

TENET HEALTHCARE CORP

Form 10-Q

May 04, 2015

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
for the quarterly period ended March 31, 2015

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 1-7293

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TENET HEALTHCARE CORPORATION

(Exact name of Registrant as specified in its charter)

Nevada

95-2557091

(State of Incorporation) (IRS Employer Identification No.)

1445 Ross Avenue, Suite 1400  
Dallas, TX 75202

(Address of principal executive offices, including zip code)

(469) 893-2200

(Registrant's telephone number, including area code)

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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, 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 website, 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. 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 (as defined in Exchange Act Rule 12b-2).

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

At April 30, 2015, there were 99,223,484 shares of the Registrant's common stock, \$0.05 par value, outstanding.



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TENET HEALTHCARE CORPORATION

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## TENET HEALTHCARE CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

Dollars in Millions

(Unaudited)

	March 31, 2015	December 31, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 185	\$ 193
Accounts receivable, less allowance for doubtful accounts (\$902 at March 31, 2015 and \$852 at December 31, 2014)	2,468	2,404
Inventories of supplies, at cost	268	276
Income tax receivable	2	2
Current portion of deferred income taxes	718	747
Assets held for sale	337	2
Other current assets	1,146	1,093
Total current assets	5,124	4,717
Investments and other assets	355	384
Deferred income taxes, net of current portion	66	116
Property and equipment, at cost, less accumulated depreciation and amortization (\$4,479 at March 31, 2015 and \$4,478 at December 31, 2014)	7,528	7,733
Goodwill	3,874	3,913
Other intangible assets, at cost, less accumulated amortization (\$692 at March 31, 2015 and \$671 at December 31, 2014)	1,478	1,278
Total assets	\$ 18,425	\$ 18,141
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Short-term borrowings	\$ 400	\$ —
Current portion of long-term debt	110	112
Accounts payable	1,098	1,179
Accrued compensation and benefits	671	852
Professional and general liability reserves	188	189
Accrued interest payable	268	194
Liabilities held for sale	45	—

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Other current liabilities	954	1,051
Total current liabilities	3,734	3,577
Long-term debt, net of current portion	11,824	11,695
Professional and general liability reserves	524	492
Defined benefit plan obligations	629	633
Other long-term liabilities	534	558
Total liabilities	17,245	16,955
Commitments and contingencies		
Redeemable noncontrolling interests in equity of consolidated subsidiaries	208	401
Equity:		
Shareholders' equity:		
Common stock, \$0.05 par value; authorized 262,500,000 shares; 146,346,935 shares issued at March 31, 2015 and 145,578,735 shares issued at December 31, 2014	7	7
Additional paid-in capital	4,751	4,614
Accumulated other comprehensive loss	(179)	(182)
Accumulated deficit	(1,363)	(1,410)
Common stock in treasury, at cost, 47,183,241 shares at March 31, 2015 and 47,196,902 shares at December 31, 2014	(2,377)	(2,378)
Total shareholders' equity	839	651
Noncontrolling interests	133	134
Total equity	972	785
Total liabilities and equity	\$ 18,425	\$ 18,141

See accompanying Notes to Condensed Consolidated Financial Statements.

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## TENET HEALTHCARE CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Dollars in Millions, Except Per-Share Amounts

(Unaudited)

	Three Months Ended March 31,	
	2015	2014
Net operating revenues:		
Net operating revenues before provision for doubtful accounts	\$ 4,791	\$ 4,306
Less: Provision for doubtful accounts	363	380
Net operating revenues	4,428	3,926
Operating expenses:		
Salaries, wages and benefits	2,125	1,921
Supplies	687	628
Other operating expenses, net	1,093	999
Electronic health record incentives	(6)	(9)
Depreciation and amortization	207	193
Impairment and restructuring charges, and acquisition-related costs	29	21
Litigation and investigation costs	3	3
Operating income	290	170
Interest expense	(199)	(182)
Net income (loss) from continuing operations, before income taxes	91	(12)
Income tax benefit (expense)	(16)	1
Net income (loss) from continuing operations, before discontinued operations	75	(11)
Discontinued operations:		
Loss from operations	(1)	(8)
Litigation and investigation costs	3	—
Income tax benefit (expense)	(1)	3
Net income (loss) from discontinued operations	1	(5)
Net income (loss)	76	(16)
Less: Net income attributable to noncontrolling interests	29	16
Net income (loss) attributable to Tenet Healthcare Corporation common shareholders	\$ 47	\$ (32)
Amounts attributable to Tenet Healthcare Corporation common shareholders		
Net income (loss) from continuing operations, net of tax	\$ 46	\$ (27)
Net income (loss) from discontinued operations, net of tax	1	(5)
Net income (loss) attributable to Tenet Healthcare Corporation common shareholders	\$ 47	\$ (32)
Earnings (loss) per share attributable to Tenet Healthcare Corporation common shareholders:		
Basic		
Continuing operations	\$ 0.47	\$ (0.28)



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Discontinued operations	0.01	(0.05)
	\$ 0.48	\$ (0.33)
Diluted		
Continuing operations	\$ 0.46	\$ (0.28)
Discontinued operations	0.01	(0.05)
	\$ 0.47	\$ (0.33)
Weighted average shares and dilutive securities outstanding (in thousands):		
Basic	98,699	97,161
Diluted	100,872	97,161

See accompanying Notes to Condensed Consolidated Financial Statements.

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TENET HEALTHCARE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME (LOSS)

Dollars in Millions

(Unaudited)

	Three Months Ended March 31,	
	2015	2014
Net income (loss)	\$ 76	\$ (16)
Other comprehensive income:		
Amortization of prior-year service costs included in net periodic benefit costs	3	1
Unrealized gains on securities held as available-for-sale	1	—
Other comprehensive income before income taxes	4	1
Income tax expense related to items of other comprehensive income	(1)	—
Total other comprehensive income, net of tax	3	1
Comprehensive net income (loss)	79	(15)
Less: Comprehensive income attributable to noncontrolling interests	29	16
Comprehensive net income (loss) attributable to Tenet Healthcare Corporation common shareholders	\$ 50	\$ (31)

See accompanying Notes to Condensed Consolidated Financial Statements.

