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 March 31, 2019

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 (720) 631-2100

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

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

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☐		

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	**Trading symbol(s):**	**Name of each exchange on which registered:**
Common Stock, $0.001 par value	**DVA**	**New York Stock Exchange**

As of May 3, 2019, the number of shares of the Registrant's common stock outstanding was approximately 166.4 million shares.

DAVITA INC.
INDEX

		Page No.
	PART I. FINANCIAL INFORMATION	
Item 1.	Condensed Consolidated Financial Statements:	
	Consolidated Statements of Income for the three months ended March 31, 2019 and March 31, 2018	1
	Consolidated Statements of Comprehensive Income for the three months ended March 31, 2019 and March 31, 2018	2
	Consolidated Balance Sheets as of March 31, 2019 and December 31, 2018	3
	Consolidated Statements of Cash Flows for the three months ended March 31, 2019 and March 31, 2018	4
	Consolidated Statements of Equity for the three months ended March 31, 2019 and March 31, 2018	5
	Notes to Condensed Consolidated Financial Statements	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	36
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	50
Item 4.	Controls and Procedures	50
	PART II. OTHER INFORMATION	
Item 1.	Legal Proceedings	51
Item 1A.	Risk Factors	51
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	84
Item 5.	Other Information	85
Item 6.	Exhibits	85
	Signature	87

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 March 31,	
	2019	**2018**
Dialysis and related lab patient service revenues	$ 2,635,152	$ 2,591,074
Provision for uncollectible accounts	(5,463)	25,545
Net dialysis and related lab patient service revenues	2,629,689	2,616,619
Other revenues	113,423	232,825
Total revenues	2,743,112	2,849,444
Operating expenses and charges:		
Patient care costs	1,964,935	2,035,585
General and administrative	250,813	266,529
Depreciation and amortization	148,528	142,799
Equity investment income	(2,708)	(155)
Provision for uncollectible accounts	—	(6,000)
Goodwill impairment charges	41,037	—
Total operating expenses and charges	2,402,605	2,438,758
Operating income	340,507	410,686
Debt expense	(131,519)	(113,516)
Other income, net	6,940	4,582
Income from continuing operations before income taxes	215,928	301,752
Income tax expense	56,746	70,737
Net income from continuing operations	159,182	231,015
Net income (loss) from discontinued operations, net of tax	30,305	(5,786)
Net income	189,487	225,229
Less: Net income attributable to noncontrolling interests	(40,198)	(46,543)
Net income attributable to DaVita Inc.	$ 149,289	$ 178,686
Earnings per share attributable to DaVita Inc.:		
Basic net income from continuing operations per share	$ 0.72	$ 1.07
Basic net income per share	$ 0.90	$ 1.00
Diluted net income from continuing operations per share	$ 0.72	$ 1.05
Diluted net income per share	$ 0.90	$ 0.98
Weighted average shares for earnings per share:		
Basic	166,387,958	178,957,865
Diluted	166,780,657	181,834,547
Amounts attributable to DaVita Inc.:		
Net income from continuing operations	$ 120,254	$ 191,015
Net income (loss) from discontinued operations	29,035	(12,329)
Net income attributable to DaVita Inc.	$ 149,289	$ 178,686

See notes to condensed consolidated financial statements.

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

	Three months ended March 31,	
	2019	**2018**
Net income	$ 189,487	$ 225,229
Other comprehensive income, net of tax:		
Unrealized (losses) gains on interest rate cap agreements:		
Unrealized (losses) gains	(580)	1,050
Reclassifications of net realized losses into net income	1,606	1,537
Unrealized (losses) gains on foreign currency translation:		
Foreign currency translation adjustments	(13,653)	19,881
Other comprehensive (loss) income	(12,627)	22,468
Total comprehensive income	176,860	247,697
Less: Comprehensive income attributable to noncontrolling interests	(40,198)	(46,543)
Comprehensive income attributable to DaVita Inc.	$ 136,662	$ 201,154

See notes to condensed consolidated financial statements.

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

	March 31, 2019	December 31, 2018
ASSETS		
Cash and cash equivalents	$ 459,242	$ 323,038
Restricted cash and equivalents	102,192	92,382
Short-term investments	4,035	2,935
Accounts receivable, net	1,953,422	1,858,608
Inventories	104,236	107,381
Other receivables	489,581	469,796
Income tax receivable	42,650	68,614
Prepaid and other current assets	64,770	111,840
Current assets held for sale, net	6,004,948	5,389,565
Total current assets	9,225,076	8,424,159
Property and equipment, net of accumulated depreciation of $3,538,992 and $3,524,098	3,392,266	3,393,669
Operating lease right-of-use assets	2,736,536	—
Intangible assets, net of accumulated amortization of $82,265 and $80,566	118,324	118,846
Equity method and other investments	226,309	224,611
Long-term investments	34,414	35,424
Other long-term assets	73,651	71,583
Goodwill	6,799,368	6,841,960
	$ 22,605,944	$ 19,110,252
LIABILITIES AND EQUITY		
Accounts payable	$ 365,192	$ 463,270
Other liabilities	572,944	595,850
Accrued compensation and benefits	495,327	658,913
Current portion of operating leases liabilities	367,413	—
Current portion of long-term debt	4,676,691	1,929,369
Current liabilities held for sale	1,753,310	1,243,759
Total current liabilities	8,230,877	4,891,161
Long-term operating leases liabilities	2,625,776	—
Long-term debt	5,787,013	8,172,847
Other long-term liabilities	143,756	450,669
Deferred income taxes	588,805	562,536
Total liabilities	17,376,227	14,077,213
Commitments and contingencies:		
Noncontrolling interests subject to put provisions	1,143,044	1,124,641
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; 166,396,147 and 166,387,307 shares issued and outstanding, respectively)	166	166
Additional paid-in capital	990,380	995,006
Retained earnings	2,932,359	2,743,194
Accumulated other comprehensive loss	(47,551)	(34,924)
Total DaVita Inc. shareholders' equity	3,875,354	3,703,442
Noncontrolling interests not subject to put provisions	211,319	204,956
Total equity	4,086,673	3,908,398
	$ 22,605,944	$ 19,110,252

See notes to condensed consolidated financial statements.

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

	Three months ended March 31,	
	2019	2018
Cash flows from operating activities:		
Net income	$ 189,487	$ 225,229
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	148,528	142,799
Impairment charges	41,037	—
Stock-based compensation expense	12,110	9,685
Deferred income taxes	41,372	43,617
Equity investment (loss) income, net	(337)	3,564
Other non-cash charges, net	1,720	9,959
Changes in operating assets and liabilities, net of effect of acquisitions and divestitures:		
Accounts receivable	(132,292)	(63,701)
Inventories	3,324	57,621
Other receivables and other current assets	1,199	(34,120)
Other long-term assets	(1,997)	2,054
Accounts payable	(38,537)	(62,830)
Accrued compensation and benefits	(173,583)	(62,550)
Other current liabilities	17,236	49,379
Income taxes	32,502	30,772
Other long-term liabilities	(465)	11,061
Net cash provided by operating activities	141,304	362,539
Cash flows from investing activities:		
Additions of property and equipment	(198,878)	(232,443)
Acquisitions	(11,274)	(16,582)
Proceeds from asset and business sales	13,903	18,535
Purchase of other debt and equity investments	(3,290)	(2,646)
Purchase of investments held-to-maturity	(209)	(3,586)
Proceeds from sale of other debt and equity investments	3,302	5,151
Proceeds from investments held-to-maturity	—	31,454
Purchase of equity investments	(4,067)	(2,476)
Distributions received on equity investments	155	2,465
Net cash used in investing activities	(200,358)	(200,128)
Cash flows from financing activities:		
Borrowings	17,133,464	13,306,898
Payments on long-term debt and other financing costs	(16,776,267)	(13,202,225)
Purchase of treasury stock	—	(290,377)
Distributions to noncontrolling interests	(44,230)	(45,467)
Stock award exercises and other share issuances, net	1,517	(1,185)
Contributions from noncontrolling interests	18,947	12,009
Purchases of noncontrolling interests	(8,480)	(2,200)
Net cash provided by (used in) financing activities	324,951	(222,547)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(921)	6,668
Net increase (decrease) in cash, cash equivalents and restricted cash	264,976	(53,468)
Less: Net increase in cash, cash equivalents and restricted cash from discontinued operations	118,962	17,834
Net increase (decrease) in cash, cash equivalents and restricted cash from continuing operations	146,014	(71,302)
Cash, cash equivalents and restricted cash of continuing operations at beginning of the year	415,420	518,920
Cash, cash equivalents and restricted cash of continuing operations at end of the period	$ 561,434	$ 447,618

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 income	Total	
		Shares	Amount			Shares	Amount			
Balance at January 1, 2018	$ 1,011,360	182,462	$ 182	$ 1,042,899	$ 3,633,713	—	$ —	$ 13,235	$ 4,690,029	$ 196,037
Cumulative effect of change in accounting principle					8,368			(8,368)	—	
Comprehensive income:										
Net income	24,107				178,686				178,686	22,436
Other comprehensive income								22,468	22,468	
Stock unit shares issued		4							—	
Stock-settled SAR shares issued		195	1	(4,887)					(4,886)	
Stock-settled stock-based compensation expense				9,682					9,682	
Changes in noncontrolling interest from:										
Distributions	(26,166)									(19,301)
Contributions	9,508									2,501
Acquisitions and divestitures	688			76					76	(66)
Partial purchases				(1,994)					(1,994)	(206)
Fair value remeasurements	15,004			(15,004)					(15,004)	
Purchase of treasury stock						(4,197)	(298,377)		(298,377)	
Balance at March 31, 2018	$ 1,034,501	182,661	$ 183	$ 1,030,772	$ 3,820,767	(4,197)	$ (298,377)	$ 27,335	$ 4,580,680	$ 201,401

	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	
		Shares	Amount			Shares	Amount			
Balance at January 1, 2019	$ 1,124,641	166,387	$ 166	$ 995,006	$ 2,743,194	—	$ —	$ (34,924)	$ 3,703,442	$ 204,956
Cumulative effect of change in accounting principle	(38)				39,876				39,876	(6)
Comprehensive income:										
Net income	25,389				149,289				149,289	14,809
Other comprehensive loss								(12,627)	(12,627)	
Stock unit shares issued		9		(104)					(104)	
Stock-settled SAR shares issued		—							—	
Stock-settled stock-based compensation expense				12,091					12,091	
Changes in noncontrolling interest from:										
Distributions	(27,565)									(16,665)
Contributions	6,415									12,532
Acquisitions and divestitures	1,762			—					—	—
Partial purchases	(1,967)			(2,206)					(2,206)	(4,307)
Fair value remeasurements	14,407			(14,407)					(14,407)	
Balance at March 31, 2019	$ 1,143,044	166,396	$ 166	$ 990,380	$ 2,932,359	—	$ —	$ (47,551)	$ 3,875,354	$ 211,319

See notes to condensed consolidated financial statements

(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, leases, impairments of goodwill and investments, accounting for income taxes, consolidation of variable interest entities and certain fair value estimates. The results of operations for the three months ended March 31, 2019 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, 2018 (10-K). 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

The Company's allowance for doubtful accounts related to performance obligations satisfied in years prior was $42,235 and $52,924 as of March 31, 2019 and December 31, 2018, respectively.

There are significant uncertainties 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 of $27,179 was recognized during the three months ended March 31, 2019 associated with performance obligations satisfied prior to January 1, 2019. Additional revenue of $67,410 was recognized during the three months ended March 31, 2018 associated with performance obligations satisfied prior to January 1, 2018, which included $24,000 from electing to apply ASC Topic 606 only to contracts not substantially completed as of January 1, 2018.

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

	For the three months ended					
	March 31, 2019			March 31, 2018		
	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	$ 1,493,516	$ —	$1,493,516	$ 1,485,192	$ —	$1,485,192
Medicaid and Managed Medicaid	154,190	—	154,190	157,496	—	157,496
Other government	106,127	84,475	190,602	107,119	82,537	189,656
Commercial	788,413	33,388	821,801	782,979	19,718	802,697
Other revenues:						
Medicare and Medicare Advantage	—	61,700	61,700	—	142,758	142,758
Medicaid and Managed Medicaid	—	6	6	—	15,791	15,791
Commercial	—	32,619	32,619	—	40,420	40,420
Other(1)	4,905	17,750	22,655	5,114	38,941	44,055
Eliminations of intersegment revenues	(30,641)	(3,336)	(33,977)	(18,422)	(10,199)	(28,621)
Total	$ 2,516,510	$ 226,602	$2,743,112	$ 2,519,478	$ 329,966	$2,849,444

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

Dialysis and related lab patient service revenues

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

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.

(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 outstanding, net of the weighted average shares held in escrow that under certain circumstances may have been returned to the Company.

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

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

	Three months ended March 31,	
	2019	2018
Numerators:		
Net income from continuing operations attributable to DaVita Inc.	$ 120,254	$ 191,015
Net income (loss) from discontinued operations attributable to DaVita Inc.	29,035	(12,329)
Net income attributable to DaVita Inc. for earnings per share calculation	$ 149,289	$ 178,686
Basic:		
Weighted average shares outstanding during the period	166,388	181,152
Weighted average contingently returnable shares held in escrow for the DaVita HealthCare Partners merger	—	(2,194)
Weighted average shares for basic earnings per share calculation	166,388	178,958
Basic net income (loss) attributable to DaVita Inc. from:		
Continuing operations per share	$ 0.72	$ 1.07
Discontinued operations per share	0.18	(0.07)
Basic net income per share attributable to DaVita Inc.	$ 0.90	$ 1.00
Diluted:		
Weighted average shares outstanding during the period	166,388	181,152
Assumed incremental shares from stock plans	393	683
Weighted average shares for diluted earnings per share calculation	166,781	181,835
Diluted net income (loss) attributable to DaVita Inc. from:		
Continuing operations per share	$ 0.72	$ 1.05
Discontinued operations per share	0.18	(0.07)
Diluted net income per share attributable to DaVita Inc.	$ 0.90	$ 0.98
Anti-dilutive stock-settled awards excluded from calculation[1]	6,150	3,453

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

4. Restricted cash and equivalents

The Company had restricted cash and cash equivalents at March 31, 2019 and December 31, 2018. There has been no material change in the nature of the Company's restricted cash and cash equivalents from that described in Note 4 to the Company's consolidated financial statements included in the 10-K.

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

5. Short-term and long-term investments

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

	March 31, 2019			December 31, 2018		
	Debt securities	Equity securities	Total	Debt securities	Equity securities	Total
Certificates of deposit and other time deposits	$ 2,235	$ —	$ 2,235	$ 2,235	$ —	$ 2,235
Investments in mutual funds and common stock	—	36,214	36,214	—	36,124	36,124
	$ 2,235	$ 36,214	$ 38,449	$ 2,235	$ 36,124	$ 38,359
Short-term investments	$ 2,235	$ 1,800	$ 4,035	$ 2,235	$ 700	$ 2,935
Long-term investments	—	34,414	34,414	—	35,424	35,424
	$ 2,235	$ 36,214	$ 38,449	$ 2,235	$ 36,124	$ 38,359

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 March 31, 2019 and December 31, 2018.

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 three months ended March 31, 2019, the Company recognized pre-tax net gains in the income statement of $1,893 associated with changes in the fair value of these equity securities, comprised of pre-tax realized gains of $170 and a net increase in unrealized gains of $1,723. During the three months ended March 31, 2018, the Company recognized pre-tax realized gains in the income statement of $86 associated with changes in the fair value of these equity securities, comprised of pre-tax realized gains of $3,746 and a net decrease in unrealized gains of $3,660.

6. Equity method and other investments

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

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 Company's equity method and other investments were comprised of the following:

	March 31, 2019	December 31, 2018
APAC joint venture	$ 125,062	$ 129,173
Other equity method partnerships	88,861	83,052
Adjusted cost method investments	12,386	12,386
	$ 226,309	$ 224,611

During the three months ended March 31, 2019 and 2018, the Company recognized equity investment income of $2,708 and $155, 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 joint venture, or APAC JV). The Company's other equity method investments include legal entities for which the Company maintains significant influence but over which it does not have a controlling financial interest. Almost all of these are U.S. partnerships in the form of limited liability companies. The Company's ownership interests in these partnerships vary, but typically range from 30% to 50%. During the three months ended March 31, 2019 and 2018, there have been no meaningful impairments or other valuation adjustments recognized on these investments.

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

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 December 31, 2017	$ 6,144,761	$ 465,518	$ 6,610,279
Acquisitions	130,574	147,774	278,348
Divestitures	(331)	(15,166)	(15,497)
Impairment charges	—	(3,106)	(3,106)
Foreign currency and other adjustments	—	(28,064)	(28,064)
Balance at December 31, 2018	$ 6,275,004	$ 566,956	$ 6,841,960
Acquisitions	7,027	1,628	8,655
Impairment charges	—	(41,037)	(41,037)
Foreign currency and other adjustments	—	(10,210)	(10,210)
Balance at March 31, 2019	$ 6,282,031	$ 517,337	$ 6,799,368
Balance at March 31, 2019:			
Goodwill	$ 6,282,031	$ 585,347	$ 6,867,378
Accumulated impairment charges	—	(68,010)	(68,010)
	$ 6,282,031	$ 517,337	$ 6,799,368

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. The amendments in this ASU simplify the test for goodwill impairment by eliminating the second step in the assessment. All goodwill impairment tests performed since adoption were performed under this new guidance.

During the three months ended March 31, 2019, the Company performed goodwill impairment assessments of certain reporting units previously disclosed as at-risk of significant goodwill impairment. As a result of these assessments, the Company recognized a $41,037 goodwill impairment charge in its Germany kidney care business during the three months ended March 31, 2019. This charge resulted primarily from a change in relevant discount rates, a decline in current and expected patient census in the quarter and higher than expected current and future costs, primarily due to newly announced legislation that is expected to increase wages in that market.

This impairment charge includes an $8,865 increase to the goodwill impairment charge, and reduction to deferred tax expense, related to deferred tax assets that the impairment itself generates. The effect is a $41,037 goodwill impairment charge to operating income and an $8,865 credit to tax expense, for a net $32,172 impact on net income.

As of March 31, 2019, the Company's Germany kidney care business remains at-risk of further goodwill impairment. Further change in expected patient census, increases in operating costs, reductions in reimbursement rates, changes in actual or expected growth rates, or other significant adverse changes in expected future cash flows or valuation assumptions could result in additional goodwill impairment charges in our Germany kidney care business.

Reporting unit	Goodwill balance as of March 31, 2019	Carrying amount coverage[1]	Sensitivities	
			Operating income[2]	Discount rate[3]
Germany Kidney Care	$ 354,182	—%	(1.4)%	(9.3)%

(1) Excess of estimated fair value of the reporting unit over its carrying amount as of the latest assessment date.

(2) Potential impact on estimated fair value of a sustained, long-term reduction of 3% in operating income as of the latest assessment date.

(3) Potential impact on estimated fair value of an increase in discount rates of 100 basis points as of the latest assessment date.

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

The Company did not recognize any goodwill impairment charges during the three months ended March 31, 2018.

Except as described above and in Note 11 to the Company's consolidated financial statements included in the 10-K, none of the Company's various other reporting units were considered at risk of significant goodwill impairment as of March 31, 2019. Since the dates of the Company's last annual goodwill impairment assessments there have been certain developments, events, changes in operating performance and other changes in key circumstances that have affected the Company's businesses. However, these changes did not cause management to believe it is more likely than not that the fair values of any of the Company's reporting units would be less than their respective carrying amounts as of March 31, 2019.

8. Income taxes

As of March 31, 2019, the Company's total liability for unrecognized tax benefits relating to tax positions that do not meet the more-likely-than-not threshold was $48,384, of which $45,541 would impact the Company's effective tax rate if recognized. The total balance increased $8,002 from the December 31, 2018 balance of $40,382.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in its income tax expense. At March 31, 2019 and December 31, 2018, the Company had approximately $9,903 and $9,019, respectively, accrued for interest and penalties related to unrecognized tax benefits, net of federal tax benefits.

9. Long-term debt

Long-term debt was comprised of the following:

				As of March 31, 2019	
	March 31, 2019	December 31, 2018	Maturity date	Interest rate	Estimated fair value (2)
Senior Secured Credit Facilities:					
Term Loan A(1)	$ 650,000	$ 675,000	12/24/2019	2.00% + LIBOR	$ 649,155
Term Loan A-2(1)	995,000	995,000	12/24/2019	1.00% + LIBOR	$ 999,975
Term Loan B	3,333,750	3,342,500	6/24/2021	2.75% + LIBOR(3)	$ 3,350,419
Revolver(1)	575,000	175,000	12/24/2019	2.00% + LIBOR	$ 575,000
Senior Notes:					
5 3/4% Senior Notes	1,250,000	1,250,000	8/15/2022	5.75%	$ 1,271,875
5 1/8% Senior Notes	1,750,000	1,750,000	7/15/2024	5.125%	$ 1,729,175
5% Senior Notes	1,500,000	1,500,000	5/1/2025	5%	$ 1,439,250
Acquisition obligations and other notes payable(4)	181,885	183,979	2019-2026	6.30%	$ 181,885
Financing lease obligations(5)	276,564	282,737	2019-2036	4.84%	$ 276,564
Total debt principal outstanding	10,512,199	10,154,216			
Discount and deferred financing costs(6)	(48,495)	(52,000)			
	10,463,704	10,102,216			
Less current portion	(4,676,691)	(1,929,369)			
	$ 5,787,013	$ 8,172,847			

(1) On May 6, 2019, the Company entered into an agreement to extend the maturity dates of its Term Loan A, Term Loan A-2 and Revolver by six months, to December 24, 2019.

(2) Fair values are based upon quoted market prices for similar instruments, a level 2 input. The balances of acquisition obligations and other notes payable and financing lease obligations are presented in the condensed consolidated financial statements at March 31, 2019 at their approximate fair values due to the short-term nature of their settlements.

(3) Term Loan B is subject to a LIBOR component floor of 0.75%.

(4) The acquisition obligations and other notes payable interest rate is the weighted average interest rate based on the current interest rate in effect and assuming no changes to the LIBOR based interest rates.

(5) The interest rate presented for financing lease obligations is the weighted average discount rate.

(6) The carrying amount of the Company's senior secured credit facilities includes a discount of $5,487 and deferred financing costs of $11,319, and the carrying amount of the Company's senior notes includes deferred financing costs of $31,689 as of March 31, 2019.

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

Scheduled maturities of long-term debt at March 31, 2019 were as follows:

2019 (remainder of the year)[1]	4,654,038
2020	83,658
2021	940,050
2022	1,291,930
2023	52,538
2024	1,784,606
Thereafter	1,705,379

(1) Includes $2,372,764 representing our estimate of Term Loan B principal prepayments expected to be paid in 2019 from net cash proceeds of the DMG sale, as described below.

The Company's senior secured credit facilities become subject to partial mandatory prepayment if, and when, the Company consummates the sale of its DMG division to Collaborative Care Holdings, LLC (Optum), a subsidiary of UnitedHealth Group Inc. (the DMG sale).

As disclosed in the Company's current report on Form 8-K filed November 26, 2018, the first amendment to the credit agreement governing the Company's senior secured credit facilities amended existing covenants to permit the sale of the DMG business and require net cash proceeds from the sale in excess of $750,000 to be used to prepay debt outstanding under the Company's credit facilities.

As of March 31, 2019, the Company expects to close the DMG sale in the near term and to prepay debt without immediately drawing down replacement debt. Accordingly, the Company has classified as current its estimate of the portion of its otherwise noncurrent debt that is expected to be prepaid with the expected net proceeds from the sale.

During the first three months of 2019, the Company made mandatory principal payments under its senior secured credit facilities totaling $25,000 on Term Loan A and $8,750 on Term Loan B.

As of March 31, 2019, the Company maintains several interest rate cap agreements entered into in October 2015 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, including all of Term Loan B and part of Term Loan A. The remaining $483,750 outstanding principal balance of Term Loan A and the entire outstanding balance on Term Loan A-2 and Revolver are subject to LIBOR-based interest rate volatility. 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 (loss) income. The amortization of the original cap premium is recognized as a component of debt expense on a straight-line basis over the terms of the cap agreements. These cap agreements do not contain credit-risk contingent features.

The following table summarizes the Company's derivative instruments outstanding as of March 31, 2019 and December 31, 2018, which are classified in "Other long-term assets" on its consolidated balance sheet:

					March 31, 2019		Fair value	
	Notional amount	LIBOR maximum rate	Effective date	Expiration date	Debt expense	Recorded OCI loss	March 31, 2019	December 31, 2018
October 2015 caps	$3,500,000	3.5%	6/29/2018	6/30/2020	$ 2,163	$ 781	$ 70	$ 851

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

The following table summarizes the effects of the Company's interest rate cap agreements for the three months ended March 31, 2019 and 2018:

	Amount of unrecognized (losses) gains in OCI on interest rate cap agreements			Reclassification from accumulated other comprehensive income into net income	
	Three months ended March 31,			Three months ended March 31,	
Derivatives designated as cash flow hedges	2019	2018	Income statement location	2019	2018
Interest rate cap agreements	$ (781)	$ 1,414	Debt expense	$ 2,163	$ 2,070
Tax expense (benefit)	201	(364)	Tax expense	(557)	(533)
Total	$ (580)	$ 1,050		$ 1,606	$ 1,537

See Note 14 to these condensed consolidated financial statements for further details on amounts recorded and reclassified from accumulated other comprehensive income.

The Company's weighted average effective interest rate on the senior secured credit facilities at the end of the first quarter was 5.00%, based on the current margins in effect for Term Loan A, Term Loan A-2, Term Loan B and Revolver, as of March 31, 2019, as described above.

The Company's overall weighted average effective interest rate during the quarter ended March 31, 2019 was 5.16% and as of March 31, 2019 was 5.14%.

As of March 31, 2019, the Company's interest rates are fixed on approximately 46.31% of its total debt.

As of March 31, 2019, the Company had $575,000 drawn on its $1,000,000 revolving line of credit under its senior secured credit facilities, of which approximately $38,017 was committed for outstanding letters of credit. The Company also has approximately $40,871 of additional outstanding letters of credit under a separate bilateral secured letter of credit facility, and $211 of committed outstanding letters of credit which are backed by a certificate of deposit.

10. Leases

The majority of the Company's facilities are leased under non-cancellable operating leases ranging in terms from five years to fifteen years and which contain renewal options of five years to ten years at the fair rental value at the time of renewal. These renewal options are included in the Company's determination of the right-of-use assets and related lease liabilities when renewal is considered reasonably certain at the commencement date. Certain of the Company's leases are subject to periodic consumer price index increases or contain fixed escalation clauses. The Company also leases certain facilities and equipment under finance leases. The Company has elected the practical expedient to not separate lease components from non-lease components related to its real estate financing and operating leases.

Financing and operating right-of-use assets are recognized based on the net present value of lease payments over the lease term at the commencement date. Since most of the Company's leases do not provide an implicit rate of return, the Company uses its incremental borrowing rate based on information available at the commencement date in determining the present value of lease payments.

As of March 31, 2019 and December 31, 2018, assets recorded under finance leases were $233,209 and $367,164, respectively, and accumulated amortization associated with finance leases was $9,972 and $131,971, respectively, included in property and equipment, net, on the Company's consolidated balance sheet.

