HCA Holdings, Inc.
Form 10-Q
August 05, 2015
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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 June 30, 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 1-11239

HCA Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**27-3865930**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
One Park Plaza Nashville, Tennessee	**37203**
(Address of principal executive offices)	**(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 July 31, 2015**
Voting common stock, $.01 par value	415,192,000 shares

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HCA HOLDINGS, INC.

Form 10-Q

June 30, 2015

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HCA HOLDINGS, INC.

CONDENSED CONSOLIDATED INCOME STATEMENTS

FOR THE QUARTERS AND SIX MONTHS ENDED JUNE 30, 2015 AND 2014

Unaudited

(Dollars in millions, except per share amounts)

	Quarter		Six Months	
	2015	**2014**	**2015**	**2014**
Revenues before provision for doubtful accounts	**$ 10,932**	$ 9,958	**$ 21,254**	$ 19,641
Provision for doubtful accounts	**1,035**	728	**1,681**	1,579
Revenues	**9,897**	9,230	**19,573**	18,062
Salaries and benefits	**4,492**	4,098	**8,890**	8,148
Supplies	**1,670**	1,532	**3,308**	3,064
Other operating expenses	**1,755**	1,644	**3,472**	3,289
Electronic health record incentive income	**(18)**	(35)	**(37)**	(65)
Equity in earnings of affiliates	**(10)**	(9)	**(29)**	(18)
Depreciation and amortization	**469**	454	**942**	901
Interest expense	**425**	427	**844**	887
Losses (gains) on sales of facilities	**5**	(11)	**(4)**	(32)
Losses on retirement of debt	**125**	226	**125**	226
Legal claim costs				78
	8,913	8,326	**17,511**	16,478
Income before income taxes	**984**	904	**2,062**	1,584
Provision for income taxes	**319**	272	**677**	498
Net income	**665**	632	**1,385**	1,086
Net income attributable to noncontrolling interests	**158**	149	**287**	256
Net income attributable to HCA Holdings, Inc.	**$ 507**	$ 483	**$ 1,098**	$ 830
Per share data:				
Basic earnings per share	**$ 1.22**	$ 1.10	**$ 2.63**	$ 1.88
Diluted earnings per share	**$ 1.18**	$ 1.07	**$ 2.54**	$ 1.82
Shares used in earnings per share calculations (in millions):				
Basic	**416.407**	438.833	**418.267**	440.482
Diluted	**429.369**	453.009	**432.329**	455.220

See accompanying notes.

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HCA HOLDINGS, INC.

CONDENSED CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS

FOR THE QUARTERS AND SIX MONTHS ENDED JUNE 30, 2015 AND 2014

Unaudited

(Dollars in millions)

	Quarter		Six Months	
	2015	**2014**	**2015**	**2014**
Net income	**$ 665**	$ 632	**$ 1,385**	$ 1,086
Other comprehensive income before taxes:				
Foreign currency translation	**64**	30	**13**	40
Unrealized (losses) gains on available-for-sale securities	**(5)**	4	**(4)**	8
Defined benefit plans				
Pension costs included in salaries and benefits	**5**	4	**11**	8
	5	4	**11**	8
Change in fair value of derivative financial instruments	**(7)**	(19)	**(30)**	(29)
Interest costs included in interest expense	**31**	32	**62**	65
	24	13	**32**	36
Other comprehensive income before taxes	**88**	51	**52**	92
Income taxes related to other comprehensive income items	**34**	18	**19**	34
Other comprehensive income	**54**	33	**33**	58
Comprehensive income	**719**	665	**1,418**	1,144
Comprehensive income attributable to noncontrolling interests	**158**	149	**287**	256
Comprehensive income attributable to HCA Holdings, Inc.	**$ 561**	$ 516	**$ 1,131**	$ 888

See accompanying notes.

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HCA HOLDINGS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

Unaudited

(Dollars in millions)

	June 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 673**	$ 566
Accounts receivable, less allowance for doubtful accounts of $4,798 and $5,011	**5,804**	5,694
Inventories	**1,348**	1,279
Deferred income taxes	**376**	366
Other	**1,092**	1,025
	9,293	8,930
Property and equipment, at cost	**33,803**	32,980
Accumulated depreciation	**(19,243)**	(18,625)
	14,560	14,355
Investments of insurance subsidiaries	**404**	494
Investments in and advances to affiliates	**182**	165
Goodwill and other intangible assets	**6,484**	6,416
Other	**787**	620
	$ 31,710	$ 30,980
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Accounts payable	**$ 1,884**	$ 2,035
Accrued salaries	**1,282**	1,370
Other accrued expenses	**1,770**	1,737
Long-term debt due within one year	**1,374**	338
	6,310	5,480
Long-term debt, less net debt issuance costs of $167 and $219	**28,363**	29,088
Professional liability risks	**1,132**	1,078
Income taxes and other liabilities	**1,860**	1,832
Stockholders deficit:		
Common stock $0.01 par; authorized 1,800,000,000 shares; outstanding 416,348,900 shares in 2015 and 420,477,900 shares in 2014	**4**	4
Accumulated other comprehensive loss	**(290)**	(323)
Retained deficit	**(7,120)**	(7,575)
Stockholders deficit attributable to HCA Holdings, Inc.	**(7,406)**	(7,894)
Noncontrolling interests	**1,451**	1,396
	(5,955)	(6,498)

