

HCA Holdings, Inc.
Form 10-Q
August 05, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014

Or

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

For the transition period from _____ to _____

Commission file number 1-11239

HCA Holdings, Inc.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of

27-3865930
(I.R.S. Employer

incorporation or organization)

Identification No.)

One Park Plaza

Nashville, Tennessee
(Address of principal executive offices)

37203
(Zip Code)

(615) 344-9551

(Registrant's telephone number, including area code)

Not Applicable

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

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

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

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

Large accelerated filer ☒ Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

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

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

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

Outstanding at July 31, 2014
432,385,100 shares

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Form 10-Q

June 30, 2014

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

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

See accompanying notes.

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

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

See accompanying notes.

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

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

(6,588) (6,928)

\$ 29,822 \$ 28,831

See accompanying notes.

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

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

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

See accompanying notes.

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HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

HCA Holdings, Inc. is a holding company whose affiliates own and operate hospitals and related health care entities. The term "affiliates" includes direct and indirect subsidiaries of HCA Holdings, Inc. and partnerships and joint ventures in which such subsidiaries are partners. At June 30, 2014, these affiliates owned and operated 165 hospitals, 115 freestanding surgery centers and provided extensive outpatient and ancillary services. HCA Holdings, Inc.'s facilities are located in 20 states and England. The terms "Company," "HCA," "we," "our" or "us," as used herein and otherwise stated or indicated by context, refer to HCA Holdings, Inc. and its affiliates. The terms "facilities" or "hospitals" refer to entities owned and operated by affiliates of HCA and the term "employees" refers to employees of affiliates of HCA.

Basis of Presentation

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

The majority of our expenses are "costs of revenues" items. Costs that could be classified as general and administrative would include our corporate office costs, which were \$67 million and \$65 million for the quarters ended June 30, 2014 and 2013, respectively, and \$135 million and \$131 million for the six months ended June 30, 2014 and 2013, respectively. Operating results for the quarter and the six months ended June 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. For further information, refer to the consolidated financial statements and footnotes thereto included in our annual report on Form 10-K for the year ended December 31, 2013.

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

Revenues are recorded during the period the health care services are provided, based upon the estimated amounts due from the patients and third-party payers. Third-party payers include federal and state agencies (under Medicare, Medicaid and other programs), managed care health plans (includes the health insurance exchanges, beginning with the first quarter of 2014), commercial insurance companies and employers. Estimates of contractual allowances under managed care health plans are based upon the payment terms specified in the related contractual agreements. Revenues related to uninsured patients and copayment and deductible amounts for patients who have health care coverage may have discounts applied (uninsured discounts and contractual discounts). We also record a provision for doubtful accounts related to uninsured accounts to record the net self pay revenues at the estimated amounts we expect to collect. Our revenues from third-party payers and the uninsured for the quarters and six months ended June 30, 2014 and 2013 are summarized in the following table (dollars in millions):

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

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

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

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HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Revenues (continued)

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

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

Recent Pronouncements

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

NOTE 2 ACQUISITIONS AND DISPOSITIONS

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

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

NOTE 3 INCOME TAXES

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

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

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

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

NOTE 4 EARNINGS PER SHARE

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

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

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

NOTE 5 INVESTMENTS OF INSURANCE SUBSIDIARIES

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

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

Investment carrying value

\$ 426

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

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

At June 30, 2014 and December 31, 2013, the investments of our insurance subsidiaries were classified as available-for-sale. Changes in temporary unrealized gains and losses are recorded as adjustments to other comprehensive income (loss).

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

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

The average expected maturity of the investments in debt securities at June 30, 2014 was 4.1 years, compared to the average scheduled maturity of 5.7 years. Expected and scheduled maturities may differ because the issuers of certain securities have the right to call, prepay or otherwise redeem such obligations prior to their scheduled maturity date.

NOTE 6 FINANCIAL INSTRUMENTS*Interest Rate Swap Agreements*

We have entered into interest rate swap agreements to manage our exposure to fluctuations in interest rates. These swap agreements involve the exchange of fixed and variable rate interest payments between two parties based on common notional principal amounts and maturity dates. Pay-fixed interest rate swaps effectively convert LIBOR indexed variable rate obligations to fixed interest rate obligations. The interest payments under these agreements are settled on a net basis. The net interest payments, based on the notional amounts in these agreements, generally match the timing of the related liabilities for the interest rate swap agreements which have been designated as cash flow hedges. The notional amounts of the swap agreements represent amounts used to calculate the exchange of cash flows and are not our assets or liabilities. Our

credit risk related to these agreements is considered low because the swap agreements are with creditworthy financial institutions.

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

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

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

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

Derivatives Results of Operations

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

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

Credit-risk-related Contingent Features

We have agreements with each of our derivative counterparties that contain a provision where we could be declared in default on our derivative obligations if repayment of the underlying indebtedness is accelerated by the lender due to our default on the indebtedness. As of June 30, 2014, we have not been required to post any collateral related to these agreements. If we had breached these provisions at June 30, 2014, we would have been required to settle our obligations under the agreements at their aggregate, estimated termination value of \$269 million.

NOTE 7 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

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

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves observable at commonly quoted intervals. Level 3 inputs are unobservable

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HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Cash Traded Investments

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

Derivative Financial Instruments

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

Although we determined the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by us and our counterparties. We assessed the significance of the impact of the credit valuation adjustments on the overall valuation of our derivative positions, and at June 30, 2014 and December 31, 2013, we determined the credit valuation adjustments were not significant to the overall valuation of our derivatives.

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

The following tables summarize our assets and liabilities measured at fair value on a recurring basis as of June 30, 2014 and December 31, 2013, aggregated by the level in the fair value hierarchy within which those measurements fall (dollars in millions):

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

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

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

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

The estimated fair value of our long-term debt was \$30.449 billion and \$29.603 billion at June 30, 2014 and December 31, 2013, respectively, compared to carrying amounts aggregating \$28.988 billion and \$28.376 billion, respectively. The estimates of fair value are generally based upon the quoted market prices or quoted market prices for similar issues of long-term debt with the same maturities.

NOTE 8 LONG-TERM DEBT

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

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

2014 Activity

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

2013 Activity

During March 2013, we redeemed all \$201 million aggregate principal amount of our 9 7/8% senior secured second lien notes due 2017. The pretax loss on retirement of debt related to this redemption was \$17 million.

NOTE 9 CONTINGENCIES AND LEGAL CLAIM COSTS

We operate in a highly regulated and litigious industry. As a result, various lawsuits, claims and legal and regulatory proceedings have been and can be expected to be instituted or asserted against us. We are also subject to claims and suits arising in the ordinary course of business, including claims for personal injuries or wrongful restriction of, or interference with, physicians' staff privileges. In certain of these actions the

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claimants may seek punitive damages against us which may not be covered by insurance. The resolution of any such lawsuits, claims or legal and regulatory proceedings could have a material, adverse effect on our results of operations or financial position.

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HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9 CONTINGENCIES AND LEGAL CLAIM COSTS (continued)

Government Investigations, Claims and Litigation

Health care companies are subject to numerous investigations by various governmental agencies. Further, under the federal False Claims Act (FCA), private parties have the right to bring *qui tam*, or whistleblower, suits against companies that submit false claims for payments to, or improperly retain overpayments from, the government. Some states have adopted similar state whistleblower and false claims provisions. Certain of our individual facilities have received, and from time to time, other facilities may receive, government inquiries from, and may be subject to investigation by, federal and state agencies. Depending on whether the underlying conduct in these or future inquiries or investigations could be considered systemic, their resolution could have a material, adverse effect on our financial position, results of operations and liquidity.

As initially disclosed in 2010, the Civil Division of the Department of Justice (DOJ) has contacted the Company in connection with its nationwide review of whether, in certain cases, hospital charges to the federal government relating to implantable cardio-defibrillators (ICDs) met the CMS criteria. In connection with this nationwide review, the DOJ has indicated that it will be reviewing certain ICD billing and medical records at 95 HCA hospitals; the review covers the period from October 2003 to the present. In August 2012, HCA, along with non-HCA hospitals across the country subject to the DOJ 's review, received from the DOJ a proposed framework for resolving the DOJ 's review of ICDs. The Company is cooperating in the review. The review could potentially give rise to claims against the Company under the federal FCA or other statutes, regulations or laws. At this time, we cannot predict what effect, if any, this review or any resulting claims could have on the Company.

In July 2012, the Civil Division of the U.S. Attorney 's Office in Miami requested information on reviews assessing the medical necessity of interventional cardiology services provided at any Company facility (other than peer reviews). The Company is cooperating with the government 's request and has produced medical records associated with particular reviews at eight hospitals, located primarily in Florida. At this time, we cannot predict what effect, if any, the request or any resulting claims, including any potential claims under the federal FCA, other statutes, regulations or laws, could have on the Company.

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

Securities Class Action Litigation

On October 28, 2011, a shareholder action, Schuh v. HCA Holdings, Inc. et al., was filed in the United States District Court for the Middle District of Tennessee seeking monetary relief. The case sought to include as a class all persons who acquired the Company 's stock pursuant or traceable to the Company 's Registration Statement issued in connection with the March 9, 2011 initial public offering. The lawsuit asserted a claim under Section 11 of the Securities Act of 1933 against the Company, certain members of the board of directors, and certain underwriters in the offering. It further asserted a claim under Section 15 of the Securities Act of 1933 against the same members of the board of directors. The action alleged various deficiencies in the Company 's

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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)

disclosures in the Registration Statement. Subsequently, two additional class action complaints, *Kishtah v. HCA Holdings, Inc. et al.* and *Daniels v. HCA Holdings, Inc. et al.*, setting forth substantially similar claims against substantially the same defendants were filed in the same federal court on November 16, 2011 and December 12, 2011, respectively. All three of the cases were consolidated. On May 3, 2012, the court appointed New England Teamsters & Trucking Industry Pension Fund as Lead Plaintiff for the consolidated action. On July 13, 2012, the lead plaintiff filed an amended complaint asserting claims under Sections 11 and 12(a)(2) of the Securities Act of 1933 against the Company, certain members of the board of directors, and certain underwriters in the offering. It further asserts a claim under Section 15 of the Securities Act of 1933 against the same members of the board of directors and Hercules Holdings II, LLC, a majority shareholder of the Company at the time of the initial public offering. The consolidated complaint alleges deficiencies in the Company's disclosures in the Registration Statement and Prospectus relating to: (1) the accounting for the Company's 2006 recapitalization and 2010 reorganization; (2) the Company's failure to maintain effective internal controls relating to its accounting for such transactions; and (3) the Company's Medicare and Medicaid revenue growth rates. The Company and other defendants moved to dismiss the amended complaint on September 11, 2012. The Court granted the motion in part on May 28, 2013. The action is proceeding to discovery on the remaining claims. Plaintiffs' motion to certify the class has been briefed and is set for oral argument in August 2014. It is not known when the court will rule on the motion.