In certain markets, the Company acquires and develops dialysis centers. Upon completion, the Company sells the center to a third party and leases the space back with the intent of operating the center on a long term basis. Both the sale and leaseback terms are generally market terms. The lease terms are consistent with the Company's other operating leases with the majority of the leases under non-cancellable operating leases ranging in terms from five years to fifteen years and which contain renewal options of five years to ten years at the fair rental value at the time of renewal.

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

The Company adopted Topic 842, *Leases* beginning on January 1, 2019 through a modified retrospective approach for leases existing at the adoption date with a cumulative effect adjustment. Consequently, financial information was not updated for dates and periods before January 1, 2019.

The components of lease expense were as follows:

Lease cost		Three months ended March 31, 2019
Operating lease cost(1):		
Fixed lease expense	$	128,110
Variable lease expense		28,571
Financing lease cost:		
Amortization of leased assets		5,826
Interest on lease liabilities		3,775
Net lease cost	$	166,282

(1) Includes short-term lease expense and sublease income, which are immaterial.

Other information related to leases was as follows:

Lease term and discount rate	March 31, 2019
Weighted average remaining lease term (years):	
Operating leases	9.0
Finance leases	10.1
Weighted average discount rate:	
Operating leases	4.2%
Finance leases	4.8%

Other information		Three months ended March 31, 2019
Gain on sale leaseback, net	$	3,987
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$	153,587
Operating cash flows from finance leases	$	5,661
Financing cash flows from finance leases	$	5,344
Net operating lease assets obtained in exchange for new or modified operating lease liabilities	$	45,034

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

Future minimum lease payments under non-cancellable leases as of March 31, 2019 were as follows:

	Operating leases	Finance leases
2019 (remainder of the year)	$ 365,155	$ 30,702
2020	474,121	37,974
2021	443,729	33,637
2022	405,176	33,860
2023	358,578	33,975
2024	306,512	33,993
Thereafter	1,275,632	162,183
Total future minimum lease payments	$ 3,628,903	$ 366,324
Less portion representing interest	(635,714)	(89,760)
Present value of lease liabilities	$ 2,993,189	$ 276,564

Future minimum lease payments under non-cancellable leases as of December 31, 2018 were as follows:

	Operating leases	Capital leases
2019	$ 483,488	$ 36,754
2020	462,154	41,044
2021	432,950	34,026
2022	395,462	33,690
2023	349,649	33,845
Thereafter	1,589,949	194,611
	$ 3,713,652	373,970
Less portion representing interest		(91,233)
Total capital lease obligations, including current portion		$ 282,737

11. 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 March 31, 2019 and December 31, 2018, 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 may 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

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, 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 an investigation into the Company's relationships with pharmaceutical manufacturers. The CID covers the period from January 1, 2006 through the present. 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 practices that had been identified by the Company in a self-disclosure filed with the Office of Inspector General (OIG) for the U.S. Department of Health and Human Services (HHS) in February 2016. In December 2017, the Company finalized and executed a settlement agreement with the government and relators in the *qui tam* matter that included total monetary consideration of $63,700, as previously disclosed, of which $41,500 was an incremental cash 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 OIG served the Company with a subpoena seeking additional documents and information relating to those relationships. The Company is continuing to cooperate with the government in this investigation.

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

2017 U.S. Attorney Colorado Investigation: In November 2017, the U.S. Attorney's Office, District of Colorado informed the Company of an investigation it was conducting into possible federal healthcare offenses involving DaVita Kidney Care, as well as several of the Company's wholly-owned subsidiaries, including DMG, DaVita Rx, DaVita Laboratory Services, Inc. (DaVita Labs), and RMS Lifeline Inc. (Lifeline). In August 2018, the Company received a CID from the U.S. Attorney's Office. The CID was issued pursuant to the FCA and covers the period from January 2005 through the present. In connection with the resolution of the *2015 OIG Medicare Advantage Civil Investigation* discussed in the 10-K, the Company resolved possible claims relating to DMG in this investigation. The Company is continuing to cooperate with the government in this investigation.

2017 U.S. Attorney Florida Investigation: In November 2017, the U.S. Attorney's Office, Southern District of Florida informed the Company of an investigation it was conducting into possible federal healthcare offenses involving the Company's wholly-owned subsidiary, Lifeline. The U.S. Attorney's Office, Southern District of Florida notified the court on April 4, 2019 of its decision to elect not to intervene in the matter of *Gabriel Valle, M.D., et al, v. RMS Lifeline, Inc., et al*. The complaint then was unsealed in the U.S. District Court, Southern District of Florida by order dated April 5, 2019. The U.S. Attorney's Office confirmed that the complaint, which alleges violations of the FCA, was the basis of its investigation initiated in November 2017. The Company has not been served with the complaint.

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

* * *

Although the Company cannot predict whether or when proceedings might be initiated or when these matters may be resolved (other than as may be 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. On March 28, 2019, the U.S. District Court for the District of Colorado denied the motion to dismiss. The Company disputes these allegations and intends to defend this action accordingly.

In re DaVita Inc. Stockholder Derivative Litigation: On August 15, 2017, the U.S. District Court for the District of Delaware consolidated three previously disclosed shareholder derivative lawsuits: the Blackburn Shareholder action filed on February 10, 2017, the Gabilondo Shareholder action filed on May 30, 2017, and the City of Warren Police and Fire Retirement System Shareholder action filed on June 9, 2017. The complaint covers the time period from 2015 to present and alleges, generally, breach of fiduciary duty, unjust enrichment, abuse of control, gross mismanagement, corporate waste, and misrepresentations and/or failures to disclose certain information in violation of the federal securities laws in connection with an alleged practice to direct patients with government-subsidized health insurance into private health insurance plans to maximize the Company's profits. An amended complaint was filed in September 2017, and on December 18, 2017, the Company filed a motion to dismiss and a motion to stay proceedings in the alternative. On April 25, 2019, the Court denied the Company's motion to dismiss. The Company is required to now answer the complaint by May 28, 2019. The Company disputes these allegations and intends to defend this action accordingly.

Other Proceedings

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.

* * *

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 11 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, results of operations, financial condition, cash flows or reputation.

12. Other commitments

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 $7,339.

13. 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 expense for stock-settled awards is measured at the estimated fair value of awards on the date of grant and recognized on a cumulative straight-line basis over the vesting terms of the awards unless the stock awards are based on non-market based performance metrics, in which case expense is adjusted for expected ultimate payouts as of the end of each reporting period. Stock-based compensation expense for cash-settled awards is based on their estimated fair values as of the end of each reporting period. The expense for all stock-based awards is recognized net of expected forfeitures.

During the three months ended March 31, 2019, the Company granted 7 restricted stock units with an aggregate grant-date fair value of $404 and a weighted-average expected life of approximately 1.6 years.

For the three months ended March 31, 2019 and 2018, the Company recognized $13,107 and $15,215, respectively, in total LTIP expense, of which $10,301 and $9,155, respectively, represented stock-based compensation expense for stock appreciation rights, restricted stock units, performance 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 three months ended March 31, 2019 and 2018 was $1,495 and $2,088, respectively.

As of March 31, 2019, the Company had $88,173 of total estimated but unrecognized compensation expense for outstanding LTIP awards, including $79,499 related to stock-based compensation arrangements under the Company's equity compensation and employee stock purchase plans. The Company expects to recognize the performance-based cash component of these LTIP expenses over a weighted average remaining period of 0.7 years and the stock-based component of these LTIP expenses over a weighted average remaining period of 1.4 years.

For the three months ended March 31, 2019 and 2018, the Company recognized $151 and $4,895, respectively, in actual tax benefits upon the settlement of stock awards.

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

14. Accumulated other comprehensive (loss) income

	For the three months ended March 31, 2019			For the three months ended March 31, 2018			
	Interest rate cap agreements	Foreign currency translation adjustments	Accumulated other comprehensive (loss) income	Interest rate cap agreements	Investment securities	Foreign currency translation adjustments	Accumulated other comprehensive (loss) income
Beginning balance	$ (8,961)	$ (25,963)	$ (34,924)	$ (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	(781)	(13,653)	(14,434)	1,414	—	19,881	21,295
Related income tax benefit	201	—	201	(364)	—	—	(364)
	(580)	(13,653)	(14,233)	1,050	—	19,881	20,931
Reclassification into net income	2,163	—	2,163	2,070	—	—	2,070
Related income	(557)	—	(557)	(533)	—	—	(533)
	1,606	—	1,606	1,537	—	—	1,537
Ending balance	$ (7,935)	$ (39,616)	$ (47,551)	$ (12,527)	$ —	$ 39,862	$ 27,335

(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 Tax Cuts and Jobs Act of 2017.

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

Prior to January 1, 2018, unrealized gains and losses on available-for-sale equity securities were recorded to accumulated other comprehensive income and reclassified to other income when realized. From January 1, 2018, unrealized gains and losses on investment securities are recorded directly to other income rather than to accumulated other comprehensive income.

15. Acquisitions and divestitures

Routine acquisitions

During the three months ended March 31, 2019, the Company acquired dialysis businesses consisting of two dialysis centers located in the U.S. and two dialysis centers located outside the U.S. for a total of $10,210 in net cash, $1,457 in deferred purchase price obligations, and $898 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.

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

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

Current assets	$	1,117
Property and equipment		923
Intangible and other long-term assets		4,312
Goodwill		8,655
Current liabilities		(592)
Long-term liabilities		(88)
Noncontrolling interests		(1,762)
	$	12,565

Amortizable intangible assets acquired during the first three months of 2019 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 $6,945.

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 $11,716 if certain EBITDA, operating income performance targets or quality margins are met primarily over the next one year to five years. As of March 31, 2019, the estimated fair values of these contingent earn-out obligations is $3,432, of which $650 is included in other liabilities and the remaining $2,782 is included in other long-term liabilities in the Company's consolidated balance sheet.

16. Held for sale and discontinued operations

DaVita Medical Group

In December 2017, the Company entered into an agreement to sell its DMG division to Collaborative Care Holdings, LLC (Optum), a subsidiary of UnitedHealth Group Inc., subject to receipt of required regulatory approvals and other customary closing conditions. As a result, the DMG business has been classified as held for sale and its results of operations are reported as discontinued operations for all periods presented in these condensed consolidated financial statements. The contractual termination date under this equity purchase agreement is June 30, 2019.

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

	Three months ended March 31,	
	2019	2018
Revenues	$ 1,382,281	$ 1,227,932
Expenses	1,338,153	1,226,407
Income from discontinued operations before taxes	44,128	1,525
Income tax expense	13,823	7,311
Net income (loss) from discontinued operations, net of tax	$ 30,305	$ (5,786)

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

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

	March 31, 2019	December 31, 2018
Assets		
Cash and cash equivalents	$ 533,615	$ 414,683
Other current assets	613,359	557,403
Property and equipment, net	476,781	458,040
Operating lease right-of-use assets	412,388	—
Intangible assets, net	1,317,036	1,316,974
Other long-term assets	120,347	112,127
Goodwill	2,848,262	2,847,178
Valuation allowance on disposal group	(316,840)	(316,840)
Total current assets held for sale, net	$ 6,004,948	$ 5,389,565
Liabilities		
Other liabilities	$ 624,319	$ 479,134
Medical payables	512,523	436,839
Current portion of operating leases liabilities	68,031	—
Current portion of long-term debt	2,832	3,122
Long-term operating leases liabilities	387,841	—
Long-term debt	33,073	33,425
Other long-term liabilities	124,691	291,239
Total current liabilities held for sale	$ 1,753,310	$ 1,243,759

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

	Three months ended March 31,	
	2019	2018
Net cash provided by operating activities from discontinued operations	$ 68,240	$ 156,248
Net cash used in investing activities from discontinued operations	$ (22,809)	$ (33,068)

DMG acquisitions

During the first three months of 2019, the Company's DMG business acquired one medical business for a total of $1,064 in cash and deferred purchase price of $105. Certain income tax amounts are pending final evaluation and quantification of any pre-acquisition tax contingencies. In addition, valuation of medical claims liabilities and certain other working capital items relating to acquisitions are pending final quantification. The assets and liabilities for all acquisitions were recorded at their estimated fair values at the dates of the acquisitions and are included in the Company’s current held for sale assets and liabilities.

17. Variable interest entities

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

There have been no material changes in the nature of the Company's arrangements with VIEs or its judgments concerning them from those described in Note 23 to the Company's consolidated financial statements included in the 10-K.

At March 31, 2019, these condensed consolidated financial statements include total assets of VIEs of $1,118,672 and total liabilities and noncontrolling interests of VIEs to third parties of $673,499, including assets of $737,309 and liabilities and noncontrolling interests of $401,308 related to the Company's DMG business classified as held for sale.

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

18. Fair values of financial instruments

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

The following table summarizes the Company's assets, liabilities and temporary equity that are measured at fair value on a recurring basis as of March 31, 2019:

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets				
Investments in equity securities	$ 36,214	$ 36,214	$ —	$ —
Interest rate cap agreements	$ 70	$ —	$ 70	$ —
Liabilities				
Contingent earn-out obligations	$ 3,432	$ —	$ —	$ 3,432
Temporary equity				
Noncontrolling interests subject to put provisions	$ 1,143,044	$ —	$ —	$ 1,143,044

Investments in equity securities represent investments in various open-ended registered investment companies (mutual funds) and common stock and are recorded at estimated fair value based on reported market prices or redemption prices, as applicable. See Note 5 to these condensed consolidated financial statements for further discussion.

Interest rate cap agreements are recorded at fair value estimated from valuation models utilizing the income approach and commonly accepted valuation techniques that use inputs from closing prices for similar assets and liabilities in active markets as well as other relevant observable market inputs at quoted intervals such as current interest rates, forward yield curves, implied volatility and credit default swap pricing. See Note 9 to these condensed consolidated financial statements for further discussion.

The estimated fair value measurements of contingent earn-out obligations are primarily based on unobservable inputs, including projected EBITDA. See Note 15 to these condensed consolidated financial statements for further discussion.

See Note 18 to the Company's consolidated financial statements included in the 10-K for a discussion of the Company's methodology for estimating the fair value of noncontrolling interests subject to put obligations.

The Company's senior secured credit facilities and senior notes fair values are based upon quoted market prices for similar instruments, a level 2 input. See Note 9 to these condensed consolidated financial statements for further discussion.

Other financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable, other accrued liabilities, lease liabilities and debt. The balances of non-debt financial instruments are presented in these condensed consolidated financial statements at March 31, 2019 at their approximate fair values due to the short-term nature of their settlements.

19. Segment reporting

The Company has consisted of two major divisions, DaVita Kidney Care (Kidney Care) and DMG. The Kidney Care division is comprised of the Company's U.S. dialysis and related lab services business, various ancillary services and strategic initiatives, including its international operations, and the Company's corporate administrative support.

The Company's separate operating segments include its U.S. dialysis and related lab services business, each of its ancillary services and strategic initiatives, its kidney care operations in each foreign sovereign jurisdiction, its other health operations in each foreign sovereign jurisdiction, and its equity method investment in the APAC JV. The U.S. dialysis and related lab services business qualifies as a separately reportable segment, and all other ancillary services and strategic initiatives operating segments, including the international operating segments, have been combined and disclosed in the other segments category.

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

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

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

	Three months ended March 31,	
	2019	2018
Segment revenues:		
U.S. dialysis and related lab services		
Patient service revenues:		
External sources	$ 2,517,289	$ 2,489,165
Intersegment revenues	30,420	18,422
U.S. dialysis and related lab services patient service revenues	2,547,709	2,507,587
Provision for uncollectible accounts	(5,463)	25,199
Net U.S. dialysis and related lab services patient service revenues	2,542,246	2,532,786
Other revenues[1]:		
External sources	4,684	5,114
Intersegment revenues	221	—
Total U.S. dialysis and related lab services revenues	$ 2,547,151	$ 2,537,900
Other—Ancillary services and strategic initiatives		
Patient service revenues, net	$ 117,863	$ 102,255
Other external sources	108,739	227,711
Intersegment revenues	3,336	10,199
Total ancillary services and strategic initiatives revenues	229,938	340,165
Total net segment revenues	2,777,089	2,878,065
Elimination of intersegment revenues	(33,977)	(28,621)
Consolidated revenues	$ 2,743,112	$ 2,849,444
Segment operating margin:		
U.S. dialysis and related lab services	$ 416,981	$ 433,380
Other—Ancillary services and strategic initiatives	(57,630)	(6,990)
Total segment operating margin	359,351	426,390
Reconciliation of segment operating margin to consolidated income from continuing operations before income taxes:		
Corporate administrative support	(18,844)	(15,704)
Consolidated operating income	340,507	410,686
Debt expense	(131,519)	(113,516)
Other income, net	6,940	4,582
Consolidated income from continuing operations before income taxes	$ 215,928	$ 301,752

(1) Includes management fee revenue from providing management and administrative services to dialysis ventures in which the Company owns a noncontrolling equity investment or which are wholly-owned by third parties.

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

A summary of assets by reportable segment was as follows:

	March 31, 2019	December 31, 2018
Segment assets		
U.S. dialysis and related lab services (including equity investments of $101,173 and $95,290, respectively)	$ 15,095,326	$ 12,333,641
Other—Ancillary services and strategic initiatives (including equity investments of $125,136 and $129,321, respectively)	1,505,670	1,387,046
DMG—Held for sale (including equity investments of $5,282 and $4,833, respectively)	6,004,948	5,389,565
Consolidated assets	$ 22,605,944	$ 19,110,252

Depreciation and amortization expense by reportable segment was as follows:

	Three months ended March 31,	
	2019	2018
U.S. dialysis and related lab services	$ 140,780	$ 134,776
Other—Ancillary services and strategic initiatives	7,748	8,023
	$ 148,528	$ 142,799

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

	Three months ended March 31,	
	2019	2018
U.S. dialysis and related lab services	$ 170,548	$ 191,406
Other—Ancillary services and strategic initiatives	8,578	9,988
DMG—Held for sale	19,752	31,049
	$ 198,878	$ 232,443

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

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

	Three months ended March 31,	
	2019	2018
Net income attributable to DaVita Inc.	$ 149,289	$ 178,686
Changes in paid-in capital for:		
Sales of noncontrolling interests	—	76
Purchases of noncontrolling interests	(2,206)	(1,994)
Net transfers to noncontrolling interests	(2,206)	(1,918)
Net income attributable to DaVita Inc., net of transfers to noncontrolling interests	$ 147,083	$ 176,768

21. New accounting standards

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The amendments in Topic 842 revise the accounting related to lessee accounting. Under the new guidance, lessees are 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 Company adopted Topic 842 beginning on January 1, 2019 through a modified retrospective approach for leases existing at the

adoption date with a cumulative effect adjustment. The Company elected to apply the package of practical expedients to not recast prior conclusions related to contracts containing leases, lease classification and initial direct costs. Adoption of the new standard resulted in the recording of operating right-of-use assets of $2,783,784, operating lease liabilities of $3,001,354 and an adjustment to retained earnings of $39,876, primarily related to deferred gains on prior sale leaseback transactions as of January 1, 2019. The standard did not materially impact the Company's consolidated net earnings and had no impact on cash flows. See Note 10 to these condensed consolidated financial statements for further details.

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities.* The amendments in this ASU better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments in this ASU were effective for the Company on January 1, 2019 and are to be applied prospectively. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements when adopted on January 1, 2019.

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

22. Condensed consolidating financial statements

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

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

Condensed Consolidating Statements of Operations

For the three months ended March 31, 2019	DaVita Inc.	Guarantor subsidiaries	Non-Guarantor subsidiaries	Consolidating adjustments	Consolidated total
Patient services revenues	$ —	$ 1,777,246	$ 918,604	$ (60,698)	$ 2,635,152
Provision for uncollectible accounts	—	(3,970)	(1,493)	—	(5,463)
Net patient service revenues	—	1,773,276	917,111	(60,698)	2,629,689
Other revenues	188,836	111,141	35,619	(222,173)	113,423
Total net revenues	188,836	1,884,417	952,730	(282,871)	2,743,112
Operating expenses and charges	143,659	1,660,453	881,364	(282,871)	2,402,605
Operating income	45,177	223,964	71,366	—	340,507
Debt expense	(133,595)	(52,479)	(10,719)	65,274	(131,519)
Other income, net	110,198	2,596	9,111	(114,965)	6,940
Income tax expense	7,026	46,544	3,176	—	56,746
Equity earnings in subsidiaries	134,535	46,151	—	(180,686)	—
Net income from continuing operations	149,289	173,688	66,582	(230,377)	159,182
Net (loss) income from discontinued operations, net of tax	—	(39,153)	19,767	49,691	30,305
Net income	149,289	134,535	86,349	(180,686)	189,487
Less: Net income attributable to noncontrolling interests	—	—	—	(40,198)	(40,198)
Net income attributable to DaVita Inc.	$ 149,289	$ 134,535	$ 86,349	$ (220,884)	$ 149,289

For the three months ended March 31, 2018	DaVita Inc.	Guarantor subsidiaries	Non-Guarantor subsidiaries	Consolidating adjustments	Consolidated total
Patient service revenues	$ —	$ 1,790,188	$ 848,401	$ (47,515)	$ 2,591,074
Provision for uncollectible accounts	—	9,628	15,917	—	25,545
Net patient service revenues	—	1,799,816	864,318	(47,515)	2,616,619
Other revenues	195,565	204,960	70,933	(238,633)	232,825
Total net revenues	195,565	2,004,776	935,251	(286,148)	2,849,444
Operating expenses	133,356	1,791,094	800,456	(286,148)	2,438,758
Operating income	62,209	213,682	134,795	—	410,686
Debt expense	(114,334)	(52,197)	(7,375)	60,390	(113,516)
Other income	104,081	2,523	5,704	(107,726)	4,582
Income tax expense	14,387	48,944	7,406	—	70,737
Equity earnings in subsidiaries	141,117	66,496	—	(207,613)	—
Net income from continuing operations	178,686	181,560	125,718	(254,949)	231,015
Net loss from discontinued operations, net of tax	—	(40,443)	(12,679)	47,336	(5,786)
Net income	178,686	141,117	113,039	(207,613)	225,229
Less: Net income attributable to noncontrolling interests	—	—	—	(46,543)	(46,543)
Net income attributable to DaVita Inc.	$ 178,686	$ 141,117	$ 113,039	$ (254,156)	$ 178,686

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

Condensed Consolidating Statements of Comprehensive Income

For the three months ended March 31, 2019	DaVita Inc.	Guarantor subsidiaries	Non-Guarantor subsidiaries	Consolidating adjustments	Consolidated total
Net income	$ 149,289	$ 134,535	$ 86,349	$ (180,686)	$ 189,487
Other comprehensive income (loss)	1,026	—	(13,653)	—	(12,627)
Total comprehensive income	150,315	134,535	72,696	(180,686)	176,860
Less: Comprehensive income attributable to noncontrolling interest	—	—	—	(40,198)	(40,198)
Comprehensive income attributable to DaVita Inc.	$ 150,315	$ 134,535	$ 72,696	$ (220,884)	$ 136,662

For the three months ended March 31, 2018	DaVita Inc.	Guarantor subsidiaries	Non-Guarantor subsidiaries	Consolidating adjustments	Consolidated total
Net income	$ 178,686	$ 141,117	$ 113,039	$ (207,613)	$ 225,229
Other comprehensive income	2,587	—	19,881	—	22,468
Total comprehensive income	181,273	141,117	132,920	(207,613)	247,697
Less: Comprehensive income attributable to noncontrolling interest	—	—	—	(46,543)	(46,543)
Comprehensive income attributable to DaVita Inc.	$ 181,273	$ 141,117	$ 132,920	$ (254,156)	$ 201,154

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

Condensed Consolidating Balance Sheets

As of March 31, 2019	DaVita Inc.	Guarantor subsidiaries	Non-Guarantor subsidiaries	Consolidating adjustments	Consolidated total
Cash and cash equivalents	$ 194,347	$ —	$ 264,895	$ —	$ 459,242
Restricted cash and equivalents	1,006	12,114	89,072	—	102,192
Accounts receivable, net	—	1,349,185	604,237	—	1,953,422
Other current assets	37,185	568,029	100,058	—	705,272
Current assets held for sale, net	—	4,842,062	1,162,886	—	6,004,948
Total current assets	232,538	6,771,390	2,221,148	—	9,225,076
Property and equipment, net	503,677	1,610,442	1,278,147	—	3,392,266
Operating lease right-of-use assets	107,237	1,594,411	1,034,888	—	2,736,536
Intangible assets, net	130	39,813	78,381	—	118,324
Investments in subsidiaries	10,191,084	3,323,518	—	(13,514,602)	—
Intercompany receivables	3,756,675	—	1,496,009	(5,252,684)	—
Other long-term assets and investments	53,978	84,137	196,259	—	334,374
Goodwill	—	4,812,366	1,987,002	—	6,799,368
Total assets	$ 14,845,319	$ 18,236,077	$ 8,291,834	$ (18,767,286)	$ 22,605,944
Current liabilities	$ 4,702,717	$ 1,182,342	$ 592,508	$ —	$ 6,477,567
Current liabilities held for sale	—	1,084,512	668,798	—	1,753,310
Intercompany payables	—	3,648,453	1,604,231	(5,252,684)	—
Long-term operating leases liabilities	133,936	1,502,922	988,918	—	2,625,776
Long-term debt and other long-term liabilities	5,520,830	626,764	371,980	—	6,519,574
Noncontrolling interests subject to put provisions	612,482	—	—	530,562	1,143,044
Total DaVita Inc. shareholders' equity	3,875,354	10,191,084	3,323,518	(13,514,602)	3,875,354
Noncontrolling interests not subject to put provisions	—	—	741,881	(530,562)	211,319
Total equity	3,875,354	10,191,084	4,065,399	(14,045,164)	4,086,673
Total liabilities and equity	$ 14,845,319	$ 18,236,077	$ 8,291,834	$ (18,767,286)	$ 22,605,944

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

As of December 31, 2018	DaVita Inc.	Guarantor subsidiaries	Non-Guarantor subsidiaries	Consolidating adjustments	Consolidated total
Cash and cash equivalents	$ 60,653	$ —	$ 262,385	$ —	$ 323,038
Restricted cash and equivalents	1,005	12,048	79,329	—	92,382
Accounts receivable, net	—	1,264,290	594,318	—	1,858,608
Other current assets	37,185	601,318	122,063	—	760,566
Current assets held for sale	—	4,440,953	948,612	—	5,389,565
Total current assets	98,843	6,318,609	2,006,707	—	8,424,159
Property and equipment, net	491,462	1,624,835	1,277,372	—	3,393,669
Intangible assets, net	153	42,933	75,760	—	118,846
Investments in subsidiaries	10,102,750	3,239,862	—	(13,342,612)	—
Intercompany receivables	3,419,448	—	1,471,203	(4,890,651)	—
Other long-term assets and investments	53,385	80,537	197,696	—	331,618
Goodwill	—	4,812,365	2,029,595	—	6,841,960
Total assets	$ 14,166,041	$ 16,119,141	$ 7,058,333	$ (18,233,263)	$ 19,110,252
Current liabilities	$ 1,945,943	$ 1,251,534	$ 449,925	$ —	$ 3,647,402
Current liabilities held for sale	—	722,766	520,993	—	1,243,759
Intercompany payables	—	3,327,026	1,563,625	(4,890,651)	—
Long-term debt and other long-term liabilities	7,918,581	715,065	552,406	—	9,186,052
Noncontrolling interests subject to put provisions	598,075	—	—	526,566	1,124,641
Total DaVita Inc. shareholders' equity	3,703,442	10,102,750	3,239,862	(13,342,612)	3,703,442
Noncontrolling interests not subject to put provisions	—	—	731,522	(526,566)	204,956
Total equity	3,703,442	10,102,750	3,971,384	(13,869,178)	3,908,398
Total liabilities and equity	$ 14,166,041	$ 16,119,141	$ 7,058,333	$ (18,233,263)	$ 19,110,252

