

HCA Holdings, Inc.  
Form 10-Q  
August 07, 2013  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended June 30, 2013

Or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from            to

Commission file number 1-11239

**HCA Holdings, Inc.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**27-3865930**  
(I.R.S. Employer  
Identification No.)

**One Park Plaza**

**Nashville, Tennessee**  
(Address of principal executive offices)

**37203**  
(Zip Code)

**(615) 344-9551**

(Registrant's telephone number, including area code)

**Not Applicable**

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

**Class of Common Stock**  
Voting common stock, \$.01 par value

**Outstanding at July 31, 2013**  
447,200,900 shares

**Table of Contents**

**HCA HOLDINGS, INC.**

**Form 10-Q**

**June 30, 2013**

|                                                                                                                            | <b>Page of<br/>Form 10-Q</b> |
|----------------------------------------------------------------------------------------------------------------------------|------------------------------|
| <b>Part I. Financial Information</b>                                                                                       |                              |
| Item 1. Financial Statements (Unaudited):                                                                                  |                              |
| <u>Condensed Consolidated Income Statements for the quarters and six months ended June 30, 2013 and 2012</u>               | 2                            |
| <u>Condensed Consolidated Comprehensive Income Statements for the quarters and six months ended June 30, 2013 and 2012</u> | 3                            |
| <u>Condensed Consolidated Balance Sheets June 30, 2013 and December 31, 2012</u>                                           | 4                            |
| <u>Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2013 and 2012</u>                     | 5                            |
| <u>Notes to Condensed Consolidated Financial Statements</u>                                                                | 6                            |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                       | 29                           |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>                                                  | 47                           |
| Item 4. <u>Controls and Procedures</u>                                                                                     | 47                           |
| <b>Part II. Other Information</b>                                                                                          |                              |
| Item 1. <u>Legal Proceedings</u>                                                                                           | 47                           |
| Item 1A. <u>Risk Factors</u>                                                                                               | 49                           |
| Item 5. <u>Other Information</u>                                                                                           | 50                           |
| Item 6. <u>Exhibits</u>                                                                                                    | 52                           |
| <u>Signatures</u>                                                                                                          | 53                           |

Table of Contents

## HCA HOLDINGS, INC.

## CONDENSED CONSOLIDATED INCOME STATEMENTS

FOR THE QUARTERS AND SIX MONTHS ENDED JUNE 30, 2013 AND 2012

Unaudited

(Dollars in millions, except per share amounts)

|                                                                | Quarter      |              | Six Months    |               |
|----------------------------------------------------------------|--------------|--------------|---------------|---------------|
|                                                                | 2013         | 2012         | 2013          | 2012          |
| Revenues before provision for doubtful accounts                | \$ 9,473     | \$ 9,153     | \$ 18,667     | \$ 18,352     |
| Provision for doubtful accounts                                | 1,023        | 1,041        | 1,777         | 1,835         |
| <b>Revenues</b>                                                | <b>8,450</b> | <b>8,112</b> | <b>16,890</b> | <b>16,517</b> |
| Salaries and benefits                                          | 3,848        | 3,707        | 7,765         | 7,443         |
| Supplies                                                       | 1,470        | 1,422        | 2,949         | 2,841         |
| Other operating expenses                                       | 1,507        | 1,493        | 3,030         | 2,986         |
| Electronic health record incentive income                      | (52)         | (70)         | (91)          | (125)         |
| Equity in earnings of affiliates                               | (12)         | (9)          | (20)          | (20)          |
| Depreciation and amortization                                  | 425          | 420          | 849           | 837           |
| Interest expense                                               | 462          | 448          | 934           | 890           |
| Losses (gains) on sales of facilities                          | (4)          | 2            | 12            | 3             |
| Loss on retirement of debt                                     |              |              | 17            |               |
|                                                                | <b>7,644</b> | <b>7,413</b> | <b>15,445</b> | <b>14,855</b> |
| Income before income taxes                                     | 806          | 699          | 1,445         | 1,662         |
| Provision for income taxes                                     | 269          | 214          | 470           | 538           |
| Net income                                                     | 537          | 485          | 975           | 1,124         |
| Net income attributable to noncontrolling interests            | 114          | 94           | 208           | 193           |
| Net income attributable to HCA Holdings, Inc.                  | \$ 423       | \$ 391       | \$ 767        | \$ 931        |
| Per share data:                                                |              |              |               |               |
| Basic earnings per share                                       | \$ 0.95      | \$ 0.89      | \$ 1.72       | \$ 2.12       |
| Diluted earnings per share                                     | \$ 0.91      | \$ 0.85      | \$ 1.66       | \$ 2.03       |
| Cash dividends declared per share                              | \$           | \$           | \$            | \$ 2.00       |
| Shares used in earnings per share calculations (in thousands): |              |              |               |               |
| Basic                                                          | 446,612      | 439,473      | 445,513       | 438,705       |
| Diluted                                                        | 463,184      | 458,621      | 462,782       | 458,467       |

See accompanying notes.

**Table of Contents****HCA HOLDINGS, INC.****CONDENSED CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS****FOR THE QUARTERS AND SIX MONTHS ENDED JUNE 30, 2013 AND 2012****Unaudited****(Dollars in millions)**

|                                                                     | Quarter |        | Six Months |          |
|---------------------------------------------------------------------|---------|--------|------------|----------|
|                                                                     | 2013    | 2012   | 2013       | 2012     |
| Net income                                                          | \$ 537  | \$ 485 | \$ 975     | \$ 1,124 |
| Other comprehensive income (loss) before taxes:                     |         |        |            |          |
| Foreign currency translation                                        |         | (22)   | (60)       | 7        |
| Unrealized (losses) gains on available-for-sale securities          | (9)     |        | (8)        | 5        |
| Defined benefit plans                                               |         |        |            |          |
| Pension costs included in salaries and benefits                     | 8       | 7      | 15         | 14       |
|                                                                     | 8       | 7      | 15         | 14       |
| Change in fair value of derivative financial instruments            | 47      | (77)   | 40         | (102)    |
| Interest costs included in interest expense                         | 32      | 31     | 64         | 60       |
|                                                                     | 79      | (46)   | 104        | (42)     |
| Other comprehensive income (loss) before taxes                      | 78      | (61)   | 51         | (16)     |
| Income taxes (benefits) related to other comprehensive income items | 29      | (23)   | 20         | (7)      |
| Other comprehensive income (loss)                                   | 49      | (38)   | 31         | (9)      |
| Comprehensive income                                                | 586     | 447    | 1,006      | 1,115    |
| Comprehensive income attributable to noncontrolling interests       | 114     | 94     | 208        | 193      |
| Comprehensive income attributable to HCA Holdings, Inc.             | \$ 472  | \$ 353 | \$ 798     | \$ 922   |

See accompanying notes.

**Table of Contents****HCA HOLDINGS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****Unaudited****(Dollars in millions)**

|                                                                                                                                 | June 30,<br>2013 | December 31,<br>2012 |
|---------------------------------------------------------------------------------------------------------------------------------|------------------|----------------------|
| <b>ASSETS</b>                                                                                                                   |                  |                      |
| Current assets:                                                                                                                 |                  |                      |
| Cash and cash equivalents                                                                                                       | \$ 462           | \$ 705               |
| Accounts receivable, less allowance for doubtful accounts of \$4,965 and \$4,846                                                | 4,915            | 4,672                |
| Inventories                                                                                                                     | 1,152            | 1,086                |
| Deferred income taxes                                                                                                           | 401              | 385                  |
| Other                                                                                                                           | 861              | 915                  |
|                                                                                                                                 | 7,791            | 7,763                |
| Property and equipment, at cost                                                                                                 | 30,077           | 29,527               |
| Accumulated depreciation                                                                                                        | (16,848)         | (16,342)             |
|                                                                                                                                 | 13,229           | 13,185               |
| Investments of insurance subsidiaries                                                                                           | 405              | 515                  |
| Investments in and advances to affiliates                                                                                       | 120              | 104                  |
| Goodwill and other intangible assets                                                                                            | 5,534            | 5,539                |
| Deferred loan costs                                                                                                             | 264              | 290                  |
| Other                                                                                                                           | 591              | 679                  |
|                                                                                                                                 | \$ 27,934        | \$ 28,075            |
| <b>LIABILITIES AND STOCKHOLDERS DEFICIT</b>                                                                                     |                  |                      |
| Current liabilities:                                                                                                            |                  |                      |
| Accounts payable                                                                                                                | \$ 1,657         | \$ 1,768             |
| Accrued salaries                                                                                                                | 1,036            | 1,120                |
| Other accrued expenses                                                                                                          | 1,871            | 1,849                |
| Long-term debt due within one year                                                                                              | 1,456            | 1,435                |
|                                                                                                                                 | 6,020            | 6,172                |
| Long-term debt                                                                                                                  | 26,744           | 27,495               |
| Professional liability risks                                                                                                    | 960              | 973                  |
| Income taxes and other liabilities                                                                                              | 1,695            | 1,776                |
| Stockholders' deficit:                                                                                                          |                  |                      |
| Common stock \$0.01 par; authorized 1,800,000,000 shares; outstanding 447,066,900 shares in 2013 and 443,200,200 shares in 2012 | 4                | 4                    |
| Capital in excess of par value                                                                                                  | 1,792            | 1,753                |
| Accumulated other comprehensive loss                                                                                            | (426)            | (457)                |
| Retained deficit                                                                                                                | (10,193)         | (10,960)             |
| Stockholders' deficit attributable to HCA Holdings, Inc.                                                                        | (8,823)          | (9,660)              |
| Noncontrolling interests                                                                                                        | 1,338            | 1,319                |

(7,485) (8,341)

\$ 27,934 \$ 28,075

See accompanying notes.

**Table of Contents****HCA HOLDINGS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE SIX MONTHS ENDED JUNE 30, 2013 AND 2012****Unaudited****(Dollars in millions)**

|                                                                                   | 2013    | 2012     |
|-----------------------------------------------------------------------------------|---------|----------|
| <b>Cash flows from operating activities:</b>                                      |         |          |
| Net income                                                                        | \$ 975  | \$ 1,124 |
| Adjustments to reconcile net income to net cash provided by operating activities: |         |          |
| Changes in operating assets and liabilities                                       | (2,335) | (1,927)  |
| Provision for doubtful accounts                                                   | 1,777   | 1,835    |
| Depreciation and amortization                                                     | 849     | 837      |
| Income taxes                                                                      | 183     | 326      |
| Losses on sales of facilities                                                     | 12      | 3        |
| Loss on retirement of debt                                                        | 17      |          |
| Amortization of deferred loan costs                                               | 28      | 29       |
| Share-based compensation                                                          | 51      | 23       |
| Other                                                                             | (3)     | 7        |
| Net cash provided by operating activities                                         | 1,554   | 2,257    |
| <b>Cash flows from investing activities:</b>                                      |         |          |
| Purchase of property and equipment                                                | (896)   | (784)    |
| Acquisition of hospitals and health care entities                                 | (23)    | (139)    |
| Disposition of hospitals and health care entities                                 | 31      | 6        |
| Change in investments                                                             | 102     | 35       |
| Other                                                                             | (4)     | (4)      |
| Net cash used in investing activities                                             | (790)   | (886)    |
| <b>Cash flows from financing activities:</b>                                      |         |          |
| Issuance of long-term debt                                                        |         | 1,350    |
| Net change in revolving credit facilities                                         | (20)    | (820)    |
| Repayment of long-term debt                                                       | (768)   | (608)    |
| Distributions to noncontrolling interests                                         | (196)   | (191)    |
| Payment of debt issuance costs                                                    | (5)     | (19)     |
| Distributions to stockholders                                                     | (10)    | (982)    |
| Income tax benefits                                                               | 61      | 71       |
| Other                                                                             | (69)    | (27)     |
| Net cash used in financing activities                                             | (1,007) | (1,226)  |
| Change in cash and cash equivalents                                               | (243)   | 145      |
| Cash and cash equivalents at beginning of period                                  | 705     | 373      |
| Cash and cash equivalents at end of period                                        | \$ 462  | \$ 518   |
| Interest payments                                                                 | \$ 909  | \$ 854   |



|                          |        |        |
|--------------------------|--------|--------|
| Income tax payments, net | \$ 226 | \$ 141 |
|--------------------------|--------|--------|

See accompanying notes.

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**Table of Contents**

**HCA HOLDINGS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

*Reporting Entity*

On November 17, 2006, HCA Inc. was acquired by a private investor group, including affiliates of or funds sponsored by Bain Capital Partners, LLC, Kohlberg Kravis Roberts & Co., BAML Capital Partners and HCA founder, Dr. Thomas F. Frist Jr. and by members of management and certain other investors. The transaction was accounted for as a recapitalization in our financial statements, with no adjustments to the historical basis of our assets and liabilities.

On November 22, 2010, HCA Inc. reorganized by creating a new holding company structure (the Corporate Reorganization). HCA Holdings, Inc. became the new parent company, and HCA Inc. became HCA Holdings, Inc.'s wholly-owned direct subsidiary. As part of the Corporate Reorganization, HCA Inc.'s outstanding shares of common stock were automatically converted, on a share for share basis, into identical shares of HCA Holdings, Inc.'s common stock. As a result of the Corporate Reorganization, HCA Holdings, Inc. was deemed the successor registrant to HCA Inc. under the Securities Exchange Act of 1934.

During March 2011, we completed the initial public offering of 87,719,300 shares of our common stock. Upon the completion of a secondary offering in February 2013, we no longer qualify as a controlled company under the applicable New York Stock Exchange (NYSE) listing standards and will be required to appoint a board of directors comprised of a majority of independent members within one year of such date. Our common stock is traded on the NYSE (symbol HCA).

HCA Holdings, Inc. is a holding company whose affiliates own and operate hospitals and related health care entities. The term affiliates includes direct and indirect subsidiaries of HCA Holdings, Inc. and partnerships and joint ventures in which such subsidiaries are partners. At June 30, 2013, these affiliates owned and operated 161 hospitals, 114 freestanding surgery centers and provided extensive outpatient and ancillary services. HCA Holdings, Inc.'s facilities are located in 20 states and England. The terms Company, HCA, we, our or us, as used herein and otherwise stated or indicated by context, refer to HCA Inc. and its affiliates prior to the Corporate Reorganization and to HCA Holdings, Inc. and its affiliates after the Corporate Reorganization. The terms facilities or hospitals refer to entities owned and operated by affiliates of HCA and the term employees refers to employees of affiliates of HCA.

*Basis of Presentation*

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete consolidated financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal and recurring nature.

The majority of our expenses are costs of revenues items. Costs that could be classified as general and administrative would include our corporate office costs, which were \$65 million and \$59 million for the quarters ended June 30, 2013 and 2012, respectively, and \$131 million and \$112 million for the six months ended June 30, 2013 and 2012, respectively. Operating results for the quarter and the six months ended June 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. For further information, refer to the consolidated financial statements and footnotes thereto included in our annual report on Form 10-K for the year ended December 31, 2012.

**Table of Contents****HCA HOLDINGS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 1 INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)***Basis of Presentation (continued)*

Revenues are recorded during the period the health care services are provided, based upon the estimated amounts due from the patients and third-party payers. Third-party payers include federal and state agencies (under Medicare, Medicaid and other programs), managed care health plans, commercial insurance companies and employers. Estimates of contractual allowances under managed care health plans are based upon the payment terms specified in the related contractual agreements. Revenues related to uninsured patients and copayment and deductible amounts for patients who have health care coverage may have discounts applied (uninsured discounts and contractual discounts). We also record a provision for doubtful accounts related to uninsured accounts to record the net self pay revenues at the estimated amounts we expect to collect. Our revenues from third-party payers and the uninsured for the quarters and six months ended June 30, 2013 and 2012 are summarized in the following table (dollars in millions):

|                                                 | Quarter         |               |          |        |
|-------------------------------------------------|-----------------|---------------|----------|--------|
|                                                 | 2013            | Ratio         | 2012     | Ratio  |
| Medicare                                        | \$ 1,976        | 23.4%         | \$ 1,989 | 24.5%  |
| Managed Medicare                                | 804             | 9.5           | 729      | 9.0    |
| Medicaid                                        | 365             | 4.3           | 380      | 4.7    |
| Managed Medicaid                                | 378             | 4.5           | 358      | 4.4    |
| Managed care and other insurers                 | 4,655           | 55.1          | 4,473    | 55.1   |
| International (managed care and other insurers) | 291             | 3.4           | 266      | 3.3    |
|                                                 | <b>8,469</b>    | <b>100.2</b>  | 8,195    | 101.0  |
| Uninsured                                       | 693             | 8.2           | 739      | 9.1    |
| Other                                           | 311             | 3.7           | 219      | 2.7    |
| Revenues before provision for doubtful accounts | 9,473           | 112.1         | 9,153    | 112.8  |
| Provision for doubtful accounts                 | (1,023)         | (12.1)        | (1,041)  | (12.8) |
| Revenues                                        | <b>\$ 8,450</b> | <b>100.0%</b> | \$ 8,112 | 100.0% |

  

|                                                 | Six Months    |              |          |       |
|-------------------------------------------------|---------------|--------------|----------|-------|
|                                                 | 2013          | Ratio        | 2012     | Ratio |
| Medicare                                        | \$ 4,114      | 24.4%        | \$ 4,302 | 26.0% |
| Managed Medicare                                | 1,647         | 9.8          | 1,479    | 9.0   |
| Medicaid                                        | 697           | 4.1          | 810      | 4.9   |
| Managed Medicaid                                | 779           | 4.6          | 700      | 4.2   |
| Managed care and other insurers                 | 9,141         | 54.1         | 8,918    | 54.0  |
| International (managed care and other insurers) | 581           | 3.4          | 526      | 3.2   |
|                                                 | <b>16,959</b> | <b>100.4</b> | 16,735   | 101.3 |

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|                                                 |                  |               |           |        |
|-------------------------------------------------|------------------|---------------|-----------|--------|
| Uninsured                                       | <b>1,092</b>     | <b>6.5</b>    | 1,181     | 7.2    |
| Other                                           | <b>616</b>       | <b>3.6</b>    | 436       | 2.6    |
| Revenues before provision for doubtful accounts | <b>18,667</b>    | <b>110.5</b>  | 18,352    | 111.1  |
| Provision for doubtful accounts                 | <b>(1,777)</b>   | <b>(10.5)</b> | (1,835)   | (11.1) |
| Revenues                                        | <b>\$ 16,890</b> | <b>100.0%</b> | \$ 16,517 | 100.0% |

The decline in Medicare revenues for the six months ended June 30, 2013 compared to the six months ended June 30, 2012 was primarily due to Medicare revenues for the six months ended June 30, 2012 being impacted by

**Table of Contents**

**HCA HOLDINGS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 1 INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

*Basis of Presentation (continued)*

two adjustments to Medicare revenues (the Rural Floor Provision Settlement which increased revenues by approximately \$271 million and the implementation of revised Supplemental Security Income ratios which reduced revenues by approximately \$83 million). The net effect of these Medicare adjustments was an increase of \$188 million to revenues. The net effect of these adjustments (and related expenses) added \$170 million to income before income taxes, or \$0.22 per diluted share, for the six months ended June 30, 2012.

Certain prior year amounts have been reclassified to conform to the current year presentation.

**NOTE 2 ACQUISITIONS AND DISPOSITIONS**

During the six months ended June 30, 2013 and 2012, we paid \$23 million and \$81 million, respectively, to acquire nonhospital health care entities. During the six months ended June 30, 2012, we paid \$58 million, assumed liabilities of \$33 million and recorded goodwill of \$53 million related to the acquisition of a hospital facility in the American Group.

