employed following a change in control so long as the acquiring Company so desires without a material reduction in the executive s duties, responsibilities or benefits. Our severance and change in control provisions for the named executive officers are summarized in Additional Information Regarding Executive Compensation Agreements with Mr. Haligowski and Change of Control Agreements.

We believe these severance and change in control benefits are an essential element of our executive compensation package and assist us in recruiting and retaining talented individuals. We also believe that our severance and change in control provisions are consistent with the provisions and benefit levels of other companies disclosing such provisions as reported in public SEC filings. Information regarding applicable severance and change in control benefits for the named executive officers is provided under the heading Potential Payments Upon Termination of Employment.

**Impact of Accounting and Tax Treatments of Compensation**

Section 162(m) of the Internal Revenue Code generally eliminates the deductibility of compensation over $1 million paid to certain highly compensated executive officers of publicly held corporations, excluding certain qualified performance-based compensation. The Committee has reviewed and will continue to review on an ongoing basis our executive compensation programs, and propose appropriate modifications to these programs, if the Committee deems them necessary, with a view toward implementing our compensation programs in a manner that avoids or minimizes any disallowance of tax deductions under Section 162(m). The Committee will balance these considerations against the need to be able to compensate executives in a manner commensurate with performance and the competitive environment for executive talent. While stock options and stock appreciation rights as a general matter automatically constitute qualified performance-based compensation (provided that the certain plan content and grant procedure requirements are met), cash and other equity-based awards (including but not limited to restricted stock) must be subject to stockholder-approved performance criteria in order to so qualify. In this regard, the ESIP approved by stockholders authorizes the awarding of equity-based performance awards that constitute qualified performance-based compensation exempt from the $1 million deductibility limit of Section 162(m).

With our adoption, effective January 1, 2006, of SFAS No. 123(R), which requires the recognition of compensation expense for stock options, we do not expect the accounting treatment of differing forms of equity awards to vary significantly. Accordingly, accounting treatment is not expected to have a material effect on the selection of forms of equity compensation in the foreseeable future.

**Role of Executive Officers in Determining Compensation**

Our Chief Executive Officer, Mr. Haligowski, recommends to the Committee base salary, maximum potential cash bonus levels, actual bonus payments and long-term incentive grants for our executive officers (other than himself). Mr. Haligowski makes these recommendations to the Committee based on publicly available industry data and qualitative judgments regarding individual performance. Mr. Haligowski is not involved with any aspect of determining his own compensation.

Table of Contents

## Additional Information Regarding Executive Compensation

### 2007 Summary Compensation Table

The following table sets forth the compensation earned for the year ended December 31, 2007 by the named executive officers:

| ame and Principal Position | Year | Salary | Bonus | Stock Awards | Option Awards(1) | Non-Equity Incentive Plan Compensation | Change in Pension Value and Non-qualified Deferred Compensation Earnings | All Other Compensation(2) | Total Compensatio |
|---|---|---|---|---|---|---|---|---|---|
| eorge W. Haligowski | 2007 | $ 590,000 | $ 482,451 | $ | $ 24,644 | $ | $ 33,862 | $ 440,774(3) | $ 1,571,73 |
| hairman of the Board, esident and Chief Executive fficer | 2006 | $ 590,000 | $ 969,750 | $ | $ | $ | $ 33,451 | $ 394,523 | $ 1,987,72 |
| orval L. Bruce | 2007 | $ 196,200 | $ 31,025 | $ | $ 988 | $ | $ 32,116 | $ 68,537(4) | $ 328,86 |
| ce Chairman of the Board | 2006 | $ 248,200 | $ 124,100 | $ | $ | $ | $ 23,718 | $ 82,832 | $ 478,85 |
| mothy M. Doyle | 2007 | $ 259,900 | $ 64,969 | $ | $ 9,862 | $ | $ | $ 37,306(5) | $ 372,03 |
| xecutive Managing Director d Chief Financial Officer | 2006 | $ 247,500 | $ 123,750 | $ | $ | $ | $ | $ 33,371 | $ 404,62 |
| yle C. Lodwick | 2007 | $ 247,200 | $ 61,800 | $ | $ 9,862 | $ | $ | $ 24,451(6) | $ 343,31 |
| xecutive Managing Director d Chief Operating Officer | 2006 | $ 235,000 | $ 117,498 | $ | $ | $ | $ | $ 23,700 | $ 376,19 |
| illip E. Lombardi | 2007 | $ 192,600 | $ 51,250 | $ | $ 9,862 | $ | $ | $ 15,430(7) | $ 269,14 |
| xecutive Managing Director d Chief Credit Officer | 2006 | $ 170,000 | $ 85,000 | $ | $ | $ | $ | $ 13,482 | $ 268,48 |

(1) Reflects the dollar amount recognized for financial statement reporting purposes, in accordance with SFAS No. 123(R), of stock options awarded under our ESIP (disregarding for this purpose the estimate of forfeitures related to service-based vesting conditions). The assumptions we used in calculating this amount are set forth in our Annual Report on Form 10-K for the year ended December 31, 2007 under Item 8. Financial Statements and Supplementary Data Condensed Consolidated Financial Statements Notes to Financial Statements Note 1 Summary of Significant Accounting Policies Stock-Based Compensation.

(2) Included within this column is the incremental cost to the Company associated with the named executive s personal use of a Company-owned automobile, based on the depreciation expense incurred by the Company for the year.

(3)

For 2007, represents the aggregate incremental cost to us of perquisites and other personal benefits, and other compensation provided, totaling $440,774, including: (a) $42,000 in supplemental housing payments, (b) $155,887 in preferential interest on employee savings accounts in 2007 (available to all employees), (c) $66,720 for Mr. Haligowski s personal use of chartered air transportation service paid for by the Company, and (d) $104,000 for club memberships and meeting attendance related expenses. Additional amounts included within All Other Compensation for 2007 include life insurance premiums, imputed income related to the split dollar life insurance policy, employer contributions to ICB s 401(k) plan, financial counseling and tax preparation fees, home computer equipment and internet service, and reimbursements for tax obligations incurred by Mr. Haligowski.

(4) For 2007, represents the aggregate incremental cost to us of perquisites and other personal benefits, and other compensation provided, totaling $68,537, including $39,835 in preferential interest on employee savings accounts. Additional amounts included within All Other Compensation for 2007 include life insurance premiums, employer contributions to ICB s 401(k) plan, home computer equipment and internet service, and club memberships.

(5) For 2007, represents the aggregate incremental cost to us of perquisites and other personal benefits, and other compensation provided, totaling $37,306, including $14,635 in preferential interest on employee savings accounts. Additional amounts included within All Other Compensation for 2007 include life insurance premiums, employer contributions to ICB s 401(k) plan, and home computer equipment.

(6) For 2007, represents the aggregate incremental cost to us of perquisites and other personal benefits, and other compensation provided, totaling $24,451, including $13,781 in preferential interest on employee savings

accounts. Additional amounts included within All Other Compensation for 2007 include life insurance premiums, and employer contributions to ICB s 401(k) plan.

(7) For 2007, represents the aggregate incremental cost to us of perquisites and other personal benefits, and other compensation provided, totaling $15,430. Amounts included within All Other Compensation for 2007 include life insurance premiums, employer contributions to ICB s 401(k) plan, and preferential interest on employee savings accounts.

**Agreements with Mr. Haligowski**

*Employment Agreement.* On February 24, 2006, we entered into an amended and restated employment agreement with Mr. Haligowski, which constituted an amendment and restatement of his Original Employment Agreement with ICB dated January 28, 2000 (the Employment Agreement ). The Employment Agreement has a five-year term which commenced effective as of January 1, 2006 and is renewable on each subsequent January 1st, as long as neither ICB, nor the Bank, has notified Mr. Haligowski at least 90 days in advance that the term will not be so extended. If a change in control (as defined in the Employment Agreement) occurs during the term of the Employment Agreement, then notwithstanding the delivery of any notice of non-renewal to Mr. Haligowski, the employment term will automatically be extended until five years after the date of the change in control.

The Employment Agreement entitles Mr. Haligowski to: (1) an annual base salary of not less than $590,000; (2) participate in any performance-based awards and discretionary bonuses paid to executive officers; (3) receive a minimum monthly housing allowance of $3,500 and, at his election, a minimum monthly automobile allowance of $2,600 or the use of a vehicle pursuant to our automobile policy; (4) receive a personal life insurance policy, with premiums paid by us, providing a death benefit of at least four times his annual base salary; (5) receive memberships paid by us in certain organizations and clubs; (6) up to $6,500 per year, plus imputed taxes, for the maintenance of his personal estate and tax planning; and (7) participate in benefit plans and receive other fringe benefits provided by us.

The Employment Agreement provides that if Mr. Haligowski is involuntarily terminated prior to a change in control, then he will: (1) receive a prorated lump sum payment based on the amount of cash bonus and other cash incentive compensation paid to him for our last completed fiscal year; (2) either (a) continue to receive monthly through the remaining term of the agreement one-twelfth of his base salary at the highest annual rate in effect during the three years before the termination date and one-twelfth of the average amount of cash bonus and cash incentive compensation earned by him during the two fiscal years preceding the termination date or (b) at his election, receive the amount of all payments described in (a) in a lump sum; (3) either (a) continue to receive for himself and his dependents substantially the same medical, dental and disability benefits at the same cost to him for five years after the date of termination, reduced to the extent he receives substantially the same coverage at substantially the same cost to him from another employer, or (b) at his election (or at our election, if coverage under our group plan is not available to Mr. Haligowski and his dependents), receive an amount in cash equal to the premium cost being paid by us before the termination date; (4) be provided with office space and secretarial support of the same type provided during his employment for 18 months after the termination date; (5) receive title to owned or leased vehicle being used by him; (6) receive all interests maintained by us in life insurance policies maintained on his life, including the cash surrender values; and (7) become vested in all of his outstanding unvested stock options and restricted stock awards held in the SERP.

The Employment Agreement provides that if Mr. Haligowski is involuntarily terminated in connection with or within five years after a change in control of ICB, then he will receive a lump sum payment equal to 299% of his base amount, as defined in Section 280G of the Code, less the present value of the benefits to be received by him under ICB s Salary Continuation Plan and the accelerated vesting present value of stock options and restricted stock, to the extent such amounts are required to be considered in the calculation of parachute payments under Section 280G of the

Code (the Lump Sum Change in Control Payment ). Instead of receiving the full amount of the Lump Sum Change in Control Payment, however, Mr. Haligowski may elect to receive the continued health, medical and disability insurance benefits, 18 months of office space and secretarial support, title to his Company-owned or leased vehicle and ICB s interests in the life insurance policies on his life, each as described in the immediately preceding paragraph, in which case the amount of the Lump Sum Change in Control Payment will be reduced by the present value of these elected benefits (the Elective Benefits ). In no event may the Lump Sum Change in Control Payment, prior to reduction for Elective Benefits, exceed the aggregate of 100% of the total

**Table of Contents**

value of the payments and benefits Mr. Haligowski would receive under the Employment Agreement if the involuntarily termination occurred prior to a change in control, plus 150% of his annual base salary in effect before the change in control. This resulting aggregate amount is equal to the value of Mr. Haligowski s change in control benefits under the Original Employment Agreement, excluding the SERP change in control benefit referred to in the Original Employment Agreement of 3.95 times his annual base salary but inclusive of the life insurance benefit described in the preceding paragraph (the Original Agreement Adjusted Change in Control Benefit ). The Employment Agreement provides that if a change in control occurs on or after January 1, 2008, the Lump Sum Change in Control Payment prior to reduction for Elective Benefits may not be less than the Original Agreement Adjusted Change in Control Benefit less $1.0 million, notwithstanding the fact that this amount exceeds 299% of Mr. Haligowski s base amount.

The Employment Agreement provides that if any of the change in control payments or benefits to be provided under the agreement in combination with any payments or benefits under other plans or arrangements constitute excess parachute payments under Section 280G of the Code, Mr. Haligowski will be paid an additional amount (referred to as a gross up payment ) that will offset, on an after tax basis, the effect of any excise tax consequently imposed upon him under Section 4999 of the Code.

The term Change in Control means the occurrence of any of the following events with respect to ICB, or with respect to the Bank: (1) any person (as the term is used in Section 13(d) and 14(d) of the Securities Exchange Act of 1934 (the Exchange Act ) is or becomes the beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly of securities of ICB, or the Bank representing 33.33% or more of ICB s or the Bank s outstanding securities; (2) individuals who are members of the Board of Directors of ICB or the Bank on the date hereof (the Incumbent Board ) cease for any reason to constitute at least a majority thereof, provided that any person becoming a director subsequent to the date hereof whose election was approved by a vote of at least two-thirds of the directors comprising the Incumbent Board, or whose nomination for election by ICB s or the Bank s stockholders was approved by the nominating committee serving under an Incumbent Board, shall be considered a member of the Incumbent Board; (3) a reorganization, merger, consolidation, sale of all or substantially all of the assets of ICB or the Bank, or a similar transaction in which ICB or the Bank is not the resulting entity (unless the continuing ownership requirements clause (4) below are met with respect to the resulting entity); or (4) a merger or consolidation of ICB or the Bank with any other corporation other than a merger or consolidation in which the voting securities of ICB or the Bank outstanding immediately prior thereto represent at least 66.67% of the total voting power represented by the voting securities of ICB or the Bank or the surviving entity outstanding immediately after such merger or consolidation. The term Change in Control shall not include: (1) an acquisition of securities by an employee benefit plan of ICB or the Bank; (2) any of the above mentioned events or occurrences involving any other subsidiary of ICB or the Bank, although this may be amended at a later date; or (3) any of the above mentioned events or occurrences which require but do not receive the requisite government or regulatory approval to bring the event or occurrence to fruition. The term involuntary termination is defined to include termination of Mr. Haligowski s employment by ICB or the Bank (other than for cause or due to retirement after attaining age 65) without his consent, by Mr. Haligowski following a material reduction of or interference with his duties, responsibilities or benefits without his consent or by ICB or the Bank (or their successors) or by Mr. Haligowski at the time of or within five years after a Change in Control.

Under the Employment Agreement, if Mr. Haligowski is terminated due to disability or death, then he or his estate will be entitled to the same payments and benefits to which he would have been entitled if he were involuntarily terminated prior to a change in control, other than the continued use of office space and secretarial support, plus a prorated amount of any bonus or other incentive compensation for the year in which the termination occurs. If Mr. Haligowski voluntarily terminates his employment other than for a reason that constitutes involuntary termination or other than in connection with or within five years after a change in control, he will receive his base salary and benefits earned through the date of termination plus any benefit continuation required by law. If Mr. Haligowski s employment is terminated for cause, ICB will have no obligations to him under the Employment Agreement, other

than any benefit continuation required by law.

*Non-competition and Non-solicitation Agreement.* We entered into a non-competition and non-solicitation agreement (the Non-Competition Agreement ) with Mr. Haligowski on February 24, 2006. Like the Employment Agreement, the Non-Competition Agreement has a five-year term which commenced effective as of January 1, 2006. Mr. Haligowski s forbearance obligations under the Non-Competition Agreement begin on his employment

Table of Contents

termination in connection with or following an acquisition of ICB or the Bank and continue for three years thereafter (the Restricted Period ). Mr. Haligowski will receive aggregate payments of $3.5 million during the Restricted Period in consideration of his compliance with his obligations under the Non-Competition Agreement during the Restricted Period. ICB has the unilateral right to extend the term of the Non-Competition Agreement for an additional five year term by adjusting the compensation to be paid to Mr. Haligowski under that agreement.

*Salary Continuation Plan.* The Salary Continuation Plan, which was originally adopted by ICB in March 2000 and in which Mr. Haligowski is currently the only participant, provides that if the participant s employment is terminated for any reason other than cause, or if the participant retires after attaining age 65, the participant will begin receiving an annual salary continuation benefit six months thereafter (or starting on the first day of the next calendar month, if termination is due to death or disability), payable monthly over 15 years. The amount of Mr. Haligowski s annual salary continuation benefit is 75% of his average annual base salary for the three full calendar years preceding the year in which termination occurs or in which he attains age 65.

Information regarding applicable severance and change in control benefits for Mr. Haligowski is provided under the heading Potential Payments Upon Termination of Employment.

*Split-Dollar Agreement.* In 1996, the Company entered into a split-dollar agreement with Mr. Haligowski relating to a $1.2 million policy on his life. Mr. Haligowski is the owner of this policy and currently pays the annual premium. Upon Mr. Haligowski s death, the Company will be entitled to a portion of the policy proceeds equal to the amount of premiums it paid in previous years, with Mr. Haligowski s beneficiary entitled to the remaining policy proceeds.

**2007 Grants of Plan-Based Awards**

The following table sets forth information regarding plan-based awards to our named executive officers in 2007:

| Name | Grant Date | All Other Option Awards: Number of Securities Underlying Options (#) | Exercise or Base Price of Option Awards ($/Sh) | Grant Date Fair Value of Stock and Option Awards(1) |
|---|---|---|---|---|
| George W. Haligowski | 8/8/2007 | 25,000 | $ 30.75 | $ 185,795 |
| Norval L. Bruce | 8/8/2007 | 1,000 | $ 30.75 | $ 7,432 |
| Timothy M. Doyle | 8/8/2007 | 10,000 | $ 30.75 | $ 74,318 |
| Lyle C. Lodwick | 8/8/2007 | 10,000 | $ 30.75 | $ 74,318 |
| Phillip E. Lombardi | 8/8/2007 | 10,000 | $ 30.75 | $ 74,318 |

(1) Represents the grant date fair value determined in accordance with SFAS No. 123(R). The assumptions we used in calculating this amount are set forth in our Annual Report on Form 10-K for the Year Ended December 31, 2007 under Item 8. Financial Statements and Supplementary Data Condensed Consolidated Financial Statements Notes to Financial Statements Note 1 Summary of Significant Accounting Policies Stock-Based Compensation.

Table of Contents

**Outstanding Equity Awards At December 31, 2007**

The following table provides information regarding each unexercised stock option held by each of our named executive officers as of December 31, 2007:

| | Option Awards | | | | | Stock Awards | | | |
|---|---|---|---|---|---|---|---|---|---|
| Name | Number of Securities Underlying Unexercised Options (#) Exercisable | Number of Securities Underlying Unexercised Options (#) Unexercisable | Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#) | Option Exercise Price | Option Expiration Date | Number of Shares or Units of Stock That Have Not Vested (#) | Market Value of Shares or Units of Stock That Have Not Vested | Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested |
| George W. Haligowski | 10,000 | | | $ 14.00 | 2/2/2009 | | | | |
| | 37,500 | | | $ 23.00 | 2/19/2012 | | | | |
| | 50,000 | | | $ 48.46 | 12/19/2015 | | | | |
| | | 25,000(1) | | $ 30.75 | 8/8/2017 | | | | |
| Total | 97,500 | 25,000 | | | | | | | |
| Norval L. Bruce | 10,500 | | | $ 23.00 | 2/19/2012 | | | | |
| | 12,500 | | | $ 48.46 | 12/19/2015 | | | | |
| | | 1,000(1) | | $ 30.75 | 8/8/2017 | | | | |
| Total | 23,000 | 1,000 | | | | | | | |
| Timothy M. Doyle | 15,000 | | | $ 14.00 | 2/2/2009 | | | | |
| | 5,000 | | | $ 11.00 | 1/31/2010 | | | | |
| | 15,000 | | | $ 23.00 | 2/19/2012 | | | | |
| | 25,000 | | | $ 48.46 | 12/19/2015 | | | | |
| | | 10,000(1) | | $ 30.75 | 8/8/2017 | | | | |

| | | | | |
|---|---|---|---|---|
| Total | 60,000 | 10,000 | | |
| Lyle C. Lodwick | 35,000 | | $ 54.25 | 8/8/2015 |
| | 12,500 | | $ 48.46 | 12/19/2015 |
| | | 10,000(1) | $ 30.75 | 8/8/2017 |
| Total | 47,500 | 10,000 | | |
| Phillip E. Lombardi | 22,500 | | $ 53.33 | 6/24/2015 |
| | 7,500 | | $ 48.46 | 12/19/2015 |
| | | 10,000(1) | $ 30.75 | 8/8/2017 |
| Total | 30,000 | 10,000 | | |

(1) The vesting schedule of this option is as follows: one-third on August 8, 2008, one-third on August 8, 2009 and one-third on August 8, 2010.

*Stock Incentive Plans.* On July 27, 2005, ICB s shareholders approved the ESIP and the 2005 Re-Designated, Amended and Restated Stock Option Plan For Nonemployee Directors (the Director Option Plan and together with the ESIP the Stock Option Plans ). The Stock Option Plans were originally approved by shareholders on October 18, 1995 and amendments and restatements of these plans were approved by shareholders on July 27, 2005.

In accordance with the Stock Option Plans, officers, directors and our employees are eligible to receive options to purchase common stock. Under the ESIP, officers and employees are also eligible for awards of stock appreciation rights, restricted stock, restricted stock units, performance shares and performance units. The purpose of the Stock Option Plans is to enable us to attract, retain and motivate employees by providing for or increasing their proprietary interests in ICB, and in the case of nonemployee directors, to attract such directors and further align their interests with our interests. Every one of our employees is eligible to be considered for the grant of awards under the ESIP. The maximum number of shares of common stock that may be issued pursuant to awards granted under the ESIP is 1,561,000 shares, provided that each share issued pursuant to awards of stock appreciation rights, restricted stock, restricted stock units, performance shares and performance units counts against this limit as two shares. The maximum number of shares of common stock that may be issued pursuant to awards granted under the Director Option Plan is 70,000 shares. The maximum number of shares of common stock and shares with

respect to outstanding awards under the Stock Option Plan are subject to adjustment in the event of a stock dividend, stock split, recapitalization or similar event.

The Stock Option Plans are administered by the Committee and, other than with respect to formula awards under the Director Option Plan described below, the Committee has full authority to select the employees and directors to receive awards and to grant such awards. Subject to provisions of the Stock Option Plans, the Committee has a wide degree of flexibility in determining the terms and conditions of awards and the number of shares to be issued pursuant thereto. The expenses of administering the Stock Option Plans are borne by us.

The ESIP authorizes the Committee to enter into any type of arrangement with an eligible employee that, by its terms, involves or might involve the issuance of common stock or any other security or benefit with a value derived from the value of common stock. Awards to employees are not restricted to any specified form or structure and may include but are not limited to stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares and performance units. Under the Director Option Plan, each person who was a non-employee director on the original effective date of the plan (October 18, 1995) automatically received as of that date, and each person who became or becomes a non-employee director after the original effective date of the plan automatically received or will receive, as of the date such person became or becomes a non-employee director, non-qualified stock options to acquire 5,000 shares of common stock, subject to adjustment as described above, vesting in full on the one-year anniversary of the date of grant (referred to as the initial award ). On the first, second, third, fourth and fifth anniversaries of the initial award, each non-employee director automatically received or will receive non-qualified stock options to acquire 1,000 shares of common stock, subject to adjustment as described above, vesting in full on the one-year anniversary of the date of grant (referred to as the anniversary awards ). In addition to the anniversary awards, each non-employee director is eligible to receive grants of non-qualified stock options from time to time in the sole discretion of the Committee.

In the event of a change in control of ICB all awards under the Stock Option Plans shall vest 100%. For purposes of the Stock Option Plans, a change in control shall mean any of the following events:

(a) we receive a report on Schedule 13D filed with the Securities and Exchange Commission pursuant to Section 13(d) of the Exchange Act disclosing that any person, group, corporation or other entity is the beneficial owner directly or indirectly of 30% or more of our outstanding common stock;

(b) any person (as such term is defined in Section 13(d) of the Exchange Act), group, corporation or other entity other than us or any corporation owned directly or indirectly by our stockholders in substantially the same proportions as their ownership of stock in us, purchases shares pursuant to a tender offer or exchange offer to acquire any of our common stock, (or securities convertible into our common stock) for cash, securities or any other consideration, provided that after consummation of the offer, the person, group, corporation or other entity in question is the beneficial owner (as such term is defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of 30% or more of our outstanding common stock;

(c) our stockholders approve (a) any consolidation or merger in which we or any corporation owned directly or indirectly by our stockholders in substantially the same proportions as their ownership of our common stock is not the continuing or surviving corporation or pursuant to which shares of our common stock would be converted into cash, securities or other property, or (b) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all of our assets; or

(d) there shall have been a change in a majority of the members of our Board of Directors within a 12 month period unless the election or nomination for election by our stockholders of each new director was approved by the vote of two-thirds of the directors then still in office who were in office at the beginning of the 12 month period.

Awards may not be granted under the Stock Option Plans after July 27, 2015, the tenth anniversary of the shareholder approvals of the amendments and restatements of the Stock Option Plans.

Table of Contents

**2007 Option Exercises and Stock Vested**

The following table sets forth information about stock options exercised and shares of restricted stock vested during the year ended December 31, 2007 for each named executive officer:

| | Option Awards | | | Stock Awards | |
|---|---|---|---|---|---|
| Name | Number of Shares Acquired on Exercise (#) | | Value Realized on Exercise | Number of Shares Acquired on Vesting (#) | Value Realized on Vesting |
| George W. Haligowski | 45,000 | $ | 1,551,600 | | |
| Norval L. Bruce | | | | | |
| Timothy M. Doyle | 15,000 | $ | 517,853 | | |
| Lyle C. Lodwick | | | | | |
| Phillip E. Lombardi | | | | | |

**Nonqualified Deferred Compensation**

The following table sets forth information about compensation payable to each named executive officer under the Deferral Plan (as defined below):

| Name | | Executive Contributions in Last FY | | Registrant Contributions in Last FY | | Aggregate Earnings in Last FY(2) | | Aggregate Withdrawals/ Distributions | | Aggregate Balance at Last FYE |
|---|---|---|---|---|---|---|---|---|---|---|
| George W. Haligowski | $ | | $ | | $ | (1,000,900) | $ | | $ | 3,385,200 |
| Norval L. Bruce | $ | 161,250(1) | $ | | $ | 119,900 | $ | | $ | 1,755,000 |
| Timothy M. Doyle | $ | | $ | | $ | | $ | | $ | |
| Lyle C. Lodwick | $ | | $ | | $ | | $ | | $ | |
| Phillip E. Lombardi | $ | | $ | | $ | | $ | | $ | |

(1) The entire amount is reported as compensation for 2007 in the Summary Compensation Table under the Salary and Bonus column.

(2) Based on the performance during 2007 of the investment options (including, among others, our Common Stock). Of the amounts shown, $33,862 and $32,116, representing the portion of the preferential interest credited to the accounts of Mr. Haligowski and Mr. Bruce, respectively, were reported as compensation for 2007 in the Summary Compensation Table under the Change in Pension Value and Non-qualified Deferred Compensation Earnings column.

The Imperial Capital Bancorp, Inc. Supplemental Salary Savings Plan (the Supplemental Plan ) and Nonqualified Deferred Compensation Plan (the Deferral Plan ) are designed to provide additional retirement benefits for certain officers and highly compensated employees. The Supplemental Plan provides participating employees with an

opportunity to make up benefits not available under the 401(k) Plan due to any application of limitations on compensation and maximum benefits under the 401(k) Plan. Benefits under the Supplemental Plan are provided at the same time and in the same form as benefits under the 401(k) Plan, and become taxable to the participant at that point. None of the named executive officers currently participates in the Supplemental Plan. The Deferral Plan allows a participant to defer receipt of, and current taxation upon, designated portions of the participant s direct cash compensation until a future date specified by the participant. Both of these plans are unfunded plans, meaning that all benefits payable thereunder are payable from our general assets, and funds available to pay benefits are subject to the claims of our general creditors. We have established a Rabbi Trust with a third party FDIC insured financial institution which holds the contributions to the Supplemental Plan and Deferral Plan, for the purpose of providing the benefits set forth under the terms of the plans. Participants only have the rights of unsecured creditors with respect to the Rabbi Trust assets.

**Supplemental Executive Retirement Plan**

Pursuant to the SERP, the Committee allocated to participants on a tax-deferred basis shares of restricted stock issued to the SERP under our RRP. The last remaining RRP shares held in the SERP were allocated to SERP participants in 2005. Under the terms of the SERP, Mr. Haligowski received an annual restricted stock allocation equal to one-third of his base salary and all other participants received an annual restricted stock allocation equal to

Table of Contents

one-fifth of base salary, subject to the approval of the Committee, which could also allocate a greater or lesser award or no award in its discretion. For this purpose, each share of common stock issued to the SERP has been valued at $9.00 per share, the fair market value of the common stock on the date of issuance from the RRP to the SERP. All awards made under the SERP are now fully vested. The following table sets forth information about the SERP benefits payable to each named executive officer:

| Name | Executive Contributions in Last FY | Registrant Contributions in Last FY | Aggregate Earnings in Last FY(1) | Aggregate Withdrawals/ Distributions | Aggregate Balance at Last FYE |
|---|---|---|---|---|---|
| George W. Haligowski | $ | $ | $ (6,423,290) | $ | $ 3,036,888 |
| Norval L. Bruce | $ | $ | $ (1,490,132) | $ | $ 704,541 |
| Timothy M. Doyle | $ | $ | $ (1,243,312) | $ | $ 587,802 |
| Lyle C. Lodwick | $ | $ | $ (128,707) | $ | $ 60,948 |
| Phillip E. Lombardi | $ | $ | $ (109,991) | $ | $ 52,100 |

(1) Includes value of additional shares allocated pursuant to dividend reinvestment, as well as the change in fair value during the year related to SERP shares maintained within each participants respective trust account. None of these amounts were reported as compensation for 2007 in the Summary Compensation Table.

**Change of Control Agreements**

We have entered into change in control severance agreements with Messrs. Bruce, Doyle and Lodwick and Lombardi. In the case of Messrs. Bruce and Doyle, these agreements replaced their existing change in control severance agreements with the Company. The terms of the agreements are three years for the agreements with Messrs. Bruce and Doyle and one year for the agreements with Messrs. Lodwick and Lombardi, beginning effective as of February 1, 2006 and renewable on each subsequent February 1st, as long as neither the Company nor the officer gives notice to the other at least 90 days in advance that the term will not be so extended. If a change in control occurs during the term of the agreement, then notwithstanding the delivery of any non-renewal notice, the agreement term will automatically be extended until three years, in the case of the agreements with Messrs. Bruce and Doyle, or two years, in the case of the agreements with Messrs. Lodwick and Lombardi, after the date of the change in control.

The agreements with Messrs. Bruce and Doyle provides that if their employment is terminated without cause which means a termination for any reason other than cause within six months before or within three years after a change in control, or if the officer terminates his employment for any reason within one year after a change in control, he will: (1) receive a lump sum payment equal to 299% of his base amount (not to exceed $1.0 million in the case of Mr. Bruce and $1.25 million in the case of Mr. Doyle); (2) either (a) continue to receive substantially the same health, dental and life insurance benefits for two years after the termination date, in the case of Mr. Bruce, and three years after the termination date, in the case of Mr. Doyle, or (b) at his election, (or at the Company s election, if coverage under the Company s group plan is not available to the officer) receive an amount in cash equal to the premium cost being paid by the Company before the termination date; (3) receive title to the Company-owned or leased vehicle being used by him or, if the officer receives a monthly car allowance in lieu of a Company vehicle, an amount in cash equal to 24 times, in the case of Mr. Bruce, and 36 times, in the case of Mr. Doyle, the greater of the monthly allowance on the date of the change in control or on the termination date; and (4) become vested in all of his outstanding unvested stock options and restricted stock awards.