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## TENET HEALTHCARE CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Dollars in Millions

(Unaudited)

	Three Months Ended March 31,	
	2015	2014
Net income (loss)	\$ 76	\$ (16)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	207	193
Provision for doubtful accounts	363	380
Deferred income tax expense (benefit)	12	(3)
Stock-based compensation expense	15	12
Impairment and restructuring charges, and acquisition-related costs	29	21
Litigation and investigation costs	3	3
Amortization of debt discount and debt issuance costs	7	7
Pre-tax (income) loss from discontinued operations	(2)	8
Other items, net	(8)	(3)
Changes in cash from operating assets and liabilities:		
Accounts receivable	(484)	(557)
Inventories and other current assets	(74)	(60)
Income taxes	8	(2)
Accounts payable, accrued expenses and other current liabilities	(200)	29
Other long-term liabilities	28	13
Payments for restructuring charges, acquisition-related costs, and litigation costs and settlements	(33)	(30)
Net cash used in operating activities from discontinued operations, excluding income taxes	(4)	(14)
Net cash used in operating activities	(57)	(19)
Cash flows from investing activities:		
Purchases of property and equipment — continuing operations	(184)	(281)
Purchases of businesses or joint venture interests, net of cash acquired	(11)	(9)
Proceeds from sales of marketable securities, long-term investments and other assets	6	3
Other long-term assets	2	(4)
Net cash used in investing activities	(187)	(291)
Cash flows from financing activities:		
Repayments of borrowings under credit facility	(690)	(665)
Proceeds from borrowings under credit facility	820	430
Repayments of other borrowings	(32)	(24)
Proceeds from other borrowings	401	600
Deferred debt issuance costs	(4)	(11)

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Distributions paid to noncontrolling interests	(11)	(11)
Contributions from noncontrolling interests	2	13
Purchase of noncontrolling interest	(254)	—
Proceeds from exercise of stock options	7	6
Other items, net	(3)	—
Net cash provided by financing activities	236	338
Net increase (decrease) in cash and cash equivalents	(8)	28
Cash and cash equivalents at beginning of period	193	113
Cash and cash equivalents at end of period	\$ 185	\$ 141
Supplemental disclosures:		
Interest paid, net of capitalized interest	\$ (117)	\$ (105)
Income tax refunds (payments), net	\$ 1	\$ (1)

See accompanying Notes to Condensed Consolidated Financial Statements.

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TENET HEALTHCARE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. BASIS OF PRESENTATION

Description of Business and Basis of Presentation

Tenet Healthcare Corporation (together with our subsidiaries, referred to herein as “Tenet,” “we” or “us”) is a national, diversified healthcare services company. At March 31, 2015, we operated 80 hospitals (one of which is temporarily closed for repairs), 215 outpatient centers, six health plans and Conifer Holdings, Inc. (“Conifer”), which provides healthcare business process services in the areas of revenue cycle management, value-based care and patient communications.

This quarterly report supplements our Annual Report on Form 10-K for the year ended December 31, 2014 (“Annual Report”). As permitted by the Securities and Exchange Commission for interim reporting, we have omitted certain notes and disclosures that substantially duplicate those in our Annual Report. For further information, refer to the audited Consolidated Financial Statements and notes included in our Annual Report. Unless otherwise indicated, all financial and statistical data included in these notes to our Condensed Consolidated Financial Statements relate to our continuing operations, with dollar amounts expressed in millions (except per-share amounts). Certain prior-year amounts have been adjusted to conform to the current-year presentation.

Although the Condensed Consolidated Financial Statements and related notes within this document are unaudited, we believe all adjustments considered necessary for a fair presentation have been included and are of a normal recurring nature. In preparing our financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”), we are required to make estimates and assumptions that affect the amounts reported in our Condensed Consolidated Financial Statements and these accompanying notes. We regularly evaluate the accounting policies and estimates we use. In general, we base the estimates on historical experience and on assumptions that we believe to be reasonable given the particular circumstances in which we operate. Actual results may vary from those estimates. Financial and statistical information we report to other regulatory agencies may be prepared on a basis other than GAAP or using different assumptions or reporting periods and, therefore, may vary from amounts presented herein. Although we make every effort to ensure that the information we report to those agencies is accurate, complete and consistent with applicable reporting guidelines, we cannot be responsible for the accuracy of the information they make available to the public.

Operating results for the three month period ended March 31, 2015 are not necessarily indicative of the results that may be expected for the full year. Reasons for this include, but are not limited to: overall revenue and cost trends,

particularly the timing and magnitude of price changes; fluctuations in contractual allowances and cost report settlements and valuation allowances; managed care contract negotiations, settlements or terminations and payer consolidations; changes in Medicare and Medicaid regulations; Medicaid and other supplemental funding levels set by the states in which we operate; the timing of approval by the Centers for Medicare and Medicaid Services of Medicaid provider fee revenue programs; trends in patient accounts receivable collectability and associated provisions for doubtful accounts; fluctuations in interest rates; levels of malpractice insurance expense and settlement trends; the number of covered lives managed by our health plans and the plans' ability to effectively manage medical costs; the timing of when we meet the criteria to recognize electronic health record incentives; impairment of long-lived assets and goodwill; restructuring charges; acquisition-related costs; losses, costs and insurance recoveries related to natural disasters; litigation and investigation costs; acquisitions and dispositions of facilities and other assets; income tax rates and deferred tax asset valuation allowance activity; changes in estimates of accruals for annual incentive compensation; the timing and amounts of stock option and restricted stock unit grants to employees and directors; gains or losses from early extinguishment of debt; and changes in occupancy levels and patient volumes. Factors that affect patient volumes and, thereby, the results of operations at our hospitals and related healthcare facilities include, but are not limited to: the business environment, economic conditions and demographics of local communities in which we operate; the number of uninsured and underinsured individuals in local communities treated at our hospitals; seasonal cycles of illness; climate and weather conditions; physician recruitment, retention and attrition; advances in technology and treatments that reduce length of stay; local healthcare competitors; managed care contract negotiations or terminations; the number of patients with high-deductible health insurance plans; any unfavorable publicity about us, which impacts our relationships with

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physicians and patients; changes in healthcare regulations and the participation of individual states in federal programs; and the timing of elective procedures. These considerations apply to year-to-year comparisons as well.

