

HCA Holdings, Inc.  
Form 10-Q  
August 05, 2014  
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**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, 2014

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

**27-3865930**  
(I.R.S. Employer

incorporation or organization)

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, 2014**  
432,385,100 shares

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**HCA HOLDINGS, INC.**

**Form 10-Q**

**June 30, 2014**

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**Table of Contents****HCA HOLDINGS, INC.****CONDENSED CONSOLIDATED INCOME STATEMENTS****FOR THE QUARTERS AND SIX MONTHS ENDED JUNE 30, 2014 AND 2013****Unaudited****(Dollars in millions, except per share amounts)**

	Quarter		Six Months	
	2014	2013	2014	2013
Revenues before provision for doubtful accounts	\$ 9,958	\$ 9,473	\$ 19,641	\$ 18,667
Provision for doubtful accounts	728	1,023	1,579	1,777
Revenues	9,230	8,450	18,062	16,890
Salaries and benefits	4,098	3,848	8,148	7,765
Supplies	1,532	1,470	3,064	2,949
Other operating expenses	1,644	1,507	3,289	3,030
Electronic health record incentive income	(35)	(52)	(65)	(91)
Equity in earnings of affiliates	(9)	(12)	(18)	(20)
Depreciation and amortization	454	425	901	849
Interest expense	427	462	887	934
Losses (gains) on sales of facilities	(11)	(4)	(32)	12
Losses on retirement of debt	226		226	17
Legal claim costs			78	
	8,326	7,644	16,478	15,445
Income before income taxes	904	806	1,584	1,445
Provision for income taxes	272	269	498	470
Net income	632	537	1,086	975
Net income attributable to noncontrolling interests	149	114	256	208
Net income attributable to HCA Holdings, Inc.	\$ 483	\$ 423	\$ 830	\$ 767
Per share data:				
Basic earnings per share	\$ 1.10	\$ 0.95	\$ 1.88	\$ 1.72
Diluted earnings per share	\$ 1.07	\$ 0.91	\$ 1.82	\$ 1.66
Shares used in earnings per share calculations (in thousands):				
Basic	438,833	446,612	440,482	445,513
Diluted	453,009	463,184	455,220	462,782

See accompanying notes.

**Table of Contents****HCA HOLDINGS, INC.****CONDENSED CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS****FOR THE QUARTERS AND SIX MONTHS ENDED JUNE 30, 2014 AND 2013****Unaudited****(Dollars in millions)**

	Quarter		Six Months	
	2014	2013	2014	2013
Net income	\$ 632	\$ 537	\$ 1,086	\$ 975
Other comprehensive income before taxes:				
Foreign currency translation	30		40	(60)
Unrealized gains (losses) on available-for-sale securities	4	(9)	8	(8)
Defined benefit plans				
Pension costs included in salaries and benefits	4	8	8	15
	4	8	8	15
Change in fair value of derivative financial instruments	(19)	47	(29)	40
Interest costs included in interest expense	32	32	65	64
	13	79	36	104
Other comprehensive income before taxes	51	78	92	51
Income taxes related to other comprehensive income items	18	29	34	20
Other comprehensive income	33	49	58	31
Comprehensive income	665	586	1,144	1,006
Comprehensive income attributable to noncontrolling interests	149	114	256	208
Comprehensive income attributable to HCA Holdings, Inc.	\$ 516	\$ 472	\$ 888	\$ 798

See accompanying notes.

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

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 658	\$ 414
Accounts receivable, less allowance for doubtful accounts of \$5,267 and \$5,488	5,472	5,208
Inventories	1,211	1,179
Deferred income taxes	500	489
Other	931	747
	<b>8,772</b>	<b>8,037</b>
Property and equipment, at cost	<b>31,841</b>	<b>31,073</b>
Accumulated depreciation	<b>(18,120)</b>	<b>(17,454)</b>
	<b>13,721</b>	<b>13,619</b>
Investments of insurance subsidiaries	426	448
Investments in and advances to affiliates	150	121
Goodwill and other intangible assets	5,909	5,903
Deferred loan costs	230	237
Other	614	466
	<b>\$ 29,822</b>	<b>\$ 28,831</b>
<b>LIABILITIES AND STOCKHOLDERS DEFICIT</b>		
Current liabilities:		
Accounts payable	\$ 1,717	\$ 1,803
Accrued salaries	1,140	1,193
Other accrued expenses	1,992	1,913
Long-term debt due within one year	1,046	786
	<b>5,895</b>	<b>5,695</b>
Long-term debt	27,942	27,590
Professional liability risks	1,019	949
Income taxes and other liabilities	1,554	1,525
Stockholders' deficit:		
Common stock \$0.01 par; authorized 1,800,000,000 shares; outstanding 431,372,800 shares in 2014 and 439,604,000 shares in 2013	4	4
Capital in excess of par value	777	1,386
Accumulated other comprehensive loss	(199)	(257)
Retained deficit	(8,572)	(9,403)
Stockholders' deficit attributable to HCA Holdings, Inc.	<b>(7,990)</b>	<b>(8,270)</b>
Noncontrolling interests	1,402	1,342