During the six months ended June 30, 2013, we received proceeds of \$31 million and recognized net pretax losses of \$12 million related to the sale of a hospital facility and other real estate investments. During the six months ended June 30, 2012, we received proceeds of \$6 million and recognized net pretax losses of \$3 million related to sales of real estate investments.

**NOTE 3 INCOME TAXES**

During the six months ended June 30, 2013, we finalized settlements with the IRS resolving all outstanding issues for HCA Inc. s 2007, 2008 and 2009 tax years. We expect the IRS Examination Division will begin an audit of HCA Holdings, Inc. s 2010 and 2011 federal income tax returns in 2013.

Our liability for unrecognized tax benefits was \$408 million, including accrued interest of \$18 million, as of June 30, 2013 (\$426 million and \$14 million, respectively, as of December 31, 2012). Unrecognized tax benefits of \$134 million (\$125 million as of December 31, 2012) would affect the effective rate, if recognized. The provision for income taxes reflects \$3 million (\$2 million, net of tax) of interest expense and \$18 million (\$11 million, net of tax) of reductions in interest expense related to taxing authority examinations for the quarters ended June 30, 2013 and 2012, respectively, and \$15 million and \$21 million (\$9 million and \$13 million, respectively, net of tax) of reductions in interest expense related to taxing authority examinations for the six months ended June 30, 2013 and 2012, respectively.

Depending on the completion of examinations by federal, state or international taxing authorities, the resolution of any tax disputes, or the expiration of statutes of limitation for specific taxing jurisdictions, we believe it is reasonably possible our liability for unrecognized tax benefits may significantly increase or decline within the next 12 months. However, we are currently unable to estimate the range of any possible change.

**NOTE 4 EARNINGS PER SHARE**

We compute basic earnings per share using the weighted average number of common shares outstanding. We compute diluted earnings per share using the weighted average number of common shares outstanding, plus the dilutive effect of outstanding stock options, stock appreciation rights and restricted share units, computed using the treasury stock method.



**Table of Contents****HCA HOLDINGS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 4 EARNINGS PER SHARE (continued)**

The following table sets forth the computation of basic and diluted earnings per share for the quarters and six months ended June 30, 2013 and 2012 (dollars in millions, except per share amounts, and shares in thousands):

|                                               | Quarter |         | Six Months |         |
|-----------------------------------------------|---------|---------|------------|---------|
|                                               | 2013    | 2012    | 2013       | 2012    |
| Net income attributable to HCA Holdings, Inc. | \$ 423  | \$ 391  | \$ 767     | \$ 931  |
| Weighted average common shares outstanding    | 446,612 | 439,473 | 445,513    | 438,705 |
| Effect of dilutive incremental shares         | 16,572  | 19,148  | 17,269     | 19,762  |
| Shares used for diluted earnings per share    | 463,184 | 458,621 | 462,782    | 458,467 |
| Earnings per share:                           |         |         |            |         |
| Basic earnings per share                      | \$ 0.95 | \$ 0.89 | \$ 1.72    | \$ 2.12 |
| Diluted earnings per share                    | \$ 0.91 | \$ 0.85 | \$ 1.66    | \$ 2.03 |

**NOTE 5 INVESTMENTS OF INSURANCE SUBSIDIARIES**

A summary of our insurance subsidiaries' investments at June 30, 2013 and December 31, 2012 follows (dollars in millions):

|                                      | Amortized<br>Cost | June 30, 2013<br>Unrealized<br>Amounts |        | Fair<br>Value |
|--------------------------------------|-------------------|----------------------------------------|--------|---------------|
|                                      |                   | Gains                                  | Losses |               |
| Debt securities:                     |                   |                                        |        |               |
| States and municipalities            | \$ 384            | \$ 12                                  | \$ (2) | \$ 394        |
| Auction rate securities              | 47                |                                        | (2)    | 45            |
| Asset-backed securities              | 12                |                                        |        | 12            |
| Money market funds                   | 17                |                                        |        | 17            |
|                                      | 460               | 12                                     | (4)    | 468           |
| Equity securities                    | 2                 | 1                                      |        | 3             |
|                                      | \$ 462            | \$ 13                                  | \$ (4) | 471           |
| Amounts classified as current assets |                   |                                        |        | (66)          |
| Investment carrying value            |                   |                                        |        | \$ 405        |

**Table of Contents****HCA HOLDINGS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 5 INVESTMENTS OF INSURANCE SUBSIDIARIES (continued)**

|                                      | Amortized<br>Cost | December 31, 2012<br>Unrealized<br>Amounts |        | Fair<br>Value |
|--------------------------------------|-------------------|--------------------------------------------|--------|---------------|
|                                      |                   | Gains                                      | Losses |               |
| Debt securities:                     |                   |                                            |        |               |
| States and municipalities            | \$ 395            | \$ 23                                      | \$     | \$ 418        |
| Auction rate securities              | 74                |                                            | (6)    | 68            |
| Asset-backed securities              | 14                |                                            |        | 14            |
| Money market funds                   | 67                |                                            |        | 67            |
|                                      | 550               | 23                                         | (6)    | 567           |
| Equity securities                    | 2                 | 1                                          |        | 3             |
|                                      | \$ 552            | \$ 24                                      | \$ (6) | 570           |
| Amounts classified as current assets |                   |                                            |        | (55)          |
| Investment carrying value            |                   |                                            |        | \$ 515        |

At June 30, 2013 and December 31, 2012, the investments of our insurance subsidiaries were classified as available-for-sale. Changes in temporary unrealized gains and losses are recorded as adjustments to other comprehensive income. At June 30, 2013 and December 31, 2012, \$1 million and \$9 million, respectively, of our money market fund investments were subject to restrictions included in insurance bond collateralization and assumed reinsurance contracts.

Scheduled maturities of investments in debt securities at June 30, 2013 were as follows (dollars in millions):

|                                        | Amortized<br>Cost | Fair<br>Value |
|----------------------------------------|-------------------|---------------|
| Due in one year or less                | \$ 31             | \$ 31         |
| Due after one year through five years  | 174               | 180           |
| Due after five years through ten years | 103               | 106           |
| Due after ten years                    | 93                | 94            |
|                                        | 401               | 411           |
| Auction rate securities                | 47                | 45            |
| Asset-backed securities                | 12                | 12            |
|                                        | \$ 460            | \$ 468        |

The average expected maturity of the investments in debt securities at June 30, 2013 was 4.4 years, compared to the average scheduled maturity of 7.7 years. Expected and scheduled maturities may differ because the issuers of certain securities have the right to call, prepay or otherwise redeem such obligations prior to the scheduled maturity date. The average expected maturities for our auction rate and asset-backed securities were derived from valuation models of expected cash flows and involved management's judgment. At June 30, 2013, the average expected maturities for our auction rate and asset-backed securities were 3.9 years and 3.7 years, respectively, compared to average scheduled maturities



of 21.5 years and 23.5 years, respectively.

**Table of Contents****HCA HOLDINGS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 6 FINANCIAL INSTRUMENTS***Interest Rate Swap Agreements*

We have entered into interest rate swap agreements to manage our exposure to fluctuations in interest rates. These swap agreements involve the exchange of fixed and variable rate interest payments between two parties based on common notional principal amounts and maturity dates. Pay-fixed interest rate swaps effectively convert LIBOR indexed variable rate obligations to fixed interest rate obligations. The interest payments under these agreements are settled on a net basis. The net interest payments, based on the notional amounts in these agreements, generally match the timing of the related liabilities. The notional amounts of the swap agreements represent amounts used to calculate the exchange of cash flows and are not our assets or liabilities. Our credit risk related to these agreements is considered low because the swap agreements are with creditworthy financial institutions.

The following table sets forth our interest rate swap agreements, which have been designated as cash flow hedges, at June 30, 2013 (dollars in millions):

|                               | Notional<br>Amount | Maturity Date | Fair<br>Value |
|-------------------------------|--------------------|---------------|---------------|
| Pay-fixed interest rate swaps | \$ 500             | December 2014 | \$ (7)        |
| Pay-fixed interest rate swaps | 3,000              | December 2016 | (273)         |
| Pay-fixed interest rate swaps | 1,000              | December 2017 | (45)          |

During the next 12 months, we estimate \$125 million will be reclassified from other comprehensive income ( OCI ) to interest expense.

*Cross Currency Swaps*

The Company and certain subsidiaries have incurred obligations and entered into various intercompany transactions where such obligations are denominated in currencies, other than the functional currencies of the parties executing the trade. In order to mitigate the currency exposure risks and better match the cash flows of our obligations and intercompany transactions with cash flows from operations, we enter into cross currency swaps. Our credit risk related to these agreements is considered low because the swap agreements are with creditworthy financial institutions. Our cross currency swap is not designated as a hedge, and changes in fair value are recognized in results of operations. The following table sets forth our cross currency swap agreement at June 30, 2013 (amounts in millions):

|                                         | Notional<br>Amount | Maturity Date | Fair<br>Value |
|-----------------------------------------|--------------------|---------------|---------------|
| Euro United States dollar currency swap | 241 Euro           | November 2013 | \$ (17)       |

*Derivatives Results of Operations*

The following tables present the effect of our interest rate and cross currency swaps on our results of operations for the six months ended June 30, 2013 (dollars in millions):

| Derivatives in Cash Flow Hedging Relationships | Amount of Gain<br>Recognized in OCI on<br>Derivatives, Net of<br>Tax | Location of Loss<br>Reclassified from<br>Accumulated OCI<br>into Operations | Amount of Loss<br>Reclassified from<br>Accumulated OCI<br>into<br>Operations |
|------------------------------------------------|----------------------------------------------------------------------|-----------------------------------------------------------------------------|------------------------------------------------------------------------------|
|------------------------------------------------|----------------------------------------------------------------------|-----------------------------------------------------------------------------|------------------------------------------------------------------------------|

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|                     |    |    |                  |    |    |
|---------------------|----|----|------------------|----|----|
| Interest rate swaps | \$ | 25 | Interest expense | \$ | 64 |
|---------------------|----|----|------------------|----|----|

**Table of Contents****HCA HOLDINGS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 6 FINANCIAL INSTRUMENTS (continued)***Derivatives Results of Operations (continued)*

| <b>Derivatives Not Designated as Hedging Instruments</b> | <b>Location of Loss Recognized<br/>in Operations on Derivatives</b> | <b>Amount of Loss<br/>Recognized<br/>in<br/>Operations<br/>on<br/>Derivatives</b> |
|----------------------------------------------------------|---------------------------------------------------------------------|-----------------------------------------------------------------------------------|
| Cross currency swap                                      | Other operating expenses                                            | \$ 4                                                                              |

*Credit-risk-related Contingent Features*

We have agreements with each of our derivative counterparties that contain a provision where we could be declared in default on our derivative obligations if repayment of the underlying indebtedness is accelerated by the lender due to our default on the indebtedness. As of June 30, 2013, we have not been required to post any collateral related to these agreements. If we had breached these provisions at June 30, 2013, we would have been required to settle our obligations under the agreements at their aggregate, estimated termination value of \$358 million.

**NOTE 7 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE**

Accounting Standards Codification 820, *Fair Value Measurements and Disclosures* ( ASC 820 ) defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. ASC 820 applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements.

ASC 820 emphasizes fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, ASC 820 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

*Cash Traded Investments*

Our cash traded investments are generally classified within Level 1 or Level 2 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. Certain types of cash traded instruments are classified within Level 3 of the fair value hierarchy because they trade infrequently and therefore have little or no price

transparency. The transaction price is initially used as the best estimate of fair value.

**Table of Contents**

**HCA HOLDINGS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 7 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (continued)**

*Cash Traded Investments (continued)*

Our wholly-owned insurance subsidiaries had investments in tax-exempt auction rate securities ( ARS ), which are backed by student loans substantially guaranteed by the federal government, of \$45 million (\$47 million par value) at June 30, 2013. We do not currently intend to attempt to sell the ARS as the liquidity needs of our insurance subsidiaries are expected to be met by other investments in their investment portfolios. During 2012 and the six months ended June 30, 2013, certain issuers and their broker/dealers redeemed or repurchased \$65 million and \$27 million, respectively, of our ARS at par value. The valuation of these securities involved management's judgment, after consideration of market factors and the absence of market transparency, market liquidity and observable inputs. Our valuation models derived a fair market value compared to tax-equivalent yields of other student loan backed variable rate securities of similar credit worthiness and similar effective maturities.

*Derivative Financial Instruments*

We have entered into interest rate and cross currency swap agreements to manage our exposure to fluctuations in interest rates and foreign currency risks. The valuation of these instruments is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves, foreign exchange rates and implied volatilities. We incorporate credit valuation adjustments to reflect both our own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements.

Although we determined the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by us and our counterparties. We assessed the significance of the impact of the credit valuation adjustments on the overall valuation of our derivative positions, and at June 30, 2013 and December 31, 2012, we determined the credit valuation adjustments were not significant to the overall valuation of our derivatives.

**Table of Contents****HCA HOLDINGS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 7 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (continued)**

The following table summarizes our assets and liabilities measured at fair value on a recurring basis as of June 30, 2013 and December 31, 2012, aggregated by the level in the fair value hierarchy within which those measurements fall (dollars in millions):

|                                                          | Fair Value | Quoted Prices in<br>Active Markets for<br>Identical<br>Assets<br>and<br>Liabilities<br>(Level 1) | June 30, 2013<br>Fair Value Measurements Using      |                                                 |
|----------------------------------------------------------|------------|--------------------------------------------------------------------------------------------------|-----------------------------------------------------|-------------------------------------------------|
|                                                          |            |                                                                                                  | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable Inputs<br>(Level 3) |
| <b>Assets:</b>                                           |            |                                                                                                  |                                                     |                                                 |
| Investments of insurance subsidiaries:                   |            |                                                                                                  |                                                     |                                                 |
| Debt securities:                                         |            |                                                                                                  |                                                     |                                                 |
| States and municipalities                                | \$ 394     | \$                                                                                               | \$ 394                                              | \$                                              |
| Auction rate securities                                  | 45         |                                                                                                  |                                                     | 45                                              |
| Asset-backed securities                                  | 12         |                                                                                                  | 12                                                  |                                                 |
| Money market funds                                       | 17         | 17                                                                                               |                                                     |                                                 |
|                                                          | 468        | 17                                                                                               | 406                                                 | 45                                              |
| Equity securities                                        | 3          | 2                                                                                                |                                                     | 1                                               |
| Investments of insurance subsidiaries                    | 471        | 19                                                                                               | 406                                                 | 46                                              |
| Less amounts classified as current assets                | (66)       | (17)                                                                                             | (49)                                                |                                                 |
|                                                          | \$ 405     | \$ 2                                                                                             | \$ 357                                              | \$ 46                                           |
| <b>Liabilities:</b>                                      |            |                                                                                                  |                                                     |                                                 |
| Cross currency swap (Income taxes and other liabilities) | \$ 17      | \$                                                                                               | \$ 17                                               | \$                                              |
| Interest rate swaps (Income taxes and other liabilities) | 325        |                                                                                                  | 325                                                 |                                                 |

Table of Contents

## HCA HOLDINGS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 7 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (continued)

|                                                          | December 31, 2012<br>Fair Value Measurements Using |                                                                                                  |                                                     |                                                 |
|----------------------------------------------------------|----------------------------------------------------|--------------------------------------------------------------------------------------------------|-----------------------------------------------------|-------------------------------------------------|
|                                                          | Fair Value                                         | Quoted Prices in<br>Active Markets for<br>Identical<br>Assets<br>and<br>Liabilities<br>(Level 1) | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable Inputs<br>(Level 3) |
| Assets:                                                  |                                                    |                                                                                                  |                                                     |                                                 |
| Investments of insurance subsidiaries:                   |                                                    |                                                                                                  |                                                     |                                                 |
| Debt securities:                                         |                                                    |                                                                                                  |                                                     |                                                 |
| States and municipalities                                | \$ 418                                             | \$                                                                                               | \$ 418                                              | \$                                              |
| Auction rate securities                                  | 68                                                 |                                                                                                  |                                                     | 68                                              |
| Asset-backed securities                                  | 14                                                 |                                                                                                  | 14                                                  |                                                 |
| Money market funds                                       | 67                                                 | 67                                                                                               |                                                     |                                                 |
|                                                          | 567                                                | 67                                                                                               | 432                                                 | 68                                              |
| Equity securities                                        | 3                                                  | 1                                                                                                |                                                     | 2                                               |
| Investments of insurance subsidiaries                    | 570                                                | 68                                                                                               | 432                                                 | 70                                              |
| Less amounts classified as current assets                | (55)                                               | (55)                                                                                             |                                                     |                                                 |
|                                                          | \$ 515                                             | \$ 13                                                                                            | \$ 432                                              | \$ 70                                           |
| Liabilities:                                             |                                                    |                                                                                                  |                                                     |                                                 |
| Cross currency swap (Income taxes and other liabilities) | \$ 13                                              | \$                                                                                               | \$ 13                                               | \$                                              |
| Interest rate swaps (Income taxes and other liabilities) | 429                                                |                                                                                                  | 429                                                 |                                                 |

The following table summarizes the activity related to the auction rate and equity securities investments of our insurance subsidiaries which have fair value measurements based on significant unobservable inputs (Level 3) during the six months ended June 30, 2013 (dollars in millions):

|                                                         |       |
|---------------------------------------------------------|-------|
| Asset balances at December 31, 2012                     | \$ 70 |
| Unrealized gains included in other comprehensive income | 3     |
| Settlements                                             | (27)  |
| Asset balances at June 30, 2013                         | \$ 46 |

The estimated fair value of our long-term debt was \$28.061 billion and \$30.781 billion at June 30, 2013 and December 31, 2012, respectively, compared to carrying amounts aggregating \$28.200 billion and \$28.930 billion, respectively. The estimates of fair value are generally based upon the quoted market prices or quoted market prices for similar issues of long-term debt with the same maturities.





**Table of Contents****HCA HOLDINGS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 8 LONG-TERM DEBT**

A summary of long-term debt at June 30, 2013 and December 31, 2012, including related interest rates at June 30, 2013, follows (dollars in millions):

|                                                                                        | June 30,<br>2013 | December 31,<br>2012 |
|----------------------------------------------------------------------------------------|------------------|----------------------|
| Senior secured asset-based revolving credit facility (effective interest rate of 1.7%) | \$ 1,450         | \$ 1,470             |
| Senior secured revolving credit facility                                               |                  |                      |
| Senior secured term loan facilities (effective interest rate of 5.1%)                  | 5,939            | 5,958                |
| Senior secured first lien notes (effective interest rate of 7.1%)                      | 9,691            | 9,688                |
| Other senior secured debt (effective interest rate of 7.0%)                            | 426              | 423                  |
| First lien debt                                                                        | 17,506           | 17,539               |
| Senior secured second lien notes                                                       |                  | 197                  |
| Senior unsecured notes (effective interest rate of 7.2%)                               | 10,694           | 11,194               |
| Total debt (average life of 6.7 years, rates averaging 6.4%)                           | 28,200           | 28,930               |
| Less amounts due within one year                                                       | 1,456            | 1,435                |
|                                                                                        | <b>\$ 26,744</b> | <b>\$ 27,495</b>     |

*2013 Activity*

During March 2013, we redeemed all \$201 million aggregate principal amount of our 9<sup>7</sup>/<sub>8</sub>% senior secured second lien notes due 2017, at a redemption price of 104.938% of the principal amount. The pretax loss on retirement of debt related to this redemption was \$17 million.