### Net Operating Revenues Before Provision for Doubtful Accounts

We recognize net operating revenues before provision for doubtful accounts in the period in which our services are performed. Net operating revenues before provision for doubtful accounts primarily consist of net patient service revenues that are recorded based on established billing rates (i.e., gross charges), less estimated discounts for contractual and other allowances, principally for patients covered by Medicare, Medicaid, managed care and other health plans, as well as certain uninsured patients under our Compact with Uninsured Patients (“Compact”) and other uninsured discount and charity programs.

The table below shows the sources of net operating revenues before provision for doubtful accounts from continuing operations:

	Three Months Ended March 31,	
	2015	2014
General Hospitals:		
Medicare	\$ 915	\$ 857
Medicaid	386	292
Managed care	2,469	2,190
Indemnity, self-pay and other	424	447
Acute care hospitals — other revenue	15	19
Other:		
Other operations	582	501
Net operating revenues before provision for doubtful accounts	\$ 4,791	\$ 4,306

### Cash and Cash Equivalents

We treat highly liquid investments with original maturities of three months or less as cash equivalents. Cash and cash equivalents were approximately \$185 million and \$193 million at March 31, 2015 and December 31, 2014, respectively. At March 31, 2015 and December 31, 2014, our bank overdrafts were approximately \$226 million and \$264 million, respectively, which were classified as accounts payable.

At March 31, 2015 and December 31, 2014, approximately \$117 million and \$104 million, respectively, of total cash and cash equivalents in the accompanying Condensed Consolidated Balance Sheets were intended for the operations of our captive insurance subsidiaries.

Also at March 31, 2015 and December 31, 2014, we had \$89 million and \$150 million, respectively, of property and equipment purchases accrued for items received but not yet paid. Of these amounts, \$52 million and \$112 million, respectively, were included in accounts payable.

During the three months ended March 31, 2015 and 2014, we entered into non-cancellable capital leases of approximately \$33 million and \$52 million, respectively, primarily for buildings and equipment.



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## Other Intangible Assets

The following tables provide information regarding other intangible assets, which are included in the accompanying Condensed Consolidated Balance Sheets at March 31, 2015 and December 31, 2014:

	Gross Carrying Amount	Accumulated Amortization	Net Book Value
At March 31, 2015:			
Capitalized software costs	\$ 1,400	\$ (589)	\$ 811
Long-term debt issuance costs	249	(57)	192
Trade names	106	—	106
Contracts	290	(13)	277
Other	125	(33)	92
Total	\$ 2,170	\$ (692)	\$ 1,478

	Gross Carrying Amount	Accumulated Amortization	Net Book Value
At December 31, 2014:			
Capitalized software costs	\$ 1,412	\$ (586)	\$ 826
Long-term debt issuance costs	245	(49)	196
Trade names	106	—	106
Contracts	57	(6)	51
Other	129	(30)	99
Total	\$ 1,949	\$ (671)	\$ 1,278

Estimated future amortization of intangibles with finite useful lives at March 31, 2015 was as follows:

	Total	Years Ending December 31,					Later Years
		2015	2016	2017	2018	2019	
Amortization of intangible assets	\$ 1,366	\$ 196	\$ 204	\$ 153	\$ 131	\$ 111	\$ 571

## NOTE 2. ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

The principal components of accounts receivable are shown in the table below:

	March 31, 2015	December 31, 2014
Continuing operations:		
Patient accounts receivable	\$ 3,295	\$ 3,178
Allowance for doubtful accounts	(902)	(851)
Estimated future recoveries from accounts assigned to our Conifer subsidiary	121	125
Net cost reports and settlements payable and valuation allowances	(49)	(51)
	2,465	2,401
Discontinued Operations	3	3
Accounts receivable, net	\$ 2,468	\$ 2,404

At March 31, 2015 and December 31, 2014, our allowance for doubtful accounts was 27.4% and 26.8%, respectively, of our patient accounts receivable. Accounts that are pursued for collection through Conifer's regional business offices are maintained on our hospitals' books and reflected in patient accounts receivable with an allowance for doubtful accounts established to reduce the carrying value of such receivables to their estimated net realizable value. Generally, we estimate this allowance based on the aging of our accounts receivable by hospital, our historical collection experience by hospital and for each type of payer, and other relevant factors. At March 31, 2015 and December 31, 2014, our allowance for doubtful accounts for self-pay was 80.3% and 78.0%, respectively, of our self-pay patient accounts receivable, including co-pays and deductibles owed by patients with insurance. At March 31, 2015 and

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December 31, 2014, our allowance for doubtful accounts for managed care was 6.4% and 6.5%, respectively, of our managed care patient accounts receivable.

We also provide charity care to patients who are financially unable to pay for the healthcare services they receive. Most patients who qualify for charity care are charged a per-diem amount for services received, subject to a cap. Except for the per-diem amounts, our policy is not to pursue collection of amounts determined to qualify as charity care; therefore, we do not report these amounts in net operating revenues. Most states include an estimate of the cost of charity care in the determination of a hospital's eligibility for Medicaid disproportionate share hospital ("DSH") payments. These payments are intended to mitigate our cost of uncompensated care, as well as reduced Medicaid funding levels. The table below shows our estimated costs (based on selected operating expenses, which include salaries, wages and benefits, supplies and other operating expenses) of caring for our self-pay patients and charity care patients, as well as revenues attributable to DSH and other supplemental revenues we recognized in the three months ended March 31, 2015 and 2014.

	Three Months Ended March 31,	
	2015	2014
Estimated costs for:		
Self-pay patients	\$ 164	\$ 189
Charity care patients	\$ 36	\$ 40
DSH and other supplemental revenues	\$ 247	\$ 154

At March 31, 2015 and December 31, 2014, we had approximately \$412 million and \$399 million, respectively, of receivables recorded in other current assets and approximately \$166 million and \$212 million, respectively, of payables recorded in other current liabilities in the accompanying Condensed Consolidated Balance Sheets related to California's provider fee program.

