HCA Holdings, Inc.
Form 10-Q
May 06, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 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)

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 x 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 x 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	x	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 x

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	**Outstanding at April 30, 2014**
Voting common stock, $.01 par value	444,613,700 shares

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HCA HOLDINGS, INC.

Form 10-Q

March 31, 2014

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HCA HOLDINGS, INC.

CONDENSED CONSOLIDATED INCOME STATEMENTS

FOR THE QUARTERS ENDED MARCH 31, 2014 AND 2013

Unaudited

(Dollars in millions, except per share amounts)

	2014	2013
Revenues before provision for doubtful accounts	**$ 9,683**	$ 9,194
Provision for doubtful accounts	**851**	754
Revenues	**8,832**	8,440
Salaries and benefits	**4,050**	3,917
Supplies	**1,532**	1,479
Other operating expenses	**1,645**	1,523
Electronic health record incentive income	**(30)**	(39)
Equity in earnings of affiliates	**(9)**	(8)
Depreciation and amortization	**447**	424
Interest expense	**460**	472
Losses (gains) on sales of facilities	**(21)**	16
Loss on retirement of debt		17
Legal claim costs	**78**	
	8,152	7,801
Income before income taxes	**680**	639
Provision for income taxes	**226**	201
Net income	**454**	438
Net income attributable to noncontrolling interests	**107**	94
Net income attributable to HCA Holdings, Inc.	**$ 347**	$ 344
Per share data:		
Basic earnings per share	**$ 0.78**	$ 0.77
Diluted earnings per share	**$ 0.76**	$ 0.74
Shares used in earnings per share calculations (in thousands):		
Basic	**442,150**	444,401
Diluted	**457,449**	462,368

See accompanying notes.

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HCA HOLDINGS, INC.

CONDENSED CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS

FOR THE QUARTERS ENDED MARCH 31, 2014 AND 2013

Unaudited

(Dollars in millions)

	2014	2013
Net income	**$ 454**	$ 438
Other comprehensive income (loss) before taxes:		
Foreign currency translation	**10**	(60)
Unrealized gains on available-for-sale securities	**4**	1
Defined benefit plans		
Pension costs included in salaries and benefits	**4**	7
	4	7
Change in fair value of derivative financial instruments	**(10)**	(7)
Interest costs included in interest expense	**33**	32
	23	25
Other comprehensive income (loss) before taxes	**41**	(27)
Income taxes (benefits) related to other comprehensive income items	**16**	(9)
Other comprehensive income (loss)	**25**	(18)
Comprehensive income	**479**	420
Comprehensive income attributable to noncontrolling interests	**107**	94
Comprehensive income attributable to HCA Holdings, Inc.	**$ 372**	$ 326

See accompanying notes.

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HCA HOLDINGS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

Unaudited

(Dollars in millions)

	March 31, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 850**	$ 414
Accounts receivable, less allowance for doubtful accounts of $5,432 and $5,488	**5,489**	5,208
Inventories	**1,187**	1,179
Deferred income taxes	**492**	489
Other	**859**	747
	8,877	8,037
Property and equipment, at cost	**31,369**	31,073
Accumulated depreciation	**(17,757)**	(17,454)
	13,612	13,619
Investments of insurance subsidiaries	**453**	448
Investments in and advances to affiliates	**142**	121
Goodwill and other intangible assets	**5,910**	5,903
Deferred loan costs	**271**	237
Other	**544**	466
	$ 29,809	$ 28,831
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Accounts payable	**$ 1,735**	$ 1,803
Accrued salaries	**1,052**	1,193
Other accrued expenses	**2,063**	1,913
Long-term debt due within one year	**1,041**	786
	5,891	5,695
Long-term debt	**27,883**	27,590
Professional liability risks	**978**	949
Income taxes and other liabilities	**1,524**	1,525
Stockholders deficit:		
Common stock $0.01 par; authorized 1,800,000,000 shares; outstanding 444,201,100 shares in 2014 and 439,604,000 shares in 2013	**4**	4
Capital in excess of par value	**1,455**	1,386
Accumulated other comprehensive loss	**(232)**	(257)
Retained deficit	**(9,055)**	(9,403)
Stockholders deficit attributable to HCA Holdings, Inc.	**(7,828)**	(8,270)
Noncontrolling interests	**1,361**	1,342

	(6,467)	(6,928)
	$ 29,809	$ 28,831

See accompanying notes.