The agreements with Messrs. Lodwick and Lombardi provide that if the officer s employment is involuntarily terminated in connection with or within two years after a change in control, he or she will: (1) receive a lump sum payment equal to the sum of (a) 1.5 times his base salary on the date of the change in control or the date of termination, whichever is greater and (b) a prorated bonus amount for the year in which the termination occurs based on the officer s prior year annual bonus, (2) either (a) continue to receive substantially the same health, dental and life insurance benefits for 18 months after the termination date or (b) at his election (or at the Company s election, if coverage under the Company s group plan is not available to the officer), receive an amount in cash equal to the premium cost being paid by the Company before the termination date; (3) receive title to the Company-owned or leased vehicle being used by him or, if the officer receives a monthly car allowance in lieu of a Company vehicle, an amount in cash equal to 18 times the greater of the monthly allowance on the date of the change in control or on

the termination date; and (4) become vested in all of his outstanding unvested stock options and restricted stock awards. The term Involuntary Termination means the termination of the employment of the executive without his express written consent or a material diminution of or interference with the executive s duties, responsibilities and benefits as these same duties, responsibilities and benefits exist the day prior to the Change of Control, including (without limitation) any of the following actions unless consented to in writing by the executive: (1) a requirement that the executive be based at a place other than the executive s work location immediately prior to the Change of Control or within 35 miles thereof, except for reasonable business travel; (2) a material demotion of the executive; (3) a material reduction in the number or seniority of other personnel reporting to the executive or a material reduction in the frequency with which, or in the nature of the matters with respect to which, such personnel are to report to the executive, other than as part of a company-wide reduction in staff; (4) a material adverse change in the executive s salary, other than as part of an overall program applied uniformly and with equitable effect to all members of the senior management of the company; (5) a material permanent increase in the required hours of work or the workload of the executive; (6) a material change in the reporting relationship to which the executive reports prior to the Change of Control; or (7) a material increase or decrease in business responsibilities and duties, such that the executive s qualifications as utilized prior to the Change of Control are no longer consistent with the qualifications needed for the revised position. The term Involuntary Termination does not include termination for cause, termination of employment due to retirement on or after the executive attains age 65, death, or termination of employment by us due to disability.

Each agreement provides that to the extent the value and amounts of benefits under the agreement, together with any other amounts and the value of other benefits received by the officer in connection with a change in control would cause any amount to be non-deductible by the Company pursuant to Section 280G of the Code, then the amounts and benefits under the agreement will be reduced to the extent necessary to avoid the non-deductibility of any such amounts and benefits under Section 280G, assuming a change in control.

A Change in Control means the occurrence of any of the following events with respect to the Company: (1) any person (as the term is used in section 13(d) and 14(d) of the Exchange Act is or becomes the beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly of securities of the Company representing 33.33% or more of The Company s outstanding securities; (2) individuals who are members of the Board of Directors of the Company on the date hereof (the Incumbent Board ) cease for any reason to constitute at least a majority thereof, provided that any person becoming a director subsequent to the date hereof whose election was approved by a vote of at least two thirds of the directors comprising the Incumbent Board, or whose nomination for election by the Company s stockholders was approved by the nominating committee serving under an Incumbent Board, shall be considered a member of the Incumbent Board; (3) a reorganization, merger, consolidation, sale of all or substantially all of the assets of the Company or a similar transaction in which the Company is not the resulting entity (unless the continuing ownership requirements clause (4) below are met with respect to the resulting entity); or (5) a merger or consolidation of the Company with any other corporation other than a merger or consolidation in which the voting securities of the Company outstanding immediately prior thereto represent at least 66.67% of the total voting power represented by the voting securities of the Company or the surviving entity outstanding immediately after such merger or consolidation. The term Change in Control shall not include: (1) an acquisition of securities by an employee benefit plan of the Company; or (2) any of the above mentioned events or occurrences which require but do not receive the requisite government or regulatory approval to bring the event or occurrence to fruition.

Table of Contents

**Potential Payments Upon Termination of Employment**

The following tables summarize the approximate value of the termination payments and benefits that the named executive officers would have received if their employment had been terminated on December 31, 2007 under the circumstances shown. The tables exclude (i) amounts accrued through December 31, 2007 that would be paid in the normal course of continued employment, such as accrued but unpaid salary and bonus amounts, (ii) vested account balances under our 401(k) plan, and (iii) vested account balances under our Deferral Plan and the SERP, as described under Nonqualifed Deferred Compensation and Supplemental Executive Retirement Plan.

**George W. Haligowski**

| Termination Scenario | Lump Sum Prorated Bonus(1) | Salary/Bonus Continuation and Non-Compete(2) | Health Coverage Continuation(3) | Accelerated Vesting of Stock and Option Awards(4) | Death Benefit Under Life Insurance Policies(5) | Other Benefits(6) | Payment of 299% of Base Amount (7) | Tax Gross Up Payment(8) |
|---|---|---|---|---|---|---|---|---|
| If termination for cause occurs | $ | $ | $ | $ | $ | $ | $ | $ |
| If voluntary termination (not constituting Involuntary Termination under Employment Agreement) occurs | $ | $ 4,441,000 | $ | $ | $ | $ | $ | $ |
| If Involuntary Termination under Employment Agreement (not in connection with or within five years after change in control) occurs | $ 970,000 | $ 12,265,000 | $ 78,000 | $ | $ | $ 837,000 | $ | $ |
| If Involuntary Termination under Employment Agreement in connection with or after change in control occurs | $ | $ 7,941,000 | $ | $ | $ | $ | $ 10,594,000 | $ |
| If termination occurs as a result of disability | $ 970,000 | $ 12,265,000 | $ 78,000 | $ | $ | $ 587,000 | $ | $ |
| If termination occurs as a result of death | $ 970,000 | $ 12,265,000 | $ 78,000 | $ | $ 2,460,000 | $ 587,000 | $ | $ |

(1) Payable to Mr. Haligowski (or to his estate or designated beneficiary, in the event of death) under his employment agreement if his employment is Involuntarily Terminated not in connection with or after a change in control or due to disability or death.

(2) Payable to Mr. Haligowski under his employment agreement and non-competition and non-solicitation agreement and the Salary Continuation Plan for the applicable period described under Agreements with Mr. Haligowski-Employment Agreement, -Non-Competition and Non-Solicitation Agreement and -Salary Continuation Plan. These payments are comprised of the following: (i) in the case of voluntary termination not constituting Involuntary Termination under Mr. Haligowski s employment agreement, the present value of the total payments that would be made to him under the Salary Continuation Plan, using a discount rate of 5% ($4,441,000); (ii) in the case of Involuntary Termination not in connection with or after a change in control, or termination due to disability or death (A) the present value of the total payments that would be made to him (or his beneficiary, in the event of his death) under the Salary Continuation Plan, using a discount rate of 5% ($4,441,000) and (B) the aggregate amount of the total monthly salary and bonus continuation payments (through December 29, 2012) under his employment agreement ($7,824,000, or $130,400 per month); and (iii) in the case of Involuntary Termination in connection with or after a change in control, (A) the present value of the total payments that would be made to him under the Salary Continuation Plan, using a discount rate of 5% ($4,441,000) and (B) the total payments that would be made under his non-competition and non-solicitation agreement ($3,500,000).

(3) Represents the cost of providing the medical, dental and disability benefits described under Agreements with Mr. Haligowski-Employment Agreement.

(4) Represents the benefit, if any, associated with accelerating of unvested options outstanding at December 31, 2007, based on the closing price of the Company s stock on that date.

Table of Contents

(5) Represents aggregate of death benefit under supplemental life insurance policy maintained for Mr. Haligowski of $1,700,000 and death benefit under split dollar life insurance policy, net of proceeds paid to the Company, of $760,000.

(6) Represents the cost or value of $250,000 for continued use of office space and secretarial support, $146,000 for the transfer to Mr. Haligowski of title to his leased vehicle, and $441,000 representing the transfer to Mr. Haligowski of our interest in life insurance policies on his life. The cost of office space and secretarial support are excluded if termination occurs as a result of disability or death as these benefits would not be provided under such circumstances.

(7) Represents lump sum amount payable to Mr. Haligowski under his employment agreement in the event his employment is Involuntarily Terminated in connection with or following a change in control of the Company, as described under Agreements with Mr. Haligowski-Employment Agreement.

(8) Based on the amounts shown in the table, no tax gross up payment would be payable to Mr. Haligowski under his employment agreement. See Agreements with Mr. Haligowski Employment Agreement.

**Norval L. Bruce**

| Termination Scenario | Payment of 299% of Base Amount (1) | Health Coverage and Life Insurance Continuation(2) | Accelerated Vesting of Stock and Option Awards(3) | Other Benefits(4) |
|---|---|---|---|---|
| If Termination Without Cause under his Change of Control Agreement in connection with or within 36 months after change in control occurs | $ 1,000,000 | $ 24,017 | $ | $ 71,833 |

(1) Represents lump sum amount payable to Mr. Bruce under his change of control agreement in the event his employment is terminated in connection with or following a change in control of the Company, as described under Change of Control Agreements.

(2) Represents the cost of providing the health, dental and life insurance benefits described under Change of Control Agreements.

(3) Represents the benefit, if any, associated with accelerating of unvested options outstanding at December 31, 2007, based on the closing price of the Company s stock on that date.

(4) Represents the cost or value of $48,400 for the transfer to Mr. Bruce of title to his leased vehicle, $5,430 for the transfer to Mr. Bruce of home-based computer equipment and $18,000 for the transfer to Mr. Bruce of our interest in a golf club membership.

**Timothy M. Doyle**

| Termination Scenario | Payment of 299% of Base Amount (1) | Health Coverage and Life Insurance Continuation(2) | Accelerated Vesting of Stock and Option Awards(3) | Death Benefit under Supplemental Life Insurance Policy(4) | Other Benefits(5) |
|---|---|---|---|---|---|
| If Termination Without Cause under his Change of Control Agreement in connection with or within 36 months after change in control occurs | $ 1,250,000 | $ 47,198 | $ | $ | $ 60,056 |
| If termination occurs as a result of death | $ | $ | $ | $ 250,000 | $ |

(1) Represents lump sum amount payable to Mr. Doyle under his change of control agreement in the event his employment is terminated in connection with or following a change in control of the Company, as described under Change of Control Agreements.

(2) Represents the cost of providing the health, dental and life insurance benefits described under Change of Control Agreements.

29

(3) Represents the benefit, if any, associated with accelerating of unvested options outstanding at December 31, 2007, based on the closing price of the Company s stock on that date.

(4) Represents death benefit payable under supplemental life insurance policy maintained by the Company for Mr. Doyle s benefit.

(5) Represents the cost or value of $52,740 for the transfer to Mr. Doyle of title to his leased vehicle and $7,320 for the transfer to Mr. Doyle of home-based computer equipment.

**Lyle C. Lodwick**

| Termination Scenario | Lump Sum Payment(1) | Health Coverage and Life Insurance Continuation(2) | Accelerated Vesting of Stock and Option Awards(3) | Other Benefits(4) |
|---|---|---|---|---|
| If Involuntary Termination under Change in Control Severance Agreement in connection with or within 24 months after change in control occurs | $ 412,488 | $ 17,463 | $ | $ 35,900 |

(1) Represents lump sum amount payable to Mr. Lodwick under his change of control agreement in the event his employment is Involuntarily Terminated in connection with or following a change in control of the Company, as described under Change of Control Agreements.

(2) Represents the cost of providing the health, dental and life insurance benefits described under Change of Control Agreements.

(3) Represents the benefit, if any, associated with accelerating of unvested options outstanding at December 31, 2007, based on the closing price of the Company s stock on that date.

(4) Represents the cost or value of $35,900 for the transfer to Mr. Lodwick of title to his leased vehicle.

**Phillip E. Lombardi**

| Termination Scenario | Lump Sum Payment(1) | Health Coverage and Life Insurance Continuation(2) | Accelerated Vesting of Stock and Option Awards(3) | Other Benefits(4) |
|---|---|---|---|---|
| If Involuntary Termination under Change in Control Severance Agreement in connection with or within | $ 392,500 | $ 10,214 | $ | $ 23,220 |

24 months after change in control occurs

(1) Represents lump sum amount payable to Mr. Lombardi under his change of control agreement in the event his employment is Involuntarily Terminated in connection with or following a change in control of the Company, as described under Change of Control Agreements.

(2) Represents the cost of providing the health, dental and life insurance benefits described under Change of Control Agreements.

(3) Represents the benefit, if any, associated with accelerating of unvested options outstanding at December 31, 2007, based on the closing price of the Company s stock on that date.

(4) Represents the cost or value of $23,220 for the transfer to Mr. Lombardi of title to his leased vehicle.

**Compensation Committee Report**

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis contained above with management and, based on such review and discussion, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement.

Submitted by the Compensation Committee of ICB s Board of Directors:

Jeffrey L. Lipscomb
Sandor X. Mayuga
Hirotaka Oribe

### Compensation Committee Interlocks and Insider Participation

No member of the Compensation Committee is a current or former officer or employee of ICB or any of its subsidiaries. None of our executive officers has served on the board of directors or the compensation committee of any other entity that had an executive officer serving on our Board of Directors or on the Compensation Committee of our Board of Directors.

## TRANSACTIONS WITH CERTAIN RELATED PERSONS

Our Code of Business Conduct and Ethics provides that all related party transactions (defined as transactions requiring disclosure under Item 404 of Securities and Exchange Commission Regulation S-K) must be approved reviewed and approved by a majority of our disinterested independent directors.

During 2007, we utilized the services of Keesal, Young & Logan. Director Mayuga is of counsel to that law firm. During 2007, this law firm received $4,000 in legal fees from ICB and the Bank.

ICB entered into a lending agreement with Mr. Haligowski as of January 20, 2000 for a seven hundred thousand dollar ($700,000) line of credit. To date, no funds have been drawn down from this line.

The Bank may from time to time make loans and other extensions of credit to our directors and executive officers and members of their immediate families and affiliated entities. All of such currently outstanding loans or extensions of credit were made in the ordinary course of business and on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans to persons not related to the Bank, and do not involve more than the normal risk of collectibility or present other unfavorable features.

## SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires our directors and executive officers, and persons who own more than 10% of a registered class of our equity securities, to file with the SEC initial reports of ownership and reports of changes in ownership of our Common Stock and other equity securities. Officers, directors and greater than 10% shareholders are required by SEC regulation to furnish us with copies of all Section 16(a) forms they file.

To our knowledge, based solely on a review of the copies of such reports furnished to us and written representations that no other reports were required, during the fiscal year ended December 31, 2007, all Section 16(a) filing requirements applicable to its officers, directors and greater than 10% beneficial owners were complied with.

## PROPOSAL II RATIFICATION OF THE APPOINTMENT OF INDEPENDENT AUDITORS

The Audit Committee has reappointed Ernst & Young LLP as the independent registered public accounting firm to audit our financial statements for the year ending December 31, 2008. In making its determination to reappoint Ernst & Young LLP as our independent auditors for the 2008 fiscal year, the Audit Committee considered whether the providing of services (and the aggregate fees billed for those services) by Ernst & Young LLP, other than audit services, is compatible with maintaining the independence of the outside accountants. Our shareholders are being asked to ratify this appointment at the Meeting. If the appointment of Ernst & Young LLP is not ratified by the shareholders, the Audit Committee may appoint other independent auditors or may decide to maintain its appointment of Ernst & Young LLP.

A representative of Ernst & Young LLP is expected to attend the Meeting to respond to appropriate questions and will have an opportunity to make a statement if he or she so desires.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT SHAREHOLDERS VOTE FOR THE RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG LLP AS OUR INDEPENDENT AUDITORS FOR THE YEAR ENDING DECEMBER 31, 2008.**

## SHAREHOLDER PROPOSALS

In order to be eligible for inclusion in our proxy materials for next year s Annual Meeting of Shareholders, any shareholder proposal to take action at such meeting must be received at our executive office at 888 Prospect Street, Suite 110, La Jolla, California 92037 no later than March 3, 2009. Any such proposal will be subject to the requirements of the proxy rules adopted under the Exchange Act, and as with any shareholder proposal (regardless of whether included in our proxy materials), our certificate of incorporation and bylaws and Delaware law. To be considered for presentation at the next annual meeting, but not for inclusion in our proxy materials for the meeting, a shareholder proposal must be received at our executive office by May 8, 2009; however, if the date of the next annual meeting is held before July 17, 2009 or after October 5, 2009, the proposal must be received by the close of business on the later of the 90th day prior to such annual meeting or the tenth day following the day on which notice of the date of the annual meeting is mailed or public disclosure of the date of such meeting is first made.

## OTHER MATTERS

As of the date of this Proxy Statement, our Board of Directors is not aware of any business to come before the Meeting other than the matters described above in this Proxy Statement. If, however, any other matters should properly come before the Meeting, it is intended that our Board of Directors, as proxy for the shareholder, will act in accordance with its best judgment.

The cost of solicitation of proxies will be borne by ICB. ICB will reimburse brokerage firms and other custodians, nominees and fiduciaries for reasonable expenses incurred by them in sending proxy materials to the beneficial owners of our Common Stock. In addition to solicitation by mail, directors, officers and regular employees of ICB may solicit proxies personally or by telegraph or telephone, without additional compensation. ICB has retained Regan & Associates, Inc. to assist in the solicitation of proxies for a fee estimated to be approximately $6,000, which includes reasonable out of pocket expenses.

BY ORDER OF THE BOARD OF DIRECTORS

George W. Haligowski<br>
Chairman of the Board, President and<br>
Chief Executive Officer

La Jolla, California<br>
July 1, 2008

Table of Contents

**REVOCABLE PROXY**

**IMPERIAL CAPITAL BANCORP, INC.**
**ANNUAL MEETING OF SHAREHOLDERS**
**August 6, 2008**
**THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS**

The undersigned hereby appoints the Board of Directors of Imperial Capital Bancorp, Inc. ( ICB ), and its survivor, with full power of substitution, to act as attorneys and proxies for the undersigned to vote all shares of common stock of ICB which the undersigned is entitled to vote at the Annual Meeting of Shareholders (the Meeting ), to be held on August 6, 2008 at the Loews Coronado Bay Resort, located at 4000 Coronado Bay Road, Coronado, California, at 2:00 p.m. (California Time), and at any and all adjournments or postponements thereof, as follows:

**THIS PROXY WILL BE VOTED AS DIRECTED, BUT IF NO INSTRUCTIONS ARE SPECIFIED, THIS PROXY WILL BE VOTED FOR THE ELECTION OF ALL DIRECTOR NOMINEES NAMED HEREIN AND FOR THE RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG LLP. IF ANY OTHER BUSINESS IS PRESENTED AT THE MEETING, THIS PROXY WILL BE VOTED BY THE BOARD OF DIRECTORS, AS PROXY FOR THE SHAREHOLDER, IN THEIR BEST JUDGMENT. AT THE PRESENT TIME, THE BOARD OF DIRECTORS KNOWS OF NO OTHER BUSINESS TO BE PRESENTED AT THE MEETING.**

**PLEASE PROMPTLY COMPLETE, DATE, SIGN AND MAIL THIS PROXY IN THE ENCLOSED POSTAGE-PAID ENVELOPE**

**(Continued and to be marked, dated and signed on reverse side)**

**Address Change/Comments (Mark the corresponding box on the reverse side)**

5 **DETACH PROXY CARD HERE** 5

Table of Contents

Mark Here for Address Change or Comments o
**PLEASE SEE REVERSE SIDE**

ELECTION OF DIRECTORS

| | FOR | FOR ALL EXCEPT | VOTE WITHHELD |
|---|---|---|---|
| I. The election as directors of all nominees listed below, each for a three-year term: | o | o | o |

INSTRUCTION: To vote for both nominees, mark FOR. To vote for one nominee, but not both nominees, mark FOR ALL EXCEPT and strike a line through the name of the nominee below for whom you wish to withhold authority to vote. To withhold authority to vote for both nominees, mark VOTE WITHHELD.

George W. Haligowski
Hirotaka Oribe

| | FOR | AGAINST | ABSTAIN |
|---|---|---|---|
| II. The ratification of the appointment of Ernst & Young LLP as independent auditors for ICB for the year ending December 31, 2008. | o | o | o |

In its discretion, the Board of Directors, as proxy for the shareholder, is authorized to vote on any other business that may properly come before the Meeting or any adjournment or postponement thereof.

The Board of Directors recommends a vote **FOR** the election of all director nominees named above and **FOR** the ratification of the appointment of Ernst & Young LLP.

This proxy may be revoked at any time before it is voted by: (i) duly executing a subsequent proxy relating to the same shares and delivering it to the Secretary of ICB prior to the exercise of this proxy; (ii) filing with the Secretary of ICB at or before the Meeting a written notice of revocation bearing a later date than this proxy; or (iii) attending the Meeting and voting in person (although attendance at the Meeting will not in and of itself constitute revocation of a proxy). If this proxy is properly revoked as described above, then the power of the Board of Directors as attorneys and proxies for the undersigned shall be deemed terminated and of no further force and effect.

The undersigned acknowledges receipt from ICB prior to the execution of this Proxy, of Notice of the Meeting, a related Proxy Statement and ICB s Annual Report to Shareholders for the year ended December 31, 2007.

**Signature(s)**
**x** **Dated:**

**Please sign exactly as your name appears above on this card. When signing as attorney, executor, administrator, trustee or guardian, please give your full title. If shares are held jointly, each holder should sign.**

5 **PLEASE DETACH HERE** 5
**You Must Detach This Portion of the Proxy Card**
**Before Returning it in the Enclosed Envelope**

rder-bottom:double 2.5pt transparent;white-space:nowrap;">

$

213,754

$

327,822

$

(561,459

)

$

246,413

| For the nine months ended September 30, 2014 | DaVita HealthCare Partners Inc. | Guarantor subsidiaries | Non-Guarantor subsidiaries | Consolidating adjustments | Consolidated total |
|---|---|---|---|---|---|
| Net income | $ 515,094 | $ 486,724 | $ 353,538 | $ (742,414 ) | $ 612,942 |
| Other comprehensive income (loss) | 2,892 | — | (11,871 ) | — | (8,979 ) |

| | | | | | |
|---|---|---|---|---|---|
| Total comprehensive income | 517,986 | 486,724 | 341,667 | (742,414 ) | 603,963 |
| Less: comprehensive income attributable to the noncontrolling interests | — | — | — | (97,848 ) | (97,848 ) |
| Comprehensive income attributable to DaVita HealthCare Partners Inc. | $ 517,986 | $ 486,724 | $ 341,667 | $ (840,262 ) | $ 506,115 |

26

DAVITA HEALTHCARE PARTNERS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(continued)

(unaudited)

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

Condensed Consolidating Balance Sheets

| As of September 30, 2015 | DaVita HealthCare Partners Inc. | Guarantor subsidiaries | Non-Guarantor subsidiaries | Consolidating adjustments | Consolidated total |
|---|---|---|---|---|---|
| Cash and cash equivalents | $721,477 | $88,969 | $236,973 | $— | $1,047,419 |
| Accounts receivable, net | — | 940,399 | 759,493 | — | 1,699,892 |
| Other current assets | 941,660 | 956,238 | 92,677 | — | 1,990,575 |
| Total current assets | 1,663,137 | 1,985,606 | 1,089,143 | — | 4,737,886 |
| Property and equipment, net | 204,437 | 1,510,820 | 906,661 | — | 2,621,918 |
| Amortizable intangibles, net | 86,336 | 1,690,110 | 50,336 | — | 1,826,782 |
| Investments in subsidiaries | 8,995,822 | 1,580,113 | — | (10,575,935 ) | — |
| Intercompany receivables | 3,508,016 | — | 644,469 | (4,152,485 ) | — |
| Other long-term assets and investments | 59,900 | 54,381 | 106,382 | — | 220,663 |
| Goodwill | — | 8,028,591 | 1,458,988 | — | 9,487,579 |
| Total assets | $14,517,648 | $14,849,621 | $4,255,979 | $(14,728,420 ) | $18,894,828 |
| Current liabilities | $167,134 | $1,764,955 | $478,465 | $— | $2,410,554 |
| Intercompany payables | — | 2,725,877 | 1,426,608 | (4,152,485 ) | — |
| Long-term debt and other long-term liabilities | 8,787,905 | 1,362,967 | 244,066 | — | 10,394,938 |
| Noncontrolling interests subject to put provisions | 572,256 | — | — | 324,883 | 897,139 |
| Total DaVita HealthCare Partners Inc. shareholders' equity | 4,990,353 | 8,995,822 | 1,580,113 | (10,575,935 ) | 4,990,353 |
| Noncontrolling interests not subject to put provisions | — | — | 526,727 | (324,883 ) | 201,844 |
| Total equity | 4,990,353 | 8,995,822 | 2,106,840 | (10,900,818 ) | 5,192,197 |
| Total liabilities and equity | $14,517,648 | $14,849,621 | $4,255,979 | $(14,728,420 ) | $18,894,828 |

| As of December 31, 2014 | DaVita HealthCare Partners Inc. | Guarantor subsidiaries | Non-Guarantor subsidiaries | Consolidating adjustments | Consolidated total |
|---|---|---|---|---|---|
| Cash and cash equivalents | $698,876 | $77,921 | $188,444 | $— | $965,241 |
| Accounts receivable, net | — | 915,851 | 609,998 | — | 1,525,849 |
| Other current assets | 362,672 | 930,093 | 92,942 | — | 1,385,707 |
| Total current assets | 1,061,548 | 1,923,865 | 891,384 | — | 3,876,797 |
| Property and equipment, net | 195,690 | 1,473,188 | 800,221 | — | 2,469,099 |
| Amortizable intangibles, net | 85,338 | 1,811,218 | 52,942 | — | 1,949,498 |

| | | | | | |
|---|---|---|---|---|---|
| Investments in subsidiaries | 8,868,335 | 1,561,195 | — | (10,429,530 ) | — |
| Intercompany receivables | 3,723,454 | — | 564,241 | (4,287,695 ) | — |
| Other long-term assets and investments | 70,309 | 60,385 | 101,332 | — | 232,026 |
| Goodwill | — | 7,958,221 | 1,457,074 | — | 9,415,295 |
| Total assets | $14,004,674 | $14,788,072 | $3,867,194 | $(14,717,225 ) | $17,942,715 |
| Current liabilities | $180,977 | $1,493,243 | $414,432 | $— | $2,088,652 |
| Intercompany payables | — | 3,105,173 | 1,182,522 | (4,287,695 ) | — |
| Long-term debt and other long-term liabilities | 8,124,863 | 1,321,321 | 217,603 | — | 9,663,787 |
| Noncontrolling interests subject to put provisions | 528,321 | — | — | 301,644 | 829,965 |
| Total DaVita HealthCare Partners Inc. shareholders' equity | 5,170,513 | 8,868,335 | 1,561,195 | (10,429,530 ) | 5,170,513 |
| Noncontrolling interests not subject to put provisions | — | — | 491,442 | (301,644 ) | 189,798 |
| Total equity | 5,170,513 | 8,868,335 | 2,052,637 | (10,731,174 ) | 5,360,311 |
| Total liabilities and equity | $14,004,674 | $14,788,072 | $3,867,194 | $(14,717,225 ) | $17,942,715 |

DAVITA HEALTHCARE PARTNERS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(continued)

(unaudited)

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

Condensed Consolidating Statements of Cash Flows

| For the nine months ended September 30, 2015 | DaVita HealthCare Partners Inc. | Guarantor subsidiaries | Non-Guarantor subsidiaries | Consolidating adjustments | Consolidated total |
|---|---|---|---|---|---|
| Cash flows from operating activities: | | | | | |
| Net income | $ 275,732 | $ 213,754 | $ 347,705 | $ (444,255 ) | $ 392,936 |
| Changes in operating assets and liabilities and non-cash items included in net income | (187,876 ) | 441,752 | 29,460 | 444,255 | 727,591 |
| Net cash provided by operating activities | 87,856 | 655,506 | 377,165 | — | 1,120,527 |
| Cash flows from investing activities: | | | | | |
| Additions of property and equipment, net | (39,448 ) | (222,447 ) | (200,318 ) | | (462,213 ) |
| Acquisitions | — | (73,339 ) | (17,370 ) | | (90,709 ) |
| Proceeds from asset and business sales | — | 6,865 | — | | 6,865 |
| (Purchases) proceeds from investment sales and other items | (587,583 ) | 1,513 | (18,257 ) | | (604,327 ) |
| Net cash used in investing activities | (627,031 ) | (287,408 ) | (235,945 ) | — | (1,150,384 ) |
| Cash flows from financing activities: | | | | | |
| Long-term debt and related financing costs, net | 661,260 | (13,183 ) | (8,760 ) | | 639,317 |
| Intercompany borrowing | 304,623 | (320,262 ) | 15,639 | | — |
| Other items | (404,107 ) | (23,605 ) | (97,726 ) | | (525,438 ) |
| Net cash provided by (used in) financing activities | 561,776 | (357,050 ) | (90,847 ) | — | 113,879 |
| Effect of exchange rate changes on cash | — | — | (1,844 ) | — | (1,844 ) |
| Net increase in cash and cash equivalents | 22,601 | 11,048 | 48,529 | | 82,178 |
| Cash and cash equivalents at beginning of period | 698,876 | 77,921 | 188,444 | | 965,241 |
| Cash and cash equivalents at end of period | $ 721,477 | $ 88,969 | $ 236,973 | $ — | $ 1,047,419 |

| For the nine months ended September 30, 2014 | DaVita HealthCare Partners Inc. | Guarantor subsidiaries | Non-Guarantor subsidiaries | Consolidating adjustments | Consolidated total |
|---|---|---|---|---|---|
| Cash flows from operating activities: | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Net income | $ 515,094 | $ 486,724 | $ 353,538 | $ (742,414 ) | $ 612,942 |
| Changes in operating assets and liabilities and non-cash items included in net income | (479,441 ) | 578,778 | 74,705 | 742,414 | 916,456 |
| Net cash provided by operating activities | 35,653 | 1,065,502 | 428,243 | — | 1,529,398 |
| Cash flows from investing activities: | | | | | |
| Additions of property and equipment, net | (37,752 ) | (215,072 ) | (190,683 ) | | (443,507 ) |
| Acquisitions | — | (204,670 ) | (13,447 ) | | (218,117 ) |
| Proceeds from asset sales | — | 3,620 | — | | 3,620 |
| Purchases of investments and other items | (137,313 ) | (33,111 ) | (2,757 ) | | (173,181 ) |
| Net cash used in investing activities | (175,065 ) | (449,233 ) | (206,887 ) | — | (831,185 ) |
| Cash flows from financing activities: | | | | | |
| Long-term debt and related financing costs, net | 40,250 | (9,247 ) | 295 | | 31,298 |
| Intercompany borrowing | 759,648 | (622,853 ) | (136,795 ) | | — |
| Other items | (74,955 ) | (8,292 ) | (67,060 ) | | (150,307 ) |
| Net cash provided by (used in) financing activities | 724,943 | (640,392 ) | (203,560 ) | — | (119,009 ) |
| Effect of exchange rate changes on cash | | | 1,582 | | 1,582 |
| Net increase (decrease) in cash and cash equivalents | 585,531 | (24,123 ) | 19,378 | | 580,786 |
| Cash and cash equivalents at beginning of period | 602,188 | 151,454 | 192,607 | | 946,249 |
| Cash and cash equivalents at end of period | $ 1,187,719 | $ 127,331 | $ 211,985 | $ — | $ 1,527,035 |

DAVITA HEALTHCARE PARTNERS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(continued)

(unaudited)

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

21. Supplemental data

The following information is presented as supplemental data as required by the indentures governing the Company's senior notes.

