DAVITA INC.
Form 10-Q
August 01, 2018

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended June 30, 2018
Commission File Number: 1-14106

DAVITA INC.

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

2000 16th Street
Denver, CO 80202
Telephone number (303) 405-2100

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
Emerging growth company		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes No
As of July 31, 2018, the number of shares of the Registrant's common stock outstanding was approximately 166.9 million shares.

DAVITA INC.
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Note: Items 3 and 4 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 June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Dialysis and related lab patient service revenues	$2,718,403	$2,494,609	$5,309,477	$4,917,395
Provision for uncollectible accounts	(49,406)	(109,600)	(23,861)	(216,658)
Net dialysis and related lab patient service revenues	2,668,997	2,385,009	5,285,616	4,700,737
Other revenues	217,956	314,390	450,781	629,913
Total revenues	2,886,953	2,699,399	5,736,397	5,330,650
Operating expenses and charges:				
Patient care costs and other costs	2,069,089	1,894,664	4,104,674	3,746,709
General and administrative	264,094	262,796	530,623	525,691
Depreciation and amortization	147,079	140,026	289,878	272,910
Equity investment (income) loss	(9,795)	825	(9,950)	148
Provision for uncollectible accounts	(2,100)	(606)	(8,100)	1,304
Investment and other asset impairments	11,245	—	11,245	15,168
Goodwill impairment charges	3,106	10,498	3,106	34,696
Gain on changes in ownership interests, net	(33,957)	—	(33,957)	(6,273)
Gain on settlement, net	—	—	—	(526,827)
Total operating expenses and charges	2,448,761	2,308,203	4,887,519	4,063,526
Operating income	438,192	391,196	848,878	1,267,124
Debt expense	(119,692)	(107,934)	(233,208)	(212,331)
Other income, net	1,994	4,798	6,576	8,784
Income from continuing operations before income taxes	320,494	288,060	622,246	1,063,577
Income tax expense	83,868	101,915	154,605	383,580
Net income from continuing operations	236,626	186,145	467,641	679,997
Net income (loss) from discontinued operations, net of tax	69,696	(24,520)	63,910	(18,087)
Net income	306,322	161,625	531,551	661,910
Less: Net income attributable to noncontrolling interests	(39,046)	(34,624)	(85,589)	(87,212)
Net income attributable to DaVita Inc.	$267,276	$127,001	$445,962	$574,698
Earnings per share:				
Basic net income from continuing operations per share attributable to DaVita Inc.	$1.16	$0.79	$2.23	$3.09
Basic net income per share attributable to DaVita Inc.	$1.56	$0.66	$2.54	$3.00
Diluted net income from continuing operations per share attributable to DaVita Inc.	$1.15	$0.78	$2.19	$3.04
Diluted net income per share attributable to DaVita Inc.	$1.53	$0.65	$2.51	$2.95
Weighted average shares for earnings per share:				
Basic	171,617,238	191,088,216	175,267,270	191,728,913
Diluted	174,105,884	193,987,983	177,949,934	194,630,936
Amounts attributable to DaVita Inc.:				
Net income from continuing operations	$199,603	$151,292	$390,618	$592,197
Net income (loss) from discontinued operations	67,673	(24,291)	55,344	(17,499)
Net income attributable to DaVita Inc.	$267,276	$127,001	$445,962	$574,698

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 June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Net income	$306,322	$161,625	$531,551	$661,910
Other comprehensive (loss) income, net of tax:				
Unrealized (losses) gains on interest rate cap agreements:				
Unrealized (losses) gains on interest rate cap agreements	(268)	(1,815)	782	(5,002)
Reclassifications of net realized losses on interest rate cap agreements into net income	1,537	1,265	3,074	2,529
Unrealized gains on investments:				
Unrealized gains on investments	—	1,057	—	2,614
Reclassification of net investment realized gains into net income	—	(71)	—	(211)
Unrealized (losses) gains on foreign currency translation:				
Foreign currency translation adjustments	(50,529)	49,142	(30,648)	62,403
Other comprehensive (loss) income	(49,260)	49,578	(26,792)	62,333
Total comprehensive income	257,062	211,203	504,759	724,243
Less: Comprehensive income attributable to noncontrolling interests	(39,046)	(34,624)	(85,589)	(87,210)
Comprehensive income attributable to DaVita Inc.	$218,016	$176,579	$419,170	$637,033

See notes to condensed consolidated financial statements.

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

	June 30, 2018	December 31, 2017
ASSETS		
Cash and cash equivalents	$389,264	$508,234
Restricted cash and equivalents	90,884	10,686
Short-term investments	4,528	32,830
Accounts receivable, net	1,842,108	1,714,750
Inventories	112,729	181,799
Other receivables	471,802	372,919
Income tax receivable	23,540	49,440
Prepaid and other current assets	97,426	112,058
Current assets held for sale	6,053,081	5,761,642
Total current assets	9,085,362	8,744,358
Property and equipment, net of accumulated depreciation of $3,328,176 and $3,103,662	3,229,098	3,149,213
Intangible assets, net of accumulated amortization of $362,054 and $356,774	100,255	113,827
Equity method and other investments	249,020	245,534
Long-term investments	34,200	37,695
Other long-term assets	59,070	47,287
Goodwill	6,678,559	6,610,279
	$19,435,564	$18,948,193
LIABILITIES AND EQUITY		
Accounts payable	$542,272	$509,116
Other liabilities	568,536	552,662
Accrued compensation and benefits	633,092	616,116
Current portion of long-term debt	1,768,514	178,213
Current liabilities held for sale	1,271,364	1,185,070
Total current liabilities	4,783,778	3,041,177
Long-term debt	8,175,573	9,158,018
Other long-term liabilities	418,123	365,325
Deferred income taxes	526,425	486,247
Total liabilities	13,903,899	13,050,767
Commitments and contingencies:		
Noncontrolling interests subject to put provisions	1,047,158	1,011,360
Equity:		
Preferred stock ($0.001 par value, 5,000,000 shares authorized; none issued)		
Common stock ($0.001 par value, 450,000,000 shares authorized; 182,815,212 and 182,462,278 shares issued and 170,820,196 and 182,462,278 shares outstanding, respectively)	183	182
Additional paid-in capital	1,022,783	1,042,899
Retained earnings	4,088,043	3,633,713
Treasury stock (11,995,016 and zero shares, respectively)	(809,900)	—
Accumulated other comprehensive (loss) income	(21,925)	13,235
Total DaVita Inc. shareholders' equity	4,279,184	4,690,029
Noncontrolling interests not subject to put provisions	205,323	196,037
Total equity	4,484,507	4,886,066

	$19,435,564	$18,948,193

See notes to condensed consolidated financial statements.