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

Condensed Consolidating Statements of Cash Flows

For the three months ended March 31, 2019	DaVita Inc.	Guarantor subsidiaries	Non-Guarantor subsidiaries	Consolidating adjustments	Consolidated total
Cash flows from operating activities:					
Net income	$ 149,289	$ 134,535	$ 86,349	$ (180,686)	$ 189,487
Changes in operating assets and liabilities and non-cash items included in net income	(124,409)	(197,096)	92,636	180,686	(48,183)
Net cash provided by (used in) operating activities	24,880	(62,561)	178,985	—	141,304
Cash flows from investing activities:					
Additions of property and equipment	(38,942)	(112,376)	(47,560)	—	(198,878)
Acquisitions	—	—	(11,274)	—	(11,274)
Proceeds from asset and business sales	—	1,456	12,447	—	13,903
Proceeds (purchases) from investment sales and other items, net	1,804	(4,558)	(1,355)	—	(4,109)
Net cash used in investing activities	(37,138)	(115,478)	(47,742)	—	(200,358)
Cash flows from financing activities:					
Long-term debt and related financing costs, net	365,133	(2,439)	(5,497)	—	357,197
Intercompany borrowing (payments)	(220,697)	229,211	(8,514)	—	—
Other items	1,517	(8,480)	(25,283)	—	(32,246)
Net cash provided by (used in) financing activities	145,953	218,292	(39,294)	—	324,951
Effect of exchange rate changes on cash, cash equivalents and restricted cash	—	—	(921)	—	(921)
Net increase in cash, cash equivalents and restricted cash	133,695	40,253	91,028	—	264,976
Less: Net increase in cash, cash equivalents and restricted cash from discontinued operations	—	40,187	78,775	—	118,962
Net increase in cash, cash equivalents and restricted cash from continuing operations	133,695	66	12,253	—	146,014
Cash, cash equivalents and restricted cash of continuing operations at beginning of the year	61,658	12,048	341,714	—	415,420
Cash, cash equivalents and restricted cash of continuing operations at end of the period	$ 195,353	$ 12,114	$ 353,967	$ —	$ 561,434

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

For the three months ended March 31, 2018	DaVita Inc.	Guarantor subsidiaries	Non-Guarantor subsidiaries	Consolidating adjustments	Consolidated total
Cash flows from operating activities:					
Net income	$ 178,686	$ 141,117	$ 113,039	$ (207,613)	$ 225,229
Changes in operating assets and liabilities and non-cash items included in net income	(82,391)	32,484	(20,396)	207,613	137,310
Net cash provided by operating activities	96,295	173,601	92,643	—	362,539
Cash flows from investing activities:					
Additions of property and equipment	(27,356)	(125,375)	(79,712)	—	(232,443)
Acquisitions	—	(4,417)	(12,165)	—	(16,582)
Proceeds from asset and business sales	—	18,535	—	—	18,535
Proceeds (purchases) from investment sales and other items, net	31,665	(762)	(541)	—	30,362
Net cash provided by (used in) investing activities	4,309	(112,019)	(92,418)	—	(200,128)
Cash flows from financing activities:					
Long-term debt and related financing costs, net	116,307	(3,377)	(8,257)	—	104,673
Intercompany borrowing (payments)	47,394	(49,783)	2,389	—	—
Other items	(291,562)	(2,200)	(33,458)	—	(327,220)
Net cash used in financing activities	(127,861)	(55,360)	(39,326)	—	(222,547)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	—	—	6,668	—	6,668
Net decrease in cash, cash equivalents and restricted cash	(27,257)	6,222	(32,433)	—	(53,468)
Less: Net increase in cash, cash equivalents and restricted cash from discontinued operations	—	6,185	11,649	—	17,834
Net (decrease) increase in cash, cash equivalents and restricted cash from continuing operations	(27,257)	37	(44,082)	—	(71,302)
Cash, cash equivalents and restricted cash of continuing operations at beginning of the year	150,307	9,384	359,229	—	518,920
Cash, cash equivalents and restricted cash of continuing operations at end of the period	$ 123,050	$ 9,421	$ 315,147	$ —	$ 447,618

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

23. Supplemental data

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

Condensed Consolidating Statements of Income

For the three months ended March 31, 2019	Consolidated Total	Physician Groups	Unrestricted Subsidiaries	Company and Restricted Subsidiaries[1]
Patient service operating revenues	$ 2,635,152	$ —	$ —	$ 2,635,152
Provision for uncollectible accounts	(5,463)	—	—	(5,463)
Net patient service operating revenues	2,629,689	—	—	2,629,689
Other revenues	113,423	—	—	113,423
Total net operating revenues	2,743,112	—	—	2,743,112
Operating expenses	2,402,605	—	—	2,402,605
Operating income	340,507	—	—	340,507
Debt expense	(131,519)	—	—	(131,519)
Other income	6,940	—	—	6,940
Income tax expense	56,746	—	—	56,746
Net income from continuing operations	159,182	—	—	159,182
Net income from discontinued operations, net of tax	30,305	9,237	463	20,605
Net income	189,487	9,237	463	179,787
Less: Net income attributable to noncontrolling interests	(40,198)	(1,255)	—	(38,943)
Net income attributable to DaVita Inc.	$ 149,289	$ 7,982	$ 463	$ 140,844

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

Condensed Consolidating Statements of Comprehensive Income

For the three months ended March 31, 2019	Consolidated Total	Physician Groups	Unrestricted Subsidiaries	Company and Restricted Subsidiaries[1]
Net income	$ 189,487	$ 9,237	$ 463	$ 179,787
Other comprehensive loss	(12,627)	—	—	(12,627)
Total comprehensive income	176,860	9,237	463	167,160
Less: Comprehensive income attributable to the noncontrolling interests	(40,198)	(1,255)	—	(38,943)
Comprehensive income attributable to DaVita Inc.	$ 136,662	$ 7,982	$ 463	$ 128,217

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

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

Condensed Consolidating Balance Sheets

As of March 31, 2019	Consolidated Total	Physician Groups	Unrestricted Subsidiaries	Company and Restricted Subsidiaries[1]
Cash and cash equivalents	$ 459,242	$ —	$ —	$ 459,242
Restricted cash and equivalents	102,192	—	—	102,192
Accounts receivable, net	1,953,422	—	—	1,953,422
Other current assets	705,272	—	—	705,272
Current assets held for sale, net	6,004,948	629,422	3,288	5,372,238
Total current assets	9,225,076	629,422	3,288	8,592,366
Property and equipment, net	3,392,266	—	—	3,392,266
Operating lease right-of-use assets	2,736,536	—	—	2,736,536
Amortizable intangibles, net	118,324	—	—	118,324
Other long-term assets	334,374	—	—	334,374
Goodwill	6,799,368	—	—	6,799,368
Total assets	$ 22,605,944	$ 629,422	$ 3,288	$ 21,973,234
Current liabilities	$ 6,477,567	$ —	$ —	$ 6,477,567
Current liabilities held for sale	1,753,310	412,368	—	1,340,942
Payables to parent	—	72,539	3,288	(75,827)
Long-term operating leases liabilities	2,625,776	—	—	2,625,776
Long-term debt and other long-term liabilities	6,519,574	—	—	6,519,574
Noncontrolling interests subject to put provisions	1,143,044	—	—	1,143,044
Total DaVita Inc. shareholders' equity	3,875,354	144,515	—	3,730,839
Noncontrolling interests not subject to put provisions	211,319	—	—	211,319
Shareholders' equity	4,086,673	144,515	—	3,942,158
Total liabilities and shareholder's equity	$ 22,605,944	$ 629,422	$ 3,288	$ 21,973,234

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

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

Condensed Consolidating Statements of Cash Flows

For the three months ended March 31, 2019	Consolidated Total	Physician Groups	Unrestricted Subsidiaries	Company and Restricted Subsidiaries[1]
Cash flows from operating activities:				
Net income	$ 189,487	$ 9,237	$ 463	$ 179,787
Changes in operating and intercompany assets and liabilities and non-cash items included in net income	(48,183)	9,696	(463)	(57,416)
Net cash provided by operating activities	141,304	18,933	—	122,371
Cash flows from investing activities:				
Additions of property and equipment	(198,878)	(229)	—	(198,649)
Acquisitions	(11,274)	—	—	(11,274)
Proceeds from asset and business sales	13,903	—	—	13,903
Investments and other items	(4,109)	(1,355)	—	(2,754)
Net cash used in investing activities	(200,358)	(1,584)	—	(198,774)
Cash flows from financing activities:				
Long-term debt	357,197	—	—	357,197
Intercompany	—	28,965	—	(28,965)
Other items	(32,246)	—	—	(32,246)
Net cash (used in) provided by financing activities	324,951	28,965	—	295,986
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(921)	—	—	(921)
Net increase in cash, cash equivalents and restricted cash	264,976	46,314	—	218,662
Less: Net increase in cash, cash equivalents and restricted cash from discontinued operations	118,962	46,314	—	72,648
Net increase in cash, cash equivalents and restricted cash from continuing operations	146,014	—	—	146,014
Cash, cash equivalents and restricted cash of continuing operations at beginning of the year	415,420	—	—	415,420
Cash, cash equivalents and restricted cash of continuing operations at end of the period	$ 561,434	$ —	$ —	$ 561,434

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

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

Forward-looking statements

This Quarterly Report on Form 10-Q, including this Management's Discussion and Analysis of Financial Condition and Results of Operations, contains statements that are forward-looking statements within the meaning of the federal securities laws. All statements that do not concern historical facts are forward-looking statements and include, among other things, statements about our expectations, beliefs, intentions and/or strategies for the future. Without limiting the foregoing, statements including the words "expect," "intend," "will," "plan," "anticipate," "believe," "we are confident that," "forecast," "guidance," "outlook," "goals," and similar expressions are intended to identify forward-looking statements. These forward-looking statements may include statements regarding our future operations, financial condition and prospects, such as expectations for treatment growth rates, revenue per treatment, expense growth, levels of the provision for uncollectible accounts receivable, operating income, adjusted operating income, cash flow, operating cash flow, earnings per share, estimated tax rates, estimated charges and accruals, capital expenditures, the development of new dialysis centers and dialysis center acquisitions, government and commercial payment rates, revenue estimating risk, the impact of our level of indebtedness on our financial performance, our stock repurchase program, our advocacy costs, and the pending DMG sale transaction. These statements involve substantial known and unknown risks and uncertainties that could cause our actual results to differ materially from those described in the forward-looking statements, including risks resulting from the concentration of profits generated by higher-paying commercial payor plans for which there is continued downward pressure on average realized payment rates, and a reduction in the number of patients under such plans, including as a result of restrictions or prohibitions on the use and/or availability of charitable premium assistance, which may result in the loss of revenues or patients, or our making incorrect assumptions about how our patients will respond to any change in financial assistance from charitable organizations; the extent to which the ongoing implementation of healthcare exchanges or changes in or new legislation, regulations or guidance, or enforcement thereof, including among other things those regarding the exchanges, results in a reduction in reimbursement rates for our services from and/or the number of patients enrolled in higher-paying commercial plans; a reduction in government payment rates under the Medicare End Stage Renal Disease program or other government-based programs; the impact of the Medicare Advantage benchmark structure; risks arising from potential and proposed federal and/or state legislation, regulation or ballot or other initiatives, including healthcare-related and labor-related legislation, regulation or ballot or other initiatives; the impact of the changing political environment and related developments on the current health care marketplace and on our business, including with respect to the future of the Affordable Care Act, the exchanges and many other core aspects of the current health care marketplace; changes in pharmaceutical practice patterns, reimbursement and payment policies and processes, or pharmaceutical pricing, including with respect to calcimimetics; legal compliance risks, such as our continued compliance with complex government regulations and the provisions of our current Corporate Integrity Agreement (CIA) and current or potential investigations by various government entities and related government or private party proceedings, and restrictions on our business and operations required by our CIA and other current or potential settlement terms and the financial impact thereof and our ability to recover any losses related to such legal matters from third parties; continued increased competition from dialysis providers and others, and other potential marketplace changes; our ability to reduce administrative expenses while maintaining targeted levels of service and operating performance, including our ability to achieve anticipated savings from our recent restructurings; our ability to maintain contracts with physician medical directors, changing affiliation models for physicians, and the emergence of new models of care introduced by the government or private sector that may erode our patient base and reimbursement rates, such as accountable care organizations (ACOs), independent practice associations (IPAs) and integrated delivery systems; our ability to complete acquisitions, mergers or dispositions that we might announce or be considering, on terms favorable to us or at all, or to integrate and successfully operate any business we may acquire or have acquired, or to successfully expand our operations and services in markets outside the United States, or to businesses outside of dialysis; noncompliance by us or our business associates with any privacy laws or any security breach by us or a third party involving the misappropriation, loss or other unauthorized use or disclosure of confidential information; the variability of our cash flows; the risk that we may not be able to generate sufficient cash in the future to service our indebtedness or to fund our other liquidity needs, and the risk that we may not be able to refinance our indebtedness as it becomes due, on terms favorable to us or at all; factors that may impact our ability to repurchase stock under our stock repurchase program and the timing of any such stock repurchases, including market conditions, the price of our common stock, our cash flow position, borrowing capacity and leverage ratios, and legal, regulatory and contractual requirements; the risk that we might invest material amounts of capital and incur significant costs in connection with the growth and development of our international operations, yet we might not be able to consistently operate them profitably anytime soon, if at all; risks arising from the use of accounting estimates, judgments and interpretations in our financial statements; impairment of our goodwill, investments or other assets, including that the risk that we may recognize additional valuation adjustments or goodwill impairment related to DMG; the risks and uncertainties associated with the timing, conditions and receipt of regulatory approvals and satisfaction of other closing conditions of the DMG sale transaction and continued disruption in connection with the DMG sale transaction making it more difficult to maintain business and operational relationships; risks

and uncertainties related to our ability to complete the DMG sale transaction on the timetable expected, and on the terms set forth in the equity purchase agreement or at all; uncertainties related to our liquidity following the close of the DMG sale transaction and our planned subsequent entry into new external financing arrangements, which may be less than we anticipate; uncertainties related to our use of the proceeds from the DMG sale transaction and other available funds, including external financing and cash flow from operations, which may be used in ways that may not improve our results of operations or enhance the value of our common stock; risks related to certain contractual restrictions on the conduct of DMG's business while the DMG sale transaction is pending; the risk that laws regulating the corporate practice of medicine could restrict the manner in which DMG conducts its business; the risk that the cost of providing services under DMG's agreements may exceed our compensation; the risk that any reductions in reimbursement rates, including Medicare Advantage rates, and future regulations may negatively impact DMG's business, revenue and profitability; the risk that DMG may not be able to successfully establish a presence in new geographic regions or successfully address competitive threats that could reduce its profitability; the risk that a disruption in DMG's healthcare provider networks could have an adverse effect on DMG's business operations and profitability; the risk that reductions in the quality ratings of health plans DMG serves or healthcare services that DMG provides could have an adverse effect on DMG's business; the risk that health plans that acquire health maintenance organizations may not be willing to contract with DMG or may be willing to contract only on less favorable terms; and the other risk factors set forth in Part II, Item 1A. of this Quarterly Report on Form 10-Q. We base our forward-looking statements on information currently available to us, and we undertake no obligation to update or revise any forward-looking statements, whether as a result of changes in underlying factors, new information, future events or otherwise.

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

Consolidated results of operations

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

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

The following table is a summary of our consolidated operating results for the first quarter of 2019 compared with the prior sequential quarter and the same quarter of 2018:

	Three months ended					
	March 31, 2019		December 31, 2018		March 31, 2018	
	(dollars in millions)					
Revenues:						
Dialysis and related lab patient service revenues	$ 2,635		$ 2,730		$ 2,591	
Provision for uncollectible accounts	(5)		(14)		26	
Net dialysis and related lab patient service revenues	2,630		2,716		2,617	
Other revenues	113		105		233	
Total consolidated revenues	2,743	100 %	2,821	100 %	2,849	100 %
Operating expenses and charges:						
Patient care costs	1,965	72 %	2,027	72 %	2,036	71 %
General and administrative	251	9 %	269	10 %	267	9 %
Depreciation and amortization	149	5 %	155	5 %	143	5 %
Equity investment (income) loss	(3)	— %	11	— %	—	— %
Provision for uncollectible accounts	—	— %	—	— %	(6)	— %
Goodwill impairment charges	41	1 %	—	— %	—	— %
Gain on changes in ownership interests, net	—	— %	(28)	(1)%	—	— %
Total operating expenses and charges	2,403	88 %	2,433	86 %	2,439	86 %
Operating income	$ 341	12 %	$ 388	14 %	$ 411	14 %

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

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

	Three months ended		
	March 31, 2019	December 31, 2018	March 31, 2018
	(dollars in millions)		
Revenues:			
U.S. dialysis and related lab services patient service revenues	$ 2,548	$ 2,642	$ 2,508
Provision for uncollectible accounts	(5)	(14)	25
U.S. dialysis and related lab services net patient service revenues	2,542	2,628	2,533
Other revenues	5	5	5
Total net U.S. dialysis and related lab services revenues	2,547	2,633	2,538
Other—Ancillary services and strategic initiatives other revenues	112	107	238
Other—Ancillary services and strategic initiatives patient service revenues, net	118	117	102
Total net other—ancillary services and strategic initiatives revenues	230	224	340
Total net segment revenues	2,777	2,857	2,878
Elimination of intersegment revenues	(34)	(35)	(29)
Consolidated revenues	$ 2,743	$ 2,821	$ 2,849

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

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

	Three months ended		
	March 31, 2019	December 31, 2018	March 31, 2018
	(dollars in millions)		
Operating income (loss):			
U.S. dialysis and related lab services	$ 417	$ 437	$ 433
Other—Ancillary services and strategic initiatives	(58)	(29)	(7)
Corporate administrative support	(19)	(20)	(16)
Total consolidated operating income	$ 341	$ 388	$ 411
Reconciliation of non-GAAP measures:			
Operating expenses:			
Goodwill impairment charges	$ 41	$ —	$ —
Gain on changes in ownership interests, net	—	(28)	—
Equity investment loss (income):			
Loss due to business sale in APAC JV	—	9	—
Loss due to impairments in APAC JV	—	2	—
Adjusted consolidated operating income[(1)]	$ 382	$ 370	$ 411

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

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

Consolidated revenues

Consolidated revenues for the first quarter of 2019 decreased by approximately $78 million, or 2.8%, as compared to the fourth quarter of 2018. This decrease was due to a decrease in our U.S. dialysis and related lab services revenues of approximately $86 million, primarily due to a decrease in treatments, partially offset by a slight increase in our average net revenue per treatment, as described below. Consolidated revenues benefited from an increase of $6 million in our ancillary services and strategic initiatives revenues, primarily due to an increase in DaVita Integrated Kidney Care (DaVita IKC) revenues, partially offset by decreases in our shared savings revenue from our ESRD Seamless Care Organization (ESCO) joint ventures, pharmacy revenue due to our pharmacy distribution ceasing operations and revenues related to our international operations, as described below.

Consolidated revenues for the first quarter of 2019 decreased by approximately $106 million, or 3.7%, as compared to the first quarter of 2018. This decrease was primarily driven by a decrease of approximately $110 million in our ancillary services and strategic initiatives revenues, primarily due to our pharmacy distribution ceasing operations, the sale of our direct primary care business and a decrease in revenues at DaVita Health Solutions, partially offset by an increase in DaVita IKC revenues and an increase in revenues from our international operations, as described below. This decrease was offset by an increase in our U.S. dialysis and related lab services revenues of approximately $9 million, primarily due to volume growth from additional treatments, partially offset by a decrease in our average dialysis net revenue per treatment of approximately $5, as described below.

Consolidated operating income

Consolidated operating results for the first quarter of 2019, which included a goodwill impairment of $41 million at our Germany kidney care reporting unit, decreased by approximately $47 million as compared to the fourth quarter of 2018, which included a net gain on changes in ownership interests of $28 million, an equity investment loss due to the sale of the India business in our APAC JV of $9 million and an equity investment loss related to impairments at our APAC JV of $2 million. Excluding these items, adjusted consolidated operating income for the first quarter of 2019 increased by approximately $12 million due to an increase in U.S. dialysis and related lab services adjusted operating income of $8 million, a decrease in adjusted operating losses in our ancillary and strategic initiatives of $2 million and a decrease in expenses in our corporate administrative support of $1 million, as described below.

Consolidated operating results for the first quarter of 2019, which included a goodwill impairment of $41 million at our Germany kidney care reporting unit, decreased by approximately $70 million as compared to the first quarter in 2018. Excluding this item from its respective period, adjusted consolidated operating income for the first quarter of 2019 decreased by $29 million due to a decrease in operating income in U.S. dialysis and related lab services of approximately $16 million, an increase in adjusted operating losses in our ancillary and strategic initiatives of $10 million and an increase in expenses in our corporate administrative support of $3 million, as described below.

U.S. dialysis and related lab services business

Results of operations

	Three months ended		
	March 31, 2019	December 31, 2018	March 31, 2018
	(dollars in millions, except per treatment data)		
Revenues:			
U.S. dialysis and related lab services patient service revenues	$ 2,548	$ 2,642	$ 2,508
Provision for uncollectible accounts	(5)	(14)	25
U.S. dialysis and related lab services net patient service revenues	2,542	2,628	2,533
Other revenues	5	5	5
Total U.S. dialysis and related lab services revenues	2,547	2,633	2,538
Operating expenses and charges:			
Patient care costs	1,797	1,872	1,779
General and administrative	197	210	196
Depreciation and amortization	141	147	135
Equity investment income	(5)	(5)	(5)
Gain on changes in ownership interests, net	—	(28)	—
Total operating expenses and charges	2,130	2,196	2,105
Operating income	$ 417	$ 437	$ 433
Reconciliation of non-GAAP measures:			
Gain on changes in ownership interests, net	—	(28)	—
Adjusted operating income[(1)]	$ 417	$ 409	$ 433
Dialysis treatments	7,297,460	7,552,412	7,174,026
Average dialysis treatments per treatment day	95,267	95,119	92,568
Average dialysis and related lab services net revenue per treatment	$ 348.37	$ 347.97	$ 353.05

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

(1) For the periods presented in the table above adjusted operating income is defined as operating income before certain items which we do not believe are indicative of ordinary results, including a net gain on changes in ownership interest. Adjusted operating income as so defined is a non-GAAP measure and is not intended as a substitute for GAAP operating income. We have presented these adjusted amounts because management believes that these presentations enhance a user's understanding of our normal consolidated operating income by excluding certain items which we do not believe are indicative of our ordinary results of operations. As a result, adjusting for these amounts allows for comparison to our normalized prior period results.

Revenues

Dialysis and related lab services' revenues for the first quarter of 2019 decreased by approximately $86 million, or 3.3%, as compared to the fourth quarter of 2018. The decrease in dialysis and related lab services' revenues was primarily due to a decrease in treatments, principally due to approximately three fewer treatment days in the first quarter of 2019 as compared to the fourth quarter of 2018, as well as a seasonal decrease from co-insurance and deductibles. These were partially offset by a slight increase in our average dialysis net revenue per treatment due to an increase in Medicare rates and an increase in acute revenue due to seasonality.

Dialysis and related lab services' revenues for the first quarter of 2019 increased by approximately $9 million, or 0.4%, as compared to the first quarter of 2018. The increase in net revenues was principally due to volume growth from acquired and non-acquired treatment growth, partially offset by one fewer treatment day during the first quarter of 2019 as compared to the first quarter of 2018 and a decrease in our average dialysis net revenue per treatment of $5. The decrease in revenue per treatment was driven by a one-time benefit of $24 million recognized in the first quarter of 2018 in Medicare bad debt revenue due to a policy election made under the new revenue standard to only apply the new guidance to contracts that were not

substantially completed as of January 1, 2018, as well as a decrease in calcimimetics revenues, partially offset by an increase in Medicare rates and an increase in acute revenue.

Operating expenses and charges

Patient care costs. Dialysis and related lab services' patient care costs of approximately $246 per treatment for the first quarter of 2019 decreased by approximately $2 per treatment as compared to the fourth quarter of 2018. The decrease was primarily related to a decrease in pharmaceutical unit costs. These decreases were partially offset by increases in benefits costs, payroll taxes due to seasonality, as well as in pharmaceutical intensity.

Dialysis and related lab services' patient care costs per treatment for the first quarter of 2019 decreased by approximately $2 per treatment as compared to the first quarter of 2018. The decrease was primarily related to a decrease in pharmaceutical unit costs and intensity, and a reduction in asset impairments related to expected center closures in the first quarter of 2018. These decreases were partially offset by an increase in labor and benefits costs and other direct operating expenses associated with our dialysis centers.

General and administrative expenses. Dialysis and related lab services' general and administrative expenses were approximately $197 million in the first quarter of 2019 and $210 million in the fourth quarter of 2018. General and administrative expenses decreased primarily due to a decrease in advocacy spending related to certain legislative and ballot initiatives, a decrease in professional fees and a decrease in travel expenses, partially offset by increases in labor and benefits costs and long-term incentive compensation expense.

Dialysis and related lab services' general and administrative expenses for the first quarter of 2019 increased by approximately $1 million as compared to the first quarter of 2018. This increase was primarily due to an increase in labor and benefit costs, partially offset by a decrease in professional fees.

Depreciation and amortization. Depreciation and amortization for dialysis and related lab services was approximately $141 million for the first quarter of 2019, $147 million for the fourth quarter of 2018, and $135 million for the first quarter of 2018. The decrease in depreciation and amortization in the first quarter of 2019 as compared to the fourth quarter of 2018 was primarily due to a change in estimated useful lives for our dialysis machines from seven years to nine years. The increase in depreciation and amortization in the first quarter of 2019 as compared to the first quarter of 2018 was primarily due to an increase in depreciation expense related to the growth in newly developed centers and acquired centers, partially offset by a decrease due to a change in estimated useful lives for our dialysis machines, as described above.

Gain on changes in ownership interests, net. During the fourth quarter of 2018 we acquired a controlling interest in a previously nonconsolidated dialysis partnership. As a result of this transaction, we consolidated this partnership and recognized a non-cash gain of $28 million on our previously held ownership interest in the partnership.

Equity investment income. Equity investment income for dialysis and related lab services was approximately $5 million for the first quarter of 2019, the fourth quarter of 2018 and the first quarter of 2018.

Segment operating income

Dialysis and related lab services' operating income for the first quarter of 2019 decreased by approximately $20 million as compared to the fourth quarter of 2018, which included a net gain on changes in ownership interests of $28 million. Excluding this item from its respective period, adjusted operating income increased by approximately $8 million due to decreases in pharmaceutical costs, advocacy costs, professional fees and travel expenses, as well as a decrease in depreciation expense, as described above. These decreases in expenses were partially offset by approximately three fewer treatment days in the first quarter of 2019 as compared to the fourth quarter of 2018, along with increases in benefits costs and payroll taxes, as described above.

