

HCA Holdings, Inc.
Form 10-Q
May 07, 2013
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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 March 31, 2013

Or

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

Commission file number 1-11239

HCA Holdings, Inc.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

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

One Park Plaza

Nashville, Tennessee
(Address of principal executive offices)

37203
(Zip Code)

(615) 344-9551

(Registrant's telephone number, including area code)

Not Applicable

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

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

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

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

Large accelerated filer Accelerated filer

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

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

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

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

Outstanding at April 30, 2013
446,077,900 shares

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Form 10-Q

March 31, 2013

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HCA HOLDINGS, INC.
CONDENSED CONSOLIDATED INCOME STATEMENTS
FOR THE QUARTERS ENDED MARCH 31, 2013 AND 2012

Unaudited

(Dollars in millions, except per share amounts)

| | 2013 | 2012 |
|---|--------------|--------------|
| Revenues before provision for doubtful accounts | \$ 9,194 | \$ 9,199 |
| Provision for doubtful accounts | 754 | 794 |
| Revenues | 8,440 | 8,405 |
| Salaries and benefits | 3,917 | 3,736 |
| Supplies | 1,479 | 1,419 |
| Other operating expenses | 1,523 | 1,493 |
| Electronic health record incentive income | (39) | (55) |
| Equity in earnings of affiliates | (8) | (11) |
| Depreciation and amortization | 424 | 417 |
| Interest expense | 472 | 442 |
| Losses on sales of facilities | 16 | 1 |
| Loss on retirement of debt | 17 | |
| | 7,801 | 7,442 |
| Income before income taxes | 639 | 963 |
| Provision for income taxes | 201 | 324 |
| Net income | 438 | 639 |
| Net income attributable to noncontrolling interests | 94 | 99 |
| Net income attributable to HCA Holdings, Inc. | \$ 344 | \$ 540 |
| Per share data: | | |
| Basic earnings per share | \$ 0.77 | \$ 1.23 |
| Diluted earnings per share | \$ 0.74 | \$ 1.18 |
| Cash dividends declared per share | \$ | \$ 2.00 |
| Shares used in earnings per share calculations (in thousands): | | |
| Basic | 444,401 | 437,936 |
| Diluted | 462,368 | 458,312 |

See accompanying notes.

Table of Contents**HCA HOLDINGS, INC.****CONDENSED CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS****FOR THE QUARTERS ENDED MARCH 31, 2013 AND 2012****Unaudited****(Dollars in millions)**

| | 2013 | 2012 |
|---|---------------|---------------|
| Net income | \$ 438 | \$ 639 |
| Other comprehensive income (loss) before taxes: | | |
| Foreign currency translation | (60) | 29 |
| Unrealized gains on available-for-sale securities | 1 | 5 |
| Defined benefit plans | | |
| Less: pension costs included in salaries and benefits | 7 | 7 |
| | 7 | 7 |
| Change in fair value of derivative financial instruments | (7) | (25) |
| Less: interest costs included in interest expense | 32 | 29 |
| | 25 | 4 |
| Other comprehensive income (loss) before taxes | (27) | 45 |
| Income taxes (benefits) related to other comprehensive income items | (9) | 16 |
| Other comprehensive income (loss) | (18) | 29 |
| Comprehensive income | 420 | 668 |
| Comprehensive income attributable to noncontrolling interests | 94 | 99 |
| Comprehensive income attributable to HCA Holdings, Inc. | \$ 326 | \$ 569 |

See accompanying notes.

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

| | March 31, 2013 | December 31, 2012 |
|---|-------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 594 | \$ 705 |
| Accounts receivable, less allowance for doubtful accounts of \$4,796 and \$4,846 | 4,877 | 4,672 |
| Inventories | 1,104 | 1,086 |
| Deferred income taxes | 385 | 385 |
| Other | 827 | 915 |
| | 7,787 | 7,763 |
| Property and equipment, at cost | 29,764 | 29,527 |
| Accumulated depreciation | (16,620) | (16,342) |
| | 13,144 | 13,185 |
| Investments of insurance subsidiaries | 423 | 515 |
| Investments in and advances to affiliates | 107 | 104 |
| Goodwill and other intangible assets | 5,541 | 5,539 |
| Deferred loan costs | 274 | 290 |
| Other | 606 | 679 |
| | \$ 27,882 | \$ 28,075 |
| LIABILITIES AND STOCKHOLDERS DEFICIT | | |
| Current liabilities: | | |
| Accounts payable | \$ 1,691 | \$ 1,768 |
| Accrued salaries | 969 | 1,120 |
| Other accrued expenses | 1,893 | 1,849 |
| Long-term debt due within one year | 1,438 | 1,435 |
| | 5,991 | 6,172 |
| Long-term debt | 27,170 | 27,495 |
| Professional liability risks | 970 | 973 |
| Income taxes and other liabilities | 1,763 | 1,776 |
| Stockholders' deficit: | | |
| Common stock \$0.01 par; authorized 1,800,000,000 shares; outstanding 445,856,200 shares in 2013 and 443,200,200 shares in 2012 | 4 | 4 |
| Capital in excess of par value | 1,764 | 1,753 |
| Accumulated other comprehensive loss | (475) | (457) |
| Retained deficit | (10,616) | (10,960) |
| Stockholders' deficit attributable to HCA Holdings, Inc. | (9,323) | (9,660) |
| Noncontrolling interests | 1,311 | 1,319 |

(8,012) (8,341)

\$ 27,882 \$ 28,075

See accompanying notes.

Table of Contents**HCA HOLDINGS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE QUARTERS ENDED MARCH 31, 2013 AND 2012****Unaudited****(Dollars in millions)**

| | 2013 | 2012 |
|---|---------|---------|
| Cash flows from operating activities: | | |
| Net income | \$ 438 | \$ 639 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Changes in operating assets and liabilities | (1,294) | (1,384) |
| Provision for doubtful accounts | 754 | 794 |
| Depreciation and amortization | 424 | 417 |
| Income taxes | 350 | 300 |
| Losses on sales of facilities | 16 | 1 |
| Loss on retirement of debt | 17 | |
| Amortization of deferred loan costs | 13 | 14 |
| Share-based compensation | 23 | 9 |
| Other | (1) | 7 |
| Net cash provided by operating activities | 740 | 797 |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (404) | (335) |
| Acquisition of hospitals and health care entities | (22) | (112) |
| Disposition of hospitals and health care entities | 1 | 1 |
| Change in investments | 51 | 6 |
| Other | 1 | 3 |
| Net cash used in investing activities | (373) | (437) |
| Cash flows from financing activities: | | |
| Issuance of long-term debt | | 1,350 |
| Net change in revolving credit facilities | 390 | (470) |
| Repayment of long-term debt | (741) | (93) |
| Distributions to noncontrolling interests | (102) | (93) |
| Payment of debt issuance costs | | (16) |
| Distributions to stockholders | (10) | (982) |
| Income tax benefits | 36 | 49 |
| Other | (51) | (7) |
| Net cash used in financing activities | (478) | (262) |
| Change in cash and cash equivalents | (111) | 98 |
| Cash and cash equivalents at beginning of period | 705 | 373 |
| Cash and cash equivalents at end of period | \$ 594 | \$ 471 |
| Interest payments | \$ 533 | \$ 517 |

| | | |
|-------------------------|----------|---------|
| Income tax refunds, net | \$ (185) | \$ (25) |
|-------------------------|----------|---------|

See accompanying notes.