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HCA HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE QUARTERS ENDED MARCH 31, 2014 AND 2013

Unaudited

(Dollars in millions)

	2014	2013
Cash flows from operating activities:		
Net income	$ 454	$ 438
Adjustments to reconcile net income to net cash provided by operating activities:		
Changes in operating assets and liabilities	(1,561)	(1,294)
Provision for doubtful accounts	851	754
Depreciation and amortization	447	424
Income taxes	144	350
Losses (gains) on sales of facilities	(21)	16
Loss on retirement of debt		17
Legal claim costs	78	
Amortization of deferred loan costs	14	13
Share-based compensation	37	23
Other		(1)
Net cash provided by operating activities	443	740
Cash flows from investing activities:		
Purchase of property and equipment	(400)	(404)
Acquisition of hospitals and health care entities	(19)	(22)
Disposition of hospitals and health care entities	23	1
Change in investments	(13)	51
Other		1
Net cash used in investing activities	(409)	(373)
Cash flows from financing activities:		
Issuance of long-term debt	3,502	
Net change in revolving credit facilities	(2,440)	390
Repayment of long-term debt	(542)	(741)
Distributions to noncontrolling interests	(87)	(102)
Payment of debt issuance costs	(48)	
Distributions to stockholders	(7)	(10)
Income tax benefits	50	36
Other	(26)	(51)
Net cash provided by (used in) financing activities	402	(478)
Change in cash and cash equivalents	436	(111)
Cash and cash equivalents at beginning of period	414	705
Cash and cash equivalents at end of period	$ 850	$ 594

Interest payments	**$ 523**	$ 533
Income tax payments (refunds), net	**$ 32**	$ (185)

See accompanying notes.

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HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 March 31, 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 $68 million and $66 million for the quarters ended March 31, 2014 and 2013, respectively. Operating results for the quarter ended March 31, 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.

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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 (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 ended March 31, 2014 and 2013 are summarized in the following table (dollars in millions):

	2014	Ratio	2013	Ratio
Medicare	**$ 2,125**	**24.1%**	$ 2,138	25.3%
Managed Medicare	**899**	**10.2**	843	10.0
Medicaid	**444**	**5.0**	332	3.9
Managed Medicaid	**421**	**4.8**	401	4.8
Managed care and other insurers	**4,710**	**53.3**	4,486	53.2
International (managed care and other insurers)	**326**	**3.7**	290	3.4
	8,925	**101.1**	8,490	100.6
Uninsured	**388**	**4.4**	399	4.7
Other	**370**	**4.2**	305	3.6
Revenues before provision for doubtful accounts	**9,683**	**109.7**	9,194	108.9
Provision for doubtful accounts	**(851)**	**(9.7)**	(754)	(8.9)
Revenues	**$ 8,832**	**100.0%**	$ 8,440	100.0%

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

NOTE 2 ACQUISITIONS AND DISPOSITIONS

During the quarter ended March 31, 2014, we paid $13 million to acquire a hospital and $6 million to acquire other nonhospital health care entities. During the quarter ended March 31, 2013, we paid $22 million to acquire nonhospital health care entities.

During the quarter ended March 31, 2014, we recognized net pretax gains of $21 million related to sales of real estate and other investments. During the quarter ended March 31, 2013, we recognized net pretax losses of $16 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 the first quarter of 2014.

Our liability for unrecognized tax benefits was $484 million, including accrued interest of $35 million, as of March 31, 2014 ($462 million and $30 million, respectively, as of December 31, 2013). Unrecognized tax

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HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3 INCOME TAXES (continued)

benefits of $168 million ($160 million as of December 31, 2013) would affect the effective rate, if recognized. The provision for income taxes reflects $4 million ($3 million, net of tax) of interest expense related to taxing authority examinations and $18 million ($11 million, net of tax) of reductions in interest expense related to taxing authority examinations for the quarters ended March 31, 2014 and 2013, 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.

The following table sets forth the computation of basic and diluted earnings per share for the quarters ended March 31, 2014 and 2013 (dollars in millions, except per share amounts, and shares in thousands):

	2014	2013
Net income attributable to HCA Holdings, Inc.	**$ 347**	$ 344
Weighted average common shares outstanding	**442,150**	444,401
Effect of dilutive incremental shares	**15,299**	17,967
Shares used for diluted earnings per share	**457,449**	462,368
Earnings per share:		
Basic earnings per share	**$ 0.78**	$ 0.77
Diluted earnings per share	**$ 0.76**	$ 0.74

NOTE 5 INVESTMENTS OF INSURANCE SUBSIDIARIES

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

	March 31, 2014			
		Unrealized Amounts		
	Amortized Cost	**Gains**	**Losses**	**Fair Value**
Debt securities:				
States and municipalities	**$ 451**	**$ 13**	**$ (1)**	**$ 463**
Money market funds	**59**			**59**
	510	**13**	**(1)**	**522**
Equity securities	**1**	**2**		**3**

	$ 511	**$ 15**	**$ (1)**	**525**
Amounts classified as current assets				**(72)**
Investment carrying value				**$ 453**

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HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5 INVESTMENTS OF INSURANCE SUBSIDIARIES (continued)

	December 31, 2013			
	Amortized Cost	Unrealized Amounts Gains	Unrealized Amounts Losses	Fair Value
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 March 31, 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 March 31, 2014 were as follows (dollars in millions):

	Amortized Cost	Fair Value
Due in one year or less	$ 80	$ 80
Due after one year through five years	226	232
Due after five years through ten years	90	94
Due after ten years	114	116
	$ 510	$ 522

The average expected maturity of the investments in debt securities at March 31, 2014 was 4.0 years, compared to the average scheduled maturity of 5.5 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.