In addition to the above described shareholder class actions, on December 8, 2011, a federal shareholder derivative action, *Sutton v. Bracken, et al.*, putatively initiated in the name of the Company, was filed in the United States District Court for the Middle District of Tennessee against certain officers and present and former directors of the Company seeking monetary relief. The action alleges breaches of fiduciary duties by the named officers and directors in connection with the accounting and earnings claims set forth in the shareholder class actions. Setting forth substantially similar claims against substantially the same defendants, an additional federal derivative action, *Schroeder v. Bracken, et al.*, was filed in the United States District Court for the Middle District of Tennessee on December 16, 2011, and a state derivative action, *Bagot v. Bracken, et al.*, was filed in Tennessee state court in the Davidson County Circuit Court on December 20, 2011. The federal derivative actions were consolidated in the Middle District of Tennessee and stayed pending developments in the shareholder class actions. The state derivative action had also been stayed pending developments in the shareholder class actions, but that stay has expired. The plaintiff in the state derivative action subsequently filed an amended complaint on September 9, 2013 that added additional allegations made in the shareholder class actions. On September 24, 2013, an additional state derivative action, *Steinberg v. Bracken, et al.*, was filed in Tennessee state court in the Davidson County Circuit Court. This action against our board of directors has been consolidated with the earlier filed state derivative action. The plaintiffs in the consolidated action filed a consolidated complaint on December 4, 2013. The Company has filed a motion to again stay the state derivative action pending developments in the class action, but the Court has not yet acted on that motion.

Health Midwest Litigation

In October 2009, the Health Care Foundation of Greater Kansas City, a nonprofit health foundation, filed suit against HCA Inc. in the Circuit Court of Jackson County, Missouri and alleged that HCA did not fund the level of capital expenditures and uncompensated care agreed to in connection with HCA's purchase of hospitals from Health Midwest in 2003. The central issue in the case was whether HCA's construction of new hospitals counted towards its \$450 million five-year capital commitments. In addition, the plaintiff alleged that HCA did not make its required capital expenditures in a timely fashion. On January 24, 2013, the Court ruled in favor of the plaintiff and awarded at least \$162 million. The Court also ordered a court-supervised accounting of HCA's

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

capital expenditures, as well as of expenditures on charity and uncompensated care during the ten years following the purchase. The Court also indicated it would award plaintiff attorneys fees, which the parties have stipulated are approximately \$12 million for the trial phase. HCA recorded \$175 million of legal claim costs in the fourth quarter of 2012 related to this ruling, and consistent with the judge's order, has been accruing interest on that sum at 9% per annum. On April 25, 2014, the parties stipulated to an additional \$78 million shortfall relating to the capital expenditures issue. HCA recorded \$78 million of legal claims costs in the first quarter of 2014 as a result of the stipulation, and is accruing interest on that amount at 9% per annum. Pursuant to the terms of the stipulation, the parties have preserved their respective rights to contest the judge's underlying ruling, whether through motions in the trial court or on appeal. The accounting for charity and other uncompensated care is ongoing, with hearings set to begin in the third quarter of 2014. Final judgment in the case currently is not anticipated before the fourth quarter of 2014. At this time, we cannot predict what effect, if any, the final judgment could have on the Company. HCA plans to appeal the trial court's ruling on the breach of contract claim and order for the accounting once the trial court rules on the accounting and enters judgment.

NOTE 10 CAPITAL STRUCTURE

The changes in stockholders' deficit, including changes in stockholders' deficit attributable to HCA Holdings, Inc. and changes in equity attributable to noncontrolling interests, are as follows (dollars in millions):

| | Equity (Deficit) Attributable to HCA Holdings, Inc. | | | | Equity Attributable to Noncontrolling Interests | | |
|-------------------------------|---|-----------|--------------------------------|--------------------------------------|---|-----------|------------|
| | Common Stock | | Capital in Excess of Par Value | Accumulated Other Comprehensive Loss | Retained Deficit | | Total |
| | Shares (000) | Par Value | Value | Loss | Deficit | Interests | |
| Balances at December 31, 2013 | 439,604 | \$ 4 | \$ 1,386 | \$ (257) | \$ (9,403) | \$ 1,342 | \$ (6,928) |
| Net income | | | | | 830 | 256 | 1,086 |
| Repurchase of common stock | (14,555) | | (750) | | | | (750) |
| Other comprehensive income | | | | 58 | | | 58 |
| Distributions | | | | | | (197) | (197) |
| Share-based benefit plans | 6,324 | | 146 | | | | 146 |
| Other | | | (5) | | 1 | 1 | (3) |
| Balances at June 30, 2014 | 431,373 | \$ 4 | \$ 777 | \$ (199) | \$ (8,572) | \$ 1,402 | \$ (6,588) |

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

Table of Contents**HCA HOLDINGS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 10 CAPITAL STRUCTURE (continued)**

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

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

NOTE 11 SEGMENT AND GEOGRAPHIC INFORMATION

We operate in one line of business, which is operating hospitals and related health care entities. Effective January 1, 2013, we reorganized our operational groups into two geographically organized groups: the National and American Groups. The National Group includes 82 hospitals located in Alaska, California, Florida, southern Georgia, Idaho, Indiana, northern Kentucky, Nevada, New Hampshire, South Carolina, Utah and Virginia, and the American Group includes 77 hospitals located in Colorado, northern Georgia, Kansas, southern Kentucky, Louisiana, Mississippi, Missouri, Oklahoma, Tennessee and Texas. We also operate six hospitals in England, and these facilities are included in the Corporate and other group.

Table of Contents**HCA HOLDINGS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 11 SEGMENT AND GEOGRAPHIC INFORMATION (continued)**

Adjusted segment EBITDA is defined as income before depreciation and amortization, interest expense, losses (gains) on sales of facilities, losses on retirement of debt, legal claim costs, income taxes and net income attributable to noncontrolling interests. We use adjusted segment EBITDA as an analytical indicator for purposes of allocating resources to geographic areas and assessing their performance. Adjusted segment EBITDA is commonly used as an analytical indicator within the health care industry, and also serves as a measure of leverage capacity and debt service ability. Adjusted segment EBITDA should not be considered as a measure of financial performance under generally accepted accounting principles, and the items excluded from adjusted segment EBITDA are significant components in understanding and assessing financial performance. Because adjusted segment EBITDA is not a measurement determined in accordance with generally accepted accounting principles and is thus susceptible to varying calculations, adjusted segment EBITDA, as presented, may not be comparable to other similarly titled measures of other companies. The geographic distributions of our revenues, equity in earnings of affiliates, adjusted segment EBITDA and depreciation and amortization for the quarters and six months ended June 30, 2014 and 2013 are summarized in the following table (dollars in millions):

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

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

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

On November 23, 2010, HCA Holdings, Inc. issued \$1.525 billion aggregate principal amount of 7 ³/₄% senior unsecured notes due 2021. On December 6, 2012, HCA Holdings, Inc. issued \$1.000 billion aggregate principal amount of 6.25% senior unsecured notes due 2021. These notes are senior unsecured obligations and are not guaranteed by any of our subsidiaries.

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

Our summarized condensed consolidating comprehensive income statements for the quarters and six months ended June 30, 2014 and 2013, condensed consolidating balance sheets at June 30, 2014 and December 31, 2013 and condensed consolidating statements of cash flows for the six months ended June 30, 2014 and 2013, segregating HCA Holdings, Inc. issuer, HCA Inc. issuer, the subsidiary guarantors, the subsidiary non-guarantors and eliminations, follow:

HCA HOLDINGS, INC.**CONDENSED CONSOLIDATING COMPREHENSIVE INCOME STATEMENT****FOR THE QUARTER ENDED JUNE 30, 2014****(Dollars in millions)**

| | 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 | (549) | | (1) | (8) | 549 | (9) |
| Depreciation and amortization | | | 224 | 230 | | 454 |
| Interest expense | 46 | 536 | (112) | (43) | | 427 |
| Gains on sales of facilities | | | (11) | | | (11) |
| Losses on retirement of debt | | 226 | | | | 226 |
| Management fees | | | (176) | 176 | | |
| | (498) | 762 | 3,612 | 3,901 | 549 | 8,326 |
| Income (loss) before income taxes | 498 | (762) | 1,073 | 644 | (549) | 904 |

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

Table of Contents**HCA HOLDINGS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 12 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (continued)****HCA HOLDINGS, INC.****CONDENSED CONSOLIDATING COMPREHENSIVE INCOME STATEMENT****FOR THE QUARTER ENDED JUNE 30, 2013****(Dollars in millions)**

| | HCA Holdings, Inc. Issuer | HCA Inc. Issuer | Subsidiary Guarantors | Subsidiary Non- Guarantors | Eliminations | Condensed Consolidated |
|--|--|----------------------------|----------------------------------|---|---------------------|-----------------------------------|
| Revenues before provision for doubtful accounts | \$ | \$ | \$ 5,012 | \$ 4,461 | \$ | \$ 9,473 |
| Provision for doubtful accounts | | | 608 | 415 | | 1,023 |
| Revenues | | | 4,404 | 4,046 | | 8,450 |
| Salaries and benefits | | | 2,058 | 1,790 | | 3,848 |
| Supplies | | | 776 | 694 | | 1,470 |
| Other operating expenses | 1 | | 757 | 749 | | 1,507 |
| Electronic health record incentive income | | | (33) | (19) | | (52) |
| Equity in earnings of affiliates | (504) | | (1) | (11) | 504 | (12) |
| Depreciation and amortization | | | 211 | 214 | | 425 |
| Interest expense | 51 | 544 | (109) | (24) | | 462 |
| Losses (gains) on sales of facilities | | | 3 | (7) | | (4) |
| Management fees | | | (181) | 181 | | |
| | (452) | 544 | 3,481 | 3,567 | 504 | 7,644 |
| Income (loss) before income taxes | 452 | (544) | 923 | 479 | (504) | 806 |
| Provision (benefit) for income taxes | (20) | (213) | 354 | 148 | | 269 |
| Net income (loss) | 472 | (331) | 569 | 331 | (504) | 537 |
| Net income attributable to noncontrolling interests | | | 16 | 98 | | 114 |
| Net income (loss) attributable to HCA Holdings, Inc. | \$ 472 | \$ (331) | \$ 553 | \$ 233 | \$ (504) | \$ 423 |
| Comprehensive income (loss) attributable to HCA Holdings, Inc. | \$ 472 | \$ (283) | \$ 558 | \$ 229 | \$ (504) | \$ 472 |

Table of Contents**HCA HOLDINGS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 12 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (continued)****HCA HOLDINGS, INC.****CONDENSED CONSOLIDATING COMPREHENSIVE INCOME STATEMENT****FOR THE SIX MONTHS ENDED JUNE 30, 2014****(Dollars in millions)**

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

Table of Contents**HCA HOLDINGS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 12 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (continued)****HCA HOLDINGS, INC.****CONDENSED CONSOLIDATING COMPREHENSIVE INCOME STATEMENT****FOR THE SIX MONTHS ENDED JUNE 30, 2013****(Dollars in millions)**

| | HCA Holdings, Inc. Issuer | HCA Inc. Issuer | Subsidiary Guarantors | Subsidiary Non- Guarantors | Eliminations | Condensed Consolidated |
|--|--|----------------------------|----------------------------------|---|---------------------|-----------------------------------|
| Revenues before provision for doubtful accounts | \$ | \$ | \$ 9,884 | \$ 8,783 | \$ | \$ 18,667 |
| Provision for doubtful accounts | | | 1,051 | 726 | | 1,777 |
| Revenues | | | 8,833 | 8,057 | | 16,890 |
| Salaries and benefits | | | 4,185 | 3,580 | | 7,765 |
| Supplies | | | 1,567 | 1,382 | | 2,949 |
| Other operating expenses | 2 | | 1,489 | 1,539 | | 3,030 |
| Electronic health record incentive income | | | (62) | (29) | | (91) |
| Equity in earnings of affiliates | (860) | | (2) | (18) | 860 | (20) |
| Depreciation and amortization | | | 420 | 429 | | 849 |
| Interest expense | 97 | 1,102 | (215) | (50) | | 934 |
| Losses (gains) on sales of facilities | | | 19 | (7) | | 12 |
| Loss on retirement of debt | | 17 | | | | 17 |
| Management fees | | | (364) | 364 | | |
| | (761) | 1,119 | 7,037 | 7,190 | 860 | 15,445 |
| Income (loss) before income taxes | 761 | (1,119) | 1,796 | 867 | (860) | 1,445 |
| Provision (benefit) for income taxes | (37) | (425) | 671 | 261 | | 470 |
| Net income (loss) | 798 | (694) | 1,125 | 606 | (860) | 975 |
| Net income attributable to noncontrolling interests | | | 29 | 179 | | 208 |
| Net income (loss) attributable to HCA Holdings, Inc. | \$ 798 | \$ (694) | \$ 1,096 | \$ 427 | \$ (860) | \$ 767 |
| Comprehensive income (loss) attributable to HCA Holdings, Inc. | \$ 798 | \$ (630) | \$ 1,105 | \$ 385 | \$ (860) | \$ 798 |