	$ 31,710	$ 30,980

See accompanying notes.

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HCA HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2015 AND 2014

Unaudited

(Dollars in millions)

	2015	2014
Cash flows from operating activities:		
Net income	**$ 1,385**	$ 1,086
Adjustments to reconcile net income to net cash provided by operating activities:		
Decrease in cash from operating assets and liabilities:		
Accounts receivable	**(1,784)**	(1,827)
Provision for doubtful accounts	**1,681**	1,579
Accounts receivable, net	**(103)**	(248)
Inventories and other assets	**(195)**	(219)
Accounts payable and accrued expenses	**(117)**	(105)
Depreciation and amortization	**942**	901
Income taxes	**(101)**	(94)
Gains on sales of facilities	**(4)**	(32)
Losses on retirement of debt	**125**	226
Legal claim costs		78
Amortization of debt issuance costs	**19**	23
Share-based compensation	**103**	77
Other	**21**	
Net cash provided by operating activities	**2,075**	1,693
Cash flows from investing activities:		
Purchase of property and equipment	**(1,004)**	(913)
Acquisition of hospitals and health care entities	**(95)**	(27)
Disposal of hospitals and health care entities	**22**	32
Change in investments	**67**	43
Other	**1**	1
Net cash used in investing activities	**(1,009)**	(864)
Cash flows from financing activities:		
Issuances of long-term debt	**4,048**	3,502
Net change in revolving bank credit facilities	**(300)**	340
Repayment of long-term debt	**(3,644)**	(3,482)
Distributions to noncontrolling interests	**(237)**	(197)
Payment of debt issuance costs	**(33)**	(49)
Repurchases of common stock	**(940)**	(750)
Income tax benefits	**197**	75
Other	**(50)**	(24)
Net cash used in financing activities	**(959)**	(585)

Change in cash and cash equivalents	**107**	244
Cash and cash equivalents at beginning of period	**566**	414
Cash and cash equivalents at end of period	**$ 673**	$ 658
Interest payments	**$ 810**	$ 899
Income tax payments, net	**$ 581**	$ 517

See accompanying notes.

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HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

HCA Holdings, Inc. is a holding company whose affiliates own and operate hospitals and related health care entities. The term affiliates includes direct and indirect subsidiaries of HCA Holdings, Inc. and partnerships and joint ventures in which such subsidiaries are partners. At June 30, 2015, these affiliates owned and operated 168 hospitals, 112 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 $84 million and $67 million for the quarters ended June 30, 2015 and 2014, respectively, and $158 million and $135 million for the six months ended June 30, 2015 and 2014, respectively. Operating results for the quarter and six months ended June 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. 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, 2014.

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HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Revenues

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), 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, the uninsured and other payers for the quarters and six months ended June 30, 2015 and 2014 are summarized in the following table (dollars in millions):

	Quarter			
	2015	**Ratio**	**2014**	**Ratio**
Medicare	**$ 2,144**	**21.7%**	$ 2,040	22.1%
Managed Medicare	**1,016**	**10.3**	906	9.8
Medicaid	**408**	**4.1**	588	6.4
Managed Medicaid	**571**	**5.8**	452	4.9
Managed care and other insurers	**5,461**	**55.1**	4,959	53.8
International (managed care and other insurers)	**327**	**3.3**	334	3.6
	9,927	**100.3**	9,279	100.6
Uninsured	**558**	**5.6**	318	3.4
Other	**447**	**4.5**	361	3.9
Revenues before provision for doubtful accounts	**10,932**	**110.4**	9,958	107.9
Provision for doubtful accounts	**(1,035)**	**(10.4)**	(728)	(7.9)
Revenues	**$ 9,897**	**100.0%**	$ 9,230	100.0%