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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 March 31, 2014 (dollars in millions):

	Notional Amount	Maturity Date	Fair Value
Pay-fixed interest rate swaps	$ 500	December 2014	$ (4)
Pay-fixed interest rate swaps	3,000	December 2016	(229)
Pay-fixed interest rate swaps	1,000	December 2017	(40)

During the next 12 months, we estimate $127 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 quarter ended March 31, 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	$ 6	Interest expense	$ 33

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 March 31, 2014, we have not been required to post any collateral related to these agreements. If we had breached these provisions at March 31, 2014, we would have been required to settle our obligations under the agreements at their aggregate, estimated termination value of $284 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).

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HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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 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 March 31, 2014 and December 31, 2013, we determined the credit valuation adjustments were not significant to the overall valuation of our derivatives.

HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Derivative Financial Instruments (continued)

The following tables summarize our assets and liabilities measured at fair value on a recurring basis as of March 31, 2014 and December 31, 2013, aggregated by the level in the fair value hierarchy within which those measurements fall (dollars in millions):

	March 31, 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)**
Assets:				
Investments of insurance subsidiaries:				
Debt securities:				
States and municipalities	**$ 463**	**$**	**$ 456**	**$ 7**
Money market funds	**59**	**59**		
	522	**59**	**456**	**7**
Equity securities	**3**	**2**		**1**
Investments of insurance subsidiaries	**525**	**61**	**456**	**8**
Less amounts classified as current assets	**(72)**	**(59)**	**(13)**	
	$ 453	**$ 2**	**$ 443**	**$ 8**
Liabilities:				
Interest rate swaps (Income taxes and other liabilities)	**$ 273**	**$**	**$ 273**	**$**

	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)**
Assets:				
Investments of insurance subsidiaries:				
Debt securities:				
States and municipalities	$ 412	$	$ 405	$ 7

Money market funds	94		94				
	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
Liabilities:							
Interest rate swaps (Income taxes and other liabilities)	$ 295	$		$	295	$	

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HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Derivative Financial Instruments (continued)

The estimated fair value of our long-term debt was $30.541 billion and $29.603 billion at March 31, 2014 and December 31, 2013, respectively, compared to carrying amounts aggregating $28.924 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 March 31, 2014 and December 31, 2013, including related interest rates at March 31, 2014, follows (dollars in millions):

	March 31, 2014	December 31, 2013
Senior secured asset-based revolving credit facility	$	$ 2,440
Senior secured revolving credit facility		
Senior secured term loan facilities (effective interest rate of 5.3%)	**5,578**	5,598
Senior secured first lien notes (effective interest rate of 6.5%)	**13,197**	9,695
Other senior secured debt (effective interest rate of 6.7%)	**453**	448
First lien debt	**19,228**	18,181
Senior unsecured notes (effective interest rate of 7.2%)	**9,696**	10,195
Total debt (average life of 6.7 years, rates averaging 6.5%)	**28,924**	28,376
Less amounts due within one year	**1,041**	786
	$ 27,883	$ 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 is expected to be approximately $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, 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

HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9 CONTINGENCIES AND LEGAL CLAIM COSTS (continued)

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.

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 NHS 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 intends to appeal the decision.

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

HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 9 CONTINGENCIES AND LEGAL CLAIM COSTS (continued)

Securities Class Action Litigation (continued)

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 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 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

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HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 9 CONTINGENCIES AND LEGAL CLAIM COSTS (continued)

Health Midwest Litigation (continued)

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		Capital in Excess of Par Value	Accumulated Other Comprehensive Loss	Retained Deficit		
	Shares (000)	Par Value					
Balances at December 31, 2013	439,604	$ 4	$ 1,386	$ (257)	$ (9,403)	$ 1,342	$ (6,928)
Net income					347	107	454
Other comprehensive income				25			25
Distributions						(87)	(87)
Share-based benefit plans	4,597		70				70
Other			(1)		1	(1)	(1)
Balances at March 31, 2014	444,201	$ 4	$ 1,455	$ (232)	$ (9,055)	$ 1,361	$ (6,467)