(6,588) (6,928)

\$ 29,822 \$ 28,831

See accompanying notes.

**Table of Contents****HCA HOLDINGS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE SIX MONTHS ENDED JUNE 30, 2014 AND 2013****Unaudited****(Dollars in millions)**

	2014	2013
<b>Cash flows from operating activities:</b>		
Net income	\$ 1,086	\$ 975
Adjustments to reconcile net income to net cash provided by operating activities:		
Changes in operating assets and liabilities	(2,151)	(2,335)
Provision for doubtful accounts	1,579	1,777
Depreciation and amortization	901	849
Income taxes	(94)	183
Losses (gains) on sales of facilities	(32)	12
Loss on retirement of debt	226	17
Legal claim costs	78	
Amortization of deferred loan costs	23	28
Share-based compensation	77	51
Other		(3)
Net cash provided by operating activities	1,693	1,554
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(913)	(896)
Acquisition of hospitals and health care entities	(27)	(23)
Disposition of hospitals and health care entities	32	31
Change in investments	43	102
Other	1	(4)
Net cash used in investing activities	(864)	(790)
<b>Cash flows from financing activities:</b>		
Issuance of long-term debt	3,502	
Net change in revolving credit facilities	340	(20)
Repayment of long-term debt	(3,482)	(768)
Distributions to noncontrolling interests	(197)	(196)
Payment of debt issuance costs	(49)	(5)
Repurchase of common stock	(750)	
Distributions to stockholders	(7)	(10)
Income tax benefits	75	61
Other	(17)	(69)
Net cash used in financing activities	(585)	(1,007)
Change in cash and cash equivalents	244	(243)
Cash and cash equivalents at beginning of period	414	705



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Cash and cash equivalents at end of period	\$ 658	\$ 462
Interest payments	\$ 899	\$ 909
Income tax payments, net	\$ 517	\$ 226

See accompanying notes.

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**HCA HOLDINGS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**

*Reporting Entity*

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, 2014, these affiliates owned and operated 165 hospitals, 115 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 Holdings, Inc. and its affiliates. 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 \$67 million and \$65 million for the quarters ended June 30, 2014 and 2013, respectively, and \$135 million and \$131 million for the six months ended June 30, 2014 and 2013, respectively. Operating results for the quarter and the six months ended June 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. 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, 2013.

**Table of Contents****HCA HOLDINGS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 1 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)***Revenues*

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 (includes the health insurance exchanges, beginning with the first quarter of 2014), 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, 2014 and 2013 are summarized in the following table (dollars in millions):

	Quarter			
	2014	Ratio	2013	Ratio
Medicare	\$ 2,040	22.1%	\$ 1,976	23.4%
Managed Medicare	906	9.8	804	9.5
Medicaid	588	6.4	365	4.3
Managed Medicaid	452	4.9	378	4.5
Managed care and other insurers	4,959	53.8	4,655	55.1
International (managed care and other insurers)	334	3.6	291	3.4
	<b>9,279</b>	<b>100.6</b>	8,469	100.2
Uninsured	318	3.4	693	8.2
Other	361	3.9	311	3.7
Revenues before provision for doubtful accounts	<b>9,958</b>	<b>107.9</b>	9,473	112.1
Provision for doubtful accounts	(728)	(7.9)	(1,023)	(12.1)
Revenues	<b>\$ 9,230</b>	<b>100.0%</b>	\$ 8,450	100.0%

	Six Months			
	2014	Ratio	2013	Ratio
Medicare	\$ 4,165	23.1%	\$ 4,114	24.4%
Managed Medicare	1,805	10.0	1,647	9.8
Medicaid	1,032	5.7	697	4.1
Managed Medicaid	873	4.8	779	4.6
Managed care and other insurers	9,669	53.5	9,141	54.1
International (managed care and other insurers)	660	3.7	581	3.4
	<b>18,204</b>	<b>100.8</b>	16,959	100.4
Uninsured	706	3.9	1,092	6.5
Other	731	4.0	616	3.6
Revenues before provision for doubtful accounts	<b>19,641</b>	<b>108.7</b>	18,667	110.5

