

DAVITA INC.
Form 10-Q
November 07, 2018

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 2018

Commission File Number: 1-14106

DAVITA INC.
Delaware 51-0354549
(State of incorporation) (I.R.S. Employer Identification No.)
2000 16th Street
Denver, CO 80202
Telephone number (303) 405-2100

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes No

As of November 2, 2018, the number of shares of the Registrant's common stock outstanding was approximately 166.0 million shares.

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

DAVITA INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)
(dollars in thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Dialysis and related lab patient service revenues	\$2,670,701	\$2,561,543	\$7,980,178	\$7,478,938
Provision for uncollectible accounts	(11,977)	(119,321)	(35,838)	(335,979)
Net dialysis and related lab patient service revenues	2,658,724	2,442,222	7,944,340	7,142,959
Other revenues	188,606	322,849	639,387	952,762
Total revenues	2,847,330	2,765,071	8,583,727	8,095,721
Operating expenses and charges:				
Patient care costs and other costs	2,063,770	1,951,609	6,168,444	5,698,318
General and administrative	336,299	272,911	866,922	798,602
Depreciation and amortization	146,000	142,634	435,878	415,544
Equity investment loss (income)	3,824	5,308	(6,126)	5,456
Provision for uncollectible accounts	800	(2,685)	(7,300)	(1,381)
Investment and other asset impairments	6,093	—	17,338	15,168
Goodwill impairment charges	—	—	3,106	34,696
Loss (gain) on changes in ownership interests, net	1,506	—	(32,451)	(6,273)
Gain on settlement, net	—	—	—	(526,827)
Total operating expenses and charges	2,558,292	2,369,777	7,445,811	6,433,303
Operating income	289,038	395,294	1,137,916	1,662,418
Debt expense	(125,927)	(109,306)	(359,135)	(321,637)
Other income, net	4,007	3,396	10,583	12,180
Income from continuing operations before income taxes	167,118	289,384	789,364	1,352,961
Income tax expense	52,047	90,546	206,652	474,126
Net income from continuing operations	115,071	198,838	582,712	878,835
Net loss from discontinued operations, net of tax	(211,739)	(370,872)	(147,829)	(388,959)
Net (loss) income	(96,668)	(172,034)	434,883	489,876
Less: Net income attributable to noncontrolling interests	(40,128)	(42,442)	(125,717)	(129,654)
Net (loss) income attributable to DaVita Inc.	\$(136,796)	\$(214,476)	\$309,166	\$360,222
Earnings per share attributable to DaVita Inc.:				
Basic net income from continuing operations per share	\$0.44	\$0.81	\$2.69	\$3.91
Basic net (loss) income per share	\$(0.82)	\$(1.14)	\$1.79	\$1.89
Diluted net income from continuing operations per share	\$0.44	\$0.80	\$2.66	\$3.85
Diluted net (loss) income per share	\$(0.82)	\$(1.12)	\$1.77	\$1.86
Weighted average shares for earnings per share:				
Basic	166,770,664	188,883,922	172,403,944	190,770,165
Diluted	167,262,358	191,408,117	174,348,421	193,546,245
Amounts attributable to DaVita Inc.:				
Net income from continuing operations	\$73,371	\$152,870	\$463,989	\$745,067
Net loss from discontinued operations	(210,167)	(367,346)	(154,823)	(384,845)
Net (loss) income attributable to DaVita Inc.	\$(136,796)	\$(214,476)	\$309,166	\$360,222

See notes to condensed consolidated financial statements.

DAVITA INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)
(dollars in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Net (loss) income	\$ (96,668)	\$ (172,034)	\$ 434,883	\$ 489,876
Other comprehensive (loss) income, net of tax:				
Unrealized gains (losses) on interest rate cap agreements:				
Unrealized gains (losses) on interest rate cap agreements	37	(478)	819	(5,479)
Reclassifications of net realized gains on interest rate cap agreements into net (loss) income	1,606	1,265	4,680	3,793
Unrealized gains on investments:				
Unrealized gains on investments	—	863	—	3,478
Reclassification of net investment realized gains into net (loss) income	—	(9)	—	(221)
Unrealized (losses) gains on foreign currency translation:				
Foreign currency translation adjustments	(8,827)	29,143	(39,475)	91,546
Other comprehensive (loss) income	(7,184)	30,784	(33,976)	93,117
Total comprehensive (loss) income	(103,852)	(141,250)	400,907	582,993
Less: Comprehensive income attributable to noncontrolling interests	(40,128)	(42,442)	(125,717)	(129,652)
Comprehensive (loss) income attributable to DaVita Inc.	\$ (143,980)	\$ (183,692)	\$ 275,190	\$ 453,341

See notes to condensed consolidated financial statements.

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

	September 30, 2018	December 31, 2017
ASSETS		
Cash and cash equivalents	\$ 448,215	\$ 508,234
Restricted cash and equivalents	91,940	10,686
Short-term investments	4,730	32,830
Accounts receivable, net	1,847,086	1,714,750
Inventories	91,102	181,799
Other receivables	383,783	372,919
Income tax receivable	26,002	49,440
Prepaid and other current assets	88,857	112,058
Current assets held for sale, net	5,947,786	5,761,642
Total current assets	8,929,501	8,744,358
Property and equipment, net of accumulated depreciation of \$3,454,107 and \$3,103,662	3,275,636	3,149,213
Intangible assets, net of accumulated amortization of \$225,862 and \$356,774	97,609	113,827
Equity method and other investments	240,820	245,534
Long-term investments	35,047	37,695
Other long-term assets	76,517	47,287
Goodwill	6,702,659	6,610,279
	\$ 19,357,789	\$ 18,948,193
LIABILITIES AND EQUITY		
Accounts payable	\$ 458,927	\$ 509,116
Other liabilities	560,692	552,662
Accrued compensation and benefits	631,799	616,116
Current portion of long-term debt	1,784,065	178,213
Current liabilities held for sale	1,419,621	1,185,070
Total current liabilities	4,855,104	3,041,177
Long-term debt	8,440,673	9,158,018
Other long-term liabilities	452,445	365,325
Deferred income taxes	515,893	486,247
Total liabilities	14,264,115	13,050,767
Commitments and contingencies:		
Noncontrolling interests subject to put provisions	1,064,412	1,011,360
Equity:		
Preferred stock (\$0.001 par value, 5,000,000 shares authorized; none issued)		
Common stock (\$0.001 par value, 450,000,000 shares authorized; 182,828,547 and 182,462,278 shares issued and 165,984,480 and 182,462,278 shares outstanding, respectively)	183	182
Additional paid-in capital	1,055,839	1,042,899
Retained earnings	3,951,247	3,633,713
Treasury stock (16,844,067 and zero shares, respectively)	(1,153,511))
Accumulated other comprehensive (loss) income	(29,109)) 13,235
Total DaVita Inc. shareholders' equity	3,824,649	4,690,029
Noncontrolling interests not subject to put provisions	204,613	196,037
Total equity	4,029,262	4,886,066

\$ 19,357,789 \$ 18,948,193

See notes to condensed consolidated financial statements.

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DAVITA INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(dollars in thousands)

	Nine months ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net income	\$434,883	\$489,876
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	435,878	593,527
Impairment charges	20,444	701,523
Stock-based compensation expense	59,605	28,478
Deferred income taxes	200,056	(132,781)
Equity investment loss, net	8,611	19,071
Gain on sales of business interests, net	(57,547)	(23,402)
Other non-cash charges, net	164,856	41,703
Changes in operating assets and liabilities, net of effect of acquisitions and divestitures:		
Accounts receivable	(74,622)	(146,024)
Inventories	88,355	14,272
Other receivables and other current assets	(757)	(43,556)
Other long-term assets	2,142	(13,831)
Accounts payable	(12,800)	18,595
Accrued compensation and benefits	40,225	(60,063)
Other current liabilities	45,624	39,445
Income taxes	21,749	22,669
Other long-term liabilities	5,546	18,648
Net cash provided by operating activities	1,382,248	1,568,150
Cash flows from investing activities:		
Additions of property and equipment	(705,659)	(639,829)
Acquisitions	(113,526)	(726,538)
Proceeds from asset and business sales	135,268	92,529
Purchase of investments available for sale	(5,791)	(9,882)
Purchase of investments held-to-maturity	(3,728)	(223,482)
Proceeds from sale of investments available for sale	8,783	5,822
Proceeds from investments held-to-maturity	32,628	398,765
Purchase of equity investments	(12,874)	(3,014)
Distributions received on equity investments	3,580	80
Net cash used in investing activities	(661,319)	(1,105,549)

DAVITA INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS - (continued)
(unaudited)
(dollars in thousands)

	Nine months ended September 30,	
	2018	2017
Cash flows from financing activities:		
Borrowings	41,674,279	38,160,821
Payments on long-term debt and other financing costs	(40,828,443)	(38,269,284)
Purchase of treasury stock	(1,161,511)	(321,411)
Stock award exercises and other share issuances, net	8,803	15,781
Distributions to noncontrolling interests	(139,673)	(165,463)
Contributions from noncontrolling interests	43,179	51,156
Proceeds from sales of additional noncontrolling interests	15	—
Purchases of noncontrolling interests	(19,988)	(1,432)
Net cash used in financing activities	(423,339)	(529,832)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(5,790)	5,449
Net increase (decrease) in cash, cash equivalents and restricted cash	291,800	(61,782)
Less: Net increase in cash, cash equivalents and restricted cash from discontinued operations	270,565	82,694
Net increase (decrease) in cash, cash equivalents and restricted cash from continuing operations	21,235	(144,476)
Cash, cash equivalents and restricted cash of continuing operations at beginning of the year	518,920	683,463
Cash, cash equivalents and restricted cash of continuing operations at end of the period	\$540,155	\$ 538,987

See notes to condensed consolidated financial statements.

DAVITA INC.
CONSOLIDATED STATEMENTS OF EQUITY
(unaudited)
(dollars and shares in thousands)

	Non-controlling interests subject to put provisions	DaVita Inc. Shareholders' Equity					Treasury stock		Accumulated other comprehensive income		Total
		Common stock Shares	Additional paid-in capital Amount	Retained earnings	Shares	Amount	(loss)	Total			
Balance at December 31, 2016	\$973,258	194,554	\$195	\$1,027,182	\$3,710,313	—	\$—	\$(89,643)	\$4,648,047	\$2	
Comprehensive income:											
Net income	103,641			663,618					663,618	63	
Other comprehensive income								102,878	102,878	(2)	
Stock purchase shares issued		360		22,131					22,131		
Stock unit shares issued		117		(101)					(101)		
Stock-settled SAR shares issued		398		—					—		
Stock-settled stock-based compensation expense				34,981					34,981		
Changes in noncontrolling interest from:											
Distributions	(128,853)									(8)	
Contributions	52,911									21	
Acquisitions and divestitures	43,799			(823)					(823)	(5)	
Partial purchases	(397)			(2,752)					(2,752)	(2)	
Fair value remeasurements	(32,999)			32,999					32,999		
Purchase of treasury stock						(12,967)	(810,949)		(810,949)		
Retirement of treasury stock		(12,967)	(13)	(70,718)	(740,218)	12,967	810,949		—		
Balance at December 31,	\$1,011,360	182,462	\$182	\$1,042,899	\$3,633,713	—	\$—	\$13,235	\$4,690,029	\$1	

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2017										
Cumulative effect of change in accounting principle				8,368				(8,368)	—	
Comprehensive income:										
Net income	77,803			309,166				309,166	47	
Other comprehensive loss								(33,976)	(33,976)	
Stock unit shares issued	154		(448)					(448)		
Stock-settled SAR shares issued	212	1	(4,887)					(4,886)		
Stock-settled stock-based compensation expense			59,539					59,539		
Changes in noncontrolling interest from:										
Distributions	(85,372)									(5)
Contributions	26,367									16
Acquisitions and divestitures	11,262		79					79		(2)
Partial purchases	(869)		(17,482)					(17,482)		(1)
Fair value remeasurements	23,861		(23,861)					(23,861)		
Purchase of treasury stock						(16,844)	(1,153,511)	(1,153,511)		
Balance at September 30, 2018	\$1,064,412	182,828	\$183	\$1,055,839	\$3,951,247	(16,844)	\$(1,153,511)	\$(29,109)	\$3,824,649	\$2

See notes to condensed consolidated financial statements

DAVITA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

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

Unless otherwise indicated in this Quarterly Report on Form 10-Q "the Company", "we", "us", "our" and similar terms refer to DaVita Inc. and its consolidated subsidiaries.

1. Condensed consolidated interim financial statements

The condensed consolidated interim financial statements included in this report are prepared by the Company without audit. In the opinion of management, all adjustments necessary for a fair presentation of the results of operations are reflected in these condensed consolidated interim financial statements. All significant intercompany accounts and transactions have been eliminated. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The most significant estimates and assumptions underlying these financial statements and accompanying notes generally involve revenue recognition and accounts receivable, contingencies, impairments of goodwill and investments, accounting for income taxes, long-term variable compensation accruals, consolidation of variable interest entities and certain fair value estimates. The results of operations for the nine months ended September 30, 2018 are not necessarily indicative of the operating results for the full year. The condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. Prior year balances and amounts have been reclassified to conform to the current year presentation. The Company has evaluated subsequent events through the date these condensed consolidated financial statements were issued and has included all necessary adjustments and disclosures.

2. Revenue recognition

On January 1, 2018, the Company adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 606 Revenue from Contracts with Customers (Topic 606) using the cumulative effect method for those contracts that were not substantially completed as of January 1, 2018. Results for reporting periods beginning on and after January 1, 2018 are presented under Topic 606, while prior period amounts continue to be presented in accordance with the Company's historical accounting under Revenue Recognition (Topic 605).

The adoption of this new standard primarily changed the Company's presentation of revenues, provision for uncollectible accounts and allowance for doubtful accounts. Topic 606 requires revenue to be recognized based on the Company's estimate of the transaction price the Company expects to collect as a result of satisfying its performance obligations. Accordingly, for performance obligations satisfied after the adoption of Topic 606, the Company no longer separately presents a provision for uncollectible accounts on the consolidated income statement and no longer presents the related allowance for doubtful accounts on the consolidated balance sheet. However, as a result of the Company's election to apply Topic 606 only to contracts not substantially completed as of January 1, 2018, the Company continues to maintain an allowance for doubtful accounts related to performance obligations satisfied prior to the adoption of Topic 606. Net collections or write-offs of accounts receivable generated prior to January 1, 2018, beyond amounts previously reserved thereon, are presented in the provision for uncollectible accounts on the consolidated income statement in accordance with Topic 605.

The Company's allowance for doubtful accounts related to performance obligations satisfied prior to the adoption of Topic 606 was \$71,108 and \$218,399 as of September 30, 2018 and December 31, 2017, respectively.

There are significant risks associated with estimating revenue, which generally take several years to resolve. These estimates are subject to ongoing insurance coverage changes, geographic coverage differences, differing interpretations of contract coverage and other payor issues, as well as patient issues including determining applicable primary and secondary coverage, changes in patient coverage and coordination of benefits. As these estimates are refined over time, both positive and negative adjustments to revenue are recognized in the current period. As a result of changes in these estimates, additional revenue was recognized during the three and nine months ended

September 30, 2018 associated with performance obligations satisfied in years prior to the adoption of Topic 606 of \$1,246 and \$77,473, respectively, which includes a benefit of \$36,000 for the nine months ended September 30, 2018 from electing to apply Topic 606 only to contracts not substantially completed as of January 1, 2018.