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HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Reporting Entity

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

On November 22, 2010, HCA Inc. reorganized by creating a new holding company structure (the Corporate Reorganization). HCA Holdings, Inc. became the new parent company, and HCA Inc. became HCA Holdings, Inc.'s wholly-owned direct subsidiary. As part of the Corporate Reorganization, HCA Inc.'s outstanding shares of common stock were automatically converted, on a share for share basis, into identical shares of HCA Holdings, Inc.'s common stock. As a result of the Corporate Reorganization, HCA Holdings, Inc. was deemed the successor registrant to HCA Inc. under the Securities Exchange Act of 1934.

During March 2011, we completed the initial public offering of 87,719,300 shares of our common stock. Upon the completion of a secondary offering in February 2013, we no longer qualify as a controlled company under the applicable New York Stock Exchange (NYSE) listing standards and will be required to appoint a board of directors comprised of a majority of independent members within one year of such date. Our common stock is traded on the NYSE (symbol HCA).

HCA Holdings, Inc. is a holding company whose affiliates own and operate hospitals and related health care entities. The term affiliates includes direct and indirect subsidiaries of HCA Holdings, Inc. and partnerships and joint ventures in which such subsidiaries are partners. At March 31, 2013, these affiliates owned and operated 162 hospitals, 113 freestanding surgery centers and provided extensive outpatient and ancillary services. HCA Holdings, Inc.'s facilities are located in 20 states and England. The terms Company, HCA, we, our or us, as used herein and otherwise stated or indicated by context, refer to HCA Inc. and its affiliates prior to the Corporate Reorganization and to HCA Holdings, Inc. and its affiliates after the Corporate Reorganization. The terms facilities or hospitals refer to entities owned and operated by affiliates of HCA and the term employees refers to employees of affiliates of HCA.

Basis of Presentation

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

The majority of our expenses are costs of revenues items. Costs that could be classified as general and administrative would include our corporate office costs, which were \$66 million and \$53 million for the quarters ended March 31, 2013 and 2012, respectively. Operating results for the quarter ended March 31, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. 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, 2012.

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

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

(under Medicare, Medicaid and other programs), managed care health plans, commercial insurance companies and employers. Estimates of contractual allowances under managed care health plans are based upon the payment terms specified in the related contractual agreements. Revenues related to uninsured patients and copayment and deductible amounts for patients who have health care coverage may have discounts applied (uninsured discounts and contractual discounts). We also record a provision for doubtful accounts related to uninsured accounts to record the net self pay revenues at the estimated amounts we expect to collect. Our revenues from third-party payers and the uninsured for the quarters ended March 31, 2013 and 2012 are summarized in the following table (dollars in millions):

| | 2013 | Ratio | 2012 | Ratio |
|---|-----------------|---------------|----------|--------|
| Medicare | \$ 2,138 | 25.3% | \$ 2,313 | 27.5% |
| Managed Medicare | 843 | 10.0 | 750 | 8.9 |
| Medicaid | 332 | 3.9 | 430 | 5.1 |
| Managed Medicaid | 401 | 4.8 | 342 | 4.1 |
| Managed care and other insurers | 4,486 | 53.2 | 4,445 | 52.9 |
| International (managed care and other insurers) | 290 | 3.4 | 260 | 3.1 |
| | 8,490 | 100.6 | 8,540 | 101.6 |
| Uninsured | 399 | 4.7 | 442 | 5.3 |
| Other | 305 | 3.6 | 217 | 2.6 |
| Revenues before provision for doubtful accounts | 9,194 | 108.9 | 9,199 | 109.5 |
| Provision for doubtful accounts | (754) | (8.9) | (794) | (9.5) |
| Revenues | \$ 8,440 | 100.0% | \$ 8,405 | 100.0% |

The growth rate in revenues for the quarter ended March 31, 2013 compared to the quarter ended March 31, 2012 was reduced due to Medicare revenues for the quarter ended March 31, 2012 being impacted by two adjustments: the Rural Floor Provision Settlement which increased revenues by approximately \$271 million and the implementation of revised Supplemental Security Income ratios which reduced revenues by approximately \$83 million. The net effect of these Medicare adjustments was an increase to revenues of \$188 million. The net effect of these adjustments (and related expenses) added \$170 million to income before income taxes, or \$0.22 per diluted share, for the quarter ended March 31, 2012.

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

NOTE 2 ACQUISITIONS AND DISPOSITIONS

During the quarters ended March 31, 2013 and 2012, we paid \$22 million and \$54 million, respectively, to acquire nonhospital health care entities. During the quarter ended March 31, 2012, we paid \$58 million, assumed liabilities of \$34 million and recorded goodwill of \$66 million related to the acquisition of a hospital facility in the American Group. During the quarter ended March 31, 2012, we recorded final adjustments to the purchase price allocation related to our 2011 acquisition of our partner's interest in the HCA-HealthONE LLC joint venture. These

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adjustments resulted in a \$30 million increase to noncontrolling interests, a \$26 million reduction to property and equipment and a \$56 million increase to goodwill.

During the quarter ended March 31, 2013, we recognized net pretax losses of \$16 million related to the sale of a hospital facility and other real estate investments. During the quarter ended March 31, 2012, we recognized a net pretax loss of \$1 million related to sales of real estate investments.

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

During the quarter ended March 31, 2013, we finalized settlements with the IRS resolving all outstanding issues for HCA Inc. s 2007, 2008 and 2009 tax years. We expect the IRS Examination Division will begin an audit of HCA Holdings, Inc. s 2010 and 2011 federal income tax returns in 2013.

Our liability for unrecognized tax benefits was \$416 million, including accrued interest of \$14 million, as of March 31, 2013 (\$426 million and \$14 million, respectively, as of December 31, 2012). Unrecognized tax benefits of \$127 million (\$125 million as of December 31, 2012) would affect the effective rate, if recognized. The provision for income taxes reflects \$18 million and \$3 million (\$11 million and \$2 million, respectively, net of tax) of reductions in interest expense related to taxing authority examinations for the quarters ended March 31, 2013 and 2012, respectively.

