DAVITA INC.
Form 10-Q
November 02, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

For the Quarterly Period Ended September 30, 2016

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 1-14106

DAVITA INC.

2000 16th Street

Denver, CO 80202

Telephone number (303) 405-2100

Delaware	51-0354549
(State of incorporation)	(I.R.S. Employer Identification No.)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

As of October 31, 2016, the number of shares of the Registrant’s common stock outstanding was approximately 197.4 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 INCOME

(unaudited)

(dollars in thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Patient service revenues	$2,629,661	$2,414,034	$7,678,053	$7,049,428
Less: Provision for uncollectible accounts	(115,555)	(109,452)	(336,188)	(314,581)
Net patient service revenues	2,514,106	2,304,582	7,341,865	6,734,847
Capitated revenues	869,290	926,847	2,654,163	2,643,552
Other revenues	347,180	294,236	1,033,335	869,849
Total net revenues	3,730,576	3,525,665	11,029,363	10,248,248
Operating expenses and charges:				
Patient care costs and other costs	2,697,629	2,501,015	7,950,987	7,309,703
General and administrative	406,890	353,492	1,180,214	1,043,253
Depreciation and amortization	181,739	162,062	531,475	474,694
Provision for uncollectible accounts	3,773	2,511	9,856	6,497
Equity investment income	(4,237)	(2,783)	(5,119)	(10,724)
Goodwill impairment charges	—	—	253,000	4,065
Gain on changes in ownership interests, net	(374,374)	—	(404,165)	—
Settlement charge	—	—	—	495,000
Total operating expenses and charges	2,911,420	3,016,297	9,516,248	9,322,488
Operating income	819,156	509,368	1,513,115	925,760
Debt expense	(104,581)	(103,481)	(310,359)	(305,121)
Debt redemption charges	—	—	—	(48,072)
Other income, net	1,876	2,484	8,067	4,262
Income before income taxes	716,451	408,371	1,210,823	576,829
Income tax expense	104,301	147,064	366,011	183,893
Net income	612,150	261,307	844,812	392,936
Less: Net income attributable to noncontrolling interests	(40,818)	(45,435)	(122,664)	(117,204)
Net income attributable to DaVita Inc.	$571,332	$215,872	$722,148	$275,732
Earnings per share:				
Basic net income per share attributable to DaVita Inc.	$2.80	$1.02	$3.54	$1.30
Diluted net income per share attributable to DaVita Inc.	$2.76	$1.00	$3.48	$1.27
Weighted average shares for earnings per share:				
Basic	203,761,433	212,374,897	204,206,979	212,914,126
Diluted	206,961,450	216,691,461	207,643,794	217,421,213

See notes to condensed consolidated financial statements.

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DAVITA INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

(dollars in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Net income	$612,150	$261,307	$844,812	$392,936
Other comprehensive income (loss), net of tax:				
Unrealized losses on interest rate swap and cap agreements:				
Unrealized losses on interest rate swap and cap agreements	(153)	(1,851)	(8,238)	(10,064)
Reclassifications of net swap and cap agreements realized losses into net income	388	771	1,301	2,372
Unrealized gains (losses) on investments:				
Unrealized gains (losses) on investments	1,121	(1,651)	1,988	(1,368)
Reclassification of net investment realized gains into net income	(50)	(203)	(143)	(376)
Unrealized gains (losses) on foreign currency translation:				
Foreign currency translation adjustments	(951)	(7,023)	5,386	(19,883)
Reclassification of foreign currency translation adjustment realized loss into net income	7,513	—	7,513	—
Other comprehensive income (loss)	7,868	(9,957)	7,807	(29,319)
Total comprehensive income	620,018	251,350	852,619	363,617
Less: Comprehensive income attributable to noncontrolling interests	(40,876)	(45,435)	(122,871)	(117,204)
Comprehensive income attributable to DaVita Inc.	$579,142	$205,915	$729,748	$246,413

See notes to condensed consolidated financial statements.

DAVITA INC.

CONSOLIDATED BALANCE SHEETS

(unaudited)

(dollars in thousands, except per share data)

	September 30, 2016	December 31, 2015
ASSETS		
Cash and cash equivalents	$913,496	$1,499,116
Short-term investments	659,478	408,084
Accounts receivable, less allowance of $251,593 and $264,144	1,850,425	1,724,228
Inventories	200,563	185,575
Other receivables	451,953	435,885
Other current assets	177,248	190,322
Income taxes receivable	8,196	60,070
Total current assets	4,261,359	4,503,280
Property and equipment, net of accumulated depreciation of $2,728,217 and $2,397,007	3,044,988	2,788,740
Intangible assets, net of accumulated amortization of $895,034 and $770,691	1,576,157	1,687,326
Equity investments	516,383	78,368
Long-term investments	100,786	89,122
Other long-term assets	42,984	73,560
Goodwill	9,382,996	9,294,479
	$18,925,653	$18,514,875
LIABILITIES AND EQUITY		
Accounts payable	$498,422	$513,950
Other liabilities	828,535	682,123
Accrued compensation and benefits	845,879	741,926
Medical payables	313,869	332,102
Current portion of long-term debt	152,764	129,037
Total current liabilities	2,639,469	2,399,138
Long-term debt	8,972,002	9,001,308
Other long-term liabilities	420,938	439,229
Deferred income taxes	802,109	726,962
Total liabilities	12,834,518	12,566,637
Commitments and contingencies:		
Noncontrolling interests subject to put provisions	971,744	864,066
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;	217	217

217,338,629 and 217,120,346 shares issued and 200,778,434 and 209,754,247

shares outstanding, respectively)		
Additional paid-in capital	1,032,739	1,118,326
Retained earnings	5,078,983	4,356,835
Treasury stock (16,560,195 and 7,366,099 shares, respectively)	(1,147,967)	(544,772)
Accumulated other comprehensive loss	(52,226)	(59,826)
Total DaVita Inc. shareholders' equity	4,911,746	4,870,780
Noncontrolling interests not subject to put provisions	207,645	213,392
Total equity	5,119,391	5,084,172
	$ 18,925,653	$ 18,514,875

See notes to condensed consolidated financial statements.

DAVITA INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(dollars in thousands)

	Nine months ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net income	$844,812	$392,936
Adjustments to reconcile net income to net cash provided by operating activities:		
Settlement charge	—	495,000
Settlement payments	—	(493,775)
Depreciation and amortization	531,475	474,694
Debt redemption charges	—	48,072
Goodwill impairment charges	253,000	4,065
Stock-based compensation expense	29,817	42,794
Tax benefits from stock award exercises	27,012	31,069
Excess tax benefits from stock award exercises	(12,584)	(19,555)
Deferred income taxes	48,778	(1,994)
Equity investment income, net	16,825	10,563
Gain on changes in ownership interests, net	(404,165)	—
Other non-cash charges	9,163	22,518
Changes in operating assets and liabilities, other than from acquisitions and divestitures:		
Accounts receivable	(85,660)	(178,148)
Inventories	(13,045)	(35,856)
Other receivables and other current assets	(1,616)	54,924
Other long-term assets	31,081	1,940
Accounts payable	(45,507)	11,473
Accrued compensation and benefits	79,289	123,081
Other current liabilities	119,549	96,671
Income taxes	65,164	35,282
Other long-term liabilities	(12,126)	4,773
Net cash provided by operating activities	1,481,262	1,120,527
Cash flows from investing activities:		
Additions of property and equipment	(575,243)	(462,213)
Acquisitions	(497,331)	(90,709)
Proceeds from asset and business sales	18,991	6,865
Purchase of investments available for sale	(9,041)	(6,667)
Purchase of investments held-to-maturity	(976,411)	(1,555,604)
Proceeds from sale of investments available for sale	8,636	1,961
Proceeds from investments held-to-maturity	743,941	969,549
Purchase of intangible assets	(75)	—

Purchase of equity investments	(11,629)	(13,623)
Proceeds from sale of equity investments	40,920	—
Distributions received on equity investments	—	57
Net cash used in investing activities	(1,257,242)	(1,150,384)
Cash flows from financing activities:		
Borrowings	39,102,302	41,371,392
Payments on long-term debt and other financing costs	(39,201,016)	(40,732,075)
Deferred financing and debt redemption costs	(188)	(59,354)
Purchase of treasury stock	(620,898)	(384,110)
Distributions to noncontrolling interests	(145,072)	(125,938)
Stock award exercises and other share issuances, net	18,515	19,802
Excess tax benefits from stock award exercises	12,584	19,555
Contributions from noncontrolling interests	35,524	28,212
Purchase of noncontrolling interests	(9,727)	(23,605)
Net cash (used in) provided by financing activities	(807,976)	113,879
Effect of exchange rate changes on cash and cash equivalents	(1,664)	(1,844)
Net (decrease) increase in cash and cash equivalents	(585,620)	82,178
Cash and cash equivalents at beginning of the year	1,499,116	965,241
Cash and cash equivalents at end of the period	$913,496	$1,047,419