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DAVITA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(continued)

(unaudited)

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

The following table summarizes the Company's segment revenues by primary payor source:

	For the three months ended			September 30, 2017 ⁽¹⁾		
	September 30, 2018			September 30, 2017 ⁽¹⁾		
	U.S. dialysis and related lab services	Other - Ancillary services and strategic initiatives	Consolidated	U.S. dialysis and related lab services	Other - Ancillary services and strategic initiatives	Consolidated
Patient service revenues:						
Medicare and Medicare Advantage	\$1,513,191	\$	\$1,513,191	\$1,338,155	\$	\$1,338,155
Medicaid and Managed Medicaid	159,165		159,165	155,113		155,113
Other government	113,043	80,915	193,958	89,243	72,681	161,924
Commercial	786,470	31,364	817,834	783,171	17,334	800,505
Other revenues:						
Medicare and Medicare Advantage		130,746	130,746		232,251	232,251
Medicaid and Managed Medicaid		12,042	12,042		17,142	17,142
Commercial		20,205	20,205		27,222	27,222
Other ⁽²⁾	4,932	29,042	33,974	4,792	47,438	52,230
Eliminations of intersegment revenues	(25,424)	(8,361)	(33,785)	(13,475)	(5,996)	(19,471)
Total	\$2,551,377	\$295,953	\$2,847,330	\$2,356,999	\$408,072	\$2,765,071

As noted above, prior period amounts have not been adjusted under the cumulative effect method. In this table, the (1) Company's dialysis and related lab services revenues for the three months ended September 30, 2017 has been presented net of the provision for uncollectible accounts of \$119,321 to conform to the current period presentation.

(2) Other consists of management fees and revenue from the Company's ancillary services and strategic initiatives.

	For the nine months ended			September 30, 2017 ⁽¹⁾		
	September 30, 2018			September 30, 2017 ⁽¹⁾		
	U.S. dialysis and related lab services	Other - Ancillary services and strategic initiatives	Consolidated	U.S. dialysis and related lab services	Other - Ancillary services and strategic initiatives	Consolidated
Patient service revenues:						
Medicare and Medicare Advantage	\$4,524,449	\$	\$4,524,449	\$3,924,255	\$	\$3,924,255
Medicaid and Managed Medicaid	466,948		466,948	450,984		450,984
Other government	330,500	250,048	580,548	271,947	183,050	454,997
Commercial	2,366,182	70,156	2,436,338	2,304,745	46,537	2,351,282
Other revenues:						
Medicare and Medicare Advantage		427,532	427,532		682,964	682,964
Medicaid and Managed Medicaid		43,991	43,991		54,757	54,757
Commercial		77,633	77,633		79,241	79,241
Other ⁽²⁾	14,965	103,014	117,979	14,951	139,337	154,288

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Eliminations of intersegment revenues	(63,943)	(27,748)	(91,691)	(38,559)	(18,488)	(57,047)
Total	\$7,639,101	\$944,626	\$8,583,727	\$6,928,323	\$1,167,398	\$8,095,721

As noted above, prior period amounts have not been adjusted under the cumulative effect method. In this table, the (1) Company's dialysis and related lab services revenues for the nine months ended September 30, 2017 has been presented net of the provision for uncollectible accounts of \$335,979 to conform to the current period presentation.

DAVITA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(continued)

(unaudited)

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

(2) Other consists of management fees and revenue from the Company's ancillary services and strategic initiatives.

Dialysis and related lab patient service revenues

Dialysis and related lab services patient service revenues are recognized in the period services are provided. Revenues consist primarily of payments from Medicare, Medicaid and commercial health plans for dialysis and related lab services provided to patients. A usual and customary fee schedule is maintained for the Company's dialysis treatments and related lab services; however, actual collectible revenue is normally recognized at a discount from the fee schedule.

Revenues associated with Medicare and Medicaid programs are estimated based on: (a) the payment rates that are established by statute or regulation for the portion of payment rates paid by the government payor (e.g., 80% for Medicare patients) and (b) for the portion not paid by the primary government payor, estimates of the amounts ultimately collectible from other government programs paying secondary coverage (e.g., Medicaid secondary coverage), the patient's commercial health plan secondary coverage, or the patient. The Company's reimbursements from Medicare are subject to certain variations under Medicare's single bundled payment rate system, whereby reimbursements can be adjusted for certain patient characteristics and other factors. The Company's revenue recognition is estimated based on its judgment regarding its ability to collect, which depends upon its ability to effectively capture, document and bill for Medicare's base payment rate as well as these other variable factors. Under Medicare's bundled payment rate system, services covered by Medicare are subject to estimating risk, whereby reimbursements from Medicare can vary significantly depending upon certain patient characteristics and other variable factors. Even with the bundled payment rate system, Medicare payments for bad debt claims as established by cost reports require evidence of collection efforts. As a result, billing and collection of Medicare bad debt claims can be delayed significantly and final payment is subject to audit.

Medicaid payments, when Medicaid coverage is secondary, can also be difficult to estimate. For many states, Medicaid payment terms and methods differ from Medicare, and may prevent accurate estimation of individual payment amounts prior to billing.

Revenues associated with commercial health plans are estimated based on contractual terms for the patients under healthcare plans with which the Company has formal agreements, non-contracted health plan coverage terms if known, estimated secondary collections, historical collection experience, historical trends of refunds and payor payment adjustments (retractions), inefficiencies in the Company's billing and collection processes that can result in denied claims for payments, and regulatory compliance matters.

Commercial revenue recognition also involves significant estimating risks. With many larger, commercial insurers the Company has several different contracts and payment arrangements, and these contracts often include only a subset of the Company's centers. In certain circumstances, it may not be possible to determine which contract, if any, should be applied prior to billing. In addition, for services provided by non-contracted centers, final collection may require specific negotiation of a payment amount, typically at a significant discount from the Company's usual and customary rates.

Other revenues

Other revenues consist of the revenues associated with the ancillary services and strategic initiatives, management and administrative support services that are provided to outpatient dialysis centers that the Company does not own or in which the Company owns a noncontrolling interest, and administrative and management support services to certain other non-dialysis joint ventures in which the Company owns a noncontrolling interest. Revenues associated with pharmacy services are estimated as prescriptions are filled and shipped to patients. Revenues associated with dialysis management services, disease management services, clinical research programs, physician services, end stage renal disease (ESRD) seamless care organizations, and comprehensive care are estimated in the period services are provided. Revenues associated with direct primary care are estimated over the membership period.

DAVITA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(continued)

(unaudited)

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

3. Earnings per share

Basic earnings per share is calculated by dividing net income attributable to the Company, adjusted for any change in noncontrolling interest redemption rights in excess of fair value, by the weighted average number of common shares, net of the weighted average shares held in escrow that under certain circumstances may have been returned to the Company.

Diluted earnings per share includes the dilutive effect of outstanding stock-settled stock appreciation rights (SSARs) and unvested stock units (under the treasury stock method) as well as the weighted average shares held in escrow that were outstanding during the period.

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Numerators:				
Net income from continuing operations attributable to DaVita Inc.	\$73,371	\$152,870	\$463,989	\$745,067
Change in noncontrolling interest redemption rights in excess of fair value	98	—	—	—
Net income from continuing operations for earnings per share calculation	73,469	152,870	463,989	745,067
Net loss from discontinued operations attributable to DaVita Inc.	(210,167)	(367,346)	(154,823)	(384,845)
Net (loss) income attributable to DaVita Inc. for earnings per share calculation	\$(136,698)	\$(214,476)	\$309,166	\$360,222
Basic:				
Weighted average shares outstanding during the period	166,819	191,078	173,875	192,964
Weighted average contingently returnable shares held in escrow for the DaVita HealthCare Partners merger	(48)	(2,194)	(1,471)	(2,194)
Weighted average shares for basic earnings per share calculation	166,771	188,884	172,404	190,770
Basic net income (loss) attributable to DaVita Inc. from:				
Continuing operations per share	\$0.44	\$0.81	\$2.69	\$3.91
Discontinued operations per share	(1.26)	(1.95)	(0.90)	(2.02)
Basic net (loss) income per share attributable to DaVita Inc.	\$(0.82)	\$(1.14)	\$1.79	\$1.89
Diluted:				
Weighted average shares outstanding during the period	166,819	191,078	173,875	192,964
Assumed incremental shares from stock plans	443	330	473	582
Weighted average shares for diluted earnings per share calculation	167,262	191,408	174,348	193,546
Diluted net income (loss) attributable to DaVita Inc. from:				
Continuing operations per share	\$0.44	\$0.80	\$2.66	\$3.85
Discontinued operations per share	(1.26)	(1.92)	(0.89)	(1.99)
Diluted net (loss) income per share attributable to DaVita Inc.	\$(0.82)	\$(1.12)	\$1.77	\$1.86

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Anti-dilutive stock-settled awards excluded from calculation ⁽¹⁾	5,281	5,201	4,987	5,239
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(1) Shares associated with stock-settled stock appreciation rights excluded from the diluted denominator calculation because they are anti-dilutive under the treasury stock method.

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DAVITA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(continued)

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4. Restricted cash and equivalents

The Company had restricted cash and cash equivalents of \$91,940 and \$10,686 at September 30, 2018 and December 31, 2017, respectively. Approximately \$78,951 of the balance at September 30, 2018 represents restricted cash equivalents held in trust to satisfy insurer and state regulatory requirements related to the Company's self-insurance for professional and general liability and workers' compensation risks administered by wholly-owned captive insurance entities. Prior to the first quarter of 2018, these requirements were satisfied by a letter of credit rather than restricted cash held in trust. The remaining restricted cash and equivalents held at September 30, 2018 and December 31, 2017 primarily represent cash pledged to third parties in connection with two of the Company's ancillary and strategic initiatives businesses.

5. Short-term and long-term investments

Effective January 1, 2018, the Company adopted ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this ASU revise accounting related to (i) the classification and measurement of investments in equity securities and (ii) the presentation of certain fair value changes for financial liabilities at fair value. The Company also adopted ASU 2018-03 which provides related technical corrections and improvements. The principal effect of these ASUs on the Company's consolidated financial statements is that, prior to adoption of ASU 2016-01, changes in the fair values of investments in equity securities with readily determinable fair values or redemption values were recognized in other comprehensive income until realized, while under ASU 2016-01 all changes in the fair values of these equity securities are recognized in current earnings. The adoption of these ASUs did not have a material impact on these condensed consolidated financial statements.

Effective January 1, 2018, the Company recognized a cumulative effect of change in accounting principle upon adoption of ASUs 2016-01 and 2018-03, in conjunction with ASU 2018-02, the effect of which was to decrease accumulated other comprehensive income, and to increase retained earnings, by \$5,662 in after-tax unrealized gains accumulated in other comprehensive income through December 31, 2017 from equity securities classified as available-for-sale investments prior to adoption of ASU 2016-01.

From January 1, 2018, equity securities that have readily determinable fair values or redemption values are recorded at estimated fair value with changes in their value recognized in current earnings. The Company classifies its debt securities as held-to-maturity and records them at amortized cost based on its intentions and strategy concerning those investments.

The Company classifies these debt and equity investments as "Short-term investments" or "Long-term investments" on its consolidated balance sheet, as applicable, based on the characteristics of the financial instrument or the Company's intentions or expectations for the investment.

The Company's investments in these short-term and long-term debt and equity investments consist of the following:

	September 30, 2018			December 31, 2017		
	Debt securities	Equity securities	Total	Debt securities	Equity securities	Total
Certificates of deposit and other time deposits	\$2,230	\$—	\$2,230	\$31,630	\$—	\$31,630
Investments in mutual funds and common stock	—	37,547	37,547	—	38,895	38,895
	\$2,230	\$37,547	\$39,777	\$31,630	\$38,895	\$70,525
Short-term investments	\$2,230	\$2,500	\$4,730	\$31,630	\$1,200	\$32,830
Long-term investments	—	35,047	35,047	—	37,695	37,695
	\$2,230	\$37,547	\$39,777	\$31,630	\$38,895	\$70,525

Debt securities: The Company's short-term debt investments are principally bank certificates of deposit with contractual maturities longer than three months but shorter than one year. These debt securities are accounted for as held to maturity and recorded at amortized cost, which approximates their fair values at September 30, 2018 and December 31, 2017.

Equity securities: The Company's equity investments in mutual funds and common stock are held within a trust to fund existing obligations associated with several of the Company's non-qualified deferred compensation plans. During the nine months ended September 30, 2018, the Company recognized pre-tax net gains of \$1,597 in the income statement associated

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(continued)

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with changes in the fair value of these equity securities, comprised of pre-tax realized gains of \$4,101 and a net decrease in unrealized gains of \$2,504. During the nine months ended September 30, 2017, the Company recognized pre-tax realized gains on the sale or redemption of equity securities of \$362, or \$221 after-tax, which was previously recorded in other comprehensive income.

6. Equity method and other investments

Equity investments in nonconsolidated businesses over which the Company maintains significant influence, but which do not have readily determinable fair values, are carried on the equity method.

As described in Note 5 to these condensed consolidated financial statements, effective January 1, 2018, the Company adopted ASU 2016-01 and related ASU 2018-03 concerning recognition and measurement of financial assets and financial liabilities. In adopting this new guidance, the Company has made an accounting policy election to adopt an adjusted cost method measurement alternative for investments in equity securities without readily determinable fair values.

Specifically, under this measurement alternative, unless elected otherwise for a particular investment, the Company initially records equity investments that qualify for the measurement alternative at cost but remeasures them to fair value through earnings when there is an observable transaction involving the same or a similar investment with the same issuer or upon an impairment.

The Company maintains equity method and minor adjusted cost method investments in the private securities of certain other healthcare and healthcare-related businesses. The Company classifies these investments as "Equity method and other investments" on its consolidated balance sheet.

The total carrying amount of equity investments carried under the adjusted cost method measurement alternative at September 30, 2018 was \$12,386. Through September 30, 2018, there have been no meaningful impairments or other downward or upward valuation adjustments recognized on these investments.

Total equity method and other investments in nonconsolidated businesses were \$240,820 and \$245,534 at September 30, 2018 and December 31, 2017, respectively. During the nine months ended September 30, 2018 and 2017, the Company recognized equity investment income of \$6,126 and loss of \$5,456, respectively, from equity method investments in nonconsolidated businesses.

The Company's largest equity method investment is its ownership interest in DaVita Care Pte. Ltd. (the APAC JV), which was carried at \$146,829 and \$160,481 at September 30, 2018 and December 31, 2017, respectively. The Company recognized a non-cash other-than-temporary impairment on this investment of \$280,066 in the fourth quarter of 2017.

As of September 30, 2018 and December 31, 2017, the Company holds a 60% voting interest and a 73.3% current economic interest in the APAC JV. Based on the governance structure and voting rights established for the APAC JV at its formation on August 1, 2016, certain key decisions affecting the joint venture's operations are not subject to the unilateral discretion of the Company, but rather are shared with the other noncontrolling investors. These other noncontrolling investors currently collectively hold a 40% voting interest and a 26.7% economic interest in the APAC JV. During the third quarter of 2018, the investors in the APAC JV jointly agreed to a six-month deferral of the subscribed incremental capital contribution originally scheduled for August 1, 2018 based upon an assessment of the capital needs of the joint venture. The Company continues to expect the economic interests of the noncontrolling investors in the APAC JV to adjust to match their voting interests by August 1, 2019.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(continued)

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7. Goodwill

Changes in goodwill by reportable segment were as follows:

	U.S. dialysis and related lab services	Other-ancillary services and strategic initiatives	Consolidated total
Balance at January 1, 2017	\$ 5,691,587	\$ 323,788	\$ 6,015,375
Acquisitions	485,434	131,598	617,032
Divestitures	(32,260)	(126)	(32,386)
Impairment charges	—	(36,196)	(36,196)
Foreign currency and other adjustments	—	46,454	46,454
Balance at December 31, 2017	\$ 6,144,761	\$ 465,518	\$ 6,610,279
Acquisitions	24,431	111,223	135,654
Divestitures	(331)	(15,166)	(15,497)
Impairment charges	—	(3,106)	(3,106)
Foreign currency and other adjustments	—	(24,671)	(24,671)
Balance at September 30, 2018	\$ 6,168,861	\$ 533,798	\$ 6,702,659
Balance at September 30, 2018:			
Goodwill	\$ 6,168,861	\$ 561,399	\$ 6,730,260
Accumulated impairment charges	—	(27,601)	(27,601)
	\$ 6,168,861	\$ 533,798	\$ 6,702,659

The Company elected to early adopt ASU No. 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, effective January 1, 2017.

