

HCA Holdings, Inc.  
Form 10-Q  
August 06, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended June 30, 2012

Or

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

Commission file number 1-11239

**HCA Holdings, Inc.**

(Exact name of registrant as specified in its charter)

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

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

**One Park Plaza**

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

**37203**  
(Zip Code)

**(615) 344-9551**

(Registrant's telephone number, including area code)

**Not Applicable**

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

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

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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

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

**Outstanding at July 31, 2012**  
440,652,700 shares

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**HCA HOLDINGS, INC.**

**Form 10-Q**

**June 30, 2012**

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**Table of Contents****HCA HOLDINGS, INC.****CONDENSED CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS****FOR THE QUARTERS AND SIX MONTHS ENDED JUNE 30, 2012 AND 2011****Unaudited****(Dollars in millions, except per share amounts)**

	Quarter		Six Months	
	2012	2011	2012	2011
Revenues before provision for doubtful accounts	\$ 9,153	\$ 8,024	\$ 18,352	\$ 16,079
Provision for doubtful accounts	1,041	775	1,835	1,424
<b>Revenues</b>	<b>8,112</b>	<b>7,249</b>	<b>16,517</b>	<b>14,655</b>
Salaries and benefits	3,707	3,320	7,443	6,615
Supplies	1,422	1,295	2,841	2,570
Other operating expenses	1,493	1,326	2,986	2,648
Electronic health record incentive income	(70)	(39)	(125)	(39)
Equity in earnings of affiliates	(9)	(73)	(20)	(149)
Depreciation and amortization	420	358	837	716
Interest expense	448	520	890	1,053
Losses on sales of facilities	2		3	1
Losses on retirement of debt		75		75
Termination of management agreement				181
	<b>7,413</b>	<b>6,782</b>	<b>14,855</b>	<b>13,671</b>
Income before income taxes	699	467	1,662	984
Provision for income taxes	214	147	538	330
<b>Net income</b>	<b>485</b>	<b>320</b>	<b>1,124</b>	<b>654</b>
Net income attributable to noncontrolling interests	94	91	193	185
<b>Net income attributable to HCA Holdings, Inc.</b>	<b>\$ 391</b>	<b>\$ 229</b>	<b>\$ 931</b>	<b>\$ 469</b>
Per share data:				
Basic earnings per share	\$ 0.89	\$ 0.44	\$ 2.12	\$ 0.98
Diluted earnings per share	\$ 0.85	\$ 0.43	\$ 2.03	\$ 0.94
Cash dividends declared per share	\$	\$	\$ 2.00	\$
Shares used in earnings per share calculations (in thousands):				
Basic	439,473	516,448	438,705	480,525
Diluted	458,621	538,557	458,467	500,463
<b>Comprehensive income attributable to HCA Holdings, Inc.</b>	<b>\$ 353</b>	<b>\$ 234</b>	<b>\$ 922</b>	<b>\$ 558</b>

See accompanying notes.

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

	June 30, 2012	December 31, 2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 518	\$ 373
Accounts receivable, less allowance for doubtful accounts of \$4,416 and \$4,106	4,485	4,533
Inventories	1,055	1,054
Deferred income taxes	323	594
Other	756	679
	7,137	7,233
Property and equipment, at cost	28,742	28,075
Accumulated depreciation	(15,896)	(15,241)
	12,846	12,834
Investments of insurance subsidiaries	495	548
Investments in and advances to affiliates	102	101
Goodwill and other intangible assets	5,431	5,251
Deferred loan costs	281	290
Other	840	641
	\$ 27,132	\$ 26,898
<b>LIABILITIES AND STOCKHOLDERS DEFICIT</b>		
Current liabilities:		
Accounts payable	\$ 1,517	\$ 1,597
Accrued salaries	970	965
Other accrued expenses	1,651	1,585
Long-term debt due within one year	1,309	1,407
	5,447	5,554
Long-term debt	25,732	25,645
Professional liability risks	1,039	993
Income taxes and other liabilities	1,857	1,720
Stockholders' deficit:		
Common stock \$0.01 par; authorized 1,800,000,000 shares; outstanding 440,483,600 shares in 2012 and 437,477,900 shares in 2011	4	4
Capital in excess of par value	1,665	1,601
Accumulated other comprehensive loss	(449)	(440)
Retained deficit	(9,463)	(9,423)
Stockholders' deficit attributable to HCA Holdings, Inc.	(8,243)	(8,258)

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Noncontrolling interests	<b>1,300</b>	1,244
	<b>(6,943)</b>	(7,014)
	<b>\$ 27,132</b>	\$ 26,898

See accompanying notes.