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Provision for doubtful accounts	(1,579)	(8.7)	(1,777)	(10.5)
Revenues	\$ 18,062	100.0%	\$ 16,890	100.0%

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**HCA HOLDINGS, INC.**

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

**NOTE 1 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Revenues (continued)*

The increase in Medicaid revenues for the quarter and the six months ended June 30, 2014 compared to the quarter and six months ended June 30, 2013 was primarily due to our recording of \$142 million, or \$0.20 per diluted share, of Medicaid revenues related to the receipt of reimbursements in excess of our estimates for the indigent care component of the Texas Medicaid Waiver Program for the program year ended September 30, 2013.

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

*Recent Pronouncements*

In May 2014, the Financial Accounting Standards Board and the International Accounting Standards Board issued a final, converged, principles-based standard on revenue recognition. Companies across all industries will use a new five-step model to recognize revenue from customer contracts. The new standard, which replaces nearly all existing United States Generally Accepted Accounting Principles ( US GAAP ) and International Financial Reporting Standards revenue recognition guidance, will require significant management judgment in addition to changing the way many companies recognize revenue in their financial statements. The standard is effective for public entities for annual and interim periods beginning after December 15, 2016. Early adoption is not permitted under US GAAP. We are evaluating the effects the adoption of this standard will have on our financial statements and financial disclosures.

**NOTE 2 ACQUISITIONS AND DISPOSITIONS**

During the six months ended June 30, 2014, we paid \$14 million to acquire a hospital and \$13 million to acquire other nonhospital health care entities. During the six months ended June 30, 2013, we paid \$23 million to acquire nonhospital health care entities.

During the six months ended June 30, 2014, we received proceeds of \$32 million and recognized net pretax gains of \$32 million related to sales of real estate and other investments. During the six months ended June 30, 2013, we received proceeds of \$31 million and recognized net pretax losses of \$12 million related to sales of a hospital facility and real estate and other investments.

**NOTE 3 INCOME TAXES**

The IRS Examination Division began an audit of HCA Holdings, Inc.'s 2011 and 2012 federal income tax returns during 2014. We are also subject to examination by state and foreign taxing authorities.

Our liability for unrecognized tax benefits was \$507 million, including accrued interest of \$40 million, as of June 30, 2014 (\$462 million and \$30 million, respectively, as of December 31, 2013). Unrecognized tax benefits of \$176 million (\$160 million as of December 31, 2013) would affect the effective rate, if recognized. The provision for income taxes reflects \$4 million and \$3 million (each \$2 million, net of tax) of interest expense related to taxing authority examinations for the quarters ended June 30, 2014 and 2013, respectively. The provision for income taxes reflects \$8 million (\$5 million, net of tax) of interest expense related to taxing authority examinations and \$15 million (\$9 million, net of tax) of reductions in interest expense related to taxing authority examinations for the six months ended June 30, 2014 and 2013, respectively. The provision for income taxes for the quarter and six months ended June 30, 2014 also reflects a reduction of \$22 million related primarily to resolutions of prior year examinations.

**Table of Contents****HCA HOLDINGS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 3 INCOME TAXES (continued)**

Depending on the completion of examinations by federal, state or foreign 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.

The following table sets forth the computation of basic and diluted earnings per share for the quarters and six months ended June 30, 2014 and 2013 (dollars in millions, except per share amounts, and shares in thousands):

	Quarter		Six Months	
	2014	2013	2014	2013
Net income attributable to HCA Holdings, Inc.	\$ 483	\$ 423	\$ 830	\$ 767
Weighted average common shares outstanding	438,833	446,612	440,482	445,513
Effect of dilutive incremental shares	14,176	16,572	14,738	17,269
Shares used for diluted earnings per share	453,009	463,184	455,220	462,782
Earnings per share:				
Basic earnings per share	\$ 1.10	\$ 0.95	\$ 1.88	\$ 1.72
Diluted earnings per share	\$ 1.07	\$ 0.91	\$ 1.82	\$ 1.66

**NOTE 5 INVESTMENTS OF INSURANCE SUBSIDIARIES**

A summary of our insurance subsidiaries' investments at June 30, 2014 and December 31, 2013 follows (dollars in millions):