Each of the Company's operating segments described in Note 19 to these condensed consolidated financial statements represents an individual reporting unit for goodwill impairment testing purposes, except that each sovereign jurisdiction within the Company's international operating segments is considered a separate reporting unit.

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

The Company has applied a similar aggregation to the vascular access service centers in its vascular access reporting unit, to the physician practices in its physician services reporting unit, to the dialysis centers within each international reporting unit, and to the non-dialysis healthcare businesses within each international region. For the Company's other operating segments, discrete business components below the operating segment level constitute individual reporting units.

During the three and nine months ended September 30, 2018, the Company performed scheduled annual and other reporting unit goodwill impairment assessments. As a result of these assessments, the Company did not recognize any goodwill impairment charges during the three months ended September 30, 2018 and recognized a goodwill impairment charge of \$3,106 at the Company's German integrated healthcare business during the nine months ended September 30, 2018.

During the nine months ended September 30, 2017, the Company recognized goodwill impairment charges of \$34,696, at the Company's vascular access reporting unit. These charges resulted primarily from continuing changes in the Company's outlook for this business as the Company's partners and operators continued to evaluate potential

changes in operations, including termination of their management services agreements and center closures, as a result of recent changes in Medicare reimbursement. There is no goodwill remaining at the Company's vascular access reporting unit.

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Except as described in the Company's annual report on Form 10-K for the year ended December 31, 2017 and quarterly reports on Form 10-Q for the quarters ended March 31, 2018 and June 30, 2018, none of the Company's various other reporting units were considered at risk of significant goodwill impairment as of September 30, 2018. Since the dates of the Company's last annual goodwill impairment assessments there have been certain developments, events, changes in operating performance and other changes in key circumstances that have affected the Company's businesses. However, these changes did not cause management to believe it is more likely than not that the fair values of any of the Company's reporting units would be less than their respective carrying amounts as of September 30, 2018.

8. Income taxes

The Company's effective income tax rate from continuing operations was 31.1% for the third quarter of 2018 as compared to 26.2% for the second quarter of 2018 and 31.3% for the third quarter of 2017. The Company's effective income tax rate increased in the third quarter of 2018 as compared to the second quarter of 2018 due to non-deductible advocacy costs and additional non-deductible expenses related to the Tax Cuts and Jobs Act of 2017 (2017 Tax Act), partially offset by return to provision adjustments.

As of September 30, 2018, the Company's total liability for unrecognized tax benefits relating to tax positions that do not meet the more-likely-than-not threshold was \$40,376, of which \$37,533 would impact the Company's effective tax rate if recognized. The total balance increased \$7,600 from the December 31, 2017 balance of \$32,776.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in its income tax expense. At September 30, 2018 and December 31, 2017, the Company had approximately \$8,296 and \$4,195, respectively, accrued for interest and penalties related to unrecognized tax benefits, net of federal tax benefits.

The Company performed a provisional analysis of the 2017 Tax Act and recorded a reasonable estimate of its effect at December 31, 2017. The Company is in the process of completing its analysis with regards to the 2017 Tax Act and will record any adjustments to its estimate on or before December 22, 2018. As of September 30, 2018, the Company has not made any material adjustments to its December 31, 2017 estimates.

9. Long-term debt

Long-term debt was comprised of the following:

	September 30, 2018	December 31, 2017
Senior secured credit facilities:		
Term Loan A	\$700,000	\$775,000
Term Loan A-2	995,000	—
Term Loan B	3,351,250	3,377,500
Revolver	275,000	300,000
Senior notes	4,500,000	4,500,000
Acquisition obligations and other notes payable	167,779	150,512
Capital lease obligations	289,333	297,170
Total debt principal outstanding	10,278,362	9,400,182
Discount and deferred financing costs	(53,624)	(63,951)
	10,224,738	9,336,231
Less current portion	(1,784,065)	(178,213)
	\$8,440,673	\$9,158,018

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Scheduled maturities of long-term debt at September 30, 2018 were as follows:

2018 (remainder of the year)	49,701
2019	2,028,808
2020	74,985
2021	3,311,502
2022	1,289,539
2023	36,437
Thereafter	3,487,390

On March 29, 2018, the Company entered into an Increase Joinder No. 1 (Increase Joinder Agreement) under its existing senior secured credit facilities. Pursuant to this Increase Joinder Agreement, the Company entered into an additional \$995,000 Term Loan A-2. The new Term Loan A-2 bears interest at LIBOR plus an interest rate margin of 1.00%.

During the first nine months of 2018, the Company made mandatory principal payments under its senior secured credit facilities totaling \$75,000 on Term Loan A and \$26,250 on Term Loan B.

As of September 30, 2018, the Company maintains several effective interest rate cap agreements that have the economic effect of capping the Company's maximum exposure to LIBOR variable interest rate changes on specific portions of the Company's floating rate debt, as described below. The cap agreements are designated as cash flow hedges and, as a result, changes in the fair values of these cap agreements are reported in other comprehensive income. The amortization of the original cap premium is recognized as a component of debt expense on a straight-line basis over the terms of the cap agreements. These cap agreements do not contain credit-risk contingent features.

As of September 30, 2018, the Company maintains several effective interest rate cap agreements that were entered into in October 2015 with notional amounts totaling \$3,500,000. These cap agreements became effective June 29, 2018 and have the economic effect of capping the LIBOR variable component of the Company's interest rate at a maximum of 3.50% on an equivalent amount of its debt. These cap agreements expire on June 30, 2020. As of September 30, 2018, the total fair value of these cap agreements was an asset of approximately \$2,135. During the nine months ended September 30, 2018, the Company recognized debt expense of \$2,163 from these cap agreements and recorded a gain of \$1,103 in other comprehensive income due to an increase in the unrealized fair value of these cap agreements.

Previously, the Company maintained other interest rate cap agreements that were entered into in November 2014 with notional amounts totaling \$3,500,000. These cap agreements had the economic effect of capping the LIBOR variable component of the Company's interest rate at a maximum of 3.50% on an equivalent amount of the Company's debt. However, these interest rate cap agreements expired on June 30, 2018. During the nine months ended September 30, 2018, the Company recognized debt expense of \$4,140 from these cap agreements and recorded an immaterial loss in other comprehensive income due to a decrease in the unrealized fair value of these cap agreements.

The following table summarizes the Company's derivative instruments outstanding as of September 30, 2018 and December 31, 2017:

	September 30, 2018		December 31, 2017	
	Balance sheet location	Fair value	Balance sheet location	Fair value
Derivatives designated as hedging instruments	Other long-term assets	\$ 2,135	Other long-term assets	\$ 1,032
Interest rate cap agreements				

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The following table summarizes the effects of the Company's interest rate cap agreements for the three and nine months ended September 30, 2018 and 2017:

	Amount of unrecognized gains (losses) in OCI on interest rate cap agreements				Location of losses reclassified from accumulated OCI into income	Amount of losses reclassified from accumulated OCI into income			
	Three months ended September 30,		Nine months ended September 30,			Three months ended September 30,		Nine months ended September 30,	
Derivatives designated as cash flow hedges	2018	2017	2018	2017		2018	2017	2018	2017
Interest rate cap agreements	\$50	\$(782)	\$1,103	\$(8,967)	Debt expense	\$2,163	\$2,070	\$6,303	\$6,208
Tax (benefit) expense	(13)	304	(284)	3,488	Tax expense	(557)	(805)	(1,623)	(2,415)
Total	\$37	\$(478)	\$819	\$(5,479)		\$1,606	\$1,265	\$4,680	\$3,793

As of September 30, 2018, the Company's Term Loan B debt bears interest at LIBOR plus an interest rate margin of 2.75%. Term Loan B is subject to interest rate caps if LIBOR should rise above 3.50%. Term Loan A bears interest at LIBOR plus an interest rate margin of 2.00%. The capped portion of Term Loan A is \$148,750 if LIBOR should rise above 3.50%. In addition, the uncapped portion of Term Loan A, which is subject to the variability of LIBOR, is \$551,250. Term Loan A-2 is subject to the variability of LIBOR plus an interest rate margin of 1.00%. Interest rates on the Company's senior notes are fixed by their terms.

The Company's weighted average effective interest rate on the senior secured credit facilities at the end of the third quarter was 4.80%, based on the current margins in effect of 2.00% for Term Loan A, 1.00% for Term Loan A-2, and 2.75% for Term Loan B, as of September 30, 2018.

The Company's overall weighted average effective interest rate during the quarter ended September 30, 2018 was 4.93% and as of September 30, 2018 was 5.03%. The Company's weighted average effective interest rate for the nine months ended September 30, 2018 was 4.92%.

As of September 30, 2018, the Company's interest rates are fixed on approximately 47.43% of its total debt.

As of September 30, 2018, the Company had \$275,000 drawn on its \$1,000,000 revolving line of credit under its senior secured credit facilities, of which approximately \$14,355 was committed for outstanding letters of credit. The remaining amount is unencumbered. The Company also has approximately \$22,621 of additional outstanding letters of credit related to its Kidney Care business and \$211 of committed outstanding letters of credit related to DaVita Medical Group (DMG), which is backed by a certificate of deposit.

10. Contingencies

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

The Company operates in a highly regulated industry and is a party to various lawsuits, claims, qui tam suits, governmental investigations and audits (including investigations resulting from its obligation to self-report suspected violations of law) and other legal proceedings. The Company records accruals for certain legal proceedings and regulatory matters to the extent that the Company determines an unfavorable outcome is probable and the amount of

the loss can be reasonably estimated. As of September 30, 2018, and December 31, 2017, the Company's total recorded accruals, including DMG, with respect to legal proceedings and regulatory matters, net of anticipated third party recoveries, were immaterial. While these accruals reflect the Company's best estimate of the probable loss for those matters as of the dates of those accruals, the recorded

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amounts may differ materially from the actual amount of the losses for those matters, and any anticipated third party recoveries for any such losses may not ultimately be recoverable. Additionally, in some cases, no estimate of the possible loss or range of loss in excess of amounts accrued, if any, can be made because of the inherently unpredictable nature of legal proceedings and regulatory matters, which also may be impacted by various factors, including that they may involve indeterminate claims for monetary damages or may involve fines, penalties or non-monetary remedies; present novel legal theories or legal uncertainties; involve disputed facts; represent a shift in regulatory policy; are in the early stages of the proceedings; or result in a change of business practices. Further, there may be various levels of judicial review available to the Company in connection with any such proceeding. The following is a description of certain lawsuits, claims, governmental investigations and audits and other legal proceedings to which the Company is subject.

Inquiries by the Federal Government and Certain Related Civil Proceedings

2015 U.S. Office of Inspector General (OIG) Medicare Advantage Civil Investigation: In March 2015, JSA HealthCare Corporation (JSA), a subsidiary of DMG, received a subpoena from the OIG for the U.S. Department of Health and Human Services (HHS) requesting documents and information for the period from January 1, 2008 through December 31, 2013, for certain MA plans for which JSA provided services. It also requested information regarding JSA's communications about patient diagnoses as they related to certain MA plans generally, and more specifically as related to two Florida physicians with whom JSA previously contracted.

In addition to the subpoena described above, in June 2015, the Company received a civil subpoena from the OIG covering the period from January 1, 2008 through the present and seeking production of a wide range of documents relating to the Company's and its subsidiaries' (including DMG and its subsidiary JSA) provision of services to MA plans and related patient diagnosis coding and risk adjustment submissions and payments. The Company believes that the request was part of a broader industry investigation into MA patient diagnosis coding and risk adjustment practices and potential overpayments by the government. The information requested included information related to patient diagnosis coding practices for a number of conditions, including potentially improper historical DMG coding for a particular condition. With respect to that condition, the guidance related to that coding issue was discontinued following the Company's November 1, 2012, acquisition of HealthCare Partners (now known as the Company's DMG business), and the Company notified Centers for Medicare and Medicaid Services (CMS) in April 2015 of the coding practice and potential overpayments. In that regard, the Company identified certain additional coding practices which may have been problematic, some of which were the subject of the previously disclosed and dismissed Swoben Private Civil Suit.

The Company entered into a settlement agreement with the Department of Justice (DOJ) and OIG to resolve these matters on September 28, 2018. As previously disclosed, an escrow established in connection with the Company's acquisition of HealthCare Partners in 2012 held back a portion of the purchase price to the prior owners of HealthCare Partners as security for the indemnification rights of the Company. The settlement amount of \$270,000 was paid with these escrowed funds.

2016 U.S. Attorney Texas Investigation: In early February 2016, the Company announced that its pharmacy services wholly-owned subsidiary, DaVita Rx, LLC, (DaVita Rx) received a Civil Investigative Demand (CID) from the U.S. Attorney's Office for the Northern District of Texas. The government is conducting a federal False Claims Act (FCA) investigation concerning allegations that DaVita Rx presented or caused to be presented false claims for payment to the government for prescription medications, as well as into the Company's relationships with pharmaceutical manufacturers. The CID covers the period from January 1, 2006 through the present. In the spring of 2015, the Company initiated an internal compliance review of DaVita Rx during which it identified potential billing and operational issues, including potential write-offs and discounts of patient co-payment obligations, and credits to payors for returns of prescription drugs related to DaVita Rx. The Company notified the government in September

2015 that it was conducting this review of DaVita Rx and began providing regular updates of its review. Upon completion of its review, the Company filed a self-disclosure with the OIG in February 2016 and has been working to address and update the practices it identified in the self-disclosure, some of which overlap with information requested by the U.S. Attorney's Office. The OIG informed the Company in February 2016 that its submission was not accepted. They indicated that the OIG is not expressing an opinion regarding the conduct disclosed or the Company's legal positions. In connection with the Company's ongoing efforts working with the government the Company learned that a qui tam complaint had been filed covering some of the issues in the CID and the Company's self-disclosure. In December 2017, the Company finalized and executed a settlement agreement with the government and relators in the qui tam matter and that included total monetary consideration of \$63,700, as previously announced, of which \$41,500 was an incremental cash

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payment and \$22,200 was for amounts previously refunded, and all of which was previously accrued. The government's investigation into certain of the Company's relationships with pharmaceutical manufacturers is ongoing, and in July 2018 the government served an HHS-OIG subpoena seeking additional documents and information relating to those relationships. The Company is continuing to cooperate with the government in this investigation. 2017 U.S. Attorney Massachusetts Investigation: In January 2017, the Company was served with an administrative subpoena for records by the U.S. Attorney's Office, District of Massachusetts, relating to an investigation into possible federal health care offenses. The subpoena covers the period from January 1, 2007 through the present, and seeks documents relevant to charitable patient assistance organizations, particularly the American Kidney Fund, including documents related to efforts to provide patients with information concerning the availability of charitable assistance. The Company is continuing to cooperate with the government in this investigation.