Table of Contents**HCA HOLDINGS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 12 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (continued)****HCA HOLDINGS, INC.****CONDENSED CONSOLIDATING BALANCE SHEET****JUNE 30, 2014****(Dollars in millions)**

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

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

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

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

Table of Contents**HCA HOLDINGS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 12 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (continued)****HCA HOLDINGS, INC.****CONDENSED CONSOLIDATING BALANCE SHEET****DECEMBER 31, 2013****(Dollars in millions)**

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

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

Table of Contents**HCA HOLDINGS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 12 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (continued)****HCA HOLDINGS, INC.****CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****FOR THE SIX MONTHS ENDED JUNE 30, 2014****(Dollars in millions)**

| | HCA Holdings, Inc. Issuer | HCA Inc. Issuer | Subsidiary Guarantors | Subsidiary Non- Guarantors | Eliminations | Condensed Consolidated |
|--|--|----------------------------|----------------------------------|---|---------------------|-----------------------------------|
| Cash flows from operating activities: | | | | | | |
| Net income (loss) | \$ 888 | \$ (873) | \$ 1,269 | \$ 754 | \$ (952) | \$ 1,086 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | | | | |
| Changes in operating assets and liabilities | 13 | (32) | (1,258) | (874) | | (2,151) |
| Provision for doubtful accounts | | | 931 | 648 | | 1,579 |
| Depreciation and amortization | | | 442 | 459 | | 901 |
| Income taxes | (94) | | | | | (94) |
| Gains on sales of facilities | | | (32) | | | (32) |
| Losses on retirement of debt | | 226 | | | | 226 |
| Legal claim costs | | 78 | | | | 78 |
| Amortization of deferred loan costs | 2 | 21 | | | | 23 |
| Share-based compensation | 77 | | | | | 77 |
| Equity in earnings of affiliates | (952) | | | | 952 | |
| Other | | 1 | | (1) | | |
| Net cash (used in) provided by operating activities | (66) | (579) | 1,352 | 986 | | 1,693 |
| Cash flows from investing activities: | | | | | | |
| Purchase of property and equipment | | | (583) | (330) | | (913) |
| Acquisition of hospitals and health care entities | | | (2) | (25) | | (27) |
| Disposition of hospitals and health care entities | | | 25 | 7 | | 32 |
| Change in investments | | | 26 | 17 | | 43 |
| Other | | | | 1 | | 1 |
| Net cash used in investing activities | | | (534) | (330) | | (864) |
| Cash flows from financing activities: | | | | | | |
| Issuance of long-term debt | | 3,502 | | | | 3,502 |
| Net change in revolving credit facilities | | 340 | | | | 340 |
| Repayment of long-term debt | | (3,441) | (25) | (16) | | (3,482) |
| Distributions to noncontrolling interests | | | (27) | (170) | | (197) |
| Payment of debt issuance costs | | (49) | | | | (49) |
| Repurchase of common stock | (750) | | | | | (750) |

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| | | | | | | |
|---|-----|-----|--------|--------|----|--------|
| Distributions to stockholders | (7) | | | | | (7) |
| Changes in intercompany balances with affiliates, net | 756 | 227 | (663) | (320) | | |
| Income tax benefits | 75 | | | | | 75 |
| Other | (8) | | | (9) | | (17) |
| Net cash provided by (used in) financing activities | 66 | 579 | (715) | (515) | | (585) |
| Change in cash and cash equivalents | | | 103 | 141 | | 244 |
| Cash and cash equivalents at beginning of period | | | 112 | 302 | | 414 |
| Cash and cash equivalents at end of period | \$ | \$ | \$ 215 | \$ 443 | \$ | \$ 658 |

Table of Contents**HCA HOLDINGS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 12 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (continued)****HCA HOLDINGS, INC.****CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****FOR THE SIX MONTHS ENDED JUNE 30, 2013****(Dollars in millions)**

| | HCA Holdings, Inc. Issuer | HCA Inc. Issuer | Subsidiary Guarantors | Subsidiary Non- Guarantors | Eliminations | Condensed Consolidated |
|--|--|----------------------------|----------------------------------|---|---------------------|-----------------------------------|
| Cash flows from operating activities: | | | | | | |
| Net income (loss) | \$ 798 | \$ (694) | \$ 1,125 | \$ 606 | \$ (860) | \$ 975 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | | | | |
| Changes in operating assets and liabilities | 41 | (18) | (1,217) | (1,141) | | (2,335) |
| Provision for doubtful accounts | | | 1,051 | 726 | | 1,777 |
| Depreciation and amortization | | | 420 | 429 | | 849 |
| Income taxes | 183 | | | | | 183 |
| Losses (gains) on sales of facilities | | | 19 | (7) | | 12 |
| Loss on retirement of debt | | 17 | | | | 17 |
| Amortization of deferred loan costs | 2 | 26 | | | | 28 |
| Share-based compensation | 51 | | | | | 51 |
| Equity in earnings of affiliates | (860) | | | | 860 | |
| Other | | 4 | | (7) | | (3) |
| Net cash provided by (used in) operating activities | 215 | (665) | 1,398 | 606 | | 1,554 |
| Cash flows from investing activities: | | | | | | |
| Purchase of property and equipment | | | (434) | (462) | | (896) |
| Acquisition of hospitals and health care entities | | | | (23) | | (23) |
| Disposition of hospitals and health care entities | | | 17 | 14 | | 31 |
| Change in investments | | | 5 | 97 | | 102 |
| Other | | | (1) | (3) | | (4) |
| Net cash used in investing activities | | | (413) | (377) | | (790) |
| Cash flows from financing activities: | | | | | | |
| Net change in revolving credit facilities | | (20) | | | | (20) |
| Repayment of long-term debt | | (726) | (22) | (20) | | (768) |
| Distributions to noncontrolling interests | | | (29) | (167) | | (196) |
| Payment of debt issuance costs | | (5) | | | | (5) |
| Distributions to stockholders | (10) | | | | | (10) |
| Changes in intercompany balances with affiliates, net | (216) | 1,416 | (1,165) | (35) | | |
| Income tax benefits | 61 | | | | | 61 |
| Other | (72) | | | 3 | | (69) |

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| | | | | | |
|---|-------|-----|---------|--------|---------|
| Net cash (used in) provided by financing activities | (237) | 665 | (1,216) | (219) | (1,007) |
| Change in cash and cash equivalents | (22) | | (231) | 10 | (243) |
| Cash and cash equivalents at beginning of period | 22 | | 383 | 300 | 705 |
| Cash and cash equivalents at end of period | \$ | \$ | \$ 152 | \$ 310 | \$ 462 |

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Forward-Looking Statements

This quarterly report on Form 10-Q includes certain disclosures which contain forward-looking statements. Forward-looking statements include statements regarding estimated electronic health record (EHR) incentive income and related EHR operating expenses, expected capital expenditures, expected net claim payments and all other statements that do not relate solely to historical or current facts, and can be identified by the use of words like may, believe, will, expect, project, estimate, anticipate, plan, initiative or continue. These forward-looking statements are based on our current plans and expectations and are subject to a number of known and unknown uncertainties and risks, many of which are beyond our control, which could significantly affect current plans and expectations and our future financial position and results of operations. These factors include, but are not limited to, (1) the impact of our substantial indebtedness and the ability to refinance such indebtedness on acceptable terms, (2) the effects related to the implementation of the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act (collectively, the Health Reform Law), possible delays in or complications related to implementation of the Health Reform Law, the possible enactment of additional federal or state health care reforms and possible changes to the Health Reform Law and other federal, state or local laws or regulations affecting the health care industry, (3) the effects related to the continued implementation of the sequestration spending reductions required under the Budget Control Act of 2011, and related legislation extending these reductions, and the potential for future deficit reduction legislation that may alter these spending reductions, which include cuts to Medicare payments, or create additional spending reductions, (4) increases in the amount and risk of collectability of uninsured accounts and deductibles and copayment amounts for insured accounts, (5) the ability to achieve operating and financial targets, and attain expected levels of patient volumes and control the costs of providing services, (6) possible changes in the Medicare, Medicaid and other state programs, including Medicaid upper payment limit programs or Waiver Programs, that may impact reimbursements to health care providers and insurers, (7) the highly competitive nature of the health care business, (8) changes in service mix, revenue mix and surgical volumes, including potential declines in the population covered under managed care agreements, the ability to enter into and renew managed care provider agreements on acceptable terms and the impact of consumer driven health plans and physician utilization trends and practices, (9) the efforts of insurers, health care providers and others to contain health care costs, (10) the outcome of our continuing efforts to monitor, maintain and comply with appropriate laws, regulations, policies and procedures, (11) increases in wages and the ability to attract and retain qualified management and personnel, including affiliated physicians, nurses and medical and technical support personnel, (12) the availability and terms of capital to fund the expansion of our business and improvements to our existing facilities, (13) changes in accounting practices, (14) changes in general economic conditions nationally and regionally in our markets, (15) future divestitures which may result in charges and possible impairments of long-lived assets, (16) changes in business strategy or development plans, (17) delays in receiving payments for services provided, (18) the outcome of pending and any future tax audits, appeals and litigation associated with our tax positions, (19) potential adverse impact of known and unknown government investigations, litigation and other claims that may be made against us, (20) our ongoing ability to demonstrate meaningful use of certified EHR technology and recognize income for the related Medicare or Medicaid incentive payments, and (21) other risk factors described in our annual report on Form 10-K for the year ended December 31, 2013 and our other filings with the Securities and Exchange Commission. As a consequence, current plans, anticipated actions and future financial position and results of operations may differ from those expressed in any forward-looking statements made by or on behalf of HCA. You are cautioned not to unduly rely on such forward-looking statements when evaluating the information presented in this report, which forward-looking statements reflect management's views only as of the date of this report. We undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise.

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

Health Care Reform

The Health Reform Law changes how health care services are covered, delivered and reimbursed through expanded coverage of uninsured individuals, reduced growth in Medicare program spending, reductions in Medicare and Medicaid Disproportionate Share Hospital payments, and the establishment of programs in which reimbursement is tied to quality and integration. In addition, the Health Reform Law reforms certain aspects of health insurance, expands existing efforts to tie Medicare and Medicaid payments to performance and quality, and contains provisions intended to strengthen fraud and abuse enforcement. Most of the provisions of the Health Reform Law that seek to decrease the number of uninsured became effective January 1, 2014. Based on the CBO's February 2014 projection, by 2022, the Health Reform Law will expand coverage to 25 million additional individuals. This increased coverage will occur through a combination of public program expansion and private sector health insurance and other reforms. The employer mandate, which requires firms with 50 or more full-time employees to offer health insurance or pay fines, has been delayed until January 1, 2015. For employers with 50 to 99 employees, this requirement has been further delayed until January 1, 2016. In addition, a number of states have opted out of the Medicaid expansion, but these states could choose to implement the expansion at a later date. It is unclear how many states will ultimately decline to implement the Medicaid expansion provisions of the law.