Dialysis and related lab services' operating income for the first quarter of 2019 decreased by approximately $16 million as compared to the first quarter of 2018. This decrease in operating income was principally due to a decrease in our average dialysis net revenue per treatment of approximately $5 and approximately one fewer treatment day in the first quarter of 2019 as compared to the first quarter of 2018, as well as increases in labor and benefit costs, and other direct operating expenses associated with our dialysis centers, as described above. Operating income benefited from volume growth from additional treatments, as well as decreases in pharmaceutical costs and professional fees.

Other—Ancillary services and strategic initiatives business

Our other operations include ancillary services and strategic initiatives which are primarily aligned with our core business of providing dialysis services to our network of patients. As of March 31, 2019, these consisted primarily of disease management services, vascular access services, clinical research programs, physician services, ESRD seamless care organizations and comprehensive care as well as our international operations. These ancillary services and strategic initiatives, including our international operations, generated approximately $230 million in revenues for the first quarter of 2019, representing approximately 8.3% of our consolidated revenues. We expect to add additional service offerings to our business and pursue additional strategic initiatives in the future as circumstances warrant, which could include healthcare services not related to dialysis.

Any significant change in market conditions or business performance, or in the political, legislative or regulatory environment, may impact the economic viability of any of our strategic initiatives. If any of our ancillary services or strategic initiatives, such as our international operations, are unsuccessful, it would have a negative impact on our business, results of operations and financial condition, and we may determine to exit the line of business. We could incur significant termination costs if we were to exit certain of these lines of business. In addition, we may incur a material write-off or an impairment of our investment, including goodwill, in one or more of our ancillary services or strategic initiatives.

As of March 31, 2019, our international dialysis operations provided dialysis and administrative services to a total of 243 outpatient dialysis centers located in nine countries outside of the United States. The total net revenues from our international operations are below.

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

	Three months ended		
	March 31, 2019	December 31, 2018	March 31, 2018
	(dollars in millions)		
U.S. revenues:			
Other revenues	$ 109	$ 100	$ 237
Total	109	100	237
International revenues:			
Dialysis patient service revenues	118	117	102
Other revenues	3	7	1
Total	120	124	103
Total net revenues	$ 230	$ 224	$ 340
Operating expenses and charges:			
Operating and other general expenses	$ 247	$ 253	$ 347
Goodwill impairment	41	—	—
Total operating expenses and charges	288	253	347
Total ancillary services and strategic initiatives operating loss	$ (58)	$ (29)	$ (7)
U.S. operating loss	$ (15)	$ (19)	$ (5)
International operating loss	$ (43)	$ (10)	$ (2)
Reconciliation of non-GAAP:			
Goodwill impairment charge	41	—	—
Equity investment loss (income):			
Loss due to business sale in APAC JV	—	9	—
Loss due to impairments in APAC JV	—	2	—
Adjusted operating loss[1]	$ (2)	$ —	$ (2)
Total adjusted ancillary services and strategic initiatives operating loss[1]	$ (17)	$ (19)	$ (7)

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

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

Revenues

Revenues from our ancillary services and strategic initiatives for the first quarter of 2019 increased by approximately $6 million, or 2.7%, as compared to the fourth quarter of 2018. This increase was primarily due to an increase in DaVita IKC revenues from special needs plans, partially offset by a decrease in shared savings revenue from our ESCO joint ventures, a decrease in pharmacy revenue due to our pharmacy distribution ceasing operations, and a decrease in revenues related to our international operations due to approximately three fewer treatment days in the first quarter of 2019 as compared to the fourth quarter of 2018.

Revenues from our ancillary services and strategic initiatives for the first quarter of 2019 decreased by approximately $110 million, or 32.4%, as compared to the first quarter of 2018. This decrease was primarily due to our pharmacy distribution ceasing operations, a decrease in revenue due to the sale of our direct primary care business in the second quarter of 2018, and a decrease in our revenues at DaVita Health Solutions. These decreases were partially offset by an increase in DaVita IKC revenues from special needs plans and an increase in revenues from our international operations due to acquired and non-acquired growth.

Operating and general expenses

Ancillary services and strategic initiatives operating expenses for the first quarter of 2019 decreased by $6 million from the fourth quarter of 2018, primarily due to charges taken in the fourth quarter of 2018 related to an equity investment loss on the sale of the India business of our APAC JV of $9 million, an equity investment loss of $2 million related to impairments at our APAC JV and a decrease related to our pharmacy distribution ceasing operations. These decreases were partially offset by an increase in medical costs at DaVita IKC and an increase in members in our special needs plans.

Ancillary services and strategic initiatives operating expenses for the first quarter of 2019 decreased by $100 million as compared to the first quarter of 2018. This decrease was primarily due to our pharmacy distribution ceasing operations and a decrease in expenses related to the sale of our direct primary care business in the second quarter of 2018. These decreases were partially offset by an increase in medical costs at DaVita IKC due to an increase in members in our special needs plans as well as an increase in expenses associated with our international operations.

Goodwill impairment charges

During the three months ended March 31, 2019, we recognized a goodwill impairment charge of $41 million at our Germany kidney care business. This charge resulted primarily from a change in relevant discount rates, a decline in current and expected patient census during the quarter and higher than expected current and future costs, primarily due to newly announced legislation that is expected to increase wages in that market. See further discussion of this impairment charge in Note 7 to the condensed consolidated financial statements.

Segment operating losses

Ancillary services and strategic initiatives operating loss for the first quarter of 2019, which included a goodwill charge of $41 million related to our international operations, as described above, increased by approximately $29 million from the fourth quarter of 2018, which included an equity investment loss due to the sale of the India business of our APAC JV of $9 million and an equity investment loss related to impairments at our APAC JV of $2 million. Excluding these items from their respective periods, adjusted operating losses decreased by $2 million, primarily due to our pharmacy distribution ceasing operations, an increase in DaVita IKC operating results, partially offset by a decrease in our shared savings revenue from our ESCO joint ventures.

Ancillary services and strategic initiatives operating loss for the first quarter of 2019, which included a goodwill charge of $41 million related to our international operations, increased by approximately $51 million from the first quarter of 2018. Excluding this item, adjusted operating losses increased by $10 million, primarily due to a decrease in operating income at our direct primary care business due to the sale in the second quarter of 2018 and a decrease in our revenues at DaVita Health

Solutions. These decreases were partially offset by an improvement in DaVita IKC operating results from special needs plans and a decrease in operating losses due to our pharmacy distribution ceasing operations.

Corporate-level charges

Debt expense. Debt expense was $132 million in the first quarter of 2019, $128 million in the fourth quarter of 2018 and $114 million in the first quarter of 2018. Debt expense increased as compared to the fourth quarter of 2018 and as compared to the first quarter of 2018, primarily due to an increase in our average outstanding debt balance and an increase in our average interest rate.

Corporate administrative support. Corporate administrative support consists primarily of labor, benefits and long-term incentive compensation expense, as well as professional fees for departments which provide support to all of our various operating lines of business. This is partially offset by internal management fees charged to our other lines of business for that support.

Corporate administrative support costs were approximately $19 million in the first quarter of 2019, $20 million in the fourth quarter of 2018 and $16 million in the first quarter of 2018. Corporate administrative support costs in the first quarter of 2019 as compared to the fourth quarter of 2018 decreased due to a decrease in long-term incentive compensation expense, partially offset by increases in benefit costs and payroll taxes. Corporate administrative support costs in the first quarter of 2019 increased as compared to the same period of 2018 primarily due to a reduction in internal management fees charged to our pharmacy business, partially offset by decreases in professional fees and long-term incentive compensation expense.

Other income (loss). Other income was $7 million for the first quarter of 2019, other loss was $0.5 million for the fourth quarter of 2018 and other income was $5 million for the first quarter of 2018. The increase in other income (loss) in the first quarter of 2019 as compared to the fourth quarter of 2018 was primarily due to an increase in interest income, gains on the sale of investments and gains in foreign currency in the first quarter of 2019 as compared to foreign currency losses in the fourth quarter of 2018. The increase in other income for the first quarter of 2019 as compared to the first quarter of 2018 was primarily due to an increase in interest income and gains on sale of investments, partially offset by a decrease in foreign currency gains.

Income taxes. The Company's effective income tax rate for continuing operations was 26.3% for the first quarter of 2019 as compared to 20.0% for the fourth quarter of 2018 and 23.4% for the first quarter of 2018. The Company's effective income tax rate increased in the first quarter of 2019 as compared to the fourth quarter of 2018 due to a goodwill impairment charge recognized during the quarter ended March 31, 2019, as described below, and favorable return-to-provision adjustments recorded in the fourth quarter of 2018. The Company's effective income tax rate increased in the first quarter of 2019 as compared to the first quarter of 2018, primarily due to the goodwill impairment charge recognized in the first quarter of 2019, as described above.

Noncontrolling interests. Net income attributable to noncontrolling interests was $40 million for the first quarter of 2019 as compared to $48 million for the fourth quarter of 2018 and $47 million for the first quarter of 2018. The decrease in net income attributable to noncontrolling interests in the first quarter of 2019 as compared to the fourth quarter of 2018 was primarily due to fewer treatment days in the first quarter of 2019. The decrease in net income attributable to noncontrolling interests in the first quarter of 2019 as compared to the first quarter of 2018 was primarily due to a decrease in earnings at our DMG physician groups.

Accounts receivable. Our consolidated accounts receivable balances at March 31, 2019 and December 31, 2018 were $1.953 billion and $1.859 billion, respectively, which represented approximately 65 days and 62 days, respectively, net of allowance for uncollectible accounts. The increase in consolidated day sales outstanding (DSO) was primarily due to delays in billings, and collections related to certain payors. Our DSO calculation is based on the current quarter’s average revenues per day. There were no significant changes during the first quarter of 2019 from the fourth quarter of 2018 in the amount of unreserved accounts receivable over one year old or the amounts pending approval from third-party payors.

Liquidity and capital resources

The following table shows the summary of our major sources and uses of cash, cash equivalents and restricted cash:

	Three months ended	
	March 31, 2019	March 31, 2018
	(dollars in millions)	
Net cash provided by operating activities		
Net income	$ 189	$ 225
Non-cash items	244	210
Working capital	(290)	(85)
Other	(2)	13
	$ 141	$ 363
Net cash used in investing activities		
Capital expenditures:		
Routine maintenance/IT/other	$ (90)	$ (119)
Development and relocations	(109)	(114)
Acquisition expenditures	(11)	(17)
Proceeds from sale of self-developed properties	12	18
Other	(2)	32
	$ (200)	$ (200)
Net cash provided by (used in) financing activities		
Debt issuances, net	$ 357	$ 105
Distributions to noncontrolling interest	(44)	(45)
Contributions from noncontrolling interest	19	12
Other	(7)	(5)
Share repurchases	—	(290)
	$ 325	$ (223)
Total number of shares repurchased[1]	—	4,197,304

(1) At March 31, 2018, $16 million of our share repurchases remained unsettled.

Consolidated cash flows from operating activities during the first quarter of 2019 were $141 million, of which $73 million was from continuing operations, compared with consolidated operating cash flows for the first quarter of 2018 of $363 million, of which $206 million was from continuing operations. The decrease in cash flow from continuing operations was primarily driven by an increase in four days of DSO in our dialysis and lab business, funding of our 2018 401(k) match contribution that occurred in early 2019 and other changes in working capital.

Other significant changes in sources and uses of cash included net issuances of debt on our revolving line of credit of $400 million in the first quarter of 2019 as compared to net issuances of $452 million on the Term Loan A-2 which was used to pay down $300 million on the revolving line of credit in the first quarter of 2018. Cash flow also benefited from decreases in both capital expenditures and share repurchases in the first quarter of 2019 as compared to the first quarter of 2018.

In addition, during the first quarter of 2019 and of 2018, we made mandatory principal payments under our senior secured credit facilities totaling $25.0 million on Term Loan A and $8.8 million on Term Loan B.

The table below shows the growth in our dialysis operations by number of owned and operated dialysis centers:

	Three months ended March 31			Three months ended March 31	
U.S. centers:	**2019**	**2018**	**International centers:**	**2019**	**2018**
Centers at beginning of year	2,664	2,510	Centers at beginning of year	241	237
Acquired	2	1	Acquired	2	4
Developed	27	28	Developed and hospital operated	—	—
Managed and administrative, net[1]	(1)	1	Managed, net[1]	—	—
Sold and closed[2]	(2)	(1)	Sold and closed[2]	—	(1)
Closed[3]	(1)	—	APAC JV operated, net	—	1
Number of centers at end of period	2,689	2,539	Number of centers at end of period	243	241

(1) Represents dialysis centers that we manage or provide administrative services for but in which we own a noncontrolling equity investment or which are wholly-owned by third parties.

(2) Represents dialysis centers that were sold and/or closed for which patients were not retained.

(3) Represents dialysis centers that were closed for which the majority of patients were retained and transferred to one of our other existing outpatient dialysis centers.

In addition, our DMG business acquired one private medical practice in each of the first quarters of 2019 and 2018.

As of March 31, 2019, we had $575 million drawn on our $1.0 billion revolving line of credit under our senior secured credit facilities, of which approximately $38.0 million was committed for outstanding letters of credit. We also have approximately $40.9 million of additional outstanding letters of credit under a separate bilateral secured letter of credit facility, and $0.2 million of committed outstanding letters of credit which are backed by a certificate of deposit.

See Note 9 to the condensed consolidated financial statements for components of and interest rates on our long-term debt.

We believe that our cash flow from operations and other sources of liquidity, including from amounts available under our existing credit facilities and anticipated debt refinancing, as well as proceeds from the anticipated sale of our DMG business if consummated, will be sufficient to fund our scheduled debt service under the terms of our debt agreements and other obligations for the foreseeable future, including the next 12 months. Our primary recurrent sources of liquidity are cash from operations and cash from borrowings.

Goodwill

We recognized a $41 million goodwill impairment charge in our Germany kidney care business during the quarter ended March 31, 2019. This charge resulted primarily from a change in relevant discount rates, a decline in current and expected patient census in the quarter and higher than expected current and future costs, primarily due to newly announced legislation that is expected to increase wages in that market.

We did not recognize any goodwill impairment charges during the three months ended March 31, 2018.

See further discussion of this impairment charge and our reporting units that remain at risk of goodwill impairment in Note 7 to the condensed consolidated financial statements.

Long-term incentive program (LTIP) compensation

During the three months ended March 31, 2019, we granted 7,496 restricted and performance stock units with an aggregate grant-date fair value of $0.4 million and a weighted-average expected life of approximately 1.6 years.

Long-term incentive compensation expense of $13 million in the first quarter of 2019 increased by approximately $1 million as compared to the fourth quarter of 2018 primarily due to the cumulative revaluation of liability-based awards that decreased expense in the fourth quarter of 2018 for changes in estimated ultimate payouts.

Long-term incentive compensation expense in the first quarter of 2019 decreased by approximately $2 million as compared to the first quarter of 2018 primarily due to the final vesting of a broad grant in the first quarter of 2018 that is no longer contributing expense.

As of March 31, 2019, there was $88 million in total estimated but unrecognized compensation expense for LTIP awards outstanding, including $79 million related to stock-based compensation arrangements under our equity compensation and employee stock purchase plans. We expect to recognize the performance-based cash component of these LTIP expenses over a weighted average remaining period of 0.7 years and the stock-based component of these LTIP expenses over a weighted average remaining period of 1.4 years.

See further discussion in Note 13 to the condensed consolidated financial statements.

Off-balance sheet arrangements and aggregate contractual obligations

In addition to the debt and lease obligations reflected on our balance sheet, we have commitments associated with letters of credit and potential obligations associated with our equity investments in nonconsolidated businesses and to dialysis ventures that are wholly-owned by third parties. We have potential obligations to purchase the equity interests held by third parties in several of our 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, we 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 us, which is intended to approximate fair value. The methodology we use to estimate the fair values of noncontrolling interests subject to put provisions assumes the higher of either a liquidation value of net assets or an average multiple of earnings, based on historical earnings, patient mix and other performance indicators that can affect future results, as well as other factors. The estimated fair values of 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 our current estimates. The estimated fair values of noncontrolling interests subject to put provisions can fluctuate and the implicit multiple of earnings at which these noncontrolling interests obligations may be settled 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.

We also have certain other potential commitments to provide operating capital to several dialysis ventures that are wholly-owned by third parties or businesses in which we maintain a noncontrolling equity interest as well as to physician-owned vascular access clinics or medical practices that we operate under management and administrative services agreements.

The following is a summary of these contractual obligations and commitments as of March 31, 2019 (in millions):

	Remainder of 2019	1-3 years	4-5 years	After 5 years	Total
Potential cash requirements under other commitments:					
Letters of credit	$ 79	$ —	$ —	$ —	$ 79
Noncontrolling interests subject to put provisions	623	269	115	136	1,143
Non-owned and minority owned put provisions	2	28	—	—	30
Operating capital advances	1	2	1	3	7
Purchase commitments	274	1,026	—	—	1,300
	$ 979	$ 1,325	$ 116	$ 139	$ 2,559

See Note 9 and Note 10 to the condensed consolidated financial statements for components and interest rates of our long-term debt and leases.

We have an agreement with Fresenius Medical Care (FMC) to purchase a certain amount of dialysis equipment, parts and supplies from FMC, which was extended through December 31, 2020.

We also have an agreement with Baxter Healthcare Corporation (Baxter) that commits us to purchase a certain amount of hemodialysis and peritoneal dialysis supplies at fixed prices through 2022.

Our total expenditures for the three months ended March 31, 2019 on such products for Fresenius was approximately 2.4% and for Baxter was 1.5% of our total U.S. dialysis and related lab services operating costs. The actual amount of such purchases in future years will depend upon a number of factors, including the operating requirements of our centers, the number of centers we acquire and growth of our existing centers.

In addition to the commitments listed above, in 2017, we entered into a Sourcing and Supply Agreement with Amgen USA Inc. (Amgen) that expires on December 31, 2022. Under the terms of this agreement, we will purchase EPO in amounts necessary to meet no less than 90% of our requirements for erythropoiesis stimulating agents (ESAs) through the expiration of the contract with Amgen. The actual amount of EPO that we will purchase will depend upon the amount of EPO administered during dialysis as prescribed by physicians and the overall number of patients that we serve.

Settlements of existing income tax liabilities for unrecognized tax benefits of approximately $58 million, including interest, penalties and other long-term tax liabilities, are excluded from the table above as reasonably reliable estimates of their timing cannot be made.

Supplemental Information Concerning Certain Physician Groups and Unrestricted Subsidiaries

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

We provide services to certain physician groups, including those within our DMG business, which while consolidated in our financial statements for financial reporting purposes, are not subsidiaries of nor owned by us, do not constitute “Subsidiaries” as defined in the indentures governing our outstanding senior notes, and do not guarantee those senior notes. In addition, we have entered into management agreements with these physician groups pursuant to which we receive management fees from the physician groups.

As of March 31, 2019, if these physician groups were not consolidated in our financial statements, our consolidated assets would have been approximately $21.977 billion and our consolidated other liabilities would have been approximately $6.452 billion. Our consolidated indebtedness would have remained approximately $10.512 billion since almost all of these physician groups are classified as held for sale with DMG and the remainder of them do not carry third party debt. For the three months ended March 31, 2019, if these physician groups were not consolidated in our financial statements, our consolidated net income would have been reduced by approximately $8 million. Our consolidated total net revenues and consolidated operating income would have remained approximately $2.743 billion and $341 million, respectively, since almost all of these physician groups are included in discontinued operations.

In addition, our DMG business owns a 67% equity interest in California Medical Group Insurance (CMGI), which is an Unrestricted Subsidiary as defined in the indentures governing our outstanding senior notes, and does not guarantee those senior notes. DMG's equity interest in CMGI is accounted for under the equity method of accounting, meaning that, although CMGI is not consolidated in our financial statements for financial reporting purposes, our consolidated income statement reflects our pro rata share of CMGI’s net income within net loss from discontinued operations.

For the three months ended March 31, 2019, excluding DMG's equity investment income attributable to CMGI, our consolidated net income would be lower by approximately $463 thousand. See Note 23 to the condensed consolidated financial statements for further details.

New Accounting Standards

See discussion of new accounting standards in Note 21 to the condensed consolidated financial statements.

Item 3. *Quantitative and Qualitative Disclosures about Market Risk*

Interest rate sensitivity

There has been no material change in the nature of the Company's interest rate risks or foreign currency exchange risks, described in Item 7A of our consolidated financial statements included in the 10-K for the year ended December 31, 2018.

The tables below provide information about our financial instruments that are sensitive to changes in interest rates as of March 31, 2019.

	Expected maturity date									
	2019	2020	2021	2022	2023	2024	Thereafter	Total	Average interest rate	Fair Value
	(dollars in millions)									
Long term debt:										
Fixed rate	$ 31	$ 33	$ 30	$ 1,280	$ 41	$ 1,777	$ 1,701	$ 4,893	5.29%	$ 4,833
Variable rate	$ 4,623	$ 51	$ 910	$ 12	$ 11	$ 8	$ 4	$ 5,619	5.01%	$ 5,640

	Notional Amount	Contract maturity date							Fair Value
		2019	2020	2021	2022	2023	Thereafter	Receive variable	
	(dollars in millions)								
Cap agreements	$ 3,500	$ —	$3,500	$ —	$ —	$ —	—	LIBOR above 3.5%	$ —

See Note 9 to the condensed consolidated financial statements for components of and interest rates on our long-term debt.

Item 4. *Controls and Procedures*

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

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

Beginning January 1, 2019, we adopted FASB Accounting Standards Codification Topic 842, *Leases*. As a result of adopting this new standard, we implemented new business processes and related control activities in order to maintain appropriate controls over financial reporting. There was no other change in our internal control over financial reporting that was identified during the evaluation that occurred during the fiscal quarter covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II.
OTHER INFORMATION

Item 1. *Legal Proceedings*

The information required by this Part II, Item 1 is incorporated herein by reference to the information set forth under the caption "Contingencies" in Note 11 to the condensed consolidated financial statements included in this report.

Item 1A. *Risk Factors*

An updated description of the risk factors associated with our business is set forth below. This description includes any material changes to and supersedes the description of the risk factors previously provided in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2018 and any subsequent filings with the Securities and Exchange Commission (SEC) made prior to the date hereof. The risks and uncertainties discussed below are not the only ones facing our business. Please also read the cautionary notice regarding forward-looking statements in Item 2 of Part I of this Quarterly Report on Form 10-Q under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Risk factors related to our overall business:

If we fail to adhere to all of the complex government laws and regulations that apply to our business, we could suffer severe consequences that could have a material adverse effect on our business, results of operations, financial condition, cash flows, reputation and stock price.

Our operations are subject to extensive federal, state and local government laws and regulations, such as Medicare and Medicaid reimbursement rules and regulations, federal and state anti-kickback laws, the Stark Law and analogous state self-referral prohibition statutes, the 21st Century Cures Act, Federal Acquisition Regulations, the False Claims Act (FCA) and associated regulations, the Civil Monetary Penalty statute and associated regulations, the Foreign Corrupt Practices Act (FCPA), and federal and state laws regarding the collection, use and disclosure of patient health information (e.g., Health Insurance Portability and Accountability Act of 1996 (HIPAA)) and the storage, handling, shipment, disposal and/or dispensing of pharmaceuticals and blood products and other biological materials and many other applicable state and federal laws and requirements. Medicare and Medicaid regulations, manual provisions, local coverage determinations, national coverage determinations and agency guidance impose complex and extensive requirements upon healthcare providers as well. Moreover, the various laws and regulations that apply to our operations are often subject to varying interpretations and additional laws and regulations potentially affecting providers continue to be promulgated that may impact us. A violation or departure from any of the legal requirements implicated by our business may result in, among other things, government audits, lower reimbursements, significant fines and penalties, the potential loss of certification, recoupment efforts or voluntary repayments. These legal requirements are civil, criminal and administrative in nature depending on the law or requirement.

We endeavor to comply with all legal requirements. We further endeavor to structure all of our relationships with physicians and providers to comply with state and federal anti-kickback physician and self-referral laws and other applicable healthcare laws. We utilize considerable resources to monitor laws and regulations and implement necessary changes. However, the laws and regulations in these areas are complex, changing and often subject to varying interpretations. As a result, there is no guarantee that we will be able to adhere to all of the laws and regulations that apply to our business, and any failure to do so could have a material adverse impact on our business, results of operations, financial condition, cash flows and reputation. For example, if an enforcement agency were to challenge the level of compensation that we pay our medical directors or the number of medical directors whom we engage, or otherwise challenge these arrangements, we could be required to change our practices, face criminal or civil penalties, pay substantial fines, or otherwise experience a material adverse impact on our business, results of operations, financial condition, cash flows, reputation and stock price as a result. Similarly, we may face penalties under the FCA, the federal Civil Monetary Penalty statute or otherwise, related to failure to report and return overpayments within 60 days of when the overpayment is identified and quantified. These obligations to report and return overpayments could subject our procedures for identifying and processing overpayments to greater scrutiny. We have made investments in resources to decrease the time it takes to identify, quantify and process overpayments, and may be required to make additional investments in the future.

Additionally, the federal government has used the FCA to prosecute a wide variety of alleged false claims and fraud allegedly perpetrated against Medicare, Medicaid and other federally funded health care programs. Moreover, amendments to the federal Anti-Kickback Statute in the 2010 Affordable Care Act (ACA) make claims tainted by anti-kickback violations potentially subject to liability under the FCA, including *qui tam* or whistleblower suits. The penalties for a violation of the FCA

range from $5,500 to $11,000 (adjusted for inflation) for each false claim plus three times the amount of damages caused by each such claim which generally means the amount received directly or indirectly from the government. On January 29, 2018, the Department of Justice (DOJ) issued a final rule announcing adjustments to FCA penalties, under which the per claim penalty range increases to a range from $11,181 to $22,363 for penalties assessed after January 29, 2018, so long as the underlying conduct occurred after November 2, 2015. Given the high volume of claims processed by our various operating units, the potential is high for substantial penalties in connection with any alleged FCA violations.

In addition to the provisions of the FCA, which provide for civil enforcement, the federal government can use several criminal statutes to prosecute persons who are alleged to have submitted false or fraudulent claims for payment to the federal government.

Certain subpoenas and civil investigative demands received by us or our subsidiaries specifically reference that they are in connection with FCA investigations alleging, among other things, that we or our subsidiaries presented or caused to be presented false claims for payment to the government. See Note 11 to the condensed consolidated financial statements included in this report for further details.

We are subject to a Corporate Integrity Agreement (CIA) which, for our domestic dialysis business, requires us to report probable violations of criminal, civil or administrative laws applicable to any federal health care program for which penalties or exclusions may be authorized under applicable healthcare laws and regulations. See "If we fail to comply with our Corporate Integrity Agreement, we could be subject to substantial penalties and exclusion from participation in federal healthcare programs that could have a material adverse effect on our business, results of operations, financial condition, cash flows and reputation."