	Amortized Cost	June 30, 2014 Unrealized Amounts		Fair Value
		Gains	Losses	
Debt securities:				
States and municipalities	\$ 447	\$ 17	\$ (1)	\$ 463
Money market funds	29			29
	476	17	(1)	492
Equity securities	1	2		3
	\$ 477	\$ 19	\$ (1)	495
Amounts classified as current assets				(69)

Investment carrying value

**\$ 426**

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

	Amortized Cost	December 31, 2013 Unrealized Amounts		Fair Value
		Gains	Losses	
Debt securities:				
States and municipalities	\$ 404	\$ 11	\$ (3)	\$ 412
Money market funds	94			94
	498	11	(3)	506
Equity securities	2	2		4
	\$ 500	\$ 13	\$ (3)	510
Amounts classified as current assets				(62)
Investment carrying value				\$ 448

At June 30, 2014 and December 31, 2013, 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 (loss).

Scheduled maturities of investments in debt securities at June 30, 2014 were as follows (dollars in millions):

	Amortized Cost	Fair Value
Due in one year or less	\$ 41	\$ 41
Due after one year through five years	232	238
Due after five years through ten years	90	96
Due after ten years	113	117
	\$ 476	\$ 492

The average expected maturity of the investments in debt securities at June 30, 2014 was 4.1 years, compared to the average scheduled maturity of 5.7 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 their scheduled maturity date.

**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 for the interest rate swap agreements which have been designated as cash flow hedges. 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.

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

The following table sets forth our interest rate swap agreements, which have been designated as cash flow hedges, at June 30, 2014 (dollars in millions):

	Notional Amount	Maturity Date	Fair Value
Pay-fixed interest rate swaps	\$ 500	December 2014	\$ (3)
Pay-fixed interest rate swaps	3,000	December 2016	(214)
Pay-fixed interest rate swaps	1,000	December 2017	(42)

During the next 12 months, we estimate \$126 million will be reclassified from other comprehensive income ( OCI ) to interest expense.

*Derivatives Results of Operations*

The following table presents the effect of our interest rate swaps on our results of operations for the six months ended June 30, 2014 (dollars in millions):

Derivatives in Cash Flow Hedging Relationships	Amount of Loss Recognized in OCI on Derivatives, Net of Tax	Location of Loss Reclassified from Accumulated OCI into Operations	Amount of Loss Reclassified from Accumulated OCI into Operations
Interest rate swaps	\$ 19	Interest expense	\$ 65

*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, 2014, we have not been required to post any collateral related to these agreements. If we had breached these provisions at June 30, 2014, we would have been required to settle our obligations under the agreements at their aggregate, estimated termination value of \$269 million.

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

Accounting Standards Codification 820, *Fair Value Measurements and Disclosures* ( 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



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**HCA HOLDINGS, INC.**

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

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

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 valuation of these securities involves management's judgment, after consideration of market factors and the absence of market transparency, market liquidity and observable inputs. Our valuation models derived fair market values compared to tax-equivalent yields of other securities of similar credit worthiness and similar effective maturities.

*Derivative Financial Instruments*

We have entered into interest rate swap agreements to manage our exposure to fluctuations in interest rates. 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 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, 2014 and December 31, 2013, 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 tables summarize our assets and liabilities measured at fair value on a recurring basis as of June 30, 2014 and December 31, 2013, aggregated by the level in the fair value hierarchy within which those measurements fall (dollars in millions):

	June 30, 2014 Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets:</b>				
Investments of insurance subsidiaries:				
Debt securities:				
States and municipalities	\$ 463	\$	\$ 456	\$ 7
Money market funds	29	29		
	492	29	456	7
Equity securities	3	2		1
Investments of insurance subsidiaries	495	31	456	8
Less amounts classified as current assets	(69)	(29)	(40)	
	\$ 426	\$ 2	\$ 416	\$ 8
<b>Liabilities:</b>				
Interest rate swaps (Income taxes and other liabilities)	\$ 259	\$	\$ 259	\$

	December 31, 2013 Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets:</b>				
Investments of insurance subsidiaries:				
Debt securities:				
States and municipalities	\$ 412	\$	\$ 405	\$ 7
Money market funds	94	94		

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	506	94	405	7
Equity securities	4	3		1
Investments of insurance subsidiaries	510	97	405	8
Less amounts classified as current assets	(62)	(62)		
	\$ 448	\$ 35	\$ 405	\$ 8
<b>Liabilities:</b>				
Interest rate swaps (Income taxes and other liabilities)	\$ 295	\$	\$ 295	\$

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

The estimated fair value of our long-term debt was \$30.449 billion and \$29.603 billion at June 30, 2014 and December 31, 2013, respectively, compared to carrying amounts aggregating \$28.988 billion and \$28.376 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.