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

NOTE 4 EARNINGS PER SHARE

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

The following table sets forth the computation of basic and diluted earnings per share for the quarters ended March 31, 2013 and 2012 (dollars in millions, except per share amounts, and shares in thousands):

| | 2013 | 2012 |
|---|---------|---------|
| Net income attributable to HCA Holdings, Inc. | \$ 344 | \$ 540 |
| Weighted average common shares outstanding | 444,401 | 437,936 |
| Effect of dilutive incremental shares | 17,967 | 20,376 |
| Shares used for diluted earnings per share | 462,368 | 458,312 |
| Earnings per share: | | |
| Basic earnings per share | \$ 0.77 | \$ 1.23 |
| Diluted earnings per share | \$ 0.74 | \$ 1.18 |

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

A summary of our insurance subsidiaries' investments at March 31, 2013 and December 31, 2012 follows (dollars in millions):

| | Amortized Cost | March 31, 2013 Unrealized Amounts | | Fair Value |
|--------------------------------------|-------------------|---|--------|---------------|
| | | Gains | Losses | |
| Debt securities: | | | | |
| States and municipalities | \$ 391 | \$ 22 | \$ (1) | \$ 412 |
| Auction rate securities | 74 | | (4) | 70 |
| Asset-backed securities | 12 | | | 12 |
| Money market funds | 51 | | | 51 |
| | 528 | 22 | (5) | 545 |
| Equity securities | 2 | 1 | | 3 |
| | \$ 530 | \$ 23 | \$ (5) | 548 |
| Amounts classified as current assets | | | | (125) |
| Investment carrying value | | | | \$ 423 |

| | Amortized Cost | December 31, 2012 Unrealized Amounts | | Fair Value |
|--------------------------------------|-------------------|--|--------|---------------|
| | | Gains | Losses | |
| Debt securities: | | | | |
| States and municipalities | \$ 395 | \$ 23 | \$ | \$ 418 |
| Auction rate securities | 74 | | (6) | 68 |
| Asset-backed securities | 14 | | | 14 |
| Money market funds | 67 | | | 67 |
| | 550 | 23 | (6) | 567 |
| Equity securities | 2 | 1 | | 3 |
| | \$ 552 | \$ 24 | \$ (6) | 570 |
| Amounts classified as current assets | | | | (55) |
| Investment carrying value | | | | \$ 515 |

At March 31, 2013 and December 31, 2012, 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. At both March 31, 2013 and December 31, 2012, \$9 million of our investments were subject to restrictions included in insurance bond collateralization and assumed reinsurance contracts.

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Amounts classified as current assets at March 31, 2013 include a \$59 million distribution receivable by the Company from an insurance subsidiary.

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

Scheduled maturities of investments in debt securities at March 31, 2013 were as follows (dollars in millions):

| | Amortized Cost | Fair Value |
|--|-------------------|---------------|
| Due in one year or less | \$ 56 | \$ 56 |
| Due after one year through five years | 180 | 188 |
| Due after five years through ten years | 113 | 120 |
| Due after ten years | 93 | 99 |
| | 442 | 463 |
| Auction rate securities | 74 | 70 |
| Asset-backed securities | 12 | 12 |
| | \$ 528 | \$ 545 |

The average expected maturity of the investments in debt securities at March 31, 2013 was 4.5 years, compared to the average scheduled maturity of 8.4 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 the scheduled maturity date. The average expected maturities for our auction rate and asset-backed securities were derived from valuation models of expected cash flows and involved management's judgment. At March 31, 2013, the average expected maturities for our auction rate and asset-backed securities were 5.8 years and 3.7 years, respectively, compared to average scheduled maturities of 23.9 years and 23.7 years, respectively.

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. 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.

The following table sets forth our interest rate swap agreements, which have been designated as cash flow hedges, at March 31, 2013 (dollars in millions):

| | Notional Amount | Maturity Date | Fair Value |
|-------------------------------|--------------------|---------------|---------------|
| Pay-fixed interest rate swaps | \$ 500 | December 2014 | \$ (8) |
| Pay-fixed interest rate swaps | 3,000 | December 2016 | (326) |

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| | | | |
|-------------------------------|-------|---------------|------|
| Pay-fixed interest rate swaps | 1,000 | December 2017 | (69) |
|-------------------------------|-------|---------------|------|

During the next 12 months, we estimate \$125 million will be reclassified from other comprehensive income (OCI) to interest expense.

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The Company and certain subsidiaries have incurred obligations and entered into various intercompany transactions where such obligations are denominated in currencies, other than the functional currencies of the parties executing the trade. In order to mitigate the currency exposure risks and better match the cash flows of our obligations and intercompany transactions with cash flows from operations, we enter into cross currency swaps. Our credit risk related to these agreements is considered low because the swap agreements are with creditworthy financial institutions.

Our cross currency swap is not designated as a hedge, and changes in fair value are recognized in results of operations. The following table sets forth our cross currency swap agreement at March 31, 2013 (amounts in millions):

| | Notional Amount | Maturity Date | Fair Value |
|---|----------------------------|----------------------|-----------------------|
| Euro United States dollar currency swap | 241 Euro | November 2013 | \$ (22) |

Derivatives Results of Operations

The following tables present the effect of our interest rate and cross currency swaps on our results of operations for the quarter ended March 31, 2013 (dollars in millions):

| | 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 |
|---|--|---|---|
| Derivatives in Cash Flow Hedging Relationships | | | |
| Interest rate swaps | \$ 4 | Interest expense | \$ 32 |

| | Location of Loss Recognized in Operations on Derivatives | Amount of Loss Recognized in Operations on Derivatives |
|--|---|---|
| Derivatives Not Designated as Hedging Instruments | | |
| Cross currency swap | Other operating expenses | \$ 9 |

Credit-risk-related Contingent Features

We have agreements with each of our derivative counterparties that contain a provision where we could be declared in default on our derivative obligations if repayment of the underlying indebtedness is accelerated by the lender due to our default on the indebtedness. As of March 31, 2013, we have not been required to post any collateral related to these agreements. If we had breached these provisions at March 31, 2013, we would have been required to settle our obligations under the agreements at their aggregate, estimated termination value of \$452 million.

NOTE 7 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

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Accounting Standards Codification 820, *Fair Value Measurements and Disclosures* (ASC 820) defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. ASC 820 applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements.

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HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

Our wholly-owned insurance subsidiaries had investments in tax-exempt auction rate securities (ARS), which are backed by student loans substantially guaranteed by the federal government, of \$70 million (\$74 million par value) at March 31, 2013. We do not currently intend to attempt to sell the ARS as the liquidity needs of our insurance subsidiaries are expected to be met by other investments in their investment portfolios. During 2012, certain issuers and their broker/dealers redeemed or repurchased \$65 million of our ARS at par value. There were no redemptions or repurchases during the quarter ended March 31, 2013. The valuation of these securities involved management's judgment, after consideration of market factors and the absence of market transparency, market liquidity and observable inputs. Our valuation models derived a fair market value compared to tax-equivalent yields of other student loan backed variable rate securities of similar credit worthiness and similar effective maturities.

Derivative Financial Instruments

We have entered into interest rate and cross currency swap agreements to manage our exposure to fluctuations in interest rates and foreign currency risks. 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, foreign exchange rates and implied

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

volatilities. We incorporate credit valuation adjustments to reflect both our own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements.

Although we determined the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by us and our counterparties. We assessed the significance of the impact of the credit valuation adjustments on the overall valuation of our derivative positions, and at March 31, 2013 and December 31, 2012, we determined the credit valuation adjustments were not significant to the overall valuation of our derivatives.