**NOTE 9 CONTINGENCIES AND LEGAL CLAIM COSTS**

We operate in a highly regulated and litigious industry. As a result, various lawsuits, claims and legal and regulatory proceedings have been and can be expected to be instituted or asserted against us. We are also subject to claims and suits arising in the ordinary course of business, including claims for personal injuries or wrongful restriction of, or interference with, physicians' staff privileges. In certain of these actions the claimants may seek punitive damages against us which may not be covered by insurance. The resolution of any such lawsuits, claims or legal and regulatory proceedings could have a material, adverse effect on our results of operations or financial position.

*Government Investigations, Claims and Litigation*

Health care companies are subject to numerous investigations by various governmental agencies. Further, under the federal False Claims Act ( FCA ), private parties have the right to bring *qui tam*, or whistleblower, suits against companies that submit false claims for payments to, or improperly retain overpayments from, the government. Some states have adopted similar state whistleblower and false claims provisions. Certain of our individual facilities have received, and from time to time, other facilities may receive, government inquiries from, and may be subject to investigation by, federal and state agencies. Depending on whether the underlying conduct in these or future inquiries or investigations could be considered systemic, their resolution could have a material, adverse effect on our financial position, results of operations and liquidity.

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**Table of Contents**

**HCA HOLDINGS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 9 CONTINGENCIES AND LEGAL CLAIM COSTS (continued)**

*Government Investigations, Claims and Litigation (continued)*

As initially disclosed in 2010, the Civil Division of the Department of Justice ( DOJ ) has contacted the Company in connection with its nationwide review of whether, in certain cases, hospital charges to the federal government relating to implantable cardio-defibrillators ( ICDs ) met the CMS criteria. In connection with this nationwide review, the DOJ has indicated that it will be reviewing certain ICD billing and medical records at 95 HCA hospitals; the review covers the period from October 2003 to the present. In August 2012, HCA, along with non-HCA hospitals across the country subject to the DOJ 's review, received from the DOJ a proposed framework for resolving the DOJ 's review of ICDs. The Company is cooperating in the review. The review could potentially give rise to claims against the Company under the federal FCA or other statutes, regulations or laws. At this time, we cannot predict what effect, if any, this review or any resulting claims could have on the Company.

In July 2012, the Civil Division of the U.S. Attorney 's Office in Miami requested information on reviews assessing the medical necessity of interventional cardiology services provided at any Company facility (other than peer reviews). The Company is cooperating with the government 's request and is currently producing medical records associated with particular reviews at eight hospitals, located primarily in Florida. At this time, we cannot predict what effect, if any, the request or any resulting claims, including any potential claims under the federal FCA, other statutes, regulations or laws, could have on the Company.

*Securities Class Action Litigation*

On October 28, 2011, a shareholder action, Schuh v. HCA Holdings, Inc. et al., was filed in the United States District Court for the Middle District of Tennessee seeking monetary relief. The case sought to include as a class all persons who acquired the Company 's stock pursuant or traceable to the Company 's Registration Statement issued in connection with the March 9, 2011 initial public offering. The lawsuit asserted a claim under Section 11 of the Securities Act of 1933 against the Company, certain members of the board of directors, and certain underwriters in the offering. It further asserted a claim under Section 15 of the Securities Act of 1933 against the same members of the board of directors. The action alleged various deficiencies in the Company 's disclosures in the Registration Statement. Subsequently, two additional class action complaints, Kishtah v. HCA Holdings, Inc. et al. and Daniels v. HCA Holdings, Inc. et al., setting forth substantially similar claims against substantially the same defendants were filed in the same federal court on November 16, 2011 and December 12, 2011, respectively. All three of the cases were consolidated. On May 3, 2012, the court appointed New England Teamsters & Trucking Industry Pension Fund as Lead Plaintiff for the consolidated action. On July 13, 2012, the lead plaintiff filed an amended complaint asserting claims under Sections 11 and 12(a)(2) of the Securities Act of 1933 against the Company, certain members of the board of directors, and certain underwriters in the offering. It further asserts a claim under Section 15 of the Securities Act of 1933 against the same members of the board of directors and Hercules Holdings II, LLC, a majority shareholder of the Company at the time of the initial public offering. The consolidated complaint alleges deficiencies in the Company 's disclosures in the Registration Statement and Prospectus relating to: (1) the accounting for the Company 's 2006 recapitalization and 2010 reorganization; (2) the Company 's failure to maintain effective internal controls relating to its accounting for such transactions; and (3) the Company 's Medicare and Medicaid revenue growth rates. The Company and other defendants moved to dismiss the amended complaint on September 11, 2012. The Court granted the motion in part on May 28, 2013. The action is proceeding to discovery on the remaining claims.

In addition to the above described shareholder class actions, on December 8, 2011, a federal shareholder derivative action, Sutton v. Bracken, et al., putatively initiated in the name of the Company, was filed in the United States District Court for the Middle District of Tennessee against certain officers and present and former directors of the Company seeking monetary relief. The action alleges breaches of fiduciary duties by the named

**Table of Contents****HCA HOLDINGS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 9 CONTINGENCIES AND LEGAL CLAIM COSTS (continued)***Securities Class Action Litigation (continued)*

officers and directors in connection with the accounting and earnings claims set forth in the shareholder class actions. Setting forth substantially similar claims against substantially the same defendants, an additional federal derivative action, Schroeder v. Bracken, et al., was filed in the United States District Court for the Middle District of Tennessee on December 16, 2011, and a state derivative action, Bagot v. Bracken, et al., was filed in Tennessee state court in the Davidson County Circuit Court on December 20, 2011. The federal derivative actions were consolidated in the Middle District of Tennessee and stayed pending developments in the shareholder class actions. The state derivative action has also been stayed pending developments in the shareholder class actions.

*Health Midwest Litigation*

In October 2009, the Health Care Foundation of Greater Kansas City, a nonprofit health foundation, filed suit against HCA Inc. in the Circuit Court of Jackson County, Missouri and alleged that HCA did not fund the level of capital expenditures and uncompensated care agreed to in connection with HCA's purchase of hospitals from Health Midwest in 2003. The central issue in the case was whether HCA's construction of new hospitals counted towards its \$450 million five-year capital commitments. In addition, the plaintiff alleged that HCA did not make its required capital expenditures in a timely fashion. On January 24, 2013, the Court ruled in favor of the plaintiff and awarded at least \$162 million. The Court also ordered a court-supervised accounting of HCA's capital expenditures, as well as of expenditures on charity and uncompensated care during the ten years following the purchase. Should the accounting fail to satisfy the Court concerning HCA's compliance with its capital and charity care commitments, the amount of the judgment award could substantially increase. The Court also indicated it would award plaintiff attorneys fees, which the parties have stipulated are about \$12 million. HCA recorded \$175 million of legal claim costs in the fourth quarter of 2012 related to this ruling. The accounting for HCA's capital expenditures and charity and uncompensated care is ongoing and will likely not be concluded before the end of 2013. HCA plans to appeal the trial court's ruling on the breach of contract claim and order for the accounting once the trial court rules on the accounting and enters final judgment.

**NOTE 10 CAPITAL STRUCTURE**

The changes in stockholders' deficit, including changes in stockholders' deficit attributable to HCA Holdings, Inc. and changes in equity attributable to noncontrolling interests, are as follows (dollars in millions):

|                               | Equity (Deficit) Attributable to HCA Holdings, Inc. |           |                                |                                      |                  | Equity Attributable to   |  | Total      |
|-------------------------------|-----------------------------------------------------|-----------|--------------------------------|--------------------------------------|------------------|--------------------------|--|------------|
|                               | Common Stock                                        |           | Capital in Excess of Par Value | Accumulated Other Comprehensive Loss | Retained Deficit | Noncontrolling Interests |  |            |
|                               | Shares (000)                                        | Par Value | Par Value                      |                                      |                  |                          |  |            |
| Balances at December 31, 2012 | 443,200                                             | \$ 4      | \$ 1,753                       | \$ (457)                             | \$ (10,960)      | \$ 1,319                 |  | \$ (8,341) |
| Net income                    |                                                     |           |                                |                                      | 767              | 208                      |  | 975        |
| Other comprehensive income    |                                                     |           |                                | 31                                   |                  |                          |  | 31         |
| Distributions                 |                                                     |           |                                |                                      |                  | (196)                    |  | (196)      |
| Share-based benefit plans     | 3,867                                               |           | 41                             |                                      |                  |                          |  | 41         |
| Other                         |                                                     |           | (2)                            |                                      |                  | 7                        |  | 5          |
| Balances at June 30, 2013     | 447,067                                             | \$ 4      | \$ 1,792                       | \$ (426)                             | \$ (10,193)      | \$ 1,338                 |  | \$ (7,485) |



**Table of Contents****HCA HOLDINGS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 10 CAPITAL STRUCTURE (continued)**

The components of accumulated other comprehensive loss are as follows (dollars in millions):

|                                                                                                                              | Unrealized<br>Gains on<br>Available-<br>for-Sale<br>Securities | Foreign<br>Currency<br>Translation<br>Adjustments | Defined<br>Benefit<br>Plans | Change<br>in Fair<br>Value of<br>Derivative<br>Instruments | Total    |
|------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------|---------------------------------------------------|-----------------------------|------------------------------------------------------------|----------|
| Balances at December 31, 2012                                                                                                | \$ 11                                                          | \$ (1)                                            | \$ (196)                    | \$ (271)                                                   | \$ (457) |
| Unrealized losses on available-for-sale securities, net of \$3 income tax benefit                                            | (5)                                                            |                                                   |                             |                                                            | (5)      |
| Foreign currency translation adjustments, net of \$21 income tax benefit                                                     |                                                                | (39)                                              |                             |                                                            | (39)     |
| Change in fair value of derivative instruments, net of \$15 of income taxes                                                  |                                                                |                                                   |                             | 25                                                         | 25       |
| Expense reclassified into operations from other comprehensive income, net of \$6 and \$23, respectively, income tax benefits |                                                                |                                                   | 9                           | 41                                                         | 50       |
| Balances at June 30, 2013                                                                                                    | \$ 6                                                           | \$ (40)                                           | \$ (187)                    | \$ (205)                                                   | \$ (426) |

**NOTE 11 SEGMENT AND GEOGRAPHIC INFORMATION**

We operate in one line of business, which is operating hospitals and related health care entities. Effective January 1, 2013, we reorganized our operational groups into two geographically organized groups: the National and American Groups. The National Group includes 77 hospitals located in Alaska, California, Florida, southern Georgia, Idaho, Indiana, northern Kentucky, Nevada, New Hampshire, South Carolina, Utah and Virginia, and the American Group includes 78 hospitals located in Colorado, northern Georgia, Kansas, southern Kentucky, Louisiana, Mississippi, Missouri, Oklahoma, Tennessee and Texas. We also operate six hospitals in England, and these facilities are included in the Corporate and other group.

**Table of Contents****HCA HOLDINGS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 11 SEGMENT AND GEOGRAPHIC INFORMATION (continued)**

Adjusted segment EBITDA is defined as income before depreciation and amortization, interest expense, losses (gains) on sales of facilities, loss on retirement of debt, income taxes and net income attributable to noncontrolling interests. We use adjusted segment EBITDA as an analytical indicator for purposes of allocating resources to geographic areas and assessing their performance. Adjusted segment EBITDA is commonly used as an analytical indicator within the health care industry, and also serves as a measure of leverage capacity and debt service ability. Adjusted segment EBITDA should not be considered as a measure of financial performance under generally accepted accounting principles, and the items excluded from adjusted segment EBITDA are significant components in understanding and assessing financial performance. Because adjusted segment EBITDA is not a measurement determined in accordance with generally accepted accounting principles and is thus susceptible to varying calculations, adjusted segment EBITDA, as presented, may not be comparable to other similarly titled measures of other companies. The geographic distributions of our revenues, equity in earnings of affiliates, adjusted segment EBITDA and depreciation and amortization for the quarters and six months ended June 30, 2013 and 2012 are summarized in the following table (dollars in millions):

|                                          | Quarter         |                 | Six Months       |                  |
|------------------------------------------|-----------------|-----------------|------------------|------------------|
|                                          | 2013            | 2012            | 2013             | 2012             |
| <b>Revenues:</b>                         |                 |                 |                  |                  |
| National Group                           | \$ 3,964        | \$ 3,806        | \$ 7,945         | \$ 7,798         |
| American Group                           | 4,065           | 3,966           | 8,099            | 8,051            |
| Corporate and other                      | 421             | 340             | 846              | 668              |
|                                          | <b>\$ 8,450</b> | <b>\$ 8,112</b> | <b>\$ 16,890</b> | <b>\$ 16,517</b> |
| <b>Equity in earnings of affiliates:</b> |                 |                 |                  |                  |
| National Group                           | \$ (3)          | \$ (3)          | \$ (5)           | \$ (7)           |
| American Group                           | (7)             | (7)             | (13)             | (14)             |
| Corporate and other                      | (2)             | 1               | (2)              | 1                |
|                                          | <b>\$ (12)</b>  | <b>\$ (9)</b>   | <b>\$ (20)</b>   | <b>\$ (20)</b>   |
| <b>Adjusted segment EBITDA:</b>          |                 |                 |                  |                  |
| National Group                           | \$ 831          | \$ 789          | \$ 1,635         | \$ 1,710         |
| American Group                           | 916             | 841             | 1,744            | 1,814            |
| Corporate and other                      | (58)            | (61)            | (122)            | (132)            |
|                                          | <b>\$ 1,689</b> | <b>\$ 1,569</b> | <b>\$ 3,257</b>  | <b>\$ 3,392</b>  |
| <b>Depreciation and amortization:</b>    |                 |                 |                  |                  |
| National Group                           | \$ 177          | \$ 176          | \$ 351           | \$ 349           |
| American Group                           | 202             | 202             | 404              | 405              |
| Corporate and other                      | 46              | 42              | 94               | 83               |
|                                          | <b>\$ 425</b>   | <b>\$ 420</b>   | <b>\$ 849</b>    | <b>\$ 837</b>    |
| Adjusted segment EBITDA                  | <b>\$ 1,689</b> | <b>\$ 1,569</b> | <b>\$ 3,257</b>  | <b>\$ 3,392</b>  |
| Depreciation and amortization            | <b>425</b>      | <b>420</b>      | <b>849</b>       | <b>837</b>       |

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|                                       |               |        |                 |          |
|---------------------------------------|---------------|--------|-----------------|----------|
| Interest expense                      | <b>462</b>    | 448    | <b>934</b>      | 890      |
| Losses (gains) on sales of facilities | <b>(4)</b>    | 2      | <b>12</b>       | 3        |
| Loss on retirement of debt            |               |        | <b>17</b>       |          |
| Income before income taxes            | <b>\$ 806</b> | \$ 699 | <b>\$ 1,445</b> | \$ 1,662 |



**Table of Contents****HCA HOLDINGS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 12 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION**

On November 22, 2010, HCA Inc. reorganized by creating a new holding company structure. HCA Holdings, Inc. became the parent company, and HCA Inc. became HCA Holdings, Inc.'s wholly-owned direct subsidiary. On November 23, 2010, HCA Holdings, Inc. issued \$1.525 billion aggregate principal amount of 7 <sup>3</sup>/<sub>4</sub>% senior unsecured notes due 2021. On December 6, 2012, HCA Holdings, Inc. issued \$1.000 billion aggregate principal amount of 6.25% senior unsecured notes due 2021. These notes are senior unsecured obligations and are not guaranteed by any of our subsidiaries.

The senior secured credit facilities and senior secured notes are fully and unconditionally guaranteed by substantially all existing and future, direct and indirect, wholly-owned material domestic subsidiaries that are Unrestricted Subsidiaries under our Indenture dated December 16, 1993 (except for certain special purpose subsidiaries that only guarantee and pledge their assets under our senior secured asset-based revolving credit facility).

Our summarized condensed consolidating comprehensive income statements for the quarters and six months ended June 30, 2013 and 2012, condensed consolidating balance sheets at June 30, 2013 and December 31, 2012 and condensed consolidating statements of cash flows for the six months ended June 30, 2013 and 2012, segregating HCA Holdings, Inc. issuer, HCA Inc. issuer, the subsidiary guarantors, the subsidiary non-guarantors and eliminations, follow:

**HCA HOLDINGS, INC.****CONDENSED CONSOLIDATING COMPREHENSIVE INCOME STATEMENT****FOR THE QUARTER ENDED JUNE 30, 2013**

(Dollars in millions)

|                                                 | <b>HCA<br/>Holdings, Inc.<br/>Issuer</b> | <b>HCA Inc.<br/>Issuer</b> | <b>Subsidiary<br/>Guarantors</b> | <b>Subsidiary<br/>Non-<br/>Guarantors</b> | <b>Eliminations</b> | <b>Condensed<br/>Consolidated</b> |
|-------------------------------------------------|------------------------------------------|----------------------------|----------------------------------|-------------------------------------------|---------------------|-----------------------------------|
| Revenues before provision for doubtful accounts | \$                                       | \$                         | \$ 5,012                         | \$ 4,461                                  | \$                  | \$ 9,473                          |
| Provision for doubtful accounts                 |                                          |                            | 608                              | 415                                       |                     | 1,023                             |
| <b>Revenues</b>                                 |                                          |                            | <b>4,404</b>                     | <b>4,046</b>                              |                     | <b>8,450</b>                      |
| Salaries and benefits                           |                                          |                            | 2,058                            | 1,790                                     |                     | 3,848                             |
| Supplies                                        |                                          |                            | 776                              | 694                                       |                     | 1,470                             |
| Other operating expenses                        | 1                                        |                            | 757                              | 749                                       |                     | 1,507                             |
| Electronic health record incentive income       |                                          |                            | (33)                             | (19)                                      |                     | (52)                              |
| Equity in earnings of affiliates                | (504)                                    |                            | (1)                              | (11)                                      | 504                 | (12)                              |
| Depreciation and amortization                   |                                          |                            | 211                              | 214                                       |                     | 425                               |
| Interest expense                                | 51                                       | 544                        | (109)                            | (24)                                      |                     | 462                               |
| Losses (gains) on sales of facilities           |                                          |                            | 3                                | (7)                                       |                     | (4)                               |
| Management fees                                 |                                          |                            | (181)                            | 181                                       |                     |                                   |
|                                                 | (452)                                    | 544                        | 3,481                            | 3,567                                     | 504                 | 7,644                             |
| Income (loss) before income taxes               | 452                                      | (544)                      | 923                              | 479                                       | (504)               | 806                               |
| Provision (benefit) for income taxes            | (20)                                     | (213)                      | 354                              | 148                                       |                     | 269                               |

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|                                                                |        |          |        |        |          |        |
|----------------------------------------------------------------|--------|----------|--------|--------|----------|--------|
| Net income (loss)                                              | 472    | (331)    | 569    | 331    | (504)    | 537    |
| Net income attributable to noncontrolling interests            |        |          | 16     | 98     |          | 114    |
| Net income (loss) attributable to HCA Holdings, Inc.           | \$ 472 | \$ (331) | \$ 553 | \$ 233 | \$ (504) | \$ 423 |
| Comprehensive income (loss) attributable to HCA Holdings, Inc. | \$ 472 | \$ (283) | \$ 558 | \$ 229 | \$ (504) | \$ 472 |