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

- Suspension or termination of our participation in government payment programs;
- Refunds of amounts received in violation of law or applicable payment program requirements dating back to the applicable statute of limitation periods;
- Loss of required government certifications or exclusion from government payment programs;
- Loss of licenses required to operate healthcare facilities or administer pharmaceuticals in the states in which we operate;
- Reductions in payment rates or coverage for dialysis and ancillary services and pharmaceuticals;
- Criminal or civil liability, fines, damages or monetary penalties for violations of healthcare fraud and abuse laws, including the federal Anti-Kickback Statute, Civil Monetary Penalties Law, Stark Law and FCA, or other failures to meet regulatory requirements;
- Enforcement actions by governmental agencies and/or state law claims for monetary damages by patients who believe their protected health information (PHI) has been used, disclosed or not properly safeguarded in violation of federal or state patient privacy laws, including HIPAA and the Privacy Act of 1974;
- Mandated changes to our practices or procedures that significantly increase operating expenses;
- Imposition of and compliance with corporate integrity agreements that could subject us to ongoing audits and reporting requirements as well as increased scrutiny of our billing and business practices which could lead to potential fines, among other things;
- Termination of various relationships and/or contracts related to our business, including joint venture arrangements, medical director agreements, real estate leases and consulting agreements with physicians; and
- Harm to our reputation which could negatively impact our business relationships, affect our ability to attract and retain patients and physicians, affect our ability to obtain financing and decrease access to new business opportunities, among other things.

We are, and may in the future be, a party to various lawsuits, demands, claims, *qui tam* suits, governmental investigations and audits (including investigations or other actions resulting from our obligation to self-report suspected violations of law) and other legal matters, any of which could result in, among other things, substantial financial penalties or awards against us, mandated refunds, substantial payments made by us, required changes to our business practices, exclusion from future participation in Medicare, Medicaid and other healthcare programs and possible criminal penalties, any of which could have a material adverse effect on our business, results of operations, financial condition, and cash flows and materially harm our reputation.

We are the subject of a number of investigations and audits by governmental agencies. In addition, we are, and may in the future be, subject to other investigations and audits by state or federal governmental agencies and/or private civil *qui tam* complaints filed by relators and other lawsuits, demands, claims and legal proceedings, including investigations or other actions resulting from our obligation to self-report suspected violations of law.

Responding to subpoenas, investigations and other lawsuits, claims and legal proceedings as well as defending ourselves in such matters will continue to require management's attention and cause us to incur significant legal expense. Negative findings or terms and conditions that we might agree to accept as part of a negotiated resolution of pending or future legal or regulatory matters could result in, among other things, substantial financial penalties or awards against us, substantial payments made by us, harm to our reputation, required changes to our business practices, exclusion from future participation in the Medicare, Medicaid and other healthcare programs and, in certain cases, criminal penalties, any of which could have a material adverse effect on us. It is possible that criminal proceedings may be initiated against us and/or individuals in our business in connection with investigations by the federal government. Other than as described in Note 11 to the condensed consolidated financial statements included in this report, we cannot predict the ultimate outcomes of the various legal proceedings and regulatory matters to which we are or may be subject from time to time, including those described in the aforementioned sections of this report, 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 our business, results of operations, financial condition, cash flows and materially harm our reputation. See Note 11 to the condensed consolidated financial statements included in this report for further details regarding these and other matters.

Changes in federal and state healthcare legislation or regulations could have a material adverse effect on our business, results of operations, financial condition and cash flows.

We cannot predict how employers, private payors or persons buying insurance might react to the changes brought on by federal and state healthcare reform, including the ACA and any subsequent legislation, regulation or guidance, or what form many of these regulations will take before implementation.

For example, the ACA introduced healthcare insurance exchanges, which provide a marketplace for eligible individuals and small employers to purchase healthcare insurance. The business and regulatory environment continues to evolve as the exchanges mature, and statutes and regulations are challenged, changed and enforced. If commercial payor participation in the exchanges continues to decrease, it could have a material adverse effect on our business, results of operations, financial condition and cash flows. Although we cannot predict the short- or long-term effects of legislative or regulatory changes, we believe that future market changes could result in more restrictive commercial plans with lower reimbursement rates or higher deductibles and co-payments that patients may not be able to pay. To the extent that changes in statutes, regulations or related guidance or changes in other market conditions result in a reduction in reimbursement rates for our services from commercial and/or government payors, it could have a material adverse effect on our business, results of operations, financial condition and cash flows.

The ACA also added several new tax provisions that, among other things, impose various fees and excise taxes, and limit compensation deductions for health insurance providers and their affiliates. These rules could negatively impact our cash flow and tax liabilities. In addition, the ACA broadened the potential for penalties under the FCA for the knowing and improper retention of overpayments collected from government payors and reduced the timeline to file Medicare claims. Failure to timely identify, quantify and return overpayments may result in significant penalties, which could have a material adverse effect on our business, results of operations, financial condition, cash flows and reputation. Failure to file a claim within the one year window could result in payment denials, adversely affecting our business, results of operations, financial condition and cash flows.

New models of care emerge and evolve and other initiatives in the government or private sector may arise, and any failure on our part to adequately implement strategic initiatives to adjust to these marketplace developments could have a material adverse impact on our business. For example, the Centers for Medicare and Medicaid Services (CMS) Innovation Center (Innovation Center) is currently working with various healthcare providers to develop, refine and implement Accountable Care Organizations (ACOs) and other innovative models of care for Medicare and Medicaid beneficiaries,

including the Comprehensive ESRD Care Model (CEC Model) (which includes the development of end stage renal disease (ESRD) Seamless Care Organizations), the Duals Demonstration, and other models. We are currently participating in the CEC Model with the Innovation Center, including with organizations in Arizona, Florida, and adjacent markets in New Jersey and Pennsylvania. Our U.S. dialysis business may choose to participate in additional models either as a partner with other providers or independently. Even in areas where we are not directly participating in these or other Innovation Center models, some of our patients may be assigned to an ACO, another ESRD Care Model, or another program, in which case the quality and cost of care that we furnish will be included in an ACO's, another ESRD Care Model's, or other program's calculations. CMS has also recently announced a new set of primary care payment models that will be administered through the Innovation Center and launched in certain states beginning in 2020. We expect additional guidance around these new payment models in the coming months, and are in the early stages of assessing the potential impact on our business.

In addition to the aforementioned new models of care, federal bipartisan legislation in the form of the Dialysis Patient Access to Integrated-care, Empowerment, Nephrologists, Treatment and Services Demonstration Act of 2017 (PATIENTS Act) has been proposed. The PATIENTS Act builds on prior coordinated care models, such as the CEC Model, and would establish a demonstration program for the provision of integrated care to Medicare ESRD patients. We have made and continue to make investments in building our integrated care capabilities, but there can be no assurances that initiatives such as the PATIENTS Act or similar legislation will be passed. If such legislation is passed, there can be no assurances that we will be able to successfully provide integrated care on the broader scale contemplated by this legislation, and our costs of care could exceed our associated reimbursement rates. In general, if we are unable to efficiently adjust to these and other new models of care, it may erode our patient base or reimbursement rates, which could have a material adverse impact on our business.

There is also a considerable amount of uncertainty as to the continued implementation of the ACA and what similar measures or other changes might be enacted at the federal and/or state level. There have been multiple attempts through legislative action and legal challenges to repeal or amend the ACA. In December 2017, the Tax Cuts and Jobs Act of 2017 was signed into law which, among other things, repealed the penalty under ACA's individual mandate, which had required individuals to pay a fee if they failed to obtain a qualifying health insurance plan. In December 2018, a federal district court in Texas ruled the individual mandate was unconstitutional and inseverable from the ACA. As a result, the court ruled the remaining provisions of the ACA were also invalid, though the court declined to issue a preliminary injunction with respect to the ACA. The court's ruling has been appealed to the U.S. Court of Appeals for the Fifth Circuit. On March 25, 2019, the DOJ stated in a legal filing with the Fifth Circuit that the district court's ruling that the ACA was invalid should be upheld. It remains unclear whether the court's ruling will be upheld by appellate courts. In addition, the 2016 Presidential and Congressional elections and subsequent developments have caused the future state of the exchanges and other ACA reforms to be unclear. However, legislative attempts to completely repeal the ACA have been unsuccessful to date. While there may be significant changes to the healthcare environment in the future, including as a result of potential changes to the political environment, the specific changes and their timing are not yet apparent. Previously enacted reforms and future changes could have a material adverse effect on our business, results of operations, financial condition and cash flows, including, for example, by limiting the scope or nature of coverage or the number of patients who are able to obtain coverage through the exchanges and other health insurance programs, moving to a universal health insurance or "single payor" system whereby health insurance is provided to all Americans by the government under government programs, lowering or eliminating the cost-sharing reduction subsidies under the ACA, lowering our reimbursement rates, and/or increasing our expenses.

There have also been several state initiatives to limit payments to dialysis providers. For example, Proposition 8, a California statewide ballot initiative, was proposed by the Service Employees International Union - United Healthcare Workers West and sought to limit the amount of revenue dialysis providers can retain from caring for patients with commercial insurance by requiring rebates to insurers and taking into account only a portion of the costs incurred by dialysis providers. While Proposition 8 was not approved in the November 2018 election, we incurred substantial costs in our efforts to oppose Proposition 8. Ballot initiatives similar to Proposition 8 were also proposed in Ohio and Arizona; however, neither of these initiatives met the applicable requirements for inclusion on the state ballot for the November 2018 elections. Although Proposition 8 and the Ohio and Arizona initiatives did not pass, we expect that similar ballot initiatives or other legislation might be proposed in the future in these or other states.

There have also been potential rule making and/or legislative efforts concerning charitable premium assistance. In December 2016, CMS published an interim final rule that questioned the use of charitable premium assistance for ESRD patients and would have established new conditions for coverage standards for dialysis facilities. In January 2017, a federal district court in Texas issued a preliminary injunction on CMS' interim final rule and in June 2017, at the request of CMS, the court stayed the proceedings while CMS pursues new rulemaking options. CMS has not issued any new rulemaking related to charitable premium assistance yet, but that does not preclude CMS or another regulatory agency or legislative authority from issuing a new rule or guidance that challenges charitable premium assistance. In addition, during the third quarter of 2018, a bill (SB 1156) was passed by the California legislature that would have imposed restrictions and obligations related to the use by

patients on commercial plans of charitable premium assistance in the state of California and would have limited the amounts paid to a provider for services provided to those patients, if that provider has a financial relationship with the organization providing charitable premium assistance. SB 1156 was vetoed by the Governor of California, and the California legislature did not subsequently vote to overturn the Governor's veto. However, we expect that similar legislative or other initiatives might be proposed in the future in these and other states. For example, in January 2019, a bill (AB 290) was introduced in the California legislature that is similar to SB 1156 and would, among other things, limit the amount of reimbursement paid to certain providers for services provided to patients with commercial insurance who receive charitable premium assistance. In addition, similar bills were recently introduced in Illinois (SB 650) and Oregon (SB 900). If any one of AB 290, SB 650 or SB 900 is passed and implemented, we expect that it would have an adverse impact on our business, results of operations, financial condition and cash flows.

Any law, rule or guidance proposed or issued by CMS or other federal or state regulatory or legislative authorities, including any initiatives similar to the proposed legislation and ballot initiatives described above, or other future ballot or other initiatives restricting or prohibiting the ability of patients with access to alternative coverage from selecting a marketplace plan on or off exchange, limiting the amount of revenue that a dialysis provider can retain for caring for patients with commercial insurance by, among other things, requiring rebates to insurers and taking into account only a portion of the costs incurred by dialysis providers, affecting payments made to providers for services provided to patients who receive charitable premium assistance and/or otherwise restricting or prohibiting the use of charitable premium assistance, could cause us to incur substantial costs to oppose any such proposed measures, impact our dialysis center development plans, and if passed and/or implemented, could adversely impact dialysis centers across the U.S. making certain centers economically unviable, lead to the closure of certain centers, restrict the ability of dialysis patients to obtain and maintain optimal insurance coverage, and in some cases, have a material adverse effect on our business, results of operations, financial condition and cash flows.

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

We must comply with numerous federal and state laws and regulations in both the U.S. and the foreign jurisdictions in which we operate governing the collection, dissemination, access, use, security and privacy of PHI, including HIPAA and its implementing privacy, security, and related regulations, as amended by the federal Health Information Technology for Economic and Clinical Health Act (HITECH) and collectively referred to as HIPAA. We are also required to report known breaches of PHI consistent with applicable breach reporting requirements set forth in applicable laws and regulations. From time to time, we may be subject to both federal and state inquiries or audits related to HIPAA, HITECH and related state laws associated with complaints, desk audits, and self-reported breaches. If we fail to comply with applicable privacy and security laws, regulations and standards, including with respect to third-party service providers that utilize sensitive personal information, including PHI, on our behalf, properly maintain the integrity of our data, protect our proprietary rights, or defend against cybersecurity attacks, it could materially harm our reputation or have a material adverse effect on our business, results of operations, financial condition and cash flows. These risks may be intensified to the extent that the laws change or to the extent that we increase our use of third-party service providers that utilize sensitive personal information, including PHI, on our behalf.

Data protection laws are evolving globally, and may add additional compliance costs and legal risks to our international operations. In Europe, the General Data Protection Regulation (GDPR) became effective on May 25, 2018. The GDPR applies to entities that are established in the European Union (EU), as well as extends the scope of EU data protection laws to foreign companies processing data of individuals in the EU. The GDPR imposes a comprehensive data protection regime with the potential for regulatory fines as well as data breach litigation by impacted data subjects. Under the GDPR, regulatory penalties may be assessed by data protection authorities for up to the greater of 4% of worldwide turnover or €20 million. The costs of compliance with, and other burdens imposed by, the GDPR and other new laws, regulations and policies implementing the GDPR may impact our European operations and/or limit the ways in which we can provide services or use personal data collected while providing services. If we fail to comply with the requirements of GDPR, we could be subject to penalties that would have a material adverse impact on our business, results of operations, financial condition and cash flows.

Data protection laws are also evolving nationally, and may add additional compliance costs and legal risks to our U.S. operations. For example, the California legislature passed the California Consumer Protection Act (CCPA), which is scheduled to become effective January 1, 2020. The CCPA is a privacy bill that requires certain companies doing business in California to disclose information regarding the collection and use of a consumer's personal data and to delete a consumer's data upon

request. The CCPA also permits the imposition of civil penalties and expands existing state security laws by providing a private right of action for consumers in certain circumstances where consumer data is subject to a breach. We are still evaluating whether and how this rule will impact our U.S. operations and/or limit the ways in which we can provide services or use personal data collected while providing services. The U.S. Department of Health and Human Services (HHS) Office for Civil Rights recently issued cybersecurity guidelines for healthcare organizations that reflect consensus-based, voluntary practices to cost-effectively reduce cybersecurity risks for organizations of varying sizes. Although these HHS-backed guidelines, entitled "Health Industry Cybersecurity Practices: Managing Threats and Protecting Patients," are voluntary, they are likely to serve as an important reference point for the healthcare industry.

Information security risks have significantly increased in recent years in part because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct our operations, and the increased sophistication and activities of organized crime, hackers, terrorists and other external parties, including foreign state agents. Our business and operations rely on the secure processing, transmission and storage of confidential, proprietary and other information in our computer systems and networks, including sensitive personal information, including PHI, social security numbers, and credit card information of our patients, teammates, physicians, business partners and others.

We continuously are implementing multiple layers of security measures through technology, processes and our people. We utilize security technologies designed to protect and maintain the integrity of our information systems and data, and our defenses are monitored and routinely tested internally and by external parties. Despite these efforts, our facilities and systems and those of our third-party service providers may be vulnerable to privacy and security incidents; security attacks and breaches; acts of vandalism or theft; computer viruses and other malicious code; coordinated attacks by a variety of actors, including activist entities or state sponsored cyberattacks; emerging cybersecurity risks; cyber risk related to connected devices; misplaced or lost data; programming and/or human errors; or other similar events that could impact the security, reliability and availability of our systems. Internal or external parties may attempt to circumvent our security systems, and we have in the past, and expect that we will in the future, experience external attacks on our network including reconnaissance probes, denial of service attempts, malicious software attacks including ransomware or other attacks intended to render our internal operating systems or data unavailable, and phishing attacks or business email compromise. Cybersecurity requires ongoing investment and diligence against evolving threats. Emerging and advanced security threats, including coordinated attacks, require additional layers of security which may disrupt or impact efficiency of operations. As with any security program, there always exists the risk that employees will violate our policies despite our compliance efforts or that certain attacks may be beyond the ability of our security and other systems to detect. There can be no assurance that investments, diligence and/or our internal controls will be sufficient to prevent or timely discover an attack.

Any security breach involving the misappropriation, loss or other unauthorized disclosure or use of confidential information, including PHI, financial data, competitively sensitive information, or other proprietary data, whether by us or a third party, could have a material adverse effect on our business, results of operations, financial condition, cash flows and materially harm our reputation. We may be required to expend significant additional resources to modify our protective measures, to investigate and remediate vulnerabilities or other exposures, or to make required notifications. The occurrence of any of these events could, among other things, result in interruptions, delays, the loss or corruption of data, cessations in the availability of systems and liability under privacy and security laws, all of which could have a material adverse effect on our business, results of operations, financial condition and cash flows, or materially harm our reputation and trigger regulatory actions and private party litigation. If we are unable to protect the physical and electronic security and privacy of our databases and transactions, we could be subject to potential liability and regulatory action, our reputation and relationships with our patients, physicians, vendors and other business partners would be harmed, and our business, results of operations, financial condition and cash flows could be materially and adversely affected. Failure to adequately protect and maintain the integrity of our information systems (including our networks) and data, or to defend against cybersecurity attacks, could subject us to monetary fines, civil suits, civil penalties or criminal sanctions and requirements to disclose the breach publicly, and could further result in a material adverse effect on our business, results of operations, financial condition and cash flows or harm our reputation. As malicious cyber activity escalates, including activity that originates outside of the U.S., the risks we face relating to transmission of data and our use of service providers outside of our network, as well as the storing or processing of data within our network, intensify. There have been increased international, federal and state and other privacy, data protection and security enforcement efforts and we expect this trend to continue. While we maintain cyber liability insurance, this insurance may not cover us for all types of losses and may not be sufficient to protect us against the amount of all losses.

We may engage in acquisitions, mergers, joint ventures or dispositions, which may affect our results of operations, debt-to-capital ratio, capital expenditures or other aspects of our business, and if businesses we acquire have liabilities we are not aware of or are not adequately addressed, we could suffer severe consequences that would have a material adverse effect on our business, results of operations, financial condition and cash flows and could materially harm our reputation.

Our business strategy includes growth through acquisitions of dialysis centers and other businesses, as well as entry into joint ventures. We may engage in acquisitions, mergers, joint ventures or dispositions or expand into new business lines or models, which may affect our results of operations, debt-to-capital ratio, capital expenditures or other aspects of our business. There can be no assurance that we will be able to identify suitable acquisition targets or merger partners or buyers for dispositions or that, if identified, we will be able to agree to terms with merger partners, acquire these targets or make these dispositions on acceptable terms or on the desired timetable. There can also be no assurance that we will be successful in completing any acquisitions, mergers or dispositions that we announce, executing new business lines or models or integrating any acquired business into our overall operations. There is no guarantee that we will be able to operate acquired businesses successfully as stand-alone businesses, or that any such acquired business will operate profitably or will not otherwise have a material adverse effect on our business, results of operations, financial condition and cash flows or materially harm our reputation. Further, we cannot be certain that key talented individuals at the business being acquired will continue to work for us after the acquisition or that they will be able to continue to successfully manage or have adequate resources to successfully operate any acquired business. In addition, certain of our newly and previously acquired dialysis centers and facilities have been in service for many years, which may result in a higher level of maintenance costs. Further, our facilities, equipment and information technology may need to be improved or renovated to maintain or increase operational efficiency, compete for patients and medical directors, or meet changing regulatory requirements. Increases in maintenance costs and any continued increases in capital expenditures could have a material adverse effect on our business, results of operations, financial condition and cash flows.

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

Additionally, joint ventures, including our Asia Pacific joint venture, and minority investments inherently involve a lesser degree of control over business operations, thereby potentially increasing the financial, legal, operational and/or compliance risks associated with the joint venture or minority investment. In addition, we may be dependent on joint venture partners, controlling shareholders or management who may have business interests, strategies or goals that are inconsistent with ours. Business decisions or other actions or omissions of the joint venture partner, controlling shareholders or management may require us to make capital contributions or necessitate other payments, result in litigation or regulatory action against us, result in reputational harm to us or adversely affect the value of our investment or partnership. There can be no assurances that these joint ventures and/or minority investments, including our Asia Pacific joint venture, ultimately will be successful.

If we are unable to compete successfully, including implementing our growth strategy and/or retaining our physicians and patients, it could materially adversely affect our business, results of operations, financial condition and cash flows.

Acquisitions, patient retention and medical director and physician retention are important parts of our growth strategy. We face intense competition from other companies for acquisition targets. In our U.S. dialysis business, we continue to face increased competition from large and medium-sized providers, among others, which compete directly with us for the limited acquisition targets as well as for individual patients and medical directors. In addition, we compete for individual patients, physicians and medical directors based in part on the quality of our facilities. Moreover, as we continue our international expansion into various international markets, we will continue to face competition from large and medium-sized providers, among others, for these acquisition targets as well. As we and our competitors continue to grow and open new dialysis centers, each center in the U.S. is required by applicable regulations to have a medical director, and we may not be able to retain an adequate number of nephrologists to serve as medical directors.

In addition, Fresenius USA, our largest competitor, manufactures a full line of dialysis supplies and equipment in addition to owning and operating dialysis centers. This may give it cost advantages over us because of its ability to manufacture its own products or prevent us from accessing existing or new technology on a cost-effective basis. See further discussion regarding risks associated with our suppliers under the heading below, "If certain of our suppliers do not meet our needs, if there are material price increases on supplies, if we are not reimbursed or adequately reimbursed for drugs we purchase or if we are unable to effectively access new technology or superior products, it could negatively impact our ability to effectively provide the services we offer and could have a material adverse effect on our business, results of operations, financial condition and cash flows."

Competition in existing and expanding markets is not limited to large competitors with substantial financial resources. We also compete with individual nephrologists that have opened their own dialysis units or facilities, and there have also been increasing indications of interest from non-traditional dialysis providers and others to enter the dialysis and pre-dialysis space and/or develop innovative technologies or business activities that could be disruptive to the industry. Although these and other potential competitors may face operational and/or financial challenges, the highly competitive and evolving dialysis and pre-dialysis marketplaces have presented some opportunities with relative ease of entry. As a result, we may compete with these smaller and/or non-traditional providers for patients in an asymmetrical environment with respect to data and/or regulatory requirements we face as an ESRD service provider, thereby impacting our ability to effectively compete. These and other factors have continued to drive change in the dialysis and pre-dialysis space, and if we are unable to successfully adapt to these changing dynamics, it could have a material adverse impact on our business, results of operations, financial condition and cash flows. Furthermore, each of the aforementioned competitive pressures and related risks may be impacted by a continued decline in the rate of growth of the ESRD patient population or other reductions in demand for dialysis treatments.

Based on the recent 2018 annual data report from the United States Renal Data System (USRDS), the underlying ESRD dialysis patient population has grown at an approximate compound rate of 3.8% from 2000 to 2016. However, more recent preliminary data from the USRDS suggest that the rate of growth of the ESRD patient population may be declining. A number of factors may impact ESRD growth rates, including the aging of the U.S. population, incidence rates for diseases that cause kidney failure such as diabetes and hypertension, mortality rates for dialysis patients and growth rates of minority populations with higher than average incidence rates of ESRD. In addition, the number of kidney transplants has been increasing in recent years, which may impact ESRD growth rates.

If we are not able to effectively implement our growth strategy, including by making acquisitions at the desired pace or at all; if we are not able to continue to maintain the expected or desired level of non-acquired growth; or if we experience significant patient attrition either as a result of new business activities in the dialysis or pre-dialysis space by our existing competitors, other market participants, new entrants, new technology or other forms of competition, or as a result of reductions in demand for dialysis treatments, including reduced prevalence of ESRD or an increase in the number of kidney transplants, it could materially adversely affect our business, results of operations, financial condition and cash flows.

If certain of our suppliers do not meet our needs, if there are material price increases on supplies, if we are not reimbursed or adequately reimbursed for drugs we purchase or if we are unable to effectively access new technology or superior products, it could negatively impact our ability to effectively provide the services we offer and could have a material adverse effect on our business, results of operations, financial condition and cash flows.

We have significant suppliers that may be the sole or primary source of products critical to the services we provide, or to which we have committed obligations to make purchases, sometimes at particular prices. If any of these suppliers do not meet our needs for the products they supply, including in the event of a product recall, shortage or dispute, and we are not able to find adequate alternative sources, if we experience material price increases from these suppliers that we are unable to mitigate, or if some of the drugs that we purchase are not reimbursed or not adequately reimbursed by commercial or government payors, it could have a material adverse impact on our business, results of operations, financial condition and cash flows. In addition, the technology related to the products critical to the services we provide is subject to new developments which may result in superior products. If we are not able to access superior products on a cost-effective basis or if suppliers are not able to fulfill our requirements for such products, we could face patient attrition and other negative consequences which could have a material adverse effect on our business, results of operations, financial condition and cash flows.

DMG operates in a different line of business from our historical business, and we may not realize anticipated benefits from DMG.

DaVita Medical Group (DMG) operates in a different line of business from our historical business. We may not have the expertise, experience and resources to profitably pursue all of our businesses at once, and we may be unable to successfully and profitably operate all businesses in the combined company. The administration of DMG requires implementation of appropriate

operations, management, forecasting, and financial reporting systems and controls, all of which pose challenges. The management of DMG requires and will continue to require the focused attention of our management team, including a significant commitment of its time and resources. The need for management to focus on these matters could have a material adverse effect on our business, results of operations, financial condition and cash flows. If the DMG operations continue to be less profitable than we currently anticipate or we do not have the experience, the appropriate expertise or the resources to profitably pursue all businesses in the combined company, our results of operations, financial condition and cash flows may be materially and adversely affected.

Laws regulating the corporate practice of medicine could restrict the manner in which DMG and our other subsidiaries are permitted to conduct their respective business, and the failure to comply with such laws could subject these entities to penalties or require a restructuring of these businesses.

Some states have laws that prohibit business entities, such as DMG and our other subsidiaries, including but not limited to, Nephrology Practice Solutions, DaVita Health Solutions, DaVita IKC, and Lifeline, from practicing medicine, employing physicians to practice medicine, exercising control over medical decisions by physicians (also known collectively as the corporate practice of medicine) or engaging in certain arrangements, such as fee-splitting, with physicians. In some states these prohibitions are expressly stated in a statute or regulation, while in other states the prohibition is a matter of judicial or regulatory interpretation. Of the states in which DMG and DaVita entities currently operate, California, Colorado, Nevada, Oregon, Tennessee and Washington generally prohibit the corporate practice of medicine, and other states may as well.

DMG and other DaVita entities operate in those states by maintaining long-term contracts with their associated physician groups which are each owned and operated by a physician(s) and which employ or contract with additional physicians to provide physician services, or by otherwise structuring physician group ownership in accordance with state law. Under these arrangements, DMG and such other DaVita entities provide non-medical management services and receive a management fee for providing these services; however, DMG and such other DaVita entities do not represent that they offer medical services through the associated physician groups, and do not exercise influence or control over the practice of medicine by physicians.