Condensed Consolidating Statements of Income

| For the nine months ended September 30, 2015 | Consolidated Total | Physician Groups | Unrestricted Subsidiaries | Company and Restricted Subsidiaries[(1)] |
|---|---|---|---|---|
| Patient service operating revenues | $7,049,428 | $98,305 | $ — | $ 6,951,123 |
| Less: Provision for uncollectible accounts | (314,581) | (5,335) | — | (309,246) |
| Net patient service operating revenues | 6,734,847 | 92,970 | — | 6,641,877 |
| Capitated revenues | 2,643,552 | 1,242,486 | — | 1,401,066 |
| Other revenues | 869,849 | 4,132 | — | 865,717 |
| Total net operating revenues | 10,248,248 | 1,339,588 | — | 8,908,660 |
| Operating expenses | 9,322,488 | 1,287,321 | (78) | 8,035,245 |
| Operating income | 925,760 | 52,267 | 78 | 873,415 |
| Debt expense, including refinancing charges | (353,193) | (6,518) | — | (346,675) |
| Other income | 4,262 | 195 | — | 4,067 |
| Income tax expense | 183,893 | 8,314 | 31 | 175,548 |
| Net income | 392,936 | 37,630 | 47 | 355,259 |
| Less: Net income attributable to noncontrolling interests | (117,204) | — | — | (117,204) |
| Net income attributable to DaVita HealthCare Partners Inc. | $275,732 | $37,630 | $ 47 | $ 238,055 |

(1) After elimination of the unrestricted subsidiaries and the physician groups.

Condensed Consolidating Statements of Comprehensive Income

| For the nine months ended September 30, 2015 | Consolidated Total | Physician Groups | Unrestricted Subsidiaries | Company and Restricted Subsidiaries[(1)] |
|---|---|---|---|---|
| Net income | $ 392,936 | $ 37,630 | $ 47 | $ 355,259 |

| | | | | |
|---|---|---|---|---|
| Other comprehensive loss | (29,319) | — | — | (29,319) |
| Total comprehensive income | 363,617 | 37,630 | 47 | 325,940 |
| Less: comprehensive income attributable to the noncontrolling interests | (117,204) | — | — | (117,204) |
| Comprehensive income attributable to DaVita HealthCare Partners Inc. | $ 246,413 | $ 37,630 | $ 47 | $ 208,736 |

(1) After elimination of the unrestricted subsidiaries and the physician groups.

DAVITA HEALTHCARE PARTNERS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(continued)

(unaudited)

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

Condensed Consolidating Balance Sheets

| As of September 30, 2015 | Consolidated Total | Physician Groups | Unrestricted Subsidiaries | Company and Restricted Subsidiaries[(1)] |
|---|---|---|---|---|
| Cash and cash equivalents | $ 1,047,419 | $ 81,730 | $ — | $ 965,689 |
| Accounts receivable, net | 1,699,892 | 336,176 | — | 1,363,716 |
| Other current assets | 1,990,575 | 17,033 | — | 1,973,542 |
| Total current assets | 4,737,886 | 434,939 | — | 4,302,947 |
| Property and equipment, net | 2,621,918 | 1,902 | — | 2,620,016 |
| Amortizable intangibles, net | 1,826,782 | 6,218 | — | 1,820,564 |
| Other long-term assets | 220,663 | 69,010 | 2,889 | 148,764 |
| Goodwill | 9,487,579 | 15,967 | — | 9,471,612 |
| Total assets | $ 18,894,828 | $ 528,036 | $ 2,889 | $ 18,363,903 |
| Current liabilities | $ 2,410,554 | $ 249,122 | $ — | $ 2,161,432 |
| Payables to parent | — | 172,149 | 2,889 | (175,038 ) |
| Long-term debt and other long-term liabilities | 10,394,938 | 52,611 | — | 10,342,327 |
| Noncontrolling interests subject to put provisions | 897,139 | — | — | 897,139 |
| Total DaVita HealthCare Partners Inc. shareholders' equity | 4,990,353 | 54,154 | — | 4,936,199 |
| Noncontrolling interests not subject to put provisions | 201,844 | — | — | 201,844 |
| Shareholders' equity | 5,192,197 | 54,154 | — | 5,138,043 |
| Total liabilities and shareholder's equity | $ 18,894,828 | $ 528,036 | $ 2,889 | $ 18,363,903 |

(1) After elimination of the unrestricted subsidiaries and the physician groups.

Condensed Consolidating Statements of Cash Flows

| For the nine months ended September 30, 2015 | Consolidated Total | Physician Groups | Unrestricted Subsidiaries | Company and Restricted Subsidiaries[(1)] |
|---|---|---|---|---|
| Cash flows from operating activities: | | | | |
| Net income | $ 392,936 | $ 37,630 | $ 47 | $ 355,259 |
| Changes in operating and intercompany assets and liabilities and non-cash items included in net income | 727,591 | (57,518 ) | (47 ) | 785,156 |
| Net cash provided by (used in) operating activities | 1,120,527 | (19,888 ) | — | 1,140,415 |
| Cash flows from investing activities: | | | | |

| | | | | |
|---|---|---|---|---|
| Additions of property and equipment | (462,213) | (143) | — | (462,070) |
| Acquisitions and divestitures, net | (90,709) | — | — | (90,709) |
| Proceeds from discontinued operations | 6,865 | — | — | 6,865 |
| Investments and other items | (604,327) | (1,973) | — | (602,354) |
| Net cash used in investing activities | (1,150,384) | (2,116) | — | (1,148,268) |
| Cash flows from financing activities: | | | | |
| Long-term debt | 639,317 | — | — | 639,317 |
| Intercompany | — | (8,714) | — | 8,714 |
| Other items | (525,438) | — | — | (525,438) |
| Net cash used in by financing activities | 113,879 | (8,714) | — | 122,593 |
| Effect of exchange rate changes on cash | (1,844) | — | — | (1,844) |
| Net increase (decrease) in cash | 82,178 | (30,718) | — | 112,896 |
| Cash and cash equivalents at beginning of period | 965,241 | 112,448 | — | 852,793 |
| Cash and cash equivalents at end of period | $ 1,047,419 | $ 81,730 | $ — | $ 965,689 |

(1) After elimination of the unrestricted subsidiaries and the physician groups.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.
Forward-looking statements

This Management’s Discussion and Analysis of Financial Condition and Results of Operations contains statements that are forward-looking statements within the meaning of the federal securities laws. All statements that do not concern historical facts are forward-looking statements and include, among other things, statements about our expectations, beliefs, intentions and/or strategies for the future. These forward-looking statements include statements regarding our future operations, financial condition and prospects, expectations for treatment growth rates, revenue per treatment, expense growth, levels of the provision for uncollectible accounts receivable, operating income, cash flow, operating cash flow, estimated tax rates, capital expenditures, the development of new dialysis centers and dialysis center acquisitions, government and commercial payment rates, revenue estimating risk and the impact of our level of indebtedness on our financial performance, and including earnings per share. These statements involve substantial known and unknown risks and uncertainties that could cause our actual results to differ materially from those described in the forward-looking statements, including but not limited to, risks resulting from the concentration of profits generated by higher-paying commercial payor plans for which there is continued downward pressure on average realized payment rates, and a reduction in the number of patients under such plans, which may result in the loss of revenues or patients, a reduction in government payment rates under the Medicare end stage renal disease (ESRD) program or other government-based programs, the impact of the Center for Medicare and Medicaid Services (CMS) 2015 Medicare Advantage benchmark structure, risks arising from potential federal and/or state legislation that could have an adverse effect on our operations and profitability, changes in pharmaceutical or anemia management practice patterns, payment policies, or pharmaceutical pricing, legal compliance risks, including our continued compliance with complex government regulations, compliance with the provisions of our current corporate integrity agreement and current or potential investigations by various government entities and related government or private-party proceedings, restrictions on our business and operations required by our corporate integrity agreement and other settlement terms, and the financial impact thereof, continued increased competition from large- and medium-sized dialysis providers that compete directly with us, our ability to maintain contracts with physician medical directors, changing affiliation models for physicians, and the emergence of new models of care introduced by the government or private sector that may erode our patient base and reimbursement rates such as accountable care organizations (ACOs), independent practice associations (IPAs) and integrated delivery systems, or to businesses outside of dialysis and HCP’s business, our ability to complete acquisitions, mergers or dispositions that we might be considering or announce, or to integrate and successfully operate any business we may acquire or have acquired, including HCP, or to expand our operations and services to markets outside the U.S., variability of our cash flows, the risk that we might invest material amounts of capital and incur significant costs in connection with the growth and development of our international operations, yet we might not be able to operate them profitably anytime soon, if at all, risks arising from the use of accounting estimates, judgments and interpretations in our financial statements, loss of key HCP employees, potential disruption from the HCP transaction making it more difficult to maintain business and operational relationships with customers, partners, associated physicians and physician groups, hospitals and others, the risk that laws regulating the corporate practice of medicine could restrict the manner in which HCP conducts its business, the risk that the cost of providing services under HCP’s agreements may exceed our compensation, the risk that reductions in reimbursement rates, including Medicare Advantage rates, and future regulations may negatively impact HCP’s business, revenue and profitability, the risk that HCP may not be able to successfully establish a presence in new geographic regions or successfully address competitive threats that could reduce its profitability, the risk that a disruption in HCP’s healthcare provider networks could have an adverse effect on HCP’s business operations and profitability, the risk that reductions in the quality ratings of health maintenance organization plan customers of HCP could have an adverse effect on HCP’s business, or the risk that health plans that acquire health maintenance organizations may not be willing to contract with HCP or may be willing to contract only on less favorable terms, and the other risk factors set forth in Part II, Item 1A. of this Quarterly Report on Form 10-Q. We base our forward-looking statements on information currently available to us, and we undertake no obligation to update or revise any forward-looking statements, whether as a result of changes in underlying factors, new

information, future events or otherwise.

The following should be read in conjunction with our condensed consolidated financial statements.

Consolidated results of operations

We operate 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, our ancillary services and strategic initiatives, including our international operations, and our corporate support costs. Our HCP division is comprised of our HCP integrated healthcare business.

Our largest major line of business is our U.S. dialysis and related lab services, which is a leading provider of kidney dialysis services in the U.S. for patients suffering from ESRD. Our other major line of business, HCP, is a patient- and physician-focused integrated health care delivery and management company.

31

---

The following is a summary of our consolidated operating results for the third quarter of 2015 compared with the prior sequential quarter and the same quarter of 2014, as well as the nine months ended September 30, 2015 compared to the same period in 2014.

| | Three months ended | | | | | | Nine months ended | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | September 30, 2015 | | June 30, 2015 | | September 30, 2014 | | September 30, 2015 | | September 30, 2014 | |
| | (dollar amounts rounded to nearest million) | | | | | | | | | |
| Net revenues: | | | | | | | | | | |
| Patient service revenues | $2,414 | | $2,364 | | $2,243 | | $7,050 | | $6,544 | |
| Less: Provision for uncollectible accounts | (109) | | (106) | | (99) | | (315) | | (270) | |
| Net patient service revenues | 2,305 | | 2,258 | | 2,144 | | 6,735 | | 6,274 | |
| Capitated revenues | 927 | | 866 | | 848 | | 2,643 | | 2,435 | |
| Other revenues | 294 | | 311 | | 260 | | 870 | | 758 | |
| Total consolidated net revenues | 3,526 | 100% | 3,435 | 100% | 3,252 | 100% | 10,248 | 100% | 9,467 | 100% |
| Operating expenses and charges: | | | | | | | | | | |
| Patient care costs | 2,501 | 71% | 2,446 | 71% | 2,326 | 72% | 7,310 | 71% | 6,753 | 71% |
| General and administrative | 354 | 10% | 352 | 10% | 323 | 10% | 1,047 | 10% | 905 | 10% |
| Depreciation and amortization | 162 | 5% | 159 | 5% | 149 | 5% | 475 | 5% | 438 | 5% |
| Provision for uncollectible accounts | 3 | — | 2 | — | 4 | — | 6 | — | 10 | — |
| Equity investment income | (3) | — | (5) | — | (5) | — | (11) | — | (19) | — |
| Loss contingency reserve and settlement charge | — | — | — | — | 17 | — | 495 | 5% | 17 | — |
| Total operating expenses and charges | 3,017 | 86% | 2,954 | 86% | 2,814 | 87% | 9,322 | 91% | 8,104 | 86% |
| Operating income | $509 | 14% | $481 | 14% | $438 | 13% | $926 | 9% | $1,363 | 14% |

The following table summarizes consolidated net revenues for our Kidney Care division and our HCP division:

| | Three months ended | | | Nine months ended | |
|---|---|---|---|---|---|
| | September 30, 2015 | June 30, 2015 | September 30, 2014 | September 30, 2015 | September 30, 2014 |
| | (dollar amounts rounded to nearest million) | | | | |
| Net revenues: | | | | | |
| Kidney Care: | | | | | |
| U.S. dialysis and related lab services patient service revenues | $ 2,301 | $ 2,252 | $ 2,165 | $ 6,718 | $ 6,307 |
| Less: Provision for uncollectible accounts | (103 ) | (101 ) | (92 ) | (302 ) | (258 ) |
| U.S. dialysis and related lab services net patient service revenues | $ 2,198 | $ 2,151 | $ 2,073 | $ 6,416 | $ 6,049 |
| Other revenues | 3 | 3 | 3 | 10 | 10 |
| Total net U.S. dialysis and related lab services revenues | 2,201 | 2,154 | 2,076 | 6,426 | 6,059 |
| Other—Ancillary services and strategic initiatives revenues | 283 | 277 | 247 | 812 | 690 |
| Other—Capitated revenues | 20 | 18 | 21 | 56 | 53 |
| Other—Ancillary services and strategic initiatives net patient service revenues (less provision for uncollectible accounts) | 42 | 39 | 32 | 116 | 88 |
| Total net other-ancillary services and strategic initiatives revenues | 345 | 334 | 300 | 984 | 831 |
| Elimination of intersegment and division revenues | (21 ) | (19 ) | (16 ) | (57 ) | (43 ) |
| Total Kidney Care net revenues | 2,525 | 2,469 | 2,360 | 7,353 | 6,847 |
| HCP: | | | | | |
| HCP capitated revenues | 907 | 848 | 828 | 2,588 | 2,383 |
| HCP net patient service revenues (less provision for uncollectible accounts) | 79 | 82 | 50 | 241 | 164 |
| Other revenues | 15 | 36 | 14 | 66 | 73 |
| Total net HCP revenues | 1,001 | 966 | 892 | 2,895 | 2,620 |
| Total consolidated net revenues | $ 3,526 | $ 3,435 | $ 3,252 | $ 10,248 | $ 9,467 |

The following table summarizes consolidated operating income and adjusted consolidated operating income:

| | Three months ended | | | Nine months ended | |
|---|---|---|---|---|---|
| | September 30, 2015 | June 30, 2015 | September 30, 2014 | September 30, 2015 | September 30, 2014 |
| | (dollar amounts rounded to nearest million) | | | | |
| Operating income: | | | | | |
| Kidney Care: | | | | | |
| U.S. dialysis and related lab services | $462 | $ 438 | $ 400 | $795 | $ 1,195 |
| Other—Ancillary services and strategic initiatives losses | (30 ) | (26 ) | (6 ) | (70 ) | (6 ) |
| Corporate support costs | (6 ) | (3 ) | (3 ) | (14 ) | (8 ) |
| Total kidney care operating income | 426 | 409 | 391 | 711 | 1,181 |
| HCP | 83 | 72 | 47 | 215 | 182 |
| Total consolidated operating income | 509 | 481 | 438 | 926 | 1,363 |
| Reconciliation of non-GAAP measures: | | | | | |
| Add: | | | | | |
| Loss contingency accrual and settlement charge | — | — | 17 | 495 | 17 |
| Adjusted consolidated operating income[1] | $509 | $ 481 | $ 455 | $1,421 | $ 1,380 |

[1] For the nine months ended September 30, 2015 we have excluded $495 million related to a settlement charge in connection with the Vainer private civil suit. In addition, for the three and nine months ended September 30, 2014, we have excluded $17 million of a loss contingency accrual related to the 2010 and 2011 U.S. Attorney physician relationship investigations. These are non-GAAP measures and are not intended as a substitute for the GAAP equivalent measures. We have presented these adjusted

33

amounts because management believes that this presentation enhances a user's understanding of our normal consolidated operating income by excluding unusual items which we do not believe are indicative of our ordinary results of operations. As a result, adjusting for these amounts allows for comparison to our normal prior period results. We therefore consider these adjusted consolidated operating income amounts meaningful and comparable to our prior period results.

Consolidated net revenues

Consolidated net revenues for the third quarter of 2015 increased by approximately $91 million, or 2.6%, as compared to the second quarter of 2015. The increase in consolidated net revenues was primarily due to an increase of approximately $47 million associated with the U.S. dialysis and related lab services' net revenues, principally due to acquired and non-acquired treatment growth in existing centers, and one additional treatment day in the third quarter of 2015 as compared to the second quarter of 2015. Additionally, consolidated net revenues were positively impacted by an increase of approximately $35 million associated with HCP. The increase in HCP net revenues was primarily related to an increase in senior capitated revenue due to non-acquired growth of senior capitated members, the timing of the recognition of additional Medicaid risk sharing revenue due to decreased costs related to a lower claims experience, as well as an improved commercial risk pool performance due to improved patient utilization. These increases were partially offset by the timing of revenue associated with HCP's annual premium reconciliation of senior capitated members and the recognition of additional revenue related to the maintenance of existing physician networks during the second quarter of 2015. The overall increase in consolidated net revenues was also due to an increase of approximately $11 million associated with our ancillary services and strategic initiatives revenues, primarily from growth in our pharmacy revenues, partially offset by an increase in reserves for refunds of prior period pharmacy reimbursements.

Consolidated net revenues for the third quarter of 2015 increased by approximately $274 million, or 8.4%, as compared to the third quarter of 2014. The increase in consolidated net revenues was primarily due to an increase of $125 million in the U.S. dialysis and related lab services' net revenues, primarily as a result of volume growth from acquired and non-acquired treatment growth in existing and new centers and an increase in our average dialysis revenue per treatment of approximately $7. The increase in our average dialysis revenue per treatment was primarily due to improvements in our commercial payor mix and an increase in some of our commercial payment rates. The increase in consolidated net revenues was also due to an increase in HCP net revenues of $109 million, primarily due to an increase in the number of senior capitated members from acquisitions and non-acquired growth and the timing of the recognition of additional Medicaid risk sharing revenue described above for the third quarter of 2015 compared to the second quarter of 2015. This growth in consolidated net revenues was partially offset by a decline in the number of commercial members to whom HCP provides health care services as well as a decrease in senior Medicaid revenues due to the planned non-renewal of some unfavorable plans. In addition, the increase in consolidated net revenues was due to an increase of approximately $45 million in our ancillary services and strategic initiatives, mainly from growth in our pharmacy services and international operations, partially offset by an increase in reserves for refunds of prior period pharmacy reimbursements.

Consolidated net revenues for the nine months ended September 30, 2015 increased by approximately $781 million, or 8.2%, as compared to the same period in 2014. The increase in consolidated net revenues was primarily due to an increase of approximately $367 million associated with the U.S. dialysis and related lab services' net revenues, principally due to volume growth from acquired and non-acquired treatment growth in existing and new centers, and an increase in our average dialysis revenue per treatment of approximately $6. The increase in our average revenue per treatment was primarily due to an increase in our average commercial payment rates and improvements in our commercial payor mix. Consolidated net revenues also benefited from an increase in HCP's net revenues of approximately $275 million. The increase in HCP net revenues was primarily attributable to an increase in fee-for-service revenues from acquisitions, as well as the same factors discussed above in the third quarter of 2015 as compared to the third quarter of 2014. The increase in consolidated net revenues was also due to an increase of

approximately $153 million associated with our ancillary services and strategic initiatives revenues, primarily from growth in our pharmacy services and international operations, partially offset by an increase in reserves for refunds of prior period pharmacy reimbursements.

Consolidated operating income

Consolidated operating income for the third quarter of 2015 increased by approximately $28 million, or 5.8%, as compared to the second quarter of 2015. The increase in the consolidated operating income was primarily due to an increase in U.S. dialysis and related lab services' net revenues impacted by an increase in the number of dialysis treatments from acquired and non-acquired growth and one additional treatment day. Consolidated operating income was also positively impacted by lower professional fees, travel expenses for management meetings and long-term incentive compensation costs. The increase in consolidated operating income was also due to an increase in HCP net revenues due to lower HCP medical claims expense as a result of improved utilization and an increase in Medicaid risk sharing revenue due to a lower claims experience, partially offset by the recognition of additional revenue related to the maintenance of existing physician networks during the second quarter of 2015. Consolidated operating income was also negatively impacted by an increase in labor costs and general professional insurance costs, as well as an increase in the amount of losses recognized in our other ancillary services and strategic initiatives businesses, primarily due to an increase in reserves for refunds of prior period pharmacy reimbursements.

Consolidated operating income for the third quarter of 2015 increased by approximately $71 million as compared to the third quarter of 2014, including a loss contingency accrual of $17 million recorded in the third quarter of 2014 related to the 2010 and 2011 U.S. Attorney physician relationship investigations. Excluding this item from the third quarter of 2014, adjusted consolidated operating income for the third quarter of 2015 would have increased by $54 million, or 11.9%, as compared to the third quarter of 2014. Adjusted consolidated operating income increased primarily due to acquired and non-acquired treatment growth and an increase in average dialysis revenue per treatment of approximately $7, as discussed above. Adjusted consolidated operating income was also positively impacted by an increase in HCP's operating income for the third quarter of 2015 of approximately $36 million. The increase was primarily attributable to an increase in senior capitated members and patient service revenues due to acquisitions and non-acquired growth, and an increase in the Medicaid risk sharing revenue recognized in the third quarter of 2015. These increases were partially offset by a decrease in operating income in our other ancillary services and strategic initiatives businesses of approximately $24 million, primarily due to an increase in reserves for refunds of prior period pharmacy reimbursements. Additionally, adjusted consolidated operating income was negatively impacted by higher labor and benefit costs, pharmaceutical costs and professional fees.

Consolidated operating income for the first nine months of 2015 decreased by approximately $437 million as compared to the same period in 2014, including a settlement charge of $495 million related to the Vainer suit and a loss contingency accrual of $17 million related to the 2010 and 2011 U.S. Attorney physician relationship investigations recorded in the first quarter of 2015 and the third quarter of 2014, respectively. Excluding these items from their respective periods, adjusted consolidated operating income for the first nine months of 2015 would have increased by $41 million, or 3.0%, as compared to the same period in 2014. This increase in adjusted consolidated operating income was primarily due to an increase in average dialysis revenue per treatment of $6 as well as strong volume growth from additional treatments. The adjusted consolidated operating income was also positively impacted by the increase in operating results of HCP, of approximately $33 million. This increase was primarily due to an increase in fee-for-service revenues due to acquisitions, senior capitated members due to acquisitions and non-acquired growth, an increase in Medicaid members due to Medicaid expansion, and an increase in Medicaid risk sharing revenue recognized in the third quarter of 2015, partially offset by a decrease in commercial members. These increases were negatively impacted by an increase in the amount of losses recognized in our other ancillary services and strategic initiatives businesses, primarily due to an increase in reserves for refunds of prior period pharmacy reimbursements and increased losses in our international businesses. Adjusted consolidated operating income was also negatively impacted by higher labor and benefit costs, and higher payroll taxes, as well as an increase in long-term incentive compensation costs, pharmaceutical costs, professional fees and in our dialysis provision for uncollectible accounts.

U.S. dialysis and related lab services business

Results of operations

| | Three months ended | | | Nine months ended | |
|---|---|---|---|---|---|
| | September 30, 2015 | June 30, 2015 | September 30, 2014 | September 30, 2015 | September 30, 2014 |
| | (dollar amounts rounded to nearest million, except per treatment data) | | | | |
| Net revenues: | | | | | |
| Dialysis and related lab services patient | $2,301 | $2,252 | $2,165 | $6,718 | $6,307 |

| | | | | | |
|---|---|---|---|---|---|
| service revenues | | | | | |
| Less: Provision for uncollectible accounts | (103 ) | (101 ) | (92 ) | (302 ) | (258 ) |
| Dialysis and related lab services net patient service revenues | $2,198 | $2,151 | $2,073 | $6,416 | $6,049 |
| Other revenues | 3 | 3 | 3 | 10 | 10 |
| Total net dialysis and related lab services revenues | $2,201 | $2,154 | $2,076 | $6,426 | $6,059 |
| Operating expenses and charges: | | | | | |
| Patient care costs | 1,461 | 1,436 | 1,390 | 4,294 | 4,070 |
| General and administrative | 170 | 174 | 170 | 528 | 490 |
| Depreciation and amortization | 112 | 110 | 102 | 326 | 297 |
| Loss contingency accrual and settlement charge | — | — | 17 | 495 | 17 |
| Equity investment income | (4 ) | (4 ) | (3 ) | (12 ) | (10 ) |
| Total operating expenses and charges | 1,739 | 1,716 | 1,676 | 5,631 | 4,864 |
| Operating income | $462 | $438 | $400 | $795 | $1,195 |
| Dialysis treatments | 6,611,799 | 6,463,058 | 6,343,706 | 19,337,492 | 18,515,727 |
| Average dialysis treatments per treatment day | 83,694 | 82,860 | 80,300 | 82,780 | 79,330 |
| Average dialysis and related lab services revenue per treatment | $348 | $348 | $341 | $347 | $341 |

35

Net revenues

Dialysis and related lab services' net revenues for the third quarter of 2015 increased by approximately $47 million, or approximately 2.2%, as compared to the second quarter of 2015. The increase was primarily due to volume growth from acquired and non-acquired treatment growth and one additional treatment day in the third quarter of 2015 as compared to the second quarter of 2015. The average dialysis revenue per treatment remained flat quarter over quarter.

Dialysis and related lab services' net revenues for the third quarter of 2015 increased by approximately $125 million, or approximately 6.0%, as compared to the third quarter of 2014. The increase in net revenues was principally due to volume growth from additional treatments and an increase in our average dialysis revenue per treatment of approximately $7. The increase in the number of treatments was primarily attributable to acquired and non-acquired treatment growth. The increase in our average dialysis revenue per treatment was primarily due to an increase in our average commercial payment rates and improvements in our commercial payor mix, partially offset by an increase in our provision for uncollectible accounts.

Dialysis and related lab services' net revenues for the nine months ended September 30, 2015 increased by approximately $367 million, or approximately 6.1%, as compared to the same period in 2014. The increase in dialysis and related lab services' net revenues was due to strong growth from additional treatments and an increase in our average dialysis revenue per treatment of approximately $6. The increase in our average dialysis revenue per treatment was primarily due to an increase in our average commercial payment rates and improvements in our commercial payor mix, partially offset by an increase in our dialysis provision for uncollectible accounts.

Provision for uncollectible accounts. The provision for uncollectible accounts receivable for dialysis and related lab services was 4.5% for the third quarter and second quarter of 2015, and 4.25% for the third quarter of 2014. We continue to experience higher amounts of non-covered Medicare write-offs due to non-covered Medicare copays. We assess our level of the provision for uncollectible accounts based upon our historical cash collection experience and trends, and have and will continue to adjust the provision as necessary as a result of changes in our cash collections.

Operating expenses and charges

Patient care costs. Dialysis and related lab services' patient care costs of approximately $221 per treatment for the third quarter of 2015 decreased by approximately $1 per treatment as compared to the second quarter of 2015. The decrease in patient care costs per treatment was primarily due to a decrease in professional fees related to legal settlements and compliance matters, and a decline in travel expenses related to management meetings, partially offset by an increase in labor and benefit costs and an increase in general and professional insurance costs.

Dialysis and related lab services' patient care costs per treatment for the third quarter of 2015 increased by approximately $2 per treatment as compared to the third quarter of 2014. The increase was primarily attributable to an increase in labor and benefits costs, professional fees, occupancy costs and other direct operating expenses associated with our dialysis centers. These increases were partially offset by improved productivity and lower general and professional insurance costs.

Dialysis and related lab services' patient care costs per treatment for the nine months ended September 30, 2015 was approximately $222, which represents an increase of approximately $2 per treatment as compared to the same period in 2014. The increase was primarily attributable to an increase in labor and benefit costs, professional fees for legal and compliance matters, occupancy costs and other direct operating expenses associated with our dialysis centers,

partially offset by improved productivity and lower general and professional insurance costs.

General and administrative expenses. Dialysis and related lab services' general and administrative expenses of approximately $170 million in the third quarter of 2015 decreased by approximately $4 million as compared to the second quarter of 2015. The decrease in general and administrative expenses was primarily due to a decrease in payroll taxes and benefit costs, as well as lower long-term incentive compensation costs, partially offset by an increase in professional fees.

Dialysis and related lab services' general and administrative expenses for the third quarter of 2015 remained relatively flat as compared to the third quarter of 2014. Long-term incentive compensation costs decreased from the third quarter of 2014, offset by increases in labor costs and payroll taxes and a slight increase in professional fees and in other general administrative costs.

Dialysis and related lab services' general and administrative expenses of $528 million for the nine months ended September 30, 2015 increased by approximately $38 million as compared to the same period in 2014. The increase was primarily due to higher labor and benefit costs and long-term incentive compensation costs, as well as an increase in professional fees and other general administrative costs.

Depreciation and amortization. Depreciation and amortization for dialysis and related lab services was approximately $112 million for the third quarter of 2015, $110 million for the second quarter of 2015, and $102 million for the third quarter of 2014. The increases in depreciation and amortization in the third quarter of 2015, as compared to the second quarter of 2015 and the third quarter of 2014, was primarily due to growth in newly developed centers and from acquired centers.

Settlement charge. In June 2015, we finalized the terms of the settlement agreement with plaintiffs regarding the Vainer private civil suit, which includes a settlement amount of $450 million, and attorney fees and other costs of $45 million. A majority of these costs were paid in June 2015.