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 $2 of income taxes	2				2
Foreign currency translation adjustments, net of $3 of income taxes		7			7

Change in fair value of derivative instruments, net of $3 income tax benefit				(7)	(7)
Expense reclassified into operations from other comprehensive income, net of $2 and $12, respectively, income tax benefits			2	21	23
Balances at March 31, 2014	$ 9	$ 18	$ (86)	$ (173)	$ (232)

HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

Adjusted segment EBITDA is defined as income before depreciation and amortization, interest expense, losses (gains) on sales of facilities, loss 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 ended March 31, 2014 and 2013 are summarized in the following table (dollars in millions):

	Quarter	
	2014	**2013**
Revenues:		
National Group	**$ 4,160**	$ 3,981
American Group	**4,152**	4,034
Corporate and other	**520**	425
	$ 8,832	$ 8,440
Equity in earnings of affiliates:		
National Group	**$ (3)**	$ (2)
American Group	**(7)**	(6)
Corporate and other	**1**	
	$ (9)	$ (8)
Adjusted segment EBITDA:		
National Group	**$ 856**	$ 804
American Group	**850**	828
Corporate and other	**(62)**	(64)
	$ 1,644	$ 1,568
Depreciation and amortization:		
National Group	**$ 187**	$ 174
American Group	**205**	202
Corporate and other	**55**	48

	$ 447	$ 424
Adjusted segment EBITDA	**$ 1,644**	$ 1,568
Depreciation and amortization	**447**	424
Interest expense	**460**	472
Losses (gains) on sales of facilities	**(21)**	16
Loss on retirement of debt		17
Legal claim costs	**78**	
Income before income taxes	**$ 680**	$ 639

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 $^{3}/_{4}$% 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 ended March 31, 2014 and 2013, condensed consolidating balance sheets at March 31, 2014 and December 31, 2013 and condensed consolidating statements of cash flows for the quarters ended March 31, 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 MARCH 31, 2014

(Dollars in millions)

	HCA Holdings, Inc. Issuer	HCA Inc. Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Eliminations	Condensed Consolidated
Revenues before provision for doubtful accounts	$	$	$ 5,030	$ 4,653	$	$ 9,683
Provision for doubtful accounts			537	314		851
Revenues			4,493	4,339		8,832
Salaries and benefits			2,099	1,951		4,050
Supplies			814	718		1,532
Other operating expenses	5		773	867		1,645
Electronic health record incentive income			(22)	(8)		(30)
Equity in earnings of affiliates	(403)		(1)	(8)	403	(9)
Depreciation and amortization			218	229		447
Interest expense	46	557	(122)	(21)		460
Gains on sales of facilities			(21)			(21)
Legal claim costs		78				78
Management fees			(174)	174		
	(352)	635	3,564	3,902	403	8,152

Income (loss) before income taxes	352	(635)	929	437	(403)	680
Provision (benefit) for income taxes	(20)	(247)	352	141		226
Net income (loss)	372	(388)	577	296	(403)	454
Net income attributable to noncontrolling interests			29	78		107
Net income (loss) attributable to HCA Holdings, Inc.	$ 372	$ (388)	$ 548	$ 218	$ (403)	$ 347
Comprehensive income (loss) attributable to HCA Holdings, Inc.	$ 372	$ (374)	$ 550	$ 227	$ (403)	$ 372

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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 MARCH 31, 2013

(Dollars in millions)

	HCA Holdings, Inc. Issuer	HCA Inc. Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Eliminations	Condensed Consolidated
Revenues before provision for doubtful accounts	$	$	$ 4,872	$ 4,322	$	$ 9,194
Provision for doubtful accounts			443	311		754
Revenues			4,429	4,011		8,440
Salaries and benefits			2,127	1,790		3,917
Supplies			791	688		1,479
Other operating expenses	1		732	790		1,523
Electronic health record incentive income			(29)	(10)		(39)
Equity in earnings of affiliates	(356)		(1)	(7)	356	(8)
Depreciation and amortization			209	215		424
Interest expense	46	558	(106)	(26)		472
Losses on sales of facilities			16			16
Loss on retirement of debt		17				17
Management fees			(183)	183		
	(309)	575	3,556	3,623	356	7,801
Income (loss) before income taxes	309	(575)	873	388	(356)	639
Provision (benefit) for income taxes	(17)	(212)	317	113		201
Net income (loss)	326	(363)	556	275	(356)	438
Net income attributable to noncontrolling interests			13	81		94
Net income (loss) attributable to HCA Holdings, Inc.	$ 326	$ (363)	$ 543	$ 194	$ (356)	$ 344
Comprehensive income (loss) attributable to HCA Holdings, Inc.	$ 326	$ (347)	$ 547	$ 156		