**NOTE 8 LONG-TERM DEBT**

A summary of long-term debt at June 30, 2014 and December 31, 2013, including related interest rates at June 30, 2014, follows (dollars in millions):

	June 30, 2014	December 31, 2013
Senior secured asset-based revolving credit facility (effective interest rate of 1.7%)	\$ 2,500	\$ 2,440
Senior secured revolving credit facility (effective interest rate of 1.7%)	280	
Senior secured term loan facilities (effective interest rate of 5.3%)	5,558	5,598
Senior secured first lien notes (effective interest rate of 5.8%)	10,491	9,695
Other senior secured debt (effective interest rate of 6.7%)	464	448
First lien debt	19,293	18,181
Senior unsecured notes (effective interest rate of 7.2%)	9,695	10,195
Total debt (average life of 6.4 years, rates averaging 5.8%)	28,988	28,376
Less amounts due within one year	1,046	786
	\$ 27,942	\$ 27,590

*2014 Activity*

During March 2014, we issued \$3.500 billion aggregate principal amount of notes, comprised of \$1.500 billion aggregate principal amount of 3.75% senior secured notes due 2019 and \$2.000 billion aggregate principal amount of 5.00% senior secured notes due 2024, and repaid at maturity all \$500 million aggregate principal amount of our outstanding 5.75% senior unsecured notes. During April 2014, we used proceeds from the March 2014 debt issuance to redeem all \$1.500 billion aggregate principal amount of our outstanding 8 1/2% senior secured notes due 2019 and all \$1.250 billion aggregate principal amount of our outstanding 7 7/8% senior secured notes due 2020. The pretax loss on retirement of debt related to these redemptions was \$226 million.

*2013 Activity*

During March 2013, we redeemed all \$201 million aggregate principal amount of our 9 7/8% senior secured second lien notes due 2017. 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

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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.



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**HCA HOLDINGS, INC.**

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

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

*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 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 has produced 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.

On April 2, 2014, the UK Competition and Markets Authority ( Authority ) issued a final report on its investigation of the private health care market in London. It concluded, among other things, that many private hospitals face little competition in central London, and that there are high barriers to entry. As part of its remedies package, the Authority ordered HCA to sell either: (a) its London Bridge and Princess Grace hospitals; or (b) its Wellington Hospital, including the Hospital Platinum Medical Centre. It also imposed other remedial conditions on HCA and other private health care providers, including: regulation of incentives to referring physicians; increased access to information about fees and performance; and restrictions on future arrangements between private providers and National Health Service private patient units. HCA disagrees with the Authority 's assessment of the competitive conditions for hospitals in London, as well as its proposed divestiture remedy, and has appealed the decision to the Competition Appeal Tribunal. The appeal is expected to be decided in 2015.

*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

**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)*

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. Plaintiffs' motion to certify the class has been briefed and is set for oral argument in August 2014. It is not known when the court will rule on the motion.

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 had also been stayed pending developments in the shareholder class actions, but that stay has expired. The plaintiff in the state derivative action subsequently filed an amended complaint on September 9, 2013 that added additional allegations made in the shareholder class actions. On September 24, 2013, an additional state derivative action, *Steinberg v. Bracken, et al.*, was filed in Tennessee state court in the Davidson County Circuit Court. This action against our board of directors has been consolidated with the earlier filed state derivative action. The plaintiffs in the consolidated action filed a consolidated complaint on December 4, 2013. The Company has filed a motion to again stay the state derivative action pending developments in the class action, but the Court has not yet acted on that motion.