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

	Six months ended June 30, 2018	2017
Cash flows from operating activities:		
Net income	$531,551	$661,910
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	289,878	390,244
Impairment charges	14,351	100,483
Stock-based compensation expense	19,861	17,504
Deferred income taxes	56,882	40,938
Equity investment income, net	(434)	9,367
Gain on sales of business interests, net	(59,053)	(6,273)
Other non-cash charges, net	44,337	28,611
Changes in operating assets and liabilities, net of effect of acquisitions and divestitures:		
Accounts receivable	(101,746)	(113,208)
Inventories	71,632	(31,067)
Other receivables and other current assets	(91,685)	(108,852)
Other long-term assets	3,454	(12,124)
Accounts payable	35,228	(55,897)
Accrued compensation and benefits	23,818	(63,727)
Other current liabilities	58,321	13,991
Income taxes	24,356	123,637
Other long-term liabilities	3,824	19,520
Net cash provided by operating activities	924,575	1,015,057
Cash flows from investing activities:		
Additions of property and equipment	(473,977)	(398,940)
Acquisitions	(89,465)	(619,839)
Proceeds from asset and business sales	116,241	70,236
Purchase of investments available for sale	(4,195)	(6,812)
Purchase of investments held-to-maturity	(3,726)	(220,591)
Proceeds from sale of investments available for sale	5,662	5,049
Proceeds from investments held-to-maturity	32,628	320,484
Purchase of equity investments	(10,241)	(1,194)
Distributions received on equity investments	3,009	—
Net cash used in investing activities	(424,064)	(851,607)

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

	Six months ended June 30, 2018	2017
Cash flows from financing activities:		
Borrowings	28,128,131	25,529,555
Payments on long-term debt and other financing costs	(27,556,348)	(25,593,587)
Purchase of treasury stock	(805,179)	(231,674)
Stock award exercises and other share issuances, net	3,132	8,163
Distributions to noncontrolling interests	(94,006)	(116,075)
Contributions from noncontrolling interests	31,569	39,872
Proceeds from sales of additional noncontrolling interests	15	—
Purchases of noncontrolling interests	(13,223)	(1,432)
Net cash used in financing activities	(305,909)	(365,178)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(3,473)	4,192
Net increase (decrease) in cash, cash equivalents and restricted cash	191,129	(197,536)
Less: Net increase in cash, cash equivalents and restricted cash from discontinued operations	229,901	32,720
Net decrease in cash, cash equivalents and restricted cash from continuing operations	(38,772)	(230,256)
Cash, cash equivalents and restricted cash of continuing operations at beginning of the year	518,920	683,463
Cash, cash equivalents and restricted cash of continuing operations at end of the period	$480,148	$453,207

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 cont inter not subj put prov
		Common stock		Additional paid-in capital	Retained earnings	Treasury stock		Accumulated other comprehensive (loss) income	Total	
		Shares	Amount			Shares	Amount			
December 31, 2016	$973,258	194,554	$195	$1,027,182	$3,710,313	—	$—	$(89,643)	$4,648,047	$20
Comprehensive income:										
Net income	103,641				663,618				663,618	63,2
Other comprehensive income								102,878	102,878	(2
Stock purchase shares issued		360		22,131					22,131	
Stock unit shares issued		117		(101)					(101)	
Stock-settled SAR shares issued		398		—					—	
Stock-settled stock-based compensation expense				34,981					34,981	
Changes in noncontrolling interest from:										
Distributions	(128,853)									(82,
Contributions	52,911									21,6
Acquisitions and divestitures	43,799			(823)					(823)	(5,7
Partial purchases	(397)			(2,752)					(2,752)	(2,2
Fair value remeasurements	(32,999)			32,999					32,999	
Purchase of treasury stock						(12,967)	(810,949)		(810,949)	
Retirement of treasury stock		(12,967)	(13)	(70,718)	(740,218)	12,967	810,949		—	
Balance at December 31, 2017	$1,011,360	182,462	$182	$1,042,899	$3,633,713	—	$—	$13,235	$4,690,029	$19

Cumulative effect of change in accounting principle					8,368			(8,368)	—	
Comprehensive income:										
Net income	52,278				445,962				445,962	33,3
Other comprehensive loss								(26,792)	(26,792)	
Stock unit shares issued		146		(448)					(448)	
Stock-settled SAR shares issued		207	1	(4,886)					(4,885)	
Stock-settled stock-based compensation expense				19,832					19,832	
Changes in noncontrolling interest from:										
Distributions	(57,997)									(36,
Contributions	19,176									12,3
Acquisitions and divestitures	665			79					79	(203
Partial purchases	(820)			(12,197)					(12,197)	(206
Fair value remeasurements	22,496			(22,496)					(22,496)	
Purchase of treasury stock						(11,995)	(809,900)		(809,900)	
Balance at June 30, 2018	$1,047,158	182,815	$183	$1,022,783	$4,088,043	(11,995)	$(809,900)	$(21,925)	$4,279,184	$20

See notes to condensed consolidated financial statements

DAVITA INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)
(dollars and shares in thousands, except per share data)

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

1. Condensed consolidated interim financial statements

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

2. Revenue recognition

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

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

The Company’s allowance for doubtful accounts related to performance obligations satisfied prior to the adoption of Topic 606 was $110,962 and $218,399 as of June 30, 2018 and December 31, 2017, respectively.

There are significant risks associated with estimating revenue, which generally take several years to resolve. These estimates are subject to ongoing insurance coverage changes, geographic coverage differences, differing interpretations of contract coverage and other payor issues, as well as patient issues including determining applicable primary and secondary coverage, changes in patient coverage and coordination of benefits. As these estimates are refined over time, both positive and negative adjustments to revenue are recognized in the current period. As a result of changes in these estimates, additional revenue was recognized during the three and six months ended June 30, 2018 associated with performance obligations satisfied in years prior to the adoption of Topic 606 of $8,817 and $76,227, respectively, which includes a benefit of $12,000 and $36,000 for those respective periods from electing to apply Topic 606 only to contracts not substantially completed as of January 1, 2018.