**Table of Contents****HCA HOLDINGS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 12 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (continued)****HCA HOLDINGS, INC.****CONDENSED CONSOLIDATING COMPREHENSIVE INCOME STATEMENT****FOR THE QUARTER ENDED JUNE 30, 2012****(Dollars in millions)**

|                                                                       | <b>HCA<br/>Holdings, Inc.<br/>Issuer</b> | <b>HCA Inc.<br/>Issuer</b> | <b>Subsidiary<br/>Guarantors</b> | <b>Subsidiary<br/>Non-<br/>Guarantors</b> | <b>Eliminations</b> | <b>Condensed<br/>Consolidated</b> |
|-----------------------------------------------------------------------|------------------------------------------|----------------------------|----------------------------------|-------------------------------------------|---------------------|-----------------------------------|
| Revenues before provision for doubtful accounts                       | \$                                       | \$                         | \$ 4,753                         | \$ 4,400                                  | \$                  | \$ 9,153                          |
| Provision for doubtful accounts                                       |                                          |                            | 558                              | 483                                       |                     | 1,041                             |
| <b>Revenues</b>                                                       |                                          |                            | <b>4,195</b>                     | <b>3,917</b>                              |                     | <b>8,112</b>                      |
| Salaries and benefits                                                 |                                          |                            | 1,951                            | 1,756                                     |                     | 3,707                             |
| Supplies                                                              |                                          |                            | 738                              | 684                                       |                     | 1,422                             |
| Other operating expenses                                              |                                          |                            | 751                              | 742                                       |                     | 1,493                             |
| Electronic health record incentive income                             |                                          |                            | (48)                             | (22)                                      |                     | (70)                              |
| Equity in earnings of affiliates                                      | (409)                                    |                            | (1)                              | (8)                                       | 409                 | (9)                               |
| Depreciation and amortization                                         |                                          |                            | 209                              | 211                                       |                     | 420                               |
| Interest expense                                                      | 30                                       | 529                        | (85)                             | (26)                                      |                     | 448                               |
| Losses on sales of facilities                                         |                                          |                            | 2                                |                                           |                     | 2                                 |
| Management fees                                                       |                                          |                            | (168)                            | 168                                       |                     |                                   |
|                                                                       | (379)                                    | 529                        | 3,349                            | 3,505                                     | 409                 | 7,413                             |
| <b>Income (loss) before income taxes</b>                              | <b>379</b>                               | <b>(529)</b>               | <b>846</b>                       | <b>412</b>                                | <b>(409)</b>        | <b>699</b>                        |
| Provision (benefit) for income taxes                                  | (12)                                     | (189)                      | 297                              | 118                                       |                     | 214                               |
| <b>Net income (loss)</b>                                              | <b>391</b>                               | <b>(340)</b>               | <b>549</b>                       | <b>294</b>                                | <b>(409)</b>        | <b>485</b>                        |
| Net income attributable to noncontrolling interests                   |                                          |                            | 16                               | 78                                        |                     | 94                                |
| Net income (loss) attributable to HCA Holdings, Inc.                  | \$ 391                                   | \$ (340)                   | \$ 533                           | \$ 216                                    | \$ (409)            | \$ 391                            |
| <b>Comprehensive income (loss) attributable to HCA Holdings, Inc.</b> | <b>\$ 391</b>                            | <b>\$ (369)</b>            | <b>\$ 538</b>                    | <b>\$ 202</b>                             | <b>\$ (409)</b>     | <b>\$ 353</b>                     |

**Table of Contents****HCA HOLDINGS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 12 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (continued)****HCA HOLDINGS, INC.****CONDENSED CONSOLIDATING COMPREHENSIVE INCOME STATEMENT****FOR THE SIX MONTHS ENDED JUNE 30, 2013****(Dollars in millions)**

|                                                                       | <b>HCA<br/>Holdings, Inc.<br/>Issuer</b> | <b>HCA Inc.<br/>Issuer</b> | <b>Subsidiary<br/>Guarantors</b> | <b>Subsidiary<br/>Non-<br/>Guarantors</b> | <b>Eliminations</b> | <b>Condensed<br/>Consolidated</b> |
|-----------------------------------------------------------------------|------------------------------------------|----------------------------|----------------------------------|-------------------------------------------|---------------------|-----------------------------------|
| Revenues before provision for doubtful accounts                       | \$                                       | \$                         | \$ 9,884                         | \$ 8,783                                  | \$                  | \$ 18,667                         |
| Provision for doubtful accounts                                       |                                          |                            | 1,051                            | 726                                       |                     | 1,777                             |
| <b>Revenues</b>                                                       |                                          |                            | <b>8,833</b>                     | <b>8,057</b>                              |                     | <b>16,890</b>                     |
| Salaries and benefits                                                 |                                          |                            | 4,185                            | 3,580                                     |                     | 7,765                             |
| Supplies                                                              |                                          |                            | 1,567                            | 1,382                                     |                     | 2,949                             |
| Other operating expenses                                              | 2                                        |                            | 1,489                            | 1,539                                     |                     | 3,030                             |
| Electronic health record incentive income                             |                                          |                            | (62)                             | (29)                                      |                     | (91)                              |
| Equity in earnings of affiliates                                      | (860)                                    |                            | (2)                              | (18)                                      | 860                 | (20)                              |
| Depreciation and amortization                                         |                                          |                            | 420                              | 429                                       |                     | 849                               |
| Interest expense                                                      | 97                                       | 1,102                      | (215)                            | (50)                                      |                     | 934                               |
| Losses (gains) on sales of facilities                                 |                                          |                            | 19                               | (7)                                       |                     | 12                                |
| Loss on retirement of debt                                            |                                          | 17                         |                                  |                                           |                     | 17                                |
| Management fees                                                       |                                          |                            | (364)                            | 364                                       |                     |                                   |
|                                                                       | (761)                                    | 1,119                      | 7,037                            | 7,190                                     | 860                 | 15,445                            |
| <b>Income (loss) before income taxes</b>                              | <b>761</b>                               | <b>(1,119)</b>             | <b>1,796</b>                     | <b>867</b>                                | <b>(860)</b>        | <b>1,445</b>                      |
| Provision (benefit) for income taxes                                  | (37)                                     | (425)                      | 671                              | 261                                       |                     | 470                               |
| <b>Net income (loss)</b>                                              | <b>798</b>                               | <b>(694)</b>               | <b>1,125</b>                     | <b>606</b>                                | <b>(860)</b>        | <b>975</b>                        |
| Net income attributable to noncontrolling interests                   |                                          |                            | 29                               | 179                                       |                     | 208                               |
| <b>Net income (loss) attributable to HCA Holdings, Inc.</b>           | <b>\$ 798</b>                            | <b>\$ (694)</b>            | <b>\$ 1,096</b>                  | <b>\$ 427</b>                             | <b>\$ (860)</b>     | <b>\$ 767</b>                     |
| <b>Comprehensive income (loss) attributable to HCA Holdings, Inc.</b> | <b>\$ 798</b>                            | <b>\$ (630)</b>            | <b>\$ 1,105</b>                  | <b>\$ 385</b>                             | <b>\$ (860)</b>     | <b>\$ 798</b>                     |



**Table of Contents****HCA HOLDINGS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 12 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (continued)****HCA HOLDINGS, INC.****CONDENSED CONSOLIDATING COMPREHENSIVE INCOME STATEMENT****FOR THE SIX MONTHS ENDED JUNE 30, 2012****(Dollars in millions)**

|                                                                | <b>HCA<br/>Holdings, Inc.<br/>Issuer</b> | <b>HCA Inc.<br/>Issuer</b> | <b>Subsidiary<br/>Guarantors</b> | <b>Subsidiary<br/>Non-<br/>Guarantors</b> | <b>Eliminations</b> | <b>Condensed<br/>Consolidated</b> |
|----------------------------------------------------------------|------------------------------------------|----------------------------|----------------------------------|-------------------------------------------|---------------------|-----------------------------------|
| Revenues before provision for doubtful accounts                | \$                                       | \$                         | \$ 9,656                         | \$ 8,696                                  | \$                  | \$ 18,352                         |
| Provision for doubtful accounts                                |                                          |                            | 1,021                            | 814                                       |                     | 1,835                             |
| <b>Revenues</b>                                                |                                          |                            | <b>8,635</b>                     | <b>7,882</b>                              |                     | <b>16,517</b>                     |
| Salaries and benefits                                          |                                          |                            | 3,933                            | 3,510                                     |                     | 7,443                             |
| Supplies                                                       |                                          |                            | 1,491                            | 1,350                                     |                     | 2,841                             |
| Other operating expenses                                       |                                          | 4                          | 1,480                            | 1,502                                     |                     | 2,986                             |
| Electronic health record incentive income                      |                                          |                            | (89)                             | (36)                                      |                     | (125)                             |
| Equity in earnings of affiliates                               | (969)                                    |                            | (3)                              | (17)                                      | 969                 | (20)                              |
| Depreciation and amortization                                  |                                          |                            | 409                              | 428                                       |                     | 837                               |
| Interest expense                                               | 60                                       | 1,058                      | (176)                            | (52)                                      |                     | 890                               |
| Losses on sales of facilities                                  |                                          |                            | 3                                |                                           |                     | 3                                 |
| Management fees                                                |                                          |                            | (328)                            | 328                                       |                     |                                   |
|                                                                | (909)                                    | 1,062                      | 6,720                            | 7,013                                     | 969                 | 14,855                            |
| Income (loss) before income taxes                              | 909                                      | (1,062)                    | 1,915                            | 869                                       | (969)               | 1,662                             |
| Provision (benefit) for income taxes                           | (22)                                     | (389)                      | 689                              | 260                                       |                     | 538                               |
| Net income (loss)                                              | 931                                      | (673)                      | 1,226                            | 609                                       | (969)               | 1,124                             |
| Net income attributable to noncontrolling interests            |                                          |                            | 33                               | 160                                       |                     | 193                               |
| Net income (loss) attributable to HCA Holdings, Inc.           | \$ 931                                   | \$ (673)                   | \$ 1,193                         | \$ 449                                    | \$ (969)            | \$ 931                            |
| Comprehensive income (loss) attributable to HCA Holdings, Inc. | \$ 931                                   | \$ (698)                   | \$ 1,202                         | \$ 456                                    | \$ (969)            | \$ 922                            |



**Table of Contents****HCA HOLDINGS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 12 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (continued)****HCA HOLDINGS, INC.****CONDENSED CONSOLIDATING BALANCE SHEET****JUNE 30, 2013****(Dollars in millions)**

|                                                          | <b>HCA<br/>Holdings, Inc.<br/>Issuer</b> | <b>HCA Inc.<br/>Issuer</b> | <b>Subsidiary<br/>Guarantors</b> | <b>Subsidiary<br/>Non-<br/>Guarantors</b> | <b>Eliminations</b> | <b>Condensed<br/>Consolidated</b> |
|----------------------------------------------------------|------------------------------------------|----------------------------|----------------------------------|-------------------------------------------|---------------------|-----------------------------------|
| <b>ASSETS</b>                                            |                                          |                            |                                  |                                           |                     |                                   |
| Current assets:                                          |                                          |                            |                                  |                                           |                     |                                   |
| Cash and cash equivalents                                | \$                                       | \$                         | \$ 152                           | \$ 310                                    | \$                  | \$ 462                            |
| Accounts receivable, net                                 |                                          |                            | 2,492                            | 2,423                                     |                     | 4,915                             |
| Inventories                                              |                                          |                            | 683                              | 469                                       |                     | 1,152                             |
| Deferred income taxes                                    | 401                                      |                            |                                  |                                           |                     | 401                               |
| Other                                                    |                                          |                            | 309                              | 552                                       |                     | 861                               |
|                                                          | 401                                      |                            | 3,636                            | 3,754                                     |                     | 7,791                             |
| Property and equipment, net                              |                                          |                            | 7,432                            | 5,797                                     |                     | 13,229                            |
| Investments of insurance subsidiaries                    |                                          |                            |                                  | 405                                       |                     | 405                               |
| Investments in and advances to affiliates                | 19,341                                   |                            | 15                               | 105                                       | (19,341)            | 120                               |
| Goodwill and other intangible assets                     |                                          |                            | 1,695                            | 3,839                                     |                     | 5,534                             |
| Deferred loan costs                                      | 31                                       | 233                        |                                  |                                           |                     | 264                               |
| Other                                                    | 362                                      |                            | 26                               | 203                                       |                     | 591                               |
|                                                          | \$ 20,135                                | \$ 233                     | \$ 12,804                        | \$ 14,103                                 | \$ (19,341)         | \$ 27,934                         |
| <b>LIABILITIES AND STOCKHOLDERS<br/>(DEFICIT) EQUITY</b> |                                          |                            |                                  |                                           |                     |                                   |
| Current liabilities:                                     |                                          |                            |                                  |                                           |                     |                                   |
| Accounts payable                                         | \$                                       | \$                         | \$ 1,090                         | \$ 567                                    | \$                  | \$ 1,657                          |
| Accrued salaries                                         |                                          |                            | 601                              | 435                                       |                     | 1,036                             |
| Other accrued expenses                                   | 261                                      | 375                        | 460                              | 775                                       |                     | 1,871                             |
| Long-term debt due within one year                       |                                          | 1,381                      | 43                               | 32                                        |                     | 1,456                             |
|                                                          | 261                                      | 1,756                      | 2,194                            | 1,809                                     |                     | 6,020                             |
| Long-term debt                                           | 2,525                                    | 23,555                     | 174                              | 490                                       |                     | 26,744                            |
| Intercompany balances                                    | 25,729                                   | (10,782)                   | (18,290)                         | 3,343                                     |                     | 960                               |
| Professional liability risks                             |                                          |                            |                                  | 960                                       |                     | 960                               |
| Income taxes and other liabilities                       | 443                                      | 342                        | 674                              | 236                                       |                     | 1,695                             |



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|                                                                   |           |          |           |           |             |           |
|-------------------------------------------------------------------|-----------|----------|-----------|-----------|-------------|-----------|
|                                                                   | 28,958    | 14,871   | (15,248)  | 6,838     |             | 35,419    |
| Stockholders' (deficit) equity attributable to HCA Holdings, Inc. | (8,823)   | (14,638) | 27,952    | 6,027     | (19,341)    | (8,823)   |
| Noncontrolling interests                                          |           |          | 100       | 1,238     |             | 1,338     |
|                                                                   | (8,823)   | (14,638) | 28,052    | 7,265     | (19,341)    | (7,485)   |
|                                                                   | \$ 20,135 | \$ 233   | \$ 12,804 | \$ 14,103 | \$ (19,341) | \$ 27,934 |

**Table of Contents****HCA HOLDINGS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 12 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (continued)****HCA HOLDINGS, INC.****CONDENSED CONSOLIDATING BALANCE SHEET****DECEMBER 31, 2012****(Dollars in millions)**

|                                                          | <b>HCA<br/>Holdings, Inc.<br/>Issuer</b> | <b>HCA Inc.<br/>Issuer</b> | <b>Subsidiary<br/>Guarantors</b> | <b>Subsidiary<br/>Non-<br/>Guarantors</b> | <b>Eliminations</b> | <b>Condensed<br/>Consolidated</b> |
|----------------------------------------------------------|------------------------------------------|----------------------------|----------------------------------|-------------------------------------------|---------------------|-----------------------------------|
| <b>ASSETS</b>                                            |                                          |                            |                                  |                                           |                     |                                   |
| Current assets:                                          |                                          |                            |                                  |                                           |                     |                                   |
| Cash and cash equivalents                                | \$ 22                                    | \$                         | \$ 383                           | \$ 300                                    | \$                  | \$ 705                            |
| Accounts receivable, net                                 |                                          |                            | 2,448                            | 2,224                                     |                     | 4,672                             |
| Inventories                                              |                                          |                            | 629                              | 457                                       |                     | 1,086                             |
| Deferred income taxes                                    | 385                                      |                            |                                  |                                           |                     | 385                               |
| Other                                                    | 122                                      |                            | 342                              | 451                                       |                     | 915                               |
|                                                          | 529                                      |                            | 3,802                            | 3,432                                     |                     | 7,763                             |
| Property and equipment, net                              |                                          |                            | 7,417                            | 5,768                                     |                     | 13,185                            |
| Investments of insurance subsidiaries                    |                                          |                            |                                  | 515                                       |                     | 515                               |
| Investments in and advances to affiliates                | 18,481                                   |                            | 16                               | 88                                        | (18,481)            | 104                               |
| Goodwill and other intangible assets                     |                                          |                            | 1,697                            | 3,842                                     |                     | 5,539                             |
| Deferred loan costs                                      | 32                                       | 258                        |                                  |                                           |                     | 290                               |
| Other                                                    | 469                                      |                            | 31                               | 179                                       |                     | 679                               |
|                                                          | \$ 19,511                                | \$ 258                     | \$ 12,963                        | \$ 13,824                                 | \$ (18,481)         | \$ 28,075                         |
| <b>LIABILITIES AND<br/>STOCKHOLDERS (DEFICIT) EQUITY</b> |                                          |                            |                                  |                                           |                     |                                   |
| Current liabilities:                                     |                                          |                            |                                  |                                           |                     |                                   |
| Accounts payable                                         | \$                                       | \$                         | \$ 1,203                         | \$ 565                                    | \$                  | \$ 1,768                          |
| Accrued salaries                                         |                                          |                            | 638                              | 482                                       |                     | 1,120                             |
| Other accrued expenses                                   | 30                                       | 567                        | 464                              | 788                                       |                     | 1,849                             |
| Long-term debt due within one year                       |                                          | 1,360                      | 39                               | 36                                        |                     | 1,435                             |
|                                                          | 30                                       | 1,927                      | 2,344                            | 1,871                                     |                     | 6,172                             |
| Long-term debt                                           | 2,525                                    | 24,304                     | 173                              | 493                                       |                     | 27,495                            |
| Intercompany balances                                    | 26,131                                   | (12,407)                   | (17,130)                         | 3,406                                     |                     |                                   |
| Professional liability risks                             |                                          |                            |                                  | 973                                       |                     | 973                               |
| Income taxes and other liabilities                       | 485                                      | 442                        | 629                              | 220                                       |                     | 1,776                             |

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|                                                                   |           |          |           |           |             |           |
|-------------------------------------------------------------------|-----------|----------|-----------|-----------|-------------|-----------|
|                                                                   | 29,171    | 14,266   | (13,984)  | 6,963     |             | 36,416    |
| Stockholders' (deficit) equity attributable to HCA Holdings, Inc. | (9,660)   | (14,008) | 26,847    | 5,642     | (18,481)    | (9,660)   |
| Noncontrolling interests                                          |           |          | 100       | 1,219     |             | 1,319     |
|                                                                   | (9,660)   | (14,008) | 26,947    | 6,861     | (18,481)    | (8,341)   |
|                                                                   | \$ 19,511 | \$ 258   | \$ 12,963 | \$ 13,824 | \$ (18,481) | \$ 28,075 |