	Six Months			
	2015	**Ratio**	**2014**	**Ratio**
Medicare	**$ 4,378**	**22.4%**	$ 4,165	23.1%
Managed Medicare	**2,068**	**10.6**	1,805	10.0
Medicaid	**860**	**4.4**	1,032	5.7
Managed Medicaid	**1,120**	**5.7**	873	4.8
Managed care and other insurers	**10,677**	**54.5**	9,669	53.5
International (managed care and other insurers)	**648**	**3.3**	660	3.7
	19,751	**100.9**	18,204	100.8
Uninsured	**626**	**3.2**	706	3.9
Other	**877**	**4.5**	731	4.0
Revenues before provision for doubtful accounts	**21,254**	**108.6**	19,641	108.7
Provision for doubtful accounts	**(1,681)**	**(8.6)**	(1,579)	(8.7)

Revenues	**$**	**19,573**	**100.0%**	$	18,062	100.0%

The decline in Medicaid revenues for the quarter and the six months ended June 30, 2015 compared to the quarter and six months ended June 30, 2014 was primarily due to our recording of an adjustment to Medicaid revenues during the quarter ended June 30, 2014 of $142 million, or $0.20 per diluted share, related to the receipt of reimbursements in excess of our estimates for the indigent care component of the Texas Medicaid Waiver Program for the program year ended September 30, 2013.

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HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Recent Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board issued a final, converged, principles-based standard on revenue recognition. Companies across all industries will use a five-step model to recognize revenue from customer contracts. The new standard, which replaces nearly all existing United States Generally Accepted Accounting Principles (US GAAP) and International Financial Reporting Standards revenue recognition guidance, will require significant management judgment in addition to changing the way many companies recognize revenue in their financial statements. The standard was originally scheduled to become effective for public entities for annual and interim periods beginning after December 15, 2016. Early adoption was originally not to be permitted under US GAAP. In July 2015, the FASB decided to defer the effective date of the new revenue standard by one year, but will permit entities to adopt one year earlier if they choose (i.e., the original effective date). The FASB decided, based on its outreach to various stakeholders and forthcoming exposure drafts, which amend the new revenue standard, that a deferral was necessary to provide adequate time to effectively implement the new standard. We are continuing to evaluate the effects the adoption of this standard will have on our financial statements and financial disclosures.

In April 2015, the FASB issued Accounting Standards Update 2015-03, *Simplifying the Presentation of Debt Issuance Costs* (ASU 2015-03), which requires that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. The guidance in the new standard is limited to the presentation of debt issuance costs. The recognition and measurement guidance for debt issuance costs are not affected by ASU 2015-03. We elected to adopt the new presentation in the first quarter of 2015, and the applicable prior year amounts have been reclassified in accordance with ASU 2015-03.

Reclassifications

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

NOTE 2 ACQUISITIONS AND DISPOSITIONS

During the six months ended June 30, 2015, we paid $15 million to acquire a hospital and $80 million to acquire other nonhospital health care entities. During the six months ended June 30, 2014, we paid $14 million to acquire a hospital and $13 million to acquire other nonhospital health care entities.

During the six months ended June 30, 2015, we received proceeds of $22 million and recognized net pretax gains of $4 million related to sales of real estate and other investments. During the six months ended June 30, 2014, we received proceeds of $32 million and recognized net pretax gains of $32 million related to sales of real estate and other investments.

NOTE 3 INCOME TAXES

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

Our liability for unrecognized tax benefits was $546 million, including accrued interest of $67 million, as of June 30, 2015 ($548 million and $58 million, respectively, as of December 31, 2014). Unrecognized tax benefits of $224 million ($205 million as of December 31, 2014) would affect the effective rate, if recognized. The provision for income taxes reflects $4 million ($2 million, net of tax) of interest expense related to taxing authority examinations for each of the quarters ended June 30, 2015 and 2014. The provision for income taxes

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HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3 INCOME TAXES (continued)

reflects $4 million and $8 million ($2 million and $5 million, net of tax) of interest expense related to taxing authority examinations for the six months ended June 30, 2015 and 2014, respectively. The provision for income taxes for the quarter and six months ended June 30, 2014 also reflects a reduction of $22 million related primarily to resolutions of prior year examinations.

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

NOTE 4 EARNINGS PER SHARE

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

The following table sets forth the computation of basic and diluted earnings per share for the quarters and six months ended June 30, 2015 and 2014 (dollars and shares in millions, except per share amounts):

	Quarter		Six Months	
	2015	**2014**	**2015**	**2014**
Net income attributable to HCA Holdings, Inc.	**$ 507**	$ 483	**$ 1,098**	$ 830
Weighted average common shares outstanding	**416.407**	438.833	**418.267**	440.482
Effect of dilutive incremental shares	**12.962**	14.176	**14.062**	14.738
Shares used for diluted earnings per share	**429.369**	453.009	**432.329**	455.220
Earnings per share:				
Basic earnings per share	**$ 1.22**	$ 1.10	**$ 2.63**	$ 1.88
Diluted earnings per share	**$ 1.18**	$ 1.07	**$ 2.54**	$ 1.82