**Table of Contents****HCA HOLDINGS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE SIX MONTHS ENDED JUNE 30, 2012 AND 2011****Unaudited****(Dollars in millions)**

	2012	2011
<b>Cash flows from operating activities:</b>		
Net income	\$ 1,124	\$ 654
Adjustments to reconcile net income to net cash provided by operating activities:		
Changes in operating assets and liabilities	(1,927)	(1,576)
Provision for doubtful accounts	1,835	1,424
Depreciation and amortization	837	716
Income taxes	326	317
Losses on sales of facilities	3	1
Losses on retirement of debt		75
Amortization of deferred loan costs	29	39
Share-based compensation	23	16
Other	7	
Net cash provided by operating activities	2,257	1,666
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(784)	(776)
Acquisition of hospitals and health care entities	(139)	(168)
Disposition of hospitals and health care entities	6	54
Change in investments	35	76
Other	(4)	2
Net cash used in investing activities	(886)	(812)
<b>Cash flows from financing activities:</b>		
Issuance of long-term debt	1,350	
Net change in revolving credit facilities	(820)	(1,524)
Repayment of long-term debt	(608)	(1,508)
Distributions to noncontrolling interests	(191)	(185)
Payment of debt issuance costs	(19)	(12)
Issuance of common stock		2,506
Distributions to stockholders	(982)	(30)
Income tax benefits	71	49
Other	(27)	(22)
Net cash used in financing activities	(1,226)	(726)
Change in cash and cash equivalents	145	128
Cash and cash equivalents at beginning of period	373	411
Cash and cash equivalents at end of period	\$ 518	\$ 539

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Interest payments	\$ 854	\$ 1,043
Income tax payments (refunds), net	\$ 141	\$ (36)

See accompanying notes.



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**HCA HOLDINGS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

*Reporting Entity*

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

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

During March 2011, we completed the initial public offering of 87,719,300 shares of our common stock at a price of \$30.00 per share (before deducting underwriter discounts, commissions and other related offering expenses). Certain of our stockholders also sold 57,410,700 shares of our common stock in this offering. We did not receive any proceeds from the shares sold by the selling stockholders. Our common stock is traded on the New York Stock Exchange (symbol HCA ).

The Investors provided management and advisory services to the Company pursuant to a management agreement among HCA Inc. and the Investors executed in connection with the Investors' acquisition of HCA Inc. in November 2006. The management agreement was terminated pursuant to its terms upon completion of the initial public offering of our common stock during March 2011, and the Company paid the Investors a final fee of \$181 million.

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, 2012, these affiliates owned and operated 163 hospitals, 110 freestanding surgery centers and provided extensive outpatient and ancillary services. HCA Holdings, Inc.'s facilities are located in 20 states and England. The terms Company, HCA, we, our or us, as used herein and otherwise stated or indicated by context, refer to HCA Inc. and its affiliates prior to the Corporate Reorganization and to HCA Holdings, Inc. and its affiliates after the Corporate Reorganization. The terms facilities or hospitals refer to entities owned and operated by affiliates of HCA and the term employees refers to employees of affiliates of HCA.

*Basis of Presentation*

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

The majority of our expenses are costs of revenues items. Costs that could be classified as general and administrative would include our corporate office costs, which were \$59 million and \$55 million for the quarters ended June 30, 2012 and 2011, respectively, and \$112 million and \$109 million for the six months ended

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

June 30, 2012 and 2011, respectively. Operating results for the quarter and the six months ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. 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, 2011.

In 2011, we adopted the provisions of Accounting Standards Update ( ASU ) No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* ( ASU 2011-07 ). ASU 2011-07 requires health care entities to change the presentation of the statement of operations by reclassifying the provision for doubtful accounts from an operating expense to a deduction from patient service revenues. Operating results for the quarter and six months ended June 30, 2011 have been reclassified in accordance with ASU 2011-07.

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 the Medicare, Medicaid and other programs), managed care health plans, commercial insurance companies and employers. Estimates of contractual allowances under managed care health plans are based upon the payment terms specified in the related contractual agreements. Revenues related to uninsured patients and copayment and deductible amounts for patients who have health care coverage may have discounts applied (uninsured discounts and contractual discounts). We also record a provision for doubtful accounts related to uninsured accounts to record the net self pay accounts receivable at the estimated amounts we expect to collect. Our revenues from our third-party payers, the uninsured and other revenues for the quarters and six months ended June 30, 2012 and 2011 are summarized in the following tables (dollars in millions):

	Quarter		Quarter	
	2012	Ratio	2011	Ratio
Medicare	\$ 1,989	24.5%	\$ 1,871	25.8%
Managed Medicare	729	9.0	584	8.1
Medicaid	380	4.7	479	6.6
Managed Medicaid	358	4.4	316	4.4
Managed care and other insurers	4,473	55.1	3,853	53.1
International (managed care and other insurers)	266	3.3	233	3.2
	<b>8,195</b>	<b>101.0</b>	7,336	101.2
Uninsured	739	9.1	492	6.8
Other	219	2.7	196	2.7
Revenues before provision for doubtful accounts	<b>9,153</b>	<b>112.8</b>	8,024	110.7
Provision for doubtful accounts	<b>(1,041)</b>	<b>(12.8)</b>	(775)	(10.7)
Revenues	\$ <b>8,112</b>	<b>100.0%</b>	\$ 7,249	100.0%