2017 U.S. Attorney Colorado Investigation: In November 2017, the U.S. Attorney's Office, District of Colorado informed the Company of an investigation it was conducting into possible federal health care offenses involving DaVita Kidney Care, as well as several of the Company's wholly-owned subsidiaries, including DMG, DaVita Rx, DaVita Laboratory Services, Inc. (DaVita Labs), and RMS Lifeline Inc. (Lifeline). In August 2018, the Company received a CID from the DOJ. The CID was issued pursuant to the FCA and covers the period from January 2005 through the present. In connection with the resolution of the 2015 U.S. OIG Medicare Advantage Civil Investigation referred to above, the Company resolved possible claims relating to DMG in this investigation. The Company is continuing to cooperate with the government in this investigation.

2017 U.S. Attorney Florida Investigation: In November 2017, the U.S. Attorney's Office, Southern District of Florida informed the Company of an investigation it was conducting into possible federal healthcare offenses involving the Company's wholly-owned subsidiary, Lifeline. The Company is continuing to cooperate with the government in this investigation.

2018 U.S. Attorney Florida Investigation: In March 2018, DaVita Labs received two CIDs from the U.S. Attorney's Office, Middle District of Florida that were identical in nature but directed to the two different labs. According to the face of the CIDs, the U.S. Attorney's Office is conducting an investigation as to whether the Company's subsidiary submitted claims for blood, urine, and fecal testing, where there were insufficient test validation or stability studies to ensure accurate results, in violation of the FCA. In October 2018, DaVita Labs received a subpoena from the OIG in connection with this matter requesting certain patient records linked to clinical laboratory tests. The Company is continuing to cooperate with the government in this investigation.

* * *

Although the Company cannot predict whether or when proceedings might be initiated or when these matters may be resolved (other than as described above), 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 and to develop over the course of time. In addition to the inquiries and proceedings specifically identified above, the Company frequently is subject to other inquiries by state or federal government agencies and/or private civil qui tam complaints filed by relators. Negative findings or terms and conditions that the Company might agree to accept as part of a negotiated resolution of pending or future government inquiries or relator proceedings could result in, among other things, substantial financial penalties or awards against the Company, substantial payments made by the Company, harm to the Company's reputation, required changes to the Company's business practices, exclusion from future participation in the Medicare, Medicaid and other federal health care programs and, if criminal proceedings were initiated against the Company, possible criminal penalties, any of which could have a material adverse effect on the Company.

Shareholder and Derivative Claims

Peace Officers' Annuity and Benefit Fund of Georgia Securities Class Action Civil Suit: On February 1, 2017, the Peace Officers' Annuity and Benefit Fund of Georgia filed a putative federal securities class action complaint in the U.S. District Court for the District of Colorado against the Company and certain executives. The complaint covers the time period of August 2015 to October 2016 and alleges, generally, that the Company and its executives violated federal securities laws concerning the Company's financial results and revenue derived from patients who received charitable premium assistance from an industry-funded non-profit organization. The complaint further alleges that the process by which patients obtained commercial insurance and received charitable premium assistance was improper and "created a false impression of DaVita's business and

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operational status and future growth prospects." In November 2017, the court appointed the lead plaintiff and an amended complaint was filed on January 12, 2018. On March 27, 2018, the Company and various individual defendants filed a motion to dismiss. Briefing on the motion is complete. The plaintiffs filed an opposition to the motion to dismiss on June 6, 2018. The Company filed a reply in support of the motion on July 19, 2018. The Company disputes these allegations and intends to defend this action accordingly.

In re DaVita Inc. Stockholder Derivative Litigation: On August 15, 2017, the U.S. District Court for the District of Delaware consolidated three previously disclosed shareholder derivative lawsuits: the Blackburn Shareholder action filed on February 10, 2017, the Gabilondo Shareholder action filed on May 30, 2017, and the City of Warren Police and Fire Retirement System Shareholder action filed on June 9, 2017. The complaint covers the time period from 2015 to present and alleges, generally, breach of fiduciary duty, unjust enrichment, abuse of control, gross mismanagement, corporate waste, and misrepresentations and/or failures to disclose certain information in violation of the federal securities laws in connection with an alleged practice to direct patients with government-subsidized health insurance into private health insurance plans to maximize the Company's profits. An amended complaint was filed in September 2017, and on December 18, 2017, the Company filed a motion to dismiss and a motion to stay proceedings in the alternative. The plaintiffs filed an opposition to the motion to dismiss on March 9, 2018. On June 25, 2018, the U.S. District Court for the District of Delaware granted the Company's motion to stay proceedings and stayed the case until January 7, 2019, the date of the next status conference. The Company disputes these allegations and intends to defend this action accordingly.

Other Proceedings

White, Kathleen, et al. v. DaVita Healthcare Partners, Inc., Civil Action No. 15-cv-2106, U.S. District Court for the District of Colorado: Three actions (*Menchaca v. DaVita Healthcare Partners, Inc.*, *Saldana v. DaVita Healthcare Partners, Inc.* and *Hardin v. DaVita Healthcare Partners, Inc.*) were consolidated in December 2016 into one action in U.S. District Court for the District of Colorado. In all three actions, the plaintiffs brought claims for wrongful death based on allegations related to Granuflo®, a product used as a component of the dialysis process. The *Menchaca* and *Saldana* actions arose out of the treatment of patients in California, while the *Hardin* action arose out of the treatment of a patient in Illinois. On June 27, 2018, the jury returned a verdict in favor of the plaintiffs, collectively awarding \$8,500 in compensatory damages and \$375,000 in punitive damages. Judgment on this verdict was not entered. On November 1, 2018, the parties filed a joint motion notifying the court that they have arrived at a settlement of the three actions. The resolution of all three of the consolidated actions, collectively, is for \$25,500, and requires the filing of a stipulation of dismissal with prejudice in each case. The court has now ordered the parties to file these stipulations of dismissal by November 30, 2018. The Company believes it is probable that it will be able to recover the settlement amount from insurers, indemnitors, and the like; however, the Company can make no assurances that it will recover the full amount.

In addition to the foregoing, from time to time the Company is subject to other lawsuits, demands, claims, governmental investigations and audits and legal proceedings that arise due to the nature of its business, including contractual disputes, such as with payors, suppliers and others, employee-related matters and professional and general liability claims. From time to time, the Company also initiates litigation or other legal proceedings as a plaintiff arising out of contracts or other matters.

Resolved Matters

2011 Suit against the U.S. Department of Veterans Affairs: As previously disclosed, the Company had a pending lawsuit in the U.S. Court of Federal Claims against the federal government which was originally filed in May 2011. The lawsuit related to the U.S. Department of Veterans Affairs (VA) underpayment of dialysis services the Company provided from 2005 through 2011 to veterans pursuant to VA regulations. In the first quarter of 2017, the Company received a payment of \$538,000 related to the settlement with the VA. The Company's consolidated entities

recognized a net gain of \$527,000 on this settlement. The Company's nonconsolidated and managed entities recognized a gain of \$9,000, of which the Company's equity investment share was \$3,000. The net effect was a net increase of \$530,000 to the Company's operating income.

* * *

Other than as described above, the Company cannot predict the ultimate outcomes of the various legal proceedings and regulatory matters to which the Company is or may be subject from time to time, including those described in this Note 10 to these condensed consolidated financial statements, or the timing of their resolution or the ultimate losses or impact of developments in those matters, which could have a material adverse effect on the Company's revenues, earnings and cash

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flows. Further, any legal proceedings or regulatory matters involving the Company, whether meritorious or not, are time consuming, and often require management's attention and result in significant legal expense, and may result in the diversion of significant operational resources, or otherwise harm the Company's business, financial results or reputation.

11. Noncontrolling interests subject to put provisions and other commitments

The Company has potential obligations to purchase the equity interests held by third parties in several of its majority-owned joint ventures and other nonconsolidated entities. These obligations are in the form of put provisions that are exercisable at the third-party owners' discretion within specified periods as outlined in each specific put provision. If these put provisions were exercised, the Company would be required to purchase the third-party owners' equity interests at either the appraised fair market value or a predetermined multiple of earnings or cash flows attributable to the equity interests put to the Company, which is intended to approximate fair value. The methodology the Company uses to estimate the fair values of noncontrolling interests subject to put provisions assumes the higher of either a liquidation value of net assets or an average multiple of earnings, based on historical earnings, patient mix and other performance indicators that can affect future results, as well as other factors. The estimated fair values of noncontrolling interests subject to put provisions are a critical accounting estimate that involves significant judgments and assumptions and may not be indicative of the actual values at which the noncontrolling interests may ultimately be settled, which could vary significantly from the Company's current estimates. The estimated fair values of noncontrolling interests subject to put provisions can fluctuate and the implicit multiple of earnings at which these noncontrolling interests obligations may be settled will vary significantly depending upon market conditions including potential purchasers' access to the capital markets, which can impact the level of competition for dialysis and non-dialysis related businesses, the economic performance of these businesses and the restricted marketability of the third-party owners' equity interests. The amount of noncontrolling interests subject to put provisions that employ a contractually predetermined multiple of earnings rather than fair value are immaterial.

The Company has certain other potential commitments to provide operating capital to a number of dialysis centers that are wholly-owned by third parties or businesses in which the Company maintains a noncontrolling equity interest as well as to physician-owned vascular access clinics or medical practices that the Company operates under management and administrative services agreements of approximately \$5,264.

Certain consolidated joint ventures are originally contractually scheduled to dissolve after terms ranging from 10 to 50 years. While noncontrolling interests in these limited life entities qualify as mandatorily redeemable financial instruments, they are subject to a classification and measurement scope exception from the accounting guidance generally applicable to other mandatorily redeemable financial instruments. Future distributions upon dissolution of these entities would be valued below the related noncontrolling interest carrying balances in the consolidated balance sheet.

12. 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) and long-term performance-based cash awards. Long-term incentive compensation expense, which was primarily general and administrative in nature, was attributed to the Company's U.S. dialysis and related lab services business, corporate administrative support, and ancillary services and strategic initiatives.

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

During the nine months ended September 30, 2018, the Company granted 1,897 stock-settled stock appreciation rights with an aggregate grant-date fair value of \$30,817 and a weighted-average expected life of approximately 4.2 years and 1,097 restricted and performance stock units with an aggregate grant-date fair value of \$72,718 and a weighted-average expected life of approximately 3.3 years.

For the nine months ended September 30, 2018 and 2017, the Company recognized \$74,077 and \$46,972, respectively, in total LTIP expense, of which \$60,461 and \$25,281, respectively, represented stock-based compensation expense for stock appreciation rights, restricted stock units, performance stock units and discounted employee stock plan purchases, which are

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primarily included in general and administrative expense. The estimated tax benefits recorded for stock-based compensation for the nine months ended September 30, 2018 and 2017 was \$10,887 and \$8,497, respectively. During the three months ended September 30, 2018, the Company adopted a retirement policy (Rule of 65 policy). The Rule of 65 policy generally provides that Section 16 executive officers that are a minimum age of 55 with five years of continuous service with the Company receive certain benefits with respect to their outstanding equity awards upon a qualifying retirement if the sum of their age plus years of service is greater than or equal to 65. These benefits generally include accelerated vesting of restricted stock unit awards, continued vesting of stock-settled stock appreciation rights and performance stock unit awards and an exercise window from the original vest date through the original expiration date regardless of continued employment, with pro rata vesting for a Rule of 65 retirement within one year of the award grant date. The adoption of the Rule of 65 policy resulted in a \$14,680 modification charge and a net acceleration of expense of \$8,790 during the three and nine months ended September 30, 2018 that is included in the expense amounts reported above.

As of September 30, 2018, the Company had \$122,887 of total estimated but unrecognized compensation expense for outstanding LTIP awards, including \$103,923 related to stock-based compensation arrangements under the Company's equity compensation and employee stock purchase plans. The Company expects to recognize the performance-based cash component of these LTIP costs over a weighted average remaining period of 0.9 year and the stock-based component of these LTIP costs over a weighted average remaining period of 1.5 years.

For the nine months ended September 30, 2018 and 2017, the Company recognized \$7,919 and \$6,046, respectively, in actual tax benefits upon the settlement of stock awards.

13. Share repurchases

During the nine months ended September 30, 2018, the Company repurchased a total of 16,844 shares of its common stock for \$1,153,511 at an average price of \$68.48 per share. The Company has not repurchased any shares of its common stock subsequent to September 30, 2018.

On July 11, 2018, the Company's Board of Directors approved an additional share repurchase authorization in the amount of \$1,389,999. This share repurchase authorization was in addition to the \$110,001 remaining at that time under the Company's Board of Directors' prior share repurchase authorization approved in October 2017. Accordingly, as of November 5, 2018, the Company has a total of \$1,355,605 remaining available under the current Board repurchase authorizations for additional share repurchases. Although these share repurchase authorizations do not have expiration dates, the Company remains subject to share repurchase limitations under the terms of its senior secured credit facilities and the indentures governing its senior notes.

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14. Accumulated other comprehensive (loss) income

	For the three months ended September 30, 2018				For the nine months ended September 30, 2018			
	Interest rate cap agreements	Investment securities	Foreign currency translation adjustments	Accumulated other comprehensive (loss) income	Interest rate cap agreements	Investment securities	Foreign currency translation adjustments	Accumulated other comprehensive (loss) income
Beginning balance	\$ (11,258)		\$ (10,667)	\$ (21,925)	\$ (12,408)	\$ 5,662	\$ 19,981	\$ 13,235
Cumulative effect of change in accounting principle ⁽¹⁾	—		—	—	(2,706)	(5,662)	—	(8,368)
Unrealized gains (losses)	50		(8,827)	(8,777)	1,103	—	(39,475)	(38,372)
Related income tax expense	(13)		—	(13)	(284)	—	—	(284)
	37		(8,827)	(8,790)	819	—	(39,475)	(38,656)
Reclassification from accumulated other comprehensive income into net income	2,163		—	2,163	6,303	—	—	6,303
Related income tax expense	(557)		—	(557)	(1,623)	—	—	(1,623)
	1,606		—	1,606	4,680	—	—	4,680
Ending balance	\$ (9,615)		\$ (19,494)	\$ (29,109)	\$ (9,615)	\$ —	\$ (19,494)	\$ (29,109)

Reflects the cumulative effect of a change in accounting principle for ASUs 2016-01 and 2018-03 on classification (1) and measurement of financial instruments and ASU 2018-02 on remeasurement and reclassification of deferred tax effects in accumulated other comprehensive income associated with the 2017 Tax Act.

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	For the three months ended September 30, 2017				For the nine months ended September 30, 2017			
	Interest rate cap agreements	Investment securities	Foreign currency translation adjustments	Accumulated other comprehensive (loss) income	Interest rate cap and swap agreements	Investment securities	Foreign currency translation adjustments	Accumulated other comprehensive (loss) income
Beginning balance	\$(14,502)	\$ 4,580	\$(17,386)	\$ (27,308)	\$(12,029)	\$ 2,175	\$(79,789)	\$ (89,643)
Unrealized (losses) gains	(782)	1,253	29,143	29,614	(8,967)	4,682	91,546	87,261
Related income tax benefit (expense)	304	(390)	—	(86)	3,488	(1,202)	—	2,286
	(478)	863	29,143	29,528	(5,479)	3,480	91,546	89,547
Reclassification from accumulated other comprehensive income into net income	2,070	(15)	—	2,055	6,208	(362)	—	5,846
Related income tax (expense) benefit	(805)	6	—	(799)	(2,415)	141	—	(2,274)
	1,265	(9)	—	1,256	3,793	(221)	—	3,572
Ending balance	\$(13,715)	\$ 5,434	\$ 11,757	\$ 3,476	\$(13,715)	\$ 5,434	\$ 11,757	\$ 3,476

Net realized losses on interest rate cap agreements that are reclassified into income are recorded as debt expense in the corresponding consolidated statements of operations. See Note 9 to these condensed consolidated financial statements for further details.