Corporate Integrity Agreement. In connection with the resolution of the 2010 and 2011 U.S. Attorney physician relationship investigations, we entered into a five-year corporate integrity agreement (the Corporate Integrity Agreement) with the OIG. The Corporate Integrity Agreement requires that we maintain certain elements of our compliance programs and imposes certain expanded compliance-related requirements during the term of the Corporate Integrity Agreement, including the appointment of a compliance monitor and contains certain business restrictions related to a subset of our joint venture arrangement, including our agreeing to (1) unwind 11 joint venture transactions that were created through partial divestitures to, or partial acquisitions from, nephrologists and that cover 26 of our then either wholly- or majority-owned 2,119 clinics; (2) not enter into certain types of partial divestiture joint venture transactions with nephrologists during the term of the Corporate Integrity Agreement; (3) non-enforcement of certain patient-related non-solicitation restrictions; and (4) certain other restrictions. The OIG notified us that it considers us to be in breach of the CIA because of three implementation deficiencies. We remediated these deficiencies and have paid certain stipulated penalties.

Equity investment income. Equity investment income for dialysis and related lab services was approximately $4 million for both the third and second quarter of 2015, as compared to $3 million for the third quarter of 2014. The increase in equity investment income in the third quarter of 2015 as compared to the third quarter of 2014 was primarily due to an increase in the profitability of certain joint ventures.

Accounts receivable

Our dialysis and related lab services' accounts receivable balances, net of the provision for uncollectible accounts, at September 30, 2015 and June 30, 2015 were $1,243 million and $1,227 million, respectively, which represented approximately 51 days and 53 days, respectively. The decrease in day sales outstanding (DSO) in the third quarter of 2015 was primarily due to an increase in Medicare cash collections. Our DSO calculation is based on the current quarter's average revenues per day. There were no significant changes during the third quarter of 2015 from the second quarter of 2015 in the amount of unreserved accounts receivable over one year old or the amounts pending approval from third-party payors.

Segment operating income

Dialysis and related lab services' operating income for the third quarter of 2015 increased by approximately $24 million as compared to the second quarter of 2015. The increase in operating income was primarily due to acquired and non-acquired treatment growth in existing centers as well as one additional treatment day in the third quarter of 2015. Operating income was positively impacted by lower professional fees, a decrease in travel expenses related to management meetings, and a decrease in general and administrative costs, partially offset by increases in labor costs, pharmaceutical costs, and general and professional insurance costs.

Dialysis and related lab services' operating income for the third quarter of 2015 increased by approximately $62 million as compared to the third quarter of 2014, including a loss contingency accrual of $17 million recorded in the

third quarter of 2014. Excluding this item from the third quarter of 2014, adjusted dialysis and related lab services' operating income would have increased by $45 million. This increase in adjusted operating income was primarily attributable to volume growth in revenues from additional treatments as a result of acquired and non-acquired treatment growth, an increase in our average dialysis revenue per treatment of approximately $7, as discussed above, improved productivity and lower general and professional insurance costs. These increases were partially offset by increases in labor and benefits costs, professional fees, occupancy costs and other direct operating expenses.

Dialysis and related lab services' operating income for the nine months ended September 30, 2015 decreased by approximately $400 million as compared to the same period in 2014, including the settlement charge of $495 million and the loss contingency accrual of $17 million recorded in the first quarter of 2015 and the third quarter of 2014, respectively. Excluding these items from their respective periods, adjusted operating income would have increased by $78 million. This increase in adjusted operating income was primarily due to an increase in our average dialysis revenue per treatment of $6, as discussed above, strong volume growth from additional treatments, improved productivity and lower general and professional insurance costs. These were partially offset by increases in the provision for uncollectible accounts, labor and benefit costs, pharmaceutical costs, professional fees for legal and compliance matters, and occupancy costs.

37

HCP business

Results of operations

| | Three months ended | | | | | | Nine months ended | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | September 30, 2015 | | June 30, 2015 | | September 30, 2014 | | September 30, 2015 | | September 30, 2014 | |
| | (dollar amounts rounded to nearest millions) | | | | | | | | | |
| Net revenues: | | | | | | | | | | |
| HCP capitated revenue | $907 | 91 % | $848 | 88 % | $828 | 93 % | $2,588 | 89 % | $2,383 | 91 % |
| Patient service revenue | 84 | | 86 | | 56 | | 252 | | 176 | |
| Less: Provision for uncollectible accounts | (5 ) | | (4 ) | | (6 ) | | (11 ) | | (12 ) | |
| Net patient service revenue | 79 | 8 % | 82 | 9 % | 50 | 6 % | 241 | 9 % | 164 | 6 % |
| Other revenues | 15 | 1 % | 36 | 3 % | 14 | 1 % | 66 | 2 % | 73 | 3 % |
| Total net revenues | $1,001 | 100% | $966 | 100% | $892 | 100% | $2,895 | 100% | $2,620 | 100% |
| Operating expenses: | | | | | | | | | | |
| Patient care costs | $768 | 77 % | $750 | 78 % | $719 | 80 % | $2,250 | 79 % | $2,079 | 79 % |
| General and administrative expense | 106 | 11 % | 102 | 11 % | 86 | 10 % | 300 | 10 % | 241 | 9 % |
| Depreciation and amortization | 43 | 4 % | 43 | 4 % | 42 | 5 % | 130 | 4 % | 127 | 5 % |
| Equity investment income (loss) | 1 | — | (1 ) | — | (2 ) | — | — | — | (9 ) | — |
| Total expenses | 918 | 92 % | 894 | 93 % | 845 | 95 % | 2,680 | 93 % | 2,438 | 93 % |
| Operating income | $83 | 8 % | $72 | 7 % | $47 | 5 % | $215 | 7 % | $182 | 7 % |

Capitated membership information

The following table provides (i) the total number of capitated members to whom HCP provided healthcare services as of September 30, 2015, June 30, 2015 and September 30, 2014 and (ii) the aggregate member months for the three and nine months ended September 30, 2015 and September 30, 2014, and three months ended June 30, 2015. Member months represent the aggregate number of months of healthcare services HCP has provided to capitated members during a period of time:

| | Members at | | | Members months for | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | Three months ended | | | Nine months ended | |
| | September 30, 2015 | June 30, 2015 | September 30, 2014 | September 30, 2015 | June 30, 2015 | September 30, 2014 | September 30, 2015 | September 30, 2014 |
| HCP total capitated | 808,300 | 826,500 | 828,300 | 2,445,300 | 2,472,400 | 2,481,100 | 7,400,100 | 7,263,400 |

membership

In addition to the members above, HCP provided healthcare services to members of Magan Medical Group and Tandigm Health, unconsolidated joint ventures that are accounted for as equity investments. The Magan Medical Group joint venture provided healthcare services for approximately 43,500 members as of September 30, 2015, and for approximately 130,500 member months for the quarter ended September 30, 2015. The Tandigm Health joint venture provided health care services for approximately 89,700 members as of September 30, 2015, and for approximately 270,800 member months for the quarter ended September 30, 2015.

Members and member months for the third quarter of 2015 decreased from the second quarter of 2015 primarily due to a planned reduction in Medicaid members and a decline in commercial members as employers shift to less expensive options for medical services for their employees, partially offset by an increase in senior members due to non-acquired growth.

Members and member months for the third quarter of 2015 decreased from the third quarter of 2014 primarily due to a decrease in commercial members for reasons described above, as well as a planned reduction in Medicaid members and planned non-renewal of certain plans. These decreases were partially offset by increased senior members resulting from new acquisitions and non-acquired growth.

Member months for the nine months ended September 30, 2015 increased as compared to the same period in 2014 primarily due to an increase in senior capitated memberships related to acquisitions and non-acquired growth, as well as an increase in Medicaid memberships year over year due to Medicaid expansion. These increases were partially offset by the planned non-renewal of certain plans in certain markets due to unfavorable economics and a decline in commercial members.

Revenues

The following table provides HCP's revenue by source:

| | Three months ended September 30, 2015 | | June 30, 2015 | | September 30, 2014 | | Nine months ended September 30, 2015 | | September 30, 2014 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | (dollars rounded to nearest millions) | | | | | | | | | |
| HCP revenues: | | | | | | | | | | |
| Commercial revenues | $181 | 18 % | $177 | 18 % | $188 | 21 % | $543 | 19 % | $552 | 21 % |
| Senior revenues | 641 | 64 % | 623 | 64 % | 605 | 68 % | 1,866 | 65 % | 1,745 | 67 % |
| Medicaid revenues | 85 | 9 % | 48 | 5 % | 35 | 4 % | 179 | 6 % | 86 | 3 % |
| Total capitated revenues | $907 | 91 % | $848 | 88 % | $828 | 93 % | $2,588 | 90 % | $2,383 | 91 % |
| Patient service revenue, net of provision for uncollectible accounts | 79 | 8 % | 82 | 8 % | 50 | 6 % | 241 | 8 % | 164 | 6 % |
| Other revenues | 15 | 1 % | 36 | 4 % | 14 | 1 % | 66 | 2 % | 73 | 3 % |
| Total net revenues | $1,001 | 100% | $966 | 100% | $892 | 100% | $2,895 | 100% | $2,620 | 100% |

Net revenues

HCP's net revenue for the third quarter of 2015 increased by approximately $35 million, or 3.6%, as compared to the second quarter of 2015. The increase in revenue was primarily attributable to an increase in senior capitated revenue due to non-acquired growth of senior capitated members, the timing of the recognition of additional Medicaid risk sharing revenue due to decreased costs related to lower claims, as well as an improved commercial risk pool performance due to improved patient utilization. These increases were partially offset by the timing of revenue associated with HCP's annual premium reconciliation of senior capitated members and the recognition of additional revenue related to the maintenance of existing physician networks during the second quarter of 2015.

HCP's net revenue for the third quarter of 2015 increased by approximately $109 million, or 12.2%, as compared to the third quarter of 2014. The increase in revenue was primarily attributable to an increase in the number of senior capitated members from acquisitions and non-acquired growth, the timing of the recognition of additional Medicaid risk sharing revenue for the same reasons as described above for the third quarter of 2015 compared to the second quarter of 2015, and an increase in patient service revenue due to acquisitions. This growth in net revenues was partially offset by a decline in the number of commercial and Medicaid members to whom HCP provides health care services and a decrease in senior revenues due to the planned non-renewal of some plans due to unfavorable economics in certain markets.

HCP's net revenue for the first nine months of 2015 increased by approximately $275 million, or 10.5%, as compared to the same period in 2014. The increase in revenue was primarily attributable to an increase in fee-for-service revenue from acquisitions, an increase in senior capitated members due to acquisitions and non-acquired growth, an increase in Medicaid memberships due to Medicaid expansion, and the timing of recognition of additional Medicaid risk sharing revenue described above. This improvement was negatively impacted by a decrease in the number of

commercial members to whom HCP provides health care services, as well as a decrease in senior revenues due to the planned non-renewal of some plans due to unfavorable economics in the market.

On April 6, 2015, CMS issued final guidance for 2016 Medicare Advantage rates, which incorporated a modification to the risk adjustment model calculation that CMS utilizes to determine the risk acuity scores of Medicare Advantage patients. We estimate that the final cumulative impact of the 2016 rate structure will represent a decrease of approximately 2.0% of HCP's average Medicare Advantage revenues it manages on behalf of its senior capitated population as compared to 2015, which compares to the industry average rate increase of approximately 1.25% as indicated by CMS.

The more significant decline in Medicare Advantage rates for HCP compared to the industry average is driven by a larger-than-average decline associated with CMS's modification to the risk adjustment model calculations. The full implementation of the 2014 CMS-HCC Risk Adjustment model negatively affects HCP and other providers like us who have differentially invested in wellness and prevention programs for patients with chronic conditions.

Operating expenses

Patient care costs. HCP's patient care costs of approximately $768 million for the third quarter of 2015 increased by approximately $18 million, or approximately 2.4%, as compared to the second quarter of 2015. The increase was primarily due to recognition of compensation expense related to higher Medicaid risk sharing revenues, as well as additional contractual payments made to physicians during the third quarter of 2015. These increases were partially offset by a decrease in hospital claims expense due to improved utilization during the third quarter of 2015.

HCP's patient care costs for the third quarter of 2015 increased by approximately $49 million, or 6.8%, as compared to the third quarter of 2014. The increase was primarily attributable to an increase in senior capitated members from acquisitions and non-acquired growth, as well as market expansion and the timing of the recognition of additional benefit expense described above in the third quarter of 2015, compared to the second quarter of 2015. This increase in costs was partially offset by the decrease in commercial members to whom HCP provides health care services and a decrease in costs due to the planned non-renewal of some plans due to unfavorable economics in certain markets.

HCP's patient care costs of approximately $2,250 million for the nine months ended September 30, 2015 increased by approximately $171 million, or 8.2%, as compared to the same period in 2014. The increase was primarily attributable to the same factors as described above in the third quarter of 2015 as compared to the third quarter of 2014.

General and administrative expenses. HCP's general and administrative expenses of approximately $106 million for the third quarter of 2015, increased by approximately $4 million, or 3.9%, as compared to the second quarter of 2015. The increase in general and administrative expenses was primarily attributable to recognition of additional compensation expense, partially offset by lower business tax accruals in certain markets during the third quarter of 2015.

HCP's general and administrative expenses increased by approximately $20 million, or 23.3%, as compared to the third quarter of 2014. The increase in general and administrative expenses was primarily attributable to an increase in corporate support expenses related to growth initiatives and recognition of additional compensation expense.

HCP's general and administrative expenses of approximately $300 million for the nine months ended September 30, 2015 increased by approximately $59 million, or 24.5%, as compared to the same period in 2014. The increase in general and administrative expenses was primarily attributable to an increase in corporate support expenses related to growth initiatives.

Depreciation and amortization. HCP's depreciation and amortization was approximately $43 million for both the third and second quarter of 2015. Depreciation and amortization for the third quarter of 2015 increased by approximately $1 million as compared to the third quarter of 2014. Finally, depreciation and amortization of approximately $130 million for the nine months ended September 30, 2015 increased by approximately $3 million as compared to the same period in 2014. These increases are primarily attributable to depreciation and amortization of acquired assets from acquisitions.

Segment operating income

HCP's operating income of $83 million for the third quarter of 2015 increased by approximately $11 million, or 15.3%, as compared to the second quarter of 2015. The increase was primarily attributable to higher senior capitated revenue due to non-acquired growth of senior capitated members, the timing of the recognition of Medicaid risk sharing revenue due to decreased costs as a result of lower claims, and an improved commercial risk pool performance. These increases in net revenues were partially offset by recognition of additional benefit expense related to the shared risk revenue during the third quarter of 2015, as well as the timing of revenue associated with HCP's annual premium reconciliation of senior capitated members, and the recognition of additional revenue related to the maintenance of existing physician networks which both occurred in the second quarter of 2015, as well as higher general and administrative costs.

HCP's operating income for the third quarter of 2015 increased by approximately $36 million, or 76.6%, as compared to the third quarter of 2014. The increase was primarily attributable to an increase in senior capitated members, higher patient service revenues due to acquisitions and non-acquired growth, and the timing of the recognition of additional Medicaid risk sharing revenue. This increase was partially offset by the decline in commercial members to whom

HCP provides healthcare services and non-renewal of some plans due to unfavorable economics in certain markets and higher general and administrative costs.

HCP's operating income of $215 million for the nine months ended September 30, 2015 increased by approximately $33 million, or 18.1%, as compared to the same period in 2014. The increase was primarily attributable to an increase in fee-for-service revenue from acquisitions, an increase in senior capitated members due to acquisitions and non-acquired growth, an increase in Medicaid members due to Medicaid expansion and the timing of the recognition of additional Medicaid risk sharing revenue. These increases were partially offset by a decrease in commercial members to whom HCP provides healthcare services, a reduction of claims expense due to the planned non-renewal of some plans due to unfavorable economics in certain markets, as well as higher general and administrative costs.

Other—Ancillary services and strategic initiatives business

Our other operations include ancillary services and strategic initiatives which are primarily aligned with our core business of providing dialysis services to our network of patients. As of September 30, 2015, these consisted primarily of pharmacy services, disease management services, vascular access services, clinical research programs, physician services, direct primary care and our international dialysis operations. The ancillary services and strategic initiatives generated approximately $345 million of net revenues

in the third quarter of 2015, representing approximately 9.8% of our consolidated net revenues. We currently expect to continue to invest in our ancillary services and strategic initiatives, including our continued expansion into certain international markets as we work to develop successful new business operations in the U.S. as well as outside the U.S. However, any significant change in market conditions, business performance or the regulatory environment may impact the economic viability of any of these strategic initiatives. Any unfavorable changes in these strategic initiatives could result in a write-off or an impairment of some or all of our investments, including goodwill and could also result in significant termination costs if we were to exit a certain line of business or one or more of our international markets.

As of September 30, 2015, we provided dialysis and administrative services to a total of 104 outpatient dialysis centers located in ten countries outside of the U.S. The total net revenues generated from our international operations are provided below.

The following table reflects the results of operations for the ancillary services and strategic initiatives:

| | Three months ended | | | Nine months ended | |
|---|---|---|---|---|---|
| | September 30, 2015 | June 30, 2015 | September 30, 2014 | September 30, 2015 | September 30, 2014 |
| | (dollar amounts rounded to nearest millions) | | | | |
| U.S. revenues | | | | | |
| Net patient service revenues | $ 8 | $ 6 | $ 5 | $ 19 | $ 14 |
| Other revenues | 281 | 276 | 246 | 807 | 685 |
| Capitated revenues | 20 | 18 | 21 | 56 | 53 |
| Total | 309 | 300 | 272 | 882 | 752 |
| International revenues | | | | | |
| Net patient service revenues | 34 | 33 | 27 | 97 | 74 |
| Other revenues | 2 | 1 | 1 | 5 | 5 |
| Total | 36 | 34 | 28 | 102 | 79 |
| Total net revenues | $ 345 | $ 334 | $ 300 | $ 984 | $ 831 |
| Total operating losses | $ (30) | $ (26) | $ (6) | $ (70) | $ (6) |

Net revenues

The ancillary services and strategic initiatives net revenues for the third quarter of 2015 increased by approximately $11 million, or 3.3%, as compared to the second quarter of 2015. The increase was primarily related to an increase in pharmacy services volume and pharmaceutical rates and an increase in net revenues from our international business and other strategic initiatives. These increases were partially offset by an increase in reserves for refunds of prior period pharmacy reimbursements.

The ancillary services and strategic initiatives net revenues for the third quarter of 2015 increased by approximately $45 million, or 15.0%, as compared to the third quarter of 2014. The increase was primarily due to an increase in our pharmacy services volume and pharmaceutical rates, and an increase in net revenues from our international expansion related to the opening of our Middle East locations. These increases were partially offset by an increase in reserves for refunds of prior period pharmacy reimbursements.

The ancillary services and strategic initiatives net revenues for the nine months ended September 30, 2015 increased by approximately $153 million, or 18.4%, as compared to the same period in 2014. The increase was primarily from an increase in pharmacy services volume and pharmaceutical rates and an increase in net revenues from our international expansion related to the opening of our Middle East locations. These increases were partially offset by an increase in reserves for refunds of prior period pharmacy reimbursements.

Operating expenses

Ancillary services and strategic initiatives operating expenses for the third quarter of 2015 of $375 million increased by approximately $15 million, or 4.2%, as compared to the second quarter of 2015. The increase in operating expenses was primarily due to an increase in drug prescription dispensing volume and pharmaceutical costs, as well as higher labor costs in our ancillary services and strategic initiatives, partially offset by a charge for a write-down of certain assets which occurred in the second quarter of 2015.

Ancillary services and strategic initiatives operating expenses for the third quarter of 2015 increased by approximately $69 million, or 22.5%, as compared to the third quarter of 2014. The increase in operating expenses was primarily due to an increase in drug prescription dispensing volume and pharmaceutical costs related to our pharmacy business, as well as higher labor costs in our ancillary services and strategic initiatives, additional expenses associated with our international dialysis expansion, and an increase in other general and administrative expenses.

Ancillary services and strategic initiatives operating expenses for the nine months ended September 30, 2015 of $1,054 million increased by approximately $217 million, or 25.9%, as compared to the same period in 2014. The increase in operating expenses was primarily due to an increase in costs in our pharmacy business, mainly related to higher labor costs, pharmaceutical costs and other direct expenses, and costs associated with the right to use newly-developed intellectual property, as well as an increase in expenses associated with our international dialysis expansion, an increase in other general and administrative costs, and a charge for a write-down of certain assets.

Segment operating losses

Ancillary services and strategic initiatives operating losses for the third quarter of 2015 increased by approximately $4 million from the second quarter of 2015. The increase in operating losses was primarily due to an increase in drug prescription costs associated with our pharmacy business, an increase in our refunds of prior period pharmacy reimbursements, and higher labor costs. These increases were partially offset by an increase in net revenue in our pharmacy business, primarily from additional volume and increases in pharmaceutical rates and from a charge for a write-down of certain assets that occurred in the second quarter of 2015.

Ancillary services and strategic initiatives operating losses for the third quarter of 2015 increased by approximately $24 million from the third quarter of 2014. The increase in operating losses was primarily due to an increase in drug prescription costs associated with our pharmacy business, an increase in our reserves for refunds of prior period pharmacy reimbursements, increases in expenses related to our international expansion and an increase in general and administrative costs mentioned above. These increases were partially offset by an increase in net revenue in our pharmacy business, primarily from increases in pharmacy services volumes and pharmaceutical rates.

Ancillary services and strategic initiatives operating losses for the nine months ended September 30, 2015 increased by approximately $64 million from the same period in 2014. The increase in operating losses was primarily due to an increase in costs associated with our pharmacy business, an increase in our reserves for refunds of prior period pharmacy reimbursements, and increases in expenses related to our international expansion which includes a charge for a write-down of certain assets, costs associated with the right to use intellectual property and an increase in other general and administrative costs mentioned above. These increases were partially offset by an increase in net revenue in our pharmacy business, primarily from increases in pharmaceutical rates.

Corporate-level charges

Debt expense. Debt expense was $103 million in the third quarter of 2015, representing a decrease of approximately $1 million as compared to the second quarter of 2015 and an increase of $3 million as compared to the third quarter of 2014. The decrease in debt expense in the third quarter of 2015 as compared to the second quarter of 2015 was primarily due to the issuance of our 5.0% Senior Notes due 2025 (the 5% Senior Notes) in April 2015 which contain lower weighted average interest rates, partially offset by higher weighted average outstanding principal balances. The increase in debt expense in the third quarter of 2015 as compared to the third quarter of 2014 was primarily related to an increase in the weighted average outstanding debt principal balances, partially offset by lower weighted average interest rates.

For the nine months ended September 30, 2015, debt expense of $305 million decreased by approximately $7 million as compared to the same period in 2014, primarily related to our entry into a new credit agreement and the issuance of our 5 % Senior Notes in June 2014, and the issuance of our 5.0% Senior Notes in April 2015 which contain lower weighted average interest rates, and lower amortization of deferred financing costs, partially offset by an increase in the weighted average outstanding principal balances.

Our overall weighted average effective interest rate for the third quarter of 2015 was 4.40% compared to 4.42% for the second quarter of 2015 and 4.52% for the third quarter of 2014.

Corporate support costs. Corporate support costs consist primarily of labor, benefits and long-term incentive compensation costs for departments which provide support to all of our various operating lines of business. Corporate support costs were approximately $5 million in the third quarter of 2015, $3 million in the second quarter of 2015 and $4 million in third quarter of 2014. These expenses are included in our consolidated general and administrative expenses. The increase in corporate support costs in the third quarter of 2015 as compared to the second quarter of 2015 was primarily due to a decrease in internal management fees paid by our ancillary lines of businesses related to the licensing and rights to use newly-developed intellectual property and other corporate support services. The increase in corporate support costs in the third quarter of 2015 as compared to the third quarter of 2014 was primarily due to an increase in internal management fees as described above.

Corporate support costs were approximately $15 million in the nine months ended September 30, 2015 as compared to $8 million in the same period in 2014. The increase of approximately $7 million in corporate support costs is primarily attributable to an increase in professional fees.

Other income. Other income for the third quarter and second quarter of 2015 was approximately $2 million and a negative $1 million for the third quarter of 2014. The increase in other income for the third quarter of 2015 as compared to the third quarter of 2014 was related to improved foreign exchange rates affecting certain accounts, as well as an increase in interest income as a result of an increase in short term investments.

Noncontrolling interests

Net income attributable to noncontrolling interests was $45 million for the third quarter of 2015 as compared to $37 million for the second quarter of 2015, and $36 million for the third quarter of 2014. The increase in net income attributable to noncontrolling interests in the third quarter of 2015, as compared to the second quarter of 2015, was primarily due to an increase in revenue as a result of one additional treatment day in the third quarter of 2015. The increase in net income attributable to noncontrolling interest in the third quarter of 2015 compared to the third quarter of 2014 was primarily due to an increase in the overall number of joint ventures and an increase in profitability of certain joint ventures.

Accounts receivable

Our consolidated total accounts receivable balances at September 30, 2015 and June 30, 2015 were $1,700 million and $1,667 million, respectively, which is net of the provision for uncollectible accounts.

Outlook

We are updating our consolidated operating income for 2015 to now be in the range of $1.870 billion to $1.915 billion.

Our previous consolidated operating income guidance for 2015 was in the range of $1.825 billion to $1.925 billion.

We are also updating our operating income for Kidney Care for 2015 to now be in the range of $1.630 billion to $1.655 billion.

Our previous operating income guidance for Kidney Care for 2015 was in the range of $1.600 billion to $1.650 billion.

We are updating our operating income for HCP for 2015 to now be in the range of $240 million to $260 million.

Our previous operating income guidance for HCP for 2015 was in the range of $225 million to $275 million.

We are updating our consolidated operating cash flow for 2015 to now be in the range of $1.675 billion to $1.775 billion.

Our previous consolidated operating cash flow for 2015 was in the range of $1.600 billion to $1.750 billion.

The above projected ranges exclude the Vainer suit settlement charge and the corresponding settlement payments made in 2015.

These projections and the underlying assumptions involve significant risks and uncertainties, and actual results may vary significantly from these current projections. See page 31 for further details regarding our forward looking statements.

Liquidity and capital resources

Liquidity and capital resources. Cash flow from operations during the third quarter of 2015 was $679 million, compared to $848 million during the third quarter of 2014. The decrease in cash flows from operations in the third quarter of 2015 was primarily due to a decrease in cash collections and the timing of certain other working capital items. Non-operating cash outflows for the third quarter of 2015 included capital asset expenditures of $171 million, including $95 million for new center developments and relocations and $76 million for maintenance and information technology. In addition, we spent $46 million for acquisitions, we paid distributions to noncontrolling interests of $47 million and we repurchased a total of 4,555,868 shares of our common stock for $341 million, of which $300 million was settled during the third quarter of 2015. Non-operating cash outflows for the third quarter of 2014 included capital asset expenditures of $165 million, including $97 million for new center developments and relocations and $68 million for maintenance and information technology. In addition, we spent $120 million for acquisitions and we paid distributions to noncontrolling interests of $39 million in that period.

Cash flow from operations during the nine months ended September 30, 2015 was $1,121 million, compared to $1,529 million during the same period in 2014. Cash flow from operations for the nine months ended September 30, 2015 decreased primarily due to payments of approximately $494 million, or $304 million after-tax, made in connection with the settlement of the Vainer private civil suit, the timing of certain other working capital items, including the timing of income tax payments. Non-operating cash outflows for the nine months ended September 30, 2015, included capital asset expenditures of $462 million, including $267 million for new center developments and relocations and $195 million for maintenance and information technology. In addition, we spent $91 million for acquisitions, we paid distributions to noncontrolling interests of $126 million and we repurchased a total of 5,623,007 shares of our

common stock for $425 million, of which $384 million was settled during the first nine months of 2015.
Non-operating cash outflows for the nine months ended September 30, 2014, included capital asset expenditures of $444 million, including $218 million for new center developments and relocations and $182 million for maintenance and information technology. In addition, we spent $218 million for acquisitions and we paid distributions to noncontrolling interests of $105 million in that period.

On August 17, 2015, the Company entered into a definitive agreement to acquire Colorado-based Renal Ventures Limited, LLC (Renal Ventures), including a 100 percent interest in all dialysis centers owned by Renal Ventures, for approximately $415 million in cash, subject to, among other things, adjustments for certain items such as working capital. Renal Ventures currently operates 36 dialysis clinics in six states serving approximately 2,400 patients and also operates other ancillary businesses. The transaction is subject to approval by the Federal Trade Commission (FTC) including Hart-Scott-Rodino antitrust clearance. The Company anticipates that it will be required by the FTC to divest a certain number of outpatient dialysis centers as a condition of the transaction. The Company currently expects the transaction to close in early 2016.

During the third quarter of 2015, our U.S. dialysis and related lab services business acquired five dialysis centers, opened 15 dialysis centers, and closed five centers. In addition, our international dialysis operations acquired six dialysis centers and opened two dialysis centers. During the third quarter of 2014, our U.S. dialysis and related lab services business acquired a total of 15 dialysis centers, opened 29 dialysis centers, sold one dialysis center, and closed ten dialysis centers. In addition, our international dialysis operations acquired one dialysis center and opened two dialysis centers during the third quarter of 2014.

During the nine months ended September 30, 2015, our U.S. dialysis and related lab services business acquired six dialysis centers, opened 46 dialysis centers, closed seven centers, and provided management and administrative services to one additional center. In addition, our international dialysis operations acquired seven dialysis centers and opened six dialysis centers. During the nine months ended September 30, 2014, our U.S. dialysis and related lab services business acquired a total of 16 dialysis centers, opened 75 dialysis centers, sold one dialysis center, and closed 12 dialysis centers. In addition, our international dialysis operations acquired four dialysis centers, opened nine dialysis centers, closed two dialysis centers and provided management and administrative services to three additional centers.

During the third quarter of 2015, our HCP business acquired one family practice and one primary care physician practice. During the nine months ended September 30, 2015, our HCP business acquired five private medical practices, two family practices, one non-profit medical practice, one primary care physician practice, and one medical consulting organization. During the third quarter of 2014, our HCP business acquired one private medical practice. During the nine months ended September 30, 2014, our HCP business acquired one management services organization, seven private medical practices, one family practice and two primary care physician practices.

During the first nine months of 2015, we made mandatory principal payments under our Senior Secured Credit Facilities totaling $37.5 million on the Term Loan A and $26.3 million on the Term Loan B.

Debt transactions

In April 2015, we issued $1.500 billion 5.0% Senior Notes due 2025 (the 5.0% Senior Notes). The 5.0% Senior Notes pay interest on May 1 and November 1 of each year beginning November 1, 2015. The 5.0% Senior Notes are unsecured senior obligations and rank equally in right of payment with our existing and future unsecured senior indebtedness. The 5.0% Senior Notes are guaranteed by certain of our domestic subsidiaries. We may redeem up to

35% of the 5.0% Senior Notes at any time prior to May 1, 2018 at a certain specified price from the proceeds of one or more equity offerings. In addition, we may redeem some or all of the 5.0% Senior Notes at any time prior to May 1, 2020 at make whole redemption rates and on or after such date at certain specified redemption prices.