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								Non-controlling interests not subject to put provisions
		Common stock		Additional paid-in capital	Retained earnings	Treasury stock		Accumulated other comprehensive loss	Total	
Balance at December 31, 2014	$829,965	215,641	$216	$1,108,211	$4,087,103	—	$—	$(25,017)	$5,170,513	$189,798
Comprehensive income:										
Net income	96,510				269,732				269,732	61,168
Other comprehensive loss								(34,809)	(34,809)	
Stock purchase shares issued		—	—	(6,079)		414	30,608		24,529	
Stock unit shares issued		348	—	—					—	
Stock-settled SAR shares issued		1,131	1	(1)					—	
Stock-settled stock-based compensation expense				56,899					56,899	
Excess tax benefits from stock awards exercised				28,157					28,157	
Distributions to noncontrolling	(103,355)									(71,280)

interests										
Contributions from noncontrolling interests	25,795									28,849
Sales and assumptions of additional noncontrolling interests	10,654									6,875
Purchase of noncontrolling interests	(8,538)			(55,826)					(55,826)	(2,018)
Changes in fair value of noncontrolling interests	13,035			(13,035)					(13,035)	
Purchase of treasury stock						(7,780)	(575,380)		(575,380)	
Balance at December 31, 2015	$864,066	217,120	$217	$1,118,326	$4,356,835	(7,366)	$(544,772)	$(59,826)	$4,870,780	$213,392
Comprehensive income:										
Net income	78,770				722,148				722,148	43,894
Other comprehensive income								7,600	7,600	207
Stock unit shares issued		—	—	(19,815)		276	19,815		—	
Stock-settled SAR shares issued		219	—	(33,077)		460	33,077		—	
Stock-settled stock-based compensation expense				29,336					29,336	
Excess tax benefits from stock				12,584					12,584	

awards exercised										
Distributions to noncontrolling interests	(85,337)			—					—	(59,735)
Contributions from noncontrolling interests	26,552			—					—	8,972
Sales and assumptions of additional noncontrolling interests	17,712			3,423					3,423	2,585
Purchase of noncontrolling interests	(2,922)			(5,135)					(5,135)	(1,670)
Changes in fair value of noncontrolling interests	72,903			(72,903)					(72,903)	
Purchase of treasury stock						(9,930)	(656,087)		(656,087)	
Balance at September 30, 2016	$971,744	217,339	$217	$1,032,739	$5,078,983	(16,560)	$(1,147,967)	$(52,226)	$4,911,746	$207,645

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 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 other long-lived assets, fair value estimates, accounting for income taxes, variable compensation accruals, consolidation of variable interest entities, purchase accounting valuation estimates, long-term incentive program compensation and medical liability claims. The results of operations for the nine months ended September 30, 2016 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, 2015. Prior year balances and amounts have been reclassified to conform to the current year presentation. The Company has evaluated subsequent events through the date these condensed consolidated financial statements were issued and has included all necessary adjustments and disclosures.

2. Earnings per share

Basic net income per share is calculated by dividing net income attributable to the Company, adjusted for any change in noncontrolling interests redemption rights in excess of fair value, by the weighted average number of common shares and vested stock units outstanding, net of shares held in escrow that under certain circumstances may be returned to the Company.

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

DAVITA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(continued)

(unaudited)

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Basic:				
Net income attributable to DaVita Inc.	$571,332	$215,872	$722,148	$275,732
Weighted average shares outstanding during the period	205,955	214,569	206,401	215,108
Contingently returnable shares held in escrow for the DaVita HealthCare Partners merger	(2,194)	(2,194)	(2,194)	(2,194)
Weighted average shares for basic earnings per share calculation	203,761	212,375	204,207	212,914
Basic net income per share attributable to DaVita Inc.	$2.80	$1.02	$3.54	$1.30
Diluted:				
Net income attributable to DaVita Inc.	$571,332	$215,872	$722,148	$275,732
Weighted average shares outstanding during the period	205,955	214,569	206,401	215,108
Assumed incremental shares from stock plans	1,006	2,122	1,243	2,313
Weighted average shares for diluted earnings per share calculation	206,961	216,691	207,644	217,421
Diluted net income per share attributable to DaVita Inc.	$2.76	$1.00	$3.48	$1.27
Anti-dilutive potential common shares excluded from calculation [1]	2,375	1,184	2,153	1,092

[1] Shares associated with stock-settled stock appreciation rights that are excluded from the diluted denominator calculation because they are anti-dilutive under the treasury stock method.

3. Accounts receivable

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the ultimate collectability of accounts receivable, the Company analyzes its historical cash collection experience and trends for each of its government payors and commercial payors to estimate the adequacy of the allowance for doubtful accounts and the

amount of the provision for uncollectible accounts. Management regularly updates its analysis based upon the most recent information available to determine its current provision for uncollectible accounts and the adequacy of its allowance for doubtful accounts.

For receivables associated with dialysis patient services covered by Medicare, the Company receives 80% of the payment directly from Medicare as established under the government’s bundled payment system and determines an appropriate allowance for doubtful accounts and provision for uncollectible accounts on the remaining balance due depending upon the Company’s estimate of the amounts ultimately collectible from other secondary coverage sources or from the patients. For receivables associated with services to patients covered by commercial payors that are either based upon contractual terms or for non-contracted health plan coverage, the Company provides an allowance for doubtful accounts by recording a provision for uncollectible accounts based upon its historical collection experience, potential inefficiencies in its billing processes and for which collectability is determined to be unlikely. Approximately 1% of the Company’s net accounts receivable are associated with patient pay and it’s the Company’s policy to reserve 100% of the outstanding accounts receivable balances for dialysis services when those amounts due have been outstanding for more than three months and to reserve 100% of the outstanding accounts receivable balances for DMG’s services when those amounts due have been outstanding for more than twelve months.

During the nine months ended September 30, 2016, the Company’s allowance for doubtful accounts decreased by $12,551. This was primarily due to a decrease in outstanding balances related to the U.S. dialysis and lab business as a result of an increase in write-offs of aged balances. There were no unusual transactions impacting the allowance for doubtful accounts.

DAVITA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(continued)

(unaudited)

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

4. Investments in debt and equity securities

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

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

	September 30, 2016			December 31, 2015		
	Held to maturity	Available for sale	Total	Held to maturity	Available for sale	Total
Certificates of deposit, commercial paper and money market funds due within one year	$647,885	$—	$647,885	$406,884	$—	$406,884
Investments in mutual funds, debt securities and common stock	—	53,259	53,259	—	33,482	33,482
	$647,885	$53,259	$701,144	$406,884	$33,482	$440,366
Short-term investments	$647,885	$11,593	$659,478	$406,884	$1,200	$408,084
Long-term investments	—	41,666	41,666	—	32,282	32,282
	$647,885	$53,259	$701,144	$406,884	$33,482	$440,366

The cost of the certificates of deposit, commercial paper and money market funds at September 30, 2016 and December 31, 2015 approximates their fair value. As of September 30, 2016 and December 31, 2015, the available-for-sale investments included $4,934 and $2,589 of gross pre-tax unrealized gains, respectively. During the nine months ended September 30, 2016, the Company recorded gross pre-tax unrealized gains of $2,578, or $1,781 after tax, in other comprehensive income associated with changes in the fair value of these investments. During the nine months ended September 30, 2016, the Company sold investments in mutual funds and debt securities for net proceeds of $4,645 and recognized a pre-tax gain of $233, or $143 after-tax, which was previously recorded in other comprehensive income. During the nine months ended September 30, 2015, the Company sold investments in mutual funds and common stock for net proceeds of $1,961 and recognized a pre-tax gain of $617, or $376 after-tax, which was previously recorded in other comprehensive income.

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

Certain DaVita Medical Group (DMG, formerly known as HealthCare Partners or HCP) legal entities are required to maintain minimum cash balances in order to comply with regulatory requirements in conjunction with medical claim reserves. As of September 30, 2016, this minimum cash balance was approximately $58,127.

5. Equity investments

Equity investments that do not have readily determinable fair values are carried on the cost or equity method, as applicable. The Company maintains equity method investments in unconsolidated investees in both its Kidney Care and DMG lines of business, as well as minor cost method investments in private securities of certain other healthcare businesses. The Company classifies its non-marketable cost- or equity-method investments as equity investments on its balance sheet.

As described in Note 15, the Company deconsolidated its Asia Pacific dialysis business (APAC JV) effective as of August 1, 2016, adjusted its retained investment in the APAC JV to estimated fair value at that time, and has accounted for this retained investment on the equity method since August 1, 2016.