The following table summarizes our assets and liabilities measured at fair value on a recurring basis as of March 31, 2013 and December 31, 2012, aggregated by the level in the fair value hierarchy within which those measurements fall (dollars in millions):

| | March 31, 2013 Fair Value Measurements Using | | | |
|--|---|--|---|---|
| | Fair Value | Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets: | | | | |
| Investments of insurance subsidiaries: | | | | |
| Debt securities: | | | | |
| States and municipalities | \$ 412 | \$ | \$ 412 | \$ |
| Auction rate securities | 70 | | | 70 |
| Asset-backed securities | 12 | | 12 | |
| Money market funds | 51 | 51 | | |
| | 545 | 51 | 424 | 70 |
| Equity securities | 3 | 2 | | 1 |
| Investments of insurance subsidiaries | 548 | 53 | 424 | 71 |
| Less amounts classified as current assets | (125) | (51) | (74) | |
| | \$ 423 | \$ 2 | \$ 350 | \$ 71 |
| Liabilities: | | | | |
| Cross currency swap (Income taxes and other liabilities) | \$ 22 | \$ | \$ 22 | \$ |

| | | |
|--|-----|-----|
| Interest rate swaps (Income taxes and other liabilities) | 403 | 403 |
|--|-----|-----|

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

| | December 31, 2012 | | | |
|--|-------------------|--|---|---|
| | Fair Value | 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) |
| Assets: | | | | |
| Investments of insurance subsidiaries: | | | | |
| Debt securities: | | | | |
| States and municipalities | \$ 418 | \$ | \$ 418 | \$ |
| Auction rate securities | 68 | | | 68 |
| Asset-backed securities | 14 | | 14 | |
| Money market funds | 67 | 67 | | |
| | 567 | 67 | 432 | 68 |
| Equity securities | 3 | 1 | | 2 |
| Investments of insurance subsidiaries | 570 | 68 | 432 | 70 |
| Less amounts classified as current assets | (55) | (55) | | |
| | \$ 515 | \$ 13 | \$ 432 | \$ 70 |
| Liabilities: | | | | |
| Cross currency swap (Income taxes and other liabilities) | \$ 13 | \$ | \$ 13 | \$ |
| Interest rate swaps (Income taxes and other liabilities) | 429 | | 429 | |

The following table summarizes the activity related to the auction rate and equity securities investments of our insurance subsidiaries which have fair value measurements based on significant unobservable inputs (Level 3) during the quarter ended March 31, 2013 (dollars in millions):

| | |
|---|-------|
| Asset balances at December 31, 2012 | \$ 70 |
| Unrealized gains included in other comprehensive income | 1 |
| Asset balances at March 31, 2013 | \$ 71 |

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The estimated fair value of our long-term debt was \$30.572 billion and \$30.781 billion at March 31, 2013 and December 31, 2012, respectively, compared to carrying amounts aggregating \$28.608 billion and \$28.930 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.

Table of Contents**HCA HOLDINGS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 8 LONG-TERM DEBT**

A summary of long-term debt at March 31, 2013 and December 31, 2012, including related interest rates at March 31, 2013, follows (dollars in millions):

| | March 31, 2013 | December 31, 2012 |
|--|-------------------|----------------------|
| Senior secured asset-based revolving credit facility (effective interest rate of 1.7%) | \$ 1,860 | \$ 1,470 |
| Senior secured revolving credit facility | | |
| Senior secured term loan facilities (effective interest rate of 5.6%) | 5,941 | 5,958 |
| Senior secured first lien notes (effective interest rate of 7.1%) | 9,689 | 9,688 |
| Other senior secured debt (effective interest rate of 7.0%) | 424 | 423 |
| First lien debt | 17,914 | 17,539 |
| Senior secured second lien notes | | 197 |
| Senior unsecured notes (effective interest rate of 7.2%) | 10,694 | 11,194 |
| Total debt (average life of 6.9 years, rates averaging 6.5%) | 28,608 | 28,930 |
| Less amounts due within one year | 1,438 | 1,435 |
| | \$ 27,170 | \$ 27,495 |

2013 Activity

During March 2013, we redeemed all \$201 million aggregate principal amount of our 9 7/8% senior secured second lien notes due 2017, at a redemption price of 104.938% of the principal amount. The pretax loss on retirement of debt related to this redemption was \$17 million.

NOTE 9 CONTINGENCIES AND LEGAL CLAIM COSTS

We operate in a highly regulated and litigious industry. As a result, various lawsuits, claims and legal and regulatory proceedings have been and can be expected to be instituted or asserted against us. We are also subject to claims and suits arising in the ordinary course of business, including claims for personal injuries or wrongful restriction of, or interference with, physicians' staff privileges. In certain of these actions the claimants may seek punitive damages against us which may not be covered by insurance. The resolution of any such lawsuits, claims or legal and regulatory proceedings could have a material, adverse effect on our results of operations or financial position.

Government Investigations, Claims and Litigation

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

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HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9 CONTINGENCIES AND LEGAL CLAIM COSTS (continued)

Government Investigations, Claims and Litigation (continued)

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 is currently producing 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.

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. 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 heard argument on the motion in April 2013. A decision on the motion is anticipated mid-to-late 2013.

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

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

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 have been consolidated in the Middle District of Tennessee and the parties have agreed that those cases shall be stayed pending developments in the shareholder class actions. The state derivative action has also been stayed pending developments in the shareholder class actions.

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. Should the accounting fail to satisfy the Court concerning HCA's compliance with its capital and charity care commitments, the amount of the judgment award could substantially increase. The Court also indicated it would award plaintiff attorneys fees, which the parties have stipulated are about \$12 million. HCA recorded \$175 million of legal claim costs in the fourth quarter of 2012 related to this ruling; however, the Company plans to appeal the ruling.

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. | | | | | | |
|-------------------------------|---|-----------|-------------------|--------------------------|-------------|---|------------|
| | Common Stock | | Capital in Excess | Accumulated | Retained | Equity Attributable to Noncontrolling Interests | Total |
| | Shares (000) | Par Value | of Par Value | Other Comprehensive Loss | | | |
| Balances at December 31, 2012 | 443,200 | \$ 4 | \$ 1,753 | \$ (457) | \$ (10,960) | \$ 1,319 | \$ (8,341) |
| Net income | | | | | 344 | 94 | 438 |
| Other comprehensive loss | | | | (18) | | | (18) |
| Distributions | | | | | | (102) | (102) |
| Share-based benefit plans | 2,656 | | 15 | | | | 15 |
| Other | | | (4) | | | | (4) |
| Balances at March 31, 2013 | 445,856 | \$ 4 | \$ 1,764 | \$ (475) | \$ (10,616) | \$ 1,311 | \$ (8,012) |

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, 2012 | \$ 11 | \$ (1) | \$ (196) | \$ (271) | \$ (457) |
| Unrealized gains on available-for-sale securities, net of income taxes | 1 | | | | 1 |
| Foreign currency translation adjustments, net of \$21 income tax benefit | | (39) | | | (39) |
| Defined benefit plans | | | | | |
| Change in fair value of derivative instruments, net of \$3 income tax benefit | | | | (4) | (4) |
| Expense reclassified into operations from other comprehensive income, net of \$3 and \$12, respectively, income tax benefits | | | 4 | 20 | 24 |
| Balances at March 31, 2013 | \$ 12 | \$ (40) | \$ (192) | \$ (255) | \$ (475) |

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 77 hospitals located in Alaska, California, Florida, southern Georgia, Idaho, Indiana, northern Kentucky, Nevada, New Hampshire, South Carolina, Utah and Virginia, and the American Group includes 79 hospitals located in Colorado, northern Georgia, Kansas, southern Kentucky, Louisiana, Mississippi, Missouri, Oklahoma, Tennessee and Texas. We also operate six hospitals in England, and these facilities are included in the Corporate and other group.