The proceeds from the 5.0% Senior Notes were used to repurchase all of the outstanding principal balances of the $775 million 6 % Senior Notes due 2020 (the 6 % Senior Notes) through a combination of a tender offer and a redemption process, and to pay fees and expenses. The remaining proceeds may be used for general corporate purposes, future acquisitions and share repurchases. As a result of these transactions, we incurred $48 million of pre-tax debt redemption charges consisting of tender and redemption fees and the write-off of deferred financing fees associated with the repurchase of the 6 % Senior Notes.

Share repurchases

During the three months ended September 30, 2015, we repurchased a total of 4,555,868 shares of our common stock for $341 million, or an average price of $74.76 per share. During the nine months ended September 30, 2015, we repurchased a total of 5,623,007 shares of our common stock for $425 million, or an average price of $75.53 per share. We also repurchased a total of 2,200 shares of our common stock subsequent to September 30, 2015 for $0.2 million, or an average price of $71.01 per share.

On April 14, 2015, our Board of Directors approved additional share repurchases in the amount of $726 million. These recently approved share repurchases are in addition to the $274 million remaining under our Board of Directors' prior share repurchase approval announced on November 4, 2010. As a result of these transactions, we now have a total of $659 million in outstanding authorizations available for share repurchases as of October 30, 2015. These share repurchase authorizations have no expiration dates.

Swap and cap agreements

As of September 30, 2015, we maintain several interest rate swap agreements that were entered into in March 2013 with amortizing notional amounts totaling $783.8 million. These agreements have the economic effect of modifying the LIBOR variable component of our interest rate on an equivalent amount of our Term Loan A to fixed rates ranging from 0.49% to 0.52%, resulting in an overall weighted average effective interest rate of 2.26%, including the Term Loan A margin of 2.00%. The overall weighted average effective interest rate also includes the effects of $153.8 million of unhedged Term Loan A debt that bears interest at LIBOR plus an interest rate margin of 2.00%. The swap agreements expire on September 30, 2016 and require monthly interest payments. During the nine months ended September 30, 2015, we recognized debt expense of $2.1 million from these swaps. As of September 30, 2015, the total fair value of these swap agreements was a net liability of approximately $0.9 million. During the nine months ended September 30, 2015, we recorded a loss of $4.8 million in other comprehensive income due to a decrease in the unrealized fair value of these swap agreements. We estimate that approximately $0.9 million of existing unrealized pre-tax losses in other comprehensive income at September 30, 2015 will be reclassified into income over the next twelve months.

As of September 30, 2015, we maintain several forward interest rate cap agreements that were entered into in November 2014 with notional amounts totaling $3.500 billion. These forward cap agreements will be effective September 30, 2016 and will have the economic effect of capping the LIBOR variable component of our interest rate at a maximum of 3.50% on an equivalent amount of our debt. The cap agreements expire on June 30, 2018. As of September 30, 2015, the total fair value of these cap agreements was an asset of approximately $2.2 million. During the nine months ended September 30, 2015, we recorded a loss of $10.2 million in other comprehensive income due to a decrease in the unrealized fair value of these cap agreements.

As of September 30, 2015, we maintain several active interest rate cap agreements that were entered into in March 2013 with notional amounts totaling $2.735 billion on our Term Loan B debt. These agreements have the economic effect of capping the LIBOR variable component of our interest rate at a maximum of 2.50% on an equivalent amount of our Term Loan B. During the nine months ended September 30, 2015, we recognized debt expense of $1.8 million from these caps. The cap agreements expire on September 30, 2016. As of September 30, 2015, the total fair value of these cap agreements was an asset of $43 thousand. During the nine months ended September 30, 2015, we recorded a loss of $1.6 million in other comprehensive income due to a decrease in the unrealized fair value of these cap agreements.

In October 2015, we entered into several forward interest rate cap agreements with notional amounts totaling $3.500 billion. These forward cap agreements will be effective June 29, 2018 and will have the economic effect of capping the LIBOR variable component of our interest rate at a maximum of 3.50% on an equivalent amount of our debt. These cap agreements expire on June 30, 2020.

Other items

As a result of an embedded LIBOR floor on the Term Loan B debt agreement and the swap and cap agreements, our overall weighted average effective interest rate on the Senior Secured Credit Facilities was 3.50%, based on the current margins in effect of 2.00% for the Term Loan A and 2.75% for the Term Loan B, as of September 30, 2015.

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

Our overall weighted average effective interest rate during the quarter ended September 30, 2015 was 4.40% and as of September 30, 2015 was 4.40%.

As of September 30, 2015, we had undrawn revolving credit facilities totaling $1.000 billion of which approximately $40 million was committed for outstanding letters of credit. In addition, we have outstanding letters of credit of approximately $56 million, of which $1 million is secured by a certificate of deposit. The remaining amount is unencumbered.

We believe that we will have sufficient liquidity and will generate significant operating cash flows to fund our scheduled debt service and other obligations for the foreseeable future, including the next 12 months, under the terms of our debt agreements. Our primary sources of liquidity are cash from operations and cash from borrowings.

Goodwill

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

As a result, we have determined that three of HCP's reporting units, HCP California, HCP Nevada and HCP New Mexico, remain at risk of goodwill impairment. As of September 30, 2015, HCP California, HCP Nevada and HCP New Mexico have goodwill of $2.519 billion, $521 million and $72 million, respectively.

We prepared valuation updates, informed by third-party assistance, for these three businesses as of September 30, 2015, which indicate estimated fair values of HCP California, HCP Nevada and HCP New Mexico that exceed their total carrying values by approximately 15.2%, 8.8% and 16.2%, respectively.

Further reductions in HCP's reimbursement rates or other significant adverse changes in its expected future cash flows or valuation assumptions could result in a goodwill impairment charge in the future. For example, a sustained, long-term reduction of 3% in operating income for HCP California, HCP Nevada and HCP New Mexico could reduce their estimated fair values by up to 1.8%, 1.9% and 2.1%, respectively. Separately, an increase in their respective discount rates of 100 basis points could reduce the estimated fair values of HCP California, HCP Nevada and HCP New Mexico by up to 4.6%, 3.4% and 3.9%, respectively.

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

Long-term incentive compensation

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

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

During the nine months ended September 30, 2015, we granted 920 thousand stock-settled stock appreciation rights with an aggregate grant-date fair value of $16.8 million and a weighted-average expected life of approximately 4.1 years and also granted 272 thousand stock units with an aggregate grant-date fair value of $21.9 million and a weighted-average expected life of approximately 3.1 years.

Long-term incentive compensation costs of $30.5 million in the third quarter of 2015 decreased by approximately $5.8 million as compared to the second quarter of 2015 and decreased by approximately $4.9 million as compared to the third quarter of 2014. The decrease in long-term incentive compensation costs in both periods was primarily due to a

cumulative revaluation of liability-based awards in the second quarter for changes in estimated ultimate payouts, partially offset by a full quarter's expense on the 2015 broad grant granted late in the second quarter.

Long-term incentive compensation costs for the nine months ended September 30, 2015 increased by approximately $11.8 million as compared to the same period in 2014. The increase in costs was primarily due to an increase in the value of LTIP awards that contributed expense to this period.

As of September 30, 2015, there was $145.9 million of total estimated unrecognized compensation cost for outstanding LTIP awards, including $75.6 million related to stock-based compensation arrangements under our equity compensation and stock purchase plans. We expect to recognize the performance-based cash component of these LTIP costs over a weighted average remaining period of 1.1 years and the stock-based component of these LTIP costs over a weighted average remaining period of 1.3 years.

Off-balance sheet arrangements and aggregate contractual obligations

In addition to the debt obligations reflected on our balance sheet, we have commitments associated with operating leases and letters of credit, as well as potential obligations associated with our equity investments in nonconsolidated businesses and to dialysis centers that are wholly-owned by third parties. Substantially all of our U.S. dialysis facilities are leased. We have potential obligations to purchase the noncontrolling interests held by third parties in several of our majority-owned joint ventures, non-owned and minority-owned entities. These obligations are in the form of put provisions and are exercisable at the third-party owners' discretion within specified periods as outlined in each specific put provision. If these put provisions were exercised, we would be required to purchase the third-party owners' noncontrolling interests at either the appraised fair market value or a predetermined multiple of earnings or cash flow attributable to the noncontrolling interests put to us, which is intended to approximate fair value. The methodology we use to estimate the fair values of noncontrolling interests subject to put provisions assumes the higher of either a liquidation value of net assets or an average multiple of earnings, based on historical earnings, patient mix and other performance indicators that can affect future results, as well as other factors. The estimated fair values of the noncontrolling interests subject to put provisions is a critical accounting estimate that involves significant judgments and assumptions and may not be indicative of the actual values at which the noncontrolling interests may ultimately be settled, which could vary significantly from our current estimates. The estimated fair values of noncontrolling interests subject to put provisions can fluctuate and the implicit multiple of earnings at which these noncontrolling interests obligations may be settled could vary significantly depending upon market conditions including potential purchasers' access to the capital markets, which can impact the level of competition for dialysis and non-dialysis related businesses, the economic performance of these businesses and the restricted marketability of the third-party owners' noncontrolling interests. The amount of noncontrolling interests subject to put provisions that employ a contractually predetermined multiple of earnings rather than fair value are immaterial. For additional information see Note 10 to the condensed consolidated financial statements.

We also have certain other potential commitments to provide operating capital to several dialysis centers that are wholly-owned by third parties or centers in which we own a minority equity investment as well as to physician-owned vascular access clinics or medical practices that we operate under management and administrative services agreements of approximately $1 million.

The following is a summary of these contractual obligations and commitments as of September 30, 2015 (in millions):

| | Remainder of 2015 | 1-3 years | 4-5 years | After 5 years | Total |
|---|---|---|---|---|---|
| Scheduled payments under contractual obligations: | | | | | |
| Long-term debt | $ 26 | $390 | $761 | $7,778 | $8,955 |
| Interest payments on the senior notes | — | 629 | 473 | 840 | 1,942 |
| Interest payments on the Term Loan B(1) | 31 | 362 | 235 | 58 | 686 |
| Interest payments on the Term Loan A(2) | 5 | 55 | 8 | — | 68 |
| Capital lease obligations | 4 | 39 | 33 | 180 | 256 |
| Operating leases | 113 | 1,191 | 580 | 960 | 2,844 |
| | $ 179 | $2,666 | $2,090 | $9,816 | $14,751 |
| Potential cash requirements under existing commitments: | | | | | |
| Letters of credit | $ 96 | $— | $— | $— | $96 |

| | | | | | |
|---|---|---|---|---|---|
| Noncontrolling interests subject to put provisions | 512 | 144 | 120 | 121 | 897 |
| Non-owned and minority owned put provisions | 47 | — | — | — | 47 |
| Pay-fixed swaps potential obligations | 1 | — | — | — | 1 |
| Operating capital advances | 1 | — | — | — | 1 |
| | $ 657 | $144 | $120 | $121 | $1,042 |

(1) Assuming no changes to LIBOR-based interest rates as the Term Loan B currently bears interest at LIBOR (floor of 0.75%) plus an interest rate margin of 2.75%.

(2) Based upon current LIBOR-based interest rates in effect at September 30, 2015 plus an interest rate margin of 2.00% for the Term Loan A.

47

The pay-fixed swap obligations represent the estimated fair market values of our interest rate swap agreements that are based upon valuation models utilizing the income approach and commonly accepted valuation techniques that use inputs from closing prices for similar assets and liabilities in active markets as well as other relevant observable market inputs and other current market conditions that existed as of September 30, 2015. This amount represents the estimated potential obligation that we would be required to pay based upon the estimated future settlement of each specific tranche over the term of the swap agreements, assuming no future changes in the forward yield curve. The actual amount of our obligation associated with these swaps in the future will depend upon changes in the LIBOR-based interest rates that can fluctuate significantly depending upon market conditions, and other relevant factors that can affect the fair market value of these swap agreements.

In addition to the above commitments, we have committed to purchase a certain amount of our hemodialysis products and supplies at fixed prices from Baxter in connection with a purchase agreement with Baxter. Our total expenditures for the nine months ended September 30, 2015 on such products were approximately 1% of our total U.S. dialysis operating costs. In addition, we have an agreement with Fresenius which commits us to purchase a certain amount of dialysis equipment, parts and supplies from them through 2015. Our total expenditures for the nine months ended September 30, 2015 on such dialysis products were approximately 2% of our total U.S. dialysis operating costs. The actual amount of purchases in future years from Baxter and Fresenius will depend upon a number of factors, including the operating requirements of our centers, the number of centers we acquire and growth of our existing centers.

In November 2011, we entered into a seven year sourcing and supply agreement with Amgen USA Inc. that expires on December 31, 2018. Under the terms of this agreement, we will purchase EPO in amounts necessary to meet no less than 90% of our requirements for erythropoiesis stimulating agents (ESAs). The actual amount of EPO that we will purchase from Amgen will depend upon the amount of EPO administered during dialysis as prescribed by physicians and the overall number of patients that we serve.

Settlements of approximately $48 million of existing income tax liabilities for unrecognized tax benefits, including interest, penalties and other long-term tax liabilities, are excluded from the above table as reasonably reliable estimates of their timing cannot be made.

Supplemental information concerning certain Physician Groups and unrestricted subsidiaries

The following information is presented as supplemental data as required by the indentures governing our senior notes.

We provide services to certain physician groups that, while consolidated in our financial statements for financial reporting purposes, are not subsidiaries of or owned by us, do not constitute “Subsidiaries”, as defined in the indentures governing our outstanding senior notes, and which do not guarantee those senior notes. In addition, we have entered into management agreements with these physician groups pursuant to which we receive management fees from them.

As of September 30, 2015, if these physician groups were not consolidated in our financial statements, our consolidated indebtedness would have been approximately $9.211 billion excluding the debt discount associated with our Term Loan B, our consolidated other liabilities (excluding indebtedness) would have been approximately $3.293 billion, and our consolidated assets would have been approximately $18.367 billion. If these physician groups were not consolidated in our financial statements for the nine months ended September 30, 2015, our consolidated total net revenues (including approximately $490 million of management fees payable to us), consolidated operating income and consolidated net income would be reduced by approximately $849 million, $52 million, and $38 million, respectively.

In addition, we own a 67% equity interest in California Medical Group Insurance (CMGI). CMGI is an Unrestricted Subsidiary, as defined in the indentures governing our outstanding senior notes, and does not guarantee those senior

notes. Our equity interest in CMGI is accounted for under the equity method of accounting, meaning that, although CMGI is not consolidated in our financial statements for financial reporting purposes, our consolidated income statements reflect our pro rata share of CMGI's net loss as equity investment loss.

For the nine months ended September 30, 2015, our equity investment income attributable to CMGI was approximately $78 thousand, and for the nine months ended September 30, 2015, excluding our equity investment income attributable to CMGI, our consolidated operating income and consolidated net income would be decreased by approximately $78 thousand and $47 thousand, respectively. See Note 21, Supplemental data, to the condensed consolidated financial statements for further details.

Item 3. Quantitative and Qualitative Disclosures about Market Risk
Interest rate sensitivity

The tables below provide information about our financial instruments that are sensitive to changes in interest rates. The table below presents principal repayments and current weighted average interest rates on our debt obligations as of September 30, 2015. The variable rates presented reflect the weighted average LIBOR rates in effect for all debt tranches plus interest rate margins in effect as of September 30, 2015. The Term Loan A margin in effect is 2.00% at September 30, 2015, and along with the revolving line of credit are subject to adjustment depending upon changes in certain of our financial ratios, including a leverage ratio. The Term Loan B currently bears interest at LIBOR (floor of 0.75%) plus an interest rate margin of 2.75%.

| | Expected maturity date | | | | | | | | Average interest rate | Fair value |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Thereafter | Total | | |
| | (dollars in millions) | | | | | | | | | |
| Long term debt: | | | | | | | | | | |
| Fixed rate | $17 | $ 56 | $ 59 | $58 | $58 | $ 57 | $ 7,957 | $8,262 | 4.63 % | $8,213 |
| Variable rate | $13 | $ 64 | $ 90 | $102 | $677 | $ 2 | $ 1 | $949 | 2.20 % | $947 |

| | Notional amount | Contract maturity date | | | | | Pay fixed | Receive variable | Fair value |
|---|---|---|---|---|---|---|---|---|---|
| | | 2015 | 2016 | 2017 | 2018 | 2019 | | | |
| | (dollars in millions) | | | | | | | | |
| Swaps: | | | | | | | | | |
| Pay-fixed rate | $ 784 | $ 24 | $ 760 | $ — | $ — | $ — | 0.49% to 0.52% | LIBOR | $ — |
| Cap agreements | $ 6,235 | $ — | $ 2,735 | $ — | $ 3,500 | $ — | | LIBOR above 2.5% and 3.5% | $ 2 |

Our Senior Secured Credit Facilities, which include the Term Loan A and the Term Loan B, consist of various individual tranches of debt that can range in maturity from one month to twelve months (currently, all tranches are one month in duration). For the Term Loan A, each tranche bears interest at a LIBOR rate that is determined by the duration of such tranche plus an interest rate margin. The LIBOR variable component of the interest rate for each tranche is reset as such tranche matures and a new tranche is established. LIBOR can fluctuate significantly depending upon conditions in the credit and capital markets. However, the LIBOR variable component of the interest rate for the majority of the Term Loan A is economically fixed as a result of our swap agreements, as described below.

The Term Loan B is subject to a LIBOR floor of 0.75%. Because actual LIBOR, as of September 30, 2015, was lower than this embedded LIBOR floors, the interest rate on the Term Loan B is treated as "effectively fixed" for purposes of the table above. We have included the Term Loan B in the fixed rate totals in the table above until such time as the actual LIBOR-based variable component of our interest rate exceeds 0.75% on the Term Loan B. At such time, we will then be subject to LIBOR-based interest rate volatility on the LIBOR variable component of our interest rate for the Term Loan B, but limited to a maximum LIBOR rate of 2.50% on $2.735 billion of outstanding principal debt on the Term Loan B as a result of the interest rate cap agreements, as described below. The remaining $721 million outstanding principal balance of the Term Loan B is subject to LIBOR-based interest rate volatility above a floor of

0.75%.

As of September 30, 2015, we maintain several interest rate swap agreements that were entered into in March 2013 with amortizing notional amounts of these swap agreements totaling $784 million. These agreements have the economic effect of modifying the LIBOR variable component of our interest rate on an equivalent amount of our Term Loan A to fixed rates ranging from 0.49% to 0.52%, resulting in an overall weighted average effective interest rate of 2.26%, including the Term Loan A margin of 2.00%. The overall weighted average effective interest rate also includes the effects of $154 million of unhedged Term Loan A debt that bears interest at LIBOR plus an interest rate margin of 2.00%. The swap agreements expire on September 30, 2016 and require monthly interest payments. During the nine months ended September 30, 2015, we recognized debt expense of $2.1 million from these swaps. As of September 30, 2015, the total fair value of these swap agreements was a net liability of approximately $0.9 million. During the nine months ended September 30, 2015, we recorded a loss of $4.8 million in other comprehensive income due to a decrease in the unrealized fair value of these swap agreements. We estimate that approximately $0.9 million of existing unrealized pre-tax losses in other comprehensive income at September 30, 2015 will be reclassified into income over the next twelve months.

As of September 30, 2015, we maintain several forward interest rate cap agreements that were entered into in November 2014 with notional amounts totaling $3.500 billion. These forward cap agreements will be effective September 30, 2016 and will have the economic effect of capping the LIBOR variable component of our interest rate at a maximum of 3.50% on an equivalent amount of our debt. The cap agreements expire on June 30, 2018. As of September 30, 2015, the total fair value of these cap agreements was an asset of approximately $2.2 million. During the nine months ended September 30, 2015, we recorded a loss of $10.2 million in other comprehensive income due to a decrease in the unrealized fair value of these cap agreements.

As of September 30, 2015, we maintain several active interest rate cap agreements that were entered into in March 2013 with notional amounts totaling $2.735 billion on our Term Loan B debt. These agreements have the economic effect of capping the LIBOR variable component of our interest rate at a maximum of 2.50% on an equivalent amount of our Term Loan B. During the nine months ended September 30, 2015, we recognized debt expense of $1.8 million from these caps. The cap agreements expire on September 30, 2016. As of September 30, 2015, the total fair value of these cap agreements was an asset of $43 thousand. During the nine months ended September 30, 2015, we recorded a loss of $1.6 million in other comprehensive income due to a decrease in the unrealized fair value of these cap agreements.

In October 2015, we entered into several forward interest rate cap agreements with notional amounts totaling $3.500 billion. These forward cap agreements will be effective June 29, 2018 and will have the economic effect of capping the LIBOR variable component of our interest rate at a maximum of 3.50% on an equivalent amount of our debt. The cap agreements expire on June 30, 2020.

As a result of an embedded LIBOR floor on the Term Loan B debt agreement and the swap and cap agreements, our overall weighted average effective interest rate on the Senior Secured Credit Facilities was 3.50%, based upon the current margins in effect of 2.00% for the Term Loan A and 2.75% for the Term Loan B, as of September 30, 2015.

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

Our overall weighted average effective interest rate during the quarter ended September 30, 2015 was 4.40% and as of September 30, 2015 was 4.40%.

Item 4. Controls and Procedures

Management has established and maintains disclosure controls and procedures designed to ensure that information required to be disclosed in the reports that it files or submits pursuant to the Securities Exchange Act of 1934, as amended, or Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and that such information is accumulated and communicated to the Company’s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow for timely decisions regarding required disclosures.

At the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of the Company’s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures in accordance with the Exchange Act requirements. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures are effective for timely identification and review of material information required to be included in the Company’s Exchange Act reports, including this report on Form 10-Q. Management recognizes that these controls and procedures can provide only reasonable assurance of desired outcomes, and that estimates and judgments are still inherent in the process of maintaining effective controls and procedures.

There has not been any change in the Company’s internal control over financial reporting that was identified during the evaluation that occurred during the fiscal quarter covered by this report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.



---

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

We provide services in a highly regulated industry and are a party to various legal actions and regulatory and other governmental and internal audits and investigations in the ordinary course of business (including investigations resulting from our obligation to self-report suspected violations of law). We cannot predict the ultimate outcome of pending litigation and regulatory and other governmental and internal audits and investigations. The following is a description of pending legal proceedings, governmental reviews, audits and investigation to which we are subject.

Inquiries by the Federal Government and Certain Related Civil Proceedings

Swoben Private Civil Suit: In April 2013, the Company's HealthCare Partners (HCP) subsidiary was served with a civil complaint filed by a former employee of SCAN Health Plan (SCAN), a health maintenance organization (HMO). On July 13, 2009, pursuant to the qui tam provisions of the federal False Claims Act and the California False Claims Act, James M. Swoben, as relator, filed a qui tam action in the United States District Court for the Central District of California purportedly on behalf of the United States of America and the State of California against SCAN, and certain other defendants whose identities were under seal. The allegations in the complaint relate to alleged overpayments received from government healthcare programs. In or about August 2012, SCAN entered into a settlement agreement with the United States of America and the State of California. The United States and the State of California partially intervened in the action for the purpose of settlement with and dismissal of the action against SCAN. In or about November 2011, the relator filed his Third Amended Complaint under seal alleging violations of the federal False Claims Act and the California False Claims Act, which named additional defendants, including HCP and certain health insurance companies (the defendant HMOs). The allegations in the complaint against HCP relate to patient diagnosis coding to determine reimbursement in the Medicare Advantage program, referred to as Hierarchical Condition Coding (HCC) and Risk Adjustment Factor (RAF) scores. The complaint sought monetary damages and civil penalties as well as costs and expenses. The United States Department of Justice reviewed these allegations and in January 2013 declined to intervene in the case. On June 26, 2013, HCP and the defendant HMOs filed their respective motions to dismiss the Third Amended Complaint pursuant to Federal Rules of Civil Procedure 12(b)(6) and 9(b), challenging the legal sufficiency of the claims asserted in the complaint. On July 30, 2013, the court granted HCP's motion and dismissed with prejudice all of the claims in the Third Amended Complaint and judgment was entered in September 2013. The court specifically determined that further amendments to the complaint would be futile because, in part, the allegations were publicly disclosed in reports and other sources relating to audits conducted by the Centers of Medicare & Medicaid Services. In October 2013, the plaintiff appealed to the United States Court of Appeals for the Ninth Circuit and the court's disposition of the appeal is pending.

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

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

In addition to the subpoena described above, in June 2015, DaVita HealthCare Partners Inc. (the "Company") received a subpoena from the Office of Inspector General, U.S. Department of Health and Human Services. This civil subpoena covers the period from January 1, 2008 through the present and seeks production of a wide range of documents relating to the Company's and its subsidiaries' (including HealthCare Partners and its subsidiary JSA HealthCare Corporation) provision of services to Medicare Advantage plans and Medicare Advantage organizations and related patient diagnosis coding and risk adjustment submissions and payments. We believe that the request is part of a broader industry investigation into Medicare Advantage patient diagnosis coding and risk adjustment practices and potential overpayments by the government. Some of the information requested relates to what we

51

disclosed in the risk factors of our quarterly report on Form 10-Q for the first quarter of 2015 as a potentially improper historical HealthCare Partners ("HCP") coding practice related to a particular condition. The practice in question was discontinued following our November 1, 2012 acquisition of HCP and, as we previously disclosed, we notified CMS of the legacy coding practice and potential overpayments. In connection with the HCP merger, we have certain indemnification rights against the sellers and an escrow was established as security for the indemnification. In the event that the Company were to incur liability related to this matter, the Company would pursue an indemnification claim against the sellers secured by the escrow. We can make no assurances that the indemnification and escrow would cover the full amount of our potential losses related to this matter. The Company is cooperating with the government and will gather and produce the requested information.

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

Other

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

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

In addition to the foregoing, the Company is subject to claims and suits, including from time to time, contractual disputes and professional and general liability claims, as well as audits and investigations by various government entities, in the ordinary course of business. The Company believes that the ultimate resolution of any such pending proceedings, whether the underlying claims are covered by insurance or not, will not have a material adverse effect on its financial condition, results of operations or cash flows.

Item 1A. Risk Factors

An updated description of the risk factors associated with our business is set forth below. This description includes any material changes to and supersedes the description of the risk factors associated with our business previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014. The risks discussed below are not the only ones facing our business. Please read the cautionary notice regarding forward-looking statements under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Risk factors related to our U.S. dialysis and related lab services, ancillary services and strategic initiatives:

If the average rates that commercial payors pay us decline significantly, it would have a material adverse effect on our revenues, earnings and cash flows.

Approximately 34% of our dialysis and related lab services' revenues for the nine months ended September 30, 2015, were generated from patients who have commercial payors as their primary payor. The majority of these patients have insurance policies that pay us on terms and at rates that are generally significantly higher than Medicare rates. The payments we receive from commercial payors generate nearly all of our profit and all of our nonacute dialysis profits come from commercial payors. We continue to experience downward pressure on some of our commercial payment rates as a result of general conditions in the market, recent and future consolidations among commercial payors, increased focus on dialysis services and other factors. Specifically, in the second quarter of 2015, two planned mergers of large commercial payors were announced. If completed, these announced mergers could put increased pressure on the dialysis rates we receive from commercial payors. There is no guarantee that commercial payment rates will not be materially lower in the future.

We are continuously in the process of negotiating our existing or potentially new agreements with commercial payors who tend to be aggressive in their negotiations with us. Sometimes many significant agreements are up for renewal or being renegotiated at the same time. In the event that our continual negotiations result in overall commercial rate reductions in excess of overall commercial rate increases, the cumulative effect could have a material adverse effect on our financial results. Consolidations have significantly increased the negotiating leverage of commercial payors. Our negotiations with payors are also influenced by competitive pressures, and we may experience decreased contracted rates with commercial payors or experience decreases in patient volume as our negotiations with commercial payors continue. In addition to downward pressure on contracted commercial payor rates, payors have been attempting to impose restrictions and limitations on non-contracted or out-of-network providers, and in some circumstances designate our centers as out-of-network providers. Rates for out-of-network providers are on average higher than rates for in-network providers. We believe commercial payors have or will begin to restructure their benefits to create disincentives for patients to select or remain with out-of-network providers and to decrease payment rates for out-of-network providers. Decreases in out-of-network rates and restrictions on out-of-network access, our turning away new patients in instances where we are unable to come to agreement on rates, or decreases in contracted rates could result in a significant decrease in our overall revenues derived from commercial payors. If the average rates that commercial payors pay us decline significantly, or if we see a decline in commercial patients, it would have a material adverse effect on our revenues, earnings and cash flows. For additional details regarding specific risks we face regarding regulatory changes that could result in fewer patients covered under commercial plans or an increase of patients covered under more restrictive commercial plans with lower reimbursement rates, see the discussion of individual and small group health plans in the risk factor below under the heading "Healthcare reform could substantially reduce our revenues, earnings and cash flows."

If the number of patients with higher-paying commercial insurance declines, then our revenues, earnings and cash flows would be substantially reduced.

Our revenue levels are sensitive to the percentage of our patients with higher-paying commercial insurance coverage. A patient's insurance coverage may change for a number of reasons, including changes in the patient's or a family member's employment status. Currently, for a patient covered by an employer group health plan, Medicare generally becomes the primary payor after 33 months, or earlier, if the patient's employer group health plan coverage terminates. When Medicare becomes the primary payor, the payment rate we receive for that patient decreases from the employer group health plan rate to the lower Medicare payment rate. We have seen an increase in the number of patients who have government-based programs as their primary payors which we believe is largely a result of improved mortality and recent economic conditions which have a negative impact on the percentage of patients covered under commercial

insurance plans. To the extent there are sustained or increased job losses in the U.S., independent of whether general economic conditions might be improving, we could experience a continued decrease in the number of patients covered under commercial plans. We could also experience a further decrease if changes to the healthcare regulatory system result in fewer patients covered under commercial plans or an increase of patients covered under more restrictive commercial plans with lower reimbursement rates. In addition, our continuous process of negotiations with commercial payors under existing or potentially new agreements could result in a decrease in the number of patients under commercial plans to the extent that we cannot reach agreement with commercial payors on rates and other terms, resulting in termination or non-renewals of existing agreements or our inability to enter into new ones. If there is a significant reduction in the number of patients under higher-paying commercial plans relative to government-based programs that pay at lower rates, it would have a material adverse effect on our revenues, earnings and cash flows.

Changes in the structure of and payment rates under the Medicare ESRD program could substantially reduce our revenues, earnings and cash flows.

Approximately 44% of our dialysis and related lab services' revenues for the nine months ended September 30, 2015 was generated from patients who have Medicare as their primary payor. For patients with Medicare coverage, all ESRD payments for dialysis treatments are made under a single bundled payment rate which provides a fixed payment rate to encompass all goods and services provided during the dialysis treatment, including pharmaceuticals that were historically separately reimbursed to the dialysis

53

providers, such as EPO, vitamin D analogs and iron supplements, irrespective of the level of pharmaceuticals administered or additional services performed. Most lab services that used to be paid directly to laboratories are also included in the bundled payment. The bundled payment rate is also adjusted for certain patient characteristics, a geographic usage index and certain other factors.