NOTE 5 INVESTMENTS OF INSURANCE SUBSIDIARIES

A summary of our insurance subsidiaries investments at June 30, 2015 and December 31, 2014 follows (dollars in millions):

	June 30, 2015			
		Unrealized Amounts		
	Amortized Cost	**Gains**	**Losses**	**Fair Value**
Debt securities:				
States and municipalities	**$ 433**	**$ 14**	**$ (1)**	**$ 446**
Money market funds	**32**			**32**
	465	**14**	**(1)**	**478**

Equity securities	**1**	**2**		**3**
	$ 466	**$ 16**	**$ (1)**	**481**
Amounts classified as current assets				**(77)**
Investment carrying value				**$ 404**

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HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5 INVESTMENTS OF INSURANCE SUBSIDIARIES (continued)

	December 31, 2014			
	Amortized Cost	Unrealized Amounts Gains	Unrealized Amounts Losses	Fair Value
Debt securities:				
States and municipalities	$ 477	$ 18	$ (1)	$ 494
Money market funds	61			61
	538	18	(1)	555
Equity securities	1	2		3
	$ 539	$ 20	$ (1)	558
Amounts classified as current assets				(64)
Investment carrying value				$ 494

At June 30, 2015 and December 31, 2014, 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). Amounts classified as current assets at June 30, 2015 include $25 million to be distributed to the Company from an insurance subsidiary.

Scheduled maturities of investments in debt securities at June 30, 2015 were as follows (dollars in millions):

	Amortized Cost	Fair Value
Due in one year or less	$ 79	$ 80
Due after one year through five years	165	168
Due after five years through ten years	121	126
Due after ten years	100	104
	$ 465	$ 478

The average expected maturity of the investments in debt securities at June 30, 2015 was 3.9 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 June 30, 2015 (dollars in millions):

	Notional Amount	Maturity Date	Fair Value
Pay-fixed interest rate swaps	$ 3,000	December 2016	$ (134)
Pay-fixed interest rate swaps	1,000	December 2017	(33)

During the next 12 months, we estimate $115 million will be reclassified from other comprehensive income (OCI) to interest expense.

Derivatives Results of Operations

The following table presents the effect of our interest rate swaps on our results of operations for the six months ended June 30, 2015 (dollars in millions):

Derivatives in Cash Flow Hedging Relationships	Amount of Loss Recognized in OCI on Derivatives, Net of Tax	Location of Loss Reclassified from Accumulated OCI into Operations	Amount of Loss Reclassified from Accumulated OCI into Operations
Interest rate swaps	$ 19	Interest expense	$ 62

Credit-risk-related Contingent Features

We have agreements with each of our derivative counterparties that contain a provision where we could be declared in default on our derivative obligations if repayment of the underlying indebtedness is accelerated by the lender due to our default on the indebtedness. As of June 30, 2015, we have not been required to post any collateral related to these agreements. If we had breached these provisions at June 30, 2015, we would have been required to settle our obligations under the agreements at their aggregate, estimated termination value of $170 million.

NOTE 7 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

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

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates and yield curves observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, which are typically based on an entity s own assumptions, as there is little, if any, related

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HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Cash Traded Investments

Our cash traded investments are generally classified within Level 1 or Level 2 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. Certain types of cash traded instruments are classified within Level 3 of the fair value hierarchy because they trade infrequently and therefore have little or no price transparency. The valuation of these securities involves management s judgment, after consideration of market factors and the absence of market transparency, market liquidity and observable inputs. Our valuation models derived fair market values compared to tax-equivalent yields of other securities of similar credit worthiness and similar effective maturities.

Derivative Financial Instruments

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

Although we determined the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by us and our counterparties. We assessed the significance of the impact of the credit valuation adjustments on the overall valuation of our derivative positions, and at June 30, 2015 and December 31, 2014, we determined the credit valuation adjustments were not significant to the overall valuation of our derivatives.