DAVITA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(continued)

(unaudited)

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

6. Goodwill

Changes in goodwill by reportable segments were as follows:

	U.S. dialysis and related lab services	DMG	Other-ancillary services and strategic initiatives	Consolidated total
Balance at January 1, 2015	$ 5,610,643	$3,562,534	$ 242,118	$ 9,415,295
Acquisitions	21,910	29,910	45,273	97,093
Divestitures	(3,370)	(5,411)	—	(8,781)
Goodwill impairment charges	—	(188,769)	(4,065)	(192,834)
Foreign currency and other adjustments	—	—	(16,294)	(16,294)
Balance at December 31, 2015	$ 5,629,183	$3,398,264	$ 267,032	$ 9,294,479
Acquisitions	52,792	248,901	70,116	371,809
Divestitures	(4,222)	(2,223)	(29,374)	(35,819)
Goodwill impairment charges	—	(253,000)	—	(253,000)
Foreign currency and other adjustments	—	—	5,527	5,527
Balance at September 30, 2016	$ 5,677,753	$3,391,942	$ 313,301	$ 9,382,996

Each of the Company’s operating segments described in Note 18 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 DMG operations in each region, to the vascular access service centers in its vascular access services reporting unit, to the physician practices in its physician services reporting unit, and to the dialysis centers within each international reporting unit. For the Company’s other operating segments, no component below the operating segment level is considered a discrete business and therefore these operating segments directly constitute individual reporting units.

During the fourth quarter of 2015, the Company recognized $206,169 in goodwill and other intangible asset impairment charges on certain DMG reporting units based on assessments performed after circumstances indicated it had become more likely than not that the goodwill of certain DMG reporting units had become impaired. These circumstances included underperformance of the business in recent quarters, as well as changes in other market

conditions, including government reimbursement cuts and the Company's expected ability to mitigate them.

Based on continuing developments at the Company's DMG reporting units during 2016, including the Medicare Advantage final benchmark rates for 2017 announced on April 4, 2016, further changes in expectations concerning future government reimbursement rates and the Company's expected ability to mitigate them, as well as medical cost and utilization trends, underperformance of certain at-risk units in recent quarters and other market conditions, the Company performed additional impairment assessments for certain at-risk DMG reporting units during each of the first three quarters of 2016.

As a result of these assessments, the Company recognized additional goodwill impairment charges of $77,000 for its DMG Nevada reporting unit during the quarter ended March 31, 2016, and impairment charges of $79,000 for its DMG Nevada reporting unit and $97,000 for its DMG Florida reporting unit during the quarter ended June 30, 2016, for a total of $253,000 in goodwill impairment charges for its DMG reporting units during the nine months ended September 30, 2016.

The Company's DMG Nevada, DMG Florida, DMG Colorado Springs and Lifeline vascular access reporting units are at risk of goodwill impairment. As of September 30, 2016, these reporting units have goodwill amounts of $261,204, $442,835, $16,897 and $63,111, respectively. As of September 30, 2016, the latest estimated fair values of the DMG Nevada, DMG Florida, DMG Colorado Springs and Lifeline vascular access reporting units (fell short of) exceeded their total carrying amounts by approximately (27.8)%, (1.5)%, 15.4% and 14.0%, respectively.

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For the Company's at-risk DMG reporting units, further reductions in reimbursement rates, increases in medical cost or utilization trends, or other significant adverse changes in expected future cash flows or valuation assumptions could result in further goodwill impairment charges in the future. For example, a sustained, long-term reduction of 3% in operating income for DMG Nevada or DMG Florida could reduce their estimated fair values by up to 2.5% and 1.9%, respectively. Separately, an increase in their respective discount rates of 100 basis points could reduce the estimated fair values of DMG Nevada and DMG Florida by up to 5.5% and 4.9%, respectively. Similarly, a long-term reduction of 3% in operating income or, separately, an increase in the discount rate of 100 basis points could reduce the estimated fair value of Lifeline vascular access by up to 2.6% and 5.0%.

Except as described above, none of the Company's various other reporting units were considered at risk of goodwill impairment as of September 30, 2016. Since the dates of the Company's last annual goodwill impairment tests, there have been certain developments, events, changes in operating performance and other changes in key circumstances that have affected the Company's businesses. However, except as further described above, these did not cause management to believe it is more likely than not that the fair value of any of its reporting units would be less than their carrying amounts.

7. Health care costs payable

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

The following table shows the components of changes in health care costs payable for the nine months ended September 30, 2016:

	Nine months ended September 30, 2016
Health care costs payable, beginning of the period	$ 212,641
Add: Components of incurred health care costs	
Current year	1,261,046
Prior years	2,142
Total incurred health care costs	1,263,188
Less: Claims paid	

Current year	1,061,880
Prior years	199,015
Total claims paid	1,260,895
Health care costs payable, end of the period	$ 214,934

The Company's prior year estimates of health care costs payable increased by $2,142 resulting from certain medical claims being settled for amounts more than originally estimated. When significant increases (decreases) in prior-year health care cost estimates occur that the Company believes significantly impacts its current year operating results, the Company discloses that amount as unfavorable (favorable) development of prior-year's health care cost estimates. Actual claim payments for prior year services have not been materially different from the Company's year-end estimates.

8. Income taxes

As of September 30, 2016, the Company's total liability for unrecognized tax benefits relating to tax positions that do not meet the more-likely-than-not threshold was $24,214, all of which would impact the Company's effective tax rate if recognized. This balance represents a decrease of $14,797 from the December 31, 2015 balance of $39,011, primarily due to the positive settlement of an IRS audit.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in its income tax expense. At September 30, 2016 and December 31, 2015, the Company had approximately $3,763 and $9,918, respectively, accrued for interest and penalties related to unrecognized tax benefits, net of federal tax benefits.

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9. Long-term debt

Long-term debt was comprised of the following:

	September 30, 2016	December 31, 2015
Senior secured credit facilities:		
Term Loan A	$ 881,250	$ 925,000
Term Loan B	3,421,250	3,447,500
Senior notes	4,500,000	4,500,000
Acquisition obligations and other notes payable	111,407	70,645
Capital lease obligations	294,746	283,185
Total debt principal outstanding	9,208,653	9,226,330
Discount and deferred financing costs	(83,887)	(95,985)
	9,124,766	9,130,345
Less current portion	(152,764)	(129,037)
	$ 8,972,002	$ 9,001,308

Scheduled maturities of long-term debt at September 30, 2016 were as follows:

2016 (remainder of the year)	40,607
2017	154,000
2018	167,798
2019	743,687
2020	68,156
2021	3,299,551
Thereafter	4,734,854

During the first nine months of 2016, the Company made mandatory principal payments under its senior secured credit facilities totaling $43,750 on the Term Loan A and $26,250 on the Term Loan B.

On September 30, 2016, the Company’s interest rate swap agreements expired. The Company had entered into several interest rate swap agreements as a means of hedging its exposure to and volatility from variable-based interest rate

changes as part of its overall interest rate risk management strategy. These agreements were not held for trading or speculative purposes and had the economic effect of converting the LIBOR variable component of the Company's interest rate to a fixed rate. These swap agreements were designated as cash flow hedges, and as a result, hedge-effective gains or losses resulting from changes in the fair values of these swaps were reported in other comprehensive income until such time as the hedged forecasted cash flows occurred, at which time the amounts were reclassified into net income. Net amounts paid or received for each specific swap tranche that have settled have been reflected as adjustments to debt expense. In addition, the Company has entered into several active and forward interest rate cap agreements that have the economic effect of capping the Company's maximum exposure to LIBOR variable interest rate changes on specific portions of the Company's floating rate debt, as described below. The cap agreements are also designated as cash flow hedges and, as a result, changes in the fair values of these cap agreements are reported in other comprehensive income. The amortization of the original cap premium is recognized as a component of debt expense on a straight-line basis over the term of the cap agreements. The swap and cap agreements do not contain credit-risk contingent features.

The interest rate swap agreements that were in effect during the nine months ended September 30, 2016 had the economic effect of modifying the LIBOR variable component of the Company's interest rate on an equivalent amount of the Company's Term Loan A to fixed rates ranging from 0.49% to 0.52%. The Term Loan A debt bears interest at LIBOR plus an interest rate margin of 1.75%. The swap agreements required monthly interest payments. During the nine months ended September 30, 2016, the Company recognized debt expense of $299 from these swaps. During the nine months ended September 30, 2016, the Company recorded a loss of $815 in other comprehensive income due to a decrease in the unrealized fair value of these swap agreements.

As of September 30, 2016, the Company maintains several interest rate cap agreements that were entered into in November 2014 with notional amounts totaling $3,500,000. These previously forward cap agreements became effective September 30, 2016 and

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have the economic effect of capping the LIBOR variable component of the Company's interest rate at a maximum of 3.50% on an equivalent amount of the Company's debt. The cap agreements expire on June 30, 2018. As of September 30, 2016, the total fair value of these cap agreements was an asset of approximately $22. During the nine months ended September 30, 2016, the Company recorded a loss of $1,289 in other comprehensive income due to a decrease in the unrealized fair value of these cap agreements.

As of September 30, 2016, the Company also maintains several forward interest rate cap agreements that were entered into in October 2015 with notional amounts totaling $3,500,000. These forward cap agreements will become effective June 29, 2018 and will have the economic effect of capping the LIBOR variable component of the Company's interest rate at a maximum of 3.50% on an equivalent amount of its debt. These cap agreements expire on June 30, 2020. As of September 30, 2016, the total fair value of these cap agreements was an asset of approximately $2,431. During the nine months ended September 30, 2016, the Company recorded a loss of $11,385 in other comprehensive income due to a decrease in the unrealized fair value of these forward cap agreements.