## NOTE 3. ASSETS AND LIABILITIES HELD FOR SALE

In the three months ended March 31, 2015, we entered into a definitive agreement to form a joint venture with Baylor Scott & White Health involving the ownership and operation of Centennial Medical Center, Doctors Hospital at White Rock Lake, Lake Pointe Medical Center and Texas Regional Medical Center at Sunnyvale (collectively, "our North Texas hospitals") – which are currently operated by certain of our subsidiaries – and Baylor Medical Center at Garland – which is currently owned and operated by Baylor Scott & White Health. Baylor Scott & White Health will hold a majority ownership interest in the joint venture. In accordance with the guidance in the Financial Accounting Standards Board's Accounting Standards Codification ("ASC") 360, "Property, Plant and Equipment," we classified \$337 million of assets of our North Texas hospitals as "assets held for sale" in current assets and \$45 million of liabilities of our North Texas hospitals as "liabilities held for sale" in current liabilities in the accompanying Condensed Consolidated Balance Sheet at March 31, 2015. These assets and liabilities were recorded at the lower of their

carrying amount or their fair value less estimated costs to sell. The fair values were based on estimated net proceeds under the definitive joint venture agreement. There were no impairment charges recorded as a result of this anticipated transaction. The transaction is subject to customary closing conditions, including regulatory approvals.

Assets and liabilities classified as held for sale at March 31, 2015 were comprised of the following:

Accounts receivable	\$ 55
Other current assets	41
Property and equipment	182
Goodwill	49
Other long-term assets	10
Current liabilities	(38)
Long-term liabilities	(7)
Net assets held for sale	\$ 292

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NOTE 4. IMPAIRMENT AND RESTRUCTURING CHARGES, AND ACQUISITION-RELATED COSTS

During the three months ended March 31, 2015, we recorded impairment and restructuring charges and acquisition-related costs of \$29 million, consisting of \$6 million of employee severance costs, \$3 million of restructuring costs, and \$20 million in acquisition-related costs, which include \$7 million of transaction costs and \$13 million of acquisition integration charges.

During the three months ended March 31, 2014, we recorded impairment and restructuring charges and acquisition-related costs of \$21 million, consisting of \$6 million of employee severance costs, \$5 million of restructuring costs, and \$10 million in acquisition-related costs, which include \$6 million of transaction costs and \$4 million of acquisition integration charges.

Our impairment tests presume stable, improving or, in some cases, declining operating results in our hospitals, which are based on programs and initiatives being implemented that are designed to achieve the hospital's most recent projections. If these projections are not met, or if in the future negative trends occur that impact our future outlook, impairments of long-lived assets and goodwill may occur, and we may incur additional restructuring charges, which could be material.

At March 31, 2015, our continuing operations consisted of two reportable segments, our Hospital Operations and other and Conifer. Our Hospital Operations and other segment was structured as follows at March 31, 2015:

- Our Central region included all of our hospitals and other operations in Missouri, New Mexico, Tennessee and Texas, except for those in the Resolute Health, San Antonio and South Texas markets;
- Our Florida region included all of our hospitals and other operations in Florida;
- Our Northeast region included all of our hospitals and other operations in Illinois, Massachusetts and Pennsylvania;
- Our Southern region included all of our hospitals and other operations in Alabama, Georgia, North Carolina and South Carolina;
- Our Western region included all of our hospitals and other operations in Arizona and California;
- Our Detroit market included all of our hospitals and other operations in the Detroit, Michigan area;

- Our Resolute Health market included our hospital and other operations in the New Braunfels, Texas area;
- Our San Antonio market included all of our hospitals and other operations in the San Antonio, Texas area; and
- Our South Texas market included all of our hospitals and other operations in the Brownsville and Harlingen, Texas areas.

Subsequent to March 31, 2015, we combined our Central Region with our Resolute Health, San Antonio and South Texas markets to create our new Texas Region. Our regions and markets are reporting units used to perform our goodwill impairment analysis and are one level below our hospital operations reportable business segment level.

We periodically incur costs to implement restructuring efforts for specific operations, which are recorded in our statement of operations as they are incurred. Our restructuring plans focus on various aspects of operations, including aligning our operations in the most strategic and cost-effective structure. Certain restructuring and acquisition-related costs are based on estimates. Changes in estimates are recognized as they occur.

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## NOTE 5. SHORT-TERM BORROWINGS AND LONG-TERM DEBT AND LEASE OBLIGATIONS

## Interim Loan Agreement

During the three months ended March 31, 2015, we entered into a new interim loan agreement (the “Interim Loan Agreement”) providing for a 364-day secured term loan facility in the aggregate principal amount of \$400 million. At March 31, 2015, we had \$400 million aggregate principal amount of term loans outstanding under the Interim Loan Agreement. We used the proceeds of the term loans (i) to repay outstanding obligations under our Credit Agreement (defined below), and (ii) to pay certain costs, fees and expenses incurred in connection with entering into the Interim Loan Agreement.

Amounts that are borrowed under the Interim Loan Agreement that are repaid or prepaid may not be reborrowed. The maturity date of all outstanding loans made under the Interim Loan Agreement is March 23, 2016. Outstanding term loans accrue interest based on a minimum London Interbank Offered Rate of 1.00% plus a margin ranging from 3.50% to 4.25% per annum based on specific time periods set forth in the Interim Loan Agreement. Our outstanding term loans will accrue interest at 4.50% through July 22, 2015, at which time the interest rate, if the loans have not yet been repaid, will increase by 25 basis points. The loans and other obligations under the Interim Loan Agreement are guaranteed by, and secured by a junior pledge of the capital stock and other ownership interests of, certain of our domestic hospital subsidiaries on a junior lien basis with the liens securing our existing senior secured notes.