Net realized gains on investment securities reclassified into income for the nine months ended September 30, 2017 were recognized in other income in the corresponding consolidated statements of operations. See Note 5 to these condensed consolidated financial statements for further details.

15. Acquisitions and divestitures

Routine acquisitions

During the nine months ended September 30, 2018, the Company acquired dialysis businesses consisting of five dialysis centers located in the U.S. and 18 dialysis centers located outside the U.S. for a total of \$110,671 in net cash, \$15,461 in deferred purchase price obligations, and \$4,733 in liabilities assumed and earn-out obligations. The assets and liabilities for these acquisitions were recorded at their estimated fair values at the dates of the acquisitions and are included in the Company's condensed consolidated financial statements, as are their operating results, from the designated effective dates of the acquisitions.

The initial purchase price allocations for these transactions have been recorded at estimated fair values based on the best information available to management and will be finalized when certain information arranged to be obtained has been received. In particular, certain income tax amounts are pending final evaluation and quantification of pre-acquisition tax contingencies and filing of final tax returns. In addition, valuation of certain working capital items, fixed assets and intangibles are pending final audits and related valuation reports.

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

Current assets	\$ 10,183
Property and equipment	5,654
Intangible and other long-term assets	3,672
Goodwill	135,654
Current liabilities	(12,139)
Long-term liabilities	(212)
Noncontrolling interests	(11,947)
	\$ 130,865

Amortizable intangible assets acquired during the first nine months of 2018 primarily represent non-compete agreements which had weighted-average estimated useful lives of approximately five years. The total estimated amount of goodwill deductible for tax purposes associated with these acquisitions was approximately \$115,378.

Sale of Paladina Health

Effective June 1, 2018, the Company sold 100% of the equity of DaVita DPC Holding Co., LLC (Paladina Health), its direct primary care business, resulting in an estimated gain of \$33,699.

Contingent earn-out obligations

The Company has several contingent earn-out obligations associated with acquisitions that could result in the Company paying the former owners of acquired companies a total of up to \$14,042 if certain EBITDA, operating income performance targets or quality margins are met primarily over the next one to five years.

Contingent earn-out obligations are remeasured at fair value at each reporting date until the contingencies are resolved with changes in the liabilities due to the remeasurement recorded in earnings. See Note 18 to these condensed consolidated financial statements for further details. As of September 30, 2018, the Company has estimated the fair values of its contingent earn-out obligations to be \$7,233, of which a total of \$431 is included in other liabilities and the remaining \$6,802 is included in other long-term liabilities in the Company's consolidated balance sheet.

The following is a reconciliation of changes in liabilities for contingent earn-out obligations:

	For the nine months ended September 30, 2018
Beginning balance	\$ 6,388
Contingent earn-out obligations associated with acquisitions	1,246
Remeasurement of fair value for contingent earn-out obligations	(401)
Ending balance	\$ 7,233

16. Held for sale and discontinued operations

DaVita Medical Group

In December 2017, the Company entered into an agreement to sell its DMG division to Collaborative Care Holdings, LLC (Optum), a subsidiary of UnitedHealth Group Inc., subject to receipt of required regulatory approvals and other customary closing conditions. As a result, the DMG business has been classified as held for sale and its results of operations are reported as discontinued operations for all periods presented in these condensed consolidated financial

statements.

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During the third quarter of 2018, the Company recorded a \$216,147 charge on its DMG business which included a \$98,201 valuation adjustment and \$117,946 in related tax expense on this held for sale business based on an updated assessment of fair value, which includes inputs such as the transaction itself, risks and timing, and performance of the business.

The following table presents the financial results of discontinued operations related to DMG:

	Three months ended		Nine months ended	
	September 30, 2018	2017	September 30, 2018	2017
Revenues	\$1,252,909	\$1,178,443	\$3,733,270	\$3,461,493
Expenses	1,260,814	1,164,562	3,679,747	3,396,914
Goodwill impairment charges	—	601,040	—	651,659
Valuation adjustment	98,201	—	98,201	—
(Loss) income from discontinued operations before taxes	(106,106)	(587,159)	(44,678)	(587,080)
Income tax expense (benefit)	105,633	(216,287)	103,151	(198,121)
Net loss from discontinued operations, net of tax	(211,739)	(370,872)	(147,829)	(388,959)

The following table presents the financial position of discontinued operations related to DMG:

	September 30, 2018	December 31, 2017
Assets		
Cash and cash equivalents	\$444,468	\$179,668
Other current assets	848,905	826,608
Property and equipment, net	438,332	379,945
Intangible assets, net	1,316,571	1,316,550
Other long-term assets	114,236	178,894
Goodwill	2,883,475	2,879,977
Valuation allowance on disposal group	(98,201)	—
Total current assets held for sale, net	\$5,947,786	\$5,761,642
Liabilities		
Other liabilities	\$652,502	\$505,734
Medical payables	457,748	457,040
Current portion of long-term debt	2,839	2,845
Long-term debt	33,595	35,003
Other long-term liabilities	272,937	184,448
Total current liabilities held for sale	\$1,419,621	\$1,185,070

The following table presents cash flows of discontinued operations related to DMG:

	September 30, 2018	September 30, 2017
Net cash provided by operating activities from discontinued operations	\$208,570	\$298,974
Net cash used in investing activities from discontinued operations	\$(32,860)	\$(187,606)

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DMG acquisitions

During the first nine months of 2018, the Company's DMG business acquired three medical businesses for a total of \$2,854 in cash and deferred purchase price of \$275. Certain income tax amounts are pending final evaluation and quantification of any pre-acquisition tax contingencies. In addition, valuation of medical claims liabilities and certain other working capital items relating to acquisitions are pending final quantification. The assets and liabilities for all acquisitions were recorded at their estimated fair values at the dates of the acquisitions and are included in the Company's current held for sale assets and liabilities.

Sale of Tandigm Health investment

Effective June 1, 2018, DMG sold its 19% ownership interest in the Tandigm Health joint venture and a related supporting business resulting in a gain, net of tax, of \$18,636.

Goodwill impairment charges

As previously disclosed, prior to being reclassified as held for sale, the Company recorded goodwill impairment charges for the DMG business of \$601,040 and \$651,659 for the three and nine months ended September 30, 2017. These charges resulted from continuing developments in the Company's DMG business, including the determination that commercial membership was expected to be lower than previously expected due to increased reimbursement pressure, Medicaid reimbursement rates were expected to trend lower within the state of California, and the gap between Medicare rate increases and medical cost increases were likely to persist. The charges recorded during the nine months ended September 30, 2017 resulted additionally from medical cost and utilization trends.

17. Variable interest entities

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

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

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

The analyses upon which these consolidation determinations rest are complex, involve uncertainties, and require significant judgment on various matters, some of which could be subject to different interpretations. At September 30, 2018, these condensed consolidated financial statements include total assets of VIEs of \$916,672 and total liabilities and noncontrolling interests of VIEs to third parties of \$508,743, including assets of \$658,054 and liabilities and

noncontrolling interests of \$355,172 related to the Company's DMG business classified as held for sale.

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The Company also sponsors certain non-qualified deferred compensation plans whose trusts qualify as VIEs and the Company consolidates these plans as their primary beneficiary. The assets of these plans are recorded in short-term or long-term investments with matching offsetting liabilities recorded in accrued compensation and benefits and other long-term liabilities. See Note 5 to these condensed consolidated financial statements for disclosures on the assets of these consolidated non-qualified deferred compensation plans.

18. Fair values of financial instruments

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

The following table summarizes the Company's assets, liabilities and temporary equity that are measured at fair value on a recurring basis as of September 30, 2018:

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets				
Investments in mutual funds and common stock	\$37,547	\$ 37,547	\$ —	\$ —
Interest rate cap agreements	\$2,135	\$ —	\$ 2,135	\$ —
Liabilities				
Contingent earn-out obligations	\$7,233	\$ —	\$ —	\$7,233
Temporary equity				
Noncontrolling interests subject to put provisions	\$1,064,412	\$ —	\$ —	\$1,064,412

Investments in mutual funds and common stock represent equity securities that are recorded at estimated fair value based upon quoted redemption prices reported by each mutual fund. See Note 5 to these condensed consolidated financial statements for further discussion.

Interest rate cap agreements are recorded at fair value estimated from valuation models utilizing the income approach and commonly accepted valuation techniques that use inputs from closing prices for similar assets and liabilities in active markets as well as other relevant observable market inputs at quoted intervals such as current interest rates, forward yield curves, implied volatility and credit default swap pricing. The Company does not believe the ultimate amount that could be realized upon settlement of these interest rate cap agreements would be materially different from the fair value estimates currently reported. See Note 9 to these condensed consolidated financial statements for further discussion.

The estimated fair value of contingent earn-out obligations are primarily based on unobservable inputs including projected EBITDA. The estimated fair value of these contingent earn-out obligations is remeasured as of each reporting date and could fluctuate based upon any significant changes in key assumptions, such as changes in the Company credit risk-adjusted rate that is used to discount the obligations to present value. See Note 15 to these condensed consolidated financial statements for further discussion.

See Note 11 to these condensed consolidated financial statements for a discussion of the Company's methodology for estimating the fair value of noncontrolling interests subject to put obligations.

The carrying amount of the Company's senior secured credit facilities totaled \$5,302,569, including a discount of \$6,724 and deferred financing costs of \$11,957 as of September 30, 2018, and their fair value was approximately

\$5,353,109 based upon quoted market prices for similar instruments, a level 2 input.

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The carrying amount of the Company's senior notes was \$4,465,057, including deferred financing costs of \$34,943 as of September 30, 2018 and their fair value was approximately \$4,404,175, based upon quoted market prices for similar instruments, a level 2 input.

Other financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable, other accrued liabilities and other debt. The balances of the Company's financial instruments other than the senior secured credit facilities and the senior notes are presented in the condensed consolidated financial statements at September 30, 2018 at their approximate fair values due to the short-term nature of their settlements.

19. Segment reporting

The Company has consisted of two major divisions, DaVita Kidney Care (Kidney Care) and DMG. The Kidney Care division is comprised of the Company's U.S. dialysis and related lab services business, various ancillary services and strategic initiatives, including its international operations, and the Company's corporate administrative support. The Company's U.S. dialysis and related lab services business is its largest line of business and is a leading provider of kidney dialysis services in the U.S. for patients suffering from chronic kidney failure, also known as ESRD. The Company's ancillary services and strategic initiatives consist primarily of pharmacy services, disease management services, vascular access services, clinical research programs, physician services, ESRD seamless care organizations and comprehensive care, as well as the Company's international operations.

The Company's DMG division is a patient- and physician-focused integrated healthcare delivery and management company with over two decades of providing coordinated outcomes-based medical care in a cost-effective manner. In December 2017, the Company entered into an equity purchase agreement to sell its DMG division to Optum, a subsidiary of UnitedHealth Group Inc., subject to receipt of required regulatory approvals and other customary closing conditions. As a result of this pending transaction, the DMG business has been classified as held for sale and its results of operations are reported as discontinued operations for all periods presented in these condensed consolidated financial statements. See Note 16 to these condensed consolidated financial statements for further discussion.

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

The Company's separate operating segments include its U.S. dialysis and related lab services business, each of its ancillary services and strategic initiatives, its consolidated international kidney care operations in each country, its equity method investment in the Asia Pacific joint venture, and its other health operations in Europe and Latin America. The U.S. dialysis and related lab services business qualifies as a separately reportable segment, and all other ancillary services and strategic initiatives operating segments, including the international operating segments, have been combined and disclosed in the other segments category.

The Company's operating segment financial information included in this report is prepared on the internal management reporting basis that the chief operating decision maker uses to allocate resources and assess the financial performance of the Company's operating segments. For internal management reporting, segment operations include direct segment operating expenses but generally exclude corporate administrative support costs, which consist primarily of indirect labor, benefits and long-term incentive-based compensation expenses of certain departments which provide support to all of the Company's various operating lines of business, except to the extent that such costs are charged to and borne by certain ancillary services and strategic initiatives via internal management fees. These corporate administrative support costs are reduced by internal management fees received from the Company's ancillary lines of business.

DAVITA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(continued)

(unaudited)

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Segment net revenues:				
U.S. dialysis and related lab services				
Patient service revenues:				
External sources	\$2,559,345	\$2,470,169	\$7,661,244	\$7,247,403
Intersegment revenues	25,424	13,475	63,943	38,559
U.S. dialysis and related lab services patient service revenues	2,584,769	2,483,644	7,725,187	7,285,962
Provision for uncollectible accounts	(12,900)	(117,962)	(37,108)	(334,031)
Net U.S. dialysis and related lab services patient service revenues	2,571,869	2,365,682	7,688,079	6,951,931
Other revenues ⁽¹⁾	4,932	4,792	14,965	14,951
Total U.S. dialysis and related lab services revenues	2,576,801	2,370,474	7,703,044	6,966,882
Other—Ancillary services and strategic initiatives				
Patient service revenues, net	112,279	90,015	320,204	229,587
Other external sources	183,674	318,057	624,422	937,811
Intersegment revenues	8,361	5,996	27,748	18,488
Total ancillary services and strategic initiatives revenues	304,314	414,068	972,374	1,185,886
Total net segment revenues	2,881,115	2,784,542	8,675,418	8,152,768
Elimination of intersegment revenues	(33,785)	(19,471)	(91,691)	(57,047)
Consolidated revenues	\$2,847,330	\$2,765,071	\$8,583,727	\$8,095,721
Segment operating margin:				
U.S. dialysis and related lab services	\$390,006	\$442,777	\$1,272,828	\$1,837,989
Other—Ancillary services and strategic initiatives	(60,132)	(36,518)	(64,307)	(142,984)
Total segment operating margin	329,874	406,259	1,208,521	1,695,005
Reconciliation of segment operating margin to consolidated income from continuing operations before income taxes:				
Corporate administrative support	(40,836)	(10,965)	(70,605)	(32,587)
Consolidated operating income	289,038	395,294	1,137,916	1,662,418
Debt expense	(125,927)	(109,306)	(359,135)	(321,637)
Other income, net	4,007	3,396	10,583	12,180
Consolidated income from continuing operations before income taxes	\$167,118	\$289,384	\$789,364	\$1,352,961

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

DAVITA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(continued)

(unaudited)

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

Depreciation and amortization expense by reportable segment was as follows:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
U.S. dialysis and related lab services	\$ 138,669	\$ 132,112	\$ 411,697	\$ 387,142
Other—Ancillary services and strategic initiatives	7,331	10,522	24,181	28,402
	\$ 146,000	\$ 142,634	\$ 435,878	\$ 415,544

Assets by reportable segment were as follows:

	September 30, 2018	December 31, 2017
Segment assets		
U.S. dialysis and related lab services (including equity investments of \$94,144 and \$84,866, respectively)	\$ 12,101,111	\$ 11,776,042
Other—Ancillary services and strategic initiatives (including equity investments of \$146,676 and \$160,668, respectively)	1,308,892	1,410,509
DMG—Held for sale (including equity investments of \$5,060 and \$10,321, respectively)	5,947,786	5,761,642
Consolidated assets	\$ 19,357,789	\$ 18,948,193

Expenditures for property and equipment by reportable segment were as follows:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
U.S. dialysis and related lab services	\$ 214,728	\$ 207,472	\$ 603,186	\$ 538,620
Other—Ancillary services and strategic initiatives	5,019	9,135	37,191	28,256
DMG—Held for sale	11,935	24,282	65,282	72,953
	\$ 231,682	\$ 240,889	\$ 705,659	\$ 639,829