DAVITA INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(continued)
(unaudited)
(dollars and shares in thousands, except per share data)

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

	For the three months ended					
	June 30, 2018			June 30, 2017(1)		
	U.S. dialysis and related lab services	Other - Ancillary services and strategic initiatives	Consolidated	U.S. dialysis and related lab services	Other - Ancillary services and strategic initiatives	Consolidated
Patient service revenues:						
Medicare and Medicare Advantage	$1,526,066	$	$1,526,066	$1,313,504	$	$1,313,504
Medicaid and Managed Medicaid	150,288		150,288	151,286		151,286
Other government	110,338	86,530	196,868	90,712	62,604	153,316
Commercial	796,732	19,139	815,871	764,864	15,324	780,188
Other revenues:						
Medicare and Medicare Advantage		154,028	154,028		225,511	225,511
Medicaid and Managed Medicaid		16,158	16,158		19,020	19,020
Commercial		17,006	17,006		26,812	26,812
Other(2)	4,919	35,034	39,953	4,849	44,322	49,171
Eliminations of intersegment revenues	(20,096)	(9,189)	(29,285)	(13,285)	(6,124)	(19,409)
Total	$2,568,247	$318,706	$2,886,953	$2,311,930	$387,469	$2,699,399

(1) As noted above, prior period amounts have not been adjusted under the cumulative effect method. The Company's dialysis and related lab services revenues for the three months ended June 30, 2017 has been presented net of the provision for uncollectible accounts of $109,600 in this table to conform to the current period presentation.
(2) Other consists of management fees and revenue from the Company's ancillary services and strategic initiatives.

	For the six months ended					
	June 30, 2018			June 30, 2017(1)		
	U.S. dialysis and related lab services	Other - Ancillary services and strategic initiatives	Consolidated	U.S. dialysis and related lab services	Other - Ancillary services and strategic initiatives	Consolidated
Patient service revenues:						
Medicare and Medicare Advantage	$3,011,258	$	$3,011,258	$2,586,100	$	$2,586,100
Medicaid and Managed Medicaid	307,783		307,783	295,871		295,871
Other government	217,458	169,068	386,526	182,704	110,366	293,070
Commercial	1,579,711	38,857	1,618,568	1,521,574	29,206	1,550,780
Other revenues:						
Medicare and Medicare Advantage		296,786	296,786		450,713	450,713
Medicaid and Managed Medicaid		31,949	31,949		37,615	37,615
Commercial		57,427	57,427		52,020	52,020
Other(2)	10,033	73,973	84,006	10,159	91,899	102,058

Eliminations of intersegment revenues	(38,519)	(19,387)	(57,906)	(25,084)	(12,493)	(37,577)
Total	$5,087,724	$648,673	$5,736,397	$4,571,324	$759,326	$5,330,650

(1) As noted above, prior period amounts have not been adjusted under the cumulative effect method. The Company's dialysis and related lab services revenues for the six months ended June 30, 2017 has been presented net of the provision for uncollectible accounts of $216,658 in this table to conform to the current period presentation.

DAVITA INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(continued)
(unaudited)
(dollars and shares in thousands, except per share data)

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

Dialysis and related lab patient service revenues

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

Revenues associated with Medicare and Medicaid programs are estimated based on: (a) the payment rates that are established by statute or regulation for the portion of payment rates paid by the government payor (e.g., 80% for Medicare patients) and (b) for the portion not paid by the primary government payor, estimates of the amounts ultimately collectible from other government programs paying secondary coverage (e.g., Medicaid secondary coverage), the patient's commercial health plan secondary coverage, or the patient. The Company's reimbursements from Medicare are subject to certain variations under Medicare's single bundled payment rate system, whereby reimbursements can be adjusted for certain patient characteristics and other factors. The Company's revenue recognition is estimated based on its judgment regarding its ability to collect, which depends upon its ability to effectively capture, document and bill for Medicare's base payment rate as well as these other variable factors.

Under Medicare's bundled payment rate system, services covered by Medicare are subject to estimating risk, whereby reimbursements from Medicare can vary significantly depending upon certain patient characteristics and other variable factors. Even with the bundled payment rate system, Medicare payments for bad debt claims as established by cost reports require evidence of collection efforts. As a result, billing and collection of Medicare bad debt claims can be delayed significantly and final payment is subject to audit.

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

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

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

Other revenues

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

DAVITA INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(continued)
(unaudited)
(dollars and shares in thousands, except per share data)

3. Earnings per share

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

Diluted earnings per share includes the dilutive effect of outstanding stock-settled stock appreciation rights (SSARs) and unvested stock units (under the treasury stock method) as well as shares held in escrow that the Company expects will remain outstanding.

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Numerators:				
Net income from continuing operations attributable to DaVita Inc.	$199,603	$151,292	$390,618	$592,197
Change in noncontrolling interest redemption rights in excess of fair value	(98)	—	(98)	—
Net income from continuing operations for basic earnings per share calculation	199,505	151,292	390,520	592,197
Net income (loss) from discontinued operations attributable to DaVita Inc.	67,673	(24,291)	55,344	(17,499)
Net income attributable to DaVita Inc. for basic earnings per share calculation	$267,178	$127,001	$445,864	$574,698
Basic:				
Weighted average shares outstanding during the period	173,811	193,282	177,461	193,923
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	171,617	191,088	175,267	191,729
Basic net income from continuing operations per share attributable to DaVita Inc.	$1.16	$0.79	$2.23	$3.09
Basic net income (loss) from discontinued operations per share attributable to DaVita Inc.	0.40	(0.13)	0.31	(0.09)
Basic net income per share attributable to DaVita Inc.	$1.56	$0.66	$2.54	$3.00
Diluted:				
Weighted average shares outstanding during the period	173,811	193,282	177,461	193,923
Assumed incremental shares from stock plans	295	706	489	708
Weighted average shares for diluted earnings per share calculation	174,106	193,988	177,950	194,631
Diluted net income from continuing operations per share attributable to DaVita Inc.	$1.15	$0.78	$2.19	$3.04
Diluted net income (loss) from discontinued operations per share attributable to DaVita Inc.	0.38	(0.13)	0.32	(0.09)
Diluted net income per share attributable to DaVita Inc.	$1.53	$0.65	$2.51	$2.95

Anti-dilutive stock-settled awards excluded from calculation[1]	6,227	3,780	4,840	3,603

(1) Shares associated with stock-settled stock appreciation rights excluded from the diluted denominator calculation because they are antidilutive under the treasury stock method.