*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

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

capital expenditures, as well as of expenditures on charity and uncompensated care during the ten years following the purchase. The Court also indicated it would award plaintiff attorneys fees, which the parties have stipulated are approximately \$12 million for the trial phase. HCA recorded \$175 million of legal claim costs in the fourth quarter of 2012 related to this ruling, and consistent with the judge's order, has been accruing interest on that sum at 9% per annum. On April 25, 2014, the parties stipulated to an additional \$78 million shortfall relating to the capital expenditures issue. HCA recorded \$78 million of legal claims costs in the first quarter of 2014 as a result of the stipulation, and is accruing interest on that amount at 9% per annum. Pursuant to the terms of the stipulation, the parties have preserved their respective rights to contest the judge's underlying ruling, whether through motions in the trial court or on appeal. The accounting for charity and other uncompensated care is ongoing, with hearings set to begin in the third quarter of 2014. Final judgment in the case currently is not anticipated before the fourth quarter of 2014. At this time, we cannot predict what effect, if any, the final judgment could have on the Company. 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 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 Noncontrolling Interests		Total
	Common Stock Shares (000)	Par Value	Capital in Excess of Par Value	Accumulated Other Comprehensive Loss	Retained Deficit		
Balances at December 31, 2013	439,604	\$ 4	\$ 1,386	\$ (257)	\$ (9,403)	\$ 1,342	\$ (6,928)
Net income					830	256	1,086
Repurchase of common stock	(14,555)		(750)				(750)
Other comprehensive income				58			58
Distributions						(197)	(197)
Share-based benefit plans	6,324		146				146
Other			(5)		1	1	(3)
Balances at June 30, 2014	431,373	\$ 4	\$ 777	\$ (199)	\$ (8,572)	\$ 1,402	\$ (6,588)

During May 2014, we repurchased 14,554,628 shares of our common stock at a price of \$51.53 per share.

**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 Gains on Available- for-Sale Securities	Foreign Currency Translation Adjustments	Defined Benefit Plans	Change in Fair Value of Derivative Instruments	Total
Balances at December 31, 2013	\$ 7	\$ 11	\$ (88)	\$ (187)	\$ (257)
Unrealized gains on available-for-sale securities, net of \$3 of income taxes	5				5
Foreign currency translation adjustments, net of \$14 of income taxes		26			26
Change in fair value of derivative instruments, net of \$10 income tax benefit				(19)	(19)
Expense reclassified into operations from other comprehensive income, net of \$3 and \$24, respectively, income tax benefits			5	41	46
Balances at June 30, 2014	\$ 12	\$ 37	\$ (83)	\$ (165)	\$ (199)

**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 82 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 77 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.

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## 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, losses on retirement of debt, legal claim costs, 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, 2014 and 2013 are summarized in the following table (dollars in millions):

	Quarter		Six Months	
	2014	2013	2014	2013
Revenues:				
National Group	\$ 4,267	\$ 3,964	\$ 8,427	\$ 7,945
American Group	4,447	4,065	8,599	8,099
Corporate and other	516	421	1,036	846
	\$ 9,230	\$ 8,450	\$ 18,062	\$ 16,890
Equity in earnings of affiliates:				
National Group	\$ (3)	\$ (3)	\$ (6)	\$ (5)
American Group	(8)	(7)	(15)	(13)
Corporate and other	2	(2)	3	(2)
	\$ (9)	\$ (12)	\$ (18)	\$ (20)
Adjusted segment EBITDA:				
National Group	\$ 946	\$ 831	\$ 1,802	\$ 1,635
American Group	1,134	916	1,984	1,744
Corporate and other	(80)	(58)	(142)	(122)
	\$ 2,000	\$ 1,689	\$ 3,644	\$ 3,257
Depreciation and amortization:				
National Group	\$ 190	\$ 177	\$ 377	\$ 351
American Group	211	202	416	404
Corporate and other	53	46	108	94
	\$ 454	\$ 425	\$ 901	\$ 849
Adjusted segment EBITDA	\$ 2,000	\$ 1,689	\$ 3,644	\$ 3,257
Depreciation and amortization	454	425	901	849

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Interest expense	<b>427</b>	462	<b>887</b>	934
Losses (gains) on sales of facilities	<b>(11)</b>	(4)	<b>(32)</b>	12
Losses on retirement of debt	<b>226</b>		<b>226</b>	17
Legal claim costs			<b>78</b>	
Income before income taxes	<b>\$ 904</b>	\$ 806	<b>\$ 1,584</b>	\$ 1,445

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

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.

HCA Inc., a direct wholly-owned subsidiary of HCA Holdings, Inc., is the obligor under a significant portion of our other indebtedness, including our senior secured credit facilities, senior secured notes and senior unsecured notes (other than the senior unsecured notes issued by HCA Holdings, Inc.). The senior secured notes and senior unsecured notes issued by HCA Inc. are fully and unconditionally guaranteed by HCA Holdings, Inc. The senior secured credit facilities and senior secured notes are fully and unconditionally guaranteed by substantially all existing and future, direct and indirect, 100% 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, 2014 and 2013, condensed consolidating balance sheets at June 30, 2014 and December 31, 2013 and condensed consolidating statements of cash flows for the six months ended June 30, 2014 and 2013, 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, 2014****(Dollars in millions)**