## Long-Term Debt and Lease Obligations

The table below shows our long-term debt at March 31, 2015 and December 31, 2014:

	March 31, 2015	December 31, 2014
Senior notes:		
5%, due 2019	\$ 1,100	\$ 1,100
5 1/2%, due 2019	500	500
6 3/4%, due 2020	300	300
8%, due 2020	750	750
8 1/8%, due 2022	2,800	2,800
6 7/8%, due 2031	430	430
Senior secured notes:		
6 1/4%, due 2018	1,041	1,041

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43/4%, due 2020	500	500
6%, due 2020	1,800	1,800
41/2%, due 2021	850	850
43/8%, due 2021	1,050	1,050
Credit facility due 2016	350	220
Capital leases and mortgage notes	484	487
Unamortized note discounts and premium	(21)	(21)
Total long-term debt	11,934	11,807
Less current portion	110	112
Long-term debt, net of current portion	\$ 11,824	\$ 11,695

## Credit Agreement

We have a senior secured revolving credit facility (as amended, “Credit Agreement”) that provides, subject to borrowing availability, for revolving loans in an aggregate principal amount of up to \$1 billion, with a \$300 million subfacility for standby letters of credit. The Credit Agreement, which has a scheduled maturity date of November 29, 2016, is collateralized by patient accounts receivable of all of our wholly owned acute care and specialty hospitals. In addition, borrowings under the Credit Agreement are guaranteed by our wholly owned hospital subsidiaries. Outstanding revolving loans accrue interest at a base rate plus a margin ranging from 1.00% to 1.50% or the London Interbank Offered Rate plus a margin ranging from 2.00% to 2.50% per annum based on available credit. An unused



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commitment fee payable on the undrawn portion of the revolving loans ranges from 0.375% to 0.500% per annum based on available credit. Our borrowing availability is based on a specified percentage of eligible accounts receivable, including self-pay accounts. At March 31, 2015, we had \$350 million of cash borrowings outstanding under the Credit Agreement subject to an interest rate of 2.39%, and we had approximately \$4 million of standby letters of credit outstanding. Based on our eligible receivables, approximately \$646 million was available for borrowing under the Credit Agreement at March 31, 2015.

### Letter of Credit Facility

On March 7, 2014, we entered into a letter of credit facility agreement (“LC Facility”) that provides for the issuance of standby and documentary letters of credit (including certain letters of credit issued under our existing Credit Agreement, which we transferred to the LC Facility (the “Existing Letters of Credit”)), from time to time, in an aggregate principal amount of up to \$180 million (subject to increase to up to \$200 million). The LC Facility has a scheduled maturity date of March 7, 2017, and obligations thereunder are guaranteed by and secured by a first priority pledge of the capital stock and other ownership interests of certain of our hospital subsidiaries on an equal ranking basis with our existing senior secured notes.

Drawings under any letter of credit issued under the LC Facility (including the Existing Letters of Credit) that we have not reimbursed within three business days after notice thereof will accrue interest at a base rate plus a margin equal to 0.875% per annum. An unused commitment fee is payable at an initial rate of 0.50% per annum with a step down to 0.375% per annum based on the secured debt to EBITDA ratio of 3.00 to 1.00. A per annum fee on the aggregate outstanding amount of issued but undrawn letters of credit (including Existing Letters of Credit) will accrue at a rate of 1.875% per annum. An issuance fee equal to 0.125% per annum of the aggregate face amount of each outstanding letter of credit is payable to the account of the issuer of the related letter of credit. At March 31, 2015, we had approximately \$114 million of standby letters of credit outstanding under the LC Facility.

### Senior Notes

In March 2014, we sold \$600 million aggregate principal amount of 5% senior notes, which will mature on March 1, 2019. We will pay interest on the notes semi-annually in arrears on March 1 and September 1 of each year, which payments commenced on September 1, 2014. The net proceeds from the sale of the notes were used for general corporate purposes, including the repayment of borrowings under our Credit Agreement.

All of our senior notes are general unsecured senior debt obligations that rank equally in right of payment with all of our other unsecured senior indebtedness, but are effectively subordinated to our senior secured notes described in our Annual Report, the obligations of our subsidiaries, and any obligations under our Credit Agreement, LC Facility and Interim Loan Agreement to the extent of the collateral. Our Annual Report also describes the covenants and

conditions, as well as other provisions, including our redemption rights, set forth in the indentures governing our senior notes.

#### NOTE 6. GUARANTEES

At March 31, 2015, the maximum potential amount of future payments under our income guarantees to certain physicians who agree to relocate and revenue collection guarantees to hospital-based physician groups providing certain services at our hospitals was \$102 million. We had a total liability of \$77 million recorded for these guarantees, \$73 million in other current liabilities and \$4 million in liabilities held for sale, at March 31, 2015.

#### NOTE 7. EMPLOYEE BENEFIT PLANS

At March 31, 2015, approximately 3.0 million shares of common stock were available under our 2008 Stock Incentive Plan for future stock option grants and other incentive awards, including restricted stock units. Options have an exercise price equal to the fair market value of the shares on the date of grant and generally expire 10 years from the date of grant. A restricted stock unit is a contractual right to receive one share of our common stock or the equivalent value in cash in the future. Options and restricted stock units typically vest one-third on each of the first three anniversary dates of the grant; however, certain special retention awards may have longer vesting periods. In addition, from time to time, we grant performance-based options and restricted stock units that vest subject to the achievement of specified performance goals within a specified timeframe.

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Our income from continuing operations for the three months ended March 31, 2015 and 2014 includes \$18 million and \$12 million, respectively, of pretax compensation costs related to our stock-based compensation arrangements recorded in salaries, wages and benefits in the accompanying Condensed Consolidated Statements of Operations.

## Stock Options

The following table summarizes stock option activity during the three months ended March 31, 2015:

	Options	Weighted Average Exercise Price Per Share	Aggregate Intrinsic Value (In Millions)	Weighted Average Remaining Life
Outstanding at December 31, 2014	1,984,149	\$ 24.42		
Granted	—	—		
Exercised	(77,658)	40.01		
Forfeited/Expired	(36,438)	42.08		
Outstanding at March 31, 2015	1,870,053	\$ 23.43	\$ 49	3.6 years
Vested and expected to vest at March 31, 2015	1,864,948	\$ 23.38	\$ 49	3.6 years
Exercisable at March 31, 2015	1,579,102	\$ 20.61	\$ 46	3.7 years

There were 77,658 stock options exercised during the three months ended March 31, 2015 with an aggregate intrinsic value of less than \$1 million, and 159,501 stock options exercised during the same period in 2014 with a \$2 million aggregate intrinsic value.