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HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Adjusted segment EBITDA is defined as income before depreciation and amortization, interest expense, losses on sales of facilities, loss on retirement of debt, income taxes and net income attributable to noncontrolling interests. We use adjusted segment EBITDA as an analytical indicator for purposes of allocating resources to geographic areas and assessing their performance. Adjusted segment EBITDA is commonly used as an analytical indicator within the health care industry, and also serves as a measure of leverage capacity and debt service ability. Adjusted segment EBITDA should not be considered as a measure of financial performance under generally accepted accounting principles, and the items excluded from adjusted segment EBITDA are significant components in understanding and assessing financial performance. Because adjusted segment EBITDA is not a measurement determined in accordance with generally accepted accounting principles and is thus susceptible to varying calculations, adjusted segment EBITDA, as presented, may not be comparable to other similarly titled measures of other companies. The geographic distributions of our revenues, equity in earnings of affiliates, adjusted segment EBITDA and depreciation and amortization for the quarters ended March 31, 2013 and 2012 are summarized in the following table (dollars in millions):

| | 2013 | 2012 |
|-----------------------------------|-----------------|-----------------|
| Revenues: | | |
| National Group | \$ 3,981 | \$ 3,992 |
| American Group | 4,034 | 4,085 |
| Corporate and other | 425 | 328 |
| | \$ 8,440 | \$ 8,405 |
| Equity in earnings of affiliates: | | |
| National Group | \$ (2) | \$ (4) |
| American Group | (6) | (7) |
| Corporate and other | | |
| | \$ (8) | \$ (11) |
| Adjusted segment EBITDA: | | |
| National Group | \$ 804 | \$ 921 |
| American Group | 828 | 973 |
| Corporate and other | (64) | (71) |
| | \$ 1,568 | \$ 1,823 |
| Depreciation and amortization: | | |
| National Group | \$ 174 | \$ 173 |
| American Group | 202 | 203 |
| Corporate and other | 48 | 41 |
| | \$ 424 | \$ 417 |
| Adjusted segment EBITDA | \$ 1,568 | \$ 1,823 |
| Depreciation and amortization | 424 | 417 |
| Interest expense | 472 | 442 |
| Losses on sales of facilities | 16 | 1 |
| Loss on retirement of debt | 17 | |
| Income before income taxes | \$ 639 | \$ 963 |

NOTE 12 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION

On November 22, 2010, HCA Inc. reorganized by creating a new holding company structure. HCA Holdings, Inc. became the parent company, and HCA Inc. became HCA Holdings, Inc.'s wholly-owned direct subsidiary. On November 23, 2010, HCA Holdings, Inc. issued \$1.525 billion aggregate principal amount of 7³/₄% 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.

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

The senior secured credit facilities and senior secured notes are fully and unconditionally guaranteed by substantially all existing and future, direct and indirect, wholly-owned material domestic subsidiaries that are Unrestricted Subsidiaries under our Indenture dated December 16, 1993 (except for certain special purpose subsidiaries that only guarantee and pledge their assets under our senior secured asset-based revolving credit facility).

Our summarized condensed consolidating comprehensive income statements for the quarters ended March 31, 2013 and 2012, condensed consolidating balance sheets at March 31, 2013 and December 31, 2012 and condensed consolidating statements of cash flows for the quarter ended March 31, 2013 and 2012, segregating HCA Holdings, Inc. issuer, HCA Inc. issuer, the subsidiary guarantors, the subsidiary non-guarantors and eliminations, follow:

HCA HOLDINGS, INC.**CONDENSED CONSOLIDATING COMPREHENSIVE INCOME STATEMENT****FOR THE QUARTER ENDED MARCH 31, 2013**

(Dollars in millions)

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

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| | | | | | | | |
|--|----|-----|----------|--------|--------|----------|--------|
| Net income attributable to noncontrolling interests | | | | 13 | 81 | | 94 |
| Net income (loss) attributable to HCA Holdings, Inc. | \$ | 326 | \$ (363) | \$ 543 | \$ 194 | \$ (356) | \$ 344 |
| Comprehensive income (loss) attributable to HCA Holdings, Inc. | \$ | 326 | \$ (347) | \$ 547 | \$ 156 | \$ (356) | \$ 326 |

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 MARCH 31, 2012****(Dollars in millions)**

| | HCA Holdings, Inc. Issuer | HCA Inc. Issuer | Subsidiary Guarantors | Subsidiary Non- Guarantors | Eliminations | Condensed Consolidated |
|--|---------------------------------|--------------------|--------------------------|----------------------------------|--------------|---------------------------|
| Revenues before provision for doubtful accounts | \$ | \$ | \$ 4,903 | \$ 4,296 | \$ | \$ 9,199 |
| Provision for doubtful accounts | | | 463 | 331 | | 794 |
| Revenues | | | 4,440 | 3,965 | | 8,405 |
| Salaries and benefits | | | 1,982 | 1,754 | | 3,736 |
| Supplies | | | 753 | 666 | | 1,419 |
| Other operating expenses | | 4 | 729 | 760 | | 1,493 |
| Electronic health record incentive income | | | (41) | (14) | | (55) |
| Equity in earnings of affiliates | (560) | | (2) | (9) | 560 | (11) |
| Depreciation and amortization | | | 200 | 217 | | 417 |
| Interest expense | 30 | 529 | (91) | (26) | | 442 |
| Losses on sales of facilities | | | 1 | | | 1 |
| Management fees | | | (160) | 160 | | |
| | (530) | 533 | 3,371 | 3,508 | 560 | 7,442 |
| Income (loss) before income taxes | 530 | (533) | 1,069 | 457 | (560) | 963 |
| Provision (benefit) for income taxes | (10) | (200) | 392 | 142 | | 324 |
| Net income (loss) | 540 | (333) | 677 | 315 | (560) | 639 |
| Net income attributable to noncontrolling interests | | | 17 | 82 | | 99 |
| Net income (loss) attributable to HCA Holdings, Inc. | \$ 540 | \$ (333) | \$ 660 | \$ 233 | \$ (560) | \$ 540 |
| Comprehensive income (loss) attributable to HCA Holdings, Inc. | \$ 540 | \$ (329) | \$ 664 | \$ 254 | \$ (560) | \$ 569 |