20. Changes in DaVita Inc.'s ownership interests in consolidated subsidiaries

The effects of changes in DaVita Inc.'s ownership interests in consolidated subsidiaries on the Company's equity were as follows:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Net (loss) income attributable to DaVita Inc.	\$(136,796)	\$(214,476)	\$ 309,166	\$ 360,222
Changes in paid-in capital for:				
Sales of noncontrolling interests	—	—	79	—
Purchases of noncontrolling interests	(5,285)	—	(17,482)	195
Net transfers to noncontrolling interests	(5,285)	—	(17,403)	195
Net (loss) income attributable to DaVita Inc., net of transfers to noncontrolling interests	\$(142,081)	\$(214,476)	\$ 291,763	\$ 360,417

21. New accounting standards

On May 28, 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. In 2015, 2016 and 2017, the FASB issued ASU 2015-14, ASU 2016-08, ASU 2016-10, ASU 2016-11, ASU 2016-12, and ASU 2017-10, each of which amends the guidance in ASU 2014-09. These ASUs replaced most existing

DAVITA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(continued)

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revenue recognition guidance in GAAP. The Company adopted these ASUs beginning January 1, 2018. See Note 2 for further details.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. In February 2018, the FASB issued ASU 2018-03, which provides various related technical corrections and improvements. The Company adopted these ASUs beginning January 1, 2018. See Note 5 for further details.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The amendments in this ASU revise the accounting related to lessee accounting. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use asset for substantially all leases with lease terms in excess of twelve months. The new lease guidance also simplifies the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. In July 2018, the FASB issued ASU No. 2018-10, Codification Amendments to Topic 842, and ASU No. 2018-11, which include targeted improvements to the guidance issued in ASU 2016-02. The amendments in these ASUs are effective for the Company beginning on January 1, 2019 and are to be applied through a modified retrospective transition approach for leases existing at, or entered into after, either at the beginning of the earliest comparative period presented in the financial statements or at the adoption date with a cumulative effect adjustment. Early adoption is permitted. The Company has assembled an internal cross-functional lease task force that meets regularly to discuss and evaluate the current lease portfolio and related systems, processes, controls and policy changes necessary. The Company has made progress in gathering the necessary data elements for the lease population and a system provider has been selected, with system configuration and implementation underway. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements and believes it will have a material impact on its consolidated balance sheet but will not have a material impact on its results of operations or liquidity. The Company expects to adopt these ASUs by applying the new guidance on January 1, 2019 and recognizing a cumulative effect adjustment. The Company is currently planning on electing the package of practical expedients to not reassess prior conclusions related to contracts containing leases, lease classification and initial direct costs. The Company continues to evaluate other practical expedients available under the guidance as well as the effect that the implementation of this guidance will have on its consolidated financial statements, related disclosures and controls, and ongoing business policies and processes.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The amendments in this ASU clarify how certain cash receipts and cash payments should be classified on the statement of cash flows. In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted cash. The amendments in this ASU require that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The adoption of these ASUs did not have a material impact on the Company's consolidated financial statements when adopted on January 1, 2018.

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. The amendments in this ASU allow entities to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The current guidance does not allow recognition until the asset has been sold to an outside party. The amendments in this ASU are effective for the Company beginning on January 1, 2018 and are to be applied on a modified retrospective basis. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements when adopted on January 1, 2018.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The amendments in this ASU better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance

for qualifying hedging relationships and the presentation of hedge results. The amendments in the new ASU are effective for the Company on January 1, 2019 and are to be applied prospectively. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements when adopted on January 1, 2019.

In February 2018, the FASB issued ASU No. 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220), Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which allows for the reclassification of certain income tax effects related to the 2017 Tax Act between "Accumulated other comprehensive income" and "Retained earnings." This ASU relates to the requirement that adjustments to deferred tax liabilities and assets related to a change in tax laws or rates be included in "Income from continuing operations", even in situations where the related items were

DAVITA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(continued)

(unaudited)

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

originally recognized in “Other comprehensive income” (rather than in “Income from continuing operations”). The amendments in this ASU are effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. The Company elected to early adopt this ASU on January 1, 2018 and applied the change in the period of adoption. The adoption of this ASU resulted in the reclassification of an immaterial amount of deferred tax effects from accumulated other comprehensive income to retained earnings via a cumulative change in accounting principle effective January 1, 2018. See Note 14 for more details.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework -Changes to the Disclosure Requirements for Fair Value Measurement. The applicable amendments in this ASU remove requirements for disclosures concerning transfers between fair value measurement Levels 1, 2 and 3 and disclosures concerning valuation processes for Level 3 fair value measurements. The applicable amendments in this ASU also add a requirement to separately disclose the changes in unrealized gains and losses included in other comprehensive income for the reporting period for Level 3 items measured at fair value on a recurring basis, and require disclosure of the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The amendments in this ASU are effective for the Company beginning on January 1, 2020 and its new requirements are to be applied on a prospective basis. The adoption of this ASU is not expected to have a material impact on the Company’s consolidated financial statements.

22. Condensed consolidating financial statements

The following information is presented in accordance with Rule 3-10 of Regulation S-X. The operating and investing activities of the separate legal entities included in the Company’s condensed consolidated financial statements are fully interdependent and integrated. Revenues and operating expenses of the separate legal entities include intercompany charges for management and other administrative services. The Company’s senior notes are guaranteed by a substantial majority of its domestic subsidiaries as measured by revenue, income and assets. The subsidiary guarantors have guaranteed the senior notes on a joint and several basis. However, a subsidiary guarantor will be released from its obligations under its guarantee of the senior notes and the indentures governing the senior notes if, in general, there is a sale or other disposition of all or substantially all of the assets of such subsidiary guarantor, including by merger or consolidation, or a sale or other disposition of all of the equity interests in such subsidiary guarantor held by the Company and its restricted subsidiaries, as defined in the indentures; such subsidiary guarantor is designated by the Company as an unrestricted subsidiary, as defined in the indentures, or otherwise ceases to be a restricted subsidiary of the Company, in each case in accordance with the indentures; or such subsidiary guarantor no longer guarantees any other indebtedness, as defined in the indentures, of the Company or any of its restricted subsidiaries, except for guarantees that are contemporaneously released. The senior notes are not guaranteed by certain of the Company’s domestic subsidiaries, any of the Company’s foreign subsidiaries, or any entities that do not constitute subsidiaries within the meaning of the indentures, such as corporations in which the Company holds capital stock with less than a majority of the voting power, joint ventures and partnerships in which the Company holds less than a majority of the equity or voting interests, non-owned entities and third parties.

DAVITA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(continued)

(unaudited)

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

Condensed Consolidating Statements of Operations

For the three months ended September 30, 2018	DaVita Inc.	Guarantor subsidiaries	Non-Guarantor subsidiaries	Consolidating adjustments	Consolidated total
Patient services revenues	\$—	\$1,810,009	\$914,623	\$ (53,931)	\$2,670,701
Provision for uncollectible accounts	—	(8,899)	(3,078)	—	(11,977)
Net patient service revenues	—	1,801,110	911,545	(53,931)	2,658,724
Other revenues	207,968	192,467	36,508	(248,337)	188,606
Total net revenues	207,968	1,993,577	948,053	(302,268)	2,847,330
Operating expenses and charges	205,324	1,817,851	837,385	(302,268)	2,558,292
Operating income	2,644	175,726	110,668	—	289,038
Debt expense	(127,353)	(52,011)	(8,812)	62,249	(125,927)
Other income, net	106,148	2,339	5,982	(110,462)	4,007
Income tax (benefit) expense	(3,536)	47,977	7,606	—	52,047
Equity earnings in subsidiaries	(121,771)	46,972	—	74,799	—
Net (loss) income from continuing operations	(136,796)	125,049	100,232	26,586	115,071
Net loss from discontinued operations, net of tax	—	(246,820)	(13,132)	48,213	(211,739)
Net (loss) income	(136,796)	(121,771)	87,100	74,799	(96,668)
Less: Net income attributable to noncontrolling interests	—	—	—	(40,128)	(40,128)
Net (loss) income attributable to DaVita Inc.	\$(136,796)	\$(121,771)	\$87,100	\$34,671	\$(136,796)

For the three months ended September 30, 2017	DaVita Inc.	Guarantor subsidiaries	Non-Guarantor subsidiaries	Consolidating adjustments	Consolidated total
Patient service revenues	\$—	\$1,710,708	\$914,753	\$ (63,918)	\$2,561,543
Provision for uncollectible accounts	—	(82,807)	(42,649)	6,135	(119,321)
Net patient service revenues	—	1,627,901	872,104	(57,783)	2,442,222
Other revenues	189,275	302,193	11,483	(180,102)	322,849
Total net revenues	189,275	1,930,094	883,587	(237,885)	2,765,071
Operating expenses	128,488	1,718,444	760,730	(237,885)	2,369,777
Operating income	60,787	211,650	122,857	—	395,294
Debt expense	(108,453)	(48,622)	(13,017)	60,786	(109,306)
Other income	104,250	819	5,941	(107,614)	3,396
Income tax expense (benefit)	21,199	82,780	(13,433)	—	90,546
Equity earnings in subsidiaries	(249,861)	89,048	—	160,813	—
Net (loss) income from continuing operations	(214,476)	170,115	129,214	113,985	198,838
Net (loss) income from discontinued operations, net of tax	—	(419,976)	2,276	46,828	(370,872)
Net (loss) income	(214,476)	(249,861)	131,490	160,813	(172,034)
Less: Net income attributable to noncontrolling interests	—	—	—	(42,442)	(42,442)

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Net (loss) income attributable to DaVita Inc. \$(214,476) \$(249,861) \$ 131,490 \$ 118,371 \$(214,476)

DAVITA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(continued)

(unaudited)

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

For the nine months ended September 30, 2018	DaVita Inc.	Guarantor subsidiaries	Non-Guarantor subsidiaries	Consolidating adjustments	Consolidated total
Patient service revenues	\$—	\$5,431,742	\$2,699,670	\$ (151,234)	\$7,980,178
Provision for uncollectible accounts	—	(26,430)	(9,408)	—	(35,838)
Net patient service revenues	—	5,405,312	2,690,262	(151,234)	7,944,340
Other revenues	608,850	611,693	150,578	(731,734)	639,387
Total net revenues	608,850	6,017,005	2,840,840	(882,968)	8,583,727
Operating expenses	484,329	5,459,322	2,385,128	(882,968)	7,445,811
Operating income	124,521	557,683	455,712	—	1,137,916
Debt expense	(362,501)	(156,571)	(25,461)	185,398	(359,135)
Other income	315,573	7,718	16,126	(328,834)	10,583
Income tax expense	24,108	136,939	45,605	—	206,652
Equity earnings in subsidiaries	255,681	305,823	—	(561,504)	—
Net income from continuing operations	309,166	577,714	400,772	(704,940)	582,712
Net (loss) income from discontinued operations, net of tax	—	(322,033)	30,768	143,436	(147,829)
Net income	309,166	255,681	431,540	(561,504)	434,883
Less: Net income attributable to noncontrolling interests	—	—	—	(125,717)	(125,717)
Net income attributable to DaVita Inc.	\$309,166	\$255,681	\$431,540	\$ (687,221)	\$309,166
For the nine months ended September 30, 2017	DaVita Inc.	Guarantor subsidiaries	Non-Guarantor subsidiaries	Consolidating adjustments	Consolidated total
Patient service revenues	\$—	\$4,895,864	\$2,723,764	\$ (140,690)	\$7,478,938
Provision for uncollectible accounts	—	(216,705)	(125,409)	6,135	(335,979)
Net patient service revenues	—	4,679,159	2,598,355	(134,555)	7,142,959
Other revenues	604,246	913,130	43,408	(608,022)	952,762
Total net revenues	604,246	5,592,289	2,641,763	(742,577)	8,095,721
Operating expenses	398,502	4,609,747	2,167,631	(742,577)	6,433,303
Operating income	205,744	982,542	474,132	—	1,662,418
Debt expense	(317,276)	(144,382)	(38,287)	178,308	(321,637)
Other income	306,886	4,991	15,524	(315,221)	12,180
Income tax expense	75,680	389,945	8,501	—	474,126
Equity earnings in subsidiaries	240,548	337,213	—	(577,761)	—
Net income from continuing operations	360,222	790,419	442,868	(714,674)	878,835
Net (loss) income from discontinued operations, net of tax	—	(549,871)	23,999	136,913	(388,959)
Net income	360,222	240,548	466,867	(577,761)	489,876
Less: Net income attributable to noncontrolling interests	—	—	—	(129,654)	(129,654)
Net income attributable to DaVita Inc.	\$360,222	\$240,548	\$466,867	\$ (707,415)	\$360,222

Condensed Consolidating Statements of Comprehensive Income

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DAVITA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(continued)

(unaudited)

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

For the three months ended September 30, 2018	DaVita Inc.	Guarantor subsidiaries	Non-Guarantor subsidiaries	Consolidating adjustments	Consolidated total
Net (loss) income	\$(136,796)	\$(121,771)	\$ 87,100	\$ 74,799	\$(96,668)
Other comprehensive income (loss)	1,643	—	(8,827)	—	(7,184)
Total comprehensive (loss) income	(135,153)	(121,771)	78,273	74,799	(103,852)
Less: Comprehensive income attributable to noncontrolling interest	—	—	—	(40,128)	(40,128)
Comprehensive (loss) income attributable to DaVita Inc.	\$(135,153)	\$(121,771)	\$ 78,273	\$ 34,671	\$(143,980)

For the three months ended September 30, 2017	DaVita Inc.	Guarantor subsidiaries	Non-Guarantor subsidiaries	Consolidating adjustments	Consolidated total
Net (loss) income	\$(214,476)	\$(249,861)	\$ 131,490	\$ 160,813	\$(172,034)
Other comprehensive income	1,641	—	29,143	—	30,784
Total comprehensive (loss) income	(212,835)	(249,861)	160,633	160,813	(141,250)
Less: Comprehensive income attributable to noncontrolling interest	—	—	—	(42,442)	(42,442)
Comprehensive (loss) income attributable to DaVita Inc.	\$(212,835)	\$(249,861)	\$ 160,633	\$ 118,371	\$(183,692)

For the nine months ended September 30, 2018	DaVita Inc.	Guarantor subsidiaries	Non-Guarantor subsidiaries	Consolidating adjustments	Consolidated total
Net income	\$309,166	\$ 255,681	\$ 431,540	\$(561,504)	\$ 434,883
Other comprehensive income (loss)	5,499	—	(39,475)	—	(33,976)
Total comprehensive income	314,665	255,681	392,065	(561,504)	400,907
Less: Comprehensive income attributable to noncontrolling interest	—	—	—	(125,717)	(125,717)
Comprehensive income attributable to DaVita Inc.	\$ 314,665	\$ 255,681	\$ 392,065	\$(687,221)	\$ 275,190

For the nine months ended September 30, 2017	DaVita Inc.	Guarantor subsidiaries	Non-Guarantor subsidiaries	Consolidating adjustments	Consolidated total
Net income	\$360,222	\$ 240,548	\$ 466,867	\$(577,761)	\$ 489,876
Other comprehensive income	1,571	—	91,546	—	93,117
Total comprehensive income	361,793	240,548	558,413	(577,761)	582,993
Less: Comprehensive income attributable to noncontrolling interest	—	—	—	(129,652)	(129,652)

Comprehensive income attributable to DaVita Inc. \$361,793 \$240,548 \$558,413 \$(707,413) \$453,341