**Table of Contents****HCA HOLDINGS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 12 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (continued)****HCA HOLDINGS, INC.****CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****FOR THE SIX MONTHS ENDED JUNE 30, 2013****(Dollars in millions)**

|                                                                                                    | <b>HCA<br/>Holdings, Inc.<br/>Issuer</b> | <b>HCA Inc.<br/>Issuer</b> | <b>Subsidiary<br/>Guarantors</b> | <b>Subsidiary<br/>Non-<br/>Guarantors</b> | <b>Eliminations</b> | <b>Condensed<br/>Consolidated</b> |
|----------------------------------------------------------------------------------------------------|------------------------------------------|----------------------------|----------------------------------|-------------------------------------------|---------------------|-----------------------------------|
| <b>Cash flows from operating activities:</b>                                                       |                                          |                            |                                  |                                           |                     |                                   |
| Net income (loss)                                                                                  | \$ 798                                   | \$ (694)                   | \$ 1,125                         | \$ 606                                    | \$ (860)            | \$ 975                            |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |                                          |                            |                                  |                                           |                     |                                   |
| Changes in operating assets and liabilities                                                        | 41                                       | (18)                       | (1,217)                          | (1,141)                                   |                     | (2,335)                           |
| Provision for doubtful accounts                                                                    |                                          |                            | 1,051                            | 726                                       |                     | 1,777                             |
| Depreciation and amortization                                                                      |                                          |                            | 420                              | 429                                       |                     | 849                               |
| Income taxes                                                                                       | 183                                      |                            |                                  |                                           |                     | 183                               |
| Losses (gains) on sales of facilities                                                              |                                          |                            | 19                               | (7)                                       |                     | 12                                |
| Loss on retirement of debt                                                                         |                                          | 17                         |                                  |                                           |                     | 17                                |
| Amortization of deferred loan costs                                                                | 2                                        | 26                         |                                  |                                           |                     | 28                                |
| Share-based compensation                                                                           | 51                                       |                            |                                  |                                           |                     | 51                                |
| Equity in earnings of affiliates                                                                   | (860)                                    |                            |                                  |                                           | 860                 |                                   |
| Other                                                                                              |                                          | 4                          |                                  | (7)                                       |                     | (3)                               |
| Net cash provided by (used in) operating activities                                                | 215                                      | (665)                      | 1,398                            | 606                                       |                     | 1,554                             |
| <b>Cash flows from investing activities:</b>                                                       |                                          |                            |                                  |                                           |                     |                                   |
| Purchase of property and equipment                                                                 |                                          |                            | (434)                            | (462)                                     |                     | (896)                             |
| Acquisition of hospitals and health care entities                                                  |                                          |                            |                                  | (23)                                      |                     | (23)                              |
| Disposition of hospitals and health care entities                                                  |                                          |                            | 17                               | 14                                        |                     | 31                                |
| Change in investments                                                                              |                                          |                            | 5                                | 97                                        |                     | 102                               |
| Other                                                                                              |                                          |                            | (1)                              | (3)                                       |                     | (4)                               |
| Net cash used in investing activities                                                              |                                          |                            | (413)                            | (377)                                     |                     | (790)                             |
| <b>Cash flows from financing activities:</b>                                                       |                                          |                            |                                  |                                           |                     |                                   |
| Net change in revolving bank credit facilities                                                     |                                          | (20)                       |                                  |                                           |                     | (20)                              |

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|                                                       |       |       |         |        |
|-------------------------------------------------------|-------|-------|---------|--------|
| Repayment of long-term debt                           | (726) | (22)  | (20)    | (768)  |
| Distributions to noncontrolling interests             |       | (29)  | (167)   | (196)  |
| Payment of debt issuance costs                        | (5)   |       |         | (5)    |
| Distributions to stockholders                         | (10)  |       |         | (10)   |
| Changes in intercompany balances with affiliates, net | (216) | 1,416 | (1,165) | (35)   |
| Income tax benefits                                   | 61    |       |         | 61     |
| Other                                                 | (72)  |       | 3       | (69)   |
| Net cash (used in) provided by financing activities   | (237) | 665   | (1,216) | (219)  |
| Change in cash and cash equivalents                   | (22)  |       | (231)   | 10     |
| Cash and cash equivalents at beginning of period      | 22    |       | 383     | 300    |
| Cash and cash equivalents at end of period            | \$    | \$    | \$ 152  | \$ 310 |
|                                                       |       |       |         | \$ 462 |

**Table of Contents****HCA HOLDINGS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 12 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (continued)****HCA HOLDINGS, INC.****CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****FOR THE SIX MONTHS ENDED JUNE 30, 2012****(Dollars in millions)**

|                                                                                                    | <b>HCA<br/>Holdings, Inc.<br/>Issuer</b> | <b>HCA Inc.<br/>Issuer</b> | <b>Subsidiary<br/>Guarantors</b> | <b>Subsidiary<br/>Non-<br/>Guarantors</b> | <b>Eliminations</b> | <b>Condensed<br/>Consolidated</b> |
|----------------------------------------------------------------------------------------------------|------------------------------------------|----------------------------|----------------------------------|-------------------------------------------|---------------------|-----------------------------------|
| <b>Cash flows from operating activities:</b>                                                       |                                          |                            |                                  |                                           |                     |                                   |
| Net income (loss)                                                                                  | \$ 931                                   | \$ (673)                   | \$ 1,226                         | \$ 609                                    | \$ (969)            | \$ 1,124                          |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |                                          |                            |                                  |                                           |                     |                                   |
| Changes in operating assets and liabilities                                                        |                                          | 12                         | (995)                            | (944)                                     |                     | (1,927)                           |
| Provision for doubtful accounts                                                                    |                                          |                            | 1,021                            | 814                                       |                     | 1,835                             |
| Depreciation and amortization                                                                      |                                          |                            | 409                              | 428                                       |                     | 837                               |
| Income taxes                                                                                       | 326                                      |                            |                                  |                                           |                     | 326                               |
| Losses on sales of facilities                                                                      |                                          |                            | 3                                |                                           |                     | 3                                 |
| Amortization of deferred loan costs                                                                | 1                                        | 28                         |                                  |                                           |                     | 29                                |
| Share-based compensation                                                                           | 23                                       |                            |                                  |                                           |                     | 23                                |
| Equity in earnings of affiliates                                                                   | (969)                                    |                            |                                  |                                           | 969                 |                                   |
| Other                                                                                              |                                          | 8                          | (1)                              |                                           |                     | 7                                 |
| Net cash provided by (used in) operating activities                                                | 312                                      | (625)                      | 1,663                            | 907                                       |                     | 2,257                             |
| <b>Cash flows from investing activities:</b>                                                       |                                          |                            |                                  |                                           |                     |                                   |
| Purchase of property and equipment                                                                 |                                          |                            | (408)                            | (376)                                     |                     | (784)                             |
| Acquisition of hospitals and health care entities                                                  |                                          |                            | (72)                             | (67)                                      |                     | (139)                             |
| Disposition of hospitals and health care entities                                                  |                                          |                            | 1                                | 5                                         |                     | 6                                 |
| Change in investments                                                                              |                                          |                            | (8)                              | 43                                        |                     | 35                                |
| Other                                                                                              |                                          |                            | (1)                              | (3)                                       |                     | (4)                               |
| Net cash used in investing activities                                                              |                                          |                            | (488)                            | (398)                                     |                     | (886)                             |
| <b>Cash flows from financing activities:</b>                                                       |                                          |                            |                                  |                                           |                     |                                   |
| Issuance of long-term debt                                                                         |                                          | 1,350                      |                                  |                                           |                     | 1,350                             |
| Net change in revolving bank credit facilities                                                     |                                          | (820)                      |                                  |                                           |                     | (820)                             |

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|                                                       |       |      |         |        |
|-------------------------------------------------------|-------|------|---------|--------|
| Repayment of long-term debt                           | (545) | (16) | (47)    | (608)  |
| Distributions to noncontrolling interests             |       | (36) | (155)   | (191)  |
| Payment of debt issuance costs                        | (19)  |      |         | (19)   |
| Distributions to stockholders                         | (982) |      |         | (982)  |
| Changes in intercompany balances with affiliates, net | 628   | 659  | (1,115) | (172)  |
| Income tax benefits                                   | 71    |      |         | 71     |
| Other                                                 | (29)  |      | 2       | (27)   |
| Net cash (used in) provided by financing activities   | (312) | 625  | (1,167) | (372)  |
| Change in cash and cash equivalents                   |       |      | 8       | 137    |
| Cash and cash equivalents at beginning of period      |       |      | 115     | 258    |
| Cash and cash equivalents at end of period            | \$    | \$   | \$ 123  | \$ 395 |
|                                                       |       |      |         | \$ 518 |

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**Table of Contents**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Forward-Looking Statements**

This quarterly report on Form 10-Q includes certain disclosures which contain forward-looking statements. Forward-looking statements include statements regarding estimated electronic health record ( EHR ) incentive income and related EHR operating expenses, expected capital expenditures, expected net claim payments and all other statements that do not relate solely to historical or current facts, and can be identified by the use of words like may, believe, will, expect, project, estimate, anticipate, plan, initiative or continue. These forward-looking statements are based on our current plans and expectations and are subject to a number of known and unknown uncertainties and risks, many of which are beyond our control, which could significantly affect current plans and expectations and our future financial position and results of operations. These factors include, but are not limited to, (1) the impact of our substantial indebtedness and the ability to refinance such indebtedness on acceptable terms, (2) the effects related to the implementation of the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act (collectively, the Health Reform Law ), the possible enactment of additional federal or state health care reforms and possible changes to the Health Reform Law and other federal, state or local laws or regulations affecting the health care industry, (3) the effects related to the implementation of the Budget Control Act of 2011 (the BCA ) and the potential for future deficit reduction legislation that may alter BCA-mandated spending reductions, which include cuts to Medicare payments, or create additional spending reductions, (4) increases in the amount and risk of collectibility of uninsured accounts and deductibles and copayment amounts for insured accounts, (5) the ability to achieve operating and financial targets, and attain expected levels of patient volumes and control the costs of providing services, (6) possible changes in the Medicare, Medicaid and other state programs, including Medicaid upper payment limit ( UPL ) programs or Waiver Programs, that may impact reimbursements to health care providers and insurers, (7) the highly competitive nature of the health care business, (8) changes in service mix, revenue mix and surgical volumes, including potential declines in the population covered under managed care agreements, the ability to enter into and renew managed care provider agreements on acceptable terms and the impact of consumer driven health plans and physician utilization trends and practices, (9) the efforts of insurers, health care providers and others to contain health care costs, (10) the outcome of our continuing efforts to monitor, maintain and comply with appropriate laws, regulations, policies and procedures, (11) increases in wages and the ability to attract and retain qualified management and personnel, including affiliated physicians, nurses and medical and technical support personnel, (12) the availability and terms of capital to fund the expansion of our business and improvements to our existing facilities, (13) changes in accounting practices, (14) changes in general economic conditions nationally and regionally in our markets, (15) future divestitures which may result in charges and possible impairments of long-lived assets, (16) changes in business strategy or development plans, (17) delays in receiving payments for services provided, (18) the outcome of pending and any future tax audits, appeals and litigation associated with our tax positions, (19) potential adverse impact of known and unknown government investigations, litigation and other claims that may be made against us, (20) our ongoing ability to demonstrate meaningful use of certified EHR technology and recognize income for the related Medicare or Medicaid incentive payments, and (21) other risk factors described in our annual report on Form 10-K for the year ended December 31, 2012 and our other filings with the Securities and Exchange Commission. As a consequence, current plans, anticipated actions and future financial position and results of operations may differ from those expressed in any forward-looking statements made by or on behalf of HCA. You are cautioned not to unduly rely on such forward-looking statements when evaluating the information presented in this report, which forward-looking statements reflect management's views only as of the date of this report. We undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise.

**Health Care Reform**

The Health Reform Law changes how health care services are covered, delivered and reimbursed through expanded coverage of uninsured individuals, reduced growth in Medicare program spending, reductions



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**Table of Contents****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)****Health Care Reform (continued)**

in Medicare and Medicaid Disproportionate Share Hospital ( DSH ) payments, and the establishment of programs in which reimbursement is tied to quality and integration. In addition, the Health Reform Law reforms certain aspects of health insurance, expands existing efforts to tie Medicare and Medicaid payments to performance and quality, and contains provisions intended to strengthen fraud and abuse enforcement. The provisions of the Health Reform Law that seek to decrease the number of uninsured individuals mostly will become effective January 1, 2014. However, the employer mandate, which requires firms with 50 or more full-time employees to offer health insurance or pay fines, will be delayed until January 1, 2015. In addition, it is unclear how many states will decline to implement the Medicaid expansion provisions of the law. We are unable to predict with any reasonable certainty the likely impact of the Health Reform Law on our business model, financial condition or result of operations due to the law's complexity, lack of implementing regulations or interpretive guidance, gradual and partially delayed implementation, court challenges and possible amendment, repeal or further implementation delays, as well as our inability to foresee how individuals, states and businesses will respond to the choices afforded them by the law.

**Second Quarter 2013 Operations Summary**

Revenues increased to \$8.450 billion in the second quarter of 2013 from \$8.112 billion in the second quarter of 2012. Net income attributable to HCA Holdings, Inc. totaled \$423 million, or \$0.91 per diluted share, for the quarter ended June 30, 2013, compared to \$391 million, or \$0.85 per diluted share, for the quarter ended June 30, 2012. Shares used for diluted earnings per share were 463.2 million shares for the quarter ended June 30, 2013 and 458.6 million shares for the quarter ended June 30, 2012.

Revenues increased 4.2% on a consolidated basis and increased 4.0% on a same facility basis for the quarter ended June 30, 2013, compared to the quarter ended June 30, 2012. The increase in consolidated revenues can be attributed to the combined impact of a 3.0% increase in revenue per equivalent admission and a 1.1% increase in equivalent admissions. The same facility revenues increase resulted from the combined impact of a 2.9% increase in same facility revenue per equivalent admission and a 1.1% increase in same facility equivalent admissions.

During the quarter ended June 30, 2013, consolidated admissions and same facility admissions increased 1.1% and 1.3%, respectively, compared to the quarter ended June 30, 2012. Inpatient surgeries declined 0.2% on a consolidated basis and increased 0.2% on a same facility basis during the quarter ended June 30, 2013, compared to the quarter ended June 30, 2012. Outpatient surgeries increased 1.1% on a consolidated basis and remained flat on a same facility basis during the quarter ended June 30, 2013, compared to the quarter ended June 30, 2012. Emergency department visits increased 0.7% on a consolidated basis and 0.8% on a same facility basis during the quarter ended June 30, 2013, compared to the quarter ended June 30, 2012.

For the quarter ended June 30, 2013, the provision for doubtful accounts declined \$18 million, compared to the quarter ended June 30, 2012. The self-pay revenue deductions for charity care and uninsured discounts increased \$64 million and \$398 million, respectively, during the second quarter of 2013, compared to the second quarter of 2012. The sum of the provision for doubtful accounts, uninsured discounts and charity care, as a percentage of the sum of revenues, provision for doubtful accounts, uninsured discounts and charity care, was 31.2% for the second quarter of 2013, compared to 29.5% for the second quarter of 2012. Same facility uninsured admissions increased 6.3% and same facility uninsured emergency room visits increased 1.2% for the quarter ended June 30, 2013, compared to the quarter ended June 30, 2012.

Interest expense increased \$14 million to \$462 million for the quarter ended June 30, 2013 from \$448 million for the quarter ended June 30, 2012. The increase in interest expense was due to an increase in the average debt balance.

**Table of Contents**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

**Second Quarter 2013 Operations Summary (continued)**

Cash flows from operating activities declined \$646 million from \$1.460 billion for the second quarter of 2012 to \$814 million for the second quarter of 2013. The decline is primarily related to the combined impact of unfavorable changes in working capital items of \$516 million and an increase of \$193 million in income taxes.

**Results of Operations***Revenue/Volume Trends*

Our revenues depend upon inpatient occupancy levels, the ancillary services and therapy programs ordered by physicians and provided to patients, the volume of outpatient procedures and the charge and negotiated payment rates for such services. Gross charges typically do not reflect what our facilities are actually paid. Our facilities have entered into agreements with third-party payers, including government programs and managed care health plans, under which the facilities are paid based upon the cost of providing services, predetermined rates per diagnosis, fixed per diem rates or discounts from gross charges. We do not pursue collection of amounts related to patients who meet our guidelines to qualify for charity care; therefore, they are not reported in revenues. We provide discounts to uninsured patients who do not qualify for Medicaid or charity care. These discounts are similar to those provided to many local managed care plans. After the discounts are applied, we are still unable to collect a significant portion of uninsured patients' accounts, and we record significant provisions for doubtful accounts (based upon our historical collection experience) related to uninsured patients in the period the services are provided.

Revenues increased 4.2% from \$8.112 billion in the second quarter of 2012 to \$8.450 billion in the second quarter of 2013. Revenues are recorded during the period the health care services are provided, based upon the estimated amounts due from the patients and third-party payers. Third-party payers include federal and state agencies (under Medicare, Medicaid and other programs), managed care health plans, commercial insurance companies and employers. Estimates of contractual allowances under managed care health plans are based upon the payment terms specified in the related contractual agreements. Revenues related to uninsured patients and copayment and deductible amounts for patients who have health care coverage may have discounts applied (uninsured discounts and contractual discounts). We also record a provision for doubtful accounts related to uninsured accounts to record the net self pay revenues at the estimated amounts we expect to collect. Our revenues from our third-party payers, the uninsured and other revenues for the quarters and six months ended June 30, 2013 and 2012 are summarized in the following tables (dollars in millions):

|                                                 | Quarter        |               |          |        |
|-------------------------------------------------|----------------|---------------|----------|--------|
|                                                 | 2013           | Ratio         | 2012     | Ratio  |
| Medicare                                        | \$ 1,976       | 23.4%         | \$ 1,989 | 24.5%  |
| Managed Medicare                                | 804            | 9.5           | 729      | 9.0    |
| Medicaid                                        | 365            | 4.3           | 380      | 4.7    |
| Managed Medicaid                                | 378            | 4.5           | 358      | 4.4    |
| Managed care and other insurers                 | 4,655          | 55.1          | 4,473    | 55.1   |
| International (managed care and other insurers) | 291            | 3.4           | 266      | 3.3    |
|                                                 | <b>8,469</b>   | <b>100.2</b>  | 8,195    | 101.0  |
| Uninsured                                       | 693            | 8.2           | 739      | 9.1    |
| Other                                           | 311            | 3.7           | 219      | 2.7    |
| Revenues before provision for doubtful accounts | <b>9,473</b>   | <b>112.1</b>  | 9,153    | 112.8  |
| Provision for doubtful accounts                 | <b>(1,023)</b> | <b>(12.1)</b> | (1,041)  | (12.8) |

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|          |          |        |          |        |
|----------|----------|--------|----------|--------|
| Revenues | \$ 8,450 | 100.0% | \$ 8,112 | 100.0% |
|----------|----------|--------|----------|--------|

**Table of Contents**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

**Results of Operations (continued)***Revenue/Volume Trends (continued)*

|                                                 | 2013             | Six Months    |       | 2012      | Ratio  |
|-------------------------------------------------|------------------|---------------|-------|-----------|--------|
|                                                 |                  |               | Ratio |           |        |
| Medicare                                        | \$ 4,114         | 24.4%         |       | \$ 4,302  | 26.0%  |
| Managed Medicare                                | 1,647            | 9.8           |       | 1,479     | 9.0    |
| Medicaid                                        | 697              | 4.1           |       | 810       | 4.9    |
| Managed Medicaid                                | 779              | 4.6           |       | 700       | 4.2    |
| Managed care and other insurers                 | 9,141            | 54.1          |       | 8,918     | 54.0   |
| International (managed care and other insurers) | 581              | 3.4           |       | 526       | 3.2    |
|                                                 | <b>16,959</b>    | <b>100.4</b>  |       | 16,735    | 101.3  |
| Uninsured                                       | 1,092            | 6.5           |       | 1,181     | 7.2    |
| Other                                           | 616              | 3.6           |       | 436       | 2.6    |
| Revenues before provision for doubtful accounts | 18,667           | 110.5         |       | 18,352    | 111.1  |
| Provision for doubtful accounts                 | (1,777)          | (10.5)        |       | (1,835)   | (11.1) |
| Revenues                                        | <b>\$ 16,890</b> | <b>100.0%</b> |       | \$ 16,517 | 100.0% |

The decline in Medicare revenues for the six months ended June 30, 2013 compared to the six months ended June 30, 2012 was primarily due to Medicare revenues for the six months ended June 30, 2012 being impacted by two adjustments to Medicare revenues (the Rural Floor Provision Settlement which increased revenues by approximately \$271 million and the implementation of revised Supplemental Security Income ratios which reduced revenues by approximately \$83 million). The net effect of these Medicare adjustments was an increase of \$188 million to revenues. The net effect of these adjustments (and related expenses) added \$170 million to income before income taxes, or \$0.22 per diluted share, for the six months ended June 30, 2012.