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4. Restricted cash and equivalents

The Company had restricted cash and cash equivalents of $90,884 and $10,686 at June 30, 2018 and December 31, 2017, respectively. Approximately $78,513 of the balance at June 30, 2018 represents restricted cash equivalents held in trust to satisfy insurer and state regulatory requirements related to the Company's self-insurance for professional and general liability and workers' compensation risks administered by wholly-owned captive insurance entities. Prior to the first quarter of 2018, these requirements were satisfied by a letter of credit rather than restricted cash held in trust. The remaining restricted cash and equivalents held at June 30, 2018 and December 31, 2017 primarily represent cash pledged to third parties in connection with two of the Company's ancillary and strategic initiatives businesses.

5. Short-term and long-term investments

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

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

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

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

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

	June 30, 2018			December 31, 2017		
	Debt securities	Equity securities	Total	Debt securities	Equity securities	Total
Certificates of deposit and other time deposits	$2,228	$—	$2,228	$31,630	$—	$31,630
Investments in mutual funds and common stock	—	36,500	36,500	—	38,895	38,895
	$2,228	$36,500	$38,728	$31,630	$38,895	$70,525
Short-term investments	$2,228	$2,300	$4,528	$31,630	$1,200	$32,830
Long-term investments	—	34,200	34,200	—	37,695	37,695
	$2,228	$36,500	$38,728	$31,630	$38,895	$70,525

Debt securities: The Company's short-term debt investments are principally bank certificates of deposit with contractual maturities longer than three months but shorter than one year. These debt securities are accounted for as held to maturity and recorded at amortized cost, which approximates their fair values at June 30, 2018 and December 31, 2017.
Equity securities: The Company's equity investments in mutual funds and common stock are held within a trust to fund existing obligations associated with several of the Company’s non-qualified deferred compensation plans. During the six months ended June 30, 2018, the Company recognized pre-tax net gains of $619 in the income statement associated with

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changes in the fair value of these equity securities, comprised of pre-tax realized gains of $3,904 and a net decrease in unrealized gains of $3,285. During the six months ended June 30, 2017, the Company recognized pre-tax realized gains on the sale or redemption of equity securities of $346, or $211 after-tax, which was previously recorded in other comprehensive income.

6. Equity method and other investments

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

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

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

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

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

Total equity method and other investments in nonconsolidated businesses were $249,020 and $245,534 at June 30, 2018 and December 31, 2017, respectively. During the six months ended June 30, 2018 and 2017, the Company recognized equity investment income of $9,950 and loss of $148, respectively, from equity method investments in nonconsolidated businesses.

The Company's largest equity method investment is its ownership interest in DaVita Care Pte. Ltd. (the APAC JV), which was carried at $155,802 and $160,481 at June 30, 2018 and December 31, 2017, respectively. The Company recognized a non-cash other-than-temporary impairment on this investment of $280,066 in the fourth quarter of 2017. As of June 30, 2018 and December 31, 2017, the Company holds a 60% voting interest and a 73.3% current economic interest in the APAC JV. Based on the governance structure and voting rights established for the APAC JV at its formation on August 1, 2016, certain key decisions affecting the joint venture’s operations are not subject to the unilateral discretion of the Company, but rather are shared with the other noncontrolling investors. These other noncontrolling investors currently collectively hold a 40% voting interest and a 26.7% economic interest in the APAC JV, and their economic interests are expected to increase to match their voting interests in the joint venture as they make additional subscribed capital contributions through August 1, 2019.

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7. Goodwill

Changes in goodwill by reportable segment were as follows:

	U.S. dialysis and related lab services	Other-ancillary services and strategic initiatives	Consolidated total
Balance at January 1, 2017	$ 5,691,587	$ 323,788	$ 6,015,375
Acquisitions	485,434	131,598	617,032
Divestitures	(32,260)	(126)	(32,386)
Goodwill impairment charges	—	(36,196)	(36,196)
Foreign currency and other adjustments	—	46,454	46,454
Balance at December 31, 2017	$ 6,144,761	$ 465,518	$ 6,610,279
Acquisitions	6,357	99,863	106,220
Divestitures	(218)	(15,166)	(15,384)
Goodwill impairment charges	—	(3,106)	(3,106)
Foreign currency and other adjustments	—	(19,450)	(19,450)
Balance at June 30, 2018	$ 6,150,900	$ 527,659	$ 6,678,559
Balance at June 30, 2018:			
Goodwill	$ 6,150,900	$ 561,937	$ 6,712,837
Accumulated impairment charges	—	(34,278)	(34,278)
	$ 6,150,900	$ 527,659	$ 6,678,559

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

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

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

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

During the three and six months ended June 30, 2018, the Company performed scheduled annual and other reporting unit goodwill impairment assessments, including for the Company’s Brazil dialysis and German integrated healthcare businesses. As a result, the Company recognized a goodwill impairment charge of $3,106 at its German integrated healthcare business.

During the three and six months ended June 30, 2017, the Company recognized goodwill impairment charges of $10,498 and $34,696, respectively, at the Company’s vascular access reporting unit. These charges resulted primarily from continuing changes in the Company's outlook for this business as the Company's partners and operators continued to evaluate potential changes in operations, including termination of their management services agreements and center closures, as a result of recent changes in Medicare reimbursement. There is no goodwill remaining at the

Company's vascular access reporting unit.

As of June 30, 2018, the Company’s Brazil dialysis business had a goodwill balance of $54,940 with an excess of estimated fair value over its carrying amount as of the latest assessment date of 9.8%. Future reductions in reimbursement rates,

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changes in actual or expected growth rates, or other significant adverse changes in expected future cash flows or valuation assumptions could result in goodwill impairment charges in the future for this Brazil dialysis business. As of the latest assessment date, the potential impact on estimated fair value of a sustained, long-term reduction of 3% in operating income was (2.5)% and the potential impact on estimated fair value of an increase in discount rates of 100 basis points was (7.3)%.