At March 31, 2015, there were \$1 million of total unrecognized compensation costs related to stock options. These costs are expected to be recognized over a weighted average period of 10 months.

There were no stock options granted in the three months ended March 31, 2015 and 2014.

The following table summarizes information about our outstanding stock options at March 31, 2015:

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Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number of	Weighted Average	Weighted Average	Number of	Weighted Average
	Options	Remaining Contractual Life	Exercise Price	Options	Exercise Price
\$0.00 to \$4.569	233,703	3.9 years	\$ 4.56	233,703	\$ 4.56
\$4.57 to \$25.089	957,583	4.7 years	20.96	945,083	20.90
\$25.09 to \$32.569	400,316	1.4 years	29.30	400,316	29.30
\$32.57 to \$42.089	278,451	2.9 years	39.31	—	—
	1,870,053	3.6 years	\$ 23.43	1,579,102	\$ 20.61

Restricted Stock Units

The following table summarizes restricted stock unit activity during the three months ended March 31, 2015:

	Restricted Stock Units	Weighted Average Grant Date Fair Value Per Unit
Unvested at December 31, 2014	3,299,720	\$ 40.99
Granted	1,656,633	45.42
Vested	(996,363)	37.37
Forfeited	(13,921)	41.20
Unvested at March 31, 2015	3,946,069	\$ 44.48

In the three months ended March 31, 2015, we granted 1,083,418 restricted stock units subject to time-vesting of which 1,055,218 will vest and be settled ratably over a three-year period from the date of the grant and 28,200 will

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vest 100% on the fifth anniversary of the grant date. In addition, the newest member of our Board of Directors (who was appointed in March 2015) received an initial grant of 1,311 restricted stock units that vested immediately, but will not settle until her separation from the board, as well as a prorated annual grant of 526 restricted stock units that vested immediately, but will not settle until the earlier of three years from the date of grant or her separation from the board. Also, we granted 304,356 performance-based restricted stock units to certain of our senior officers; the vesting of these restricted stock units is contingent on our achievement of a specified one-year performance goal for the year ending December 31, 2015. Provided the goal is achieved, the performance-based restricted stock units will vest ratably over a three-year period from the grant date. The actual number of performance-based restricted stock units that could vest will range from 0% to 200% of the 304,356 units granted, depending on our level of achievement with respect to the performance goal.

In the three months ended March 31, 2014, we granted 966,283 restricted stock units subject to time-vesting, of which 918,924 will vest and be settled ratably over a three-year period from the grant date and 47,359 will vest 100% on the fifth anniversary of the grant date. In addition, we granted 270,692 performance-based restricted stock units to certain of our senior officers. Based on our level of achievement with respect to the target performance goal for the year ended December 31, 2014, a total of 537,714 performance-based restricted stock units (or 200% of the initial grant) will vest ratably over a three-year period from the grant date.

At March 31, 2015, there were \$155 million of total unrecognized compensation costs related to restricted stock units. These costs are expected to be recognized over a weighted average period of 2.8 years.

## NOTE 8. EQUITY

## Changes in Shareholders' Equity

The following table shows the changes in consolidated equity during the three months ended March 31, 2015 and 2014 (dollars in millions, share amounts in thousands):

	Tenet Healthcare Corporation Shareholders' Equity							
	Common Stock Shares Outstanding	Issued Amount	Additional Paid-in Capital	Other Comprehensive Loss	Accumulated Deficit	Treasury Stock	Noncontrolling Interests	Total Equity
Balances at December 31, 2014	98,382	\$ 7	\$ 4,614	\$ (182)	\$ (1,410)	\$ (2,378)	\$ 134	\$ 785

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Net income	—	—	—	—	47	—	8	55
Distributions paid to noncontrolling interests	—	—	—	—	—	—	(10)	(10)
Contributions from noncontrolling interests	—	—	—	—	—	—	1	1
Other comprehensive income	—	—	—	3	—	—	—	3
Purchases (sales) of businesses and noncontrolling interests	—	—	129	—	—	—	—	129
Stock-based compensation expense and issuance of common stock	782	—	8	—	—	1	—	9
Balances at March 31, 2015	99,164	\$ 7	\$ 4,751	\$ (179)	\$ (1,363)	\$ (2,377)	\$ 133	\$ 972
Balances at December 31, 2013	96,860	\$ 7	\$ 4,572	\$ (24)	\$ (1,422)	\$ (2,378)	\$ 123	\$ 878
Net income (loss)	—	—	—	—	(32)	—	5	(27)
Distributions paid to noncontrolling interests	—	—	—	—	—	—	(10)	(10)
Contributions from noncontrolling interests	—	—	—	—	—	—	3	3
Other comprehensive income	—	—	—	1	—	—	—	1
Purchases (sales) of businesses and noncontrolling interests	—	—	—	—	—	—	5	5
Stock-based compensation expense and issuance of common stock	725	—	4	—	—	—	—	4
Balances at March 31, 2014	97,585	\$ 7	\$ 4,576	\$ (23)	\$ (1,454)	\$ (2,378)	\$ 126	\$ 854



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## Changes in Redeemable Noncontrolling Interests in Equity of Consolidated Subsidiaries

When we acquired Vanguard Health Systems, Inc. (“Vanguard”) in October 2013, we obtained a 51% controlling interest in a limited liability company that held the assets and liabilities of Valley Baptist Health System (“Valley Baptist”), which consists of two hospitals in Brownsville and Harlingen, Texas. The remaining 49% noncontrolling interest in the joint venture was held by the former owner of Valley Baptist (the “seller”). The joint venture operating agreement included a put option that would allow the seller to require us to purchase all or a portion of the seller’s remaining noncontrolling interest in the limited liability company at certain specified time periods. In connection with the seller’s exercise and the settlement of the put option, we acquired the remaining 49% noncontrolling interest from the seller on February 11, 2015 in exchange for approximately \$254 million in cash, which was applied to redeemable noncontrolling interest, with the difference between the payment and the carrying value of approximately \$270 million recorded as additional paid-in capital. The redemption value of the put option was calculated pursuant to the terms of the operating agreement based on the operating results and the debt of the joint venture. As a result, we now own 100% of Valley Baptist.