Consolidated and same facility revenue per equivalent admission increased 3.0% and 2.9%, respectively, in the second quarter of 2013, compared to the second quarter of 2012. Consolidated and same facility equivalent admissions each increased 1.1% in the second quarter of 2013, compared to the second quarter of 2012. Consolidated and same facility admissions increased 1.1% and 1.3%, respectively, in the second quarter of 2013, compared to the second quarter of 2012. Consolidated and same facility outpatient surgeries increased 1.1% and remained flat, respectively, in the second quarter of 2013, compared to the second quarter of 2012. Consolidated and same facility inpatient surgeries declined 0.2% and increased 0.2%, respectively, in the second quarter of 2013, compared to the second quarter of 2012. Consolidated and same facility emergency department visits increased 0.7% and 0.8%, respectively, in the second quarter of 2013, compared to the second quarter of 2012.

To quantify the total impact of and trends related to uninsured accounts, we believe it is beneficial to view the direct uninsured revenue deductions and provision for doubtful accounts in combination, rather than each separately. At June 30, 2013, our allowance for doubtful accounts represented approximately 93% of the \$5.356 billion total patient due accounts receivable balance. The patient due accounts receivable balance represents the estimated uninsured portion of our accounts receivable. A summary of these adjustments to revenues amounts, related to uninsured accounts, for the quarters and six months ended June 30, 2013 and 2012 follows (dollars in millions):

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|                                 | Quarter  |       |          |       | Six Months |       |          |       |
|---------------------------------|----------|-------|----------|-------|------------|-------|----------|-------|
|                                 | 2013     | Ratio | 2012     | Ratio | 2013       | Ratio | 2012     | Ratio |
| Charity care                    | \$ 797   | 21%   | \$ 733   | 21%   | \$ 1,702   | 23%   | \$ 1,531 | 23%   |
| Uninsured discounts             | 2,018    | 52    | 1,620    | 48    | 3,968      | 53    | 3,259    | 49    |
| Provision for doubtful accounts | 1,023    | 27    | 1,041    | 31    | 1,777      | 24    | 1,835    | 28    |
| Totals                          | \$ 3,838 | 100%  | \$ 3,394 | 100%  | \$ 7,447   | 100%  | \$ 6,625 | 100%  |

**Table of Contents**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

**Results of Operations (continued)***Revenue/Volume Trends (continued)*

Same facility uninsured admissions increased by 2,084 admissions, or 6.3%, in the second quarter of 2013, compared to the second quarter of 2012. Same facility uninsured admissions increased by 1,688 admissions, or 5.4%, in the first quarter of 2013, compared to the first quarter of 2012. Same facility uninsured admissions in 2012, compared to 2011, increased 11.0% in the fourth quarter of 2012, increased 7.3% in the third quarter of 2012, increased 8.9% in the second quarter of 2012 and increased 11.6% in the first quarter of 2012.

The approximate percentages of our admissions related to Medicare, managed Medicare, Medicaid, managed Medicaid, managed care and other insurers and the uninsured for the quarters and six months ended June 30, 2013 and 2012 are set forth in the following table.

|                                 | Quarter     |      | Six Months  |      |
|---------------------------------|-------------|------|-------------|------|
|                                 | 2013        | 2012 | 2013        | 2012 |
| Medicare                        | 32%         | 33%  | 33%         | 34%  |
| Managed Medicare                | 13          | 12   | 13          | 12   |
| Medicaid                        | 8           | 8    | 8           | 8    |
| Managed Medicaid                | 9           | 8    | 9           | 8    |
| Managed care and other insurers | 30          | 31   | 29          | 31   |
| Uninsured                       | 8           | 8    | 8           | 7    |
|                                 | <b>100%</b> | 100% | <b>100%</b> | 100% |

The approximate percentages of our inpatient revenues, before provision for doubtful accounts, related to Medicare, managed Medicare, Medicaid, managed Medicaid, managed care and other insurers and the uninsured for the quarters and six months ended June 30, 2013 and 2012 are set forth in the following table.

|                                 | Quarter     |      | Six Months  |      |
|---------------------------------|-------------|------|-------------|------|
|                                 | 2013        | 2012 | 2013        | 2012 |
| Medicare                        | 29%         | 29%  | 31%         | 31%  |
| Managed Medicare                | 10          | 10   | 11          | 10   |
| Medicaid                        | 6           | 6    | 5           | 6    |
| Managed Medicaid                | 4           | 4    | 4           | 4    |
| Managed care and other insurers | 46          | 45   | 46          | 45   |
| Uninsured                       | 5           | 6    | 3           | 4    |
|                                 | <b>100%</b> | 100% | <b>100%</b> | 100% |

At June 30, 2013, we had 74 hospitals in the states of Texas and Florida. During the second quarter of 2013, 55% of our admissions and 46% of our revenues were generated by these hospitals. Uninsured admissions in Texas and Florida represented 63% of our uninsured admissions during the second quarter of 2013.

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We receive a significant portion of our revenues from government health programs, principally Medicare and Medicaid, which are highly regulated and subject to frequent and substantial changes. We provide indigent care services in several communities in the state of Texas, in affiliation with other hospitals. The state of Texas has been involved in efforts to increase the indigent care provided by private hospitals. As a result of additional indigent care being provided by private hospitals, public hospital districts or counties in Texas have available funds that were previously devoted to indigent care. The public hospital districts or counties are under no contractual or legal obligation to provide such indigent care. The public hospital districts or counties have elected

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**Table of Contents****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)****Results of Operations (continued)***Revenue/Volume Trends (continued)*

to transfer some portion of these available funds to the state's Medicaid program. Such action is at the sole discretion of the public hospital districts or counties. It is anticipated that these contributions to the state will be matched with federal Medicaid funds. The state then may make supplemental payments to hospitals in the state for Medicaid services rendered. Hospitals receiving Medicaid supplemental payments may include those that are providing additional indigent care services. Our Texas Medicaid revenues included \$72 million and \$112 million during the second quarters of 2013 and 2012, respectively, and \$151 million and \$240 million during the first six months of 2013 and 2012, respectively, of Medicaid supplemental payments. In addition, we receive supplemental payments in several other states. We are aware these supplemental payment programs are currently being reviewed by certain state agencies and some states have made waiver requests to the Centers for Medicare and Medicaid Services (CMS) to replace their existing supplemental payment programs. It is possible these reviews and waiver requests will result in the restructuring of such supplemental payment programs and could result in the payment programs being reduced or eliminated. In 2011, CMS approved a Medicaid waiver that allows Texas to continue receiving supplemental Medicaid reimbursement while expanding its Medicaid managed care program, thus Texas is operating pursuant to a Waiver Program. However, we cannot predict whether the Texas private supplemental Medicaid reimbursement program will continue or guarantee that revenues recognized for the program will not decline. Because deliberations about these programs are ongoing, we are unable to estimate the financial impact the program structure modifications, if any, may have on our results of operations.

*Electronic Health Record Incentive Payments*

The American Recovery and Reinvestment Act of 2009 provides for Medicare and Medicaid incentive payments for eligible hospitals and professionals that adopt and meaningfully use certified EHR technology. We recognize income related to Medicare and Medicaid incentive payments using a gain contingency model that is based upon when our eligible hospitals have demonstrated meaningful use of certified EHR technology for the applicable period and the cost report information for the full cost report year that will determine the final calculation of the incentive payment is available.

We recognized \$52 million and \$70 million of electronic health record incentive income, primarily related to Medicare, during the second quarters of 2013 and 2012, respectively. We recognized \$91 million and \$125 million of electronic health record incentive income, primarily related to Medicare incentives, during the first six months of 2013 and 2012, respectively. At June 30, 2013, we have \$27 million of deferred EHR incentive income, which represents incentive payments received for which EHR incentive income has not been recognized.

We have incurred and will continue to incur both capital costs and operating expenses in order to implement our certified EHR technology and meet meaningful use requirements. These expenses are ongoing and are projected to continue over all stages of implementation of meaningful use. The timing of recognizing the expenses may not correlate with the receipt of the incentive payments and the recognition of revenues. We incurred \$33 million and \$20 million during the second quarters of 2013 and 2012, respectively, and \$59 million and \$37 million during the first six months of 2013 and 2012, respectively, of operating expenses to implement our certified EHR technology and meet meaningful use.

For 2013, we estimate EHR incentive income will be recognized in the range of \$200 million to \$225 million and that related EHR operating expenses will be in the range of \$120 million to \$140 million. Actual incentive payments and EHR operating expenses could vary from these estimates due to certain factors such as availability of federal funding for both Medicare and Medicaid incentive payments and our ability to continue to demonstrate meaningful use of certified EHR technology. The failure of our ability to continue to demonstrate meaningful use of EHR technology could have a material, adverse effect on our results of operations.





**Table of Contents**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

**Results of Operations (continued)***Operating Results Summary*

The following is a comparative summary of results from operations for the quarters and six months ended June 30, 2013 and 2012 (dollars in millions):

|                                                      | Quarter       |              |          |       |
|------------------------------------------------------|---------------|--------------|----------|-------|
|                                                      | 2013          | Ratio        | 2012     | Ratio |
|                                                      | Amount        |              | Amount   |       |
| Revenues before provision for doubtful accounts      | \$ 9,473      |              | \$ 9,153 |       |
| Provision for doubtful accounts                      | 1,023         |              | 1,041    |       |
| <b>Revenues</b>                                      | <b>8,450</b>  | <b>100.0</b> | 8,112    | 100.0 |
| Salaries and benefits                                | 3,848         | 45.5         | 3,707    | 45.7  |
| Supplies                                             | 1,470         | 17.4         | 1,422    | 17.5  |
| Other operating expenses                             | 1,507         | 17.8         | 1,493    | 18.5  |
| Electronic health record incentive income            | (52)          | (0.6)        | (70)     | (0.9) |
| Equity in earnings of affiliates                     | (12)          | (0.1)        | (9)      | (0.1) |
| Depreciation and amortization                        | 425           | 5.1          | 420      | 5.2   |
| Interest expense                                     | 462           | 5.5          | 448      | 5.5   |
| Losses (gains) on sales of facilities                | (4)           | (0.1)        | 2        |       |
|                                                      | <b>7,644</b>  | <b>90.5</b>  | 7,413    | 91.4  |
| <b>Income before income taxes</b>                    | <b>806</b>    | <b>9.5</b>   | 699      | 8.6   |
| Provision for income taxes                           | 269           | 3.2          | 214      | 2.6   |
| <b>Net income</b>                                    | <b>537</b>    | <b>6.3</b>   | 485      | 6.0   |
| Net income attributable to noncontrolling interests  | 114           | 1.3          | 94       | 1.2   |
| <b>Net income attributable to HCA Holdings, Inc.</b> | <b>\$ 423</b> | <b>5.0</b>   | \$ 391   | 4.8   |
| <i>% changes from prior year:</i>                    |               |              |          |       |
| Revenues                                             | 4.2%          |              | 11.9%    |       |
| Income before income taxes                           | 15.1          |              | 49.6     |       |
| Net income attributable to HCA Holdings, Inc.        | 8.1           |              | 70.3     |       |
| Admissions(a)                                        | 1.1           |              | 7.7      |       |
| Equivalent admissions(b)                             | 1.1           |              | 9.7      |       |
| Revenue per equivalent admission                     | 3.0           |              | 2.0      |       |
| <i>Same facility % changes from prior year(c):</i>   |               |              |          |       |
| Revenues                                             | 4.0           |              | 3.8      |       |
| Admissions(a)                                        | 1.3           |              | 2.5      |       |
| Equivalent admissions(b)                             | 1.1           |              | 3.9      |       |
| Revenue per equivalent admission                     | 2.9           |              | (0.1)    |       |



**Table of Contents**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

**Results of Operations (continued)***Operating Results Summary (continued)*

|                                                     | 2013          |              | Six Months |       | 2012   |       |
|-----------------------------------------------------|---------------|--------------|------------|-------|--------|-------|
|                                                     | Amount        | Ratio        | Amount     | Ratio | Amount | Ratio |
| Revenues before provision for doubtful accounts     | \$ 18,667     |              | \$ 18,352  |       |        |       |
| Provision for doubtful accounts                     | 1,777         |              | 1,835      |       |        |       |
| <b>Revenues</b>                                     | <b>16,890</b> | <b>100.0</b> | 16,517     | 100.0 |        |       |
| Salaries and benefits                               | 7,765         | 46.0         | 7,443      | 45.1  |        |       |
| Supplies                                            | 2,949         | 17.5         | 2,841      | 17.2  |        |       |
| Other operating expenses                            | 3,030         | 17.8         | 2,986      | 18.1  |        |       |
| Electronic health record incentive income           | (91)          | (0.5)        | (125)      | (0.8) |        |       |
| Equity in earnings of affiliates                    | (20)          | (0.1)        | (20)       | (0.1) |        |       |
| Depreciation and amortization                       | 849           | 5.0          | 837        | 5.0   |        |       |
| Interest expense                                    | 934           | 5.5          | 890        | 5.4   |        |       |
| Losses on sales of facilities                       | 12            | 0.1          | 3          |       |        |       |
| Loss on retirement of debt                          | 17            | 0.1          |            |       |        |       |
|                                                     | <b>15,445</b> | <b>91.4</b>  | 14,855     | 89.9  |        |       |
| Income before income taxes                          | 1,445         | 8.6          | 1,662      | 10.1  |        |       |
| Provision for income taxes                          | 470           | 2.8          | 538        | 3.3   |        |       |
| Net income                                          | 975           | 5.8          | 1,124      | 6.8   |        |       |
| Net income attributable to noncontrolling interests | 208           | 1.3          | 193        | 1.2   |        |       |
| Net income attributable to HCA Holdings, Inc.       | \$ 767        | 4.5          | \$ 931     | 5.6   |        |       |
| <b>% changes from prior year:</b>                   |               |              |            |       |        |       |
| Revenues                                            | 2.3%          |              | 12.7%      |       |        |       |
| Income before income taxes                          | (13.1)        |              | 68.9       |       |        |       |
| Net income attributable to HCA Holdings, Inc.       | (17.7)        |              | 98.4       |       |        |       |
| Admissions(a)                                       | 0.6           |              | 8.3        |       |        |       |
| Equivalent admissions(b)                            | 0.3           |              | 10.5       |       |        |       |
| Revenue per equivalent admission                    | 1.9           |              | 2.0        |       |        |       |
| <b>Same facility % changes from prior year(c):</b>  |               |              |            |       |        |       |
| Revenues                                            | 2.0           |              | 4.5        |       |        |       |
| Admissions(a)                                       | 0.7           |              | 2.9        |       |        |       |
| Equivalent admissions(b)                            | 0.2           |              | 4.4        |       |        |       |
| Revenue per equivalent admission                    | 1.8           |              | 0.1        |       |        |       |

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- (a) Represents the total number of patients admitted to our hospitals and is used by management and certain investors as a general measure of inpatient volume.
- (b) Equivalent admissions are used by management and certain investors as a general measure of combined inpatient and outpatient volume. Equivalent admissions are computed by multiplying admissions (inpatient volume) by the sum of gross inpatient revenues and gross outpatient revenues and then dividing the resulting amount by gross inpatient revenues. The equivalent admissions computation equates outpatient revenues to the volume measure (admissions) used to measure inpatient volume, resulting in a general measure of combined inpatient and outpatient volume.
- (c) Same facility information excludes the operations of hospitals and their related facilities which were either acquired or divested during the current and prior period.

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**Table of Contents**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

**Results of Operations (continued)**

*Quarters Ended June 30, 2013 and 2012*

Net income attributable to HCA Holdings, Inc. totaled \$423 million, or \$0.91 per diluted share, for the second quarter of 2013 compared to \$391 million, or \$0.85 per diluted share, for the second quarter of 2012. Shares used for diluted earnings per share were 463.2 million shares and 458.6 million shares for the quarters ended June 30, 2013 and 2012, respectively.

For the second quarter of 2013, consolidated and same facility admissions increased 1.1% and 1.3%, respectively, compared to the second quarter of 2012. Consolidated and same facility outpatient surgical volumes increased 1.1% and remained flat, respectively, during the second quarter of 2013, compared to the second quarter of 2012. Consolidated and same facility inpatient surgeries declined 0.2% and increased 0.2%, respectively, in the second quarter of 2013, compared to the second quarter of 2012. Consolidated and same facility emergency department visits increased 0.7% and 0.8%, respectively, during the quarter ended June 30, 2013, compared to the quarter ended June 30, 2012.

Revenues before provision for doubtful accounts increased 3.5% for the second quarter of 2013 compared to the second quarter of 2012. Provision for doubtful accounts declined \$18 million from \$1.041 billion in the second quarter of 2012 to \$1.023 billion in the second quarter of 2013. The provision for doubtful accounts relates primarily to uninsured amounts due directly from patients, including copayment and deductible amounts for patients who have health care coverage. The self-pay revenue deductions for charity care and uninsured discounts increased \$64 million and \$398 million, respectively, during the second quarter of 2013, compared to the second quarter of 2012. The sum of the provision for doubtful accounts, uninsured discounts and charity care, as a percentage of the sum of revenues, the provision for doubtful accounts, uninsured discounts and charity care, was 31.2% for the second quarter of 2013, compared to 29.5% for the second quarter of 2012. At June 30, 2013, our allowance for doubtful accounts represented approximately 93% of the \$5.356 billion total patient due accounts receivable balance, including accounts, net of estimated contractual discounts, related to patients for which eligibility for Medicaid coverage or uninsured discounts was being evaluated.

Revenues increased 4.2% primarily due to the combined impact of revenue per equivalent admission growth of 3.0% and a 1.1% increase in equivalent admissions for the second quarter of 2013 compared to the second quarter of 2012. Same facility revenues increased 4.0% due to the combined impact of a 2.9% increase in same facility revenue per equivalent admission and a 1.1% increase in same facility equivalent admissions for the second quarter of 2013 compared to the second quarter of 2012.

Salaries and benefits, as a percentage of revenues, were 45.5% in the second quarter of 2013 and 45.7% in the second quarter of 2012. Salaries and benefits per equivalent admission increased 2.7% in the second quarter of 2013 compared to the second quarter of 2012. Same facility labor rate increases averaged 1.5% for the second quarter of 2013 compared to the second quarter of 2012.

Supplies, as a percentage of revenues, were 17.4% in the second quarter of 2013 and 17.5% in the second quarter of 2012. Supply cost per equivalent admission increased 2.3% in the second quarter of 2013 compared to the second quarter of 2012. Supply costs per equivalent admission increased 4.5% for medical devices and 4.0% for general medical and surgical items and declined 3.3% for pharmacy supplies in the second quarter of 2013 compared to the second quarter of 2012.

Other operating expenses, as a percentage of revenues, declined to 17.8% in the second quarter of 2013 from 18.5% in the second quarter of 2012. Other operating expenses is primarily comprised of contract services,

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**Table of Contents**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

**Results of Operations (continued)**

*Quarters Ended June 30, 2013 and 2012 (continued)*

professional fees, repairs and maintenance, rents and leases, utilities, insurance (including professional liability insurance) and nonincome taxes. Other operating expenses include \$19 million and \$71 million of indigent care costs in certain Texas markets during the second quarters of 2013 and 2012, respectively. Provisions for losses related to professional liability risks were \$79 million and \$77 million for the second quarters of 2013 and 2012, respectively.

We recognized \$52 million and \$70 million of electronic health record incentive income primarily related to Medicare incentives during the second quarters of 2013 and 2012, respectively.

Equity in earnings of affiliates was \$12 million and \$9 million in the second quarters of 2013 and 2012, respectively.

Depreciation and amortization increased \$5 million, from \$420 million in the second quarter of 2012 to \$425 million in the second quarter of 2013.