Second Quarter 2014 Operations Summary

Revenues increased to \$9.230 billion in the second quarter of 2014 from \$8.450 billion in the second quarter of 2013. Revenues for the second quarter of 2014 include \$142 million, or \$0.20 per diluted share, of Medicaid revenues related to the receipt of reimbursements in excess of our estimates for the indigent care component of the Texas Medicaid Waiver Program for the program year ended September 30, 2013. All revenue amounts and revenue-related statistics for the quarter and six months ended June 30, 2014 include the impact of this \$142 million increase in Medicaid revenues. Net income attributable to HCA Holdings, Inc. totaled \$483 million, or \$1.07 per diluted share, for the quarter ended June 30, 2014, compared to \$423 million, or \$0.91 per diluted share, for the quarter ended June 30, 2013. Second quarter 2014 results include losses on retirement of debt of \$226 million, or \$0.32 per diluted share, and net gains on sales of facilities of \$11 million, or \$0.02 per diluted share. Second quarter 2013 results include net gains on sales of facilities of \$4 million. All per diluted share disclosures are based upon amounts net of the applicable income taxes. Shares used for diluted earnings per share were 453.0 million shares for the quarter ended June 30, 2014 and 463.2 million shares for the quarter ended June 30, 2013. During May 2014, we repurchased 14.6 million shares of our common stock.

Revenues increased 9.2% on a consolidated basis and increased 7.7% on a same facility basis for the quarter ended June 30, 2014, compared to the quarter ended June 30, 2013. The increase in consolidated revenues can be attributed primarily to the combined impact of a 5.4% increase in revenue per equivalent admission and a 3.6% increase in equivalent admissions. The same facility revenues increase resulted primarily from the combined impact of a 5.4% increase in same facility revenue per equivalent admission and a 2.2% increase in same facility equivalent admissions.

During the quarter ended June 30, 2014, consolidated admissions and same facility admissions increased 2.3% and 1.2%, respectively, compared to the quarter ended June 30, 2013. Inpatient surgeries increased 1.7% on a consolidated basis and 1.0% on a same facility basis during the quarter ended June 30, 2014, compared to the quarter ended June 30, 2013. Outpatient surgeries increased 1.3% on a consolidated basis and declined 0.3% on a same facility basis during the quarter ended June 30, 2014, compared to the quarter ended June 30, 2013. Emergency department visits increased 7.1% on a consolidated basis and 5.7% on a same facility basis during the quarter ended June 30, 2014, compared to the quarter ended June 30, 2013.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF (Continued)

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Second Quarter 2014 Operations Summary (continued)

For the quarter ended June 30, 2014, the provision for doubtful accounts declined \$295 million, compared to the quarter ended June 30, 2013. The self-pay revenue deductions for charity care and uninsured discounts increased \$103 million and \$124 million, respectively, during the second quarter of 2014, compared to the second quarter of 2013. The sum of the provision for doubtful accounts, uninsured discounts and charity care, as a percentage of the sum of revenues, provision for doubtful accounts, uninsured discounts and charity care, was 29.0% for the second quarter of 2014, compared to 31.2% for the second quarter of 2013. Same facility uninsured admissions declined 14.7% for the quarter ended June 30, 2014, compared to the quarter ended June 30, 2013. We believe these favorable trends are primarily due to previously uninsured patients obtaining medical coverage through the health insurance exchanges and Medicaid expansion programs.

Electronic health record incentive income declined \$17 million, from \$52 million in the second quarter of 2013 to \$35 million in the second quarter of 2014. Share-based compensation expense increased \$12 million, from \$28 million in the second quarter of 2013 to \$40 million in the second quarter of 2014.

Cash flows from operating activities increased \$436 million from \$814 million for the second quarter of 2013 to \$1.250 billion for the second quarter of 2014. The increase is related primarily to the net impact of a \$95 million increase in net income, a \$219 million increase related to gains on sales of facilities and losses on retirement of debt, a \$156 million increase from changes in working capital items and a \$71 million decline related to income taxes.

Results of Operations

Revenue/Volume Trends

Our revenues depend upon inpatient occupancy levels, the ancillary services and therapy programs ordered by physicians and provided to patients, the volume of outpatient procedures and the charge and negotiated payment rates for such services. Gross charges typically do not reflect what our facilities are actually paid. Our facilities have entered into agreements with third-party payers, including government programs and managed care health plans, under which the facilities are paid based upon the cost of providing services, predetermined rates per diagnosis, fixed per diem rates or discounts from gross charges. We do not pursue collection of amounts related to patients who meet our guidelines to qualify for charity care; therefore, they are not reported in revenues. We provide discounts to uninsured patients who do not qualify for Medicaid or charity care. These discounts are similar to those provided to many local managed care plans. After the discounts are applied, we are still unable to collect a significant portion of uninsured patients' accounts, and we record significant provisions for doubtful accounts (based upon our historical collection experience) related to uninsured patients in the period the services are provided.

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

Results of Operations (continued)*Revenue/Volume Trends (continued)*

Revenues increased 9.2% from \$8.450 billion in the second quarter of 2013 to \$9.230 billion in the second quarter of 2014. Revenues are recorded during the period the health care services are provided, based upon the estimated amounts due from the patients and third-party payers. Third-party payers include federal and state agencies (under Medicare, Medicaid and other programs), managed care health plans (includes the health insurance exchanges, beginning with the first quarter of 2014), commercial insurance companies and employers. Estimates of contractual allowances under managed care health plans are based upon the payment terms specified in the related contractual agreements. Revenues related to uninsured patients and copayment and deductible amounts for patients who have health care coverage may have discounts applied (uninsured discounts and contractual discounts). We also record a provision for doubtful accounts related to uninsured accounts to record the net self pay revenues at the estimated amounts we expect to collect. Our revenues from our third-party payers, the uninsured and other revenues for the quarters and six months ended June 30, 2014 and 2013 are summarized in the following tables (dollars in millions):

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

| | Six Months | | | |
|---|------------|-------|----------|-------|
| | 2014 | Ratio | 2013 | Ratio |
| Medicare | \$ 4,165 | 23.1% | \$ 4,114 | 24.4% |
| Managed Medicare | 1,805 | 10.0 | 1,647 | 9.8 |
| Medicaid | 1,032 | 5.7 | 697 | 4.1 |
| Managed Medicaid | 873 | 4.8 | 779 | 4.6 |
| Managed care and other insurers | 9,669 | 53.5 | 9,141 | 54.1 |
| International (managed care and other insurers) | 660 | 3.7 | 581 | 3.4 |
| | 18,204 | 100.8 | 16,959 | 100.4 |
| Uninsured | 706 | 3.9 | 1,092 | 6.5 |
| Other | 731 | 4.0 | 616 | 3.6 |

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| | | | | |
|---|------------------|---------------|-----------|--------|
| Revenues before provision for doubtful accounts | 19,641 | 108.7 | 18,667 | 110.5 |
| Provision for doubtful accounts | (1,579) | (8.7) | (1,777) | (10.5) |
| Revenues | \$ 18,062 | 100.0% | \$ 16,890 | 100.0% |

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

Results of Operations (continued)*Revenue/Volume Trends (continued)*

Consolidated and same facility revenue per equivalent admission each increased 5.4% in the second quarter of 2014, compared to the second quarter of 2013. Consolidated and same facility equivalent admissions increased 3.6% and 2.2%, respectively, in the second quarter of 2014, compared to the second quarter of 2013. Consolidated and same facility admissions increased 2.3% and 1.2%, respectively, in the second quarter of 2014, compared to the second quarter of 2013. Consolidated and same facility outpatient surgeries increased 1.3% and declined 0.3%, respectively, in the second quarter of 2014, compared to the second quarter of 2013. Consolidated and same facility inpatient surgeries increased 1.7% and 1.0%, respectively, in the second quarter of 2014, compared to the second quarter of 2013. Consolidated and same facility emergency department visits increased 7.1% and 5.7%, respectively, in the second quarter of 2014, compared to the second quarter of 2013.

To quantify the total impact of and trends related to uninsured accounts, we believe it is beneficial to view the direct uninsured revenue deductions (charity care and uninsured discounts) and provision for doubtful accounts in combination, rather than each separately. At June 30, 2014, our allowance for doubtful accounts represented approximately 93% of the \$5.688 billion total patient due accounts receivable balance. The patient due accounts receivable balance represents the estimated uninsured portion of our accounts receivable. A summary of these adjustments to revenues amounts, related to uninsured accounts, for the quarters and six months ended June 30, 2014 and 2013 follows (dollars in millions):

| | Quarter | | | | Six Months | | | |
|---------------------------------|----------|-------|----------|-------|------------|-------|----------|-------|
| | 2014 | Ratio | 2013 | Ratio | 2014 | Ratio | 2013 | Ratio |
| Charity care | \$ 900 | 24% | \$ 797 | 21% | \$ 1,825 | 23% | \$ 1,702 | 23% |
| Uninsured discounts | 2,142 | 57 | 2,018 | 52 | 4,443 | 57 | 3,968 | 53 |
| Provision for doubtful accounts | 728 | 19 | 1,023 | 27 | 1,579 | 20 | 1,777 | 24 |
| Totals | \$ 3,770 | 100% | \$ 3,838 | 100% | \$ 7,847 | 100% | \$ 7,447 | 100% |

Same facility uninsured admissions declined by 5,133 admissions, or 14.7%, in the second quarter of 2014, compared to the second quarter of 2013. We believe this decline was primarily due to previously uninsured patients obtaining medical coverage through the health insurance exchanges and Medicaid expansion programs. Same facility uninsured admissions increased by 2.1%, in the first quarter of 2014, compared to the first quarter of 2013. Same facility uninsured admissions in 2013, compared to 2012, increased 8.3% in the fourth quarter of 2013, increased 10.1% in the third quarter of 2013, increased 6.3% in the second quarter of 2013 and increased 5.4% in the first quarter of 2013.

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

Results of Operations (continued)*Revenue/Volume Trends (continued)*

The approximate percentages of our admissions related to Medicare, managed Medicare, Medicaid, managed Medicaid, managed care and other insurers and the uninsured for the quarters and six months ended June 30, 2014 and 2013 are set forth in the following table.

| | Quarter | | Six Months | |
|---------------------------------|---------|------|------------|------|
| | 2014 | 2013 | 2014 | 2013 |
| Medicare | 32% | 32% | 32% | 33% |
| Managed Medicare | 14 | 13 | 14 | 13 |
| Medicaid | 8 | 8 | 8 | 8 |
| Managed Medicaid | 9 | 9 | 9 | 9 |
| Managed care and other insurers | 30 | 30 | 30 | 29 |
| Uninsured | 7 | 8 | 7 | 8 |
| | 100% | 100% | 100% | 100% |

The approximate percentages of our inpatient revenues, before provision for doubtful accounts, related to Medicare, managed Medicare, Medicaid, managed Medicaid, managed care and other insurers and the uninsured for the quarters and six months ended June 30, 2014 and 2013 are set forth in the following table.

| | Quarter | | Six Months | |
|---------------------------------|---------|------|------------|------|
| | 2014 | 2013 | 2014 | 2013 |
| Medicare | 28% | 29% | 29% | 31% |
| Managed Medicare | 11 | 10 | 11 | 11 |
| Medicaid | 8 | 6 | 7 | 5 |
| Managed Medicaid | 5 | 4 | 5 | 4 |
| Managed care and other insurers | 48 | 46 | 47 | 46 |
| Uninsured | | 5 | 1 | 3 |
| | 100% | 100% | 100% | 100% |

At June 30, 2014, we had 78 hospitals in the states of Texas and Florida. During the second quarter of 2014, 56% of our admissions and 47% of our revenues were generated by these hospitals. Uninsured admissions in Texas and Florida represented 65% of our uninsured admissions during the second quarter of 2014.