On September 30, 2016, the Company's interest rate cap agreements with notional amounts totaling $2,735,000 on Term Loan B debt expired. During the nine months ended September 30, 2016, these agreements had the economic effect of capping the LIBOR variable component of the Company's interest rate at a maximum of 2.50% on an equivalent amount of the Company's Term Loan B. During the nine months ended September 30, 2016, the Company recognized debt expense of $1,829 from these caps.

The following table summarizes the Company's derivative instruments as of September 30, 2016 and December 31, 2015:

	September 30, 2016		December 31, 2015	
Derivatives designated as hedging instruments	Balance sheet location	Fair value	Balance sheet location	Fair value
Interest rate swap agreements	Other short-term liabilities	$ —	Other short-term assets	$ 516
Interest rate cap agreements	Other long-term assets	$ 2,453	Other long-term assets	$ 15,127

The following table summarizes the effects of the Company's interest rate swap and cap agreements for the three and nine months ended September 30, 2016 and 2015:

Amount of gains (losses) recognized in OCI on interest	Amount of losses reclassified from

Derivatives designated as cash flow hedges	rate swap and cap agreements Three months ended September 30, 2016	2015	Nine months ended September 30, 2016	2015	Location of losses reclassified from accumulated OCI into income	accumulated OCI into income Three months ended September 30, 2016	2015	Nine months ended September 30, 2016	2015
Interest rate swap agreements	$45	$(1,128)	$(815)	$(4,798)	Debt expense	$(25)	$(655)	$(299)	$(2,061)
Interest rate cap agreements	(300)	(1,909)	(12,674)	(11,715)	Debt expense	(609)	(609)	(1,829)	(1,829)
Tax benefit	102	1,186	5,251	6,449		246	493	827	1,518
Total	$(153)	$(1,851)	$(8,238)	$(10,064)		$(388)	$(771)	$(1,301)	$(2,372)

As of September 30, 2016, the interest rate on the Company's Term Loan B debt is effectively fixed subject to an embedded LIBOR floor which is higher than actual LIBOR as of such date. The Term Loan B is also subject to interest rate caps if LIBOR should rise above 3.50%. See above for further details. The Term Loan A bears interest at LIBOR plus an interest rate margin of 1.75%. The capped portion of the Term Loan A is $78,750. In addition, the uncapped portion of the Term Loan A, which is subject to the variability of LIBOR, is $802,500. Interest rates on the Company's senior notes are fixed by their terms.

As a result of an embedded LIBOR floor on the Term Loan B debt agreement and the cap agreements, the Company's overall weighted average effective interest rate on the senior secured credit facilities was 3.61%, based on the current margins in effect of 1.75% for the Term Loan A and 2.75% for the Term Loan B, as of September 30, 2016.

The Company's overall weighted average effective interest rate during the quarter ended September 30, 2016 was 4.42% and as of September 30, 2016 was 4.49%.

As of September 30, 2016, the Company's interest rates are fixed on approximately 52.8% of its total debt.

As of September 30, 2016, the Company had undrawn revolving credit facilities totaling $1,000,000, of which approximately $91,644 was committed for outstanding letters of credit. In addition, the Company has approximately $1,286 of committed letters of credit outstanding related to DMG, which is backed by a certificate of deposit.

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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.

Inquiries by the Federal Government and Certain Related Civil Proceedings

Vainer Private Civil Suit: As previously disclosed, the Company received a subpoena for documents from the Office of Inspector General (OIG) for the U.S. Department of Health and Human Services (HHS) relating to the pharmaceutical products Zemplar, Hectorol, Venofer, Ferrlecit and erythropoietin (EPO), as well as other related matters, covering the period from January 2003 to December 2008. The Company subsequently learned that the allegations underlying this inquiry were made as part of a civil complaint filed by relators, Daniel Barbir and Dr. Alon Vainer, pursuant to the qui tam provisions of the federal False Claims Act (FCA). The relators also alleged that the Company's drug administration practices for the Company's dialysis operations for Vitamin D and iron agents from 2003 through 2010 fraudulently created unnecessary waste, which was billed to and paid for by the government. In June 2015, the Company finalized the terms of the settlement with plaintiffs, including a settlement amount of $450,000 and attorney fees and other costs of $45,000 which was paid in 2015.

2011 U.S. Attorney Medicaid Investigation: In October 2011, the Company announced that it would be receiving a request for documents, which could include an administrative subpoena from the OIG. Subsequent to the Company's announcement of this 2011 U.S. Attorney Medicaid Investigation, the Company received a request for documents in connection with the inquiry by the U.S. Attorney's Office for the Eastern District of New York. The request related to payments for infusion drugs covered by Medicaid composite payments for dialysis. It is the Company's understanding that this inquiry is civil in nature. The Company understands further that certain other providers that operate dialysis clinics in New York may have received a similar request for documents. The Company cooperated with the government and produced the requested documents. In April 2014, the Company reached an agreement in principle with the government. In March 2016, the Company finalized and executed settlement agreements with the State of New York and the U.S. Department of Justice (DOJ), including a settlement payment of an immaterial amount.

Swoben Private Civil Suit: In April 2013, the Company's HealthCare Partners (DMG) subsidiary was one of several defendants named in a civil complaint filed by a former employee of SCAN Health Plan (SCAN), a health maintenance organization (HMO). On July 13, 2009, pursuant to the qui tam provisions of the federal FCA and the California False Claims Act, James M. Swoben, as relator, filed a qui tam action in the United States District Court for

the Central District of California purportedly on behalf of the United States of America and the State of California against SCAN, and certain other defendants whose identities were under seal. The allegations in the complaint relate to alleged overpayments received from government healthcare programs. In or about August 2012, SCAN entered into a Settlement Agreement with the United States of America and the State of California. The United States and the State of California partially intervened in the action for the purpose of settlement with and dismissal of the action against SCAN. In or about November 2011, the relator filed his Third Amended Complaint under seal alleging violations of the federal FCA and the California False Claims Act, which named additional defendants, including DMG and certain health insurance companies (the defendant HMOs). The allegations in the complaint against DMG relate to patient diagnosis coding to determine reimbursement in the Medicare Advantage program, referred to as Hierarchical Condition Coding (HCC) and Risk Adjustment Factor (RAF) scores. The complaint sought monetary damages and civil penalties as well as costs and expenses. The United States Department of Justice reviewed these allegations and in January 2013 declined to intervene in the case. On June 26, 2013, DMG and the other defendants filed their respective motions to dismiss the Third Amended Complaint pursuant to Federal Rules of Civil Procedure 12(b)(6) and 9(b), challenging the legal sufficiency of the claims asserted in the complaint. On July 30, 2013, the court granted DMG’s motion and dismissed with prejudice all of the claims in the Third Amended Complaint and judgment was entered in September 2013. In October 2013, the plaintiff appealed to the United States Court of Appeals for the Ninth Circuit. In August 2016, a panel of the Ninth Circuit overturned the trial court’s ruling and vacated the dismissal of the Third Amended Complaint. The Company and certain defendants have petitioned the Ninth Circuit for a rehearing before the entire court, rather than a limited panel. The petition for rehearing by the entire Ninth Circuit Court is pending.

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2015 U.S. Attorney Transportation Investigation: In February 2015, the Company announced that it received six administrative subpoenas from the OIG for medical records from six different dialysis centers in southern California operated by the Company. Specifically, each subpoena seeks the medical records of a single patient of each respective dialysis center. In February 2016, the Company received four additional subpoenas for four additional dialysis centers in southern California. The subpoenas were similarly limited in scope to the subpoenas received in 2015. The Company has been advised by an attorney with the United States Attorney's Office for the Central District of California that the subpoenas relate to an investigation concerning the medical necessity of patient transportation. The Company does not provide transportation nor does it bill for the transport of its dialysis patients. The Company does not know the scope of the investigation by the government, nor what conduct or activities might be the subject of the investigation.

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

In addition to the subpoena described above, in June 2015, the Company received a subpoena from the OIG. This civil subpoena covers the period from January 1, 2008 through the present and seeks production of a wide range of documents relating to the Company's and its subsidiaries' (including DMG's and its subsidiary JSA's) provision of services to Medicare Advantage plans and related patient diagnosis coding and risk adjustment submissions and payments. The Company believes that the request is part of a broader industry investigation into Medicare Advantage patient diagnosis coding and risk adjustment practices and potential overpayments by the government. The information requested includes information relating 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 DMG, and the Company notified CMS in April 2015 of the coding practice and potential overpayments. In that regard, the Company has identified certain additional coding practices which may have been problematic and is in discussions with the DOJ about the scope and nature of a review of claims relating to those practices. The Company is cooperating with the government and is producing the requested information. In addition, the Company is continuing to review other DMG coding practices to determine whether there were any improper coding issues. In connection with the DMG merger, the Company has certain indemnification rights against the sellers and an escrow was established as security for the indemnification. The Company has submitted an indemnification claim against the sellers secured by the escrow for any and all liabilities incurred relating to these matters and intends to pursue recovery from the escrow. However, the Company can make no assurances that the indemnification and escrow will cover the full amount of the Company's potential losses related to these matters.