In addition to the above management arrangements, DMG and such other DaVita entities have certain contractual rights relating to the orderly transfer of equity interests in certain of its associated physician groups through succession agreements and other arrangements with their physician equity holders. However, such equity interests cannot be transferred to or held by DMG, such other DaVita entities or by any non-professional organization. Neither DMG nor DMG's subsidiaries directly own any equity interests in any physician groups in California, Nevada and Washington. The other DaVita entities operating in these and multiple other states have similar agreements and arrangements. In the event that any of these associated physician groups fail to comply with the management arrangement or any management arrangement is terminated and/or DMG or any of the other DaVita entities is unable to enforce its contractual rights over the orderly transfer of equity interests in its associated physician groups, such events could have a material adverse effect on the business, results of operations, financial condition and cash flows of DMG or such other DaVita entities.

It is possible that a state regulatory agency or a court could determine that these agreements with physician equity holders of certain managed associated physician groups and the way these entities carry out these arrangements as described above, either independently or coupled with the management services agreements with associated physician groups, are in violation of the corporate practice of medicine doctrine. As a result, these arrangements could be deemed invalid, potentially resulting in a loss of revenues and an adverse effect on results of operations derived from such associated physician groups. Such a determination could force a restructuring of the management arrangements with associated physician groups, which might include revisions of the management services agreements, including a modification of the management fee and/or establishing an alternative structure that would permit these entities to contract with a physician network without violating the corporate practice of medicine prohibition. There can be no assurance that such a restructuring would be feasible, or that it could be accomplished within a reasonable time frame without a material adverse effect on DMG's, DaVita's or any subsidiaries business, results of operations, financial condition and cash flows.

In December 2013, DaVita Health Plan of California, Inc. (DHPC) obtained a restricted Knox-Keene license in California, which, among other things, permits DHPC to contract with health plans in California and to arrange health care services through a network of employed or contracting physicians and other providers without violating the corporate practice of medicine prohibition. However, DHPC continues to subcontract with DMG associated physician groups in California to arrange physician services. DMG and DMG's California, Nevada and Washington associated physician groups, as well as those physician equity holders of associated physician groups who are subject to succession agreements with DMG, could be subject to criminal or civil penalties or an injunction if, for non-physicians, they are found to be practicing medicine without a license or, for licensed physicians, they are found to be aiding and abetting the unlicensed practice of medicine.

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

We have substantial debt outstanding, we incurred a substantial amount of additional debt in connection with our entry into the Increase Joinder Agreement in March 2018, and we may continue to incur additional indebtedness in the future. If we are unable to generate sufficient cash to service our substantial indebtedness and for other intended purposes, it could, for example:

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

In addition, we may continue to incur additional indebtedness in the future, and the amount of that additional indebtedness may be substantial. Although the indentures governing our senior notes and the agreement governing our senior secured credit facilities include covenants that could limit our indebtedness, we currently have the ability to incur substantial additional debt. The related risks described in this risk factor could intensify, in particular, if there is a delay in closing the sale of DMG or the sale of DMG does not close, or if new debt is added to current debt levels. Further, the variable interest rates payable under our senior secured credit facilities are linked to LIBOR as the benchmark for establishing the rates. LIBOR is the subject of recent national, international and other regulatory guidance and proposals for reform. These reforms may cause LIBOR to disappear entirely or to perform differently than in the past. The consequences of these developments with respect to LIBOR cannot be entirely predicted, but could adversely affect the variable interest rates payable under our senior secured credit facilities.

Our ability to make payments on our indebtedness, to fund planned capital expenditures and expansion efforts, including any strategic acquisitions we may make in the future, to repurchase our stock at the levels intended or announced and to meet our other liquidity needs, will depend on our ability to generate cash. This depends not only on the success of our business but, to a certain extent, is also subject to general economic, financial, competitive, regulatory and other factors that are beyond our control.

If the pending sale of DMG closes, our cash flows will be reduced accordingly. We cannot provide assurances that our business will generate sufficient cash flows from operations in the future or that future borrowings will be available to us in an amount sufficient to enable us to service our indebtedness or to fund other liquidity needs, including those described above. If we are unable to generate sufficient funds to service our outstanding indebtedness or to meet our other liquidity needs, including the intended purposes described above, we would be required to refinance, restructure, or otherwise amend some or all of such indebtedness, sell assets, change or reduce our intended or announced uses or strategy for capital deployment, including for stock repurchases, reduce capital expenditures or planned expansions or raise additional cash through the sale of our equity. We cannot make any assurances that any such refinancing, restructurings, sales of assets, or issuances of equity can be accomplished or, if accomplished, will be on favorable terms or would raise sufficient funds to meet these obligations or our other liquidity needs. Any failure to pay any of our indebtedness when due could have a material adverse effect on our business, results of operations, financial condition and cash flows, and could trigger cross default or cross acceleration provisions in our other debt instruments, thereby permitting the holders of that other indebtedness to demand immediate repayment, and, in the case of secured indebtedness, would generally permit the holders of that indebtedness to possess and sell the collateral to satisfy our obligations.

The borrowings under our senior secured credit facilities and senior indentures are guaranteed by a substantial portion of our direct and indirect wholly owned domestic subsidiaries, including certain of DMG's subsidiaries, and borrowings under our senior secured credit facilities are secured by a substantial portion of our and our subsidiaries' assets, including those of certain of DMG's subsidiaries. If the pending sale of DMG closes, we will have fewer subsidiary guarantors of, and fewer assets with which to secure existing and future debt or refinance or restructure existing debt. This will likely reduce the total amount of secured debt that we will be able to incur and may increase the interest rate we are required to pay on our existing secured debt and any secured debt we issue in the future. In addition, by reducing the amount of assets available to meet the claims of our secured and other creditors and the number of subsidiary guarantors, it may also adversely affect the interest rates on our existing unsecured debt and any unsecured debt we issue in the future and may adversely affect our ability to incur additional unsecured debt.

For additional details regarding specific risks we face regarding the pending sale of DMG, see the discussion in the risk factors under the heading "Risk factors related to the sale of DMG."

We may be subject to liability claims for damages and other expenses that are not covered by insurance or exceed our existing insurance coverage that could have a material adverse effect on our business, results of operations, financial condition, cash flows and reputation.

Our operations and how we manage our business may subject us, as well as our officers and directors to whom we owe certain defense and indemnity obligations, to litigation and liability for damages. Our business, profitability and growth prospects could suffer if we face negative publicity or we pay damages or defense costs in connection with a claim that is outside the scope or limits of coverage of any applicable insurance coverage, including claims related to adverse patient events, cybersecurity incidents, contractual disputes, professional and general liability and directors' and officers' duties. In addition, we have received notices of claims from commercial payors and other third parties, as well as subpoenas and CIDs from the federal government, related to our business practices, including our historical billing practices and the historical billing practices of acquired businesses. Although the ultimate outcome of these claims cannot be predicted, an adverse result with respect to one or more of these claims could have a material adverse effect on our business, results of operations, financial condition and cash flows. We maintain insurance coverage for those risks we deem are appropriate to insure against and make determinations about whether to self-insure as to other risks or layers of coverage. However, a successful claim, including a professional liability, malpractice or negligence claim or a claim related to a cybersecurity incident, which is in excess of any applicable insurance coverage, or that is subject to our self-insurance retentions, could have a material adverse effect on our business, results of operations, financial condition, cash flows and reputation. Additionally, as a result of the broad scope of our DMG division's medical practice, we are exposed to medical malpractice claims, as well as claims for damages and other expenses, that may not be covered by insurance or for which adequate limits of insurance coverage may not be available.

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

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

If we fail to successfully maintain an effective internal control over financial reporting, the integrity of our financial reporting could be compromised, which could have a material adverse effect on our ability to accurately report our financial results, our stock price and the market's perception of our business.

The integration of acquisitions and addition of new business lines into our internal control over financial reporting has required and will continue to require significant time and resources from our management and other personnel and has increased and will continue to, increase our compliance costs. Failure to maintain an effective internal control environment could have a material adverse effect on our ability to accurately report our financial results, our stock price and the market's perception of our business. In addition, we could be required to restate our financial results in the event of a significant failure of our internal control over financial reporting or in the event of inappropriate application of accounting principles.

Deterioration in economic conditions, disruptions in the financial markets or the effects of natural or other disasters or adverse weather events such as hurricanes, earthquakes, fires or flooding could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Deterioration in economic conditions could have a material adverse effect on our business, results of operations, financial condition and cash flows. Among other things, the potential decline in federal and state revenues that may result from such conditions may create additional pressures to contain or reduce reimbursements for our services from Medicare, Medicaid and other government sponsored programs. Increases in job losses in the U.S. as a result of adverse economic conditions has and may continue to result in a smaller percentage of our patients being covered by an employer group health plan and a larger percentage being covered by lower paying Medicare and Medicaid programs. Employers may also select more restrictive commercial plans with lower reimbursement rates. To the extent that payors are negatively impacted by a decline in the economy, we may experience further pressure on commercial rates, a further slowdown in collections and a reduction in the amounts we expect to collect. In addition, uncertainty in the financial markets could adversely affect the variable interest rates payable under our credit facilities or could make it more difficult to obtain or renew such facilities or to obtain other forms of financing in the future, if at all. For additional information regarding the risks related to our indebtedness, see the discussion in the risk factor above under the heading "The level of our current and future debt could have an adverse impact on our business and our ability to generate cash to service our indebtedness and for other intended purposes depends on many factors beyond our control."

Further, some of our operations, including our clinical laboratory, dialysis centers and other facilities, may be adversely impacted by the effects of natural or other disasters or adverse weather events such as hurricanes, earthquakes, fires or flooding. For example, our clinical laboratory is located in Florida, a state that has in the past experienced and may in the future experience hurricanes. Natural or other disasters or adverse weather events could significantly damage or destroy our facilities, disrupt operations, increase our costs to maintain operations and require substantial expenditures and recovery time to fully resume operations.

Any or all of these factors, as well as other consequences of these events, none of which we can currently predict, could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Disruptions in federal government operations and funding create uncertainty in our industry and could have a material adverse effect on our business, results of operations, financial condition and cash flows.

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

We could be subject to adverse changes in tax laws, regulations and interpretations or challenges to our tax positions.

We are subject to tax laws and regulations of the U.S. federal, state and local governments as well as various foreign jurisdictions. We compute our income tax provision based on enacted tax rates in the jurisdictions in which we operate. As the tax rates vary among jurisdictions, a change in earnings attributable to the various jurisdictions in which we operate could result in an unfavorable or favorable change in our overall tax provision.

From time to time, changes in tax laws or regulations may be proposed or enacted that could adversely affect our overall tax liability. There can be no assurance that changes in tax laws or regulations, both within the U.S. and the other jurisdictions in which we operate, will not materially and adversely affect our effective tax rate, tax payments, results of operations, financial condition and cash flows. Similarly, changes in tax laws and regulations that impact our patients, business partners and counterparties or the economy generally may also impact our results of operations, financial condition and cash flows.

In addition, tax laws and regulations are complex and subject to varying interpretations, and any significant failure to comply with applicable tax laws and regulations in all relevant jurisdictions could give rise to substantial penalties and liabilities. We are regularly subject to audits by tax authorities. For example, we are currently under audit by the Internal Revenue Service for the years 2014-2016. Although we believe our tax estimates and related reporting are appropriate, the final determination of this and other tax audits and any related litigation could be materially different from our historical income tax

provisions and accruals. Any changes in enacted tax laws (such as the recent U.S. tax legislation), rules or regulatory or judicial interpretations; any adverse development or outcome in connection with tax audits in any jurisdiction; or any change in the pronouncements relating to accounting for income taxes could materially and adversely impact our effective tax rate, tax payments, results of operations, financial condition and cash flows.

Expansion of our operations to and offering our services in markets outside of the U.S. subjects us to political, economic, legal, operational and other risks that could have a material adverse effect on our business, results of operations, financial condition, cash flows and reputation.

We are continuing to expand our operations by offering our services and entering new lines of business in certain markets outside of the U.S., which increases our exposure to the inherent risks of doing business in international markets. Depending on the market, these risks include those relating to:

- changes in the local economic environment;
- political instability, armed conflicts or terrorism;
- social changes;
- intellectual property legal protections and remedies;
- trade regulations;
- procedures and actions affecting approval, production, pricing, reimbursement and marketing of products and services;
- foreign currency;
- repatriating or moving to other countries cash generated or held abroad, including considerations relating to tax-efficiencies and changes in tax laws;
- export controls;
- lack of reliable legal systems which may affect our ability to enforce contractual rights;
- changes in local laws or regulations, or interpretation or enforcement thereof;
- potentially longer ramp-up times for starting up new operations and for payment and collection cycles;
- financial and operational, and information technology systems integration;
- failure to comply with U.S. laws, such as the FCPA, or local laws that prohibit us, our partners, or our partners' or our agents or intermediaries from making improper payments to foreign officials or any third party for the purpose of obtaining or retaining business; and
- data and privacy restrictions.

Issues relating to the failure to comply with applicable non-U.S. laws, requirements or restrictions may also impact our domestic business and/or raise scrutiny on our domestic practices.

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

Any expansion of our international operations through acquisitions or through organic growth could increase these risks. Additionally, while we may invest material amounts of capital and incur significant costs in connection with the growth and

development of our international operations, including to start up or acquire new operations, we may not be able to operate them profitably on the anticipated timeline, or at all.

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

Risk factors related to the sale of DMG:

The announcement and pendency of the sale of DMG may continue to adversely affect our business, results of operations, financial condition and cash flows.

The announcement and pending sale of DMG may continue to be disruptive to our business and may continue to adversely affect our relationships with current and prospective teammates, patients, physicians, payors, suppliers and other business partners. Uncertainties related to the pending sale of DMG may continue to impair our ability to attract, retain and motivate key personnel and could continue to cause suppliers and other business partners to defer entering into contracts with us or seek to change existing business relationships with us. The loss or deterioration of significant business and operational relationships could have an adverse effect on our business, results of operations, financial condition and cash flows. In addition, activities relating to the pending sale and related uncertainties could continue to divert the attention of our management and other teammates from our day-to-day business or disrupt our operations in preparation for and during the post-closing separation of DMG. Following the closing of the DMG sale, we will enter into a transition services agreement with Optum, whereby we and Optum will provide various transition services to one another for specified periods beginning on the closing date. In the course of performing our obligations under the transition services agreement, we will allocate certain of our resources, including assets, facilities, equipment and the time and attention of our management and other teammates, for the benefit of the DMG business and not ours, which may negatively impact our business, results of operations, financial condition and cash flows. In addition, it is possible that we could have stranded costs following the closing of the pending sale, which could be material. If we are unable to effectively manage these risks, our business, results of operations, financial condition and cash flows may be adversely affected.

Any continued delay in completing the sale of DMG or any additional modifications to the terms of the sale under the equity purchase agreement may materially adversely affect our business, results of operations, financial condition, cash flows and stock price.

The completion of the proposed sale of DMG is subject to customary closing conditions, including the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"). On March 12, 2018, we received a request for additional information and documentary materials (commonly referred to as a "second request") from the U.S. Federal Trade Commission ("FTC") under the HSR Act in connection with the FTC's review of the proposed sale of DMG. In connection with its approval of the proposed sale of DMG, the FTC is likely to impose material conditions, terms and obligations, which could delay completion of the transaction, or the FTC may impose conditions that would require an adverse modification to the equity purchase agreement. If further delays continue in completing the sale of DMG, or if the terms set forth in the equity purchase agreement are further amended, our business, results of operations, financial condition, cash flows and stock price could be materially adversely affected.

If we fail to complete the proposed sale of DMG, our business, results of operations, financial condition, cash flows and stock price may be materially adversely affected.

The completion of the proposed sale of DMG is subject to customary closing conditions, including FTC approval, and if any condition to the closing of the sale of DMG is neither satisfied nor, where permissible, waived, we may be unable to complete the disposition or complete the disposition on the terms set forth in the equity purchase agreement. In addition, either we or Optum may terminate the equity purchase agreement if, among other things, the sale has not been consummated prior to June 30, 2019. If the equity purchase agreement is terminated and our Board of Directors seeks an alternative transaction or another acquiror for the sale of the DMG business, we may not be able to negotiate a transaction with another party on terms comparable to, or better than, the terms of the equity purchase agreement with Optum, or at all. In the third and fourth quarters of 2018, we recognized valuation adjustments with respect to the DMG business based on an updated assessment of fair value, which includes inputs such as the transaction itself, risks and timing, and performance of the business, and we recorded associated goodwill impairment charges in the fourth quarter of 2018. We may recognize additional valuation adjustments related to DMG in the future.

If the sale of DMG is not completed for any reason, investor confidence could decline. A failed transaction may result in negative publicity, protracted litigation, and may affect our relationships with teammates, patients, physicians, payors,

suppliers, regulators and other business partners. In addition, in the event of a failed transaction, we will have expended significant management resources in an effort to complete the sale, and we will have incurred significant transaction costs, including legal fees, financial advisor fees and other related costs, without any commensurate benefit. Furthermore, we have incurred additional debt in anticipation of receiving the sale proceeds but there can be no assurances that we will receive the anticipated sale proceeds to repay such debt. Accordingly, if the proposed sale of DMG is not completed on the terms set forth in the equity purchase agreement or at all, our business, results of operations, financial condition, cash flows and stock price may be materially adversely affected.

Our liquidity following the close of our pending sale of DMG and our planned subsequent entry into new external financing arrangements may be less than we anticipate, and we may use the proceeds from the pending sale of DMG and other available funds, including external financing and cash flow from operations, in ways that may not improve our results of operations, financial condition, cash flows or enhance the value of our common stock.

The purchase price for the sale of the DMG business is subject to customary adjustments, both upward and downward, which could be significant. Following the closing of the pending DMG sale, we plan to use sale proceeds and other available funds, including from external financing and cash flow from operations, to repay debt, make significant stock repurchases and for general corporate purposes, which may include growth investments. A number of factors may impact our ability to repurchase stock and the timing of any such stock repurchases, including market conditions, the price of our common stock, our results of operations, financial condition, cash flows, available financing, leverage ratios, and legal, regulatory and contractual requirements and restrictions. Accordingly, the actual amount of common stock we repurchase may be less, perhaps substantially, and the period of time over which we make any stock repurchases may be substantially longer, than we currently anticipate. In addition, we may identify investments or other uses for our available funds (other than the DMG sale proceeds that we plan to use to repay debt) that we believe are more attractive than our current intended uses. Further, there can be no assurance that any investment will yield a favorable return.

Under the terms of the equity purchase agreement, we are subject to certain contractual restrictions while the sale of DMG is pending that, in some cases, could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Under the terms of the equity purchase agreement, we are subject to certain restrictions on the conduct of the DMG business prior to completing the sale of DMG, which have adversely affected and may continue to adversely affect our ability to execute certain of our business strategies, including the ability in certain cases to enter into or amend contracts, acquire or dispose of assets, incur indebtedness or incur capital expenditures. Such limitations have negatively affected and could continue to negatively affect our business and operations prior to the completion of the sale of DMG. Each of these risks may be exacerbated by delays or other adverse developments with respect to the completion of the sale of DMG.

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

If patients in commercial plans are subject to restriction in plan designs or the average rates that commercial payors pay us decline significantly, it would have a material adverse effect on our business, results of operations, financial condition and cash flows.

Approximately 31% of our U.S. dialysis and related lab services net revenues for the three months ended March 31, 2019, were generated from patients who have commercial payors (including hospital dialysis services) as their primary payor. The majority of these patients have insurance policies that pay us on terms and at rates that are generally significantly higher than Medicare rates. The payments we receive from commercial payors generate nearly all of our profit and all of our nonacute dialysis profits come from commercial payors. We continue to experience downward pressure on some of our commercial payment rates as a result of general conditions in the market, including as employers shift to less expensive options for medical services, recent and future consolidations among commercial payors, increased focus on dialysis services and other factors. Commercial payment rates could be materially lower in the future.

We continuously are in the process of negotiating existing and potential new agreements with commercial payors who aggressively negotiate terms with us. Sometimes many significant agreements are being renegotiated at the same time. In the event that our continual negotiations result in overall commercial rate reductions in excess of overall commercial rate increases, the cumulative effect could have a material adverse effect on our business, results of operations, financial condition and cash flows. We believe payor consolidations have significantly increased the negotiating leverage of commercial payors, and ongoing consolidations may continue to increase this leverage in the future. Our negotiations with payors are also influenced by competitive pressures, and we may experience decreased contracted rates with commercial payors or experience decreases in

patient volume, including if we turn away new patients in instances where we are unable to come to agreement with commercial payors on rates, as our negotiations with commercial payors continue.

Certain payors have also been attempting to design and implement plans that restrict access to ESRD coverage both in the commercial and individual market. Among other things, these adverse plan designs seek to limit the duration and/or the breadth of ESRD benefits, limit the number of in-network providers, set arbitrary provider reimbursement rates, or otherwise restrict access to care, all of which may result in a decrease in the number of patients covered by commercial insurance. Any of the foregoing developments in plan design or new business activities of commercial payors may lead to a significant decrease in the number of patients with commercial plans and/or a significant decrease in the payment rates we receive, which would have a material adverse effect on our business, results of operations, financial condition and cash flows.

In addition, some commercial payors are pursuing or have incorporated policies into their provider manuals limiting or refusing to accept charitable premium assistance from non-profit organizations, such as the American Kidney Fund, which may impact the number of patients who are able to afford commercial plans. Paying for coverage is a significant financial burden for many patients, and ESRD disproportionately affects the low-income population. Charitable premium assistance supports continuity of coverage and access to care for patients, many of whom are unable to continue working full-time as a result of their severe condition. A material restriction in patients' ability to access charitable premium assistance may restrict the ability of dialysis patients to obtain and maintain optimal insurance coverage, and may adversely impact a large number of dialysis centers across the U.S. by making certain centers economically unviable, and may have a material adverse effect on our business, results of operations, financial condition and cash flows.

For additional details regarding the impact of a decline in our patients under commercial plans, see the risk factor under the heading, “If the number of patients with higher-paying commercial insurance declines, it could have a material adverse effect on our business, results of operations, financial condition and cash flows." For additional details regarding specific risks we face regarding regulatory changes that could result in fewer patients covered under commercial plans or an increase of patients covered under more restrictive commercial plans with lower reimbursement rates, see the discussion in the risk factor under the heading "Changes in federal and state healthcare legislation or regulations could have a material adverse effect on our business, results of operations, financial condition and cash flows."

If the number of patients with higher-paying commercial insurance declines, it could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Our revenue levels are sensitive to the percentage of our patients with higher-paying commercial insurance coverage. A patient's insurance coverage may change for a number of reasons, including changes in the patient's or a family member's employment status. Any changes impacting our highest paying commercial payors will have a disproportionate impact on us. In addition, many patients with commercial and government insurance rely on financial assistance from charitable organizations, such as the American Kidney Fund. Certain payors have challenged our patients' and other providers' patients' ability to utilize assistance from charitable organizations for the payment of premiums, including through litigation and other legal proceedings. Regulators have also questioned the use of charitable premium assistance for ESRD patients. CMS or another regulatory agency or legislative authority may issue a new rule or guidance that challenges or restricts charitable premium assistance. If any of these challenges to kidney patients' use of premium assistance are successful or restrictions are imposed on the use of financial assistance from such charitable organizations such that kidney patients are unable to obtain, or continue to receive or receive for a limited duration, such financial assistance, it could have a material adverse effect on our business, results of operations, financial condition and cash flows. In addition, if our assumptions about how kidney patients will respond to any change in financial assistance from charitable organizations are incorrect, it could have a material adverse effect on our business, results of operations, financial condition and cash flows.

When Medicare becomes the primary payor, the payment rate we receive for that patient decreases from the employer group health plan or commercial plan rate to the lower Medicare payment rate. The number of our patients who have government-based programs as their primary payors could increase and the percentage of our patients covered under commercial insurance plans could be negatively impacted as a result of improved mortality or declining macroeconomic conditions. To the extent there are sustained or increased job losses in the U.S., independent of whether general economic conditions improve, we could experience a decrease in the number of patients covered under commercial plans and/or an increase in uninsured and underinsured patients. The percentage of our patients covered under commercial insurance plans could also be negatively impacted by a decline in the rate of growth of the ESRD patient population. We could also experience a further decrease in the payments we receive for services if changes to the healthcare regulatory system result in fewer patients covered under commercial plans or an increase of patients covered under more restrictive commercial plans with lower reimbursement rates. In addition, our continual negotiations with commercial payors under existing and potential new agreements could result in a decrease in the number of our patients covered by commercial plans to the extent that we cannot

reach agreement with commercial payors on rates and other terms, resulting in termination or non-renewals of existing agreements and our inability to enter into new agreements. Our agreements and rates with commercial payors may be impacted by new business activities of these commercial payors as well as steps that these commercial payors have taken and may continue to take to control the cost of and/or the eligibility for access to healthcare services, including relative to products on and off the healthcare exchanges. These efforts could impact the number of our patients who are eligible to enroll in commercial insurance plans, and remain on the plans, including plans offered through healthcare exchanges. Additionally, we continue to experience higher amounts of write-offs due to uninsured and underinsured patients, which has resulted in an increase in uncollectible accounts. Commercial payors could also cease paying in the primary position after providing 30 months of coverage resulting in a material reduction in payment as the patient moves to Medicare primary. If there is a significant reduction in the number of patients under higher-paying commercial plans relative to government-based programs that pay at lower rates or a significant increase in the number of patients that are uninsured and underinsured, it would have a material adverse effect on our business, results of operations, financial condition and cash flows.

Changes in the structure of and payment rates under the Medicare ESRD program could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Approximately 43% of our U.S. dialysis and related lab services net revenues for the three months ended March 31, 2019, were generated from patients who have Medicare as their primary payor. For patients with Medicare coverage, all ESRD payments for dialysis treatments are made under a single bundled payment rate which provides a fixed payment rate to encompass all goods and services provided during the dialysis treatment that are related to the treatment of dialysis, including pharmaceuticals that were historically separately reimbursed to the dialysis providers, such as erythropoietin (EPO), vitamin D analogs and iron supplements, irrespective of the level of pharmaceuticals administered or additional services performed, except in the case of calcimimetics, which are subject to a transitional drug add-on payment adjustment for the Medicare Part B ESRD payment. Most lab services are also included in the bundled payment. Under the ESRD PPS, the bundled payments to a dialysis facility may be reduced by as much as 2% based on the facility's performance in specified quality measures set annually by CMS through the ESRD Quality Incentive Program, which was established by the Medicare Improvements for Patients and Providers Act of 2008. The bundled payment rate is also adjusted for certain patient characteristics, a geographic usage index and certain other factors. In addition, the ESRD PPS is subject to rebasing, which can have a positive financial effect, or a negative one if the government fails to rebase in a manner that adequately addresses the costs borne by dialysis facilities. Similarly, as new drugs, services or labs are added to the ESRD bundle, CMS' failure to adequately calculate the costs associated with the drugs, services or labs could have a material adverse effect on our business, results of operations, financial condition and cash flows.