We receive a significant portion of our revenues from government health programs, principally Medicare and Medicaid, which are highly regulated and subject to frequent and substantial changes. In 2011, the Centers for Medicare and Medicaid Services (CMS) approved a Medicaid waiver that allows Texas to continue receiving supplemental Medicaid reimbursement while expanding its Medicaid managed care program. Thus, Texas is operating pursuant to a Waiver Program. The Texas Waiver Program includes two primary components: the continuation of an indigent care component and the establishment of a Delivery System Reform Incentive Payment (DSRIP) component. Initiatives under the DSRIP program are designed to provide incentive payments to hospitals and other providers for their investments in delivery system reforms that increase access to health care, improve the quality of care and enhance the health of patients and families they serve. We provide indigent care services in several communities in the state of Texas, in affiliation with other hospitals. The state of Texas has been involved in efforts to

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increase the indigent care provided by private hospitals. As a result of additional indigent care being provided by private hospitals, public hospital districts or counties in Texas have available funds that were previously devoted to indigent care. The public hospital districts or counties are under

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

Results of Operations (continued)

Revenue/Volume Trends (continued)

no contractual or legal obligation to provide such indigent care. The public hospital districts or counties have elected to transfer some portion of these available funds to the state's Medicaid program. Such action is at the sole discretion of the public hospital districts or counties. It is anticipated that these contributions to the state will be matched with federal Medicaid funds. The state then may make supplemental payments to hospitals in the state for Medicaid services rendered. Hospitals receiving Medicaid supplemental payments may include those that are providing additional indigent care services. Our Texas Medicaid revenues included \$210 million (\$22 million DSRIP related and \$188 million indigent care related) and \$72 million (all indigent care related) during the second quarters of 2014 and 2013, respectively, and \$323 million (\$43 million DSRIP related and \$280 million indigent care related) and \$151 million (all indigent care related) during the first six months of 2014 and 2013, respectively, of Medicaid supplemental payments. During the second quarter of 2014, we recorded \$142 million of Medicaid revenues related to the receipt of reimbursements in excess of our estimates for the indigent care related component of the Texas Medicaid Waiver Program for the program year ended September 30, 2013.

In addition, we receive supplemental payments in several other states. We are aware these supplemental payment programs are currently being reviewed by certain state agencies and some states have made waiver requests to CMS to replace their existing supplemental payment programs. It is possible these reviews and waiver requests will result in the restructuring of such supplemental payment programs and could result in the payment programs being reduced or eliminated. Because deliberations about these programs are ongoing, we are unable to estimate the financial impact the program structure modifications, if any, may have on our results of operations.

Electronic Health Record Incentive Payments

The American Recovery and Reinvestment Act of 2009 provides for Medicare and Medicaid incentive payments, beginning in 2011, for eligible hospitals and professionals that adopt and meaningfully use certified EHR technology. We recognize income related to Medicare and Medicaid incentive payments using a gain contingency model that is based upon when our eligible hospitals have demonstrated meaningful use of certified EHR technology for the applicable period and the cost report information for the full cost report year that will determine the final calculation of the incentive payment is available.

We recognized \$35 million and \$52 million of electronic health record incentive income, primarily related to Medicare, during the second quarters of 2014 and 2013, respectively. We recognized \$65 million and \$91 million of electronic health record incentive income, primarily related to Medicare, during the first six months of 2014 and 2013, respectively. At June 30, 2014, we had \$18 million of deferred EHR incentive income, which represents payments received for which EHR incentive income has not been recognized.

We have incurred and will continue to incur both capital costs and operating expenses in order to implement our certified EHR technology and meet meaningful use requirements. These expenses are ongoing and are projected to continue over all stages of implementation of meaningful use. The timing of recognizing the expenses may not correlate with the receipt of the incentive payments and the recognition of income. We incurred \$32 million and \$33 million during the second quarters of 2014 and 2013, respectively, and \$75 million and \$59 million during the first six months of 2014 and 2013, respectively, of operating expenses to implement our certified EHR technology and meet meaningful use.

For 2014, we estimate EHR incentive income will be recognized in the range of \$110 million to \$130 million and that related EHR operating expenses will be in the range of \$110 million to \$130 million.

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

Results of Operations (continued)*Electronic Health Record Incentive Payments (continued)*

Actual incentive payments and EHR operating expenses could vary from these estimates due to certain factors such as availability of federal funding for both Medicare and Medicaid incentive payments and our ability to continue to demonstrate meaningful use of certified EHR technology. The failure of our ability to continue to demonstrate meaningful use of EHR technology could have a material, adverse effect on our results of operations.

Operating Results Summary

The following is a comparative summary of results from operations for the quarters and six months ended June 30, 2014 and 2013 (dollars in millions):

| | Quarter | | Quarter | |
|---|----------|-------|----------|-------|
| | 2014 | | 2013 | |
| | Amount | Ratio | Amount | Ratio |
| Revenues before provision for doubtful accounts | \$ 9,958 | | \$ 9,473 | |
| Provision for doubtful accounts | 728 | | 1,023 | |
| Revenues | 9,230 | 100.0 | 8,450 | 100.0 |
| Salaries and benefits | 4,098 | 44.4 | 3,848 | 45.5 |
| Supplies | 1,532 | 16.6 | 1,470 | 17.4 |
| Other operating expenses | 1,644 | 17.8 | 1,507 | 17.8 |
| Electronic health record incentive income | (35) | (0.4) | (52) | (0.6) |
| Equity in earnings of affiliates | (9) | (0.1) | (12) | (0.1) |
| Depreciation and amortization | 454 | 4.9 | 425 | 5.1 |
| Interest expense | 427 | 4.6 | 462 | 5.5 |
| Gains on sales of facilities | (11) | (0.1) | (4) | (0.1) |
| Losses on retirement of debt | 226 | 2.5 | | |
| | 8,326 | 90.2 | 7,644 | 90.5 |
| Income before income taxes | 904 | 9.8 | 806 | 9.5 |
| Provision for income taxes | 272 | 3.0 | 269 | 3.2 |
| Net income | 632 | 6.8 | 537 | 6.3 |
| Net income attributable to noncontrolling interests | 149 | 1.6 | 114 | 1.3 |
| Net income attributable to HCA Holdings, Inc. | \$ 483 | 5.2 | \$ 423 | 5.0 |
| % changes from prior year: | | | | |
| Revenues | 9.2% | | 4.2% | |
| Income before income taxes | 12.3 | | 15.1 | |
| Net income attributable to HCA Holdings, Inc. | 14.3 | | 8.1 | |
| Admissions(a) | 2.3 | | 1.1 | |

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| | | |
|---|-----|-----|
| Equivalent admissions(b) | 3.6 | 1.1 |
| Revenue per equivalent admission | 5.4 | 3.0 |
| Same facility % changes from prior year(c): | | |
| Revenues | 7.7 | 4.0 |
| Admissions(a) | 1.2 | 1.3 |
| Equivalent admissions(b) | 2.2 | 1.1 |
| Revenue per equivalent admission | 5.4 | 2.9 |

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

Results of Operations (continued)*Operating Results Summary (continued)*

| | 2014 | | Six Months 2013 | |
|---|-----------|-------|--------------------|-------|
| | Amount | Ratio | Amount | Ratio |
| Revenues before provision for doubtful accounts | \$ 19,641 | | \$ 18,667 | |
| Provision for doubtful accounts | 1,579 | | 1,777 | |
| Revenues | 18,062 | 100.0 | 16,890 | 100.0 |
| Salaries and benefits | 8,148 | 45.1 | 7,765 | 46.0 |
| Supplies | 3,064 | 17.0 | 2,949 | 17.5 |
| Other operating expenses | 3,289 | 18.2 | 3,030 | 17.8 |
| Electronic health record incentive income | (65) | (0.4) | (91) | (0.5) |
| Equity in earnings of affiliates | (18) | (0.1) | (20) | (0.1) |
| Depreciation and amortization | 901 | 5.0 | 849 | 5.0 |
| Interest expense | 887 | 4.9 | 934 | 5.5 |
| Losses (gains) on sales of facilities | (32) | (0.2) | 12 | 0.1 |
| Losses on retirement of debt | 226 | 1.3 | 17 | 0.1 |
| Legal claim costs | 78 | 0.4 | | |
| | 16,478 | 91.2 | 15,445 | 91.4 |
| Income before income taxes | 1,584 | 8.8 | 1,445 | 8.6 |
| Provision for income taxes | 498 | 2.8 | 470 | 2.8 |
| Net income | 1,086 | 6.0 | 975 | 5.8 |
| Net income attributable to noncontrolling interests | 256 | 1.4 | 208 | 1.3 |
| Net income attributable to HCA Holdings, Inc. | \$ 830 | 4.6 | \$ 767 | 4.5 |
| % changes from prior year: | | | | |
| Revenues | 6.9% | | 2.3% | |
| Income before income taxes | 9.6 | | (13.1) | |
| Net income attributable to HCA Holdings, Inc. | 8.2 | | (17.7) | |
| Admissions(a) | 1.2 | | 0.6 | |
| Equivalent admissions(b) | 2.2 | | 0.3 | |
| Revenue per equivalent admission | 4.7 | | 1.9 | |
| Same facility % changes from prior year(c): | | | | |
| Revenues | 5.6 | | 2.0 | |
| Admissions(a) | 0.3 | | 0.7 | |
| Equivalent admissions(b) | 0.9 | | 0.2 | |
| Revenue per equivalent admission | 4.6 | | 1.8 | |

(a) Represents the total number of patients admitted to our hospitals and is used by management and certain investors as a general measure of inpatient volume.

(b)

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Equivalent admissions are used by management and certain investors as a general measure of combined inpatient and outpatient volume. Equivalent admissions are computed by multiplying admissions (inpatient volume) by the sum of gross inpatient revenues and gross outpatient revenues and then dividing the resulting amount by gross inpatient revenues. The equivalent admissions computation equates outpatient revenues to the volume measure (admissions) used to measure inpatient volume, resulting in a general measure of combined inpatient and outpatient volume.

- (c) Same facility information excludes the operations of hospitals and their related facilities which were either acquired or divested during the current and prior period.