DAVITA 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, 2018	DaVita Inc.	Guarantor subsidiaries	Non-Guarantor subsidiaries	Consolidating adjustments	Consolidated total
Cash and cash equivalents	\$296,697	\$—	\$151,518	\$—	\$448,215
Restricted cash and equivalents	1,004	11,985	78,951	—	91,940
Accounts receivable, net	—	1,241,147	605,939	—	1,847,086
Other current assets	37,185	467,669	89,620	—	594,474
Current assets held for sale, net	—	4,999,748	948,038	—	5,947,786
Total current assets	334,886	6,720,549	1,874,066	—	8,929,501
Property and equipment, net	466,162	1,563,552	1,245,922	—	3,275,636
Intangible assets, net	176	43,704	53,729	—	97,609
Investments in subsidiaries	10,071,347	3,164,083	—	(13,235,430)	—
Intercompany receivables	3,496,240	—	1,478,557	(4,974,797)	—
Other long-term assets and investments	54,853	86,821	210,710	—	352,384
Goodwill	—	4,778,542	1,924,117	—	6,702,659
Total assets	\$14,423,664	\$16,357,251	\$6,787,101	\$(18,210,227)	\$19,357,789
Current liabilities	\$1,815,234	\$1,149,518	\$470,731	\$—	\$3,435,483
Current liabilities held for sale	—	892,548	527,073	—	1,419,621
Intercompany payables	—	3,485,322	1,489,475	(4,974,797)	—
Long-term debt and other long-term liabilities	8,186,683	758,516	463,812	—	9,409,011
Noncontrolling interests subject to put provisions	597,098	—	—	467,314	1,064,412
Total DaVita Inc. shareholders' equity	3,824,649	10,071,347	3,164,083	(13,235,430)	3,824,649
Noncontrolling interests not subject to put provisions	—	—	671,927	(467,314)	204,613
Total equity	3,824,649	10,071,347	3,836,010	(13,702,744)	4,029,262
Total liabilities and equity	\$14,423,664	\$16,357,251	\$6,787,101	\$(18,210,227)	\$19,357,789

DAVITA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(continued)

(unaudited)

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

As of December 31, 2017	DaVita Inc.	Guarantor subsidiaries	Non-Guarantor subsidiaries	Consolidating adjustments	Consolidated total
Cash and cash equivalents	\$ 149,305	\$—	\$ 358,929	\$—	\$ 508,234
Restricted cash and equivalents	1,002	9,384	300	—	10,686
Accounts receivable, net	—	1,208,715	506,035	—	1,714,750
Other current assets	67,025	595,066	86,955	—	749,046
Current assets held for sale	—	4,992,067	769,575	—	5,761,642
Total current assets	217,332	6,805,232	1,721,794	—	8,744,358
Property and equipment, net	408,010	1,560,390	1,180,813	—	3,149,213
Intangible assets, net	250	50,971	62,606	—	113,827
Investments in subsidiaries	10,009,874	3,085,722	—	(13,095,596)	—
Intercompany receivables	3,677,947	—	1,313,213	(4,991,160)	—
Other long-term assets and investments	47,297	68,344	214,875	—	330,516
Goodwill	—	4,732,320	1,877,959	—	6,610,279
Total assets	\$ 14,360,710	\$ 16,302,979	\$ 6,371,260	\$(18,086,756)	\$ 18,948,193
Current liabilities	\$ 238,706	\$ 1,181,139	\$ 436,262	\$—	\$ 1,856,107
Current liabilities held for sale	—	739,294	445,776	—	1,185,070
Intercompany payables	—	3,690,042	1,301,118	(4,991,160)	—
Long-term debt and other long-term liabilities	8,857,373	682,630	469,587	—	10,009,590
Noncontrolling interests subject to put provisions	574,602	—	—	436,758	1,011,360
Total DaVita Inc. shareholders' equity	4,690,029	10,009,874	3,085,722	(13,095,596)	4,690,029
Noncontrolling interests not subject to put provisions	—	—	632,795	(436,758)	196,037
Total equity	4,690,029	10,009,874	3,718,517	(13,532,354)	4,886,066
Total liabilities and equity	\$ 14,360,710	\$ 16,302,979	\$ 6,371,260	\$(18,086,756)	\$ 18,948,193

DAVITA 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, 2018	DaVita Inc.	Guarantor subsidiaries	Non-Guarantor subsidiaries	Consolidating adjustments	Consolidated total
Cash flows from operating activities:					
Net income	\$ 309,166	\$ 255,681	\$ 431,540	\$ (561,504)	\$ 434,883
Changes in operating assets and liabilities and non-cash items included in net income	(235,558)	469,008	152,411	561,504	947,365
Net cash provided by operating activities	73,608	724,689	583,951	—	1,382,248
Cash flows from investing activities:					
Additions of property and equipment	(124,585)	(385,765)	(195,309)	—	(705,659)
Acquisitions	—	(18,549)	(94,977)	—	(113,526)
Proceeds from asset and business sales	—	47,025	88,243	—	135,268
Proceeds (purchases) from investment sales and other items, net	32,345	(9,746)	(1)	—	22,598
Net cash used in investing activities	(92,240)	(367,035)	(202,044)	—	(661,319)
Cash flows from financing activities:					
Long-term debt and related financing costs, net	866,537	(9,135)	(11,566)	—	845,836
Intercompany borrowing (payments)	454,410	(217,518)	(236,892)	—	—
Other items	(1,154,921)	(94,281)	(19,973)	—	(1,269,175)
Net cash provided by (used in) financing activities	166,026	(320,934)	(268,431)	—	(423,339)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	—	—	(5,790)	—	(5,790)
Net increase in cash, cash equivalents and restricted cash	147,394	36,720	107,686	—	291,800
Less: Net increase in cash, cash equivalents and restricted cash from discontinued operations	—	34,119	236,446	—	270,565
Net increase (decrease) in cash, cash equivalents and restricted cash from continuing operations	147,394	2,601	(128,760)	—	21,235
Cash, cash equivalents and restricted cash of continuing operations at beginning of the year	150,307	9,384	359,229	—	518,920
Cash, cash equivalents and restricted cash of continuing operations at end of the period	\$ 297,701	\$ 11,985	\$ 230,469	\$ —	\$ 540,155

DAVITA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(continued)

(unaudited)

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

For the nine months ended September 30, 2017	DaVita Inc.	Guarantor subsidiaries	Non-Guarantor subsidiaries	Consolidating adjustments	Consolidated total
Cash flows from operating activities:					
Net income	\$360,222	\$240,548	\$466,867	\$(577,761)	\$489,876
Changes in operating assets and liabilities and non-cash items included in net income	(282,651)	585,836	197,328	577,761	1,078,274
Net cash provided by operating activities	77,571	826,384	664,195	—	1,568,150
Cash flows from investing activities:					
Additions of property and equipment	(94,385)	(305,261)	(240,183)	—	(639,829)
Acquisitions	—	(627,324)	(99,214)	—	(726,538)
Proceeds from asset and business sales	—	90,533	1,996	—	92,529
Proceeds (purchases) from investment sales and other items, net	123,894	(4,788)	49,183	—	168,289
Net cash provided by (used in) investing activities	29,509	(846,840)	(288,218)	—	(1,105,549)
Cash flows from financing activities:					
Long-term debt and related financing costs, net	(92,721)	(10,394)	(5,348)	—	(108,463)
Intercompany borrowing (payments)	188,977	(7,968)	(181,009)	—	—
Other items	(305,630)	(1,432)	(114,307)	—	(421,369)
Net cash used in financing activities	(209,374)	(19,794)	(300,664)	—	(529,832)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	—	—	5,449	—	5,449
Net decrease in cash, cash equivalents and restricted cash	(102,294)	(40,250)	80,762	—	(61,782)
Less: Net increase (decrease) in cash, cash equivalents and restricted cash from discontinued operations	—	(41,934)	124,628	—	82,694
Net increase (decrease) in cash, cash equivalents and restricted cash from continuing operations	(102,294)	1,684	(43,866)	—	(144,476)
Cash, cash equivalents and restricted cash of continuing operations at beginning of the year	549,921	8,687	124,855	—	683,463
Cash, cash equivalents and restricted cash of continuing operations at end of the period	\$447,627	\$10,371	\$80,989	\$—	\$538,987

DAVITA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(continued)

(unaudited)

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

23. 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, 2018	Consolidated Total	Physician Groups	Unrestricted Subsidiaries	Company and Restricted Subsidiaries ⁽¹⁾
Patient service operating revenues	\$ 7,980,178	\$ —	\$ —	\$ 7,980,178
Provision for uncollectible accounts	(35,838)	—	—	(35,838)
Net patient service operating revenues	7,944,340	—	—	7,944,340
Other revenues	639,387	—	—	639,387
Total net operating revenues	8,583,727	—	—	8,583,727
Operating expenses	7,445,811	—	—	7,445,811
Operating income	1,137,916	—	—	1,137,916
Debt expense, including refinancing charges	(359,135)	—	—	(359,135)
Other income	10,583	—	—	10,583
Income tax expense	206,652	—	—	206,652
Net income from continuing operations	582,712	—	—	582,712
Net (loss) income from discontinued operations, net of tax	(147,829)	20,773	298	(168,900)
Net income	434,883	20,773	298	413,812
Less: Net income attributable to noncontrolling interests	(125,717)	(6,961)	—	(118,756)
Net income attributable to DaVita Inc.	\$ 309,166	\$ 13,812	\$ 298	\$ 295,056

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

Condensed Consolidating Statements of Comprehensive Income

For the nine months ended September 30, 2018	Consolidated Total	Physician Groups	Unrestricted Subsidiaries	Company and Restricted Subsidiaries ⁽¹⁾
Net income	\$ 434,883	\$ 20,773	\$ 298	\$ 413,812
Other comprehensive loss	(33,976)	—	—	(33,976)
Total comprehensive income	400,907	20,773	298	379,836
Less: Comprehensive income attributable to the noncontrolling interests	(125,717)	(6,961)	—	(118,756)
Comprehensive income attributable to DaVita Inc.	\$ 275,190	\$ 13,812	\$ 298	\$ 261,080

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

DAVITA 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, 2018	Consolidated Total	Physician Groups	Unrestricted Subsidiaries	Company and Restricted Subsidiaries ⁽¹⁾
Cash and cash equivalents	\$448,215	\$—	\$ —	\$ 448,215
Restricted cash and equivalents	91,940	—	—	91,940
Accounts receivable, net	1,847,086	—	—	1,847,086
Other current assets	594,474	—	—	594,474
Current assets held for sale, net	5,947,786	567,216	3,031	5,377,539
Total current assets	8,929,501	567,216	3,031	8,359,254
Property and equipment, net	3,275,636	—	—	3,275,636
Amortizable intangibles, net	97,609	—	—	97,609
Other long-term assets	352,384	—	—	352,384
Goodwill	6,702,659	—	—	6,702,659
Total assets	\$ 19,357,789	\$ 567,216	\$ 3,031	\$ 18,787,542
Current liabilities	\$ 3,435,483	\$—	\$ —	\$ 3,435,483
Current liabilities held for sale	1,419,621	350,640	—	1,068,981
Payables to parent	—	78,496	3,031	(81,527)
Long-term debt and other long-term liabilities	9,409,011	—	—	9,409,011
Noncontrolling interests subject to put provisions	1,064,412	—	—	1,064,412
Total DaVita Inc. shareholders' equity	3,824,649	138,080	—	3,686,569
Noncontrolling interests not subject to put provisions	204,613	—	—	204,613
Shareholders' equity	4,029,262	138,080	—	3,891,182
Total liabilities and shareholder's equity	\$ 19,357,789	\$ 567,216	\$ 3,031	\$ 18,787,542

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

DAVITA 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, 2018	Consolidated Total	Physician Groups	Unrestricted Subsidiaries	Company and Restricted Subsidiaries ⁽¹⁾
Cash flows from operating activities:				
Net income	\$ 434,883	\$ 20,773	\$ 298	\$ 413,812
Changes in operating and intercompany assets and liabilities and non-cash items included in net income	947,365	77,229	(298)	870,434
Net cash provided by operating activities	1,382,248	98,002	—	1,284,246
Cash flows from investing activities:				
Additions of property and equipment	(705,659)	(2,575)	—	(703,084)
Acquisitions	(113,526)	—	—	(113,526)
Proceeds from asset and business sales	135,268	—	—	135,268
Investments and other items	22,598	(1)	—	22,599
Net cash used in investing activities	(661,319)	(2,576)	—	(658,743)
Cash flows from financing activities:				
Long-term debt	845,836	—	—	845,836
Intercompany	—	77,286	—	(77,286)
Other items	(1,269,175)	—	—	(1,269,175)
Net cash (used in) provided by financing activities	(423,339)	77,286	—	(500,625)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(5,790)	—	—	(5,790)
Net increase in cash, cash equivalents and restricted cash	291,800	172,712	—	119,088
Less: Net increase in cash, cash equivalents and restricted cash from discontinued operations	270,565	172,712	—	97,853
Net increase in cash, cash equivalents and restricted cash from continuing operations	21,235	—	—	21,235
Cash, cash equivalents and restricted cash of continuing operations at beginning of the year	518,920	—	—	518,920
Cash, cash equivalents and restricted cash of continuing operations at end of the period	\$ 540,155	\$ —	\$ —	\$ 540,155

(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 Quarterly Report on Form 10-Q, including 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. Without limiting the foregoing, statements including the words "expect," "intend," "will," "plan," "anticipate," "believe," "we are confident that," "forecast," "guidance," "outlook," "goals," and similar expressions are intended to identify forward-looking statements. These forward-looking statements may include statements regarding our future operations, financial condition and prospects, such as 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, earnings per share, estimated tax rates, estimated charges and accruals, capital expenditures, the development of new dialysis centers and dialysis center acquisitions, government and commercial payment rates, revenue estimating risk, the impact of our level of indebtedness on our financial performance, our stock repurchase program, and the pending DMG sale transaction. 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 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, including as a result of restrictions or prohibitions on the use and/or availability of charitable premium assistance, which may result in the loss of revenues or patients, or our making incorrect assumptions about how our patients will respond to any change in financial assistance from charitable organizations; the extent to which the ongoing implementation of healthcare exchanges or changes in or new legislation, regulations or guidance, or enforcement thereof, including among other things those regarding the exchanges, results in a reduction in reimbursement rates for our services from and/or the number of patients enrolled in higher-paying commercial plans; a reduction in government payment rates under the Medicare End Stage Renal Disease program or other government-based programs; the impact of the Medicare Advantage benchmark structure; risks arising from potential and proposed federal and/or state legislation, regulation or ballot or other initiatives, including healthcare-related and labor-related legislation, regulation or ballot or other initiatives; the impact of the changing political environment and related developments on the current health care marketplace and on our business, including with respect to the future of the Affordable Care Act, the exchanges and many other core aspects of the current health care marketplace; uncertainties related to the impact of federal tax reform legislation; changes in pharmaceutical practice patterns, reimbursement and payment policies and processes, or pharmaceutical pricing, including with respect to calcimimetics; legal compliance risks, such as our continued compliance with complex government regulations and the provisions of our current Corporate Integrity Agreement (CIA) and current or potential investigations by various government entities and related government or private party proceedings, and restrictions on our business and operations required by our CIA and other current or potential settlement terms and the financial impact thereof and our ability to recover any losses related to such legal matters from third parties; continued increased competition from dialysis providers and others, and other potential marketplace changes; our ability to reduce administrative expenses while maintaining targeted levels of service and operating performance, including our ability to achieve anticipated savings from our recent restructurings; 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; our ability to complete acquisitions, mergers or dispositions that we might announce or be considering, on terms favorable to us or at all, or to integrate and successfully operate any business we may acquire or have acquired, or to successfully expand our operations and services in markets outside the United States, or to businesses outside of dialysis; noncompliance by us or our business associates with any privacy laws or any security breach by us or a third party involving the misappropriation, loss or other unauthorized use or disclosure of confidential information; the variability of our cash flows; the risk that we may not be able to generate sufficient cash in the future to service our indebtedness or to fund our other liquidity

needs, and the risk that we may not be able to refinance our indebtedness as it becomes due; factors that may impact our ability to repurchase stock under our stock repurchase program and the timing of any such stock repurchases, including market conditions, the price of our common stock, our cash flow position, borrowing capacity and leverage ratios, and legal, regulatory and contractual requirements; 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; impairment of our goodwill, investments or other assets; the risks and uncertainties associated with the timing, conditions and receipt of regulatory approvals and satisfaction of other closing conditions of the DMG sale transaction and continued disruption in connection with the DMG sale transaction making it more difficult to maintain business and operational relationships; risks and uncertainties related to our ability to complete the DMG sale transaction on the terms set forth in the equity purchase

agreement or at all; uncertainties related to our liquidity following the close of the DMG sale transaction and our planned subsequent entry into new external financing arrangements, which may be less than we anticipate; uncertainties related to our use of the proceeds from the DMG sale transaction and other available funds, including external financing and cash flow from operations, which may be used in ways that may not improve our results of operations or enhance the value of our common stock; risks related to certain contractual restrictions on the conduct of DMG's business while the DMG sale transaction is pending and certain post-closing contractual obligations; the risk that laws regulating the corporate practice of medicine could restrict the manner in which DMG conducts its business; the risk that the cost of providing services under DMG's agreements may exceed our compensation; the risk that any reductions in reimbursement rates, including Medicare Advantage rates, and future regulations may negatively impact DMG's business, revenue and profitability; the risk that DMG 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 DMG's healthcare provider networks could have an adverse effect on DMG's business operations and profitability; the risk that reductions in the quality ratings of health plans DMG serves or healthcare services that DMG provides could have an adverse effect on DMG's business; the risk that health plans that acquire health maintenance organizations may not be willing to contract with DMG 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

The Company has consisted of two major divisions, DaVita Kidney Care (Kidney Care) and DaVita Medical Group (DMG). Kidney Care is comprised of our U.S. dialysis and related lab services, our ancillary services and strategic initiatives, including our international operations, and our corporate administrative support. Our U.S. dialysis and related lab services business is our largest line of business and is a leading provider of kidney dialysis services in the U.S. for patients suffering from chronic kidney failure, also known as end stage renal disease (ESRD). DMG is a patient- and physician-focused integrated healthcare delivery and management company with over two decades of providing coordinated, outcomes-based medical care in a cost-effective manner.