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

- Risk that our rates are reduced by CMS. Uncertainty about future payment rates remains a material risk to our business.
- Risk that CMS, through its contracted Medicare Administrative Contractors (MACs) or otherwise, implements Local Coverage Determinations (LCDs) or other decisions that limit our ability to bill for treatments or other drugs and services or other rules that may impact reimbursement. Such coverage determinations could have an adverse impact on our revenue. There is also risk commercial insurers could seek to incorporate the requirements or limitations associated with such LCDs into their contracted terms with dialysis providers, which could have an adverse impact on our revenue.
- Risk that a MAC, or multiple MACs, change their interpretations of existing regulations, manual provisions and/or guidance; or seek to implement or enforce new interpretations that are inconsistent with how we have interpreted existing regulations, manual provisions and/or guidance.
- Risk that increases in our operating costs will outpace the Medicare rate increases we receive. We expect operating costs to continue to increase due to inflationary factors, such as increases in labor and supply costs, including increases in maintenance costs and capital expenditures to improve, renovate and maintain our facilities, equipment and information technology to meet changing regulatory requirements and business needs, regardless of whether there is a compensating inflation-based increase in Medicare payment rates or in payments under the bundled payment rate system.
- Risk of federal budget sequestration cuts. As a result of the Budget Control Act of 2011 and the BBA, an annual 2% reduction to Medicare payments took effect on April 1, 2013, and has been extended through 2027. These across-

the-board spending cuts have affected and will continue to adversely affect our business, results of operations, financial condition and cash flows.

- Risk that failure to adequately develop and maintain our clinical systems or failure of our clinical systems to operate effectively could have a material adverse effect on our business, results of operations, financial condition and cash flows. For example, in connection with claims for which at least part of the government's payments to us is based on clinical performance or patient outcomes or co-morbidities, if our clinical systems fail to accurately capture the data we report to CMS or we otherwise have data integrity issues with respect to the reported information, we might be over-reimbursed by the government, which could subject us to liability. For example, CMS published a final rule that implemented a provision of the ACA, requiring providers to report and return Medicare and Medicaid overpayments within the later of (a) 60 days after the overpayment is identified and quantified, or (b) the date any corresponding cost report is due, if applicable. An overpayment impermissibly retained under this statute could, among other things, subject us to liability under the FCA, exclusion from participation in the federal healthcare programs, and penalties under the federal Civil Monetary Penalty statute and could adversely impact our reputation.

We are subject to similar risks for services billed separately from the ESRD bundled payment, including the risk that a MAC, or multiple MACs, change their interpretations of existing regulations, manual provisions and/or guidance; or seek to implement or enforce new interpretations that are inconsistent with how we have interpreted existing regulations, manual provisions and/or guidance. For additional details regarding the risks we face for failing to adhere to our Medicare and Medicaid regulatory compliance obligations, see the risk factor above under the heading "If we fail to adhere to all of the complex government laws and regulations that apply to our business, we could suffer severe consequences that could have a material adverse effect on our business, results of operations, financial condition, cash flows, reputation and stock price."

Moreover, the number of our patients with primary Medicare coverage may be subject to change, particularly with the upcoming January 1, 2021 effective date under the 21st Century Cures Act, which will allow Medicare-eligible individuals with ESRD to enroll in Medicare Part C Medicare Advantage (“MA”) managed care plans. The 21st Century Cures Act also adjusts the MA payment system to account for the higher expected costs of ESRD enrollees, which we anticipate could result in higher reimbursement rates payable to ESRD providers than those available under traditional Medicare. However, we continue to evaluate the potential impact of this change in benefit eligibility, as there is significant uncertainty as to how many or which newly eligible ESRD patients will seek to enroll in MA plans for their ESRD benefits.

Changes in state Medicaid or other non-Medicare government-based programs or payment rates could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Approximately 26% of our U.S. dialysis and related lab services net revenues for the three months ended March 31, 2019, were generated from patients who have state Medicaid or other non-Medicare government-based programs, such as coverage through the Department of Veterans Affairs (VA), as their primary coverage. As state governments and other governmental organizations face increasing budgetary pressure, we may in turn face reductions in payment rates, delays in the receipt of payments, limitations on enrollee eligibility or other changes to the applicable programs. For example, certain state Medicaid programs and the VA have recently considered, proposed or implemented payment rate reductions.

The VA adopted Medicare's bundled PPS pricing methodology for any veterans receiving treatment from non-VA providers under a national contracting initiative. Since we are a non-VA provider, these reimbursements are tied to a percentage of Medicare reimbursement, and we have exposure to any dialysis reimbursement changes made by CMS. Approximately 3% of our dialysis services revenues for the three months ended March 31, 2019 were generated by the VA.

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

State Medicaid programs are increasingly adopting Medicare-like bundled payment systems, but sometimes these payment systems are poorly defined and are implemented without any claims processing infrastructure, or patient or facility adjusters. If these payment systems are implemented without any adjusters and claims processing infrastructure, Medicaid payments will be substantially reduced and the costs to submit such claims may increase, which will have a negative impact on

our business, results of operations, financial condition and cash flows. In addition, some state Medicaid program eligibility requirements mandate that citizen enrollees in such programs provide documented proof of citizenship. If our patients cannot meet these proof of citizenship documentation requirements, they may be denied coverage under these programs, resulting in decreased patient volumes and revenue. These Medicaid payment and enrollment changes, along with similar changes to other non-Medicare government programs could reduce the rates paid by these programs for dialysis and related services, delay the receipt of payment for services provided and further limit eligibility for coverage which could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Changes in clinical practices, payment rates or regulations impacting pharmaceuticals could have a material adverse effect on our business, results of operations, financial condition, cash flows and negatively impact our ability to care for patients.

Medicare bundles certain pharmaceuticals into the PPS at industry average doses and prices. Any variation above the industry average may be subject to partial reimbursement through the PPS outlier reimbursement policy.

Commercial payors have increasingly examined their administration policies for pharmaceuticals and, in some cases, have modified those policies. Changes in labeling of pharmaceuticals in a manner that alters physician practice patterns, including their independent determinations as to appropriate dosing, or accepted clinical practices, and/or changes in private and governmental payment criteria, including the introduction of administration policies could have a material adverse effect on our business, results of operations, financial condition and cash flows. Further increased utilization of certain pharmaceuticals for patients for whom the cost of which is included in a bundled reimbursement rate, or further decreases in reimbursement for pharmaceuticals that are not included in a bundled reimbursement rate, could also have a material adverse effect on our business, results of operations, financial condition and cash flows.

Additionally, as of January 1, 2018, calcimimetics became part of the Medicare Part B ESRD payment, but subject to a transitional drug add-on payment adjustment. We implemented processes designed to provide the drug as required under the applicable regulations and prescribed by physicians and have entered into agreements to provide for access to and distribution of the drug. If payors do not pay as anticipated, if we are not adequately reimbursed for the cost of the drug, or the processes we have implemented to provide the drug do not perform as anticipated, then we could be subject to both financial and operational risk, among other things.

We may be subject to increased inquiries or audits from a variety of governmental bodies or claims by third parties related to pharmaceuticals, which would require management's attention and could result in significant legal expense. Any negative findings could result in substantial financial penalties or repayment obligations, the imposition of certain obligations on and changes to our practices and procedures as well as the attendant financial burden on us to comply with the obligations, or exclusion from future participation in the Medicare and Medicaid programs, and could have a material adverse effect on our business, results of operations, financial condition and cash flows.

If we fail to comply with our Corporate Integrity Agreement, we could be subject to substantial penalties and exclusion from participation in federal healthcare programs that could have a material adverse effect on our business, results of operations, financial condition, cash flows and reputation.

In October 2014, we entered into a Settlement Agreement with the U.S. and relator David Barbetta to resolve the then pending 2010 and 2011 U.S. Attorney physician relationship investigations and paid $406 million in settlement amounts, civil forfeiture, and interest to the U.S. and certain states. In connection with the resolution of these matters, and in exchange for the OIG's agreement not to exclude us from participating in the federal healthcare programs, we have entered into a five-year CIA with the OIG. The CIA (i) requires that we maintain certain elements of our compliance programs; (ii) imposes certain expanded compliance-related requirements during the term of the CIA; (iii) requires ongoing monitoring and reporting by an independent monitor, imposes certain reporting, certification, records retention and training obligations, allocates certain oversight responsibility to the Board's Compliance Committee, and necessitates the creation of a Management Compliance Committee and the retention of an independent compliance advisor to the Board; and (iv) contains certain business restrictions related to a subset of our joint venture arrangements, including our agreeing to (1) unwind 11 joint venture transactions that were created through partial divestitures to, or partial acquisitions from, nephrologists, and that cover 26 of our 2,119 clinics that existed at the time we entered into the Settlement Agreement, all of which have been completed, (2) not enter into certain types of partial divestiture joint venture transactions with nephrologists during the term of the CIA, (3) non-enforcement of certain patient-related non-solicitation restrictions, and (4) certain other restrictions. The costs associated with compliance with the CIA are substantial and may be greater than we currently anticipate. In addition, in the event of a breach of the CIA, we could become liable for payment of certain stipulated penalties, and could be excluded from participation in federal healthcare programs. The OIG has notified us in the past that it considered us to be in breach of the CIA, and we cannot provide any

assurances that we may not be found in breach of the CIA in the future. In general, the costs associated with compliance with the CIA, or any liability or consequences associated with a breach, could have a material adverse effect on our business, results of operations, financial condition and cash flows. For our domestic dialysis business, we are required under the CIA to report to the OIG (i) probable violations of criminal, civil or administrative laws applicable to any federal health care program for which penalties or exclusions may be authorized under applicable laws and regulations; (ii) substantial overpayments of amounts of money we have received in excess of the amounts due and payable under the federal healthcare program requirements; and (iii) employment of or contracting with individuals ineligible from participating in the federal healthcare programs (we refer to these collectively as Reportable Events). We have provided the OIG notice of Reportable Events, and we may identify and report additional events in the future. If any of our operations are found to violate government laws and regulations, we could suffer severe consequences that could have a material adverse effect on our business, results of operations, financial condition, cash flows, reputation and stock price, including those consequences described under the risk factor "If we fail to adhere to all of the complex government laws and regulations that apply to our business, we could suffer severe consequences that could have a material adverse effect on our business, results of operations, financial condition, cash flows, reputation and stock price."

Delays in state Medicare and Medicaid certification or other licensing and/or anything impacting the licensing of our dialysis centers could adversely affect our business, results of operations, financial condition and cash flows.

Before we can begin billing for patients treated in our outpatient dialysis centers who are enrolled in government-based programs, we are required to obtain state and federal certification for participation in the Medicare and Medicaid programs. As state agencies responsible for surveying dialysis centers on behalf of the state and Medicare program face increasing budgetary pressure, certain states are having difficulty keeping up with certifying dialysis centers in the normal course resulting in significant delays in certification. If state governments continue to have difficulty keeping up with certifying new centers in the normal course and we continue to experience significant delays in our ability to treat and bill for services provided to patients covered under government programs, it could cause us to incur write-offs of investments or accelerate the recognition of lease obligations in the event we have to close centers or our centers' operating performance deteriorates, and it could have an adverse effect on our business, results of operations, financial condition and cash flows. Although the BBA passed in February 2018 allows organizations approved by the Department of Health and Human Services (HHS) to accredit dialysis facilities and imposes certain timing requirements regarding the initiation of initial surveys to determine if certain conditions and requirements for payment have been satisfied, we cannot predict the ultimate impact of these changes. In addition to certifications for Medicare and Medicaid, some states have licensing requirements for ESRD facilities. Delays in licensure, denials of licensure, or withdrawal of licensure could also adversely affect our business, results of operations, financial condition and cash flows.

If our joint ventures were found to violate the law, we could suffer severe consequences that would have a material adverse effect on our business, results of operations, financial condition and cash flows.

As of March 31, 2019, we owned a controlling interest in numerous dialysis-related joint ventures, which represented approximately 25% of our net U.S. dialysis and related lab services net revenues for the three months ended March 31, 2019. In addition, we also owned noncontrolling equity investments in several other dialysis related joint ventures. We expect to continue to increase the number of our joint ventures. Many of our joint ventures with physicians or physician groups also have certain physician owners providing medical director services to centers we own and operate. Because our relationships with physicians are governed by the federal and state anti-kickback statutes, we have sought to structure our joint venture arrangements to satisfy as many federal safe harbor requirements as we believe are commercially reasonable. Our joint venture arrangements do not satisfy all of the elements of any safe harbor under the federal Anti-Kickback Statute, however, and therefore are susceptible to government scrutiny. For example, in October 2014, we entered into a settlement agreement to resolve the then pending 2010 and 2011 U.S. Attorney physician relationship investigations regarding certain of our joint ventures and paid $406 million in settlement amounts, civil forfeiture, and interest to the U.S. and certain states. For further details on the settlement agreement, see "If we fail to comply with our Corporate Integrity Agreement, we could be subject to substantial penalties and exclusion from participation in federal healthcare programs that could have a material adverse effect on our business, results of operations, financial condition, cash flows, and reputation".

There are significant risks associated with estimating the amount of dialysis revenues and related refund liabilities that we recognize, and if our estimates of revenues and related refund liabilities are materially inaccurate, it could impact the timing and the amount of our revenues recognition or have a material adverse effect on our business, results of operations, financial condition and cash flows.

There are significant risks associated with estimating the amount of U.S. dialysis and related lab services revenues and related refund liabilities that we recognize in a reporting period. The billing and collection process is complex due to ongoing insurance coverage changes, geographic coverage differences, differing interpretations of contract coverage and other payor

issues, such as ensuring appropriate documentation. Determining applicable primary and secondary coverage for approximately 203,500 U.S. patients at any point in time, together with the changes in patient coverage that occur each month, requires complex, resource-intensive processes. Errors in determining the correct coordination of benefits may result in refunds to payors. Revenues associated with Medicare and Medicaid programs are also subject to estimating risk related to the amounts not paid by the primary government payor that will ultimately be collectible from other government programs paying secondary coverage, the patient's commercial health plan secondary coverage or the patient. Collections, refunds and payor retractions typically continue to occur for up to three years and longer after services are provided. We generally expect our range of U.S. dialysis and related lab services revenues estimating risk to be within 1% of net revenues for the segment. If our estimates of U.S. dialysis and related lab services revenues and related refund liabilities are materially inaccurate, it could impact the timing and the amount of our revenues recognition and have a material adverse impact on our business, results of operations, financial condition and cash flows.

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

Our ancillary services and strategic initiatives are subject to many of the same risks, regulations and laws, as described in the risk factors related to our dialysis business set forth in this Part II, Item 1A, and are also subject to additional risks, regulations and laws specific to the nature of the particular strategic initiative. We expect to add additional service offerings to our business and pursue additional strategic initiatives in the future as circumstances warrant, which could include healthcare services not related to dialysis. Many of these initiatives require or would require investments of both management and financial resources and can generate significant losses for a substantial period of time and may not become profitable in the expected timeframe or at all. There can be no assurance that any such strategic initiative will ultimately be successful. Any significant change in market conditions, or business performance, or in the political, legislative or regulatory environment, may impact the economic viability of any of these strategic initiatives. For example, changes in the oral pharmacy space, including reimbursement rate pressures, negatively impacted the economics of our pharmacy services business. As a result, in the second half of 2018 we transitioned the customer service and fulfillment functions of this business to third parties and wound down our distribution operation, which resulted in a decrease in revenues and costs. In 2018, we recognized restructuring charges of $11 million and incurred asset impairment charges of $17 million related to the restructuring of our pharmacy business.

If any of our ancillary services or strategic initiatives, including our international operations, are unsuccessful, it would have a negative impact on our business, results of operations, financial condition and cash flows, and we may determine to exit that line of business. We could incur significant termination costs if we were to exit certain of these lines of business. In addition, we may incur a material write-off or an impairment of our investment, including goodwill, in one or more of our ancillary services or strategic initiatives. In that regard, we have taken, and may in the future take, impairment and restructuring charges in addition to those described above related to our ancillary services and strategic initiatives, including in our international and pharmacy businesses. For example, in the quarter ended March 31, 2019, the Company recognized a $41 million goodwill impairment charge in its Germany kidney care business.

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

Physicians, including medical directors, choose where they refer their patients. Some physicians prefer to have their patients treated at dialysis centers where they or other members of their practice supervise the overall care provided as medical director of the center. As a result, referral sources for many of our centers include the physician or physician group providing medical director services to the center.

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

The aging of the nephrologist population and opportunities presented by our competitors may negatively impact a medical director's decision to enter into or extend his or her agreement with us. Moreover, different affiliation models in the changing healthcare environment that limit a nephrologist's choice in where he or she can refer patients, such as an increase in

the number of physicians becoming employed by hospitals or a perceived decrease in the quality of service levels at our centers, may limit a nephrologist's ability or desire to refer patients to our centers or otherwise negatively impact treatment volumes.

In addition, if the terms of any existing agreement are found to violate applicable laws, we may not be successful in restructuring the relationship, which would lead to the early termination of the agreement. If we are unable to obtain qualified medical directors to provide supervision of the operations and care provided at our dialysis centers, it could affect physicians' desire to refer patients to our dialysis centers. If a significant number of physicians were to cease referring patients to our dialysis centers, it would have a material adverse effect on our business, results of operations, financial condition and cash flows.

If our labor costs continue to rise, including due to shortages, changes in certification requirements and higher than normal turnover rates in skilled clinical personnel; or currently pending or future rules, regulations, legislation or initiatives impose additional requirements or limitations on our operations or profitability; or, if we are unable to attract and retain key leadership talent, we may experience disruptions in our business operations and increases in operating expenses, among other things, which could have a material adverse effect on our business, results of operations, financial condition and cash flows.

We face increasing labor costs generally, and in particular, we face increased labor costs and difficulties in hiring nurses due to a nationwide shortage of skilled clinical personnel. We compete for nurses with hospitals and other healthcare providers. This nursing shortage may limit our ability to expand our operations. Furthermore, changes in certification requirements can impact our ability to maintain sufficient staff levels, including to the extent our teammates are not able to meet new requirements, among other things. In addition, if we experience a higher than normal turnover rate for our skilled clinical personnel, our operations and treatment growth may be negatively impacted, which could adversely affect our business, results of operations, financial condition and cash flows. We also face competition in attracting and retaining talent for key leadership positions. If we are unable to attract and retain qualified individuals, we may experience disruptions in our business operations, including our ability to achieve strategic goals, which could have a material adverse effect on our business, results of operations, financial condition and cash flows.

In addition, proposed ballot initiatives or referendums, legislation, regulations or policy changes could cause us to incur substantial costs to challenge and prepare for and, if implemented, impose additional requirements on our operations, including increases in the required staffing levels or staffing ratios for clinical personnel, minimum transition times between treatments, limits on how much patients may be charged for care, limitations as to the amount that can be spent on certain medical costs, and limitations on the amount of revenue that providers can retain. Changes such as those mandated by proposed ballot initiatives or referendums, legislation, regulations or policy changes could materially reduce our revenues and increase our operating expense and impact our ability to staff our clinics to any new, elevated staffing levels, in particular given the ongoing nationwide shortage of healthcare workers, especially nurses. Any of these events or circumstances could materially reduce our revenues and increase our operating and other costs, require us to close or consolidate existing dialysis centers, postpone or not build new dialysis centers, reduce shifts or negatively impact employee relations, treatment growth and productivity, and could have a material adverse effect on our business, results of operations, financial condition and cash flows. For additional information on these risks, see "Changes in federal and state healthcare legislation or regulations could have a material adverse effect on our business, results of operations, financial condition and cash flows."

Our business is labor intensive and could be materially adversely affected if we are unable to attract and retain employees or if union organizing activities or legislative or other changes result in significant increases in our operating costs or decreases in productivity.

Our business is labor intensive, and our financial and operating results have been and continue to be subject to variations in labor-related costs, productivity and the number of pending or potential claims against us related to labor and employment practices. Political or other efforts at the national or local level could result in actions or proposals that increase the likelihood or success of union organizing activities at our facilities and ongoing union organizing activities at our facilities could continue or increase for other reasons. We could experience an upward trend in wages and benefits and labor and employment claims, including the filing of class action suits, or adverse outcomes of such claims, or face work stoppages. In addition, we are and may continue to be subject to targeted corporate campaigns by union organizers in response to which we have been and may continue to be required to expend substantial resources, both time and financial. Any of these events or circumstances could have a material adverse effect on our employee relations, treatment growth, productivity, business, results of operations, financial condition and cash flows.

Complications associated with our billing and collections system could materially adversely affect our business, results of operations, financial condition and cash flows.

Our billing system is critical to our billing operations. If there are defects in the billing system, we may experience difficulties in our ability to successfully bill and collect for services rendered, including a delay in collections, a reduction in the amounts collected, increased risk of retractions from and refunds to commercial and government payors, an increase in our provision for uncollectible accounts receivable and noncompliance with reimbursement regulations, any or all of which could materially adversely affect our results of operations.

Risk factors primarily related to DMG:

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

As a participant in the healthcare industry, DMG is subject to many of the same risks as our dialysis business is, as described in the risk factors set forth above in this Part II, Item 1A, many of which could have a material adverse effect on DMG's business, results of operations, financial condition and cash flows.

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

Approximately 86% of DMG's revenue for the three months ended March 31, 2019, is derived from fixed per member per month (PMPM) fees paid by health plans under capitation agreements with DMG or its associated physician groups. While there are variations specific to each arrangement, DMG, through DHPC, a subsidiary of HealthCare Partners Holdings, LLC and a restricted Knox-Keene licensed entity, and, in certain instances, DMG's associated physician groups, generally contract with health plans to receive a PMPM fee for professional services and assume the financial responsibility for professional services only. In some cases, the health plans separately enter into capitation contracts with third parties (typically hospitals) who receive directly a PMPM fee and assume contractual financial responsibility for hospital services. In other cases, the health plan does not pay any portion of the PMPM fee to the hospital, but rather administers claims for hospital expenses itself. In both scenarios, DMG enters into managed care-related administrative services agreements or similar arrangements with those third parties (typically hospitals) under which DMG agrees to be responsible for utilization review, quality assurance, and other managed care-related administrative functions. As compensation for such administrative services, DMG is entitled to receive a percentage of the amount by which the institutional capitation revenue received from health plans exceeds institutional expenses; any such risk-share amount to which DMG is entitled is recorded as medical revenues, and DMG is also responsible for a percentage of any short-fall in the event that institutional expenses exceed institutional revenues. To the extent that members require more care than is anticipated and/or the cost of care increases, aggregate fixed PMPM amounts, or capitation payments, may be insufficient to cover the costs associated with treatment. If medical costs and expenses exceed estimates, except in very limited circumstances, DMG will not be able to increase the PMPM fee received under these risk agreements during their then-current terms and could, directly or indirectly through its contracts with its associated physician groups, suffer losses with respect to such agreements.

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

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

- the health status of members;
- higher than expected utilization of new or existing healthcare services or technologies;
- an increase in the cost of healthcare services and supplies, including pharmaceuticals, whether as a result of inflation or otherwise;
- changes to mandated benefits or other changes in healthcare laws, regulations and practices;
- periodic renegotiation of provider contracts with specialist physicians, hospitals and ancillary providers;
- periodic renegotiation of contracts with DMG's affiliated primary care physicians and specialists;

- changes in the demographics of the participating members and medical trends;
- contractual or claims disputes with providers, hospitals or other service providers within and outside of a health plan's network;
- the occurrence of catastrophes, major epidemics or acts of terrorism; and
- the reduction of health plan premiums.

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

Some agreements between health plans and DMG and its associated physician groups contain risk-sharing arrangements under which the physician groups can earn additional compensation from the health plans by coordinating the provision of quality, cost-effective healthcare to members. However, such arrangements may require the physician group to assume a portion of any loss sustained from these arrangements, thereby reducing DMG's net income. Under these risk-sharing arrangements, DMG and its associated physician groups are responsible for a portion of the cost of hospital services or other services that are not capitated. The terms of the particular risk-sharing arrangement allocate responsibility to the respective parties when the cost of services exceeds the related revenue, which results in a deficit, or permit the parties to share in any surplus amounts when actual costs are less than the related revenue. The amount of non-capitated medical and hospital costs in any period could be affected by factors beyond the control of DMG, such as changes in treatment protocols, new technologies, longer lengths of stay by the patient and inflation. Certain of DMG's agreements with health plans stipulate that risk-sharing pool deficit amounts are carried forward to offset any future years' surplus amounts DMG would otherwise be entitled to receive. DMG accrues for any such risk-sharing deficits. To the extent that such non-capitated medical and hospital costs are higher than anticipated, revenue may not be sufficient to cover the risk-sharing deficits DMG and its associated physician groups are responsible for, which could have a material adverse effect on DMG's business, results of operations, financial condition and cash flows.

Renegotiation, renewal or termination of capitation agreements with health plans could have a material adverse effect on DMG's business, results operations, financial condition and cash flows.

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

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

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

revenues but would not be expected to materially and adversely affect its reported results of operations, while regulatory or legal rulings or changes in law interfering with DMG's ability to maintain its present agreements or arrangements could materially diminish both revenues and results of operations.

If DHPC is not able to satisfy financial solvency or other regulatory requirements, we could become subject to sanctions and its license to do business in California could be limited, suspended or terminated, which could have a material adverse effect on DMG's business, results of operations, financial condition and cash flows.

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

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

In the event that DHPC is not in compliance with the provisions of Knox-Keene, we could be subject to sanctions, or limitations on, or suspension of its license to do business in California, which could have a material adverse effect on DMG's business, results of operations, financial condition and cash flows.

If DMG's associated physician groups are not able to satisfy the California DMHC's financial solvency requirements, DMG's associated physician groups could become subject to sanctions and DMG's ability to do business in California could be limited or terminated, which could have a material adverse effect on DMG's business, results of operations, financial condition and cash flows.

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

- Maintain, at all times, a minimum cash-to-claims ratio (where cash-to-claims ratio means the organization's cash, marketable securities and certain qualified receivables, divided by the organization's total unpaid claims liability). The regulation currently requires a cash-to-claims ratio of 0.75.
- Submit periodic reports to the California DMHC containing various data and attestations regarding performance and financial solvency, including incurred but not reported calculations and documentation, and attestations as to whether or not the organization was in compliance with Knox-Keene requirements related to claims payment timeliness, had maintained positive TNE (i.e., at least $1.00) and had maintained positive working capital (i.e., at least $1.00).

In the event that DMG's associated physician groups are not in compliance with any of the above criteria, DMG's associated physician groups could be subject to sanctions, or limitations on, or termination of, its ability to do business in California, which could have a material adverse effect on DMG's business, results of operations, financial condition and cash flows.

Reductions in Medicare Advantage health plan reimbursement rates stemming from healthcare reforms and any future related regulations could have a material adverse effect on DMG's business, results of operations, financial condition and cash flows.

A significant portion of DMG's revenue is directly or indirectly derived from the monthly premium payments paid by CMS to health plans for medical services provided to Medicare Advantage enrollees. As a result, DMG's results of operations are, in part, dependent on government funding levels for Medicare Advantage programs. Any changes that limit or reduce Medicare Advantage reimbursement levels, such as reductions in or limitations of reimbursement amounts or rates under programs, reductions in funding of programs, expansion of benefits without adequate funding, elimination of coverage for certain benefits, or elimination of coverage for certain individuals or treatments under programs, could have a material adverse effect on DMG's business, results of operations, financial condition and cash flows.

Each year, CMS issues a final rule to establish the Medicare Advantage benchmark payment rates for the following calendar year. Any reduction to Medicare Advantage rates impacting DMG that is greater compared to the industry average rate may have a material adverse effect on DMG's business, results of operations, financial condition and cash flows. The final impact of the Medicare Advantage rates can vary from any estimate we may have and may be further impacted by the relative growth of DMG's Medicare Advantage patient volumes across markets as well as by the benefit plan designs submitted. It is possible that we may underestimate the impact of the Medicare Advantage rates on our business, which could have a material adverse effect on DMG's business, results of operations, financial condition and cash flows.