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

Results of Operations (continued)

Quarters Ended June 30, 2014 and 2013

Net income attributable to HCA Holdings, Inc. totaled \$483 million, or \$1.07 per diluted share, for the second quarter of 2014 compared to \$423 million, or \$0.91 per diluted share, for the second quarter of 2013. During the second quarter of 2014, we recorded \$142 million, or \$0.20 per diluted share, of Medicaid revenues related to the receipt of reimbursements in excess of our estimates for the indigent care component of the Texas Medicaid Waiver Program for the program year ended September 30, 2013. All revenue amounts and revenue-related statistics for the quarter and six months ended June 30, 2014 include the impact of this \$142 million increase in Medicaid revenues. Second quarter 2014 results include net losses on retirement of debt of \$226 million, or \$0.32 per diluted share, and net gains on sales of facilities of \$11 million, or \$0.02 per diluted share. Second quarter 2013 results include net gains on sales of facilities of \$4 million. All per diluted share disclosures are based upon amounts net of the applicable income taxes. Shares used for diluted earnings per share were 453.0 million shares and 463.2 million shares for the quarters ended June 30, 2014 and 2013, respectively. During May 2014, we repurchased 14.6 million shares of our common stock.

For the second quarter of 2014, consolidated and same facility admissions increased 2.3% and 1.2%, respectively, compared to the second quarter of 2013. Consolidated and same facility outpatient surgical volumes increased 1.3% and declined 0.3%, respectively, during the second quarter of 2014, compared to the second quarter of 2013. Consolidated and same facility inpatient surgeries increased 1.7% and 1.0%, respectively, in the second quarter of 2014, compared to the second quarter of 2013. Consolidated and same facility emergency department visits increased 7.1% and 5.7%, respectively, during the quarter ended June 30, 2014, compared to the quarter ended June 30, 2013.

Revenues before provision for doubtful accounts increased 5.1% for the second quarter of 2014 compared to the second quarter of 2013. The provision for doubtful accounts declined \$295 million from \$1.023 billion in the second quarter of 2013 to \$728 million in the second quarter of 2014. The provision for doubtful accounts relates primarily to uninsured amounts due directly from patients, including copayment and deductible amounts for patients who have health care coverage. The self-pay revenue deductions for charity care and uninsured discounts increased \$103 million and \$124 million, respectively, during the second quarter of 2014, compared to the second quarter of 2013. The sum of the provision for doubtful accounts, uninsured discounts and charity care, as a percentage of the sum of revenues, the provision for doubtful accounts, uninsured discounts and charity care, was 29.0% for the second quarter of 2014, compared to 31.2% for the second quarter of 2013. At June 30, 2014, our allowance for doubtful accounts represented approximately 93% of the \$5.688 billion total patient due accounts receivable balance, including accounts, net of estimated contractual discounts, related to patients for which eligibility for Medicaid coverage or uninsured discounts was being evaluated.

Revenues increased 9.2% primarily due to the combined impact of revenue per equivalent admission growth of 5.4% and a 3.6% increase in equivalent admissions for the second quarter of 2014 compared to the second quarter of 2013. Same facility revenues increased 7.7% due to the combined impact of a 5.4% increase in same facility revenue per equivalent admission and a 2.2% increase in same facility equivalent admissions for the second quarter of 2014 compared to the second quarter of 2013.

Salaries and benefits, as a percentage of revenues, were 44.4% in the second quarter of 2014 and 45.5% in the second quarter of 2013. Salaries and benefits per equivalent admission increased 2.8% in the second quarter of 2014 compared to the second quarter of 2013. Same facility labor rate increases averaged 2.3% for the second quarter of 2014 compared to the second quarter of 2013.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF (Continued)

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Results of Operations (continued)

Quarters Ended June 30, 2014 and 2013 (continued)

Supplies, as a percentage of revenues, were 16.6% in the second quarter of 2014 and 17.4% in the second quarter of 2013. Supply costs per equivalent admission increased 0.5% in the second quarter of 2014 compared to the second quarter of 2013. Supply costs per equivalent admission increased 1.6% for medical devices and 4.2% for pharmacy supplies and declined 0.9% for general medical and surgical items in the second quarter of 2014 compared to the second quarter of 2013.

Other operating expenses, as a percentage of revenues, were 17.8% in each of the second quarters of 2014 and 2013. Other operating expenses is primarily comprised of contract services, professional fees, repairs and maintenance, rents and leases, utilities, insurance (including professional liability insurance) and nonincome taxes. Provisions for losses related to professional liability risks were \$96 million and \$79 million for the second quarters of 2014 and 2013, respectively.

We recognized \$35 million and \$52 million of electronic health record incentive income primarily related to Medicare incentives during the second quarters of 2014 and 2013, respectively.

Equity in earnings of affiliates was \$9 million and \$12 million in the second quarters of 2014 and 2013, respectively.

Depreciation and amortization increased \$29 million, from \$425 million in the second quarter of 2013 to \$454 million in the second quarter of 2014.

Interest expense declined from \$462 million in the second quarter of 2013 to \$427 million in the second quarter of 2014. The decline in interest expense was due to a decline in the average interest rate. Our average debt balance was \$28.945 billion for the second quarter of 2014 compared to \$28.430 billion for the second quarter of 2013. The average effective interest rate for our long term debt declined from 6.5% for the quarter ended June 30, 2013 to 5.9% for the quarter ended June 30, 2014.

During the second quarters of 2014 and 2013, we recorded net gains on sales of facilities of \$11 million and \$4 million, respectively.

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

The effective tax rates were 36.0% and 38.9% for the second quarters of 2014 and 2013, respectively. The effective tax rate computations exclude net income attributable to noncontrolling interests as it relates to consolidated partnerships. Our provision for income taxes for the second quarter of 2014 was reduced by \$22 million related primarily to resolutions of prior year examinations. Excluding the effect of this adjustment, the effective rate for the second quarter of 2014 would have been 38.9%.

Net income attributable to noncontrolling interests increased from \$114 million for the second quarter of 2013 to \$149 million for the second quarter of 2014. The increase in net income attributable to noncontrolling interests related primarily to growth in operating results and the increased Medicaid revenues from the Texas Waiver Program of hospital joint ventures in two Texas markets.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF (Continued)

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Results of Operations (continued)

Six Months Ended June 30, 2014 and 2013

Net income attributable to HCA Holdings, Inc. totaled \$830 million, or \$1.82 per diluted share, in the six months ended June 30, 2014 compared to \$767 million, or \$1.66 per diluted share, in the six months ended June 30, 2013. The first six months of 2014 results include losses on retirement of debt of \$226 million, or \$0.31 per diluted share, net gains on sales of facilities of \$32 million, or \$0.04 per diluted share, and legal claim costs of \$78 million, or \$0.11 per diluted share. The first six months of 2013 results include net losses on sales of facilities of \$12 million, or \$0.02 per diluted share, and losses on retirement of debt of \$17 million, or \$0.02 per diluted share. All per diluted share disclosures are based upon amounts net of the applicable income taxes. Shares used for diluted earnings per share were 455.2 million shares and 462.8 million shares for the six months ended June 30, 2014 and 2013, respectively. During May 2014, we repurchased 14.6 million shares of our common stock.

For the first six months of 2014, consolidated and same facility admissions increased 1.2% and 0.3%, respectively, compared to the first six months of 2013. Consolidated and same facility outpatient surgical volumes increased 0.5% and declined 1.0%, respectively, during the first six months of 2014, compared to the first six months of 2013. Consolidated and same facility inpatient surgeries increased 1.5% and 0.9%, respectively, in the first six months of 2014, compared to the first six months of 2013. Consolidated and same facility emergency department visits increased 4.0% and 2.7%, respectively, during the six months ended June 30, 2014, compared to the six months ended June 30, 2013.

Revenues before provision for doubtful accounts increased 5.2% for the first six months of 2014 compared to the first six months of 2013. Provision for doubtful accounts declined \$198 million from \$1.777 billion in the first six months of 2013 to \$1.579 billion in the first six months of 2014. The provision for doubtful accounts relates primarily to uninsured amounts due directly from patients, including copayment and deductible amounts for patients who have health care coverage. The self-pay revenue deductions for charity care and uninsured discounts increased \$123 million and \$475 million, respectively, during the first six months of 2014, compared to the first six months of 2013. The sum of the provision for doubtful accounts, uninsured discounts and charity care, as a percentage of the sum of revenues, the provision for doubtful accounts, uninsured discounts and charity care, was 30.3% for the first six months of 2014, compared to 30.6% for the first six months of 2013. At June 30, 2014, our allowance for doubtful accounts represented approximately 93% of the \$5.688 billion total patient due accounts receivable balance, including accounts, net of estimated contractual discounts, related to patients for which eligibility for Medicaid coverage or uninsured discounts was being evaluated.

Revenues increased 6.9% due to the combined impact of revenue per equivalent admission growth of 4.7% and an increase of 2.2% in equivalent admissions for the first six months of 2014 compared to the first six months of 2013. Same facility revenues increased 5.6% due primarily to the combined impact of a 4.6% increase in same facility revenue per equivalent admission and a 0.9% increase in same facility equivalent admissions for the first six months of 2014 compared to the first six months of 2013.

Salaries and benefits, as a percentage of revenues, were 45.1% in the first six months of 2014 and 46.0% in the first six months of 2013. Salaries and benefits per equivalent admission increased 2.7% in the first six months of 2014 compared to the first six months of 2013. Same facility labor rate increases averaged 2.1% for the first six months of 2014 compared to the first six months of 2013.

Supplies, as a percentage of revenues, were 17.0% in the first six months of 2014 and 17.5% in the first six months of 2013. Supply cost per equivalent admission increased 1.7% in the first six months of 2014 compared to the first six months of 2013. Supply costs per equivalent admission increased 2.3% for medical devices, 3.6% for pharmacy supplies and 1.0% for general medical and surgical items in the first six months of 2014 compared to the first six months of 2013.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF (Continued)

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Results of Operations (continued)

Six Months Ended June 30, 2014 and 2013 (continued)

Other operating expenses, as a percentage of revenues, increased to 18.2% in the first six months of 2014 from 17.8% in the first six months of 2013. Other operating expenses is primarily comprised of contract services, professional fees, repairs and maintenance, rents and leases, utilities, insurance (including professional liability insurance) and nonincome taxes. Provisions for losses related to professional liability risks were \$192 million and \$159 million for the first six months of 2014 and 2013, respectively.

We recognized \$65 million and \$91 million of electronic health record incentive income primarily related to Medicare incentives during the first six months of 2014 and 2013, respectively.

Equity in earnings of affiliates was \$18 million and \$20 million in the first six months of 2014 and 2013, respectively.

Depreciation and amortization increased \$52 million, from \$849 million in the first six months of 2013 to \$901 million in the first six months of 2014.

Interest expense declined from \$934 million in the first six months of 2013 to \$887 million in the first six months of 2014 which was primarily due to a decline in the average interest rate. Our average debt balance was \$28.720 billion for the first six months of 2014 compared to \$28.478 billion for the first six months of 2013. The average effective interest rate for our long term debt declined from 6.6% for the six months ended June 30, 2013 to 6.2% for the six months ended June 30, 2014.

During the first six months of 2014 and 2013, we recorded net gains on sales of facilities of \$32 million and net losses on sales of facilities of \$12 million, respectively.

During March 2014, we issued \$3.500 billion aggregate principal amount of notes, comprised of \$1.500 billion aggregate principal amount of 3.75% senior secured notes due 2019 and \$2.000 billion aggregate principal amount of 5.00% senior secured notes due 2024 and repaid at maturity all \$500 million aggregate principal amount of our outstanding 5.75% senior unsecured notes. During April 2014, we used proceeds from the March 2014 debt issuance to redeem all \$1.500 billion aggregate principal amount of our outstanding 8 1/2% senior secured notes due 2019 and all \$1.250 billion aggregate principal amount of our outstanding 7 7/8% senior secured notes due 2020. The pretax loss on retirement of debt related to these redemptions was \$226 million. During March 2013, we redeemed all \$201 million aggregate principal amount of our 9 7/8% senior secured second lien notes due 2017. The pretax loss on retirement of debt related to this redemption was \$17 million.