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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 following tables summarize our assets and liabilities measured at fair value on a recurring basis as of June 30, 2015 and December 31, 2014, aggregated by the level in the fair value hierarchy within which those measurements fall (dollars in millions):

	June 30, 2015			
		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	**$ 446**	**$**	**$ 440**	**$ 6**
Money market funds	**32**	**32**		
	478	**32**	**440**	**6**
Equity securities	**3**	**3**		
Investments of insurance subsidiaries	**481**	**35**	**440**	**6**
Less amounts classified as current assets	**(77)**	**(32)**	**(45)**	
	$ 404	**$ 3**	**$ 395**	**$ 6**
Liabilities:				
Interest rate swaps (Income taxes and other liabilities)	**$ 167**	**$**	**$ 167**	**$**

	December 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	$ 494	$	$ 488	$ 6
Money market funds	61	61		

	555	61	488	6
Equity securities	3	3		
Investments of insurance subsidiaries	558	64	488	6
Less amounts classified as current assets	(64)	(61)	(3)	
	$ 494	$ 3	$ 485	$ 6
Liabilities:				
Interest rate swaps (Income taxes and other liabilities)	$ 199	$	$ 199	$

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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 $31.255 billion and $30.861 billion at June 30, 2015 and December 31, 2014, respectively, compared to carrying amounts, excluding net debt issuance costs, aggregating $29.904 billion and $29.645 billion, respectively. The estimates of fair value are generally based upon the quoted market prices or quoted market prices for similar issues of long-term debt with the same maturities.

NOTE 8 LONG-TERM DEBT

A summary of long-term debt at June 30, 2015 and December 31, 2014, including related interest rates at June 30, 2015, follows (dollars in millions):

	June 30, 2015	December 31, 2014
Senior secured asset-based revolving credit facility (effective interest rate of 1.4%)	**$ 2,580**	$ 2,880
Senior secured revolving credit facility		
Senior secured term loan facilities (effective interest rate of 4.9%)	**5,696**	5,517
Senior secured first lien notes (effective interest rate of 5.5%)	**11,100**	11,100
Other senior secured debt (effective interest rate of 6.0%)	**626**	573
First lien debt	**20,002**	20,070
Senior unsecured notes (effective interest rate of 6.6%)	**9,902**	9,575
Less net debt issuance costs	**167**	219
Total debt (average life of 6.3 years, rates averaging 5.4%)	**29,737**	29,426
Less amounts due within one year	**1,374**	338
	$ 28,363	$ 29,088

2015 Activity

During June 2015, we entered into a joinder agreement to retire certain of our existing senior secured term loans using proceeds from a new $1.400 billion senior secured term loan credit facility maturing on June 10, 2020. The pretax loss on retirement of debt was $3 million.

During May 2015, we issued $1.600 billion aggregate principal amount of 5.375% senior notes due 2025. We used the net proceeds to redeem all $1.525 billion aggregate principal amount of $7\,^{3}/_{4}$% senior notes due 2021 of HCA Holdings, Inc. The pretax loss on retirement of debt related to this redemption was $122 million.

During January 2015, we issued $1.000 billion aggregate principal amount of 5.375% senior notes due 2025. We used a portion of the net proceeds to repay at maturity $750 million aggregate principal amount of 6.375% senior unsecured notes due 2015.

2014 Activity

During October 2014, we issued $600 million aggregate principal amount of 4.25% senior secured notes due 2019 and $1.400 billion aggregate principal amount of 5.25% senior secured notes due 2025. During November

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HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 8 LONG-TERM DEBT (continued)

2014 Activity (continued)

2014, we used a portion of the proceeds from the October 2014 debt issuances to redeem all $1.400 billion aggregate principal amount of our outstanding 7 $^{1}/_{4}$% senior secured notes due 2020. The pretax loss on retirement of debt related to this redemption was $109 million.

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

NOTE 9 CONTINGENCIES AND LEGAL CLAIM COSTS

We operate in a highly regulated and litigious industry. As a result, various lawsuits, claims and legal and regulatory proceedings have been and can be expected to be instituted or asserted against us. We are also subject to claims and suits arising in the ordinary course of business, including claims for personal injuries or wrongful restriction of, or interference with, physicians staff privileges. In certain of these actions the claimants may seek punitive damages against us which may not be covered by insurance. We are subject to claims for additional taxes and related interest and penalties. 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) 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 Centers for Medicare & Medicaid Services criteria. In connection with this nationwide review, the DOJ indicated that it would be reviewing certain ICD billing and medical records at 95 HCA hospitals. On July 27, 2015, HCA entered into a settlement agreement to resolve this matter. The settlement agreement requires payments from HCA totaling approximately $15.8 million (which amount was accrued in a prior period), and the government releases claims at a number of HCA hospitals relating to ICD implants for the period October 1, 2003 through March 31, 2015. HCA makes no admission of wrongdoing in the settlement. The settlement resolves the government s review of this matter.