Before DMG was reclassified as held for sale, we took impairment charges against the goodwill of several of our DMG reporting units based on continuing developments in our DMG business, including recent annual updates to Medicare Advantage benchmark reimbursement rates, changes in our expectations concerning future government reimbursement rates and our expected ability to mitigate them, medical cost and utilization trends, commercial pricing pressures, commercial membership rates, underperformance of certain at-risk reporting units and other market factors. Depending on the impact of continuing developments on the value of our DMG business, for example if DMG's fair value less the costs incurred in the sale of DMG falls below its carrying amount, we may need to recognize additional impairment charges on this business, and the amount of such charges, if any, could be significant. Our estimates of the fair value of this business rely on certain estimates and assumptions, including the terms and pricing agreed for the sale of this business, as well as applicable market multiples, discount and long-term growth rates, market data and future reimbursement rates, as applicable. Our estimates of the fair value of the DMG business could differ from the actual value that a market participant would pay for this business, and as a result, we may recognize valuation adjustments or record other related charges on our DMG business in the future. For example, in the third and fourth quarters of 2018, we recognized valuation adjustments with respect to DMG based on an updated assessment of fair value, which includes inputs such as the transaction itself, risks and timing, and performance of the business, and we recorded associated goodwill impairment charges in the fourth quarter of 2018. For additional information regarding the risks we face related to the pending sale of DMG, see the discussion in the risk factors under the heading "Risk factors related to the sale of DMG."

DMG's Medicare Advantage revenues may continue to be volatile in the future, which could have a material adverse impact on DMG's business, results of operations, financial condition and cash flows.

The ACA contains a number of provisions that negatively impact Medicare Advantage plans, each of which could have a material adverse effect on DMG's business, results of operations, financial condition and cash flows. These provisions include the following:

- Medicare Advantage benchmarks for 2011 were frozen at 2010 levels. From 2012 through 2016, Medicare Advantage benchmark rates were phased down from prior levels. The new benchmarks were fully phased-in in 2017 and range between 95% and 115% of the Medicare Fee-for-Service (Medicare FFS) costs, depending on a plan's geographic area. If our costs escalate faster than can be absorbed by the level of revenues implied by these benchmark rates, then it could have a material adverse effect on DMG's business and results of operations.

- Rebates received by Medicare Advantage plans that were reduced, with larger reductions for plans failing to receive certain quality ratings.

- The Secretary of the HHS has been granted the explicit authority to deny Medicare Advantage plan bids that propose significant increases in cost sharing or decreases in benefits. If the bids submitted by plans contracted with DMG are denied, this could have a material adverse effect on DMG's business and results of operations.

- Medicare Advantage plans with medical loss ratios below 85% are required to pay a rebate to the Secretary of HHS. The rebate amount is the total revenue under the contract year multiplied by the difference between 85% and the plan's actual medical loss ratio. The Secretary of HHS will halt enrollment in any plan failing to meet this ratio for three consecutive years, and terminate any plan failing to meet the ratio for five consecutive years. If a DMG-contracting Medicare Advantage plan experiences a limitation on enrollment or is otherwise terminated from the Medicare Advantage program, it could have a material adverse effect on DMG's business and results of operations.

- Prescription drug plans are required to provide coverage of certain drug categories on a list developed by the Secretary of HHS, which could increase the cost of providing care to Medicare Advantage enrollees, and thereby reduce DMG's revenues and earnings. The Medicare Part D premium amount subsidized for high-income beneficiaries has been reduced, which could lower the number of Medicare Advantage enrollees, which would have a negative impact on DMG's business and results of operations.

- CMS increased coding intensity adjustments for Medicare Advantage plans beginning in 2014 and continuing through 2019, which reduces CMS payments to Medicare Advantage plans, which in turn will likely reduce the amounts payable to DMG and its associated physicians, physician groups, and IPAs under its capitation agreements.

Recent legislative, regulatory, judicial and executive efforts to enact further healthcare reform legislation have caused the future state of the exchanges, other ACA reforms, and many core aspects of the current U.S. health care system to be unclear. While specific changes and their timing are not yet apparent, enacted reforms and future legislative, regulatory, judicial, or executive changes could have a material adverse effect on DMG's business, results of operations, financial condition and cash flows.

There is also uncertainty regarding both Medicare Advantage payment rates and beneficiary enrollment, which, if reduced, would reduce DMG's overall revenues and net income. For example, although the Congressional Budget Office (CBO) predicted in 2010 that Medicare Advantage participation would drop substantially by 2020, the CBO has more recently predicted that enrollment in Medicare Advantage (and other contracts covering Medicare Parts A and B) could reach 31 million by 2027, assuming there would be no other future reforms. Although Medicare Advantage enrollment increased since the enactment of the ACA in 2010, there can be no assurance that this trend will continue. Further, fluctuation in Medicare Advantage payment rates are evidenced by CMS's annual announcement of the expected average change in revenue from the prior year: for 2019, CMS announced an average increase of 3.4%; and for 2020, 2.53%. Uncertainty over Medicare Advantage enrollment and payment rates present a continuing risk to DMG's business.

According to the Kaiser Family Foundation (KFF), Medicare Advantage enrollment continues to be highly concentrated among a few payors, both nationally and in local regions. In 2018, the KFF reported that three payors together accounted for more than half of Medicare Advantage enrollment and seven firms accounted for approximately 75%. Consolidation among Medicare Advantage plans in certain regions, or the Medicare program's failure to attract additional plans to participate in the Medicare Advantage program, could have a material adverse effect on DMG's business, results of operations, financial condition and cash flows.

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

For the three months ended March 31, 2019, 62% of DMG's consolidated capitated medical revenues were earned through contracts with three health plans.

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

Notwithstanding each health plan's and DMG's current shared interest in providing service to DMG's members who are enrolled in the subject health plans, the health plans may have different and, at times, opposing economic interests from those of DMG. The health plans provide a wide range of health insurance services across a wide range of geographic regions, utilizing a vast network of providers. As a result, they and DMG may have different views regarding the proper pricing of services and/or the proper pricing of the various service providers in their provider networks, the cost of which DMG bears to the extent that the services of such service providers are utilized. These health plans may also have different views than DMG regarding the efforts and expenditures that they, DMG, and/or other service providers should make to achieve and/or maintain various quality ratings. In addition, several health plans have acquired or announced their intent to acquire provider organizations. If health plans with which DMG contracts acquire a significant number of provider organizations, they may not continue to contract with DMG or contract on less favorable terms or seek to prevent DMG from acquiring or entering into arrangements with certain providers. Similarly, as a result of changes in laws, regulations, consumer preferences, or other factors, the health plans may find it in their best interest to provide health insurance services pursuant to another payment or reimbursement structure. In the event DMG's interests diverge from the interests of the health plans, DMG may have limited

recourse or alternative options in light of its dependence on these health plans. There can be no assurances that DMG will continue to find it mutually beneficial to work with these health plans. As a result of various restrictive provisions that appear in some of the managed care agreements with health plans, DMG may at times have limitations on its ability to cancel an agreement with a particular health plan and immediately thereafter contract with a competing health plan with respect to the same service area.

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

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

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

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

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

Reductions in the quality ratings of the health plans DMG serves could have a material adverse effect on its business, results of operations, financial condition and cash flows.

As a result of the ACA, the level of reimbursement each health plan receives from CMS is dependent, in part, upon the quality rating of the Medicare plan. Such ratings impact the percentage of any cost savings rebate and any bonuses earned by such health plan. Since a significant portion of DMG's revenue is expected to be calculated as a percentage of CMS reimbursements received by these health plans with respect to DMG members, reductions in the quality ratings of a health plan that DMG serves could have a material adverse effect on its business, results of operations, financial condition and cash flows.

Given each health plan's control of its plans and the many other providers that serve such plans, DMG believes that it will have limited ability to influence the overall quality rating of any such plan. The BBA passed in February 2018 implements certain changes to prevent artificial inflation of star ratings for Medicare Advantage plans offered by the same organization. In addition, CMS has terminated plans that have had a rating of less than three stars for three consecutive years, whereas Medicare Advantage plans with five stars are permitted to conduct enrollment throughout almost the entire year. Because low quality ratings can potentially lead to the termination of a plan that DMG serves, DMG may not be able to prevent the potential

termination of a contracting plan or a shift of patients to other plans based upon quality issues which could, in turn, have a material adverse effect on DMG's business, results of operations, financial condition and cash flows.

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

DMG, on behalf of itself and its associated physicians, physician groups and IPAs, submits to health plans claims and encounter data that support the Medicare Risk Adjustment Factor (RAF) scores attributable to members. These RAF scores determine, in part, the revenue to which the health plans and, in turn, DMG is entitled for the provision of medical care to such members. The data submitted to CMS by each health plan is based, in part, on medical charts and diagnosis codes prepared and submitted by DMG. Each health plan generally relies on DMG and its employed or affiliated physicians to appropriately document and support such RAF data in DMG's medical records. Each health plan also relies on DMG and its employed or affiliated physicians to appropriately code claims for medical services provided to members. Erroneous claims and erroneous encounter records and submissions could result in inaccurate PMPM fee revenue and risk adjustment payments, which may be subject to correction or retroactive adjustment in later periods. This corrected or adjusted information may be reflected in financial statements for periods subsequent to the period in which the revenue was recorded. DMG might also need to refund a portion of the revenue that it received, which refund, depending on its magnitude, could damage its relationship with the applicable health plan and could have a material adverse effect on DMG's business, results of operations, financial condition and cash flows.

Additionally, CMS audits Medicare Advantage plans for documentation to support RAF-related payments for members chosen at random. The Medicare Advantage plans ask providers to submit the underlying documentation for members that they serve. It is possible that claims associated with members with higher RAF scores could be subject to more scrutiny in a CMS or plan audit. There is a possibility that a Medicare Advantage plan may seek repayment from DMG should CMS make any payment adjustments to the Medicare Advantage plan as a result of its audits. The plans also may hold DMG liable for any penalties owed to CMS for inaccurate or unsupportable RAF scores provided by DMG. In addition, DMG could be liable for penalties to the government under the FCA that range from $5,500 to $11,000 (adjusted for inflation) for each false claim, plus up to three times the amount of damages caused by each false claim, which can be as much as the amounts received directly or indirectly from the government for each such false claim. On January 29, 2018, the DOJ issued a final rule announcing adjustments to FCA penalties, under which the per claim penalty range increases to a range from $11,181 to $22,363 for penalties assessed after January 29, 2018, so long as the underlying conduct occurred after November 2, 2015.

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

There can be no assurance that a health plan will not be randomly selected or targeted for review by CMS or that the outcome of such a review will not result in a material adjustment in DMG's revenue and profitability, even if the information DMG submitted to the plan is accurate and supportable.

A failure to accurately estimate incurred but not reported medical expense could adversely affect DMG's results of operations.

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

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

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

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

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

In addition to the competitive threats intrinsic to the Medicare programs, competition among health plans and among healthcare providers may also have a negative impact on DMG's profitability. For example, due to the large population of Medicare beneficiaries, DMG's Existing Geographic Regions have become increasingly attractive to health plans that may compete with DMG. DMG may not be able to continue to compete profitably in the healthcare industry if additional competitors enter the same market. If DMG cannot compete profitably, the ability of DMG to compete with other service providers that contract with competing health plans may be substantially impaired. Furthermore, if DMG is unable to obtain new members or experiences a loss of existing members to competitors during the open enrollment period for Medicare it could have a material adverse effect on DMG's business, results of operations, financial condition and cash flows.

DMG competes directly with various regional and local companies that provide similar services in DMG's Existing Geographic Regions. DMG's competitors vary in size and scope and in terms of products and services offered. DMG believes that some of its competitors and potential competitors may be significantly larger than DMG and have greater financial, sales, marketing and other resources. Furthermore, it is DMG's belief that some of its competitors may make strategic acquisitions or establish cooperative relationships among themselves.

A disruption in DMG's healthcare provider networks could have a material adverse effect on DMG's operations and profitability.

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

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

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

Participation in ACO programs is subject to federal regulation, supervision, and evolving regulatory developments that may result in financial liability.

The ACA established the Medicare Shared Savings Program (MSSP) for ACOs, which took effect in January 2012. Under the MSSP, eligible organizations are accountable for the quality, cost and overall care of Medicare beneficiaries assigned to an ACO and may be eligible to share in any savings below a specified benchmark amount. The Secretary of HHS is also authorized, but not required, to use capitation payment models with ACOs. CMS has also implemented the Next Generation ACO model, which allows the ACO to assume higher levels of financial risk and reward than under the MSSP program. DMG has formed an MSSP ACO through a subsidiary in New Mexico and a Next Generation ACO (previously an MSSP ACO) through a subsidiary in California, and is evaluating whether to participate in more ACOs in the future. The continued development and expansion of ACOs, and potential changes to the participation requirements in ACOs, will have an uncertain impact on DMG's revenue and profitability. Further, in December 2018, CMS issued a final rule for the MSSP, which among other things, requires ACOs to accept a two-sided risk model (as opposed to a one-sided model), wherein ACOs need to share in the financial risk of their patients' healthcare spending (*i.e.*, shared losses) in addition to shared savings. This rule could negatively impact the revenue and profitability of DMG's MSSP ACO.

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

California hospitals may terminate their agreements with HealthCare Partners Affiliates Medical Group and DaVita Health Plan of California, Inc. (formerly HealthCare Partners Plan, Inc., and, together with HealthCare Partners Affiliates Medical Group (AMG)) or reduce the fees they pay to DMG.

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

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

DMG maintains primary professional liability insurance and other insurance coverage through California Medical Group Insurance Company, Risk Retention Group, an Arizona corporation in which DMG is the majority owner, and through excess coverage contracted through third-party insurers. DMG believes such insurance is adequate based on its review of what it believes to be all applicable factors, including industry standards. Nonetheless, potential liabilities may not be covered by

insurance, insurers may dispute coverage or may be unable to meet their obligations, the amount of insurance coverage and/or related reserves may be inadequate, or the amount of any DMG self-insured retention may be substantial. There can be no assurances that DMG will be able to obtain insurance coverage in the future, or that insurance will continue to be available on a cost-effective basis, if at all. Moreover, even if claims brought against DMG are unsuccessful or without merit, DMG would have to defend itself against such claims. The defense of any such actions may be time-consuming and costly and may distract DMG management's attention. As a result, DMG may incur significant expenses and may be unable to effectively operate its business.

Changes in the rates or methods of third-party reimbursements may materially adversely affect DMG's business, results of operations, financial condition and cash flows.

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

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

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

DMG's failure to successfully implement and maintain all of its systems could have a material adverse effect on its business, results of operations, financial condition and cash flows. For example, DMG's failure to successfully operate its billing systems could lead to potential violations of healthcare laws and regulations. If DMG is unable to handle its claims volume, or if DMG is unable to pay claims timely, DMG may become subject to a health plan's corrective action plan or de-delegation until the problem is corrected, and/or termination of the health plan's agreement with DMG. This could have a material adverse effect on DMG's operations and profitability. In addition, if DMG's claims processing system is unable to process claims accurately, the data DMG uses for its incurred but not reported estimates could be incomplete and DMG's ability to accurately estimate claims liabilities and establish adequate reserves could be adversely affected. Finally, if DMG's management information systems are unable to function in compliance with applicable state or federal rules and regulations, including medical information confidentiality laws such as HIPAA, possible penalties and fines due to this lack of compliance could have a material adverse effect on DMG's results of operations, financial condition and cash flows.

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

Due to potential decreased availability of healthcare through private employers, the number of patients who are uninsured or participate in governmental programs may increase. The ACA has increased the participation of individuals in the Medicaid program in states that elected to participate in the expanded Medicaid coverage. A shift in payor mix from managed care and other private payors to government payors as well as an increase in the number of uninsured patients may result in a reduction in the rates of reimbursement to DMG or an increase in uncollectible receivables or uncompensated care, with a corresponding decrease in net revenue. Changes in the eligibility requirements for governmental programs such as the Medicaid program under the ACA and state decisions on whether to participate in the expansion of such programs also could increase the number of patients who participate in such programs and the number of uninsured patients. Even for those patients who remain in private insurance plans, changes to those plans could increase patient financial responsibility, resulting in a greater risk of

uncollectible receivables. These factors and events could have a material adverse effect on DMG's business, results of operations, financial condition and cash flows.

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

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

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

Risk factors related to ownership of our common stock:

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

Our charter documents include provisions that may deter hostile takeovers, delay or prevent changes of control or changes in our management, or limit the ability of our stockholders to approve transactions that they may otherwise determine to be in their best interests. These include provisions prohibiting our stockholders from acting by written consent; requiring 90 days advance notice of stockholder proposals or nominations to our Board of Directors (or 120 days for nominations made using proxy access); and granting our Board of Directors the authority to issue preferred stock and to determine the rights and preferences of the preferred stock without the need for further stockholder approval.

Most of our outstanding employee stock-based compensation awards include a provision accelerating the vesting of the awards in the event of a change of control. These and any other change of control provisions may affect the price an acquirer would be willing to pay for our Company.

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

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

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

Share repurchases

The Company did not repurchase any shares from January 1, 2019 through March 31, 2019.

As of May 7, 2019, we had approximately $1,356 million remaining in Board authorizations available for share repurchases under our stock repurchase program. Although these share repurchase authorizations have no expiration dates, we are subject to share repurchase limitations, including under the terms of the senior secured credit facilities and the indentures governing our senior notes.

Items 3 and 4 are not applicable

Item 5. *Other Information*

On May 6, 2019, the Company, its subsidiary guarantors, the lenders party thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent and Collateral Agent, entered into an amendment to the Company's existing senior secured credit agreement. The amendment extends each of the Tranche A Term Loan Maturity Date, the Tranche A-2 Term Loan Maturity Date and the Revolving Termination Date under the senior secured credit agreement from June 24, 2019 to December 24, 2019. All other terms and conditions of the senior secured credit agreement remain in full force and effect.

Item 6. *Exhibits*

The information required by this Item is set forth in the Index to Exhibits that precedes the signature page of this Quarterly Report on Form 10-Q.

INDEX TO EXHIBITS

Exhibit Number	
10.1	Employment Agreement between Javier J. Rodriguez and DaVita Inc., dated as of April 29, 2019. (1)*
10.2	Executive Chairman Agreement between Kent J. Thiry and DaVita Inc., dated as of April 29, 2019. (2)*
10.3	Non-Employee Director Compensation Policy. *✓
31.1	Certification of the Chief Executive Officer, dated May 7, 2019, pursuant to Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. ✓
31.2	Certification of the Chief Financial Officer, dated May 7, 2019, pursuant to Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. ✓
32.1	Certification of the Chief Executive Officer, dated May 7, 2019, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. ✓
32.2	Certification of the Chief Financial Officer, dated May 7, 2019, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. ✓
101.INS	XBRL Instance Document - the Instance Document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. ✓
101.SCH	XBRL Taxonomy Extension Schema Document. ✓
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document. ✓
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document. ✓
101.LAB	XBRL Taxonomy Extension Label Linkbase Document. ✓
101.PRE	XBRL Taxonomy Extension Presentation, Linkbase Document. ✓

* Management contract or executive compensation plan or arrangement.

✓ Filed or furnished herewith.

(1) Filed on April 29, 2019 as Exhibit 10.1 to the Company's Current Report on Form 8-K.

(2) Filed on April 29, 2019 as Exhibit 10.2 to the Company's Current Report on Form 8-K.

SIGNATURE

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

DAVITA INC.

BY: /s/ JAMES K. HILGER

James K. Hilger

Chief Accounting Officer*

Date: May 7, 2019

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

Exhibit 10.3

DAVITA INC.
NON-EMPLOYEE DIRECTOR COMPENSATION POLICY
(Effective May 15, 2019)

ARTICLE I

PURPOSE

The primary purposes of the DaVita Inc. (the "Company") Non-Employee Director Compensation Policy (this "Policy") are as follows:

- to pay differentially higher compensation for higher levels of work, responsibility and performance;
- to provide a compensation structure that will attract highly competent candidates; and
- to provide a significant portion of compensation in the form of equity-based awards to align non-employee director compensation with increases in long-term shareholder value.

All references to "Director" in this Policy shall mean a member of the Company's Board of Directors (the "Board") who is not employed by the Company.

ARTICLE II

BASE ANNUAL RETAINER

Each Director shall receive a base annual retainer (the "Base Annual Retainer") of up to Two Hundred Seventy Thousand Dollars ($270,000) per fiscal year as follows:

2.1 Cash: Eighty Thousand Dollars ($80,000) to be paid in quarterly installments made within five business days of the last calendar day of each fiscal quarter.

2.2 Direct Stock Issuances: One Hundred and Ninety Thousand Dollars ($190,000) to be paid in the form of direct stock issuances ("DSIs"). The DSIs shall be subject to the following terms and conditions (the "DSI Grant Terms"):

2.2.1 Grant Date: The DSIs shall be granted in four equal installments on May 15, August 15, November 15 and March 15 (each, a "Grant Date"), subject to the Director's continued service through the applicable Grant Date.

2.2.2 Amount: The number of DSIs to be granted on each Grant Date shall be the nearest whole number of shares as determined by dividing Forty-Seven Thousand and Five Hundred Dollars ($47,500) by the closing market price of the Company's common stock as listed on the New York Stock Exchange on the Grant Date, and if the Grant Date does not fall on a New York Stock Exchange trading day, then on the last trading day prior to the Grant Date.

2.3 Proration: The Base Annual Retainer shall be prorated, as applicable, based on the days of service on the Board.

ARTICLE III

ANNUAL RETAINER PREMIUM – LEAD INDEPENDENT DIRECTOR

A Director serving as the Lead Independent Director of the Board shall be paid a premium (the "Lead Director Premium") of up to One Hundred Twenty-Five Thousand Dollars ($125,000) per fiscal year as follows:

3.1 Cash: Thirty-Seven Thousand Five Hundred Dollars ($37,500) to be paid in quarterly installments made within five business days of the last calendar day of each fiscal quarter.

3.2 Direct Share Issuances: Eighty-Seven Thousand Five Hundred Dollars ($87,500) to be paid in the form of DSIs to be granted in accordance with, and subject to, the DSI Grant Terms provided in Section 2.2 above. For the avoidance of doubt:

3.2.1 Grant Date: The DSI component of the Lead Director Premium shall be granted in four equal installments on a Grant Date, subject to the Lead Independent Director's continued service through the applicable Grant Date

3.2.2 Amount: The number of DSIs to be granted as part of the Lead Director Premium on each Grant Date shall be the nearest whole number of shares as determined by dividing Twenty-One Thousand Eight Hundred Seventy-Five Dollars ($21,875) by the closing market price of the Company's common stock as listed on the New York Stock Exchange on the Grant Date, and if the Grant Date does not fall on a New York Stock Exchange trading day, then on the last trading day prior to the Grant Date.

3.3 Proration: The Lead Director Premium shall be prorated, as applicable, based on the days of service on the Board.

ARTICLE IV

ANNUAL RETAINER PREMIUM – COMMITTEE CHAIRS

A Director serving as a Chair of a committee ("Committee") of the Board shall be paid a cash premium (the "Chair Premium") per fiscal year as follows:

4.1 Chairs of the Audit, Compensation and Compliance Committees: Fifty Thousand Dollars ($50,000) to be paid each in quarterly installments made within five business days of the last calendar day of each fiscal quarter.

4.2 Chairs of the Public Policy and Clinical Performance Committees: Twenty-Five Thousand Dollars ($25,000) to be paid each in quarterly installments made within five business days of the last calendar day of each fiscal quarter.

4.3 Chair of the Nominating and Governance Committee: No Chair Premium will be paid for services provided as Chair of the Nominating and Governance Committee.

4.4 Proration: A Chair Premium shall be prorated, as applicable, based on the days of service as a Chair of a Committee within a fiscal quarter.

ARTICLE V

MEETING FEES

A Director shall be paid the following fees for his or her in person or telephonic attendance of Board and Committee meetings as follows:

5.1 Board: Two Thousand Five Hundred Dollars ($2,500) cash for attendance of: (1) special Board meetings held in person, irrespective of length, and (2) special Board meetings held telephonically that last approximately one hour. No additional compensation shall be provided for attendance of regular Board meetings.

5.2 Committees/Sub-Committees: Two Thousand Five Hundred Dollars ($2,500) cash for attendance of the following Committee meetings, provided that the Director is a member of such Committee: (1) regular or special Committee meetings held in person, and (2) regular or special Committee meetings held telephonically that last approximately one hour. Notwithstanding the foregoing, each member of the Audit Committee shall be paid Two Thousand Five Hundred Dollars ($2,500) in cash for his or her in person or

telephonic attendance to each Audit Committee meeting related to quarterly earnings releases, regardless of the duration of such meeting.

5.2.1 Notwithstanding anything herein to the contrary, a Director shall be paid $2,500 in cash for attendance to a regular or special meeting of a Committee of which such Director is not a member, provided that such Director's attendance was made at the request of the Committee's chair and provided further that such payment is made in accordance with this Section 5.2.

5.2.2 New Committee Members: A Director attending a Committee meeting held earlier on the same day of his or her appointment by the Board to such Committee, will be eligible to receive Committee meeting fees as described under this Section 5.2.

ARTICLE VI

EXPENSE REIMBURSEMENT AND COMPENSATION FOR ADDITIONAL TIME EXPENDED

6.1 Expense Reimbursement. Each Director shall be reimbursed for his or her reasonable out-of-pocket business expenses incurred in connection with attending meetings of the Board or its Committees or in connection with other Board related business.

6.2 Compensation for Additional Time. Each Director shall be compensated in cash on a "per diem," hourly or other basis at a rate that is reasonable and fair to the Company as determined in the discretion of the Lead Independent Director (or, should the matter be referred to them, the Board or the Compensation Committee), for significant time spent outside of Board or Committee meetings for meetings or activities outside the scope of normal Board duties, including director training, meeting with Company management or external auditors, interviewing director candidates or other activities deemed necessary by the Chairman of the Board, the Lead Independent Director, or the entire Board. Any dollar amounts set for a particular unit of time shall be paid on a pro rata basis for time expended that is less than the full unit of time for which a rate was set. The Lead Independent Director shall oversee requests for compensation under this Article VI.

Originally Adopted: March 30, 2017
Amended March 29, 2018
Amended May 15, 2019

EXHIBIT 31.1

SECTION 302 CERTIFICATION

I, Kent J. Thiry, certify that:

1. I have reviewed this quarterly report on Form 10-Q of DaVita Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/S/ KENT J. THIRY

Kent J. Thiry
Chief Executive Officer

Date: May 7, 2019

EXHIBIT 31.2

SECTION 302 CERTIFICATION

I, Joel Ackerman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of DaVita Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/S/ Joel Ackerman

Joel Ackerman

Chief Financial Officer and Treasurer

Date: May 7, 2019

EXHIBIT 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of DaVita Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Periodic Report"), I, Kent J. Thiry, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Periodic Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/S/ KENT J. THIRY

Kent J. Thiry
Chief Executive Officer
May 7, 2019

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of DaVita Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Periodic Report"), I, Joel Ackerman, Chief Financial Officer and Treasurer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Periodic Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/S/ Joel Ackerman

Joel Ackerman

Chief Financial Officer and Treasurer

May 7, 2019

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.