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

8. Income taxes

As of June 30, 2018, the Company’s total liability for unrecognized tax benefits relating to tax positions that do not meet the more-likely-than-not threshold was $39,966, of which $37,123 would impact the Company's effective tax rate if recognized. The total balance increased $7,190 from the December 31, 2017 balance of $32,776.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in its income tax expense. At June 30, 2018 and December 31, 2017, the Company had approximately $6,642 and $4,195, respectively, accrued for interest and penalties related to unrecognized tax benefits, net of federal tax benefits.

The Company performed a provisional analysis of the Tax Cuts and Jobs Act of 2017 (2017 Tax Act) and recorded a reasonable estimate at December 31, 2017. The Company is in the process of completing its analysis with regards to the 2017 Tax Act and will record any adjustments to its estimate on or before December 22, 2018, with any adjustments to be recorded to income tax expense in the period when the adjustments are determined. As of June 30, 2018, the Company has not made any material adjustments to the December 31, 2017 estimates.

9. Long-term debt

Long-term debt was comprised of the following:

	June 30, 2018	December 31, 2017
Senior secured credit facilities:		
Term Loan A	$725,000	$775,000
Term Loan A-2	952,000	—
Term Loan B	3,360,000	3,377,500
Revolver	—	300,000
Senior notes	4,500,000	4,500,000
Acquisition obligations and other notes payable	172,692	150,512
Capital lease obligations	292,296	297,170
Total debt principal outstanding	10,001,988	9,400,182
Discount and deferred financing costs	(57,901)	(63,951)
	9,944,087	9,336,231
Less current portion	(1,768,514)	(178,213)
	$8,175,573	$9,158,018

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

2018 (remainder of the year)	95,011
2019	1,712,246
2020	74,792
2021	3,311,046
2022	1,287,741
2023	162,580
Thereafter	3,358,572

On March 29, 2018, the Company entered into an Increase Joinder No. 1 (Increase Joinder Agreement) under its existing senior secured credit facilities. Pursuant to this Increase Joinder Agreement, the Company entered into an additional $995,000 Term Loan A-2. The new Term Loan A-2 bears interest at LIBOR plus an interest rate margin of 1.00%. As of June 30, 2018, the Company had drawn $952,000 of the Term Loan A-2. The remaining amount of $43,000 on Term Loan A-2 was drawn subsequent to June 30, 2018.

During the first six months of 2018, the Company made mandatory principal payments under its senior secured credit facilities totaling $50,000 on Term Loan A and $17,500 on Term Loan B.

As of June 30, 2018, the Company maintains 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 designated as cash flow hedges and, as a result, changes in the fair values of these cap agreements are reported in other comprehensive income. The amortization of the original cap premium is recognized as a component of debt expense on a straight-line basis over the terms of the cap agreements. The cap agreements do not contain credit-risk contingent features.

On June 30, 2018, the Company's interest rate cap agreements that were entered into in November 2014 with notional amounts totaling $3,500,000 expired. These cap agreements became effective September 30, 2016 and had the economic effect of capping the LIBOR variable component of the Company’s interest rate at a maximum of 3.50% on an equivalent amount of the Company’s debt. During the six months ended June 30, 2018, the Company recognized debt expense of $4,140 from these cap agreements and recorded an immaterial loss in other comprehensive income due to a decrease in unrealized fair value of these cap agreements.

As of June 30, 2018, the Company maintains several currently effective interest rate cap agreements that were entered into in October 2015 with notional amounts totaling $3,500,000. These cap agreements became effective June 29, 2018 and have the economic effect of capping the LIBOR variable component of the Company’s interest rate at a maximum of 3.50% on an equivalent amount of its debt. These cap agreements expire on June 30, 2020. As of June 30, 2018, the total fair value of these cap agreements was an asset of approximately $2,085. During the six months ended June 30, 2018, the Company recorded a gain of $1,053 in other comprehensive income due to an increase in the unrealized fair value of these cap agreements.

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

	June 30, 2018		December 31, 2017	
Derivatives designated as hedging instruments	Balance sheet location	Fair value	Balance sheet location	Fair value
Interest rate cap agreements	Other long-term assets	$ 2,085	Other long-term assets	$ 1,032

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

	Amount of unrecognized gains (losses) in OCI on interest rate cap agreements				Location of losses reclassified from accumulated OCI into income	Amount of losses reclassified from accumulated OCI into income			
	Three months ended June 30,		Six months ended June 30,			Three months ended June 30,		Six months ended June 30,	
Derivatives designated as cash flow hedges	2018	2017	2018	2017		2018	2017	2018	2017
Interest rate cap agreements	$(361)	$(2,969)	$1,053	$(8,186)	Debt expense	$2,070	$2,070	$4,140	$4,139
Tax benefit (expense)	93	1,154	(271)	3,184	Tax expense	(533)	(805)	(1,066)	(1,610)
Total	$(268)	$(1,815)	$782	$(5,002)		$1,537	$1,265	$3,074	$2,529

As of June 30, 2018, the Company's Term Loan B debt bears interest at LIBOR plus an interest rate margin of 2.75%. Term Loan B is subject to interest rate caps if LIBOR should rise above 3.50%. Term Loan A bears interest at LIBOR plus an interest rate margin of 2.00%. The capped portion of Term Loan A is $140,000 if LIBOR should rise above 3.50%. In addition, the uncapped portion of Term Loan A, which is subject to the variability of LIBOR, is $585,000. Term Loan A-2 is subject to the variability of LIBOR plus an interest rate margin of 1.00%. Interest rates on the Company's senior notes are fixed by their terms.

The Company's weighted average effective interest rate on the senior secured credit facilities at the end of the second quarter was 4.72%, based on the current margins in effect of 2.00% for Term Loan A, 1.00% for Term Loan A-2, and 2.75% for Term Loan B, as of June 30, 2018.

The Company's overall weighted average effective interest rate during the quarter ended June 30, 2018 was 4.91% and as of June 30, 2018 was 4.99%.