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

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HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9 CONTINGENCIES AND LEGAL CLAIM COSTS (continued)

Government Investigations, Claims and Litigation (continued)

than peer reviews). The Company cooperated with the government s request and produced medical records associated with particular reviews at eight hospitals, located primarily in Florida. On February 24, 2015, the United States District Court for the Southern District of Florida unsealed a *qui tam* action which had been filed under seal on February 16, 2012 and alleges particular FCA violations relating to two specific facilities that were among the subjects of the Miami U.S. Attorney s Office investigation. On January 30, 2015, the U.S. Attorney s Office filed with the District Court a formal notice that the Department of Justice had declined to intervene in that action. An additional *qui tam* action relating to these topics was unsealed and voluntarily dismissed by the relator. The U.S. Attorney s Office in Miami is continuing its evaluation of the medical necessity of certain interventional cardiology services at the other hospitals for which the Company produced records. At this time, we cannot predict what effect, if any, the *qui tam* action, or any claims that might result from the U.S. Attorney s continued review, including any potential claims under the federal FCA, other statutes, regulations or laws, could have on the Company.

On April 2, 2014, the UK Competition and Markets Authority (Authority) issued a final report on its investigation of the private health care market in London. It concluded, among other things, that many private hospitals face little competition in central London, and that there are high barriers to entry. As part of its remedies package, the Authority ordered HCA to sell either: (a) its London Bridge and Princess Grace hospitals; or (b) its Wellington Hospital, including the Hospital Platinum Medical Centre. It also imposed other remedial conditions on HCA and other private health care providers, including: regulation of incentives to referring physicians; increased access to information about fees and performance; and restrictions on future arrangements between private providers and National Health Service private patient units. HCA disagrees with the Authority s assessment of the competitive conditions for hospitals in London, as well as its proposed divestiture remedy, and appealed the decision to the Competition Appeal Tribunal. The Competition Appeal Tribunal overturned certain of the Authority s findings and sent the matter back to the Authority for further proceedings, which are ongoing. A decision is anticipated in early 2016.

Securities Class Action Litigation

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

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HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9 CONTINGENCIES AND LEGAL CLAIM COSTS (continued)

Securities Class Action Litigation (continued)

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 proceeded to discovery on the remaining claims. The plaintiffs motion for class certification was granted on September 22, 2014. The court certified a class consisting of all persons that acquired HCA stock on or before October 28, 2011 (the date of the lawsuit) pursuant to the Registration Statement issued in connection with the March 9, 2011 initial public offering. A request to the court of appeals to hear an immediate appeal of this ruling was denied. Trial is currently set for January 2016.

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 described above. 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 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 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. On February 9, 2015, the parties reached an agreement to settle the part of their dispute relating to charity and uncompensated care for $15 million. The foundation is required to

HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9 CONTINGENCIES AND LEGAL CLAIM COSTS (continued)

Health Midwest Litigation (continued)

use that amount, net of attorneys fees, for charitable activities in the Kansas City area. The parties also agreed on an additional amount for attorneys fees for the plaintiff for the accounting phase of the case. Parties have filed post-trial motions, and rulings on the motions as well as any final judgment are anticipated for sometime in late 2015. At this time, we cannot predict what effect, if any, the final judgment could have on the Company. If the court denies HCA s post-trial motion and enters judgment on the capital expenditures issues, HCA plans to pursue an appeal.

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 and shares in millions):

	Equity (Deficit) Attributable to HCA Holdings, Inc.					Equity Attributable to Noncontrolling Interests	
	Common Stock		Capital in Excess of Par Value	Accumulated Other Comprehensive Loss	Retained Deficit		
	Shares	Par Value					Total
Balances at December 31, 2014	420.478	$ 4	$	$ (323)	$ (7,575)	$ 1,396	$ (6,498)
Comprehensive income				33	1,098	287	1,418
Repurchase of common stock	(12.552)		(297)		(643)		(940)
Distributions						(237)	(237)
Share-based benefit plans	8.423		311				311
Other			(14)			5	(9)
Balances at June 30, 2015	416.349	$ 4	$	$ (290)	$ (7,120)	$ 1,451	$ (5,955)

On April 18, 2015, the Company entered into an agreement to repurchase 3,806,460 shares of its common stock beneficially owned by affiliates of Bain Capital Investors, LLC (the Bain Entities) and certain charitable organizations that received shares of common stock as charitable contributions from certain partners and other employees of the Bain Entities at a purchase price of $77.26 per share, the closing price of the Company s common stock on the New York Stock Exchange on April 17, 2015, less a discount of 1% (the Share Repurchase). The Share Repurchase was made pursuant to the Company s February 2015 $1.0 billion repurchase program. During the six months ended June 30, 2015, we repurchased 8,745,784 shares of our common stock at an average price of $73.84 per share through market purchases, resulting in total repurchases pursuant to the February 2015 authorization of 12,552,244 shares of our common stock at an average price of $74.88 per share. At June 30, 2015, we had $60 million of repurchase authorization available under the $1.0 billion February 2015 authorization.