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

	Six Months			
	2012	Ratio	2011	Ratio
Medicare	\$ 4,302	26.0%	\$ 3,871	26.4%
Managed Medicare	1,479	9.0	1,196	8.2
Medicaid	810	4.9	987	6.7
Managed Medicaid	700	4.2	635	4.3
Managed care and other insurers	8,918	54.0	7,631	52.1
International (managed care and other insurers)	526	3.2	466	3.2
	<b>16,735</b>	<b>101.3</b>	14,786	100.9
Uninsured	1,181	7.2	882	6.0
Other	436	2.6	411	2.8
Revenues before provision for doubtful accounts	18,352	111.1	16,079	109.7
Provision for doubtful accounts	(1,835)	(11.1)	(1,424)	(9.7)
Revenues	<b>\$ 16,517</b>	<b>100.0%</b>	\$ 14,655	100.0%

The increase in revenues for the six months ended June 30, 2012 compared to the six months ended June 30, 2011 includes two adjustments (Rural Floor Provision Settlement and Supplemental Security Income ( SSI ) ratios) related to Medicare revenues for prior periods. The net effect of the Medicare adjustments was an increase of \$188 million to revenues. The Rural Floor Provision Settlement was signed on April 5, 2012. As a result of the agreement, we received additional Medicare payments of approximately \$271 million during June 2012. This amount was recorded as an increase to Medicare revenues for the quarter ended March 31, 2012. During March 2012, the Centers for Medicare & Medicaid Services ( CMS ) issued new SSI ratios used for calculating Medicare Disproportionate Share Hospital ( DSH ) reimbursement for federal fiscal years ending September 30, 2006 through September 30, 2009. As a result, we recalculated our DSH reimbursement for all applicable periods. The cumulative impact of this retroactive adjustment was a reduction in Medicare revenues of approximately \$83 million. This adjustment was recorded as a reduction to Medicare revenues during the quarter ended March 31 2012. The net effect of these adjustments (and related expenses) added \$170 million to income before income taxes, or \$0.22 per diluted share, for the six months ended June 30, 2012.

We previously reported \$39 million of Medicaid electronic health record ( EHR ) incentives for the quarter and six months ended June 30, 2011 in the line item Revenues in our condensed consolidated income statements. This amount has been reclassified and is now included in the line item Electronic health record incentive income in our condensed consolidated comprehensive income statements for the quarter and six months ended June 30, 2011.

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

**NOTE 2 INCOME TAXES**

At June 30, 2012, we were contesting certain claimed deficiencies and adjustments proposed by the IRS Examination Division in connection with its audit of HCA Inc.'s 2005 and 2006 federal income tax returns. The disputed items include the timing of recognition of certain patient service revenues, the deductibility of certain debt retirement costs and our method for calculating the tax allowance for doubtful accounts. The

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IRS Examination Division began an audit of HCA Inc. s 2007, 2008 and 2009 federal income tax returns in 2010.

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Our liability for unrecognized tax benefits was \$518 million, including accrued interest of \$46 million, as of June 30, 2012 (\$494 million and \$62 million, respectively, as of December 31, 2011). Unrecognized tax benefits of \$157 million (\$173 million as of December 31, 2011) would affect the effective rate, if recognized. The provision for income taxes reflects \$18 million and \$2 million (\$11 million and \$1 million, respectively, net of tax) in reductions in interest expense related to taxing authority examinations for the quarters ended June 30, 2012 and 2011, respectively, and \$21 million and \$26 million (\$13 million and \$16 million, respectively, net of tax) in reductions in interest expense related to taxing authority examinations for the six months ended June 30, 2012 and 2011, respectively.

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

**NOTE 3 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, 2012 and 2011 (dollars in millions, except per share amounts, and shares in thousands):

	Quarter		Six Months	
	2012	2011	2012	2011
Net income attributable to HCA Holdings, Inc.	\$ 391	\$ 229	\$ 931	\$ 469
Weighted average common shares outstanding	439,473	516,448	438,705	480,525
Effect of dilutive securities	19,148	22,109	19,762	19,938
Shares used for diluted earnings per share	458,621	538,557	458,467	500,463
Earnings per share:				
Basic earnings per share	\$ 0.89	\$ 0.44	\$ 2.12	\$ 0.98
Diluted earnings per share	\$ 0.85	\$ 0.43	\$ 2.03	\$ 0.94

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A summary of our insurance subsidiaries' investments at June 30, 2012 and December 31, 2011 follows (dollars in millions):

	Amortized Cost	June 30, 2012 Unrealized Amounts		Fair Value
		Gains	Losses	
Debt securities:				
States and municipalities	\$ 377	\$ 20	\$	\$ 397
Auction rate securities	76		(6)	70
Asset-backed securities	17			17
Money market funds	129			129
	599	20	(6)	613
Equity securities	7	1		8
	\$ 606	\$ 21	\$ (6)	621
Amounts classified as current assets				(126)
Investment carrying value				\$ 495

	Amortized Cost	December 31, 2011 Unrealized Amounts		Fair Value
		Gains	Losses	
Debt securities:				
States and municipalities	\$ 398	\$ 19	\$	\$ 417
Auction rate securities	139		(8)	