Interest expense increased from \$448 million in the second quarter of 2012 to \$462 million in the second quarter of 2013. The increase in interest expense was due to increases in the average debt balance. Our average debt balance was \$28.430 billion for the second quarter of 2013 compared to \$27.541 billion for the second quarter of 2012. The average effective interest rate for our long term debt was 6.5% for both of the quarters ended June 30, 2013 and 2012.

During the second quarters of 2013 and 2012, we recorded net gains on sales of facilities of \$4 million and net losses on sales of facilities of \$2 million, respectively.

The effective tax rates were 38.9% and 35.5% for the second quarters of 2013 and 2012, respectively. The effective tax rate computations exclude net income attributable to noncontrolling interests as it relates to consolidated partnerships. Our provision for income taxes for the second quarter of 2012 was reduced by \$11 million related to a reduction in interest expense related to taxing authority examinations. Excluding the effect of this adjustment, the effective tax rate for the second quarter of 2012 would have been 37.4%.

Net income attributable to noncontrolling interests increased from \$94 million for the second quarter of 2012 to \$114 million for the second quarter of 2013. The increase in net income attributable to noncontrolling interests related primarily to growth in operating results of hospital joint ventures in two Texas markets.

*Six Months Ended June 30, 2013 and 2012*

Net income attributable to HCA Holdings, Inc. totaled \$767 million, or \$1.66 per diluted share, in the six months ended June 30, 2013 compared to \$931 million, or \$2.03 per diluted share, in the six months ended June 30, 2012. The first six months of 2013 results include net losses on sales of facilities of \$12 million, or \$0.02 per diluted share, and a loss on retirement of debt of \$17 million, or \$0.02 per diluted share. The first six months of 2012 results include two Medicare revenue adjustments (and related expenses) that added \$170 million to income before income taxes, or \$0.22 per diluted share. All per diluted share disclosures are based upon amounts net of the applicable income taxes. Shares used for diluted earnings per share were 462.8 million shares and 458.5 million shares for the six months ended June 30, 2013 and 2012, respectively.

For the first six months of 2013, consolidated and same facility admissions increased 0.6% and 0.7%, respectively, compared to the first six months of 2012. Consolidated and same facility outpatient surgical





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**Table of Contents****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)****Results of Operations (continued)**

*Six Months Ended June 30, 2013 and 2012 (continued)*

volumes declined 0.9% and 2.1%, respectively, during the first six months of 2013, compared to the first six months of 2012. Consolidated and same facility inpatient surgeries declined 1.5% and 1.3%, respectively, in the first six months of 2013, compared to the first six months of 2012. Consolidated and same facility emergency department visits increased 2.1% and 2.3%, respectively, during the six months ended June 30, 2013, compared to the six months ended June 30, 2012.

Revenues before provision for doubtful accounts increased 1.7% for the first six months of 2013 compared to the first six months of 2012. Provision for doubtful accounts declined \$58 million from \$1.835 billion in the first six months of 2012 to \$1.777 billion in the first six months of 2013. The provision for doubtful accounts relates primarily to uninsured amounts due directly from patients, including copayment and deductible amounts for patients who have health care coverage. The self-pay revenue deductions for charity care and uninsured discounts increased \$171 million and \$709 million, respectively, during the first six months of 2013, compared to the first six months of 2012. The sum of the provision for doubtful accounts, uninsured discounts and charity care, as a percentage of the sum of revenues, the provision for doubtful accounts, uninsured discounts and charity care, was 30.6% for the first six months of 2013, compared to 28.6% for the first six months of 2012. At June 30, 2013, our allowance for doubtful accounts represented approximately 93% of the \$5.356 billion total patient due accounts receivable balance, including accounts, net of estimated contractual discounts, related to patients for which eligibility for Medicaid coverage or uninsured discounts was being evaluated.

Revenues increased 2.3% due to the combined impact of revenue per equivalent admission growth of 1.9% and an increase of 0.3% in equivalent admissions for the first six months of 2013 compared to the first six months of 2012. Same facility revenues increased 2.0% due to the combined impact of a 1.8% increase in same facility revenue per equivalent admission and a 0.2% increase in same facility equivalent admissions for the first six months of 2013 compared to the first six months of 2012.

Salaries and benefits, as a percentage of revenues, were 46.0% in the first six months of 2013 and 45.1% in the first six months of 2012. Salaries and benefits per equivalent admission increased 4.0% in the first six months of 2013 compared to the first six months of 2012. Same facility labor rate increases averaged 1.8% for the first six months of 2013 compared to the first six months of 2012.

Supplies, as a percentage of revenues, were 17.5% in the first six months of 2013 and 17.2% in the first six months of 2012. Supply cost per equivalent admission increased 3.5% in the first six months of 2013 compared to the first six months of 2012. Supply costs per equivalent admission increased 4.8% for medical devices and 5.4% for general medical and surgical items and declined 1.1% for pharmacy supplies in the first six months of 2013 compared to the first six months of 2012.

Other operating expenses, as a percentage of revenues, declined to 17.8% in the first six months of 2013 from 18.1% in the first six months of 2012. Other operating expenses is primarily comprised of contract services, professional fees, repairs and maintenance, rents and leases, utilities, insurance (including professional liability insurance) and nonincome taxes. Other operating expenses include \$69 million and \$151 million of indigent care costs in certain Texas markets during the first six months of 2013 and 2012, respectively. Provisions for losses related to professional liability risks were \$159 million and \$171 million for the first six months of 2013 and 2012, respectively.

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**Table of Contents**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

**Results of Operations (continued)**

*Six Months Ended June 30, 2013 and 2012 (continued)*

We recognized \$91 million and \$125 million of electronic health record incentive income primarily related to Medicare incentives during the first six months of 2013 and 2012, respectively.

Equity in earnings of affiliates was \$20 million in each of the first six months of 2013 and 2012.

Depreciation and amortization increased \$12 million, from \$837 million in the first six months of 2012 to \$849 million in the first six months of 2013.

Interest expense increased from \$890 million in the first six months of 2012 to \$934 million in the first six months of 2013 which was primarily due to an increase in the average debt balance. Our average debt balance was \$28.478 billion for the first six months of 2013 compared to \$27.487 billion for the first six months of 2012. The average effective interest rate for our long term debt increased from 6.5% for the six months ended June 30, 2012 to 6.6% for the six months ended June 30, 2013.

During the first six months of 2013 and 2012, we recorded net losses on sales of facilities of \$12 million and \$3 million, respectively.

During March 2013, we redeemed all \$201 million aggregate principal amount of our 9<sup>7</sup>/<sub>8</sub>% senior secured second lien notes due 2017, at a redemption price of 104.938% of the principal amount. The pretax loss on retirement of debt related to this redemption was \$17 million.

The effective tax rates were 38.0% and 36.6% for the first six months of 2013 and 2012, respectively. The effective tax rate computations exclude net income attributable to noncontrolling interests as it relates to consolidated partnerships. Our provision for income taxes for the first six months of 2012 was reduced by \$13 million related to a reduction in interest expense related to taxing authority examinations. Excluding the effect of this adjustment, the effective tax rate for the first six months of 2012 would have been 37.5%.

Net income attributable to noncontrolling interests increased from \$193 million for the first six months of 2012 to \$208 million for the first six months of 2013. The increase in net income attributable to noncontrolling interests related primarily to growth in operating results of hospital joint ventures in two Texas markets.

**Liquidity and Capital Resources**

Cash provided by operating activities totaled \$1.554 billion in the first six months of 2013 compared to \$2.257 billion in the first six months of 2012. The \$703 million decline in cash provided by operating activities in the first six months of 2013 compared to the first six months of 2012 related primarily to the combined impact of the decline in net income of \$149 million, a negative impact from changes in working capital items of \$466 million and an increase of \$85 million in income tax payments. The combined interest payments and net tax payments in the first six months of 2013 and 2012 were \$1.135 billion and \$995 million, respectively. Working capital totaled \$1.771 billion at June 30, 2013 and \$1.591 billion at December 31, 2012.

Cash used in investing activities was \$790 million in the first six months of 2013 compared to \$886 million in the first six months of 2012. Excluding acquisitions, capital expenditures were \$896 million in the first six months of 2013 and \$784 million in the first six months of 2012. We expended \$23 million to acquire nonhospital health care facilities during the first six months of 2013. We expended \$58 million for the acquisition of a hospital facility and \$81 million to acquire nonhospital health care facilities during the first six months of



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**Table of Contents**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

**Liquidity and Capital Resources (continued)**

2012. Capital expenditures are expected to approximate \$2.0 billion in 2013. At June 30, 2013, there were projects under construction which had estimated additional costs to complete and equip over the next five years of approximately \$1.73 billion. We expect to finance capital expenditures with internally generated and borrowed funds. We received \$31 million and \$6 million from sales of health care entities during the first six months of 2013 and 2012, respectively. We received net cash flows from our investments of \$102 million and \$35 million in the first six months of 2013 and 2012, respectively.

Cash used in financing activities totaled \$1.007 billion during the first six months of 2013 compared to \$1.226 billion during the first six months of 2012. During the first six months of 2013, net cash flows used in financing activities included net debt repayments of \$788 million, distributions to noncontrolling interests of \$196 million, distributions to stockholders of \$10 million, payments of debt issuance costs of \$5 million and receipts of \$61 million of income tax benefits for certain items (primarily related to employee exercises of stock options). During the first six months of 2012, net cash flows used in financing activities included net debt repayments of \$78 million, distributions to noncontrolling interests of \$191 million, distributions to stockholders of \$982 million, payments of debt issuance costs of \$19 million and receipts of \$71 million of income tax benefits for certain items (primarily distributions to holders of our stock options).

We are a highly leveraged company with significant debt service requirements. Our debt totaled \$28.200 billion at June 30, 2013. Our interest expense was \$934 million for the first six months of 2013 and \$890 million for the first six months of 2012.

In addition to cash flows from operations, available sources of capital include amounts available under our senior secured credit facilities (\$2.985 billion and \$2.645 billion available as of June 30, 2013 and July 31, 2013, respectively) and anticipated access to public and private debt markets.

During March 2013, we redeemed all \$201 million aggregate principal amount of our 9<sup>7</sup>/<sub>8</sub>% senior secured second lien notes due 2017, at a redemption price of 104.938% of the principal amount. The pretax loss on retirement of debt related to this redemption was \$17 million.

Investments of our professional liability insurance subsidiaries, to maintain statutory equity and pay claims, totaled \$471 million and \$570 million at June 30, 2013 and December 31, 2012, respectively. An insurance subsidiary maintained net reserves for professional liability risks of \$307 million and \$352 million at June 30, 2013 and December 31, 2012, respectively. Our facilities are insured by a wholly-owned insurance subsidiary for losses up to \$50 million per occurrence; however, this coverage is subject to a \$5 million per occurrence self-insured retention. Net reserves for the self-insured professional liability risks retained were \$955 million and \$896 million at June 30, 2013 and December 31, 2012, respectively. Claims payments, net of reinsurance recoveries, during the next 12 months are expected to approximate \$319 million. We estimate that approximately \$253 million of the expected net claim payments during the next 12 months will relate to claims subject to the self-insured retention.

Management believes that cash flows from operations, amounts available under our senior secured credit facilities and our anticipated access to public and private debt markets will be sufficient to meet expected liquidity needs during the next 12 months.

*Market Risk*

We are exposed to market risk related to changes in market values of securities. The investments in debt and equity securities of our wholly-owned insurance subsidiaries were \$468 million and \$3 million, respectively, at

**Table of Contents**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

**Liquidity and Capital Resources (continued)**

*Market Risk (continued)*

June 30, 2013. These investments are carried at fair value, with changes in unrealized gains and losses being recorded as adjustments to other comprehensive income. At June 30, 2013, we had a net unrealized gain of \$9 million on the insurance subsidiaries' investment securities.

We are exposed to market risk related to market illiquidity. Investments in debt and equity securities of our wholly-owned insurance subsidiaries could be impaired by the inability to access the capital markets. Should the wholly-owned insurance subsidiaries require significant amounts of cash in excess of normal cash requirements to pay claims and other expenses on short notice, we may have difficulty selling these investments in a timely manner or be forced to sell them at a price less than what we might otherwise have been able to in a normal market environment. At June 30, 2013, our wholly-owned insurance subsidiaries had invested \$45 million (\$47 million par value) in tax-exempt student loan auction rate securities that continue to experience market illiquidity. We may be required to recognize other-than-temporary impairments on our investment securities in future periods should issuers default on interest payments or should the fair market valuations of the securities deteriorate due to ratings downgrades or other issue specific factors.

We are also exposed to market risk related to changes in interest rates, and we periodically enter into interest rate swap agreements to manage our exposure to these fluctuations. Our interest rate swap agreements involve the exchange of fixed and variable rate interest payments between two parties, based on common notional principal amounts and maturity dates. The notional amounts of the swap agreements represent balances used to calculate the exchange of cash flows and are not our assets or liabilities. Our credit risk related to these agreements is considered low because the swap agreements are with creditworthy financial institutions. The interest payments under these agreements are settled on a net basis. These derivatives have been recognized in the financial statements at their respective fair values. Changes in the fair value of these derivatives, which are designated as cash flow hedges, are included in other comprehensive income, and changes in the fair value of derivatives which have not been designated as hedges are recorded in operations.

With respect to our interest-bearing liabilities, approximately \$2.890 billion of long-term debt at June 30, 2013 was subject to variable rates of interest, while the remaining balance in long-term debt of \$25.310 billion at June 30, 2013 was subject to fixed rates of interest. Both the general level of interest rates and, for the senior secured credit facilities, our leverage affect our variable interest rates. Our variable debt is comprised primarily of amounts outstanding under the senior secured credit facilities. Borrowings under the senior secured credit facilities bear interest at a rate equal to an applicable margin plus, at our option, either (a) a base rate determined by reference to the higher of (1) the federal funds rate plus 0.50% and (2) the prime rate of Bank of America or (b) a LIBOR rate for the currency of such borrowing for the relevant interest period. The applicable margin for borrowings under the senior secured credit facilities may fluctuate according to a leverage ratio. The average effective interest rate for our long-term debt increased from 6.5% for the six months ended June 30, 2012 to 6.6% for the six months ended June 30, 2013.

The estimated fair value of our total long-term debt was \$28.061 billion at June 30, 2013. The estimates of fair value are based upon the quoted market prices for the same or similar issues of long-term debt with the same maturities. Based on a hypothetical 1% increase in interest rates, the potential annualized reduction to future pretax earnings would be approximately \$29 million. To mitigate the impact of fluctuations in interest rates, we generally target a portion of our debt portfolio to be maintained at fixed rates.

Our international operations and the European term loan expose us to market risks associated with foreign currencies. In order to mitigate the currency exposure related to debt service obligations under the European term

**Table of Contents**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

**Liquidity and Capital Resources (continued)**

*Market Risk (continued)*

loan, we have entered into a cross currency swap agreement. A cross currency swap is an agreement between two parties to exchange a stream of principal and interest payments in one currency for a stream of principal and interest payments in another currency over a specified period. Our credit risk related to this agreement is considered low because the swap agreement is with a creditworthy financial institution.

**IRS Examinations**

We expect the IRS Examination Division will begin an audit of HCA Holdings, Inc.'s 2010 and 2011 federal income tax returns in 2013.

Management believes HCA Holdings, Inc. and its affiliates properly reported taxable income and paid taxes in accordance with applicable laws and agreements established with the IRS and final resolution of any disputes will not have a material, adverse effect on our results of operations or financial position. However, if payments due upon final resolution of any issues exceed our recorded estimates, such resolutions could have a material, adverse effect on our results of operations or financial position.

**Table of Contents**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

**Operating Data**

|                                                                     | 2013    | 2012      |
|---------------------------------------------------------------------|---------|-----------|
| Number of hospitals in operation at:                                |         |           |
| March 31                                                            | 162     | 164       |
| June 30                                                             | 161     | 163       |
| September 30                                                        |         | 162       |
| December 31                                                         |         | 162       |
| Number of freestanding outpatient surgical centers in operation at: |         |           |
| March 31                                                            | 113     | 109       |
| June 30                                                             | 114     | 110       |
| September 30                                                        |         | 112       |
| December 31                                                         |         | 112       |
| Licensed hospital beds at(a):                                       |         |           |
| March 31                                                            | 41,891  | 41,815    |
| June 30                                                             | 41,792  | 41,817    |
| September 30                                                        |         | 41,884    |
| December 31                                                         |         | 41,804    |
| Weighted average licensed beds(b):                                  |         |           |
| Quarter:                                                            |         |           |
| First                                                               | 41,867  | 41,740    |
| Second                                                              | 41,842  | 41,789    |
| Third                                                               |         | 41,873    |
| Fourth                                                              |         | 41,777    |
| Year                                                                |         | 41,795    |
| Average daily census(c):                                            |         |           |
| Quarter:                                                            |         |           |
| First                                                               | 24,147  | 23,284    |
| Second                                                              | 22,523  | 22,113    |
| Third                                                               |         | 22,122    |
| Fourth                                                              |         | 22,567    |
| Year                                                                |         | 22,521    |
| Admissions(d):                                                      |         |           |
| Quarter:                                                            |         |           |
| First                                                               | 444,200 | 443,300   |
| Second                                                              | 433,000 | 428,200   |
| Third                                                               |         | 430,500   |
| Fourth                                                              |         | 438,700   |
| Year                                                                |         | 1,740,700 |
| Equivalent admissions(e):                                           |         |           |
| Quarter:                                                            |         |           |
| First                                                               | 708,000 | 711,100   |
| Second                                                              | 708,700 | 700,800   |
| Third                                                               |         | 705,200   |
| Fourth                                                              |         | 715,000   |
| Year                                                                |         | 2,832,100 |

**Table of Contents**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

**Operating Data (continued)**

|                                                    | 2013      | 2012      |
|----------------------------------------------------|-----------|-----------|
| Average length of stay (days)(f):                  |           |           |
| Quarter:                                           |           |           |
| First                                              | 4.9       | 4.8       |
| Second                                             | 4.7       | 4.7       |
| Third                                              |           | 4.7       |
| Fourth                                             |           | 4.7       |
| Year                                               |           | 4.7       |
| Emergency room visits(g):                          |           |           |
| Quarter:                                           |           |           |
| First                                              | 1,749,300 | 1,688,400 |
| Second                                             | 1,726,400 | 1,714,200 |
| Third                                              |           | 1,724,000 |
| Fourth                                             |           | 1,785,400 |
| Year                                               |           | 6,912,000 |
| Outpatient surgeries(h):                           |           |           |
| Quarter:                                           |           |           |
| First                                              | 211,100   | 217,500   |
| Second                                             | 222,200   | 219,800   |
| Third                                              |           | 212,300   |
| Fourth                                             |           | 224,000   |
| Year                                               |           | 873,600   |
| Inpatient surgeries(i):                            |           |           |
| Quarter:                                           |           |           |
| First                                              | 124,700   | 128,300   |
| Second                                             | 126,500   | 126,700   |
| Third                                              |           | 124,700   |
| Fourth                                             |           | 126,800   |
| Year                                               |           | 506,500   |
| Days revenues in accounts receivable(j):           |           |           |
| Quarter:                                           |           |           |
| First                                              | 52        | 53        |
| Second                                             | 53        | 50        |
| Third                                              |           | 52        |
| Fourth                                             |           | 51        |
| Year                                               |           | 52        |
| Gross patient revenues(k) (dollars in millions):   |           |           |
| Quarter:                                           |           |           |
| First                                              | \$ 44,791 | \$ 41,377 |
| Second                                             | 44,203    | 40,327    |
| Third                                              |           | 40,125    |
| Fourth                                             |           | 43,785    |
| Year                                               |           | 165,614   |
| Outpatient revenues as a % of patient revenues(l): |           |           |
| Quarter:                                           |           |           |
| First                                              | 37%       | 37%       |
| Second                                             | 38%       | 39%       |



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|        |     |
|--------|-----|
| Third  | 38% |
| Fourth | 39% |
| Year   | 38% |

**Table of Contents**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

**Operating Data (continued)**

**BALANCE SHEET DATA**

|                                                 | % of Accounts Receivable |               |               |
|-------------------------------------------------|--------------------------|---------------|---------------|
|                                                 | Under 91 Days            | 91 - 180 Days | Over 180 Days |
| Accounts receivable aging at June 30, 2013 (m): |                          |               |               |
| Medicare and Medicaid                           | 13%                      | 1%            | 2%            |
| Managed care and other discounted               | 21                       | 4             | 5             |
| Uninsured                                       | 18                       | 9             | 27            |
| <b>Total</b>                                    | <b>52%</b>               | <b>14%</b>    | <b>34%</b>    |

- (a) Licensed beds are those beds for which a facility has been granted approval to operate from the applicable state licensing agency.
- (b) Represents the average number of licensed beds, weighted based on periods owned.
- (c) Represents the average number of patients in our hospital beds each day.
- (d) Represents the total number of patients admitted to our hospitals and is used by management and certain investors as a general measure of inpatient volume.
- (e) Equivalent admissions are used by management and certain investors as a general measure of combined inpatient and outpatient volume. Equivalent admissions are computed by multiplying admissions (inpatient volume) by the sum of gross inpatient revenues and gross outpatient revenues and then dividing the resulting amount by gross inpatient revenues. The equivalent admissions computation equates outpatient revenues to the volume measure (admissions) used to measure inpatient volume resulting in a general measure of combined inpatient and outpatient volume.
- (f) Represents the average number of days admitted patients stay in our hospitals.
- (g) Represents the number of patients treated in our emergency rooms.
- (h) Represents the number of surgeries performed on patients who were not admitted to our hospitals. Pain management and endoscopy procedures are not included in outpatient surgeries.
- (i) Represents the number of surgeries performed on patients who have been admitted to our hospitals. Pain management and endoscopy procedures are not included in inpatient surgeries.
- (j) Revenues per day is calculated by dividing the revenues for the period by the days in the period. Days revenues in accounts receivable is then calculated as accounts receivable, net of allowance for doubtful accounts, at the end of the period divided by the revenues per day.
- (k) Gross patient revenues are based upon our standard charge listing. Gross charges/revenues typically do not reflect what our hospital facilities are paid. Gross charges/revenues are reduced by contractual adjustments, discounts and charity care to determine reported revenues.
- (l) Represents the percentage of patient revenues related to patients who are not admitted to our hospitals.
- (m) Accounts receivable aging data is based upon consolidated gross accounts receivable of \$9.880 billion (each 1% is equivalent to approximately \$99 million of gross accounts receivable).