The current bundled payment system presents certain operating, clinical and financial risks, which include:

- Risk that our rates are reduced by CMS. Uncertainty about future payment rates remains a material risk to our business. CMS issued the 2014 final rule for the ESRD prospective payment system (PPS), which phases in the payment reductions mandated by the American Taxpayer Relief Act of 2012 (ATRA) as modified by the "Protecting Access to Medicare Act" (PAMA), that will reduce our market basket inflation adjustment by 1.25% in 2016 and 2017, and 1% in 2018. CMS also recently issued the 2016 final rule for the ESRD PPS, which cuts dialysis facilities' bundled payment rate and includes adjustments for certain co-morbidities and other patient health factors, low volume facilities, and rural facilities. CMS believes its 2016 final rule for the ESRD PPS will (i) increase overall payments to both hospital-based and freestanding dialysis facilities modestly by approximately 0.20%, and (ii) decrease overall payments to rural dialysis facilities by approximately 0.10%.
- Risk that increases in our operating costs will outpace the Medicare rate increases we receive. We expect to continue experiencing increases in operating costs that are subject to inflation, such as labor and supply costs, regardless of whether there is a compensating inflation-based increase in Medicare payment rates or in payments under the bundled payment rate system.
- Risk of federal budget sequestration cuts. As a result of the Budget Control Act of 2011 (BCA) and subsequent activity in Congress, a $1.2 trillion sequester (across-the-board spending cuts) in discretionary programs took effect on March 1, 2013. In particular, a 2% reduction to Medicare payments took effect on April 1, 2013, which was subsequently extended through 2014 and 2015. The across-the-board spending cuts pursuant to the sequester have affected and will continue to adversely affect our revenues, earnings and cash flows.
- Risk that, if our clinical systems fail to accurately capture the data we report to CMS in connection with claims for which at least part of the government's payments to us is based on clinical performance or patient outcomes or co-morbidities, we might be over-reimbursed by the government which could subject us to certain liability. For example, we are required to return overpayments including, federal funds, within sixty days of identification or claims associated with those overpayments are subject to FCA penalties.

For additional details regarding the risks we face for failing to adhere to our Medicare and Medicaid regulatory compliance obligations, see the risk factor below under the heading "If we fail to adhere to all of the complex government regulations that apply to our business, we could suffer severe consequences that would substantially reduce our revenues, earnings, cash flows and stock price."

Healthcare reform could substantially reduce our revenues, earnings and cash flows.

We cannot predict how employers, private payors or persons buying insurance might react to the changes brought on by broad U.S. healthcare reform legislation or what form many of these regulations will take before implementation.

The healthcare reform legislation introduced healthcare insurance exchanges which provide a marketplace for eligible individuals and small employers to purchase healthcare insurance. Although we cannot predict the short- or long-term effects of these measures, we believe the healthcare insurance exchanges could result in a reduction in ESRD patients covered by traditional commercial insurance policies and an increase in the number of patients covered through the exchanges under more restrictive commercial plans with lower reimbursement rates or higher deductibles and co-payments that patients may not be able to pay. To the extent that the implementation of such exchanges results in a reduction in patients covered by commercial insurance or a reduction in reimbursement rates for our services from commercial and/or government payors, our revenues, earnings and cash flows could be adversely affected.

In addition, the healthcare reform legislation broadened the potential for penalties under the FCA for the knowing and improper retention of overpayments collected from government payors and reduced the timeline to file Medicare claims. As a result, we made significant initial investments in new resources to accelerate the time it takes us to identify and process overpayments and we deployed significant resources to reduce our timeline and improve our claims processing methods to ensure that our Medicare claims are filed in a timely fashion. We may be required to make additional investments in the future. Failure to timely identify and return overpayments may result in significant penalties, which may have a negative impact on our revenues, earnings and cash flows. Failure to file a claim within the one year window could result in payment denials, adversely affecting our revenues, earnings and cash flows.

The healthcare reform legislation also added several new tax provisions that, among other things, impose various fees and excise taxes, and limit compensation deductions for health insurance providers and their affiliates. These rules could negatively impact our cash flow and tax liabilities.

CMS Center for Medicare & Medicaid Innovation (Innovation Center) is currently working with various healthcare providers to develop, refine and implement ACOs and other innovative models of care for Medicare and Medicaid beneficiaries. We are currently uncertain of the extent to which the long-term operation and evolution of these care models, including ACOs, Bundled Payments for Care Improvement Initiative, Comprehensive ESRD Care Model (which includes the development of ESRD Seamless Care Organizations (ESCOs)), the Comprehensive Primary Care Initiative, the Duals Demonstration, and other models, will impact the healthcare market over time. Our U.S. dialysis business may choose to participate in one or several of these models either as a partner with other providers or independently. We are currently seeking to participate in the Comprehensive ESRD Care Model with the Innovation Center. Even if we do not participate in this or other programs, some of our patients may be assigned to a program, in which case the quality and cost of care that we furnish will be included in an ACO's or other programs' calculations. As new models of care emerge and evolve, we may be at risk of losing our Medicare patient base, which would have a materially adverse effect on our revenues, earnings and cash flow. Other initiatives in the government or private sector may arise, including the development of models similar to ACOs, IPAs and integrated delivery systems or evolutions of those concepts which could adversely impact our business.

CMS instituted new screening procedures which we expect will delay the Medicare contractor approval process, potentially causing a delay in reimbursement. We anticipate the new screening and enrollment requirements will require additional personnel and financial resources and will potentially delay the enrollment and revalidation of our centers which in turn will delay payment. These delays may negatively impact our revenues, earnings and cash flows.

Other reform measures allow CMS to place a moratorium on new enrollment of providers and to suspend payment to providers upon a credible allegation of fraud from any source. These types of reform measures, as well as other measures, could adversely impact our revenues, earnings and cash flows depending upon the scope and breadth of the implementing regulations.

There is also a considerable amount of uncertainty as to the prospective implementation of the federal healthcare reform legislation and what similar measures might be enacted at the state level. There have been multiple attempts through legislative action and legal challenges to repeal or amend the Patient Protection and Affordable Care Act of 2010, as modified by the Health Care and Education Reconciliation Act of 2010 (Health Reform Laws), including the case that was recently heard by the U.S. Supreme Court, King v. Burwell. Although the Supreme Court upheld the provision by the federal government of subsidies to individuals in federally facilitated health care exchanges in Burwell, which ultimately did not disrupt significantly the implementation of the healthcare reform legislation, we cannot predict whether other current or future efforts to repeal or amend these laws will be successful, nor can we predict the impact that such a repeal or amendment would have on our business and operations, or on our revenues and earnings. The enacted reforms as well as future legislative changes could have a material adverse effect on our results of operations, including lowering our reimbursement rates and increasing our expenses.

Changes in state Medicaid or other non-Medicare government-based programs or payment rates could reduce our revenues, earnings and cash flows.

Approximately 21% of our dialysis and related lab services' revenues for the nine months ended September 30, 2015 was generated from patients who have state Medicaid or other non-Medicare government-based programs, such as coverage through the Department of Veterans Affairs (VA), as their primary coverage. As state governments and other governmental organizations face increasing budgetary pressure, we may in turn face reductions in payment rates, delays in the receipt of payments, limitations on enrollee eligibility or other changes to the applicable programs. For example, certain state Medicaid programs and the VA have recently considered, proposed or implemented payment rate reductions.

The VA adopted Medicare's bundled PPS pricing methodology for any veterans receiving treatment from non-VA providers under a national contracting initiative. Since we are a non-VA provider, these reimbursements are tied to a percentage of Medicare reimbursement, and we have exposure to any dialysis reimbursement changes made by CMS. Approximately 2% of our dialysis and related lab services' revenues for the nine months ended September 30, 2015 was generated by the VA.

In 2013, we entered into a five-year Nationwide Dialysis Services contract with the VA which is subject to one-year renewal periods, consistent with all provider agreements with the VA under this contract. During the length of the contract, the VA has elected not to make adjustments to reimbursement percentages that are tied to a percentage of Medicare reimbursement rates. These agreements provide the VA with the right to terminate the agreements without cause on short notice. Should the VA not renew or cancel these agreements for any reason, we may cease accepting patients under this program and may be forced to close centers, which could adversely affect our revenues, earnings and cash flows.

State Medicaid programs are increasingly adopting Medicare-like bundled payment systems, but sometimes these payment systems are poorly defined and are implemented without any claims processing infrastructure, or patient or facility adjusters. If these payment systems are implemented without any adjusters and claims processing changes, Medicaid payments will be substantially reduced and the costs to submit such claims may increase, which will have a negative impact on our revenues, earnings and cash flows. In addition, some state Medicaid program eligibility requirements mandate that citizen enrollees in such programs provide documented proof of citizenship. If our patients cannot meet these proof of citizenship documentation requirements, they may be

denied coverage under these programs, resulting in decreased patient volumes and revenue. These Medicaid payment and enrollment changes, along with similar changes to other non-Medicare government programs could reduce the rates paid by these programs for dialysis and related services, delay the receipt of payment for services provided, and further limit eligibility for coverage which could adversely affect our revenues, earnings and cash flows.

Changes in clinical practices, payment rates or regulations impacting EPO and other pharmaceuticals could adversely affect our operating results, reduce our revenues, earnings and cash flows and negatively impact our ability to care for patients.

Medicare bundles EPO into the PPS such that dosing variations do not change the amount paid to a dialysis facility. Although some Medicaid programs and other payors suggest movement towards a bundled payment system inclusive of EPO, some non-Medicare payors continue to pay for EPO separately from the treatment rate. The administration of EPO and other pharmaceuticals that are separately billable accounted for approximately 2% of our dialysis and related lab services' revenues for the nine months ended September 30, 2015, with EPO alone accounting for approximately 1% of our dialysis and related lab services' revenues during that period.

Evaluations on the utilization and reimbursement for ESAs, which have occurred in the past and may occur in the future, and related actions by the U.S. Congress and federal agencies, could result in further restrictions on the utilization and reimbursement for ESAs. Additionally, commercial payors have increasingly examined their administration policies for EPO and, in some cases, have modified those policies. Changes in labeling of EPO and other pharmaceuticals in a manner that alters physician practice patterns or accepted clinical practices, changes in private and governmental payment criteria, including the introduction of EPO administration policies or the conversion to alternate types of administration of EPO or other pharmaceuticals that result in further decreases in utilization of EPO for patients covered by commercial payors could have a material adverse effect on our revenues, earnings and cash flows. Further increased utilization of EPO for patients for whom the cost of EPO is included in a bundled reimbursement rate, or further decreases in reimbursement for EPO and other pharmaceuticals that are not included in a bundled reimbursement rate, could also have a material adverse effect on our revenues, earnings and cash flows.

Additionally, as a result of the current high level of scrutiny and controversy, we may be subject to increased inquiries or audits from a variety of governmental bodies or claims by third parties. Although we believe our anemia management practices and other pharmaceutical administration practices have been compliant with existing laws and regulations, increased inquiries or audits from governmental bodies or claims by third parties would require management's attention, and could result in significant legal expense. Any negative findings could result in substantial financial penalties or repayment obligations, the imposition of certain obligations on and changes to our practices and procedures as well as the attendant financial burden on us to comply with the obligations, or exclusion from future participation in the Medicare and Medicaid programs, and could have a material adverse effect on our revenues, earnings and cash flows.

Changes in EPO pricing could materially reduce our earnings and cash flows and affect our ability to care for our patients.

Future increases in the cost of EPO without corresponding increases in payment rates for EPO from commercial payors and without corresponding increases in the Medicare bundled rate could have a material adverse effect on our earnings and cash flows and ultimately reduce our income. In November 2011, we entered into a seven year Sourcing and Supply Agreement with Amgen USA Inc. (Amgen), pursuant to which we committed to purchase EPO in amounts necessary to meet no less than 90% of our requirements for ESAs. As long as we meet certain conditions, the agreement limits Amgen's ability to unilaterally increase the price for EPO during the term of the agreement. Our agreement with Amgen provides for discounted pricing and rebates for EPO. However, some of the rebates are subject

to various conditions including, but not limited to, future pricing levels of EPO by Amgen and data submission by us. In addition, the rebates are subject to certain limitations. We cannot predict whether, over the seven year term of the agreement, we will continue to receive the rebates for EPO that we have received in the past, or whether we will continue to achieve the same levels of rebates within that structure as we have historically achieved. Factors that could impact our ability to qualify for rebates provided for in our agreement with Amgen in the future include, but are not limited to, our ability to track certain data elements. We cannot predict whether we will be able to meet the applicable qualification requirements for receiving rebates. Failure to meet certain targets and earn the specified rebates could have a material adverse effect on our earnings and cash flows.

If we fail to comply with our Corporate Integrity Agreement, we could be subject to substantial penalties and exclusion from participation in federal healthcare programs that may adversely impact our revenues, earnings and cash flows.

In October 2014, we entered into a Settlement Agreement with the United States and relator David Barbetta to resolve the then pending 2010 and 2011 U.S. Attorney physician relationship investigations and paid $406 million in settlement amounts, civil forfeiture, and interest to the United States and certain states. In connection with the resolution of these matters, and in exchange for the OIG's agreement not to exclude us from participating in the federal healthcare programs, we have entered into a five-year Corporate Integrity Agreement (CIA) with the OIG. The CIA (i) requires that we maintain certain elements of our compliance programs, (ii) imposes certain expanded compliance-related requirements during the term of the CIA, (iii) requires ongoing monitoring and reporting by an independent monitor, reporting, certification, records retention and training obligations, the formal

allocation of certain oversight responsibility to the Board's Compliance Committee, the creation of a Management Compliance Committee and the retention of an independent compliance advisor to the Board, and (iv) contains certain business restrictions related to a subset of our joint venture arrangements, including our agreeing to: (1) unwind 11 joint venture transactions that were created through partial divestitures to, or partial acquisitions from, nephrologists and that cover 26 of our 2,119 clinics that existed at the time we entered into the Settlement Agreement; (2) not enter into certain types of partial divestiture joint venture transactions with nephrologists during the term of the CIA; (3) non-enforcement of certain patient-related non-solicitation restrictions; and (4) certain other restrictions. The costs associated with compliance with the CIA could be substantial and may be greater than we currently anticipate. In addition, in the event of a breach of the CIA, we could become liable for payment of certain stipulated penalties, and could be excluded from participation in federal healthcare programs. The OIG notified us that it considers us to be in breach of the CIA because of three implementation deficiencies. We have remediated the deficiencies and have paid certain stipulated penalties. In general, the costs associated with compliance with the CIA, or any liability or consequences associated with a breach, could have a material adverse effect on our revenues, earnings and cash flows.

If we fail to adhere to all of the complex government regulations that apply to our business, we could suffer severe consequences that would substantially reduce our revenues, earnings, cash flows and stock price.

Our operations are subject to extensive federal, state and local government regulations, including Medicare and Medicaid payment rules and regulations, federal and state anti-kickback laws, the physician self-referral law (Stark Law) and analogous state self-referral prohibition statutes, Federal Acquisition Regulations, the FCA and federal and state laws regarding the collection, use and disclosure of patient health information and the storage, handling and administration of pharmaceuticals. The Medicare and Medicaid reimbursement rules related to claims submission, enrollment and licensing requirements, cost reporting, and payment processes impose complex and extensive requirements upon dialysis providers as well. A violation or departure from any of these legal requirements may result in government audits, lower reimbursements, significant fines and penalties, the potential loss of certification, recoupment efforts or voluntary repayments.

We endeavor to comply with all legal requirements, however, there is no guarantee that we will be able to adhere to all of the complex government regulations that apply to our business. We further endeavor to structure all of our relationships with physicians to comply with state and federal anti-kickback and physician self-referral laws. We utilize considerable resources to monitor the laws and implement necessary changes. However, the laws and regulations in these areas are complex and often subject to varying interpretations. For example, if an enforcement agency were to challenge the level of compensation that we pay our medical directors or the number of medical directors whom we engage, we could be required to change our practices, face criminal or civil penalties, pay substantial fines or otherwise experience a material adverse effect as a result of a challenge to these arrangements. In addition, the FCA amended the Social Security Act to make the knowing failure to report and return overpayments within 60 days of when the overpayment was identified an "obligation" for purposes of the FCA, 31 U.S.C. § 3729(b)(3). These amendments could subject our procedures for identifying and processing overpayments to greater scrutiny. We have made significant investments in new resources to decrease the time it takes to identify and process overpayments and we may be required to make additional investments in the future. An acceleration in our ability to identify and process overpayments could result in us refunding overpayments to government and other payors more rapidly than we have in the past which could have a material adverse effect on our operating cash flows. Additionally, amendments to the federal anti-kickback statute in the health reform law make anti-kickback violations potentially subject to liability under the FCA, including qui tam or whistleblower suits.

If any of our operations are found to violate these or other government regulations, we could suffer severe consequences that would have a material adverse effect on our revenues, earnings, cash flows and stock price, including:

- Suspension or termination of our participation in government payment programs;
- Refunds of amounts received in violation of law or applicable payment program requirements;
- Loss of required government certifications or exclusion from government payment programs;
- Loss of licenses required to operate healthcare facilities or administer pharmaceuticals in some of the states in which we operate;
- Reductions in payment rates or coverage for dialysis and ancillary services and related pharmaceuticals;
- Fines, damages or monetary penalties for anti-kickback law violations, Stark Law violations, FCA violations, civil or criminal liability based on violations of law, or other failures to meet regulatory requirements;
- Enforcement actions by governmental agencies and/or state claims for monetary damages by patients who believe their protected health information has been used, disclosed or not properly safeguarded in violation of federal or state patient privacy laws, including but not limited to the Health Insurance Portability and Accountability Act (HIPAA) of 1996 or the Privacy Act of 1974;
- Mandated changes to our practices or procedures that significantly increase operating expenses;

57

- Imposition of and compliance with corporate integrity agreements that could subject us to ongoing audits and reporting requirements as well as increased scrutiny of our billing and business practices which could lead to potential fines;
- Termination of relationships with medical directors; and
- Harm to our reputation which could impact our business relationships, affect our ability to obtain financing and decrease access to new business opportunities.

Delays in state Medicare and Medicaid certification of our dialysis centers could adversely affect our revenues, earnings and cash flows.

Before we can begin billing for patients treated in our outpatient dialysis centers who are enrolled in government-based programs, we are required to obtain state and federal certification for participation in the Medicare and Medicaid programs. As state agencies responsible for surveying dialysis centers on behalf of the state and Medicare program face increasing budgetary pressure, certain states are having difficulty keeping up with certifying dialysis centers in the normal course resulting in significant delays in certification. If state governments continue to have difficulty keeping up with certifying new centers in the normal course and we continue to experience significant delays in our ability to treat and bill for services provided to patients covered under government programs, it could cause us to incur write-offs of investments or accelerate the recognition of lease obligations in the event we have to close centers or our centers' operating performance deteriorates, and it could have an adverse effect on our revenues, earnings and cash flows.

If our joint ventures were found to violate the law, we could suffer severe consequences that would have a material adverse effect on our revenues, earnings and cash flows.

As of September 30, 2015, we owned a controlling interest in numerous dialysis-related joint ventures, which represented approximately 23% of our U.S. dialysis and related lab services' revenues for the nine months ended September 30, 2015. In addition, we also owned minority equity investments in several other dialysis related joint ventures. We may continue to increase the number of our joint ventures. Many of our joint ventures with physicians or physician groups also have certain physician owners providing medical director services to centers we own and operate. Because our relationships with physicians are governed by the federal and state anti-kickback statutes, we have sought to structure our joint venture arrangements to satisfy as many federal safe harbor requirements as we believe are commercially reasonable. However, although our joint venture arrangements do not satisfy all of the elements of any safe harbor under the federal anti-kickback statute, they are not automatically prohibited under the federal anti-kickback statute but are susceptible to government scrutiny. In October 2014, we entered into a Settlement Agreement with the United States and relator David Barbetta to resolve the then pending 2010 and 2011 U.S. Attorney physician relationship investigations regarding certain of our joint ventures and paid $406 million in settlement amounts, civil forfeiture, and interest to the United States and certain states. For further details, please see "If we fail to comply with our Corporate Integrity Agreement, we could be subject to substantial penalties and exclusion from participation in federal healthcare programs that may adversely impact our revenues, earnings and cash flows".

There are significant estimating risks associated with the amount of dialysis revenues and related refund liabilities that we recognize and if we are unable to accurately estimate our revenues and related refund liabilities, it could impact the timing and the amount of our revenues recognition or have a significant impact on our operating results.

There are significant estimating risks associated with the amount of dialysis and related lab services' revenues and related refund liabilities that we recognize in a reporting period. The billing and collection process is complex due to ongoing insurance coverage changes, geographic coverage differences, differing interpretations of contract coverage, and other payor issues. Determining applicable primary and secondary coverage for approximately 177,000 U.S. patients at any point in time, together with the changes in patient coverage that occur each month, requires complex,

resource-intensive processes. Errors in determining the correct coordination of benefits may result in refunds to payors. Revenues associated with Medicare and Medicaid programs are also subject to estimating risk related to the amounts not paid by the primary government payor that will ultimately be collectible from other government programs paying secondary coverage, the patient's commercial health plan secondary coverage or the patient. Collections, refunds and payor retractions typically continue to occur for up to three years and longer after services are provided. We generally expect our range of U.S. dialysis and related lab services' revenues estimating risk to be within 1% of net revenues for the segment, which represents approximately 5% of dialysis and related lab services' adjusted operating income. If our estimates of dialysis and related lab services revenues and related refund liabilities are materially inaccurate, it could impact the timing and the amount of our revenues recognition and have a significant impact on our operating results.

Our ancillary services and strategic initiatives, including our international dialysis operations, that we invest in now or in the future may generate losses and may ultimately be unsuccessful. In the event that one or more of these activities is unsuccessful, we may have to write off our investment and incur other exit costs.

Our ancillary services and strategic initiatives currently include pharmacy services, disease management services, vascular access services, ESRD clinical research programs, physician services, physician practice management services, direct primary care and our international dialysis operations. We expect to add additional service offerings and pursue additional strategic initiatives in the future as circumstances warrant, which could include healthcare services not related to dialysis. Many of these initiatives require or would require investments of both management and financial resources and can generate significant losses for a substantial period of time and may not become profitable. There can be no assurance that any such strategic initiative will ultimately be successful. Any significant change in market conditions, or business performance, or in the political, legislative or regulatory environment, may impact the economic viability of any of these strategic initiatives. If any of our ancillary services or strategic initiatives, including our international dialysis operations, do not perform as planned, we may incur a material write-off or an impairment of our investment, including goodwill, in one or more of these activities or we could incur significant termination costs if we were to exit a certain line of business.

If a significant number of physicians were to cease referring patients to our dialysis centers, whether due to regulatory or other reasons, it would have a material adverse effect on our revenues, earnings and cash flows.

We believe that physicians prefer to have their patients treated at dialysis centers where they or other members of their practice supervise the overall care provided as medical director of the center. As a result, the primary referral source for most of our centers is often the physician or physician group providing medical director services to the center.

Our medical director contracts are for fixed periods, generally ten years, and at any given time a large number of them could be up for renewal at the same time. Medical directors have no obligation to extend their agreements with us and if we are unable to enforce noncompetition provisions contained in terminated medical director agreements, our former medical directors may choose to provide medical director services for competing providers or establish their own dialysis centers in competition with ours. Neither our current nor former medical directors have an obligation to refer their patients to our centers.

Opportunities presented by our competitors or different affiliation models in the changing healthcare environment, such as an increase in the number of physicians becoming employed by hospitals or a perceived decrease in the quality of service levels at our centers may negatively impact a medical director’s decision to enter into or extend his or her agreement with us, refer patients to our centers or otherwise negatively impact treatment volumes.

In addition, we may take actions to restructure existing relationships or take positions in negotiating extensions of relationships to assure compliance with the anti-kickback statute, Stark Law and other similar laws. If the terms of any existing agreement are found to violate applicable laws, we may not be successful in restructuring the relationship which could lead to the early termination of the agreement, or cause the physician to stop referring patients to our dialysis centers. These actions in an effort to comply with applicable laws and regulations could negatively impact the decision of physicians to extend their medical director agreements with us or to refer their patients to us. If a significant number of physicians were to cease referring patients to our dialysis centers, our revenues, earnings and cash flows would be substantially reduced.

Deterioration in economic conditions as well as further disruptions in the financial markets could have a material adverse effect on our revenues, earnings and cash flows and otherwise adversely affect our financial condition.

Deterioration in economic conditions could adversely affect our business and our profitability. Among other things, the potential decline in federal and state revenues that may result from such conditions may create additional pressures to contain or reduce reimbursements for our services from Medicare, Medicaid and other government sponsored programs. Increasing job losses or slow improvement in the unemployment rate in the U.S. as a result of adverse economic conditions has and may continue to result in a smaller percentage of our patients being covered by an employer group health plan and a larger percentage being covered by lower paying Medicare and Medicaid programs. Employers may also select more restrictive commercial plans with lower reimbursement rates. To the extent that payors are negatively impacted by a decline in the economy, we may experience further pressure on commercial rates, a further slowdown in collections and a reduction in the amounts we expect to collect. In addition, uncertainty in the financial markets could adversely affect the variable interest rates payable under our credit facilities or could make it more difficult to obtain or renew such facilities or to obtain other forms of financing in the future, if at all. Any or all of these factors, as well as other consequences of a deterioration in economic conditions which cannot currently be anticipated, could have a material adverse effect on our revenues, earnings and cash flows and otherwise adversely affect our financial condition.

If there are shortages of skilled clinical personnel or if we experience a higher than normal turnover rate, we may experience disruptions in our business operations and increases in operating expenses.

We are experiencing increased labor costs and difficulties in hiring nurses due to a nationwide shortage of skilled clinical personnel. We compete for nurses with hospitals and other healthcare providers. This nursing shortage may limit our ability to expand our operations. In addition, changes in certification requirements or increases in the required staffing levels for skilled clinical personnel can impact our ability to maintain sufficient staff levels to the extent our teammates are not able to meet new requirements or we experience a higher than normal turnover rate due to increased competition for qualified clinical personnel. If we are unable to hire skilled clinical personnel when needed, or if we experience a higher than normal turnover rate for our skilled clinical personnel, our operations and treatment growth will be negatively impacted, which would result in reduced revenues, earnings and cash flows.

Our business is labor intensive and could be adversely affected if we are unable to maintain satisfactory relations with our employees or if union organizing activities result in significant increases in our operating costs or decreases in productivity.

Our business is labor intensive, and our results are subject to variations in labor-related costs, productivity and the number of pending or potential claims against us related to labor and employment practices. If political efforts at the national and local level result in actions or proposals that increase the likelihood of union organizing activities at our facilities or if union organizing activities increase for other reasons, or if labor and employment claims, including the filing of class action suits, trend upwards, our operating costs could increase and our employee relations, productivity, earnings and cash flows could be adversely affected.

Complications associated with our new billing and collections system could have a material adverse effect on our revenues, cash flows and operating results.

We recently launched a new billing system that is critical to our billing operations. If there are defects in the new billing system, we may experience difficulties in our ability to successfully bill and collect for services rendered, including a delay in collections, a reduction in the amounts collected, increased risk of retractions from and refunds to commercial and government payors, an increase in our provision for uncollectible accounts receivable and noncompliance with reimbursement regulations. To mitigate this risk, we are launching the new system in phases; however, any defects in the new billing and collection system could have a material adverse effect on our revenues, cash flows and operating results.

Our ability to effectively provide the services we offer could be negatively impacted if certain of our suppliers are unable to meet our needs or if we are unable to effectively access new technology, which could substantially reduce our revenues, earnings and cash flows.

We have significant suppliers that are either the sole or primary source of products critical to the services we provide, including Amgen, Baxter Healthcare Corporation, NxStage Medical, Inc. and others or to which we have committed obligations to make purchases including Gambro Healthcare and Fresenius Medical Care (FMC). If any of these suppliers are unable to meet our needs for the products they supply, including in the event of a product recall or shortage, and we are not able to find adequate alternative sources, or if some of the drugs that we purchase are not reimbursed or not adequately reimbursed by commercial payors or through the bundled payment rate by Medicare, our revenues, earnings and cash flows could be substantially reduced. In addition, the technology related to the products critical to the services we provide is subject to new developments and may result in superior products. If we are not able to access superior products on a cost-effective basis or if suppliers are not able to fulfill our requirements for such products, we could face patient attrition which could substantially reduce our revenues, earnings and cash flows.

Risk factors related to HCP:

HCP is subject to many of the same risks to which our dialysis business is subject.

As a participant in the healthcare industry, HCP is subject to many of the same risks to which our dialysis business is subject to as described in the risk factors set forth above in this Part II, Item 1A, any of which could materially and adversely affect HCP's revenues, earnings or cash flows. Among these risks are the following:

- The healthcare business is heavily regulated and changes in laws, regulations, or government programs could have a material impact on HCP;
- Failure to comply with complex governmental regulations could have severe consequences to HCP, including, without limitation, exclusion from governmental payor programs like Medicare and Medicaid;
- HCP could become the subject of governmental investigations, claims, and litigation;

- HCP may be unable to continue to explore potential acquisition candidates, make acquisitions or successfully integrate such acquisitions into its business, and such acquisitions may include liabilities of which HCP was not aware; and
- As a result of the broad scope of HCP's medical practice, HCP is exposed to medical malpractice claims, as well as claims for damages and other expenses, that may not be covered by insurance or for which adequate limits of insurance coverage may not be available.

Under most of HCP's agreements with health plans, HCP assumes some or all of the risk that the cost of providing services will exceed its compensation.

Over 91% of HCP's revenue for the nine months ended September 30, 2015 is derived from fixed Per Member Per Month (PMPM) fees paid by health plans under capitation agreements with HCP or its associated physician groups. While there are variations specific to each arrangement, HCP, through DaVita HealthCare Partners Plan, Inc., a subsidiary of HealthCare Partners Holdings, LLC and a restricted Knox-Keene licensed entity (DaVita HealthCare Partners Plan), and, in certain instances, HCP's associated physician groups generally contract with health plans to receive a PMPM fee for professional services and assume the financial responsibility for professional services only. In some cases, the health plans separately enter into capitation contracts with third parties (typically hospitals) who receive directly a PMPM fee and assume contractual financial responsibility for hospital services. In other cases, the health plan does not pay any portion of the PMPM fee to the hospital, but rather administers claims for hospital expenses itself. In both scenarios, HCP enters into managed care-related administrative services agreements or similar arrangements with those third parties (typically hospitals) under which HCP agrees to be responsible for utilization review, quality assurance, and other managed care-related administrative functions and claim payments. As compensation for such administrative services, HCP is entitled to receive a percentage of the amount by which the institutional capitation revenue received from health plans exceeds institutional expenses; any such risk-share amount to which HCP is entitled is recorded as medical revenues and HCP is also responsible for a percentage of any short-fall in the event that institutional expenses exceed institutional revenues. To the extent that members require more care than is anticipated, aggregate fixed PMPM amounts, or capitation payments, may be insufficient to cover the costs associated with treatment. If medical expenses exceed estimates, except in very limited circumstances, HCP will not be able to increase the PMPM fee received under these risk agreements during their then-current terms and could, directly or indirectly through its contracts with its associated physician groups, suffer losses with respect to such agreements.