During May 2015, our Board of Directors authorized an additional share repurchase program for up to $1.0 billion of our outstanding common stock. At June 30, 2015, no repurchases had been made pursuant to this May 2015 authorization.

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HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 10 CAPITAL STRUCTURE (continued)

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

	Unrealized Gains on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Benefit Plans	Change in Fair Value of Derivative Instruments	Total
Balances at December 31, 2014	$ 13	$ (36)	$ (174)	$ (126)	$ (323)
Unrealized losses on available-for-sale securities, net of $1 income tax benefit	(3)				(3)
Foreign currency translation adjustments, net of $5 of income taxes		8			8
Change in fair value of derivative instruments, net of $11 income tax benefit				(19)	(19)
Expense reclassified into operations from other comprehensive income, net of $3 and $23, respectively, income tax benefits			8	39	47
Balances at June 30, 2015	$ 10	$ (28)	$ (166)	$ (106)	$ (290)

NOTE 11 SEGMENT AND GEOGRAPHIC INFORMATION

We operate in one line of business, which is operating hospitals and related health care entities. We operate in two geographically organized groups: the National and American Groups. The National Group includes 83 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 79 hospitals located in Colorado, northern Georgia, Kansas, southern Kentucky, Louisiana, Mississippi, Missouri, Oklahoma, Tennessee and Texas. We also operate six hospitals in England, and these facilities are included in the Corporate and other group.

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HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 11 SEGMENT AND GEOGRAPHIC INFORMATION (continued)

Adjusted segment EBITDA is defined as income before depreciation and amortization, interest expense, losses (gains) on sales of facilities, losses on retirement of debt, legal claim costs, income taxes and net income attributable to noncontrolling interests. We use adjusted segment EBITDA as an analytical indicator for purposes of allocating resources to geographic areas and assessing their performance. Adjusted segment EBITDA is commonly used as an analytical indicator within the health care industry, and also serves as a measure of leverage capacity and debt service ability. Adjusted segment EBITDA should not be considered as a measure of financial performance under generally accepted accounting principles, and the items excluded from adjusted segment EBITDA are significant components in understanding and assessing financial performance. Because adjusted segment EBITDA is not a measurement determined in accordance with generally accepted accounting principles and is thus susceptible to varying calculations, adjusted segment EBITDA, as presented, may not be comparable to other similarly titled measures of other companies. The geographic distributions of our revenues, equity in earnings of affiliates, adjusted segment EBITDA and depreciation and amortization for the quarters and six months ended June 30, 2015 and 2014 are summarized in the following table (dollars in millions):

	Quarter		Six Months	
	2015	**2014**	**2015**	**2014**
Revenues:				
National Group	**$ 4,698**	$ 4,270	**$ 9,348**	$ 8,432
American Group	**4,699**	4,447	**9,200**	8,599
Corporate and other	**500**	513	**1,025**	1,031
	$ 9,897	$ 9,230	**$ 19,573**	$ 18,062
Equity in earnings of affiliates:				
National Group	**$ (4)**	$ (3)	**$ (7)**	$ (6)
American Group	**(8)**	(8)	**(16)**	(15)
Corporate and other	**2**	2	**(6)**	3
	$ (10)	$ (9)	**$ (29)**	$ (18)
Adjusted segment EBITDA:				
National Group	**$ 1,086**	$ 946	**$ 2,165**	$ 1,803
American Group	**1,043**	1,133	**1,991**	1,983
Corporate and other	**(121)**	(79)	**(187)**	(142)
	$ 2,008	$ 2,000	**$ 3,969**	$ 3,644
Depreciation and amortization:				
National Group	**$ 188**	$ 190	**$ 377**	$ 377
American Group	**222**	210	**443**	415
Corporate and other	**59**	54	**122**	109
	$ 469	$ 454	**$ 942**	$ 901
Adjusted segment EBITDA	**$ 2,008**	$ 2,000	**$ 3,969**	$ 3,644
Depreciation and amortization	**469**	454	**942**	901
Interest expense	**425**	427	**844**	887

Losses (gains) on sales of facilities	**5**	(11)	**(4)**	(32)
Losses on retirement of debt	**125**	226	**125**	226
Legal claim costs				78
Income before income taxes	**$ 984**	$ 904	**$ 2,062**	$ 1,584

HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION

During November 2010, HCA Holdings, Inc. issued $1.525 billion aggregate principal amount of 7 $^{3}/_{4}$% senior unsecured notes due 2021. During May 2015, we redeemed all $1.525 billion aggregate principal amount of 7 $^{3}/_{4}$% unsecured senior notes due 2021. During December 2012, HCA Holdings, Inc. issued $1.000 billion aggregate principal amount of 6.25% senior unsecured notes due 2021. These notes are senior unsecured obligations and are not guaranteed by any of our subsidiaries.