	<b>HCA Holdings, Inc. Issuer</b>	<b>HCA Inc. Issuer</b>	<b>Subsidiary Guarantors</b>	<b>Subsidiary Non- Guarantors</b>	<b>Eliminations</b>	<b>Condensed Consolidated</b>
Revenues before provision for doubtful accounts	\$	\$	\$ 5,079	\$ 4,879	\$	\$ 9,958
Provision for doubtful accounts			394	334		728
<b>Revenues</b>			<b>4,685</b>	<b>4,545</b>		<b>9,230</b>
Salaries and benefits			2,118	1,980		4,098
Supplies			805	727		1,532
Other operating expenses	5		789	850		1,644
Electronic health record incentive income			(24)	(11)		(35)
Equity in earnings of affiliates	(549)		(1)	(8)	549	(9)
Depreciation and amortization			224	230		454
Interest expense	46	536	(112)	(43)		427
Gains on sales of facilities			(11)			(11)
Losses on retirement of debt		226				226
Management fees			(176)	176		
	(498)	762	3,612	3,901	549	8,326
<b>Income (loss) before income taxes</b>	<b>498</b>	<b>(762)</b>	<b>1,073</b>	<b>644</b>	<b>(549)</b>	<b>904</b>

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Provision (benefit) for income taxes	(18)	(277)	381	186		272
Net income (loss)	516	(485)	692	458	(549)	632
Net income attributable to noncontrolling interests			18	131		149
Net income (loss) attributable to HCA Holdings, Inc.	\$ 516	\$ (485)	\$ 674	\$ 327	\$ (549)	\$ 483
Comprehensive income (loss) attributable to HCA Holdings, Inc.	\$ 516	\$ (477)	\$ 677	\$ 349	\$ (549)	\$ 516



**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, 2013****(Dollars in millions)**

	<b>HCA Holdings, Inc. Issuer</b>	<b>HCA Inc. Issuer</b>	<b>Subsidiary Guarantors</b>	<b>Subsidiary Non- Guarantors</b>	<b>Eliminations</b>	<b>Condensed 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
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 SIX MONTHS ENDED JUNE 30, 2014****(Dollars in millions)**

	<b>HCA Holdings, Inc. Issuer</b>	<b>HCA Inc. Issuer</b>	<b>Subsidiary Guarantors</b>	<b>Subsidiary Non- Guarantors</b>	<b>Eliminations</b>	<b>Condensed Consolidated</b>
Revenues before provision for doubtful accounts	\$	\$	\$ 10,109	\$ 9,532	\$	\$ 19,641
Provision for doubtful accounts			931	648		1,579
<b>Revenues</b>			<b>9,178</b>	<b>8,884</b>		<b>18,062</b>
Salaries and benefits			4,217	3,931		8,148
Supplies			1,619	1,445		3,064
Other operating expenses	10		1,562	1,717		3,289
Electronic health record incentive income			(46)	(19)		(65)
Equity in earnings of affiliates	(952)		(2)	(16)	952	(18)
Depreciation and amortization			442	459		901
Interest expense	92	1,093	(234)	(64)		887
Gains on sales of facilities			(32)			(32)
Losses on retirement of debt		226				226
Legal claim costs		78				78
Management fees			(350)	350		
	(850)	1,397	7,176	7,803	952	16,478
Income (loss) before income taxes	850	(1,397)	2,002	1,081	(952)	1,584
Provision (benefit) for income taxes	(38)	(524)	733	327		498
Net income (loss)	888	(873)	1,269	754	(952)	1,086
Net income attributable to noncontrolling interests			47	209		256
Net income (loss) attributable to HCA Holdings, Inc.	\$ 888	\$ (873)	\$ 1,222	\$ 545	\$ (952)	\$ 830
Comprehensive income (loss) attributable to HCA Holdings, Inc.	\$ 888	\$ (851)	\$ 1,227	\$ 576	\$ (952)	\$ 888



**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 Holdings, Inc. Issuer</b>	<b>HCA Inc. Issuer</b>	<b>Subsidiary Guarantors</b>	<b>Subsidiary Non- Guarantors</b>	<b>Eliminations</b>	<b>Condensed 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>
Comprehensive income (loss) attributable to HCA Holdings, Inc.	\$ 798	\$ (630)	\$ 1,105	\$ 385	\$ (860)	\$ 798



**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, 2014

(Dollars in millions)