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2015 U.S. Department of Justice Vascular Access Investigation and Related Qui Tam Litigation: In November 2015, the Company announced that RMS Lifeline, Inc., a wholly-owned subsidiary of the Company that operates under the name Lifeline Vascular Access (Lifeline), received a Civil Investigative Demand (CID) from the DOJ. The CID relates to two vascular access centers in Florida that are part of Lifeline's vascular access business. The CID covers the period from January 1, 2008 through the present. The Company acquired these two centers in December 2012. Based on the language of the CID, the DOJ appeared to be looking at whether angiograms performed at the two centers were medically unnecessary and therefore whether related claims filed with federal healthcare programs possibly violated the FCA. Lifeline does not perform dialysis services but instead provides vascular access management services for dialysis patients. The Company cooperated with the government and produced the requested information. The DOJ investigation was initiated pursuant to a complaint brought under the qui tam provisions of the FCA (the Complaint). The Complaint was originally filed under seal in August 2014 in the U.S. District Court, Middle District of Florida, United States ex. rel James Spafford v. DaVita HealthCare Partners, Inc., et al., Case Number 6:14-cv-1251-Orl-41DAB, naming several doctors as well as the Company as defendants. In December 2015, a First Amended Complaint was filed under seal. In May 2016, the First Amended Complaint was unsealed. The First Amended Complaint alleges violations of the FCA due to the submission of claims to the government for allegedly medically unnecessary angiograms and angiography procedures at the two vascular access centers as well as employment related claims. The Complaint covers alleged conduct dating from July 2008, prior to the Company's acquisition of the centers, to the present. The DOJ has declined to intervene. The parties agreed to extend the time to respond to the complaint to participate in settlement negotiations. In the third quarter of 2016 the Company recorded an accrual of a non-material amount for potential damages and liabilities.

2016 U.S. Attorney Prescription Drug Investigation: In early February 2016, the Company announced that its pharmacy services wholly-owned subsidiary, DaVita Rx, received a CID from the U.S. Attorney's Office for the Northern District of Texas. It appears the government is conducting an 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 relationship 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. 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. In the fourth quarter of 2015, the Company recorded an estimated accrual of $22,530 for potential damages and liabilities associated with write-offs and discounts of patient co-payment obligations, and credits to payors for returns of prescriptions drugs, related to DaVita Rx that were identified during the course of this internal compliance review. Upon completion of its review, the Company filed a self-disclosure with the OIG in early 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 Company may accrue additional reserves for refunds and related damages and potential liabilities arising out of this review. The Company does not know if the U.S. Attorney's Office, which is part of the DOJ, knew when it served the CID on the Company that it was already in the process of developing a self-disclosure to the OIG. The OIG informed the Company in late February 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. The Company is cooperating with the government and is producing the requested information.

Solari Post-Acquisition Matter: In 2016, HCP Nevada disclosed to the OIG for HHS that proper procedures for clinical and eligibility determinations may not have been followed by Las Vegas Solari Hospice (Solari), which was acquired in March 2013 and sold in September 2016 by HCP Nevada. In June 2016, the Company was notified by the OIG that the disclosure submission had been accepted into the OIG's Self Disclosure Protocol. The Company recorded an estimated accrual of $16,000 for potential damages and liabilities associated with this matter. HCP Nevada had previously made a disclosure and repayment of overpayments to National Government Services (NGS), the Medicare Administrative Contractor for HCP Nevada, for claims submitted by Solari to the federal government prior to DMG's acquisition of Solari and claims made to the government post-acquisition for which the sellers had certain responsibilities pursuant to a management services agreement. The Company may accrue additional reserves for potential damages and liabilities related to this matter. The Company is cooperating with the government in this matter.

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Although the Company cannot predict whether or when proceedings might be initiated or when these matters may be resolved, it is not unusual for inquiries such as these to continue for a considerable period of time through the various phases of document and witness requests and on-going discussions with regulators. In addition to the inquiries and proceedings specifically identified above, the Company is frequently subject to other inquiries by state or federal government agencies and/or private civil qui tam complaints filed by relators. Responding to subpoenas or government inquiries and defending the Company in relator proceedings has required and will continue to require management's attention and significant legal expense. Any negative findings in any government inquiries or relator proceedings could result in substantial financial penalties or awards against the Company, exclusion from future participation in the Medicare and Medicaid programs and if criminal proceedings were initiated against the Company, possible criminal penalties. At this time, the Company cannot predict the ultimate outcome of these inquiries, or the potential outcome of the relators' claims (except as described above), or the potential range of damages, if any.

Shareholder Derivative Claims

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

Other

The Company received several notices of claims from commercial payors and other third parties related to historical billing practices and claims against DVA Renal Healthcare (formerly known as Gambro Healthcare), a subsidiary of the Company, related to historical Gambro Healthcare billing practices and other matters covered by its 2004 settlement agreement with the DOJ and certain agencies of the U.S. government. The Company has not received any further indication that any of these claims are active, except for one payor claim relating to a special needs plan, and some of the other claims may be barred by applicable statutes of limitations. The Company is working to resolve the one active claim of which it is aware and, based on the dollar amount of the claim, expects that its eventual resolution will involve an amount that is immaterial.

In addition to the foregoing, the Company is subject to claims and suits, including from time to time, contractual disputes and professional and general liability claims, as well as audits and investigations by various government

entities, in the ordinary course of business. The Company believes that the ultimate resolution of any such pending proceedings, whether the underlying claims are covered by insurance or not, will not have a material adverse effect on its financial condition, results of operations or cash flows.

From time to time, the Company initiates litigation as a plaintiff arising out of contracts or other matters. In that regard, the Company has a pending lawsuit in the U.S. Court of Federal Claims against the federal government which was originally filed in May 2011. The lawsuit relates to the U.S. Department of Veterans Affairs (VA) underpayment of dialysis services the Company provided to veterans pursuant to VA regulations. This lawsuit is scheduled for trial in early 2017. Although the Company seeks damages, there can be no assurances on the outcome of this matter, including whether the Company will recover monetary damages of any amount.

11. Noncontrolling interests subject to put provisions and other commitments

The Company has potential obligations to purchase the noncontrolling interests held by third parties in several of its majority-owned partnerships, non-owned legal entities, and minority-owned legal entities. These obligations are in the form of put provisions and are exercisable at the third-party owners' discretion within specified periods as outlined in each specific put provision. If these put provisions were exercised, the Company would be required to purchase the third-party owners' noncontrolling interests at either the appraised fair market value or a predetermined multiple of earnings or cash flow attributable to the noncontrolling interests put to the Company, which is intended to approximate fair value. The methodology the Company uses to estimate the fair values of noncontrolling interests subject to put provisions assumes the higher of either a liquidation value of net assets or an average multiple of earnings, based on historical earnings, patient mix and other performance indicators that can affect future results, as well as other

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factors. The estimated fair values of the noncontrolling interests subject to put provisions is a critical accounting estimate that involves significant judgments and assumptions and may not be indicative of the actual values at which the noncontrolling interests may ultimately be settled, which could vary significantly from the Company's current estimates. The estimated fair values of noncontrolling interests subject to put provisions can fluctuate and the implicit multiple of earnings at which these noncontrolling interest obligations may be settled could vary significantly depending upon market conditions including potential purchasers' access to the capital markets, which can impact the level of competition for dialysis and non-dialysis related businesses, the economic performance of these businesses and the restricted marketability of the third-party owners' noncontrolling interests. The amount of noncontrolling interests subject to put provisions that employ a contractually predetermined multiple of earnings rather than fair value are immaterial.

The Company has certain other potential commitments to provide operating capital to several 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 $14.

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

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

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

During the nine months ended September 30, 2016, the Company granted 1,263 stock-settled stock appreciation rights with an aggregate grant-date fair value of $17,373 and a weighted average expected life of approximately 4.2 years,

and also granted 227 stock-settled restricted stock units with an aggregate grant-date fair value of $17,008 and a weighted-average expected life of approximately 3.4 years. The Company also granted eight cash-settled stock appreciation rights and two cash-settled restricted stock units during the nine months ended September 30, 2016.

For the nine months ended September 30, 2016 and 2015, the Company recognized $61,042 and $100,171, respectively, in total LTIP expense, of which $29,817 and $42,794, respectively, represented stock-based compensation expense for stock appreciation rights, stock units, and discounted employee stock plan purchases, which are primarily included in general and administrative expense. The estimated tax benefits recorded for stock-based compensation for the nine months ended September 30, 2016 and 2015 was $9,769 and $14,870, respectively. As of September 30, 2016, the Company had $108,551 of total estimated unrecognized compensation costs for outstanding LTIP awards, including $62,323 related to stock-based compensation arrangements under the Company's equity compensation and stock purchase plans. The Company expects to recognize the performance-based cash component of these LTIP costs over a weighted average remaining period of 1.0 year and the stock-based component of these LTIP costs over a weighted average remaining period of 1.4 years.

For the nine months ended September 30, 2016 and 2015, the Company received $27,012 and $31,069, respectively, in actual tax benefits upon the exercise of stock awards.