As of June 30, 2018, the Company's interest rates are fixed on approximately 48.8% of its total debt.

As of June 30, 2018, the Company had undrawn revolving credit facilities totaling $1,000,000, of which approximately $14,355 was committed for outstanding letters of credit. The remaining amount is unencumbered. The Company also has approximately $22,351 of additional outstanding letters of credit related to its Kidney Care business and $211 of committed outstanding letters of credit related to DaVita Medical Group (DMG), which is backed by a certificate of deposit.

10. Contingencies

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

The Company operates in a highly regulated industry and is a party to various lawsuits, claims, qui tam suits, governmental investigations and audits (including investigations resulting from its obligation to self-report suspected violations of law) and other legal proceedings. The Company records accruals for certain legal proceedings and regulatory matters to the extent that the Company determines an unfavorable outcome is probable and the amount of the loss can be reasonably estimated. As of June 30, 2018 and December 31, 2017, the Company's total recorded accruals, including DMG, with respect to legal proceedings and regulatory matters, net of anticipated third party recoveries, were immaterial. While these accruals reflect the Company's best estimate of the probable loss for those matters as of the dates of those accruals, the recorded amounts may differ materially from the actual amount of the losses for those matters, and any anticipated third party recoveries for any such losses may not ultimately be recoverable. Additionally, in some cases, no estimate of the possible loss or range of loss in excess of amounts accrued, if any, can be made because of the inherently unpredictable nature of legal proceedings and regulatory matters, which also may be impacted by various factors, including that they may involve indeterminate claims for monetary damages or may involve fines, penalties or non-monetary remedies; present novel legal theories or legal uncertainties; involve disputed facts; represent a shift in regulatory policy; are in the early stages of the proceedings; or result in a change of business practices. Further, there may be various levels of judicial review available to the Company in connection with any such proceeding.

The following is a description of certain lawsuits, claims, governmental investigations and audits and other legal proceedings to which the Company is subject.

Inquiries by the Federal Government and Certain Related Civil Proceedings

2015 U.S. Office of Inspector General (OIG) Medicare Advantage Civil Investigation: In March 2015, JSA HealthCare Corporation (JSA), a subsidiary of DMG, received a subpoena from the Office of Inspector General (OIG) for the U.S. Department of Health and Human Services (HHS) requesting documents and information for the period from January 1, 2008 through December 31, 2013, for certain MA plans for which JSA provided services. It also requests information regarding JSA’s communications about patient diagnoses as they relate to certain MA 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 civil subpoena from the OIG covering the period from January 1, 2008 through the present and seeking production of a wide range of documents relating to the Company’s and its subsidiaries’ (including DMG’s and its subsidiary JSA’s) provision of services to MA 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 MA 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 HealthCare Partners (now known as the Company's DMG business), and the Company notified Centers for Medicare and Medicaid Services (CMS) in April 2015 of the coding practice and potential overpayments. In that regard, the Company has identified certain additional coding practices which may have been problematic, some of which were the subject of the previously disclosed and dismissed Swoben Private Civil Suit, and is in discussions with the DOJ relating to those practices. The Company is cooperating with the government. In connection with the Company's acquisition of DMG in 2012, 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.

2016 U.S. Attorney Texas Investigation: In early February 2016, the Company announced that its pharmacy services wholly-owned subsidiary, DaVita Rx, LLC, (DaVita Rx) received a Civil Investigative Demand (CID) from the U.S. Attorney’s Office for the Northern District of Texas. The government is conducting a federal False Claims Act (FCA) investigation concerning allegations that DaVita Rx presented or caused to be presented false claims for payment to the government for prescription medications, as well as into the Company’s 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, including potential write-offs and discounts of patient co-payment obligations, and credits to payors for returns of prescription drugs related to DaVita Rx. The Company notified the government in September

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

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payment and $22,200 was for amounts previously refunded, and all of which was previously accrued. The government's investigation into certain of the Company's relationships with pharmaceutical manufacturers is ongoing, and in July 2018 the government served an HHS-OIG subpoena seeking additional documents and information relating to those relationships. The Company is continuing to cooperate with the government in this investigation.

2017 U.S. Attorney Massachusetts Investigation: In January 2017, the Company was served with an administrative subpoena for records by the U.S. Attorney's Office, District of Massachusetts, relating to an investigation into possible federal health care offenses. The subpoena covers the period from January 1, 2007 through the present, and seeks documents relevant to charitable patient assistance organizations, particularly the American Kidney Fund, including documents related to efforts to provide patients with information concerning the availability of charitable assistance. The Company is cooperating with the government.

2017 U.S. Attorney Colorado Investigation: In November 2017, the U.S. Attorney's Office, District of Colorado informed the Company of an investigation it was conducting into possible federal health care offenses involving DaVita Kidney Care, as well as several of the Company's wholly-owned subsidiaries, including DMG, DaVita Rx, DaVita Laboratory Services, Inc. (DaVita Labs), and RMS Lifeline Inc. (Lifeline). There is overlap between the Colorado investigation and the other reported investigations concerning DMG and DaVita Rx. The Company is cooperating with the government.

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

2018 U.S. Attorney Florida Investigation: In March 2018, DaVita Labs, received two CIDs from the U.S. Attorney's Office, Middle District of Florida that were identical in nature but directed to the two different labs. According to the face of the CIDs, the U.S. Attorney's Office is conducting an investigation as to whether the Company's subsidiary submitted claims for blood, urine, and fecal testing, where there were insufficient test validation or stability studies to ensure accurate results, in violation of the False Claims Act. The Company is cooperating with the government.

* * *

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

Shareholder and Derivative Claims

Peace Officers' Annuity and Benefit Fund of Georgia Securities Class Action Civil Suit: On February 1, 2017, the Peace Officers' Annuity and Benefit Fund of Georgia filed a putative federal securities class action complaint in the U.S. District Court for the District of Colorado against the Company and certain executives. The complaint covers the time period of August 2015 to October 2016 and alleges, generally, that the Company and its executives violated federal securities laws concerning the Company's financial results and revenue derived from patients who received charitable premium assistance from an industry-funded non-profit organization. The complaint further alleges that the process by which patients obtained commercial insurance and received charitable premium assistance was improper and "created a false impression of DaVita’s business and operational status and future growth prospects." In November 2017, the court appointed the lead plaintiff and an amended complaint was filed on January 12, 2018. On March 27, 2018, the Company and various individual defendants filed a motion to dismiss. The plaintiffs filed an opposition to the motion to dismiss on June 6, 2018. The Company filed a reply in support of the motion on July 19, 2018. The Company disputes these allegations and intends to defend this action accordingly.