HCA Inc., a direct wholly-owned subsidiary of HCA Holdings, Inc., is the obligor under a significant portion of our other indebtedness, including our senior secured credit facilities, senior secured notes and senior unsecured notes (other than the senior unsecured notes issued by HCA Holdings, Inc.). The senior secured notes and senior unsecured notes issued by HCA Inc. are fully and unconditionally guaranteed by HCA Holdings, Inc. The senior secured credit facilities and senior secured notes are fully and unconditionally guaranteed by substantially all existing and future, direct and indirect, 100% owned material domestic subsidiaries that are Unrestricted Subsidiaries under our Indenture dated December 16, 1993 (except for certain special purpose subsidiaries that only guarantee and pledge their assets under our senior secured asset-based revolving credit facility).

Our summarized condensed consolidating comprehensive income statements for the quarters and six months ended June 30, 2015 and 2014, condensed consolidating balance sheets at June 30, 2015 and December 31, 2014 and condensed consolidating statements of cash flows for the six months ended June 30, 2015 and 2014, segregating HCA Holdings, Inc. issuer, HCA Inc. issuer, the subsidiary guarantors, the subsidiary non-guarantors and eliminations, follow:

HCA HOLDINGS, INC.

CONDENSED CONSOLIDATING COMPREHENSIVE INCOME STATEMENT

FOR THE QUARTER ENDED JUNE 30, 2015

(Dollars in millions)

	HCA Holdings, Inc. Issuer	HCA Inc. Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Eliminations	Condensed Consolidated
Revenues before provision for doubtful accounts	$	$	$ 5,597	$ 5,335	$	$ 10,932
Provision for doubtful accounts			550	485		1,035
Revenues			5,047	4,850		9,897
Salaries and benefits			2,250	2,242		4,492
Supplies			869	801		1,670
Other operating expenses	(4)		838	921		1,755
Electronic health record incentive income			(12)	(6)		(18)
Equity in earnings of affiliates	(603)		(2)	(8)	603	(10)
Depreciation and amortization			223	246		469
Interest expense	38	604	(168)	(49)		425
Losses on sales of facilities			5			5
Losses on retirement of debt	122	3				125
Management fees			(178)	178		
	(447)	607	3,825	4,325	603	8,913

Income (loss) before income taxes		447		(607)		1,222		525		(603)		984
Provision (benefit) for income taxes		(60)		(234)		462		151				319
Net income (loss)		507		(373)		760		374		(603)		665
Net income attributable to noncontrolling interests						24		134				158
Net income (loss) attributable to HCA Holdings, Inc.	$	507	$	(373)	$	736	$	240	$	(603)	$	507
Comprehensive income (loss) attributable to HCA Holdings, Inc.	$	561	$	(358)	$	740	$	275	$	(657)	$	561

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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 JUNE 30, 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	$	$	$ 5,079	$ 4,879	$	$ 9,958
Provision for doubtful accounts			394	334		728
Revenues			4,685	4,545		9,230
Salaries and benefits			2,118	1,980		4,098
Supplies			805	727		1,532
Other operating expenses	5		789	850		1,644
Electronic health record incentive income			(24)	(11)		(35)
Equity in earnings of affiliates	(516)		(1)	(8)	516	(9)
Depreciation and amortization			224	230		454
Interest expense	46	536	(112)	(43)		427
Gains on sales of facilities			(11)			(11)
Losses on retirement of debt		226				226
Management fees			(176)	176		
	(465)	762	3,612	3,901	516	8,326
Income (loss) before income taxes	465	(762)	1,073	644	(516)	904
Provision (benefit) for income taxes	(18)	(277)	381	186		272
Net income (loss)	483	(485)	692	458	(516)	632
Net income attributable to noncontrolling interests			18	131		149
Net income (loss) attributable to HCA Holdings, Inc.	$ 483	$ (485)	$ 674	$ 327	$ (516)	$ 483
Comprehensive income (loss) attributable to HCA Holdings, Inc.	$ 516	$ (477)	$ 677	$ 349	$ (549)	$ 516

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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 SIX MONTHS ENDED JUNE 30, 2015

(Dollars in millions)

	HCA Holdings, Inc. Issuer	HCA Inc. Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Eliminations	Condensed Consolidated
Revenues before provision for doubtful accounts	$	$	$ 10,798	$ 10,456	$	$ 21,254
Provision for doubtful accounts			846	835		1,681
Revenues			9,952	9,621		19,573
Salaries and benefits			4,467	4,423		8,890
Supplies			1,723	1,585		3,308
Other operating expenses	2		1,658	1,812		3,472
Electronic health record incentive income			(25			