In January 2015, Conifer announced a 10-year extension and expansion of its agreement with Catholic Health Initiatives (“CHI”) to provide patient access, revenue integrity and patient financial services to 92 CHI hospitals through 2032. At that time and as a result of CHI’s relationship with Tenet, CHI received an increase in its minority ownership position in Conifer Health Solutions, LLC to approximately 23.8%, resulting in an increase in our redeemable noncontrolling interest of approximately \$47 million.

The following table shows the changes in redeemable noncontrolling interests in equity of consolidated subsidiaries during the three months ended March 31, 2015 and 2014:

	Three Months Ended March 31,	
	2015	2014
Balances at beginning of period	\$ 401	\$ 340
Net income	21	11
Distributions paid to noncontrolling interests	(1)	(1)
Contributions from noncontrolling interests	1	10
Purchases and sales of businesses and noncontrolling interests, net	(214)	—
Balances at end of period	\$ 208	\$ 360

## NOTE 9. PROPERTY AND PROFESSIONAL AND GENERAL LIABILITY INSURANCE



## Property Insurance

We have property, business interruption and related insurance coverage to mitigate the financial impact of catastrophic events or perils that is subject to deductible provisions based on the terms of the policies. These policies are on an occurrence basis.

## Professional and General Liability Reserves

At March 31, 2015 and December 31, 2014, the aggregate current and long-term professional and general liability reserves in our accompanying Condensed Consolidated Balance Sheets were approximately \$712 million and \$681 million, respectively. These reserves include the reserves recorded by our captive insurance subsidiaries and our self-insured retention reserves recorded based on actuarial estimates for the portion of our professional and general liability risks, including incurred but not reported claims, for which we do not have insurance coverage. We estimated the reserves for losses and related expenses using expected loss-reporting patterns discounted to their present value under a risk-free rate approach using a Federal Reserve seven-year maturity rate of 1.71% at March 31, 2015 and 1.97% at December 31, 2014.

If the aggregate limit of any of our professional and general liability policies is exhausted, in whole or in part, it could deplete or reduce the limits available to pay any other material claims applicable to that policy period.

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Included in other operating expenses, net, in the accompanying Condensed Consolidated Statements of Operations is malpractice expense of \$89 million and \$49 million for the three months ended March 31, 2015 and 2014, respectively.

NOTE 10. CLAIMS AND LAWSUITS

We operate in a highly regulated and litigious industry. As a result, we commonly become involved in disputes, litigation and regulatory matters incidental to our operations, including governmental investigations, personal injury lawsuits, employment claims and other matters arising out of the normal conduct of our business.

We record accruals for estimated losses relating to claims and lawsuits when available information indicates that a loss is probable and we can reasonably estimate the amount of the loss or a range of loss. If a loss on a material matter is reasonably possible and estimable, we disclose an estimate of the loss or a range of loss. In cases where we have not disclosed an estimate, we have concluded that the loss is either not reasonably possible or the loss, or a range of loss, is not reasonably estimable, based on available information.

Governmental Reviews and Lawsuits

Healthcare companies are subject to numerous investigations by various governmental agencies. Further, private parties have the right to bring qui tam or “whistleblower” lawsuits against companies that allegedly submit false claims for payments to, or improperly retain overpayments from, the government and, in some states, private payers. Certain of our individual facilities and Conifer have received inquiries from government agencies, and our facilities may receive such inquiries in future periods. The following material governmental reviews and lawsuits, which have been previously reported, are currently pending.

- Clinica de la Mama Investigations and Qui Tam Action—As previously reported, we received a subpoena in May 2012 from the Office of Inspector General (“OIG”) of U.S. Department of Health and Human Services in Atlanta seeking documents from January 2004 through May 2012 related to the relationship that certain of our Georgia and South Carolina hospitals had with Hispanic Medical Management, Inc. (“HMM”). HMM was an unaffiliated entity that owned and operated clinics that provided, among other things, prenatal care predominantly to uninsured patients. The hospitals contracted with HMM for translation, marketing, management and Medicaid eligibility determination services. The civil investigation is being conducted by the Civil Division of the U.S. Department of Justice (“DOJ”), the U.S. Attorney’s Office for the Middle District of Georgia and the Georgia Attorney General’s Office, while a parallel criminal investigation is being conducted by the Criminal Division of the DOJ and the U.S. Attorney’s Office for the Northern District of Georgia.

The investigations arose out of a qui tam action captioned United States of America, ex. rel. Ralph D. Williams v. Health Management Associates, Inc., et al. filed in the U.S. District Court for the Middle District of Georgia. We and four of our hospital subsidiaries are defendants in the qui tam action, which alleges that the arrangements the hospitals had with HMM violated the federal and state anti-kickback statutes and false claims acts. Both the Georgia Attorney General's Office, on behalf of the State of Georgia, and the U.S. Attorney's Office, on behalf of the United States, have intervened in the qui tam action. We submitted answers to the complaints filed by the relator, the State of Georgia and the United States in July 2014 following the court's denial of our motions to dismiss in June 2014. This civil matter has since been stayed pending further proceedings in the criminal case described below.

In a Bill of Information filed on July 23, 2014 with the U.S. District Court for the Northern District of Georgia, Atlanta Division, the U.S. Attorney for that District asserted charges of one count of criminal conspiracy against a former owner of HMM (a non-employee of Tenet) related to the agreements between HMM and the Tenet hospitals described above. In a separate Bill of Information also filed with the court on July 23, 2014, the U.S. Attorney asserted charges of one count of criminal conspiracy against a former employee of a Tenet hospital, but such charges relate to an unaffiliated entity. On April 10, 2015, the DOJ informed us that our four hospital subsidiaries that are defendants in the qui tam action have also been designated as targets of the government's criminal investigation.

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If we or our subsidiaries were determined to have violated the anti-kickback statutes, the government could require us to reimburse related government program payments received during the subject period, assess civil monetary penalties including treble damages, exclude individuals or subsidiaries from participation in federal healthcare programs, or seek criminal sanctions against current or former employees of our hospital subsidiary companies or the hospital companies themselves.