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In re DaVita Inc. Stockholder Derivative Litigation: On August 15, 2017, the U.S. District Court for the District of Delaware consolidated three previously disclosed shareholder derivative lawsuits: the Blackburn Shareholder action filed on February 10, 2017, the Gabilondo Shareholder action filed on May 30, 2017, and the City of Warren Police and Fire Retirement System Shareholder action filed on June 9, 2017. The complaint covers the time period from 2015 to present and alleges, generally, breach of fiduciary duty, unjust enrichment, abuse of control, gross mismanagement, corporate waste, and misrepresentations and/or failures to disclose certain information in violation of the federal securities laws in connection with an alleged practice to direct patients with government-subsidized health insurance into private health insurance plans to maximize the Company's profits. An amended complaint was filed in September 2017, and on December 18, 2017 the Company filed a motion to dismiss and a motion to stay proceedings in the alternative. The plaintiffs filed an opposition to the motion to dismiss on March 9, 2018. On June 25, 2018, the U.S. District Court for the District of Delaware granted the Company's motion to stay proceedings and stayed the case until November 1, 2018. The Company disputes these allegations and intends to defend this action accordingly.

Other Proceedings

White, Kathleen, et al. v. DaVita Healthcare Partners, Inc., Civil Action No. 15-cv-2106, U.S. District Court for the District of Colorado: Three actions (Menchaca v. DaVita Healthcare Partners, Inc., Saldana v. DaVita Healthcare Partners, Inc. and Hardin v. DaVita Healthcare Partners, Inc.) were consolidated in December 2016 into one action in U.S. District Court for the District of Colorado. In all three actions, the plaintiffs brought claims for wrongful death, negligence and fraudulent concealment related to Granuflo®, a product used as a component of the dialysis process. The Menchaca and Saldana actions arose out of the treatment of patients in California, while the Hardin action arose out of the treatment of a patient in Illinois. On June 27, 2018, the jury returned a verdict in favor of the plaintiffs, collectively awarding $8,500 in compensatory damages and $375,000 in punitive damages. The Company intends to challenge the verdict and damage awards through post-trial motions and, if necessary, an appeal of the judgment. The Company has recorded a liability of its estimate of probable damages and awards that may be paid in this case. The Company intends to seek recovery from insurers, indemnitors and the like to cover any ultimate damages and awards relating to this matter; however, the Company can make no assurances that any such recoveries will cover the full amount of the Company's potential losses related to this matter. The net amounts recorded are not material to the financial results in the period.

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

Resolved Matters

2011 Suit against the U.S. Department of Veterans Affairs: As previously disclosed, the Company had a pending lawsuit in the U.S. Court of Federal Claims against the federal government which was originally filed in May 2011. The lawsuit related to the U.S. Department of Veterans Affairs (VA) underpayment of dialysis services the Company provided from 2005 through 2011 to veterans pursuant to VA regulations. In the first quarter of 2017, the Company received a payment of $538,000 related to the settlement with the VA. The Company's consolidated entities recognized a net gain of $527,000 on this settlement. The Company's nonconsolidated and managed entities recognized a gain of $9,000, of which the Company's equity investment share was $3,000. The net effect was a net increase of $530,000 to the Company's operating income.

* * *

Other than as described above, the Company cannot predict the ultimate outcomes of the various legal proceedings and regulatory matters to which the Company is or may be subject from time to time, including those described in this Note 10 to these condensed consolidated financial statements, or the timing of their resolution or the ultimate losses or impact of developments in those matters, which could have a material adverse effect on the Company's revenues, earnings and cash flows. Further, any legal proceedings or regulatory matters involving the Company, whether meritorious or not, are time consuming, and often require management's attention and result in significant legal expense, and may result in the diversion of significant operational resources, or otherwise harm the Company's business, financial results or reputation.

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11. Noncontrolling interests subject to put provisions and other commitments

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

The Company has certain other potential commitments to provide operating capital to a number of dialysis centers that are wholly-owned by third parties or businesses in which the Company maintains a noncontrolling equity interest as well as to physician-owned vascular access clinics or medical practices that the Company operates under management and administrative services agreements of approximately $5,446.

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

12. Long-term incentive compensation

Long-term incentive program (LTIP) compensation includes both stock-based awards (principally stock-settled stock appreciation rights, restricted stock units, and performance stock units) 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, corporate administrative support, and ancillary services and strategic initiatives.

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

During the six months ended June 30, 2018, the Company granted 1,780 stock-settled stock appreciation rights with an aggregate grant-date fair value of $28,630 and a weighted-average expected life of approximately 4.2 years and 1,094 stock units with an aggregate grant-date fair value of $72,469 and a weighted-average expected life of approximately 3.4 years.

For the six months ended June 30, 2018 and 2017, the Company recognized $31,301 and $27,183, respectively, in total LTIP expense, of which $20,717 and $16,404, respectively, represented stock-based compensation expense for stock appreciation rights, restricted 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 six months ended June 30, 2018 and 2017 was $3,941 and $5,636, respectively.

As of June 30, 2018, the Company had $153,984 of total estimated but unrecognized compensation expense for outstanding LTIP awards, including $128,115 related to stock-based compensation arrangements under the Company's equity

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compensation and employee stock purchase plans. The Company expects to recognize the performance-based cash component of these LTIP costs over a weighted average remaining period of 1.0 year and the stock-based component of these LTIP costs over a weighted average remaining period of 1.7 years.

For the six months ended June 30, 2018 and 2017, the Company recognized $7,671 and $5,693, respectively, in actual tax benefits upon the exercise of stock awards.

13. Share repurchases

During the six months ended June 30, 2018, the Company repurchased a total of 11,995 shares of its common stock for $809,900 at an average price of $67.52 per share. The Company also repurchased 3,872 shares of its common stock for $272,902 at an average price of $70.48 per share, subsequent to June 30, 2018 through July 31, 2018.