We recorded \$78 million of legal claim costs during the first six months of 2014 to increase the estimate of our legal liability in the previously disclosed lawsuit alleging we did not make the full level of capital expenditures and uncompensated care agreed to in the connection with the purchase of the hospitals from Health Midwest in 2003.

The effective tax rates were 37.5% and 38.0% for the first six months of 2014 and 2013, respectively. The effective tax rate computations exclude net income attributable to noncontrolling interests as it relates to consolidated partnerships.

Net income attributable to noncontrolling interests increased from \$208 million for the first six months of 2013 to \$256 million for the first six months of 2014. The increase in net income attributable to noncontrolling interests related primarily to growth in operating results of hospital joint ventures in two Texas markets and our group purchasing organization.

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

Liquidity and Capital Resources

Cash provided by operating activities totaled \$1.693 billion in the first six months of 2014 compared to \$1.554 billion in the first six months of 2013. The \$139 million increase in cash provided by operating activities in the first six months of 2014 compared to the first six months of 2013 related primarily to the \$111 million increase in net income. The combined interest payments and net tax payments in the first six months of 2014 and 2013 were \$1.416 billion and \$1.135 billion, respectively. Working capital totaled \$2.877 billion at June 30, 2014 and \$2.342 billion at December 31, 2013.

Cash used in investing activities was \$864 million in the first six months of 2014 compared to \$790 million in the first six months of 2013. Excluding acquisitions, capital expenditures were \$913 million in the first six months of 2014 and \$896 million in the first six months of 2013. We expended \$14 million for the acquisition of a hospital facility and \$13 million to acquire nonhospital health care facilities during the first six months of 2014. We expended \$23 million to acquire nonhospital health care facilities during the first six months of 2013. Capital expenditures, excluding acquisitions, are expected to approximate \$2.2 billion in 2014. At June 30, 2014, there were projects under construction which had estimated additional costs to complete and equip over the next five years of approximately \$2.04 billion. We expect to finance capital expenditures with internally generated and borrowed funds. We received \$32 million and \$31 million from sales of health care entities and real estate and other investments during the first six months of 2014 and 2013, respectively. We received net cash flows from our investments of \$43 million and \$102 million in the first six months of 2014 and 2013, respectively.

Cash used in financing activities totaled \$585 million in the first six months of 2014 compared to \$1.007 billion in the first six months of 2013. During the first six months of 2014, net cash flows used in financing activities included a net increase of \$360 million in our indebtedness, repurchase of common stock of \$750 million, distributions to noncontrolling interests of \$197 million, payments of debt issuance costs of \$49 million, distributions to stockholders of \$7 million and receipts of \$75 million of income tax benefits for certain items (primarily related to employee exercises of stock options). During the first six months of 2013, net cash flows used in financing activities included net debt repayments of \$788 million, distributions to noncontrolling interests of \$196 million, distributions to stockholders of \$10 million, payment of debt issuance costs of \$5 million and receipts of \$61 million of income tax benefits for certain items (primarily related to employee exercises of stock options).

We are a highly leveraged company with significant debt service requirements. Our debt totaled \$28.988 billion at June 30, 2014. Our interest expense was \$887 million for the first six months of 2014 and \$934 million for the first six months of 2013. The decline in interest expense was due to the decline in the average interest rate.

In addition to cash flows from operations, available sources of capital include amounts available under our senior secured credit facilities (\$1.662 billion and \$2.232 billion available as of June 30, 2014 and July 31, 2014, respectively) and anticipated access to public and private debt markets.

During March 2014, we issued \$3.500 billion aggregate principal amount of notes, comprised of \$1.500 billion aggregate principal amount of 3.75% senior secured notes due 2019 and \$2.000 billion aggregate principal amount of 5.00% senior secured notes due 2024 and repaid at maturity all \$500 million aggregate principal amount of our outstanding 5.75% senior unsecured notes. During April 2014, we used proceeds from the March 2014 debt issuance to redeem all \$1.500 billion aggregate principal amount of our outstanding 8¹/₂% senior secured notes due 2019 and all \$1.250 billion aggregate principal amount of our outstanding 7⁷/₈% senior secured notes due 2020. The pretax loss on retirement of debt related to these redemptions was \$226 million.

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

Liquidity and Capital Resources (continued)

During March 2013, we redeemed all \$201 million aggregate principal amount of our 9⁷/₈% senior secured second lien notes due 2017. The pretax loss on retirement of debt related to this redemption was \$17 million.

Investments of our professional liability insurance subsidiaries, to maintain statutory equity and pay claims, totaled \$495 million and \$510 million at June 30, 2014 and December 31, 2013, respectively. An insurance subsidiary maintained net reserves for professional liability risks of \$325 million and \$315 million at June 30, 2014 and December 31, 2013, respectively. Our facilities are insured by a 100% owned insurance subsidiary for losses up to \$50 million per occurrence; however, this coverage is subject to a \$5 million per occurrence self-insured retention. Net reserves for the self-insured professional liability risks retained were \$998 million and \$940 million at June 30, 2014 and December 31, 2013, respectively. Claims payments, net of reinsurance recoveries, during the next 12 months are expected to approximate \$324 million. We estimate that approximately \$255 million of the expected net claim payments during the next 12 months will relate to claims subject to the self-insured retention.

Management believes that cash flows from operations, amounts available under our senior secured credit facilities and our anticipated access to public and private debt markets will be sufficient to meet expected liquidity needs during the next 12 months.

Market Risk

We are exposed to market risk related to changes in market values of securities. The investments in debt and equity securities of our 100% owned insurance subsidiaries were \$492 million and \$3 million, respectively, at June 30, 2014. These investments are carried at fair value, with changes in unrealized gains and losses being recorded as adjustments to other comprehensive income. At June 30, 2014, we had a net unrealized gain of \$18 million on the insurance subsidiaries' investment securities.

We are exposed to market risk related to market illiquidity. Investments in debt and equity securities of our 100% owned insurance subsidiaries could be impaired by the inability to access the capital markets. Should the 100% owned insurance subsidiaries require significant amounts of cash in excess of normal cash requirements to pay claims and other expenses on short notice, we may have difficulty selling these investments in a timely manner or be forced to sell them at a price less than what we might otherwise have been able to in a normal market environment. We may be required to recognize other-than-temporary impairments on our investment securities in future periods should issuers default on interest payments or should the fair market valuations of the securities deteriorate due to ratings downgrades or other issue-specific factors.

We are also exposed to market risk related to changes in interest rates, and we periodically enter into interest rate swap agreements to manage our exposure to these fluctuations. Our interest rate swap agreements involve the exchange of fixed and variable rate interest payments between two parties, based on common notional principal amounts and maturity dates. The notional amounts of the swap agreements represent balances 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. The interest payments under these agreements are settled on a net basis. These derivatives have been recognized in the financial statements at their respective fair values. Changes in the fair value of these derivatives, which are designated as cash flow hedges, are included in other comprehensive income, and changes in the fair value of derivatives which have not been designated as hedges are recorded in operations.

With respect to our interest-bearing liabilities, approximately \$3.839 billion of long-term debt at June 30, 2014 was subject to variable rates of interest, while the remaining balance in long-term debt of \$25.149 billion at

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

Liquidity and Capital Resources (continued)

Market Risk (continued)

June 30, 2014 was subject to fixed rates of interest. Both the general level of interest rates and, for the senior secured credit facilities, our leverage affect our variable interest rates. Our variable debt is comprised primarily of amounts outstanding under the senior secured credit facilities. Borrowings under the senior secured credit facilities bear interest at a rate equal to an applicable margin plus, at our option, either (a) a base rate determined by reference to the higher of (1) the federal funds rate plus 0.50% and (2) the prime rate of Bank of America or (b) a LIBOR rate for the currency of such borrowing for the relevant interest period. The applicable margin for borrowings under the senior secured credit facilities may fluctuate according to a leverage ratio. The average effective interest rate for our long-term debt declined from 6.6% for the six months ended June 30, 2013 to 6.2% for the six months ended June 30, 2014.

The estimated fair value of our total long-term debt was \$30.449 billion at June 30, 2014. The estimates of fair value are based upon the quoted market prices for the same or similar issues of long-term debt with the same maturities. Based on a hypothetical 1% increase in interest rates, the potential annualized reduction to future pretax earnings would be approximately \$38 million. To mitigate the impact of fluctuations in interest rates, we generally target a portion of our debt portfolio to be maintained at fixed rates.

Our international operations and the related market risks associated with foreign currencies are currently insignificant to our results of operations and financial position.

Tax Examinations

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

Management believes HCA Holdings, Inc. and its affiliates properly reported taxable income and paid taxes in accordance with applicable laws and agreements established with taxing authorities and final resolution of any disputes will not have a material, adverse effect on our results of operations or financial position. However, if payments due upon final resolution of any issues exceed our recorded estimates, such resolutions could have a material, adverse effect on our results of operations or financial position.

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

Operating Data

| | 2014 | 2013 |
|---|---------|-----------|
| Number of hospitals in operation at: | | |
| March 31 | 165 | 162 |
| June 30 | 165 | 161 |
| September 30 | | 162 |
| December 31 | | 165 |
| Number of freestanding outpatient surgical centers in operation at: | | |
| March 31 | 115 | 113 |
| June 30 | 115 | 114 |
| September 30 | | 114 |
| December 31 | | 115 |
| Licensed hospital beds at(a): | | |
| March 31 | 43,000 | 41,891 |
| June 30 | 43,025 | 41,792 |
| September 30 | | 42,038 |
| December 31 | | 42,896 |
| Weighted average licensed beds(b): | | |
| Quarter: | | |
| First | 42,958 | 41,867 |
| Second | 43,020 | 41,842 |
| Third | | 42,005 |
| Fourth | | 42,809 |
| Year | | 42,133 |
| Average daily census(c): | | |
| Quarter: | | |
| First | 24,414 | 24,147 |
| Second | 23,468 | 22,523 |
| Third | | 22,099 |
| Fourth | | 22,666 |
| Year | | 22,853 |
| Admissions(d): | | |
| Quarter: | | |
| First | 445,100 | 444,200 |
| Second | 442,800 | 433,000 |
| Third | | 432,600 |
| Fourth | | 434,300 |
| Year | | 1,744,100 |
| Equivalent admissions(e): | | |
| Quarter: | | |
| First | 713,000 | 708,000 |
| Second | 734,200 | 708,700 |
| Third | | 711,800 |
| Fourth | | 716,200 |
| Year | | 2,844,700 |