In December 2017, we entered into an equity purchase agreement to sell our DMG division to Collaborative Care Holdings, LLC (Optum), a subsidiary of UnitedHealth Group Inc., subject to receipt of required regulatory approvals and other customary closing conditions. As a result of this pending transaction, the DMG business has been classified as held for sale and its results of operations are reported as discontinued operations for all periods presented and DMG is not included below in this Management's Discussion and Analysis.

The following table is a summary of our consolidated operating results for the third quarter of 2018 compared with the prior quarter and the same quarter of 2017:

	Three months ended		September 30, 2017		September 30, 2018		September 30, 2017	
	September 30, 2018	June 30, 2018	September 30, 2017	September 30, 2017	September 30, 2018	September 30, 2017	September 30, 2017	September 30, 2017
Revenues: ⁽¹⁾								
Dialysis and related lab patient service revenues	\$2,671	\$2,718	\$2,562	\$2,562	\$7,980	\$7,479	\$7,479	\$7,479
Provision for uncollectible accounts	(12)	(49)	(119)	(119)	(36)	(336)	(336)	(336)
Net dialysis and related lab patient service revenues	2,659	2,669	2,442	2,442	7,944	7,143	7,143	7,143
Other revenues	189	218	323	323	639	953	953	953
Total consolidated revenues	2,847	100% 2,887	100% 2,765	100% 2,765	8,584	100% 8,096	100% 8,096	100% 8,096
Operating expenses and charges:								
Patient care costs	2,064	72 % 2,069	72 % 1,952	71 % 1,952	6,168	72 % 5,698	70 % 5,698	70 % 5,698
General and administrative	336	12 % 264	9 % 273	10 % 273	867	10 % 799	10 % 799	10 % 799
Depreciation and amortization	146	5 % 147	5 % 143	5 % 143	436	5 % 416	5 % 416	5 % 416
Equity investment loss (income)	4	— % (10)	— % 5	— % 5	(6)	— % 5	— % 5	— % 5
Provision for uncollectible accounts	1	— % (2)	— % (3)	— % (3)	(7)	— % (1)	— % (1)	— % (1)
Investment and other asset impairments	6	— % 11	— % —	— % 17	15	— % 15	— % 15	— % 15
Goodwill impairment charges	—	— % 3	— % —	— % 3	35	— % 35	— % 35	— % 35
Loss (gain) on changes in ownership interests, net	2	— % (34)	(1)%	— % (32)	(6)	— % (6)	— % (6)	— % (6)
Gain on settlement, net	—	— % —	— % —	— % —	(527)	(7)%	(527)	(7)%
Total operating expenses and charges	2,558	90 % 2,449	85 % 2,370	86 % 2,370	7,446	87 % 6,433	79 % 6,433	79 % 6,433
Operating income	\$289	10 % \$438	15 % \$395	14 % \$395	\$1,138	13 % \$1,662	21 % \$1,662	21 % \$1,662

Certain columns, rows or percentages may not sum or recalculate due to the use of rounded numbers.

(1) On January 1, 2018, we adopted Revenue from Contracts with Customers (Topic 606) using the cumulative effect method for those contracts that were not substantially completed as of January 1, 2018. Results related to

performance obligations satisfied beginning on and after January 1, 2018 are presented under Topic 606, while results related to the satisfaction of performance obligations in prior periods continue to be reported in accordance with our historical accounting under Revenue Recognition (Topic 605).

The following table summarizes our consolidated revenues among our reportable segments:

	Three months ended			Nine months ended	
	September 30, 2018	June 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
	(dollars in millions)				
Revenues: ⁽¹⁾					
U.S. dialysis and related lab services patient service revenues	\$2,585	\$2,633	\$ 2,484	\$7,725	\$ 7,286
Provision for uncollectible accounts	(13)	(49)	(118)	(37)	(334)
U.S. dialysis and related lab services net patient service revenues	2,572	2,583	2,366	7,688	6,952
Other revenues	5	5	5	15	15
Total U.S. dialysis and related lab services revenues	2,577	2,588	2,370	7,703	6,967
Other—Ancillary services and strategic initiatives other revenues	192	222	324	652	956
Other—Ancillary services and strategic initiatives patient service revenues, net	112	106	90	320	230
Total other—ancillary services and strategic initiatives revenues	304	328	414	972	1,186
Elimination of intersegment revenues	(34)	(29)	(19)	(92)	(57)
Consolidated revenues	\$2,847	\$2,887	\$ 2,765	\$ 8,584	\$ 8,096

Certain columns, rows or percentages may not sum or recalculate due to the use of rounded numbers.

On January 1, 2018, we adopted Topic 606 using the cumulative effect method for those contracts that were not substantially completed as of January 1, 2018. Results related to performance obligations satisfied beginning on (1) and after January 1, 2018 are presented under Topic 606, while results related to the satisfaction of performance obligations in prior periods continue to be reported in accordance with our historical accounting under Revenue Recognition (Topic 605).

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

	Three months ended			Nine months ended	
	September 30, 2018	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
	(dollars in millions)				
Operating income (loss):					
U.S. dialysis and related lab services	\$ 390	\$ 449	\$ 443	\$ 1,273	\$ 1,838
Other—Ancillary services and strategic initiatives	(60)	3	(37)	(64)	(143)
Corporate administrative support	(41)	(14)	(11)	(71)	(33)
Total consolidated operating income	\$ 289	\$ 438	\$ 395	\$ 1,138	\$ 1,662
Reconciliation of non-GAAP measures:					
Goodwill impairment charges	\$ —	\$ 3	\$ —	\$ 3	\$ 35
Equity investment loss related to APAC JV goodwill impairment	6	—	6	6	6
Impairment of assets	6	11	—	17	15
Restructuring charges	11	—	3	11	3
Gain on settlement, net	—	—	—	—	(527)
Equity investment income related to gain on settlement	—	—	—	—	(3)
Loss (gain) on changes in ownership interests, net	2	(34)	—	(32)	(6)
Adjusted consolidated operating income ⁽¹⁾	\$ 314	\$ 419	\$ 404	\$ 1,143	\$ 1,185

Certain columns or rows may not sum or recalculate due to the use of rounded numbers.

For the periods presented in the table above adjusted operating income is defined as operating income before certain items which we do not believe are indicative of ordinary results, including goodwill impairment charges, other asset impairments, restructuring charges, a net settlement gain and net loss (gain) on changes in ownership interests. Adjusted operating income as so defined is a non-GAAP measure and is not intended as a substitute for GAAP operating income. We have presented these adjusted amounts because management believes that these presentations enhance a user's understanding of our normal consolidated operating income by excluding certain 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 normalized prior period results.

Consolidated revenues

Consolidated revenues for the third quarter of 2018 decreased by approximately \$40 million, or 1.4%, as compared to the second quarter of 2018. This decrease was due to a decrease in our U.S. dialysis and related lab services revenues of approximately \$11 million, primarily due to a decrease in revenue per treatment related to the administration of calcimimetics and a decrease in Medicare bad debt revenue, as discussed below, partially offset by volume growth from additional treatments. Consolidated revenues were also impacted by a decrease of \$24 million in our ancillary services and strategic initiatives revenues, primarily due to a decline in volume in our pharmaceutical business and the sale of our direct primary care business in the second quarter of 2018, partially offset by an increase in VillageHealth revenues from special needs plans and an increase in revenues from our international operations, as described below. Consolidated revenues for the third quarter of 2018 increased by approximately \$82 million, or 3.0%, as compared to the third quarter of 2017. This increase was primarily driven by our U.S. dialysis and related lab services revenues, which increased by approximately \$207 million due to the administration of calcimimetics and volume growth from additional treatments, as described below. This increase in consolidated revenues was partially offset by a decrease of approximately \$110 million in our ancillary services and strategic initiatives revenues, primarily due to a decline in volume in our pharmaceutical business due to the changes in calcimimetics reimbursement, as discussed below. Ancillary services and strategic initiatives net revenues were favorably impacted by increases in revenues from

international expansion and increases in VillageHealth revenues from special needs plans, as described below. Consolidated revenues for the nine months ended September 30, 2018 increased by approximately \$488 million, or 6.0%, as compared to the same period in 2017. This increase was primarily driven by the increase in our U.S. dialysis and

related lab services revenues, which increased by approximately \$736 million, primarily due to the administration of calcimimetics, an increase in Medicare bad debt revenue, and volume growth from additional treatments, as described below. This increase in consolidated revenues was partially offset by a decrease of approximately \$214 million in our ancillary services and strategic initiatives revenues, which was driven by a decline in volume in our pharmaceutical business due to the changes in reimbursement for calcimimetics. Ancillary services and strategic initiatives net revenues were favorably impacted by increases in revenues from international expansion, increases in VillageHealth revenues from special needs plans, and an increase in shared savings recognized at DaVita Health Solutions, as described below.

Effective January 1, 2018, both oral and IV forms of calcimimetics, a drug class taken by many patients with ESRD to treat mineral bone disorder, became the financial responsibility of our U.S. dialysis and lab services business for our Medicare patients and are now reimbursed under Medicare Part B. During an initial pass-through period, Medicare payment for calcimimetics will be based on a pass-through rate of the average sales price plus approximately 4%. CMS has stated intentions to enter calcimimetics into the ESRD bundle two years after transitioning to Part B. Previously, calcimimetics were reimbursed for Medicare patients through Part D once dispensed from traditional pharmacies, including DaVita Rx.

Consolidated operating income

Consolidated operating results for the third quarter of 2018, which included restructuring charges of \$11 million and other asset impairment charges of \$6 million related to our pharmacy business, an equity investment loss related to APAC JV goodwill impairment of \$6 million, and a loss on changes in ownership interests of \$2 million, decreased by approximately \$149 million as compared to the second quarter of 2018, which included a net gain on changes in ownership interests of \$34 million, other asset impairment charges of \$11 million, and a goodwill impairment charge of \$3 million. Excluding these items, adjusted consolidated operating income for the third quarter of 2018 decreased by \$105 million due to a decrease in U.S. dialysis and related lab services operating income of \$59 million, an increase in expenses in our corporate administrative support of \$27 million and an increase in adjusted operating losses in our ancillary and strategic initiatives of \$18 million, as discussed below.

Consolidated operating results for the third quarter of 2018, which included restructuring charges of \$11 million and other asset impairment charges of \$6 million related to our pharmacy business, an equity investment loss related to APAC JV goodwill impairment of \$6 million, and a loss on changes in ownership interests of \$2 million, decreased by \$106 million as compared to the third quarter in 2017, which included an equity investment loss of \$6 million for goodwill impairments at our APAC JV and restructuring charges related to our international business of \$3 million. Excluding these items from their respective periods, adjusted consolidated operating income for the third quarter of 2018 decreased by \$90 million due to a decrease in operating income in U.S. dialysis and related lab services of \$53 million, an increase in expenses in our corporate administrative support of \$30 million, and an increase in adjusted operating losses in our ancillary and strategic initiatives of \$7 million, as described below.

Consolidated operating results for the nine months ended September 30, 2018, which included a net gain on changes in ownership interests of \$32 million, other asset impairment charges of \$17 million and restructuring charges of \$11 million related to our pharmacy business, an equity investment loss related to APAC JV goodwill impairment of \$6 million and a goodwill impairment charge of \$3 million, decreased by \$524 million as compared to the same period in 2017, which included goodwill impairment charges of \$35 million related to our vascular access reporting unit, an equity investment loss of \$6 million for goodwill impairments at our APAC JV, an asset impairment of \$15 million related to the restructuring of our pharmacy business, a net gain on a settlement with the U.S. Department of Veterans Affairs (VA) of \$530 million, restructuring charges related to our international business of \$3 million, and an adjustment to the gain on the APAC JV ownership change of \$6 million. Excluding these items from their respective periods, adjusted consolidated operating income for the nine months ended September 30, 2018 decreased by \$42 million due to a decrease in adjusted operating income in U.S. dialysis and related lab services of \$35 million and an increase in expenses in our corporate administrative support of \$38 million, partially offset by a decrease in adjusted operating losses in our ancillary and strategic initiatives of \$31 million, as described below.

U.S. dialysis and related lab services business

Results of operations

	Three months ended			Nine months ended	
	September 30, 2018	June 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
	(dollars in millions, except per treatment data)				
Revenues: ⁽¹⁾					
U.S. dialysis and related lab services patient service revenues	\$2,585	\$2,633	\$2,484	\$7,725	\$7,286
Provision for uncollectible accounts	(13)	(49)	(118)	(37)	(334)
U.S. dialysis and related lab services net patient service revenues	2,572	2,583	2,366	7,688	6,952
Other revenues	5	5	5	15	15
Total U.S. dialysis and related lab services revenues	2,577	2,588	2,370	7,703	6,967
Operating expenses and charges:					
Patient care costs	1,819	1,810	1,607	5,408	4,715
General and administrative	233	196	197	626	574
Depreciation and amortization	139	138	132	412	387
Equity investment income	(4)	(6)	(8)	(15)	(20)
Gain on settlement, net	—	—	—	—	(527)
Total operating expenses and charges	2,187	2,139	1,928	6,430	5,129
Operating income	\$390	\$449	\$443	\$1,273	\$1,838
Reconciliation of non-GAAP measures:					
Gain on settlement, net	—	—	—	—	(527)
Equity investment income related to gain on settlement	—	—	—	—	(3)
Adjusted operating income ⁽²⁾	\$390	\$449	\$443	\$1,273	\$1,308
Dialysis treatments	7,377,277				