On July 11, 2018, the Company's Board of Directors approved an additional share repurchase authorization in the amount of $1,389,999. This share repurchase authorization was in addition to the $110,001 remaining at that time under the Company’s Board of Directors’ prior share repurchase authorization approved in October 2017. Accordingly, as of July 31, 2018, the Company has a total of $1,426,313 remaining available under the current Board repurchase authorizations for additional share repurchases. Although these share repurchase authorizations do not have expiration dates, the Company remains subject to share repurchase limitations under the terms of its senior secured credit facilities and the indentures governing its senior notes.

14. Accumulated other comprehensive (loss) income

	For the three months ended June 30, 2018				For the six months ended June 30, 2018			
	Interest rate cap agreements	Investment securities	Foreign currency translation adjustments	Accumulated other comprehensive income (loss)	Interest rate cap agreements	Investment securities	Foreign currency translation adjustments	Accumulated other comprehensive income (loss)
Beginning balance	$(12,527)		$39,862	$27,335	$(12,408)	$5,662	$19,981	$13,235
Cumulative effect of change in accounting principle[1]	—		—	—	(2,706)	(5,662)	—	(8,368)
Unrealized (losses) gains	(361)		(50,529)	(50,890)	1,053	—	(30,648)	(29,595)
Related income tax benefit (expense)	93		—	93	(271)	—	—	(271)
	(268)		(50,529)	(50,797)	782	—	(30,648)	(29,866)
Reclassification from accumulated other comprehensive income into net income	2,070		—	2,070	4,140	—	—	4,140
Related income tax benefit (expense)	(533)		—	(533)	(1,066)	—	—	(1,066)
	1,537		—	1,537	3,074	—	—	3,074
Ending balance	$(11,258)		$(10,667)	$(21,925)	$(11,258)	$—	$(10,667)	$(21,925)

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

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	For the three months ended June 30, 2017				For the six months ended June 30, 2017			
	Interest rate cap agreements	Investment securities	Foreign currency translation adjustments	Accumulated other comprehensive (loss) income	Interest rate cap and swap agreements	Investment securities	Foreign currency translation adjustments	Accumulated other comprehensive (loss) income
Beginning balance	$(13,952)	$ 3,594	$(66,528)	$ (76,886)	$(12,029)	$ 2,175	$(79,789)	$ (89,643)
Unrealized (losses) gains	(2,969)	1,446	49,142	47,619	(8,186)	3,428	62,403	57,645
Related income tax benefit (expense)	1,154	(389)	—	765	3,184	(812)	—	2,372
	(1,815)	1,057	49,142	48,384	(5,002)	2,616	62,403	60,017
Reclassification from accumulated other comprehensive income into net income	2,070	(117)	—	1,953	4,139	(346)	—	3,793
Related income tax (expense) benefit	(805)	46	—	(759)	(1,610)	135	—	(1,475)
	1,265	(71)	—	1,194	2,529	(211)	—	2,318
Ending balance	$(14,502)	$ 4,580	$(17,386)	$ (27,308)	$(14,502)	$ 4,580	$(17,386)	$ (27,308)

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

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

15. Acquisitions and divestitures

Routine acquisitions

During the six months ended June 30, 2018, the Company acquired dialysis businesses consisting of two dialysis centers located in the U.S. and 18 dialysis centers located outside the U.S. for a total of $88,185 in net cash, $15,968 in deferred purchase price obligations, and $4,900 in liabilities assumed and earn-out obligations. The assets and liabilities for these acquisitions were recorded at their estimated fair values at the dates of the acquisitions and are included in the Company's condensed consolidated financial statements, as are their operating results, from the designated effective dates of the acquisitions.

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

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

Current assets	$8,854
Property and equipment	4,303
Intangible and other long-term assets	1,486
Goodwill	106,220
Current liabilities	(10,290)
Long-term liabilities	(171)
Noncontrolling interests	(1,349)
	$109,053

Amortizable intangible assets acquired during the first six months of 2018 primarily represent non-compete agreements which had weighted-average estimated useful lives of approximately five years. The total estimated amount of goodwill deductible for tax purposes associated with these acquisitions was approximately $100,885.

Sale of Paladina Health

Effective June 1, 2018 the Company sold 100% of the equity of DaVita DPC Holding Co., LLC (Paladina Health), our direct primary care business, resulting in an initial estimated gain of $35,205.

Contingent earn-out obligations

The Company has several contingent earn-out obligations associated with acquisitions that could result in the Company paying the former owners of acquired companies a total of up to $14,333 if certain EBITDA, operating income performance targets or quality margins are met primarily over the next one to five years.

Contingent earn-out obligations are remeasured at fair value at each reporting date until the contingencies are resolved with changes in the liability due to the remeasurement recorded in earnings. See Note 18 to these condensed consolidated financial statements for further details. As of June 30, 2018, the Company has estimated the fair value of its contingent earn-out obligations to be $7,489, of which a total of $438 is included in other liabilities and the remaining $7,051 is included in other long-term liabilities in the Company's consolidated balance sheet.

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

	For the six months ended June 30, 2018
Beginning balance	$6,388
Contingent earn-out obligations associated with acquisitions	1,436
Remeasurement of fair value for contingent earn-out obligations	(335)
Ending balance	$7,489

16. Held for sale and discontinued operations

DaVita Medical Group

In December 2017, the Company entered into an equity purchase agreement to sell its DMG division to Collaborative Care Holdings, LLC (Optum), a subsidiary of UnitedHealth Group Inc., for $4,900,000 in cash, subject to net working capital and other customary adjustments. The transaction is expected to close in 2018 and is subject to regulatory approvals and other customary closing conditions. As a result of this pending transaction, the DMG business has been classified as held for sale and its results of operations are reported as discontinued operations for all periods presented in these condensed consolidated financial statements.

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Revenues	$1,252,430	$1,196,066	$2,480,362	$2,283,050
Expenses	1,192,528	1,157,901	2,418,935	2,232,352
Goodwill impairment charges	—	50,619	—	50,619
Income (loss) from discontinued operations before taxes	59,902	(12,454)	61,427	79
Income tax benefit (expense)	9,794	(12,066)	2,483	(18,166)
Net income (loss) from discontinued operations, net of tax	$69,696	$(24,520)	$63,910	$(18,087