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

Operating Data (continued)

| | 2014 | 2013 |
|--|-----------|-----------|
| Average length of stay (days)(f): | | |
| Quarter: | | |
| First | 4.9 | 4.9 |
| Second | 4.8 | 4.7 |
| Third | | 4.7 |
| Fourth | | 4.8 |
| Emergency room visits(g): | | |
| Quarter: | | |
| First | 1,765,000 | 1,749,300 |
| Second | 1,849,800 | 1,726,400 |
| Third | | 1,738,100 |
| Fourth | | 1,754,300 |
| Year | | 6,968,100 |
| Outpatient surgeries(h): | | |
| Quarter: | | |
| First | 210,500 | 211,100 |
| Second | 225,000 | 222,200 |
| Third | | 215,600 |
| Fourth | | 233,000 |
| Year | | 881,900 |
| Inpatient surgeries(i): | | |
| Quarter: | | |
| First | 126,300 | 124,700 |
| Second | 128,700 | 126,500 |
| Third | | 128,900 |
| Fourth | | 128,700 |
| Year | | 508,800 |
| Days revenues in accounts receivable(j): | | |
| Quarter: | | |
| First | 56 | 52 |
| Second | 54 | 53 |
| Third | | 54 |
| Fourth | | 54 |
| Outpatient revenues as a % of patient revenues(k): | | |
| Quarter: | | |
| First | 37% | 37% |
| Second | 38% | 38% |
| Third | | 38% |
| Fourth | | 39% |
| Year | | 38% |

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

BALANCE SHEET DATA

| | % of Accounts Receivable | | |
|--|--------------------------|---------------|---------------|
| | Under 91 Days | 91 - 180 Days | Over 180 Days |
| Accounts receivable aging at June 30, 2014(l): | | | |
| Medicare and Medicaid | 13% | 1% | 2% |
| Managed care and other discounted | 21 | 5 | 5 |
| Uninsured | 16 | 9 | 28 |
| Total | 50% | 15% | 35% |

- (a) Licensed beds are those beds for which a facility has been granted approval to operate from the applicable state licensing agency.
- (b) Represents the average number of licensed beds, weighted based on periods owned.
- (c) Represents the average number of patients in our hospital beds each day.
- (d) Represents the total number of patients admitted to our hospitals and is used by management and certain investors as a general measure of inpatient volume.
- (e) Equivalent admissions are used by management and certain investors as a general measure of combined inpatient and outpatient volume. Equivalent admissions are computed by multiplying admissions (inpatient volume) by the sum of gross inpatient revenues and gross outpatient revenues and then dividing the resulting amount by gross inpatient revenues. The equivalent admissions computation equates outpatient revenues to the volume measure (admissions) used to measure inpatient volume resulting in a general measure of combined inpatient and outpatient volume.
- (f) Represents the average number of days admitted patients stay in our hospitals.
- (g) Represents the number of patients treated in our emergency rooms.
- (h) Represents the number of surgeries performed on patients who were not admitted to our hospitals. Pain management and endoscopy procedures are not included in outpatient surgeries.
- (i) Represents the number of surgeries performed on patients who have been admitted to our hospitals. Pain management and endoscopy procedures are not included in inpatient surgeries.
- (j) Revenues per day is calculated by dividing the revenues for the quarter by the days in the quarter. Days revenues in accounts receivable is then calculated as accounts receivable, net of allowance for doubtful accounts, at the end of the quarter divided by the revenues per day. Revenues used in this computation are net of the provision for doubtful accounts.
- (k) Represents the percentage of patient revenues related to patients who are not admitted to our hospitals.
- (l) Accounts receivable aging data is based upon consolidated gross accounts receivable of \$10.739 billion (each 1% is equivalent to approximately \$107 million of gross accounts receivable).

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information called for by this item is provided under the caption "Market Risk" under Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

HCA's chief executive officer and chief financial officer have reviewed and evaluated the effectiveness of HCA's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934 (the "Exchange Act")) as of the end of the period covered by this quarterly report. Based on that evaluation, the chief executive officer and chief financial officer have concluded HCA's disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

During the period covered by this report, there have been no changes in our internal control over financial reporting that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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. The resolution of any such lawsuits, claims or legal and regulatory proceedings could materially and adversely affect our results of operations and financial position in a given period.

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 DOJ has contacted the Company in connection with its nationwide review of whether, in certain cases, hospital charges to the federal government relating to implantable cardio-defibrillators ("ICDs") met the CMS criteria. In connection with this nationwide review, the DOJ has indicated that it will be reviewing certain ICD billing and medical records at 95 HCA hospitals; the review covers the period from October 2003 to the present. In August 2012, HCA, along with non-HCA hospitals across the country subject to the DOJ's review, received from the DOJ a proposed framework for resolving the DOJ's review of ICDs. The Company is cooperating in the review. The review could potentially give rise to claims against the Company under the federal FCA or other statutes, regulations or laws. At this time, we cannot predict what effect, if any, this review or any resulting claims could have on the Company.

In July 2012, the Civil Division of the U.S. Attorney's Office in Miami requested information on reviews assessing the medical necessity of interventional cardiology services provided at any Company facility (other

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than peer reviews). The Company is cooperating with the government's request and has produced medical records associated with particular reviews at eight hospitals, located primarily in Florida. At this time, we cannot predict what effect, if any, the request or any resulting claims, including any potential claims under the federal FCA, other statutes, regulations or laws, could have on the Company.

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

Securities Class Action Litigation

On October 28, 2011, a shareholder action, *Schuh v. HCA Holdings, Inc. et al.*, was filed in the United States District Court for the Middle District of Tennessee seeking monetary relief. The case sought to include as a class all persons who acquired the Company's stock pursuant or traceable to the Company's Registration Statement issued in connection with the March 9, 2011 initial public offering. The lawsuit asserted a claim under Section 11 of the Securities Act of 1933 against the Company, certain members of the board of directors, and certain underwriters in the offering. It further asserted a claim under Section 15 of the Securities Act of 1933 against the same members of the board of directors. The action alleged various deficiencies in the Company's disclosures in the Registration Statement. Subsequently, two additional class action complaints, *Kishtah v. HCA Holdings, Inc. et al.* and *Daniels v. HCA Holdings, Inc. et al.*, setting forth substantially similar claims against substantially the same defendants were filed in the same federal court on November 16, 2011 and December 12, 2011, respectively. All three of the cases were consolidated. On May 3, 2012, the court appointed New England Teamsters & Trucking Industry Pension Fund as Lead Plaintiff for the consolidated action. On July 13, 2012, the lead plaintiff filed an amended complaint asserting claims under Sections 11 and 12(a)(2) of the Securities Act of 1933 against the Company, certain members of the board of directors, and certain underwriters in the offering. It further asserts a claim under Section 15 of the Securities Act of 1933 against the same members of the board of directors and Hercules Holdings II, LLC, a majority shareholder of the Company at the time of the initial public offering. The consolidated complaint alleges deficiencies in the Company's disclosures in the Registration Statement and Prospectus relating to: (1) the accounting for the Company's 2006 recapitalization and 2010 reorganization; (2) the Company's failure to maintain effective internal controls relating to its accounting for such transactions; and (3) the Company's Medicare and Medicaid revenue growth rates. The Company and other defendants moved to dismiss the amended complaint on September 11, 2012. The Court granted the motion in part on May 28, 2013. The action is proceeding to discovery on the remaining claims. Plaintiffs' motion to certify the class has been briefed and is set for oral argument in August 2014. It is not known when the court will rule on the motion.

In addition to the above described shareholder class actions, on December 8, 2011, a federal shareholder derivative action, *Sutton v. Bracken, et al.*, putatively initiated in the name of the Company, was filed in the United States District Court for the Middle District of Tennessee against certain officers and present and former directors of the Company seeking monetary relief. The action alleges breaches of fiduciary duties by the named officers and directors in connection with the accounting and earnings claims set forth in the shareholder class actions. Setting forth substantially similar claims against substantially the same defendants, an additional federal derivative action, *Schroeder v. Bracken, et al.*, was filed in the United States District Court for the Middle District of Tennessee on December 16, 2011, and a state derivative action, *Bagot v. Bracken, et al.*, was filed in Tennessee state court in the Davidson County Circuit Court on December 20, 2011. The federal derivative

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

Health Midwest Litigation

In October 2009, the Health Care Foundation of Greater Kansas City, a nonprofit health foundation, filed suit against HCA Inc. in the Circuit Court of Jackson County, Missouri and alleged that HCA did not fund the level of capital expenditures and uncompensated care agreed to in connection with HCA's purchase of hospitals from Health Midwest in 2003. The central issue in the case was whether HCA's construction of new hospitals counted towards its \$450 million five-year capital commitments. In addition, the plaintiff alleged that HCA did not make its required capital expenditures in a timely fashion. On January 24, 2013, the Court ruled in favor of the plaintiff and awarded at least \$162 million. The Court also ordered a court-supervised accounting of HCA's capital expenditures, as well as of expenditures on charity and uncompensated care during the ten years following the purchase. The Court also indicated it would award plaintiff attorneys fees, which the parties have stipulated are approximately \$12 million for the trial phase. HCA recorded \$175 million of legal claim costs in the fourth quarter of 2012 related to this ruling, and consistent with the judge's order, has been accruing interest on that sum at 9% per annum. On April 25, 2014, the parties stipulated to an additional \$78 million shortfall relating to the capital expenditures issue. HCA recorded \$78 million of legal claims costs in the first quarter of 2014 as a result of the stipulation, and is accruing interest on that amount at 9% per annum. Pursuant to the terms of the stipulation, the parties have preserved their respective rights to contest the judge's underlying ruling, whether through motions in the trial court or on appeal. The accounting for charity and other uncompensated care is ongoing, with hearings set to begin in the third quarter of 2014. Final judgment in the case currently is not anticipated before the fourth quarter of 2014. At this time, we cannot predict what effect, if any, the final judgment could have on the Company. HCA plans to appeal the trial court's ruling on the breach of contract claim and order for the accounting once the trial court rules on the accounting and enters judgment.

General Liability and Other Claims

We are subject to claims for additional income taxes and related interest.

We are also subject to claims and suits arising in the ordinary course of business, including claims for personal injuries or for wrongful restriction of, or interference with, physicians' staff privileges. In certain of these actions the claimants have asked for punitive damages against us, which may not be covered by insurance. In the opinion of management, the ultimate resolution of these pending claims and legal proceedings will not have a material, adverse effect on our results of operations or financial position.

ITEM 1A. RISK FACTORS

Reference is made to the factors set forth under the caption "Forward-Looking Statements" in Part I, Item 2 of this Form 10-Q and other risk factors described in our annual report on Form 10-K for the year ended December 31, 2013, which are incorporated herein by reference. There have not been any material changes to the risk factors previously disclosed in our annual report on Form 10-K for the year ended December 31, 2013.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

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

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ITEM 6. EXHIBITS

(a) List of Exhibits:

- | | |
|------|---|
| 10.1 | HCA Holdings, Inc. Employee Stock Purchase Plan (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed April 25, 2014, and incorporated herein by reference).* |
| 10.2 | Share Repurchase Agreement, dated as of May 14, 2014, by and between HCA Holdings, Inc. and Hercules Holding II, LLC (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed May 20, 2014, and incorporated herein by reference). |
| 31.1 | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101 | The following financial information from our quarterly report on Form 10-Q for the quarters and six months ended June 30, 2014 and 2013, filed with the SEC on August 5, 2014, formatted in Extensible Business Reporting Language: (i) the condensed consolidated balance sheets at June 30, 2014 and December 31, 2013, (ii) the condensed consolidated income statements for the quarters and six months ended June 30, 2014 and 2013, (iii) the condensed consolidated comprehensive income statements for the quarters and six months ended June 30, 2014 and 2013, (iv) the condensed consolidated statements of cash flows for the six months ended June 30, 2014 and 2013 and (v) the notes to condensed consolidated financial statements. |

* Management compensatory plan or arrangement.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HCA Holdings, Inc.

By: */s/ WILLIAM B. RUTHERFORD*
William B. Rutherford
Executive Vice President and Chief Financial Officer

Date: August 5, 2014