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13. Share repurchases

During the nine months ended September 30, 2016, the Company repurchased a total of 9,930 shares of its common stock for $656,087, or an average price of $66.07 per share. The Company also repurchased 3,367 shares of its common stock for $212,353, or an average price of $63.07 per share, subsequent to September 30, 2016.

On July 13, 2016, the Company's Board of Directors approved an additional share repurchase authorization in the amount of $1,240,748. This share repurchase approval is in addition to the $259,252 remaining at that time under the Company's Board of Directors' prior share repurchase authorization announced in April 2015. As a result of these transactions, the Company has a total of $881,040 available under the current Board repurchase authorization as of October 31, 2016. These share repurchase authorizations have no expiration dates. However, the Company remains subject to share repurchase limitations under the terms of its senior secured credit facilities and the indentures governing its senior notes.

14. Comprehensive income

	For the three months ended September 30, 2016				For the nine months ended September 30, 2016			
	Interest rate swap and cap agreements	Investment securities	Foreign currency translation adjustments	Accumulated other comprehensive (loss) income	Interest rate swap and cap agreements	Investment securities	Foreign currency translation adjustments	Accumulated other comprehensive (loss) income
Beginning balance	$(18,097)	$ 1,986	$(43,925)	$ (60,036)	$(10,925)	$ 1,361	$(50,262)	$ (59,826)
Unrealized (losses) gains	(255)	1,454	(951)	248	(13,489)	2,578	5,386	(5,525)
Related income tax benefit (expense)	102	(391)	—	(289)	5,251	(797)	—	4,454
	(153)	1,063	(951)	(41)	(8,238)	1,781	5,386	(1,071)
Reclassification from accumulated other comprehensive income	634	(81)	7,513	8,066	2,128	(233)	7,513	9,408

into net income								
Related income tax (expense) benefit	(246)	31	—	(215)	(827)	90	—	(737)
	388	(50)	7,513	7,851	1,301	(143)	7,513	8,671
Ending balance	$(17,862)	$ 2,999	$ (37,363)	$ (52,226)	$(17,862)	$ 2,999	$ (37,363)	$ (52,226)

	For the three months ended September 30, 2015				For the nine months ended September 30, 2015			
	Interest rate swap and cap agreements	Investment securities	Foreign currency translation adjustments	Accumulated other comprehensive income (loss)	Interest rate swap and cap agreements	Investment securities	Foreign currency translation adjustments	Accumulated other comprehensive (loss) income
Beginning balance	$(8,407)	$ 3,261	$ (39,233)	$ (44,379)	$(1,795)	$ 3,151	$ (26,373)	$ (25,017)
Unrealized (losses) gains	(3,037)	(2,325)	(7,023)	(12,385)	(16,513)	(1,864)	(19,883)	(38,260)
Related income tax benefit (expense)	1,186	674	—	1,860	6,449	496	—	6,945
	(1,851)	(1,651)	(7,023)	(10,525)	(10,064)	(1,368)	(19,883)	(31,315)
Reclassification from accumulated other comprehensive income into net income	1,264	(333)	—	931	3,890	(617)	—	3,273
Related income tax (expense) benefit	(493)	130	—	(363)	(1,518)	241	—	(1,277)
	771	(203)	—	568	2,372	(376)	—	1,996
Ending balance	$(9,487)	$ 1,407	$ (46,256)	$ (54,336)	$(9,487)	$ 1,407	$ (46,256)	$ (54,336)

The reclassification of net swap and cap realized losses into income are recorded as debt expense in the corresponding consolidated statements of income. See Note 9 to the condensed consolidated financial statements for further details.

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

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15. Acquisitions and divestitures

Change in ownership interests in Asia Pacific joint venture

On August 1, 2016, the Company consummated an agreement with Khazanah Nasional Berhad (Khazanah) and Mitsui and Co., Ltd (Mitsui) whereby Khazanah and Mitsui, subscribed to invest a total of $300,000 over three years in exchange for a 40% total equity interest in the Company's APAC JV. Khazanah and Mitsui each made related initial investments of $50,000 in this business on August 1, 2016.

Based on the governance structure and voting rights put in place upon the formation of the APAC JV, certain key decisions affecting the JV's operations are no longer at the unilateral discretion of the Company, but rather are shared with the noncontrolling investors. As a result, the Company deconsolidated its Asia Pacific dialysis business in the third quarter and recognized a non-cash non-taxable gain of $374,374 on its retained investment, net of contingent obligations. This retained interest was adjusted to the Company's proportionate share of the estimated fair value of the business, as implied by the Khazanah and Mitsui investment and adjusted for certain time value of money and uncertainty discounts. Subsequent to the deconsolidation, the Company's retained interest in the APAC JV is accounted for under the equity method.

The calculation of the Company's non-cash gain on its retained investment in the APAC JV is based upon the best information available to management and will be finalized when certain information arranged to be obtained has been received, including issuance of the final valuation report by an independent third party and certain post-closing adjustments subject to audit of the APAC JV's financial statements.

Sales of Tandigm Health and DMG Arizona ownership interests

Effective June 30, 2016, the Company sold a portion of DMG's ownership interest in the Tandigm Health (Tandigm) joint venture, reducing its ownership from fifty percent to nineteen percent and resulting in a gain of $40,280. In addition, on June 1, 2016, the Company sold its DMG Arizona business, resulting in a loss of $10,489.

Acquisition of TEC

On March 1, 2016, the Company completed its acquisition of The Everett Clinic (TEC) pursuant to an agreement and plan of merger dated November 23, 2015, whereby TEC became a 100% consolidated subsidiary of DMG. The total consideration paid at closing for all outstanding common units of TEC was approximately $393,687, net of cash acquired, plus the assumption of certain liabilities totaling approximately $7,284.

The initial purchase price allocation for the acquisition of TEC is recorded at estimated fair values based upon the best information available to management and will be finalized when certain information arranged to be obtained has been received. The fair values of property and equipment and intangible assets were valued by an independent third party and are pending issuance of the final valuation report. Certain income tax amounts are pending issuance of final tax

returns.

The following table summarizes the assets acquired and liabilities assumed in this transaction and recognized at the acquisition date at their estimated fair values:

Current assets, net of cash acquired	$91,591
Property and equipment	108,533
Amortizable intangible and other long-term assets	34,050
Goodwill	244,502
Current liabilities assumed	(50,940)
Deferred income taxes	(16,880)
Noncontrolling interests assumed	(9,885)
Aggregate purchase price	$400,971

Amortizable intangible assets acquired in this acquisition had a weighted average estimated useful life of six years. None of the goodwill recognized in this acquisition is expected to be deductible for tax purposes.

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The noncontrolling interests assumed as part of the acquisition are stated at estimated fair value based on the estimated fair value of the underlying assets and liabilities of each non-wholly-owned entity.

The operating results of TEC are included in the Company's condensed consolidated financial statements from March 1, 2016.

Other routine acquisitions

During the nine months ended September 30, 2016, the Company acquired dialysis and other businesses consisting of four dialysis centers located in the U.S., 11 dialysis centers located outside the U.S., and five other medical businesses for a total of $103,644 in net cash and deferred purchase price obligations totaling $15,397. The assets and liabilities for all of 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. 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 these acquisitions are pending final quantification.

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

Current assets	$1,762
Property and equipment	3,725
Amortizable intangible and other long-term assets	5,777
Goodwill	127,307
Deferred income taxes	597
Noncontrolling interests assumed	(19,176)
Liabilities assumed	(951)
Aggregate purchase price	$119,041

Amortizable intangible assets acquired during the first nine months of 2016 had weighted-average estimated useful lives of seven years. The majority of the intangible assets acquired during the first nine months of 2016 relate to non-compete agreements having a weighted-average useful life and amortization period of seven years. The total amount of goodwill deductible for tax purposes associated with these acquisitions was approximately $108,874.

Pro forma financial information

The following summary, prepared on a pro forma basis, combines the results of operations as if the acquisitions through September 30, 2016 had been consummated as of the beginning of 2016 and 2015, after including the impact

of certain adjustments such as amortization of intangibles and income tax effects.

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	(unaudited)			
Pro forma net revenues	$3,731,416	$3,660,885	$11,146,596	$10,678,870
Pro forma net income attributable to DaVita Inc.	571,529	224,808	736,453	306,096
Pro forma basic net income per share attributable to DaVita Inc.	2.80	1.06	3.61	1.44
Pro forma diluted net income per share attributable to DaVita Inc.	2.76	1.04	3.55	1.41

Other pending transactions

On August 9, 2016, the Company entered into an amendment to its agreement to acquire Colorado-based Renal Ventures Limited, LLC (Renal Ventures). As a result of the amended agreement, the Company will acquire a 100 percent interest in all 38 outpatient dialysis centers owned by Renal Ventures, including one new center under construction, and a fifty-one percent interest in one vascular access clinic. The purchase price will be approximately $360,000 in cash, subject to, among other things, adjustments for

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certain items such as working capital. The transaction is subject to approval by the Federal Trade Commission (FTC), including Hart-Scott-Rodino antitrust clearance. The Company anticipates that it will be required by the FTC to divest certain outpatient dialysis centers as a condition of the transaction. The Company expects the transaction to close in early 2017.