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**Table of Contents**

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The information called for by this item is provided under the caption "Market Risk" under Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

HCA's chief executive officer and chief financial officer have reviewed and evaluated the effectiveness of HCA's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934 (the "Exchange Act")) as of the end of the period covered by this quarterly report. Based on that evaluation, the chief executive officer and chief financial officer have concluded HCA's disclosure controls and procedures were effective.

**Changes in Internal Control Over Financial Reporting**

During the period covered by this report, there have been no changes in our internal control over financial reporting that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

We operate in a highly regulated and litigious industry. As a result, various lawsuits, claims and legal and regulatory proceedings have been and can be expected to be instituted or asserted against us. The resolution of any such lawsuits, claims or legal and regulatory proceedings could materially and adversely affect our results of operations and financial position in a given period.

*Government Investigations, Claims and Litigation*

Health care companies are subject to numerous investigations by various governmental agencies. Further, under the federal False Claims Act ("FCA"), private parties have the right to bring *qui tam*, or "whistleblower," suits against companies that submit false claims for payments to, or improperly retain overpayments from, the government. Some states have adopted similar state whistleblower and false claims provisions. Certain of our individual facilities have received, and from time to time, other facilities may receive, government inquiries from, and may be subject to investigation by, federal and state agencies. Depending on whether the underlying conduct in these or future inquiries or investigations could be considered systemic, their resolution could have a material, adverse effect on our financial position, results of operations and liquidity.

As initially disclosed in 2010, the DOJ has contacted the Company in connection with its nationwide review of whether, in certain cases, hospital charges to the federal government relating to implantable cardio-defibrillators ("ICDs") met the CMS criteria. In connection with this nationwide review, the DOJ has indicated that it will be reviewing certain ICD billing and medical records at 95 HCA hospitals; the review covers the period from October 2003 to the present. In August 2012, HCA, along with non-HCA hospitals across the country subject to the DOJ's review, received from the DOJ a proposed framework for resolving the DOJ's review of ICDs. The Company is cooperating in the review. The review could potentially give rise to claims against the Company under the federal FCA or other statutes, regulations or laws. At this time, we cannot predict what effect, if any, this review or any resulting claims could have on the Company.

In July 2012, the Civil Division of the U.S. Attorney's Office in Miami requested information on reviews assessing the medical necessity of interventional cardiology services provided at any Company facility (other

**Table of Contents**

than peer reviews). The Company is cooperating with the government's request and is currently producing medical records associated with particular reviews at eight hospitals, located primarily in Florida. At this time, we cannot predict what effect, if any, the request or any resulting claims, including any potential claims under the federal FCA, other statutes, regulations or laws, could have on the Company.

*New Hampshire Hospital Litigation*

In 2006, the Foundation for Seacoast Health (the "Foundation") filed suit against HCA in state court in New Hampshire. The Foundation alleged that both the 2006 recapitalization transaction and a prior 1999 intra-corporate transaction violated a 1983 agreement that placed certain restrictions on transfers of the Portsmouth Regional Hospital. In May 2007, the trial court ruled against the Foundation on all its claims. On appeal, the New Hampshire Supreme Court affirmed the ruling on the 2006 recapitalization, but remanded to the trial court the claims based on the 1999 intra-corporate transaction. The trial court ruled in December 2009 that the 1999 intra-corporate transaction breached the transfer restriction provisions of the 1983 agreement. In September of 2011, the trial court issued its remedies phase decision and held that the only remedy to which the Foundation was entitled was rescission of the intra-corporate transfer that breached the transfer restriction (the Company has complied with the Court's order, and it is not expected that such compliance will have any material effect on our operations or financial position). The Court awarded the Foundation, under the terms of the Asset Purchase Agreement, a fraction of its attorney fees. The Foundation appealed the remedy phase ruling, and the Company cross-appealed the liability determination. On October 31, 2011, the New Hampshire Supreme Court, on its own, raised the question whether the appeal needed to await the trial court's further ruling on attorney fees. On November 21, 2011, after the parties briefed the issue, the New Hampshire Supreme Court dismissed the appeal as premature and remanded the case to the trial court. In February 2012, the trial court certified the case for a possible interlocutory appeal without addressing the attorney fees issue. The New Hampshire Supreme Court rejected the request for an interlocutory appeal. The parties subsequently reached a stipulation regarding the attorney fees. The trial court accepted the parties' stipulation regarding attorneys fees and entered final judgment on liability and remedies on May 4, 2012. Both sides filed appeals with the New Hampshire Supreme Court, and briefing was completed in early February 2013. The Court heard oral argument and on July 16, 2013 issued its opinion upholding the trial court's ruling that the Foundation does not have a right to repurchase the hospital as a result of the 1999 intra-corporate transaction. The Court further held that the breach of contract found by the trial court was not material and therefore reversed the award of attorneys fees.

*Securities Class Action Litigation*

On October 28, 2011, a shareholder action, *Schuh v. HCA Holdings, Inc. et al.*, was filed in the United States District Court for the Middle District of Tennessee seeking monetary relief. The case sought to include as a class all persons who acquired the Company's stock pursuant or traceable to the Company's Registration Statement issued in connection with the March 9, 2011 initial public offering. The lawsuit asserted a claim under Section 11 of the Securities Act of 1933 against the Company, certain members of the board of directors, and certain underwriters in the offering. It further asserted a claim under Section 15 of the Securities Act of 1933 against the same members of the board of directors. The action alleged various deficiencies in the Company's disclosures in the Registration Statement. Subsequently, two additional class action complaints, *Kishtah v. HCA Holdings, Inc. et al.* and *Daniels v. HCA Holdings, Inc. et al.*, setting forth substantially similar claims against substantially the same defendants were filed in the same federal court on November 16, 2011 and December 12, 2011, respectively. All three of the cases were consolidated. On May 3, 2012, the court appointed New England Teamsters & Trucking Industry Pension Fund as Lead Plaintiff for the consolidated action. On July 13, 2012, the lead plaintiff filed an amended complaint asserting claims under Sections 11 and 12(a)(2) of the Securities Act of 1933 against the Company, certain members of the board of directors, and certain underwriters in the offering. It further asserts a claim under Section 15 of the Securities Act of 1933 against the same members of the board of directors and Hercules Holdings II, LLC, a majority shareholder of the Company at the time of the initial public offering. The consolidated complaint alleges deficiencies in the Company's disclosures in the Registration Statement and Prospectus relating to: (1) the accounting for the Company's 2006 recapitalization and 2010

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**Table of Contents**

reorganization; (2) the Company's failure to maintain effective internal controls relating to its accounting for such transactions; and (3) the Company's Medicare and Medicaid revenue growth rates. The Company and other defendants moved to dismiss the amended complaint on September 11, 2012. The Court granted the motion in part on May 28, 2013. The action is proceeding to discovery on the remaining claims.

In addition to the above described shareholder class actions, on December 8, 2011, a federal shareholder derivative action, *Sutton v. Bracken*, et al., putatively initiated in the name of the Company, was filed in the United States District Court for the Middle District of Tennessee against certain officers and present and former directors of the Company seeking monetary relief. The action alleges breaches of fiduciary duties by the named officers and directors in connection with the accounting and earnings claims set forth in the shareholder class actions. Setting forth substantially similar claims against substantially the same defendants, an additional federal derivative action, *Schroeder v. Bracken*, et al., was filed in the United States District Court for the Middle District of Tennessee on December 16, 2011, and a state derivative action, *Bagot v. Bracken*, et al., was filed in Tennessee state court in the Davidson County Circuit Court on December 20, 2011. The federal derivative actions were consolidated in the Middle District of Tennessee and stayed pending developments in the shareholder class actions. The state derivative action has also been stayed pending developments in the shareholder class actions.

*Health Midwest Litigation*

In October 2009, the Health Care Foundation of Greater Kansas City, a nonprofit health foundation, filed suit against HCA Inc. in the Circuit Court of Jackson County, Missouri and alleged that HCA did not fund the level of capital expenditures and uncompensated care agreed to in connection with HCA's purchase of hospitals from Health Midwest in 2003. The central issue in the case was whether HCA's construction of new hospitals counted towards its \$450 million five-year capital commitments. In addition, the plaintiff alleged that HCA did not make its required capital expenditures in a timely fashion. On January 24, 2013, the Court ruled in favor of the plaintiff and awarded at least \$162 million. The Court also ordered a court-supervised accounting of HCA's capital expenditures, as well as of expenditures on charity and uncompensated care during the ten years following the purchase. Should the accounting fail to satisfy the Court concerning HCA's compliance with its capital and charity care commitments, the amount of the judgment award could substantially increase. The Court also indicated it would award plaintiff attorneys fees, which the parties have stipulated are about \$12 million. HCA recorded \$175 million of legal claim costs in the fourth quarter of 2012 related to this ruling. The accounting for HCA's capital expenditures and charity and uncompensated care is ongoing and will likely not be concluded before the end of 2013. HCA plans to appeal the trial court's ruling on the breach of contract claim and order for the accounting once the trial court rules on the accounting and enters final judgment.

*General Liability and Other Claims*

We are subject to claims for additional income taxes and related interest. For a description of those proceedings, see Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations - IRS Examinations" and Note 3 to our condensed consolidated financial statements.

We are also subject to claims and suits arising in the ordinary course of business, including claims for personal injuries or for wrongful restriction of, or interference with, physicians' staff privileges. In certain of these actions the claimants have asked for punitive damages against us, which may not be covered by insurance. In the opinion of management, the ultimate resolution of these pending claims and legal proceedings will not have a material, adverse effect on our results of operations or financial position.

**ITEM 1A: RISK FACTORS**

Reference is made to the factors set forth under the caption "Forward-Looking Statements" in Part I, Item 2 of this Form 10-Q and other risk factors described in our annual report on Form 10-K for the year ended

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**Table of Contents**

December 31, 2012, which are incorporated herein by reference. There have not been any material changes to the risk factors previously disclosed in our annual report on Form 10-K for the year ended December 31, 2012.

**ITEM 5. OTHER INFORMATION**

In connection with the previously announced retirement of Richard M. Bracken as Chief Executive Officer and continued employment as Chairman of the Company, the Company entered into an Amended and Restated Employment Agreement with Mr. Bracken on August 2, 2013 (the Amended Employment Agreement). Pursuant to the terms of the Amended Employment Agreement, Mr. Bracken will continue to be employed by HCA Management Services, L.P., an affiliate of the Company, and shall serve as Chairman of the Company for a period commencing January 1, 2014 and ending December 31, 2014 (the Employment Term). The material amendments to Mr. Bracken's prior employment agreement as set forth in the Amended Employment Agreement are described below.

Pursuant to the Amended Employment Agreement, Mr. Bracken shall receive a base salary at the monthly rate of \$83,333.33 during the Employment Term (the Base Salary). In addition, Mr. Bracken shall be entitled to the full amount of any annual bonus earned, but unpaid, as of the effective date of the Amended Employment Agreement for the year ended December 31, 2013 under the Company's 2013 Senior Officer Performance Excellence Program (the PEP). For calendar year 2014, Mr. Bracken shall be eligible to earn a bonus with a target payout of \$750,000 based upon the achievement of certain objectives to be determined by the compensation committee of the Company or subcommittee thereof. In addition, Mr. Bracken shall receive a grant of the Company's restricted stock units with a grant date value of \$375,000 on or about the date the Company grants annual equity awards to its executive officers for calendar year 2014, which shall vest 100% upon the expiration of the Employment Term or Mr. Bracken's sooner voluntary termination for any reason.

The Amended Employment Agreement provides that Mr. Bracken's earned benefit pursuant to the Company's Supplemental Executive Retirement Plan, as amended (the SERP), shall be frozen effective as of the close of business on December 31, 2013. The Amended Employment Agreement also provides that if Mr. Bracken is not survived by his spouse, or if Mr. Bracken's surviving spouse is entitled to the survivor benefit pursuant to the SERP but dies before payment of her benefit has been made, the SERP benefit shall be paid to the estate of the last to survive of Mr. Bracken or his spouse in a single lump-sum payment.

Pursuant to the Amended Employment Agreement, effective as of the expiration of the Employment Term or Mr. Bracken's sooner voluntary termination for any reason (including by reason of death or disability, but other than for good reason (as defined in the Amended Employment Agreement)), Mr. Bracken would be entitled to receive (i) any Base Salary that is earned and unpaid through the date of termination; (ii) any annual bonus earned, but unpaid, for the year ended December 31, 2013 under the PEP as of the date of termination; (iii) a pro rata portion of any 2014 annual bonus that Mr. Bracken would have been entitled to receive pursuant to the Amended Employment Agreement based upon the Company's actual results for 2014 (with such proration based on the percentage of the fiscal year that shall have elapsed through the date of termination of employment, payable to Mr. Bracken when the 2014 annual bonus would have been otherwise payable (the Prorated Bonus)); (iv) reimbursement of any unreimbursed business expenses properly incurred; (v) continued coverage under the Company's group health plans for Mr. Bracken and his wife until age 65; and (vi) such employee benefits, if any, as to which Mr. Bracken may be entitled under the Company's employee benefit plans.

The Amended Employment Agreement provides that Mr. Bracken shall continue to vest with respect to any options, stock appreciation rights or restricted share units granted to Mr. Bracken under the 2006 Stock Incentive Plan for Key Employees of HCA Holdings, Inc. and its Affiliates, as amended and restated (the Equity Awards), through continued service during the Employment Term. The Amended Employment Agreement further provides that each grant of Mr. Bracken's vested Equity Awards shall remain exercisable until the earlier to occur of (a) the date that is eighteen (18) months following the termination of Mr. Bracken's employment with the Company and (b) the expiration of the original ten (10) year term of the respective grants of such vested Equity Awards in accordance with the terms of the applicable equity award agreements.

**Table of Contents**

If Mr. Bracken's employment is terminated by the Company without cause or by Mr. Bracken for good reason (each as defined in the Amended Employment Agreement), Mr. Bracken would be entitled to receive the benefits described in the preceding two paragraphs and, subject to the delivery of a customary release and continued compliance with the noncompetition, nonsolicitation and confidentiality restrictions in the Amended Employment Agreement, an amount (if any) equal to Mr. Bracken's Base Salary that would have been otherwise payable through the end of the Employment Term.

If Mr. Bracken's employment is terminated by the Company for cause, Mr. Bracken would be entitled to receive the amounts and benefits described in the fourth paragraph of this section, except that Mr. Bracken would not be entitled to receive the Prorated Bonus. Mr. Bracken's vested Equity Awards would, upon such event, remain exercisable for one hundred and eighty (180) days following the termination of Mr. Bracken's employment.

The other terms of the Amended Employment Agreement are substantially the same as his prior employment agreement and as previously disclosed. The foregoing description of the Amended Employment Agreement does not purport to be complete and is qualified in its entirety by reference to the Amended Employment Agreement, a copy of which is attached hereto as Exhibit 10.1 and incorporated herein by reference.

**Table of Contents**

**ITEM 6. EXHIBITS**

(a) List of Exhibits:

- 4.1 Joinder Agreement, dated as of April 25, 2013, by and among HCA Inc., as borrower, Bank of America, N. A., as administrative Agent and collateral agent and the lenders party thereto (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K filed May 1, 2013 and incorporated herein by reference).
- 4.2 Joinder Agreement No. 2, dated as of May 3, 2013, by and among HCA Inc., as borrower, Bank of America, N. A., as administrative Agent and collateral agent and the lenders party thereto (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K filed May 9, 2013 and incorporated herein by reference).
- 4.3 Joinder Agreement No. 3, dated as of May 22, 2013, by and among HCA Inc., as borrower, Bank of America, N. A., as administrative Agent and collateral agent and the lenders party thereto (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K filed May 28, 2013 and incorporated herein by reference).
- 10.1 Amended and Restated Employment Agreement dated August 2, 2013 (Richard M. Bracken).\*
- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 The following financial information from our quarterly report on Form 10-Q for the quarters ended June 30, 2013 and 2012, filed with the SEC on August 6, 2013, formatted in Extensible Business Reporting Language (XBRL): (i) the condensed consolidated balance sheets at June 30, 2013 and December 31, 2012, (ii) the condensed consolidated income statements for the quarters and six months ended June 30, 2013 and 2012, (iii) the condensed consolidated comprehensive income statements for the quarters and six months ended June 30, 2013 and 2012, (iv) the condensed consolidated statements of cash flows for the six months ended June 30, 2013 and 2012 and (v) the notes to condensed consolidated financial statements.(1)

(1) The XBRL related information in Exhibit 101 to this quarterly report on Form 10-Q shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability of that section and shall not be incorporated by reference into any filing or other document pursuant to the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing or document.

\* Management compensatory plan or arrangement.



**Table of Contents**

**SIGNATURES**

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.

HCA Holdings, Inc.

By: */s/ R. MILTON JOHNSON*  
*R. Milton Johnson*  
*President and Chief Financial Officer*

Date: August 6, 2013