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****MARCH 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 | \$ 1 | \$ | \$ 272 | \$ 321 | \$ | \$ 594 |
| Accounts receivable, net | | | 2,503 | 2,374 | | 4,877 |
| Inventories | | | 647 | 457 | | 1,104 |
| Deferred income taxes | 385 | | | | | 385 |
| Other | | | 317 | 510 | | 827 |
| | 386 | | 3,739 | 3,662 | | 7,787 |
| Property and equipment, net | | | 7,444 | 5,700 | | 13,144 |
| Investments of insurance subsidiaries | | | | 423 | | 423 |
| Investments in and advances to affiliates | 18,837 | | 16 | 91 | (18,837) | 107 |
| Goodwill and other intangible assets | | | 1,697 | 3,844 | | 5,541 |
| Deferred loan costs | 32 | 242 | | | | 274 |
| Other | 396 | | 25 | 185 | | 606 |
| | \$ 19,651 | \$ 242 | \$ 12,921 | \$ 13,905 | \$ (18,837) | \$ 27,882 |
| LIABILITIES AND STOCKHOLDERS (DEFICIT) EQUITY | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable | \$ 1 | \$ | \$ 1,126 | \$ 564 | \$ | \$ 1,691 |
| Accrued salaries | | | 569 | 400 | | 969 |
| Other accrued expenses | 247 | 454 | 400 | 792 | | 1,893 |
| Long-term debt due within one year | | 1,363 | 40 | 35 | | 1,438 |
| | 248 | 1,817 | 2,135 | 1,791 | | 5,991 |
| Long-term debt | 2,525 | 23,988 | 173 | 484 | | 27,170 |
| Intercompany balances | 25,750 | (11,633) | (17,525) | 3,408 | | |
| Professional liability risks | | | | 970 | | 970 |
| Income taxes and other liabilities | 451 | 425 | 652 | 235 | | 1,763 |

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| | | | | | | |
|---|-----------|----------|-----------|-----------|-------------|-----------|
| | 28,974 | 14,597 | (14,565) | 6,888 | | 35,894 |
| Stockholders' (deficit) equity attributable to HCA Holdings, Inc. | (9,323) | (14,355) | 27,394 | 5,798 | (18,837) | (9,323) |
| Noncontrolling interests | | | 92 | 1,219 | | 1,311 |
| | (9,323) | (14,355) | 27,486 | 7,017 | (18,837) | (8,012) |
| | \$ 19,651 | \$ 242 | \$ 12,921 | \$ 13,905 | \$ (18,837) | \$ 27,882 |

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, 2012****(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 | \$ 22 | \$ | \$ 383 | \$ 300 | \$ | \$ 705 |
| Accounts receivable, net | | | 2,448 | 2,224 | | 4,672 |
| Inventories | | | 629 | 457 | | 1,086 |
| Deferred income taxes | 385 | | | | | 385 |
| Other | 122 | | 342 | 451 | | 915 |
| | 529 | | 3,802 | 3,432 | | 7,763 |
| Property and equipment, net | | | 7,417 | 5,768 | | 13,185 |
| Investments of insurance subsidiaries | | | | 515 | | 515 |
| Investments in and advances to affiliates | 18,481 | | 16 | 88 | (18,481) | 104 |
| Goodwill and other intangible assets | | | 1,697 | 3,842 | | 5,539 |
| Deferred loan costs | 32 | 258 | | | | 290 |
| Other | 469 | | 31 | 179 | | 679 |
| | \$ 19,511 | \$ 258 | \$ 12,963 | \$ 13,824 | \$ (18,481) | \$ 28,075 |
| LIABILITIES AND STOCKHOLDERS (DEFICIT) EQUITY | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable | \$ | \$ | \$ 1,203 | \$ 565 | \$ | \$ 1,768 |
| Accrued salaries | | | 638 | 482 | | 1,120 |
| Other accrued expenses | 30 | 567 | 464 | 788 | | 1,849 |
| Long-term debt due within one year | | 1,360 | 39 | 36 | | 1,435 |
| | 30 | 1,927 | 2,344 | 1,871 | | 6,172 |
| Long-term debt | 2,525 | 24,304 | 173 | 493 | | 27,495 |
| Intercompany balances | 26,131 | (12,407) | (17,130) | 3,406 | | |
| Professional liability risks | | | | 973 | | 973 |
| Income taxes and other liabilities | 485 | 442 | 629 | 220 | | 1,776 |

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| | | | | | | |
|---|-----------|----------|-----------|-----------|-------------|-----------|
| | 29,171 | 14,266 | (13,984) | 6,963 | | 36,416 |
| Stockholders' (deficit) equity attributable to HCA Holdings, Inc. | (9,660) | (14,008) | 26,847 | 5,642 | (18,481) | (9,660) |
| Noncontrolling interests | | | 100 | 1,219 | | 1,319 |
| | (9,660) | (14,008) | 26,947 | 6,861 | (18,481) | (8,341) |
| | \$ 19,511 | \$ 258 | \$ 12,963 | \$ 13,824 | \$ (18,481) | \$ 28,075 |

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 QUARTER ENDED MARCH 31, 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) | \$ 326 | \$ (363) | \$ 556 | \$ 275 | \$ (356) | \$ 438 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | | | | |
| Changes in operating assets and liabilities | 49 | (113) | (671) | (559) | | (1,294) |
| Provision for doubtful accounts | | | 443 | 311 | | 754 |
| Depreciation and amortization | | | 209 | 215 | | 424 |
| Income taxes | 350 | | | | | 350 |
| Losses on sales of facilities | | | 16 | | | 16 |
| Loss on retirement of debt | | 17 | | | | 17 |
| Amortization of deferred loan costs | 1 | 12 | | | | 13 |
| Share-based compensation | 23 | | | | | 23 |
| Equity in earnings of affiliates | (356) | | | | 356 | |
| Other | | 2 | 1 | (4) | | (1) |
| Net cash provided by (used in) operating activities | 393 | (445) | 554 | 238 | | 740 |
| Cash flows from investing activities: | | | | | | |
| Purchase of property and equipment | | | (241) | (163) | | (404) |
| Acquisition of hospitals and health care entities | | | | (22) | | (22) |
| Disposition of hospitals and health care entities | | | 1 | | | 1 |
| Change in investments | | | 5 | 46 | | 51 |
| Other | | | | 1 | | 1 |
| Net cash used in investing activities | | | (235) | (138) | | (373) |
| Cash flows from financing activities: | | | | | | |
| Net change in revolving bank credit facilities | | 390 | | | | 390 |
| Repayment of long-term debt | | (718) | (11) | (12) | | (741) |
| Distributions to noncontrolling interests | | | (21) | (81) | | (102) |
| Distributions to stockholders | (10) | | | | | (10) |