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 $95,804 if certain EBITDA, operating income performance targets or quality margins are met primarily over the next one to two years.

Contingent earn-out obligations are remeasured to fair value at each reporting date until the contingencies are resolved with changes in the liability due to the re-measurement recorded in earnings. See Note 17 to these condensed consolidated financial statements for further details. As of September 30, 2016, the Company has estimated the fair value of these contingent earn-out obligations to be $14,198, of which a total of $12,836 is included in other liabilities and the remaining $1,362 is included in other long-term liabilities in the Company's condensed consolidated balance sheet.

The following is a reconciliation of changes in the contingent earn-out obligations for the nine months ended September 30, 2016:

Beginning balance, January 1, 2016	$34,135
Remeasurement of fair value for contingent earn-out obligations	(3,739)
Payments on contingent earn-out obligations	(16,198)
	$14,198

16. 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. 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 ownership 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 the 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, 2016, these condensed consolidated financial statements include total assets of VIEs of $727,656 and total liabilities and noncontrolling interests of VIEs to third parties of $427,583.

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

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17. Fair value of financial instruments

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

The following table summarizes the Company's assets, liabilities and temporary equity measured at fair value on a recurring basis as of September 30, 2016:

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets				
Available-for-sale securities	$53,259	$ 53,259	$ —	$ —
Interest rate cap agreements	$2,453	$ —	$ 2,453	$ —
Funds on deposit with third parties	$76,773	$ 76,773	$ —	$ —
Liabilities				
Contingent earn-out obligations	$14,198	$ —	$ —	$ 14,198
Temporary equity				
Noncontrolling interests subject to put provisions	$971,744	$ —	$ —	$ 971,744

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

The interest rate 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 the condensed consolidated financial statements for further discussion.

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

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

See Note 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.

Other financial instruments consist primarily of cash, accounts receivable, life insurance contracts, accounts payable, other accrued liabilities and debt. The balances of the non-debt financial instruments are presented in the consolidated financial statements at September 30, 2016 at their approximate fair values due to the short-term nature of their settlements.

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The carrying balance of the Company's senior secured credit facilities totaled $4,302,500 as of September 30, 2016, and the fair value was approximately $4,344,000 based upon quoted market prices, a level 2 input.

The carrying balance of the Company's senior notes was $4,500,000 as of September 30, 2016 and their fair value was approximately $4,594,000, based upon quoted market prices, a level 2 input.

18. Segment reporting

The Company operates two major divisions, DaVita Kidney Care (Kidney Care) and DaVita Medical Group (DMG). The Kidney Care division is comprised of the Company's U.S. dialysis and related lab services business, various other ancillary services and strategic initiatives, including its international dialysis operations, and the Company's corporate 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 DMG division is a patient- and physician-focused integrated health care delivery and management company with over two decades of providing coordinated outcomes-based medical care in a cost-effective manner.

The Company's ancillary services and strategic initiatives consist primarily of pharmacy services, disease management services, vascular access services, clinical research programs, physician services, direct primary care and the Company's international dialysis operations.

The Company's operating segments have been defined based on the separate financial information that is regularly produced and reviewed by the Company's chief operating decision maker in making decisions about allocating resources to and assessing the financial 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, its DMG operations in each region, each of its ancillary services and strategic initiatives, and its consolidated international operations in the European and Middle Eastern, Latin America, and Asia Pacific markets, and under the Saudi Ministry of Health charter. The U.S. dialysis and related lab services business and the DMG business each qualify as separately reportable segments, and all of the other ancillary services and strategic initiatives operating segments, including the international operating segments, have been combined and disclosed in the other segments category.

The Company's operating segment financial information included in this report is prepared on the internal management reporting basis that the chief operating decision maker uses to allocate resources and assess the financial performance of the operating segments. For internal management reporting, segment operations include direct segment operating expenses but exclude corporate administrative support costs, which consist primarily of indirect labor, benefits and long-term incentive based compensation of certain departments which provide support to all of the Company's various

operating lines of business. Corporate administrative support costs are reduced by internal management fees received from the Company's ancillary lines of businesses.

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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,	
	2016	2015	2016	2015
Segment net revenues:				
U.S. dialysis and related lab services				
Patient service revenues:				
External sources	$2,412,818	$2,287,329	$7,079,054	$6,679,251
Intersegment revenues	16,040	13,630	44,819	39,078
Total dialysis and related lab services revenues	2,428,858	2,300,959	7,123,873	6,718,329
Less: Provision for uncollectible accounts	(109,299)	(103,543)	(320,565)	(302,324)
Net dialysis and related lab services patient service revenues	2,319,559	2,197,416	6,803,308	6,416,005
Other revenues[1]	3,912	3,490	12,134	10,214
Total net dialysis and related lab services revenues	2,323,471	2,200,906	6,815,442	6,426,219
DMG				
DMG revenues:				
Capitated revenues	846,245	906,478	2,586,383	2,587,545
Net patient service revenues	153,089	78,938	417,634	241,385
Other revenues[2]	28,728	15,536	72,354	66,124
Intersegment capitated and other revenues	75	84	189	96
Total net DMG revenues	1,028,137	1,001,036	3,076,560	2,895,150
Other—Ancillary services and strategic initiatives				
Net patient service revenues	57,498	41,858	165,742	116,535
Capitated revenues	23,045	20,369	67,780	56,007
Other external sources	314,540	275,210	948,847	793,511
Intersegment revenues	16,642	7,385	43,189	18,079
Total ancillary services and strategic initiatives revenues	411,725	344,822	1,225,558	984,132
Total net segment revenues	3,763,333	3,546,764	11,117,560	10,305,501
Elimination of intersegment revenues	(32,757)	(21,099)	(88,197)	(57,253)
Consolidated net revenues	$3,730,576	$3,525,665	$11,029,363	$10,248,248
Segment operating margin (loss):				

U.S. dialysis and related lab services	$452,187	$461,899	$1,341,432	$795,255
DMG	33,094	82,562	(126,110)	215,192
Other—Ancillary services and strategic initiatives	361,903	(30,118)	338,159	(70,153)
Total segment operating margin	847,184	514,343	1,553,481	940,294
Reconciliation of segment operating margin to consolidated income before income taxes:				
Corporate administrative support[3]	(28,028)	(4,975)	(40,366)	(14,534)
Consolidated operating income	819,156	509,368	1,513,115	925,760
Debt expense	(104,581)	(103,481)	(310,359)	(305,121)
Debt redemption and refinancing charges	—	—	—	(48,072)
Other income, net	1,876	2,484	8,067	4,262
Consolidated income before income taxes	$716,451	$408,371	$1,210,823	$576,829

(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.

(2) Includes medical consulting service fees and management fees for providing management and administrative services to unconsolidated joint ventures, as well as revenue related to the maintenance of existing physician networks.

(3) Corporate administrative support costs also include $27,040 of an adjustment to reduce a receivable associated with the DMG acquisition escrow provision relating to an income tax item.

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Depreciation and amortization expense by reportable segment is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
U.S. dialysis and related lab services	$122,540	$111,828	$358,427	$326,281
DMG	52,595	43,523	153,068	129,890
Ancillary services and strategic initiatives	6,604	6,711	19,980	18,523
	$181,739	$162,062	$531,475	$474,694

Summary of assets by reportable segment is as follows:

	September 30, 2016	December 31, 2015
Segment assets		
U.S. dialysis and related lab services (including equity investments of $41,624 and $34,801, respectively)	$11,460,732	$11,591,507
DMG (including equity investments of $11,293 and $22,714, respectively)	6,218,912	6,150,666
Other—Ancillary services and strategic initiatives (including equity investments of $463,466 and $20,853, respectively)	1,246,009	772,702
Consolidated assets	$18,925,653	$18,514,875

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
U.S. dialysis and related lab services	$182,741	$138,683	$467,121	$385,734

DMG	17,396	18,885	55,639	36,870
Ancillary services and strategic initiatives	16,479	13,772	52,483	39,609
	$216,616	$171,340	$575,243	$462,213

19. Changes in DaVita Inc.'s ownership interest in consolidated subsidiaries

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Net income attributable to DaVita Inc.	$571,332	$215,872	$722,148	$275,732
Decrease in paid-in capital for the purchase of noncontrolling interests and adjustments to ownership interest	(604)	(12,094)	(5,135)	(20,515)
Net transfers to noncontrolling interests	(604)	(12,094)	(5,135)	(20,515)
Net income attributable to DaVita Inc., net of transfers to noncontrolling interests	$570,728	$203,778	$717,013	$255,217

20. New accounting standards

The Company adopted Accounting Standards Update (ASU) No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis as of January 1, 2016. The amendments in this ASU modify, simplify and expand certain aspects of consolidation guidance, principally with respect to limited partnerships, service fee arrangements and related parties. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

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

The Company adopted ASU No. 2015-05, Customer's Accounting for Fees Paid in a Cloud Computing Arrangement, which amends ASC 350-40, Intangibles-Goodwill and Other-Internal-Use Software as of January 1, 2016. The provisions of this statement were applied prospectively. This ASU provides guidance to customers about whether a cloud computing arrangement includes a software license. If an arrangement includes a software license, the accounting for the license will be consistent with licenses of other intangible assets. If the arrangement does not include a license, the arrangement will be accounted for as a service contract. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

The Company adopted ASU No. 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments as of January 1, 2016. The amendments in this ASU allow an acquirer to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. This is inclusive of the effect on earnings of changes in depreciation, amortization, or other income effects as a result of the change to provisional amounts, calculated as if the accounting had been completed at the acquisition date. The amendments in this ASU were applied prospectively. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-17, Consolidation (Topic 810): Interests Held through Related Parties That Are under Common Control. The amendments in this ASU affect consolidation of variable interest entities in certain situations involving entities under common control. The amendments in this ASU are effective for the Company beginning on January 1, 2017 and are to be applied to all periods since adoption of ASU No. 2015-02, which the Company adopted effective January 1, 2016. Early adoption is permitted. The Company does not expect that adoption of this ASU will have a material effect on its consolidated financial statements.