	HCA Holdings, Inc. Issuer	HCA Inc. Issuer	Subsidiary Guarantors	Subsidiary Non- Guarantors	Eliminations	Condensed Consolidated
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$	\$	\$ 215	\$ 443	\$	\$ 658
Accounts receivable, net			2,709	2,763		5,472
Inventories			707	504		1,211
Deferred income taxes	500					500
Other			344	587		931
	500		3,975	4,297		8,772
Property and equipment, net			7,676	6,045		13,721
Investments of insurance subsidiaries				426		426
Investments in and advances to affiliates	21,308		15	135	(21,308)	150
Goodwill and other intangible assets			1,694	4,215		5,909
Deferred loan costs	27	203				230
Other	406		19	189		614
	\$ 22,241	\$ 203	\$ 13,379	\$ 15,307	\$ (21,308)	\$ 29,822

**LIABILITIES AND****STOCKHOLDERS (DEFICIT)****EQUITY**

Current liabilities:						
Accounts payable	\$ 4	\$	\$ 1,081	\$ 632	\$	\$ 1,717
Accrued salaries			656	484		1,140
Other accrued expenses	407	330	433	822		1,992
Long-term debt due within one year		952	50	44		1,046
	411	1,282	2,220	1,982		5,895
Long-term debt	2,525	25,047	183	187		27,942
Intercompany balances	26,762	(10,203)	(20,098)	3,539		
Professional liability risks				1,019		1,019

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Income taxes and other liabilities	533	260	543	218		1,554
	30,231	16,386	(17,152)	6,945		36,410
Stockholders' (deficit) equity attributable to HCA Holdings, Inc.	(7,990)	(16,183)	30,412	7,079	(21,308)	(7,990)
Noncontrolling interests			119	1,283		1,402
	(7,990)	(16,183)	30,531	8,362	(21,308)	(6,588)
	\$ 22,241	\$ 203	\$ 13,379	\$ 15,307	\$ (21,308)	\$ 29,822



**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, 2013****(Dollars in millions)**

	<b>HCA Holdings, Inc. Issuer</b>	<b>HCA Inc. Issuer</b>	<b>Subsidiary Guarantors</b>	<b>Subsidiary Non- Guarantors</b>	<b>Eliminations</b>	<b>Condensed Consolidated</b>
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$	\$	\$ 112	\$ 302	\$	\$ 414
Accounts receivable, net			2,565	2,643		5,208
Inventories			692	487		1,179
Deferred income taxes	489					489
Other			301	446		747
	489		3,670	3,878		8,037
Property and equipment, net			7,504	6,115		13,619
Investments of insurance subsidiaries				448		448
Investments in and advances to affiliates	20,356		13	108	(20,356)	121
Goodwill and other intangible assets			1,695	4,208		5,903
Deferred loan costs	30	207				237
Other	250		48	168		466
	\$ 21,125	\$ 207	\$ 12,930	\$ 14,925	\$ (20,356)	\$ 28,831
<b>LIABILITIES AND STOCKHOLDERS (DEFICIT) EQUITY</b>						
Current liabilities:						
Accounts payable	\$ 1	\$	\$ 1,169	\$ 633	\$	\$ 1,803
Accrued salaries			694	499		1,193
Other accrued expenses	272	353	464	824		1,913
Long-term debt due within one year		702	45	39		786
	273	1,055	2,372	1,995		5,695
Long-term debt	2,525	24,701	181	183		27,590
Intercompany balances	26,107	(10,513)	(19,428)	3,834		
Professional liability risks				949		949
Income taxes and other liabilities	490	296	521	218		1,525
	29,395	15,539	(16,354)	7,179		35,759

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Stockholders (deficit) equity attributable to HCA Holdings, Inc.	(8,270)	(15,332)	29,185	6,503	(20,356)	(8,270)
Noncontrolling interests			99	1,243		1,342
	(8,270)	(15,332)	29,284	7,746	(20,356)	(6,928)
	\$ 21,125	\$ 207	\$ 12,930	\$ 14,925	\$ (20,356)	\$ 28,831

**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, 2014****(Dollars in millions)**

	<b>HCA Holdings, Inc. Issuer</b>	<b>HCA Inc. Issuer</b>	<b>Subsidiary Guarantors</b>	<b>Subsidiary Non- Guarantors</b>	<b>Eliminations</b>	<b>Condensed Consolidated</b>
<b>Cash flows from operating activities:</b>						
Net income (loss)	\$ 888	\$ (873)	\$ 1,269	\$ 754	\$ (952)	\$ 1,086
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:						
Changes in operating assets and liabilities	13	(32)	(1,258)	(874)		(2,151)
Provision for doubtful accounts			931			