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| | | | | | |
|---|-------|--------|--------|--------|-------|
| Changes in intercompany balances with affiliates, net | (393) | 773 | (398) | 18 | |
| Income tax benefits | 36 | | | | 36 |
| Other | (47) | | | (4) | (51) |
| Net cash (used in) provided by financing activities | (414) | 445 | (430) | (79) | (478) |
| Change in cash and cash equivalents | (21) | | (111) | 21 | (111) |
| Cash and cash equivalents at beginning of period | 22 | | 383 | 300 | 705 |
| Cash and cash equivalents at end of period | \$ 1 | \$ 272 | \$ 321 | \$ 594 | |

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 QUARTERS ENDED MARCH 31, 2012****(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) | \$ 540 | \$ (333) | \$ 677 | \$ 315 | \$ (560) | \$ 639 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | | | | |
| Changes in operating assets and liabilities | 30 | (116) | (819) | (479) | | (1,384) |
| Provision for doubtful accounts | | | 463 | 331 | | 794 |
| Depreciation and amortization | | | 200 | 217 | | 417 |
| Income taxes | 300 | | | | | 300 |
| Losses on sales of facilities | | | 1 | | | 1 |
| Amortization of deferred loan costs | | 14 | | | | 14 |
| Share-based compensation | 9 | | | | | 9 |
| Equity in earnings of affiliates | (560) | | | | 560 | |
| Other | | 4 | | 3 | | 7 |
| Net cash provided by (used in) operating activities | 319 | (431) | 522 | 387 | | 797 |
| Cash flows from investing activities: | | | | | | |
| Purchase of property and equipment | | | (162) | (173) | | (335) |
| Acquisition of hospitals and health care entities | | | (62) | (50) | | (112) |
| Disposition of hospitals and health care entities | | | 1 | | | 1 |
| Change in investments | | | 2 | 4 | | 6 |
| Other | | | | 3 | | 3 |
| Net cash used in investing activities | | | (221) | (216) | | (437) |
| Cash flows from financing activities: | | | | | | |
| Issuance of long-term debt | | 1,350 | | | | 1,350 |
| Net change in revolving bank credit facilities | | (470) | | | | (470) |

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| | | | | |
|---|-------|-------|--------|--------|
| Repayment of long-term debt | (76) | (14) | (3) | (93) |
| Distributions to noncontrolling interests | | (18) | (75) | (93) |
| Payment of debt issuance costs | (16) | | | (16) |
| Distributions to stockholders | (982) | | | (982) |
| Changes in intercompany balances with affiliates, net | 624 | (357) | (240) | (27) |
| Income tax benefits | 49 | | | 49 |
| Other | (10) | | 3 | (7) |
| Net cash (used in) provided by financing activities | (319) | 431 | (272) | (102) |
| Change in cash and cash equivalents | | | 29 | 69 |
| Cash and cash equivalents at beginning of period | | | 115 | 258 |
| Cash and cash equivalents at end of period | \$ | \$ | \$ 144 | \$ 327 |
| | | | | \$ 471 |

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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 enactment and implementation of the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act (collectively, 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 enactment and implementation of the Budget Control Act of 2011 (the BCA) and the outcome of negotiations and legislation related to BCA-mandated spending reductions, which include cuts to Medicare payments, (4) increases in the amount and risk of collectibility 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 (UPL) 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, 2012 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.

Health Care Reform

As enacted, the Health Reform Law will change how health care services are covered, delivered and reimbursed through expanded coverage of uninsured individuals, reduced growth in Medicare program spending,

Table of Contents**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)****Health Care Reform (continued)**

reductions in Medicare and Medicaid Disproportionate Share Hospital (DSH) 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. Numerous lawsuits have challenged the constitutionality of the Health Reform Law. On June 28, 2012, the United States Supreme Court upheld the constitutionality of the individual mandate provisions of the Health Reform Law but struck down the provisions that would have allowed the Department of Health and Human Services (HHS) to penalize states that do not implement the Medicaid expansion provisions with the loss of existing federal Medicaid funding. States that choose not to implement the Medicaid expansion will forego funding established by the Health Reform Law to cover most of the expansion costs. It is unclear how many states will decline to implement the Medicaid expansion. Due to these factors, we are unable to predict with any reasonable certainty or otherwise quantify the likely impact of the Health Reform Law on our business model, financial condition or result of operations.

First Quarter 2013 Operations Summary

Revenues increased to \$8.440 billion in the first quarter of 2013 from \$8.405 billion in the first quarter of 2012. Net income attributable to HCA Holdings, Inc. totaled \$344 million, or \$0.74 per diluted share, for the quarter ended March 31, 2013, compared to \$540 million, or \$1.18 per diluted share, for the quarter ended March 31, 2012. First quarter 2013 results include net losses on sales of facilities of \$16 million, or \$0.02 per diluted share, and a loss on retirement of debt of \$17 million, or \$0.03 per diluted share. First quarter 2012 results include two Medicare revenue adjustments (and related expenses) that added \$170 million to income before income taxes, or \$0.22 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 462.4 million shares for the quarter ended March 31, 2013 and 458.3 million shares for the quarter ended March 31, 2012.

Revenues increased 0.4% on a consolidated basis and increased 0.1% on a same facility basis for the quarter ended March 31, 2013, compared to the quarter ended March 31, 2012. The increase in consolidated revenues can be attributed primarily to the net impact of a 0.9% increase in revenue per equivalent admission and a 0.4% decline in equivalent admissions. The same facility revenues increase resulted primarily from the net impact of a 0.8% increase in same facility revenue per equivalent admission and a 0.7% decline in same facility equivalent admissions.

During the quarter ended March 31, 2013, consolidated admissions and same facility admissions increased 0.2% and 0.1%, respectively, compared to the quarter ended March 31, 2012. Inpatient surgeries declined 2.8% on a consolidated basis and 2.6% on a same facility basis during the quarter ended March 31, 2013, compared to the quarter ended March 31, 2012. Outpatient surgeries declined 2.9% on a consolidated basis and 4.3% on a same facility basis during the quarter ended March 31, 2013, compared to the quarter ended March 31, 2012. Emergency department visits increased 3.6% on a consolidated basis and 3.8% on a same facility basis during the quarter ended March 31, 2013, compared to the quarter ended March 31, 2012. Quarterly patient volume statistic comparisons were negatively impacted due to the additional day (leap day) in the quarter ended March 31, 2012.

For the quarter ended March 31, 2013, the provision for doubtful accounts declined \$40 million, compared to the quarter ended March 31, 2012. The self-pay revenue deductions for charity care and uninsured discounts increased \$107 million and \$311 million, respectively, during the first quarter of 2013, compared to the first quarter of 2012. 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

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

First Quarter 2013 Operations Summary (continued)

30.0% for the first quarter of 2013, compared to 27.8% for the first quarter of 2012. Same facility uninsured admissions increased 5.4% and same facility uninsured emergency room visits increased 3.5% for the quarter ended March 31, 2013, compared to the quarter ended March 31, 2012.

Interest expense increased \$30 million to \$472 million for the quarter ended March 31, 2013 from \$442 million for the quarter ended March 31, 2012. The increase in interest expense was due to increases in both the average debt balance and average interest rate.