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. Early adoption is permitted. The Company has not yet determined the effect that adoption of this ASU will have on its consolidated financial statements.

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. The new standard is effective for the Company beginning January 1, 2018 and should be applied retrospectively to all periods presented. Early adoption is permitted. The Company has not yet determined the effect that adoption of this ASU will have on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instrument – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This amendment will replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable supporting information to inform credit loss estimates. The amendments in this ASU are effective for the Company beginning January 1, 2020 and early adoption is permitted only as of January 1, 2019. The Company has not yet determined the effect that adoption of this ASU will have on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, as part of its Simplification Initiative. The changes required by this ASU involve several aspects of the accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendments in this ASU are effective for the Company beginning January 1, 2017 and early adoption is permitted. The method of adoption differs for each of the topics covered by the ASU. The Company continues to evaluate the effect that the implementation of this ASU will have on its consolidated financial statements, related disclosures and the timing of implementation.

In March 2016, the FASB issued ASU No. 2016-07, Investments – Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting. The amendments in this ASU eliminate the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The amendments in this ASU are effective for the Company beginning on January 1, 2017 to be applied prospectively. Early adoption is permitted. The adoption of this ASU is not expected to have a material impact on the Company’s consolidated financial statements.

DAVITA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(continued)

(unaudited)

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

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. The amendments in this ASU 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, the beginning of the earliest comparative period presented in the financial statements. Early adoption is permitted. The Company has assembled an internal lease task force that meets regularly to discuss and evaluate the overall impact of this guidance on its consolidated financial statements and related disclosures, as well as the expected timing and method of adoption. The Company believes that the new standard will have a material impact on its consolidated balance sheet but will not have a material impact on its liquidity. The Company continues to evaluate the effect that the implementation of this ASU will have on its consolidated financial statements and related disclosures.

In January 2016, the FASB issued ASU No. 2016-01, Financial Statements – 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 amendments in this ASU are effective for the Company beginning on January 1, 2018 and are to be applied through a cumulative effect adjustment to the statement of financial position. Early adoption is permitted under certain circumstances. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. The amendments in this ASU apply to all inventory with the exception of inventory measured using the last-in, first-out or the retail inventory methods. This ASU simplifies the measurement of inventory. Under this new standard, inventory should be measured using the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonable predictable costs of completion, disposal and transportation. The amendments in this ASU are effective for the Company beginning January 1, 2017 and are to be applied prospectively. Early adoption is permitted. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. When it becomes effective, this ASU will replace most existing revenue recognition guidance in U.S. GAAP. In July 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of Effective Date. This guidance approves a one-year deferral of the effective date of ASU 2014-09. The ASU now permits the Company to adopt this standard effective January 1, 2018. Early application is permitted as of the initial effective date of January 1, 2017, but not prior to that date. In March, April and May 2016, the FASB issued ASU 2016-08, ASU 2016-10, ASU 2016-11, and ASU 2016-12, Revenue from Contracts with Customers (Topic 606), each of which amends the guidance in ASU 2014-09. The Company has assembled an internal revenue task force that meets regularly to discuss and evaluate the overall impact this guidance will have on various revenue streams in the consolidated financial statements and related disclosures, as well as the expected timing and method of adoption. The

Company has not yet selected a transition method nor has it determined the effect of this ASU on its ongoing financial reporting.

DAVITA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(continued)

(unaudited)

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

21. Condensed consolidating financial statements

The following information is presented in accordance with Rule 3-10 of Regulation S-X. The operating and investing activities of the separate legal entities included in the Company's consolidated financial statements are fully interdependent and integrated. Revenues and operating expenses of the separate legal entities include intercompany charges for management and other administrative services. The Company's senior notes are guaranteed by substantially all of its domestic subsidiaries. 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.

Condensed Consolidating Statements of Income

For the three months ended September 30, 2016	DaVita Inc.	Guarantor subsidiaries	Non-Guarantor subsidiaries	Consolidating adjustments	Consolidated total
Patient services revenues	$—	$ 1,726,892	$ 945,659	$ (42,890)	$ 2,629,661
Less: Provision for uncollectible accounts	—	(73,833)	(41,722)	—	(115,555)
Net patient service revenues	—	1,653,059	903,937	(42,890)	2,514,106
Capitated revenues	—	462,436	406,894	(40)	869,290
Other revenues	191,815	509,867	46,185	(400,687)	347,180
Total net revenues	191,815	2,625,362	1,357,016	(443,617)	3,730,576
Operating expenses and charges	143,784	2,388,114	823,139	(443,617)	2,911,420
Operating income	48,031	237,248	533,877	—	819,156
Debt (expense) and refinancing charges	(101,895)	(91,716)	(14,402)	103,432	(104,581)
Other income, net	99,446	2,659	3,203	(103,432)	1,876
Income tax expense	(20,898)	(21,486)	146,685	—	104,301
Equity earnings in subsidiaries	504,852	335,175	—	(840,027)	—
Net income	571,332	504,852	375,993	(840,027)	612,150

Less: Net income attributable to noncontrolling interests	—	—	—	(40,818)	(40,818)
Net income attributable to DaVita Inc.	$571,332	$504,852	$375,993	$ (880,845)	$ 571,332

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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, 2015	DaVita Inc.	Guarantor subsidiaries	Non-Guarantor subsidiaries	Consolidating adjustments	Consolidated total
Patient service revenues	$—	$1,656,648	$795,325	$(37,939)	$2,414,034
Less: Provision for uncollectible accounts	—	(78,494)	(30,958)	—	(109,452)
Net patient service revenues	—	1,578,154	764,367	(37,939)	2,304,582
Capitated revenues	—	453,766	473,196	(115)	926,847
Other revenues	184,561	480,412	7,869	(378,606)	294,236
Total net revenues	184,561	2,512,332	1,245,432	(416,660)	3,525,665
Operating expenses	110,935	2,244,237	1,077,785	(416,660)	3,016,297
Operating income	73,626	268,095	167,647	—	509,368
Debt expense, including debt redemption charges	(102,136)	(83,037)	(9,766)	91,458	(103,481)
Other income	89,824	2,379	1,739	(91,458)	2,484
Income tax expense	25,368	112,310	9,386	—	147,064
Equity earnings in subsidiaries	179,926	104,799	—	(284,725)	—
Net income	215,872	179,926	150,234	(284,725)	261,307
Less: Net income attributable to noncontrolling interests	—	—	—	(45,435)	(45,435)
Net income attributable to DaVita Inc.	$215,872	$179,926	$150,234	$(330,160)	$215,872

For the nine months ended September 30, 2016	DaVita Inc.	Guarantor subsidiaries	Non-Guarantor subsidiaries	Consolidating adjustments	Consolidated total
Patient services revenues	$—	$5,044,565	$2,756,588	$(123,100)	$7,678,053
Less: Provision for uncollectible accounts	—	(207,144)	(129,044)	—	(336,188)
Net patient service revenues	—	4,837,421	2,627,544	(123,100)	7,341,865
Capitated revenues	—	1,391,010	1,263,404	(251)	2,654,163
Other revenues	575,700	1,518,407	122,509	(1,183,281)	1,033,335
Total net revenues	575,700	7,746,838	4,013,457	(1,306,632)	11,029,363
Operating expenses and charges	400,129	7,275,863	3,146,888	(1,306,632)	9,516,248
Operating income	175,571	470,975	866,569	—	1,513,115
Debt (expense) and refinancing charges	(305,097)	(275,148)	(38,914)	308,800	(310,359)
Other income, net	296,660	12,416	7,791	(308,800)	8,067
Income tax expense	56,190	140,972	168,849	—	366,011
Equity earnings in subsidiaries	611,204	543,933	—	(1,155,137)	—

Net income	722,148	611,204	666,597	(1,155,137)	844,812
Less: Net income attributable to noncontrolling interests	—	—	—	(122,664)	(122,664)
Net income attributable to DaVita Inc.	$722,148	$611,204	$		