Changes in HCP's or its associated physician groups' anticipated ratio of medical expense to revenue can significantly impact HCP's financial results. Accordingly, the failure to adequately predict and control medical expenses and to make reasonable estimates and maintain adequate accruals for incurred but not reported claims, may have a material adverse effect on HCP's financial condition, results of operations or cash flows.

Historically, HCP's and its associated physician groups' medical expenses as a percentage of revenue have fluctuated. Factors that may cause medical expenses to exceed estimates include:

- the health status of members;
- higher than expected utilization of new or existing healthcare services or technologies;
- an increase in the cost of healthcare services and supplies, including pharmaceuticals, whether as a result of inflation or otherwise;
- changes to mandated benefits or other changes in healthcare laws, regulations, and practices;
- periodic renegotiation of provider contracts with specialist physicians, hospitals, and ancillary providers;
- periodic renegotiation of contracts with HCP's affiliated primary care physicians and specialists;
- changes in the demographics of the participating members and medical trends;
- contractual or claims disputes with providers, hospitals, or other service providers within a health plan's network;
- the occurrence of catastrophes, major epidemics, or acts of terrorism; and

· the reduction of health plan premiums.

Risk-sharing arrangements that HCP and its associated physician groups have with health plans and hospitals could result in their costs exceeding the corresponding revenues, which could reduce or eliminate any shared risk profitability.

Most of the agreements between health plans and HCP and its associated physician groups contain risk-sharing arrangements under which the physician groups can earn additional compensation from the health plans by coordinating the provision of quality, cost-effective healthcare to members. However, such arrangements may require the physician group to assume a portion of any loss sustained from these arrangements, thereby reducing HCP’s net income. Under these risk-sharing arrangements, HCP and its associated physician groups are responsible for a portion of the cost of hospital services or other services that are not capitated. The

terms of the particular risk-sharing arrangement allocate responsibility to the respective parties when the cost of services exceeds the related revenue, which results in a deficit, or permit the parties to share in any surplus amounts when actual costs are less than the related revenue. The amount of non-capitated medical and hospital costs in any period could be affected by factors beyond the control of HCP, such as changes in treatment protocols, new technologies, longer lengths of stay by the patient, and inflation. Certain of HCP’s agreements with health plans stipulate that risk-sharing pool deficit amounts are carried forward to offset any future years’ surplus amounts HCP would otherwise be entitled to receive. HCP accrues for any such risk-sharing deficits. To the extent that such non-capitated medical and hospital costs are higher than anticipated, revenue may not be sufficient to cover the risk-sharing deficits the health plans and HCP are responsible for, which could reduce HCP’s revenues and profitability.

Renegotiation, renewal, or termination of capitation agreements with health plans could have a significant impact on HCP’s future profitability.

Under most of HCP’s and its associated physician groups’ capitation agreements with health plans, the health plan is generally permitted to modify the benefit and risk obligations and compensation rights from time to time during the terms of the agreements. If a health plan exercises its right to amend its benefit and risk obligations and compensation rights, HCP and its associated physician groups are generally allowed a period of time to object to such amendment. If HCP or its associated physician group so objects, under some of the risk agreements, the relevant health plan may terminate the applicable agreement upon 90 to 180 days written notice. If HCP or its associated physician groups enter into capitation contracts or other risk sharing arrangements with unfavorable economic terms, or a capitation contract is amended to include unfavorable terms, HCP could, directly or indirectly through its contracts with its associated physician groups, suffer losses with respect to such contract. Since HCP does not negotiate with CMS or any health plan regarding the benefits to be provided under their Medicare Advantage plans, HCP often has just a few months to familiarize itself with each new annual package of benefits it is expected to offer. Depending on the health plan at issue and the amount of revenue associated with the health plan’s risk agreement, the renegotiated terms or termination may have a material adverse effect on our HCP division and the Company’s future revenues and profitability.

Laws regulating the corporate practice of medicine could restrict the manner in which HCP is permitted to conduct its business and the failure to comply with such laws could subject HCP to penalties or require a restructuring of HCP.

Some states have laws that prohibit business entities, such as HCP, from practicing medicine, employing physicians to practice medicine, exercising control over medical decisions by physicians (also known collectively as the corporate practice of medicine) or engaging in certain arrangements, such as fee-splitting, with physicians. In some states these prohibitions are expressly stated in a statute or regulation, while in other states the prohibition is a matter of judicial or regulatory interpretation. Of the states in which HCP currently operates, California and Nevada prohibit the corporate practice of medicine, and other states may as well.

In California and Nevada, HCP operates by maintaining long-term contracts with its associated physician groups which are each owned and operated by physicians and which employ or contract with additional physicians to provide physician services. Under these arrangements, HCP provides management services and, receives a management fee for providing non-medical management services; however, HCP does not represent that it offers medical services, and does not exercise influence or control over the practice of medicine by the physicians or the associated physician groups.

In addition to the above management arrangements, HCP has certain contractual rights relating to the orderly transfer of equity interests in certain of its associated California and Nevada physician groups through succession agreements and other arrangements with their physician equity holders. However, such equity interests cannot be transferred to or held by HCP or by any non-professional organization. Accordingly, neither HCP nor HCP’s subsidiaries directly own

any equity interests in any physician groups in California and Nevada. In the event that any of these associated physician groups fails to comply with the management arrangement or any management arrangement is terminated and/or HCP is unable to enforce its contractual rights over the orderly transfer of equity interests in its associated physician groups, such events could have a material adverse effect on HCP's business, financial condition or results of operations.

It is possible that a state regulatory agency or a court could determine that HCP's agreements with physician equity holders of certain managed California and Nevada associated physician groups as described above, either independently or coupled with the management services agreements with such associated physician groups, are in violation of the corporate practice of medicine doctrine. As a result, these arrangements could be deemed invalid, potentially resulting in a loss of revenues and an adverse effect on results of operations derived from such associated physician groups. Such a determination could force a restructuring of HCP's management arrangements with associated physician groups in California and/or Nevada, which might include revisions of the management services agreements, including a modification of the management fee and/or establishing an alternative structure, which would permit HCP to contract with a physician network without violating the corporate practice of medicine prohibition. There can be no assurance that such a restructuring would be feasible, or that it could be accomplished within a reasonable time frame without a material adverse effect on HCP's operations and financial results. In December 2013, DaVita HealthCare Partners Plan obtained a restricted Knox-Keene license in California pursuant to the California Knox-Keene Health Care Service Plan Act of 1975 (the Knox-Keene Act), which permits DaVita HealthCare Partners Plan to contract with health plans in California to accept global risk without

violating the corporate practice of medicine prohibition. However, HCP's Nevada associated physician groups and HCP, as well as those physician equity holders of associated physician groups who are subject to succession agreements with HCP, could be subject to criminal or civil penalties or an injunction for practicing medicine without a license or aiding and abetting the unlicensed practice of medicine.

If HCP's agreements or arrangements with any physician equity holder(s) of associated physicians, physician groups, or IPAs are deemed invalid under state law, including laws against the corporate practice of medicine, or federal law, or are terminated as a result of changes in state law, or if there is a change in accounting standards by the Financial Accounting Standards Board (FASB) or the interpretation thereof affecting consolidation of entities, it could impact HCP's consolidation of total revenues derived from such associated physician groups.

HCP's financial statements are consolidated in accordance with applicable accounting standards and include the accounts of its majority-owned subsidiaries and certain non-owned HCP-associated and managed physician groups. Such consolidation for accounting and/or tax purposes does not, is not intended to, and should not be deemed to, imply or provide to HCP any control over the medical or clinical affairs of such physician groups. In the event of a change in accounting standards promulgated by FASB or in interpretation of its standards, or if there were an adverse determination by a regulatory agency or a court, or a change in state or federal law relating to the ability to maintain present agreements or arrangements with such physician groups, HCP may not be permitted to continue to consolidate the total revenues of such organizations. A change in accounting for consolidation with respect to HCP's present agreement or arrangements would diminish HCP's reported revenues but would not be expected to materially adversely affect its reported results of operations, while regulatory or legal rulings or changes in law interfering with HCP's ability to maintain its present agreements or arrangements could materially diminish both revenues and results of operations.

If DaVita HealthCare Partners Plan is not able to satisfy financial solvency or other regulatory requirements, DaVita HealthCare Partners could become subject to sanctions and its license to do business in California could be limited, suspended or terminated.

The Knox-Keene Act requires healthcare service plans operating in California to comply with financial solvency and other requirements overseen by the California Department of Managed Health Care (DMHC). Under the Knox-Keene Act, DaVita HealthCare Partners Plan is required to, among other things:

- Maintain, at all times, a minimum tangible net equity;
- Submit periodic financial solvency reports to the DMHC containing various data regarding performance and financial solvency;
- Comply with extensive regulatory requirements; and
- Submit to periodic regulatory audits and reviews concerning DaVita HealthCare Partner Plan operations and compliance with the Knox-Keene Act.

In the event that DaVita HealthCare Partners Plan is not in compliance with the provisions of the Knox-Keene Act, it could be subject to sanctions, or limitations on, or suspension of its license to do business in California.

If HCP's associated physician group is not able to satisfy the California DMHC's financial solvency requirements, HCP's associated physician group could become subject to sanctions and HCP's ability to do business in California could be limited or terminated.

The California DMHC has instituted financial solvency regulations to monitor the financial solvency of capitated physician groups. Under these regulations, HCP's associated physician group is required to, among other things:

·

Maintain, at all times, a minimum cash-to-claims ratio (where cash-to-claims ratio means the organization's cash, marketable securities, and certain qualified receivables, divided by the organization's total unpaid claims liability). The regulation currently requires a cash-to-claims ratio of 0.75.

- Submit periodic reports to the California DMHC containing various data and attestations regarding performance and financial solvency, including incurred but not reported calculations and documentation, and attestations as to whether or not the organization was in compliance with the Knox-Keene Act requirements related to claims payment timeliness had maintained positive tangible net equity (i.e., at least $1.00), and had maintained positive working capital (i.e., at least $1.00).

In the event that HCP's associated physician group is not in compliance with any of the above criteria, HCP's associated physician group could be subject to sanctions, or limitations on, or removal of, its ability to do business in California.

Reductions in Medicare Advantage health plan reimbursement rates stemming from recent healthcare reforms and any future related regulations may negatively impact HCP's business, revenue and profitability.

A significant portion of HCP's revenue is directly or indirectly derived from the monthly premium payments paid by CMS to health plans for medical services provided to Medicare Advantage enrollees. As a result, HCP's results of operations are, in part, dependent on government funding levels for Medicare Advantage programs. Any changes that limit or reduce Medicare Advantage reimbursement levels, including those recently approved and effective in 2015, such as reductions in or limitations of reimbursement amounts or rates under programs, reductions in funding of programs, expansion of benefits without adequate funding, elimination of coverage for certain benefits, or elimination of coverage for certain individuals or treatments under programs, could have a material adverse effect on HCP's revenues, earnings and cash flows. On April 7, 2014 CMS issued final guidance for 2015 Medicare Advantage rates, which incorporated a re-blending of the risk adjustment models that CMS utilizes to determine risk acuity scores of Medicare Advantage patients. In 2014, CMS blended the risk scores calculated using the 2013 CMS-HCC model and the 2014 CMS-HCC model by weighting the scores from the 2013 model by 25% and the scores from the 2014 model by 75%. In 2015, CMS will blend the scores by 67% and 33%, respectively. Although we estimate that the final cumulative impact of the 2015 rate structure represents an increase of up to approximately 0.5% of HCP's average Medicare Advantage revenues as compared to 2014, there is no guarantee that CMS's risk acuity adjustment models and the resulting Medicare Advantage rates will, in the future, increase HCP's Medicare Advantage revenues.

On April 6, 2015, CMS issued its final rule establishing the 2016 Medicare Advantage benchmark payment rates as well as announcing the model it will use to blend risk acuity scores. In 2016, CMS will blend the risk scores calculated using the 2013 CMS-HCC model and the 2014 CMS-HCC model by weighting the scores from the 2013 model by 0% and the scores from the 2014 model by 100%. Based upon our preliminary analysis of the final rule, we estimate that the reduction in 2016 rates, including adjustments for the new Affordable Care Act (ACA) blended benchmark county rates and qualifying bonuses, will lead to a reduction in Medicare Advantage rates to HCP of approximately 2%, or a net impact of approximately $50 million to our 2016 operating income. This compares to an industry average rate increase of approximately 1.25% as indicated by CMS in its final rule regarding the 2016 rates. The final impact of 2016 Medicare Advantage rates can vary from this estimate and will be impacted by the relative growth of HCP's Medicare Advantage patient volumes across markets as well as by the benefit plan designs submitted. It is possible that we underestimated the impact of the 2016 Medicare Advantage rates on our business, and it has a material adverse effect on our financial position, results of operation or cash flows.

This more significant decline in Medicare Advantage rates for us compared to the industry average is driven by a larger-than-average decline associated with CMS's modification to the risk adjustment model calculation. The move to the 2014 CMS-HCC model negatively affects us and other providers like us who have differentially invested in wellness and prevention programs for patients with chronic conditions because the 2014 model tends to over-predict costs for very low-cost beneficiaries and under-predict costs for very high-cost beneficiaries.

In addition, we may need to take a goodwill impairment charge against earnings in a future period relating to the impact of this decrease in rates on the carrying value of net assets of our HCP reporting units. An impairment occurs when the carrying value of a reporting unit's goodwill is in excess of its implied fair value and the amount of such non-cash charge, if any, could be significant. In estimating the fair value of our HCP reporting units, we will update our forecasts for each HCP reporting unit to reflect the expected future cash flows that we believe market participants would use in determining the fair values of our HCP reporting units if they were to acquire these reporting units. We will also use certain estimates and key assumptions in determining our estimate of these fair values, including discount and long-term growth rates, market data and future reimbursement rates. Our estimates of the fair value of our HCP reporting units could differ from the actual fair values a market participant would pay for these reporting units.

HCP's Medicare Advantage revenues may continue to be volatile in the future, which could have a material impact on HCP's ongoing financial performance.

The Health Reform Acts contain a number of provisions that negatively impact Medicare Advantage plans, which may each have an adverse effect on HCP's revenues, earnings, and cash flows. These provisions include the following:

- Medicare Advantage benchmarks for 2011 were frozen at 2010 levels. Beginning in 2012, Medicare Advantage benchmark rates are being phased down from prior levels to levels that are between 95% and 115% of the Medicare fee-for-service (FFS) costs, depending on a plan's geographic area. If our costs escalate faster than can be absorbed by the level of revenues implied by these benchmark rates, then it could have a significant negative impact on HCP's earnings and cash flows.
- Rebates received by Medicare Advantage plans that underbid based on payment benchmarks will be reduced, with larger reductions for plans failing to receive certain quality ratings.

- The Secretary of HHS has been granted the explicit authority to deny Medicare Advantage plan bids that propose significant increases in cost sharing or decreases in benefits. If the bids submitted by plans contracted with HCP are denied, this would have a significant negative impact on HCP's revenues, earnings and cash flows.
  - Medicare Advantage plans with medical loss ratios below 85% are required to pay a rebate to the Secretary of HHS. The rebate amount is the total revenue under the contract year multiplied by the difference between 85% and the plan's actual medical loss ratio. The Secretary of HHS will halt enrollment in any plan failing to meet this ratio for three consecutive years, and terminate any plan failing to meet the ratio for five consecutive years. If an HCP-contracting Medicare Advantage plan experiences a limitation on enrollment or is otherwise terminated from the Medicare Advantage program, HCP may suffer materially adverse consequences to its business or financial condition.
- Prescription drug plans are now required to cover all drugs on a list developed by the Secretary of HHS, which could increase the cost of providing care to Medicare Advantage enrollees, and thereby reduce HCP's revenues and earnings. The Medicare Part D premium subsidy for high-income beneficiaries has been reduced by 25%, which could lower the number of Medicare Advantage enrollees, which would have a negative impact on HCP's revenues, earnings and cash flows.
- CMS increased coding intensity adjustments for Medicare Advantage plans beginning in 2014 and continuing through 2018, which reduces CMS payments to Medicare Advantage plans, which in turn will likely reduce the amounts payable to HCP and its associated physicians, physician groups, and IPAs under its capitation agreements.

The President's proposed 2016 budget proposed nearly $500 billion in cuts to Medicare, Medicaid and other programs run by HHS over the next decade. Although the majority of the cuts are not targeted at Medicare Advantage plans, the broad cuts could signal further downward pressure on reimbursement to Medicare providers and Medicare Advantage plans, which would have a negative impact on HCP's revenues, earnings and cash flows. The final 2015 budget did not contain significant changes to Medicare funding, but cuts in future budgets could impact HCP's revenues.

There is uncertainty regarding both Medicare Advantage payment rates and beneficiary enrollment, which, if reduced as a result of the implementation of the Health Reform Acts, would reduce HCP's overall revenues and net income. For example, although the Congressional Budget Office (CBO) predicted in 2012 that Medicare Advantage participation would drop precipitously by 2020, in 2013 the CBO reversed its prediction and instead predicted that enrollment in Medicare Advantage could increase by up to 50% in the next decade. Although Medicare Advantage enrollment increased by approximately 5.6 million, or by 50 percent, between the enactment of the ACA in 2010 and 2015, there can be no assurance that this trend will continue. Further, fluctuation in Medicare Advantage payment rates were evidenced by CMS's announcement in its final 2015 "Call Letter" that Medicare Advantage rates would rise an average of 0.4% in 2015, instead of falling 1.9% as it had predicted in February 2014. On April 6, 2015, CMS announced its Medicare Advantage rates for 2016. See above for further details. Uncertainty over Medicare Advantage enrollment and payment rates present a continuing risk to HCP's business.

Medicare Advantage enrollment continues to be highly concentrated among a few Medicare Advantage plans, both nationally and in local markets. In approximately 15 states, more than half of all enrollees are in plans offered by one company – an indicator that those markets may lack competition. Consolidation among Medicare Advantage plans, or the Medicare programs failure to attract additional plans to participate in the Medicare Advantage program, could have a negative impact of HCP's revenues, earnings, and/or cash flows.

HCP's operations are dependent on competing health plans and, at times, a health plan's and HCP's economic interests may diverge.

For the nine months ended September 30, 2015, 61% of HCP's consolidated capitated medical revenues were earned through contracts with three health plans.

HCP expects that, going forward, substantially all of its revenue will continue to be derived from its contracts with health plans. Each health plan may immediately terminate any of HCP's contracts and/or any individual credentialed physician upon the occurrence of certain events. They may also amend the material terms of the contracts under certain circumstances. Failure to maintain the contracts on favorable terms, for any reason, would materially and adversely affect HCP's results of operations and financial condition. A material decline in the number of members could also have a material adverse effect on HCP's results of operations.

Notwithstanding each health plan's and HCP's current shared interest in providing service to HCP's members who are enrolled in the subject health plans, the health plans may have different and, at times, opposing economic interests from those of HCP. The health plans provide a wide range of health insurance services across a wide range of geographic regions, utilizing a vast network of providers. As a result, they and HCP may have different views regarding the proper pricing of services and/or the proper pricing of the various service providers in their provider networks, the cost of which HCP bears to the extent that the services of such service providers are utilized. These health plans may also have different views than HCP regarding the efforts and expenditures that they,

HCP, and/or other service providers should make to achieve and/or maintain various quality ratings. In addition, several health plans have acquired or announced their intent to acquire provider organizations. If health plans with which HCP contracts acquire a significant number of provider organizations, they may not continue to contract with HCP or contract on less favorable terms or seek to prevent HCP from acquiring or entering into arrangements with certain providers. Similarly, as a result of changes in laws, regulations, consumer preferences, or other factors, the health plans may find it in their best interest to provide health insurance services pursuant to another payment or reimbursement structure. In the event HCP’s interests diverge from the interests of the health plans, HCP may have limited recourse or alternative options in light of its dependence on these health plans. There can be no assurances that HCP will continue to find it mutually beneficial to work with these health plans. As a result of various restrictive provisions that appear in some of the managed care agreements with health plans, HCP may at times have limitations on its ability to cancel an agreement with a particular health plan and immediately thereafter contract with a competing health plan with respect to the same service area.

HCP and its associated physicians, physician groups and IPAs and other physicians may be required to continue providing services following termination or renegotiation of certain agreements with health plans.

There are circumstances under federal and state law pursuant to which HCP and its associated physician groups, IPAs, and other physicians could be obligated to continue to provide medical services to HCP members in their care following a termination of their applicable risk agreement with health plans and termination of the receipt of payments thereunder. In certain cases, this obligation could require the physician group or IPA to provide care to such member following the bankruptcy or insolvency of a health plan. Accordingly, the obligations to provide medical services to HCP members (and the associated costs) may not terminate at the time the applicable agreement with the health plan terminates, and HCP may not be able to recover its cost of providing those services from the health plan, which could have a material adverse effect on HCP’s financial condition, results of operations, and/or cash flows.

HCP operates primarily in Arizona, California, Florida, Nevada, New Mexico and Colorado and may not be able to successfully establish a presence in new geographic regions.

HCP derives substantially all of its revenue from operations in Arizona, California, Florida, Nevada, New Mexico and Colorado (hereinafter referred to as the Existing Geographic Regions). As a result, HCP’s exposure to many of the risks described herein is not mitigated by a greater diversification of geographic focus. Furthermore, due to the concentration of HCP’s operations in the Existing Geographic Regions, it may be adversely affected by economic conditions, natural disasters (such as earthquakes or hurricanes), or acts of war or terrorism that disproportionately affect the Existing Geographic Regions as compared to other states and geographic markets.

To expand the operations of its network outside of the Existing Geographic Regions, HCP must devote resources to identifying and exploring such perceived opportunities. Thereafter, HCP must, among other things, recruit and retain qualified personnel, develop new offices, establish potentially new relationships with one or more health plans, and establish new relationships with physicians and other healthcare providers. The ability to establish such new relationships may be significantly inhibited by competition for such relationships and personnel in the healthcare marketplace in the targeted new geographic regions. Additionally, HCP may face the risk that a substantial portion of the patients served in a new geographic area may be enrolled in a Medicare FFS program and will not desire to transition to a Medicare Advantage program, such as those offered through the health plans that HCP serves, or they may enroll with other health plans with whom HCP does not contract to receive services, which could reduce substantially HCP’s perceived opportunity in such geographic area. In addition, if HCP were to seek to expand outside of the Existing Geographic Regions, HCP would be required to comply with laws and regulations of states that may differ from the ones in which it currently operates, and could face competitors with greater knowledge of such local markets. HCP anticipates that any geographic expansion may require it to make a substantial investment of management time, capital, and/or other resources. There can be no assurance that HCP will be able to establish

profitable operations or relationships in any new geographic markets.



---

Reductions in the quality ratings of the health plans HCP serves could have an adverse effect on its results of operations, financial condition, and/or cash flow.

As a result of the Health Reform Acts, HCP anticipates that the level of reimbursement each health plan receives from CMS will be dependent, in part, upon the quality rating of the Medicare plan that such health plan serves. Such ratings are expected to impact the percentage of any cost savings rebate and any bonuses earned by such health plan. Since a significant portion of HCP's revenue is expected to be calculated as a percentage of CMS reimbursements received by these health plans with respect to HCP members, reductions in the quality ratings of a health plan that HCP serves could have an adverse effect on its results of operations, financial condition, and/or cash flows. In addition, CMS has announced its intention to terminate any plan that has a rating of less than three stars for three consecutive years. Medicare Advantage plans with five stars are permitted to conduct enrollment throughout the year and enrollees in plans with 4.5 or fewer stars are permitted to change plans during the year. Given each health plan's control of its plans and the many other providers that serve such plans, HCP believes that it will have limited ability to influence the overall quality rating of any such plan. Accordingly, since low quality ratings can potentially lead to the termination of a plan that HCP serves, HCP may not be able to prevent the potential termination of a contracting plan or a shift of patients to other plans based upon quality issues which could, in turn, have an adverse effect on HCP's results of operations, financial condition, and/or cash flows.

HCP's records and submissions to a health plan may contain inaccurate or unsupportable information regarding risk adjustment scores of members, which could cause HCP to overstate or understate its revenue and subject it to various penalties.

HCP, on behalf of itself and its associated physicians, physician groups and IPAs, submits to health plans claims and encounter data that support the risk adjustment factor, or RAF, scores attributable to members. These RAF scores determine, in part, the revenue to which the health plans and, in turn, HCP is entitled for the provision of medical care to such members. The data submitted to CMS by each health plan is based, in part, on medical charts and diagnosis codes prepared and submitted by HCP. Each health plan generally relies on HCP and its employed or affiliated physicians to appropriately document and support such RAF data in HCP's medical records. Each health plan also relies on HCP and its employed or affiliated physicians to appropriately code claims for medical services provided to members. HCP may periodically review medical records and may find inaccurate or unsupportable coding or otherwise inaccurate records. Erroneous claims and erroneous encounter records and submissions could result in inaccurate PMPM fee revenue and risk adjustment payments, which may be subject to correction or retroactive adjustment in later periods. This corrected or adjusted information may be reflected in financial statements for periods subsequent to the period in which the revenue was recorded. HCP might also need to refund a portion of the revenue that it received, which refund, depending on its magnitude, could damage its relationship with the applicable health plan and could have a material adverse effect on HCP's results of operations, financial condition or cash flows. We have identified a potentially improper historical HCP coding practice related to a particular condition, which was discontinued following our acquisition of HCP. We have notified CMS and we intend to cooperate with government authorities to address this issue. We are continuing to review other HCP coding practices.

Additionally, CMS audits Medicare Advantage plans for documentation to support RAF-related payments for members chosen at random. The Medicare Advantage plans ask providers to submit the underlying documentation for members that they serve. It is possible that claims associated with members with higher RAF scores could be subject to more scrutiny in a CMS audit. HCP has experienced increases in RAF scores attributable to its members, and thus there is a possibility that a Medicare Advantage plan may seek repayment from HCP as a result of CMS payment adjustments to the Medicare Advantage plan. The plans also may hold HCP liable for any penalties owed to CMS for inaccurate or unsupportable RAF scores provided by HCP. In addition, HCP could be liable for penalties to the government.

CMS has indicated that payment adjustments will not be limited to RAF scores for the specific Medicare Advantage enrollees for which errors are found but may also be extrapolated to the entire Medicare Advantage plan subject to a particular CMS contract. CMS has described its audit process as plan-year specific and stated that it will not extrapolate audit results for plan years prior to 2011. Because CMS has not stated otherwise, there is a risk that payment adjustments made as a result of one plan year's audit would be extrapolated to prior plan years after 2011.

There can be no assurance that a health plan will not be randomly selected or targeted for review by CMS or that the outcome of such a review will not result in a material adjustment in HCP's revenue and profitability, even if the information HCP submitted to the plan is accurate and supportable. Since the CMS rules, regulations, and statements regarding this audit program are still not well defined and, in some cases, have not been published in final form, there is also a risk that CMS may adopt new rules and regulations that are inconsistent with their existing rules, regulations, and statements.

Separately, as described in further detail below, on March 13, 2015, JSA HealthCare Corporation (JSA), a subsidiary of HCP, received a subpoena from the OIG that relates, in part, to risk adjustment practices and data. On June 18, 2015, we received a subpoena from the OIG requesting information relating to our and our subsidiaries', including HCP and its subsidiary JSA's, provision of services to Medicare Advantage plans and related patient diagnosis coding and risk adjustment submissions and payments.

A failure to accurately estimate incurred but not reported medical expense could adversely affect HCP's profitability.

Patient care costs include estimates of future medical claims that have been incurred by the patient but for which the provider has not yet billed HCP. These claim estimates are made utilizing actuarial methods and are continually evaluated and adjusted by management, based upon HCP's historical claims experience and other factors, including an independent assessment by a nationally recognized actuarial firm. Adjustments, if necessary, are made to medical claims expense and capitated revenues when the assumptions used to determine HCP's claims liability changes and when actual claim costs are ultimately determined.

Due to the inherent uncertainties associated with the factors used in these estimates and changes in the patterns and rates of medical utilization, materially different amounts could be reported in HCP's financial statements for a particular period under different conditions or using different, but still reasonable, assumptions. It is possible that HCP's estimates of this type of claim may be inadequate in the future. In such event, HCP's results of operations could be adversely impacted. Further, the inability to estimate these claims accurately may also affect HCP's ability to take timely corrective actions, further exacerbating the extent of any adverse effect on HCP's results.

HCP faces certain competitive threats which could reduce HCP's profitability and increase competition for patients.

HCP faces certain competitive threats based on certain features of the Medicare programs, including the following:

- As a result of the direct and indirect impacts of the Health Reform Acts, many Medicare beneficiaries may decide that an original Medicare FFS program is more attractive than a Medicare Advantage plan. As a result, enrollment in the health plans HCP serves may decrease.
- Managed care companies offer alternative products such as regional preferred provider organizations (PPOs) and private FFS plans. Medicare PPOs and private FFS plans allow their patients more flexibility in selecting physicians than Medicare Advantage health plans, which typically require patients to coordinate care with a primary care physician. The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 has encouraged the creation of regional PPOs through various incentives, including certain risk corridors, or cost reimbursement provisions, a stabilization fund for incentive payments, and special payments to hospitals not otherwise contracted with a Medicare Advantage plan that treat regional plan enrollees. The formation of regional Medicare PPOs and private FFS plans may affect HCP's relative attractiveness to existing and potential Medicare patients in their service areas.
- The payments for the local and regional Medicare Advantage plans are based on a competitive bidding process that may indirectly cause a decrease in the amount of the PMPM fee or result in an increase in benefits offered.
- The annual enrollment process and subsequent lock-in provisions of the Health Reform Acts may adversely affect HCP's level of revenue growth as it will limit the ability of a health plan to market to and enroll new Medicare beneficiaries in its established service areas outside of the annual enrollment period.
- CMS allows Medicare beneficiaries who are enrolled in a Medicare Advantage plan with a quality rating of 4.5 stars or less to enroll in a 5-star rated Medicare Advantage plan at any time during the benefit year. Therefore, HCP may face a competitive disadvantage in recruiting and retaining Medicare beneficiaries.

In addition to the competitive threats intrinsic to the Medicare programs, competition among health plans and among healthcare providers may also have a negative impact on HCP's profitability. For example, due to the large population of Medicare beneficiaries, HCP's Existing Geographic Regions have become increasingly attractive to health plans that may compete with HCP. HCP may not be able to continue to compete profitably in the healthcare industry if additional competitors enter the same market. If HCP cannot compete profitably, the ability of HCP to compete with other service providers that contract with competing health plans may be substantially impaired.

HCP competes directly with various regional and local companies that provide similar services in HCP's Existing Geographic Regions. HCP's competitors vary in size and scope and in terms of products and services offered. HCP

believes that some of its competitors and potential competitors may be significantly larger than HCP and have greater financial, sales, marketing, and other resources. Furthermore, it is HCP's belief that some of its competitors may make strategic acquisitions or establish cooperative relationships among themselves.