It is impossible at this time to predict with any certainty the amount and terms of any potential resolution of these matters; however, we believe the amount of the reserve established, as described below, continues to reflect our current estimate of probable liability. We will continue to vigorously defend against the government's allegations.

- **Implantable Cardioverter Defibrillators ("ICDs")**—We are engaged in potential settlement discussions with the DOJ to resolve an investigation to determine whether ICD procedures performed at 56 of our hospitals from 2002 to 2010 complied with Medicare coverage requirements. It is impossible at this time to predict with any certainty the outcome of those discussions or the amount of any potential resolution. However, based on current discussions, in the three months ended March 31, 2015, management adjusted the reserve previously established for this matter to reflect our current estimate of probable liability for all of the hospitals under review as part of the government's examination, which commenced in March 2010.
- **Review of Conifer's Debt Collection Activities**—As previously reported, Syndicated Office Systems, LLC, a wholly owned indirect subsidiary of Conifer Health Solutions, LLC doing business under the name Central Financial Control ("CFC"), received a Civil Investigative Demand ("CID") in August 2013 from the U.S. Consumer Financial Protection Bureau ("CFPB") and, in July 2014, CFC received a second CID from the CFPB requesting additional information. In November 2014, the CFPB informed CFC's external counsel that, based on its investigation, the CFPB believes CFC has not complied in limited instances with certain requirements of the federal consumer financial laws with respect to credit reporting and debt collection. In January 2015, CFC commenced informal discussions with the CFPB to resolve the agency's investigation. In April 2015, as part of the ongoing discussions to resolve the investigation, the CFPB presented to CFC's external counsel a draft consent order outlining the potential terms under which the CFPB might settle the investigation.

CFC is reviewing the proposed terms of the draft consent order and intends to engage in further discussions with the CFPB. Based on CFC's initial settlement proposal, management established in the three months ended December 31, 2014 a reserve of \$1.7 million to reflect its then-current estimate of CFC's potential liability in connection with this matter. Given the preliminary and ongoing state of discussions, it is not possible at this time to predict the ultimate terms and conditions of any potential consent order negotiated between CFC and the CFPB. Although there can be no assurance that CFC and the CFPB will reach an agreement, the Company believes, based on current information, that the ultimate resolution of this matter, including any civil litigation resulting from the consent order, will not have a material adverse effect on the consolidated results of operations, financial condition or cash flows of the Company and its subsidiaries.

Our analysis of each of these pending reviews is still ongoing, and we are unable to predict with any certainty the progress or final outcome of any discussions with government agencies at this time. Management has established

reserves of approximately \$34 million in the aggregate for our potential obligations with respect to the Clinica de la Mama matters, all of the hospitals under review for their billing practices for cardiac defibrillator implantation procedures, and the CFPB investigation. Changes in the reserves may be required in the future as additional information becomes available. We cannot predict the ultimate resolution of any governmental review, and the final amounts paid in settlement or otherwise, if any, could differ materially from our currently recorded reserves.

#### Ordinary Course Matters

We are also subject to other claims and lawsuits arising in the ordinary course of business, including potential claims related to, among other things, the care and treatment provided at our hospitals and outpatient facilities, the application of various federal and state labor laws, tax audits and other matters. Although the results of these claims and lawsuits cannot be predicted with certainty, we believe that the ultimate resolution of these ordinary course claims and lawsuits will not have a material effect on our business or financial condition.

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In addition, in October 2014, we received court approval of a final agreement to settle a previously disclosed class action lawsuit captioned Doe, et al. v. Jo Ellen Smith Medical Foundation, which was filed in the Civil District Court for the Parish of Orleans in Louisiana in March 1997. The plaintiffs pursued a claim for tortious invasion of privacy due to the fact that in April 1996 patient identifying records from a psychiatric hospital we closed in 1995 were temporarily placed in an unsecure location while the hospital was undergoing renovations. The court certified a class of over 5,000 persons; however, only eight individuals (in addition to the two plaintiffs) were identified in the class certification process. The plaintiffs have asserted each member of the class is entitled to common damages under a theory of presumed “common damage” regardless of whether or not any members of the class were actually harmed or even aware of the incident. In an effort to avoid protracted litigation, the parties settled this matter in June 2014 for a maximum potential payment of \$32.5 million, subject to the number and type of claims asserted by the class members. We made an initial deposit of \$5.5 million into an escrow account in late November 2014. The payment for all attorneys’ fees and costs and undisputed common damages claims is expected to be made in the near term. The payment for all undisputed individual damages claims is expected to be made in August 2015. Based on low class participation as of March 31, 2015 (the end of the claims period), management reduced the reserve previously established for this matter from \$11.5 million at December 31, 2014 to \$8.0 million, recorded in discontinued operations, to reflect our current estimate of probable liability.

New claims or inquiries may be initiated against us from time to time. These matters could (1) require us to pay substantial damages or amounts in judgments or settlements, which, individually or in the aggregate, could exceed amounts, if any, that may be recovered under our insurance policies where coverage applies and is available, (2) cause us to incur substantial expenses, (3) require significant time and attention from our management, and (4) cause us to close or sell hospitals or otherwise modify the way we conduct business.

The table below presents reconciliations of the beginning and ending liability balances in connection with legal settlements and related costs recorded during the three months ended March 31, 2015 and 2014:

	Balances at Beginning of Period	Litigation and Investigation Costs	Cash Payments	Balances at End of Period
Three Months Ended March 31, 2015				
Continuing operations	\$ 73	\$ 3	\$ (15)	\$ 61
Discontinued operations	10	(3)	—	7
	\$ 83	\$ —	\$ (15)	\$ 68
Three Months Ended March 31, 2014				
Continuing operations	\$ 64	\$ 3	\$ (3)	\$ 64
Discontinued operations	6	—	(6)	—
	\$ 70	\$ 3	\$ (9)	\$ 64

For both the three months ended March 31, 2015 and 2014, we recorded costs of \$3 million in continuing operations, primarily related to costs associated with various legal proceedings and governmental reviews. During the three months ended March 31, 2015, we reduced a previously established reserve for a legal matter in discontinued operations by approximately \$3 million based on updated claims information.

NOTE 11. INCOME TAXES