A disruption in HCP's healthcare provider networks could have an adverse effect on HCP's operations and profitability.

In any particular service area, healthcare providers or provider networks could refuse to contract with HCP, demand higher payments, or take other actions that could result in higher healthcare costs, disruption of benefits to HCP's members, or difficulty in meeting applicable regulatory or accreditation requirements. In some service areas, healthcare providers or provider networks may have significant market positions. If healthcare providers or provider networks refuse to contract with HCP, use their market position to negotiate favorable contracts, or place HCP at a competitive disadvantage, then HCP's ability to market or to be profitable in those service areas could be adversely affected. HCP's provider networks could also be disrupted by the financial insolvency of a large provider group. Any disruption in HCP's provider networks could result in a loss of members or higher healthcare costs.

HCP's revenues and profits could be diminished if HCP fails to retain and attract the services of key primary care physicians.

Key primary care physicians with large patient enrollment could retire, become disabled, terminate their provider contracts, get lured away by a competing independent physician association or medical group, or otherwise become unable or unwilling to continue practicing medicine or contracting with HCP or its associated physicians, physician groups, or IPAs. In addition, HCP's associated physicians, physician groups and IPAs could view the business model as unfavorable or unattractive to such providers, which could cause such associated physicians, physician groups or IPAs to terminate their relationships with HCP. Moreover, given limitations relating to the enforcement of post-termination noncompetition covenants in California, it would be difficult to restrict a primary care physician from competing with HCP's associated physicians, physician groups, or IPAs. As a result, members who have been served by such physicians could choose to enroll with competitors' physician organizations or could seek medical care elsewhere, which could reduce HCP's revenues and profits. Moreover, HCP may not be able to attract new physicians to replace the services of terminating physicians or to service its growing membership.

Participation in Accountable Care Organization programs is new and subject to federal regulation, supervision, and evolving regulatory developments and may result in financial liability.

The Health Reform Acts established Medicare Shared Savings Programs (MSSP) for ACOs, which took effect in January 2012. Under the MSSP, eligible organizations are accountable for the quality, cost and overall care of Medicare beneficiaries assigned to an ACO and may be eligible to share in any savings below a specified benchmark amount. The Secretary of HHS is also authorized, but not required, to use capitation payment models with ACOs. HCP has formed an MSSP ACO through a subsidiary and is evaluating whether to participate in more ACOs in the future. The continued development and expansion of ACOs will have an uncertain impact on HCP's revenue and profitability.

The ACO programs are new and therefore operational and regulatory guidance is limited. It is possible that the operations of HCP's subsidiary ACO may not fully comply with current or future regulations and guidelines applicable to ACOs, may not achieve quality targets or cost savings, or may not attract or retain sufficient physicians or patients to allow HCP to meet its objectives. Additionally, poor performance could put the HCP ACO at financial risk with a potential obligation to CMS. Traditionally, other than FFS billing by the medical clinics and healthcare facilities operated by HCP, HCP has not directly contracted with CMS and has not operated any health plans or provider sponsored networks. Therefore, HCP may not have the necessary experience, systems, or compliance to successfully achieve a positive return on its investment in the ACO or to avoid financial or regulatory liability. HCP believes that its historical experience with fully delegated managed care will be applicable to operation of its subsidiary ACO, but there can be no such assurance.

California hospitals may terminate their agreements with HCPAMG or reduce the fees they pay to HCP.

In California, HCPAMG maintains significant hospital arrangements designed to facilitate the provision of coordinated hospital care with those services provided to members by HCPAMG and its associated physicians, physician groups, and IPAs. Through contractual arrangements with certain key hospitals, HCPAMG provides utilization review, quality assurance, and other management services related to the provision of patient care services to members by the contracted hospitals and downstream hospital contractors. In the event that any one of these key hospital agreements is amended in a financially unfavorable manner or is otherwise terminated, such events could have a material adverse effect on HCP's financial condition, and results of operations.

HCP's professional liability and other insurance coverage may not be adequate to cover HCP's potential liabilities.

HCP maintains primary professional liability insurance and other insurance coverage through California Medical Group Insurance Company, Risk Retention Group, an Arizona corporation in which HCP is the majority owner, and through excess coverage contracted through third-party insurers. HCP believes such insurance is adequate based on its review of what it believes to be all applicable factors, including industry standards. Nonetheless, potential liabilities may not be covered by insurance, insurers may dispute coverage or may be unable to meet their obligations, the amount of insurance coverage and/or related reserves may be inadequate, or the amount of any HCP self-insured retention may be substantial. There can be no assurances that HCP will be able to obtain insurance coverage in the future, or that insurance will continue to be available on a cost-effective basis, if at all. Moreover,

even if claims brought against HCP are unsuccessful or without merit, HCP would have to defend itself against such claims. The defense of any such actions may be time-consuming and costly and may distract HCP management's attention. As a result, HCP may incur significant expenses and may be unable to effectively operate its business.

Changes in the rates or methods of third-party reimbursements may adversely affect HCP operations.

Any negative changes in governmental capitation or FFS rates or methods of reimbursement for the services HCP provides could have a significant adverse impact on HCP's revenue and financial results. Since governmental healthcare programs generally reimburse on a fee schedule basis rather than on a charge-related basis, HCP generally cannot increase its revenues from these programs by increasing the amount it charges for its services. Moreover, if HCP's costs increase, HCP may not be able to recover its increased costs from these programs. Government and private payors have taken and may continue to take steps to control the cost, eligibility for, use, and delivery of healthcare services due to budgetary constraints, and cost containment pressures as well as other financial issues. HCP believes that these trends in cost containment will continue. These cost containment measures, and other market changes in non-governmental insurance plans have generally restricted HCP's ability to recover, or shift to non-governmental payors, any increased costs that HCP experiences. HCP's business and financial operations may be materially affected by these cost containment measures, and other market changes.

HCP's business model depends on numerous complex management information systems and any failure to successfully maintain these systems or implement new systems could materially harm HCP's operations and result in potential violations of healthcare laws and regulations.

HCP depends on a complex, specialized, and integrated management information system and standardized procedures for operational and financial information, as well as for HCP's billing operations. HCP may experience unanticipated delays, complications, or expenses in implementing, integrating, and operating these integrated systems. Moreover, HCP may be unable to enhance its existing management information system or implement new management information systems where necessary. HCP's management information system may require modifications, improvements, or replacements that may require both substantial expenditures as well as interruptions in operations. HCP's ability to implement and operate its integrated systems is subject to the availability of information technology and skilled personnel to assist HCP in creating and maintaining these systems.

HCP's failure to successfully implement and maintain all of its systems could have a material adverse effect on its business, financial condition, and results of operations. For example, HCP's failure to successfully operate its billing systems could lead to potential violations of healthcare laws and regulations. If HCP is unable to handle its claims volume, or if HCP is unable to pay claims timely, HCP may become subject to a health plan's corrective action plan or de-delegation until the problem is corrected, and/or termination of the health plan's agreement with HCP. This could have a material adverse effect on HCP's operations and profitability. In addition, if HCP's claims processing system is unable to process claims accurately, the data HCP uses for its incurred but not reported (IBNR) estimates could be incomplete and HCP's ability to accurately estimate claims liabilities and establish adequate reserves could be adversely affected. Finally, if HCP's management information systems are unable to function in compliance with applicable state or federal rules and regulations, including, without limitation, medical information confidentiality laws such as HIPAA, possible penalties and fines due to this lack of compliance could have a material adverse effect on HCP's financial condition, and results of operations.

HCP may be impacted by eligibility changes to government and private insurance programs.

Due to potential decreased availability of healthcare through private employers, the number of patients who are uninsured or participate in governmental programs may increase. The Health Reform Acts have increased the participation of individuals in the Medicaid program in states that elected to participate in the expanded Medicaid

coverage. A shift in payor mix from managed care and other private payors to government payors as well as an increase in the number of uninsured patients may result in a reduction in the rates of reimbursement to HCP or an increase in uncollectible receivables or uncompensated care, with a corresponding decrease in net revenue. Changes in the eligibility requirements for governmental programs such as the Medicaid program under the Health Reform Acts and state decisions on whether to participate in the expansion of such programs also could increase the number of patients who participate in such programs and the number of uninsured patients. Even for those patients who remain in private insurance plans, changes to those plans could increase patient financial responsibility, resulting in a greater risk of uncollectible receivables. These factors and events could have a material adverse effect on HCP's business, financial condition, and results of operations.

Negative publicity regarding the managed healthcare industry generally or HCP in particular could adversely affect HCP's results of operations or business.

Negative publicity regarding the managed healthcare industry generally, the Medicare Advantage program or HCP in particular, may result in increased regulation and legislative review of industry practices that further increase HCP's costs of doing business and adversely affect HCP's results of operations or business by:

- requiring HCP to change its products and services;
- increasing the regulatory, including compliance, burdens under which HCP operates, which, in turn, may negatively impact the manner in which HCP provides services and increase HCP's costs of providing services;
- adversely affecting HCP's ability to market its products or services through the imposition of further regulatory restrictions regarding the manner in which plans and providers market to Medicare Advantage enrollees; or
- adversely affecting HCP's ability to attract and retain members.

Risk factors related to our overall business and ownership of our common stock:

We are the subject of a number of investigations by the federal government and a private civil suit, any of which could result in substantial penalties or awards against us, the imposition of certain obligations on our practices and procedures, exclusion from future participation in the Medicare, Medicaid and other federal healthcare programs and possible criminal penalties.

We are the subject of a number of investigations by the federal government. We have received subpoenas or other requests for documents from the federal government in connection with the Swoben private civil suit, the 2011 U.S. Attorney Medicaid investigation, the 2015 U.S. Attorney Transportation Investigation and the investigations underlying the two subpoenas regarding patient diagnosis coding received by HCP and its JSA subsidiary described below.

In the Swoben private civil suit, a relator filed a complaint against us in federal court under the FCA qui tam provisions, as well as the provision of the California False Claims Act. In July 2013, the court granted HCP's motion and dismissed with prejudice all of the claims in the Third Amended Complaint, and in October 2013 the plaintiff filed an appeal of the dismissal, which is currently pending.

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

In June 2015, we received a subpoena from the OIG. This civil subpoena covers the period from January 1, 2008 through the present and seeks production of a wide range of documents relating to our and our subsidiaries' (including HealthCare Partners and its subsidiary JSA HealthCare Corporation) provision of services to Medicare Advantage plans and related patient diagnosis coding and risk adjustment submissions and payments. Some of the information requested relates to a potentially improper historical HCP coding practice related to a particular condition. The practice in question was discontinued following our November 1, 2012 acquisition of HCP and, as we previously disclosed, we notified CMS of the coding practice and potential overpayments. We are cooperating with the government and will gather and produce the requested information.

Responding to subpoenas, investigations and civil suits as well as defending ourselves in such matters will continue to require management's attention and we will continue to incur significant legal expense. Any negative findings or certain terms and conditions that we might agree to accept as part of a negotiated resolution could result in substantial financial penalties or awards against or substantial payments made by us, the imposition of certain obligations on our practices and procedures, exclusion from future participation in the Medicare and Medicaid programs and, in certain cases, criminal penalties. It is possible that criminal proceedings may be initiated against us in connection with investigations by the federal government. To our knowledge, no proceedings have been initiated by the federal government against us at this time. At this time, we cannot predict the ultimate outcome of these inquiries, or the potential outcome of the claims in the relators' civil suit (except as described above), or the potential range of damages, if any. See Note 9 to the condensed consolidated financial statements of this report for additional details regarding these and other matters.

Disruptions in federal government operations and funding create uncertainty in our industry and could have a material adverse effect on our revenues, earnings and cash flows and otherwise adversely affect our financial condition.

A substantial portion of our revenues is dependent on federal healthcare program reimbursement, and any disruptions in federal government operations could have a material adverse effect on our revenues, earnings and cash flows. If the U.S. government defaults on its debt, there could be broad macroeconomic effects that could raise our cost of borrowing funds, and delay or prevent our future growth and expansion. Any future federal government shutdown, U.S. government default on its debt and/or failure of the U.S. government to enact annual appropriations could have a material adverse effect on our revenues, earnings and cash flows. Additionally, disruptions in federal government operations may negatively impact regulatory approvals and guidance that are important to our operations, and create uncertainty about the pace of upcoming healthcare regulatory developments.

Changes in CMS diagnosis and inpatient procedure coding require us to make modifications to processes and information systems, which could result in significant development costs and which if unsuccessful could adversely affect our revenues, earnings and cash flows.

CMS has mandated the use of new patient codes for reporting medical diagnosis and inpatient procedures, referred to as ICD-10, which requires all providers, payors, clearinghouses, and billing services to utilize ICD-10 when submitting claims for payment. ICD-10 will affect diagnosis and inpatient procedure coding for everyone covered by HIPAA, not just those who submit Medicare or Medicaid claims. Claims for services provided on or after the date that CMS sets must use ICD-10 for medical diagnosis and inpatient procedures or they will not be paid. We anticipate that if our services, processes or information systems or those of our payors do not comply with ICD-10 requirements at any future date, it could potentially delay or even reduce reimbursement payments to us. These delays or reductions could negatively impact our revenues, earnings and cash flows.

While Congress voted to delay the ICD-10 implementation deadline until no earlier than October 1, 2015, CMS has the authority to delay implementation even further, which leads to uncertainty about when ICD-10 will be mandated. Such uncertainty could lead to additional costs of running both ICD-9 and ICD-10 systems, which could negatively impact our revenues, earnings and cash flows.

Federal and state privacy and information security laws are complex, and if we fail to comply with applicable laws, regulations and standards, including with respect to third-party service providers that utilize sensitive personal information on our behalf, or if we fail to properly maintain the integrity of our data, protect our proprietary rights to our systems, or defend against cybersecurity attacks, we may be subject to government or private actions due to privacy and security breaches, and our business, reputation, results of operations, financial position and cash flows could be materially and adversely affected.

We must comply with numerous federal and state laws and regulations governing the collection, dissemination, access, use, security and privacy of protected health information (PHI), including HIPAA and its implementing privacy and security regulations, as amended by the federal HITECH Act and collectively referred to as HIPAA. If we fail to comply with applicable privacy and security laws, regulations and standards, including with respect to third-party service providers that utilize sensitive personal information, including PHI, on our behalf, properly maintain the integrity of our data, protect our proprietary rights to our systems, or defend against cybersecurity attacks, our business, reputation, results of operations, financial position and cash flows could be materially and adversely affected.

Information security risks have significantly increased in recent years in part because of the proliferation of new technologies, the use of the internet and telecommunications technologies to conduct our operations, and the increased sophistication and activities of organized crime, hackers, terrorists and other external parties, including foreign state

agents. Our operations rely on the secure processing, transmission and storage of confidential, proprietary and other information in our computer systems and networks.

We are continuously implementing multiple layers of security measures through technology, processes, and our people; utilize current security technologies; and our defenses are monitored and routinely tested internally and by external parties. Despite these efforts, our facilities and systems and those of our third-party service providers may be vulnerable to privacy and security incidents; security attacks and breaches; acts of vandalism or theft; computer viruses; coordinated attacks by activist entities; emerging cybersecurity risks; misplaced or lost data; programming and/or human errors; or other similar events. Emerging and advanced security threats, including coordinated attacks, require additional layers of security which may disrupt or impact efficiency of operations.

Any security breach involving the misappropriation, loss or other unauthorized disclosure or use of confidential information, including protected health information, financial data, competitively sensitive information, or other proprietary data, whether by us or a third party, could have a material adverse effect on our business, reputation, financial condition, cash flows, or results of operations. The occurrence of any of these events could result in interruptions, delays, the loss or corruption of data, cessations in the availability of systems or liability under privacy and security laws, all of which could have a material adverse effect on our financial position and results of operations and harm our business reputation. If we are unable to protect the physical and electronic security and privacy of

our databases and transactions, we could be subject to potential liability and regulatory action, our reputation and relationships with our patients and vendors would be harmed, and our business, operations, and financial results may be materially adversely affected. Failure to adequately protect and maintain the integrity of our information systems (including our networks) and data, or to defend against cybersecurity attacks, could subject us to monetary fines, civil suits, civil penalties or criminal sanctions and requirements to disclose the breach publicly, and may further result in a material adverse effect on our results of operations, financial position, and cash flows.

We may engage in acquisitions, mergers or dispositions, which may affect our results of operations, debt-to-capital ratio, capital expenditures or other aspects of our business, and if businesses we acquire have liabilities we are not aware of, we could suffer severe consequences that would materially and adversely affect our business.

Our business strategy includes growth through acquisitions of dialysis centers and other businesses. We may engage in acquisitions, mergers, dispositions or new business models, which may affect our results of operations, debt-to-capital ratio, capital expenditures, or other aspects of our business. There can be no assurance that we will be able to identify suitable acquisition targets or merger partners or that, if identified, we will be able to acquire these targets on acceptable terms or agree to terms with merger partners. There can also be no assurance that we will be successful in completing any acquisitions, mergers or dispositions that we announce, executing new business models or integrating any acquired business into our overall operations. There is no guarantee that we will be able to operate acquired businesses successfully as stand-alone businesses, or that any such acquired business will operate profitably or will not otherwise adversely impact our results of operations. Further, we cannot be certain that key talented individuals at the business being acquired will continue to work for us after the acquisition or that they will be able to continue to successfully manage or have adequate resources to successfully operate any acquired business.

Businesses we acquire may have unknown or contingent liabilities or liabilities that are in excess of the amounts that we originally estimated, and may have other issues, including those related to internal controls over financial reporting or issues that could affect our ability to comply with healthcare laws and regulations and other laws applicable to our expanded business. As a result, we cannot make any assurances that the acquisitions we consummate will be successful. Although we generally seek indemnification from the sellers of businesses we acquire for matters that are not properly disclosed to us, we are not always successful. In addition, even in cases where we are able to obtain indemnification, we may discover liabilities greater than the contractual limits, the amounts held in escrow for our benefit (if any), or the financial resources of the indemnifying party. In the event that we are responsible for liabilities substantially in excess of any amounts recovered through rights to indemnification or alternative remedies that might be available to us, or any applicable insurance, we could suffer severe consequences that would substantially reduce our earnings and cash flows or otherwise materially and adversely affect our business.

If we are not able to continue to make acquisitions, or maintain an acceptable level of non-acquired growth, or if we face significant patient attrition to our competitors or a reduction in the number of our medical directors or associated physicians, it could adversely affect our business.

Acquisitions, patient retention and medical director and physician retention are an important part of our growth strategy. We face intense competition from other companies for acquisition targets. In our U.S. dialysis business, we continue to face increased competition from large and medium-sized providers which compete directly with us for acquisition targets as well as for individual patients and medical directors. In addition, as we continue our international dialysis expansion into various international markets, we will face competition from large and medium-sized providers for these acquisition targets as well. Because of the ease of entry into the dialysis business and the ability of physicians to be medical directors for their own centers, competition for growth in existing and expanding markets is not limited to large competitors with substantial financial resources. Occasionally, we have experienced competition from former medical directors or referring physicians who have opened their own dialysis centers. In addition, FMC, our largest competitor, manufactures a full line of dialysis supplies and equipment in

addition to owning and operating dialysis centers. This may give it cost advantages over us because of its ability to manufacture its own products. If we are not able to continue to make acquisitions, continue to maintain acceptable levels of non-acquired growth, or if we face significant patient attrition to our competitors or a reduction in the number of our medical directors or associated physicians, it could adversely affect our business.

73

HCP operates in a different line of business from our historical business. We may face challenges managing HCP as a new business and may not realize anticipated benefits.

As a result of the HCP transaction, we are now significantly engaged in a new line of business. We may not have the expertise, experience, and resources to pursue all of our businesses at once, and we may be unable to successfully operate all businesses in the combined company. The administration of HCP will require implementation of appropriate operations, management, and financial reporting systems and controls. We may experience difficulties in effectively implementing these and other systems. The management of HCP will require the focused attention of our management team, including a significant commitment of its time and resources. The need for management to focus on these matters could have a material and adverse impact on our revenues and operating results. If the HCP operations are less profitable than we currently anticipate or we do not have the experience, the appropriate expertise, or the resources to pursue all businesses in the combined company, the results of operations and financial condition may be materially and adversely affected.

If we fail to successfully maintain an effective internal control over financial reporting, the integrity of our financial reporting could be compromised which could result in a material adverse effect on our reported financial results.

The integration of HCP into our internal control over financial reporting has required and will continue to require significant time and resources from our management and other personnel and will increase our compliance costs. Failure to maintain an effective internal control environment could have a material adverse effect on our ability to accurately report our financial results and the market's perception of our business and our stock price.

The market price of our common stock may be affected by factors different from those affecting the shares of our common stock prior to consummation of the HCP transaction.

Our historical business differs substantially from that of HCP. Accordingly, the results of operations of the combined company and the market price of our common stock may be affected by factors different from those that previously affected the independent results of operations of each of the Company and HCP.

Expansion of our operations to and offering our services in markets outside of the U.S. subjects us to political, economical, legal, operational and other risks that could adversely affect our business, results of operations and cash flows.

We are continuing an expansion of our operations by offering our services outside of the U.S., which increases our exposure to the inherent risks of doing business in international markets. Depending on the market, these risks include, without limitation, those relating to:

- changes in the local economic environment;
- political instability, armed conflicts or terrorism;
- social changes;
- intellectual property legal protections and remedies;
- trade regulations;
- procedures and actions affecting approval, production, pricing, reimbursement and marketing of products and services;
- foreign currency;
- repatriating or moving to other countries cash generated or held abroad, including considerations relating to tax-efficiencies and changes in tax laws;
- export controls;
- lack of reliable legal systems which may affect our ability to enforce contractual rights;

- changes in local laws or regulations;
- potentially longer ramp-up times for starting up new operations and for payment and collection cycles;
- financial and operational, and information technology systems integration; and
- failure to comply with U.S. or local laws that prohibit us or our intermediaries from making improper payments to foreign officials for the purpose of obtaining or retaining business.

Additionally, some factors that will be critical to the success of our international business and operations will be different than those affecting our domestic business and operations. For example, conducting international operations requires us to devote significant management resources to implement our controls and systems in new markets, to comply with local laws and regulations and to overcome the numerous new challenges inherent in managing international operations, including those based on differing languages, cultures and regulatory environments, and those related to the timely hiring, integration and retention of a sufficient number of skilled personnel to carry out operations in an environment with which we are not familiar.

We anticipate expanding our international operations through acquisitions of varying sizes or through organic growth, which could increase these risks. Additionally, though we might invest material amounts of capital and incur significant costs in connection with the growth and development of our international operations, there is no assurance that we will be able to operate them profitably anytime soon, if at all. As a result, we would expect these costs to be dilutive to our earnings over the next several years as we start-up or acquire new operations.

These risks could have a material adverse effect on our financial condition, results of operations and cash flows.

The level of our current and future debt could have an adverse impact on our business and our ability to generate cash to service our indebtedness depends on many factors beyond our control.

We have substantial debt outstanding, we incurred a substantial amount of additional debt in connection with the HCP transaction and we may incur additional indebtedness in the future. Our substantial indebtedness could have important consequences to you, for example, it could:

- make it difficult for us to make payments on our debt securities;
- increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions and investments and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the markets in which we operate;
- expose us to interest rate volatility that could adversely affect our earnings and cash flow and our ability to service our indebtedness;
- place us at a competitive disadvantage compared to our competitors that have less debt; and
- limit our ability to borrow additional funds.

In addition, we may incur substantial additional indebtedness in the future. The terms of the indentures governing our senior notes and the agreement governing our Senior Secured Credit Facilities will allow us to incur substantial additional debt. If new debt is added to current debt levels, the related risks described above could intensify.

Our ability to make payments on our indebtedness and to fund planned capital expenditures and expansion efforts, including any strategic acquisitions we may make in the future, will depend on our ability to generate cash. This, to a certain extent, is subject to general economic, financial, competitive, regulatory and other factors that are beyond our control.

We cannot provide assurance that our business will generate sufficient cash flow from operations in the future or that future borrowings will be available to us in an amount sufficient to enable us to service our indebtedness or to fund other liquidity needs. If we are unable to generate sufficient funds to service our outstanding indebtedness, we may be required to refinance, restructure, or otherwise amend some or all of such obligations, sell assets, or raise additional cash through the sale of our equity. We cannot make any assurances that we would be able to obtain such refinancing on terms as favorable as our existing financing terms or that such restructuring activities, sales of assets, or issuances of equity can be accomplished or, if accomplished, would raise sufficient funds to meet these obligations.

The borrowings under our Senior Secured Credit Facilities are guaranteed by a substantial portion of our direct and indirect wholly-owned domestic subsidiaries and are secured by a substantial portion of DaVita HealthCare Partners Inc.'s and its subsidiaries' assets.

We may be subject to liability claims for damages and other expenses not covered by insurance that could reduce our earnings and cash flows.

Our operations and how we manage the Company may subject the Company, as well as its officers and directors to whom the Company owes certain defense and indemnity obligations, to litigation and liability for damages. Our business, profitability and growth prospects could suffer if we face negative publicity or we pay damages or defense costs in connection with a claim that is outside the scope or limits of coverage of any applicable insurance coverage, including claims related to adverse patient events, contractual disputes, professional and general liability, and directors' and officers' duties. In addition, we have received several notices of claims from commercial payors and other third parties related to our historical billing practices and the historical billing practices of the centers acquired from Gambro Healthcare and other matters related to their settlement agreement with the Department of Justice. Although the ultimate outcome of these claims cannot be predicted, an adverse result with respect to one or more of these claims could have a material adverse effect on our financial condition, results of operations, and cash flows. We currently maintain insurance coverage for those risks we deem are appropriate to insure against and make determinations about whether to self-insure as to other risks or layers of coverage. However, a successful claim, including a professional liability, malpractice or negligence claim which is in excess of any applicable insurance coverage, or that is subject to our self-insurance retentions, could have a material adverse effect on our earnings and cash flows.

In addition, if our costs of insurance and claims increase, then our earnings could decline. Market rates for insurance premiums and deductibles have been steadily increasing. Our earnings and cash flows could be materially and adversely affected by any of the following:

- the collapse or insolvency of our insurance carriers;
- further increases in premiums and deductibles;
- increases in the number of liability claims against us or the cost of settling or trying cases related to those claims; or
- an inability to obtain one or more types of insurance on acceptable terms, if at all.

Provisions in our charter documents, compensation programs and Delaware law may deter a change of control that our stockholders would otherwise determine to be in their best interests.

Our charter documents include provisions that may deter hostile takeovers, delay or prevent changes of control or changes in our management, or limit the ability of our stockholders to approve transactions that they may otherwise determine to be in their best interests. These include provisions prohibiting our stockholders from acting by written consent; requiring 90 days advance notice of stockholder proposals or nominations to our Board of Directors; and granting our Board of Directors the authority to issue preferred stock and to determine the rights and preferences of the preferred stock without the need for further stockholder approval.

Most of our outstanding employee stock-based compensation awards include a provision accelerating the vesting of the awards in the event of a change of control. We also maintain a change of control protection program for our employees who do not have a significant number of stock awards, which has been in place since 2001, and which provides for cash bonuses to the employees in the event of a change of control. Based on the market price of our common stock and shares outstanding on September 30, 2015, these cash bonuses would total approximately $603 million if a change of control transaction occurred at that price and our Board of Directors did not modify this program. These change of control provisions may affect the price an acquirer would be willing to pay for our Company.

We are also subject to Section 203 of the Delaware General Corporation Law that, subject to exceptions, would prohibit us from engaging in any business combinations with any interested stockholder, as defined in that section, for a period of three years following the date on which that stockholder became an interested stockholder.

These provisions may discourage, delay or prevent an acquisition of our Company at a price that our stockholders may find attractive. These provisions could also make it more difficult for our stockholders to elect directors and take other corporate actions and could limit the price that investors might be willing to pay for shares of our common stock.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
(c) Share repurchases

The following table summarizes the Company's repurchases of its common stock during the third quarter of 2015:

| Period | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of publicly announced plans or programs | Approximate dollar value of shares that may yet be purchased under the plans or programs (in millions) |
|---|---|---|---|---|
| July 1-31, 2015 | — | — | — | 1,000.0 |
| August 1-31, 2015 | 833,111 | 75.71 | 833,111 | 936.9 |
| September 1-30, 2015 | 3,722,757 | 74.55 | 3,722,757 | 659.4 |
| Total | 4,555,868 | $ 74.76 | 4,555,868 | |

In November 2010, our Board of Directors authorized repurchases of our common stock in an aggregate amount of up to $800 million. This share repurchase program has no expiration date. We are authorized to make purchases from time to time in the open market or in privately negotiated transactions, depending upon market conditions and other considerations. On April 14, 2015, our Board of Directors approved additional share repurchases in the amount of $726 million. These share repurchases are in addition to the approximately $274 million remaining under our Board of Directors' prior share repurchase approval announced on November 4, 2010. As of October 30, 2015, there were $659 million outstanding authorizations available for share repurchases. These share repurchase authorizations have no expiration dates. However, we are subject to share repurchase limitations under the terms of the Senior Secured Credit Facilities and the indentures governing our senior notes.

Items 3, 4 and 5 are not applicable

Item 6. Exhibits
(a) Exhibits

| Exhibit Number | |
|---|---|
| 12.1 | Ratio of earnings to fixed charges. P |
| 31.1 | Certification of the Chief Executive Officer, dated November 4, 2015, pursuant to Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. P |
| 31.2 | Certification of the Chief Financial Officer, dated November 4, 2015, pursuant to Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. P |
| 32.1 | Certification of the Chief Executive Officer, dated November 4, 2015, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. P |
| 32.2 | Certification of the Chief Financial Officer, dated November 4, 2015, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. P |
| 101.INS | XBRL Instance Document. P |
| 101.SCH | XBRL Taxonomy Extension Schema Document. P |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document. P |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document. P |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document. P |
| 101.PRE | XBRL Taxonomy Extension Presentation, Linkbase Document. P |

---

PFiled herewith.

SIGNATURE

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.

DAVITA HEALTHCARE PARTNERS INC.

BY: /s/ JAMES K. HILGER
James K. Hilger
Interim Chief Financial Officer and

Chief Accounting Officer*

Date: November 4, 2015

* Mr. Hilger has signed both on behalf of the Registrant as a duly authorized officer and as the Registrant's principal accounting officer.

79

INDEX TO EXHIBITS

| Exhibit Number | |
|---|---|
| 12.1 | Ratio of earnings to fixed charges. P |
| 31.1 | Certification of the Chief Executive Officer, dated November 4 2015, pursuant to Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. P |
| 31.2 | Certification of the Chief Financial Officer, dated November 4, 2015, pursuant to Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. P |
| 32.1 | Certification of the Chief Executive Officer, dated November 4, 2015, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. P |
| 32.2 | Certification of the Chief Financial Officer, dated November 4, 2015, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. P |
| 101.INS | XBRL Instance Document. P |
| 101.SCH | XBRL Taxonomy Extension Schema Document. P |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document. P |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document. P |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document. P |
| 101.PRE | XBRL Taxonomy Extension Presentation, Linkbase Document. P |

PFiled herewith.

80