Cash flows from operating activities declined \$57 million from \$797 million for the first quarter of 2012 to \$740 million for the first quarter of 2013. The decline is primarily related to the net impact of the decline in net income of \$168 million, excluding the losses on sales of facilities of \$16 million and loss on retirement of debt of \$17 million, being partially offset by a positive impact from changes in working capital items of \$50 million and a reduction of \$50 million in 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 0.4% from \$8.405 billion in the first quarter of 2012 to \$8.440 billion in the first quarter of 2013. 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, 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 ended March 31, 2013 and 2012 are summarized in the following tables (dollars in millions):

| | 2013 | Ratio | 2012 | Ratio |
|---|-----------------|---------------|----------|--------|
| Medicare | \$ 2,138 | 25.3% | \$ 2,313 | 27.5% |
| Managed Medicare | 843 | 10.0 | 750 | 8.9 |
| Medicaid | 332 | 3.9 | 430 | 5.1 |
| Managed Medicaid | 401 | 4.8 | 342 | 4.1 |
| Managed care and other insurers | 4,486 | 53.2 | 4,445 | 52.9 |
| International (managed care and other insurers) | 290 | 3.4 | 260 | 3.1 |
| | 8,490 | 100.6 | 8,540 | 101.6 |
| Uninsured | 399 | 4.7 | 442 | 5.3 |
| Other | 305 | 3.6 | 217 | 2.6 |
| Revenues before provision for doubtful accounts | 9,194 | 108.9 | 9,199 | 109.5 |
| Provision for doubtful accounts | (754) | (8.9) | (794) | (9.5) |
| Revenues | \$ 8,440 | 100.0% | \$ 8,405 | 100.0% |

The growth rate in revenues for the quarter ended March 31, 2013 compared to the quarter ended March 31, 2012 was reduced due to Medicare revenues for the quarter ended March 31, 2012 being impacted by two adjustments to Medicare revenues (the Rural Floor Provision Settlement which increased revenues by approximately \$271 million and the implementation of revised Supplemental Security Income ratios which reduced revenues by approximately \$83 million). The net effect of these Medicare adjustments was an increase of \$188 million to revenues. The net effect of these adjustments (and related expenses) added \$170 million to income before income taxes, or \$0.22 per diluted share, for the quarter ended March 31, 2012.

Consolidated and same facility revenue per equivalent admission increased 0.9% and 0.8%, respectively, in the first quarter of 2013, compared to the first quarter of 2012. Consolidated and same facility equivalent admissions declined 0.4% and 0.7%, respectively, in the first quarter of 2013, compared to the first quarter of 2012. Consolidated and same facility admissions increased 0.2% and 0.1%, respectively, in the first quarter of 2013, compared to the first quarter of 2012. Consolidated and same facility outpatient surgeries declined 2.9% and 4.3%, respectively, in the first quarter of 2013, compared to the first quarter of 2012. Consolidated and same facility inpatient surgeries declined 2.8% and 2.6%, respectively, in the first quarter of 2013, compared to the first quarter of 2012. Consolidated and same facility emergency department visits

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increased 3.6% and 3.8%, respectively, in the first quarter of 2013, compared to the first quarter of 2012.

To quantify the total impact of and trends related to uninsured accounts, we believe it is beneficial to view the direct uninsured revenue deductions and provision for doubtful accounts in combination, rather than each separately. At March 31, 2013, our allowance for doubtful accounts represented approximately 93% of the

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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)*

\$5.179 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 ended March 31, 2013 and 2012 follows (dollars in millions):

| | 2013 | Ratio | 2012 | Ratio |
|---------------------------------|-----------------|--------------|-------------|--------------|
| Charity care | \$ 905 | 25% | \$ 798 | 25% |
| Uninsured discounts | 1,950 | 54 | 1,639 | 51 |
| Provision for doubtful accounts | 754 | 21 | 794 | 24 |
| Totals | \$ 3,609 | 100% | \$ 3,231 | 100% |

Same facility uninsured admissions increased by 1,688 admissions, or 5.4%, in the first quarter of 2013, compared to the first quarter of 2012. Same facility uninsured admissions in 2012, compared to 2011, increased 11.0% in the fourth quarter of 2012, increased 7.3% in the third quarter of 2012, increased 8.9% in the second quarter of 2012 and increased 11.6% in the first quarter of 2012.

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 ended March 31, 2013 and 2012 are set forth in the following table.

| | 2013 | 2012 |
|---------------------------------|-------------|-------------|
| Medicare | 33% | 34% |
| Managed Medicare | 14 | 12 |
| Medicaid | 8 | 9 |
| Managed Medicaid | 9 | 8 |
| Managed care and other insurers | 29 | 30 |
| Uninsured | 7 | 7 |
| | 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 ended March 31, 2013 and 2012 are set forth in the following table.

| | 2013 | 2012 |
|----------|-------------|-------------|
| Medicare | 32% | 34% |

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| | | |
|---------------------------------|-------------|------|
| Managed Medicare | 11 | 10 |
| Medicaid | 5 | 6 |
| Managed Medicaid | 5 | 4 |
| Managed care and other insurers | 46 | 44 |
| Uninsured | 1 | 2 |
| | 100% | 100% |

At March 31, 2013, we had 74 hospitals in the states of Texas and Florida. During the first quarter of 2013, 55% of our admissions and 46% of our revenues were generated by these hospitals. Uninsured admissions in Texas and Florida represented 61% of our uninsured admissions during 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)

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. 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 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 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 \$79 million and \$128 million during the first quarters of 2013 and 2012, respectively, of Medicaid supplemental payments. 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 the Centers for Medicare and Medicaid Services (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. In 2011, 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. However, we cannot predict whether the Texas private supplemental Medicaid reimbursement program will continue or guarantee that revenues recognized for the program will not decline. 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 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 \$39 million and \$55 million of electronic health record incentive income, primarily related to Medicare, during the first quarters of 2013 and 2012, respectively. At March 31, 2013, we have \$80 million of deferred EHR incentive income, which represents incentive 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 revenues. For the first quarters of 2013 and 2012, respectively, we incurred \$26 million and \$17 million of operating expenses to implement our certified EHR technology and meet meaningful use.

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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)

For 2013, we estimate EHR incentive income will be recognized in the range of \$200 million to \$225 million and that related EHR operating expenses will be in the range of \$130 million to \$150 million. 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.

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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*

The following is a comparative summary of results from operations for the quarters ended March 31, 2013 and 2012 (dollars in millions):

| | 2013 | | 2012 | |
|---|--------------|--------------|----------|-------|
| | Amount | Ratio | Amount | Ratio |
| Revenues before provision for doubtful accounts | \$ 9,194 | | \$ 9,199 | |
| Provision for doubtful accounts | 754 | | 794 | |
| Revenues | 8,440 | 100.0 | 8,405 | 100.0 |
| Salaries and benefits | 3,917 | 46.4 | 3,736 | 44.5 |
| Supplies | 1,479 | 17.5 | 1,419 | 16.9 |
| Other operating expenses | 1,523 | 18.1 | 1,493 | 17.6 |
| Electronic health record incentive income | (39) | (0.5) | (55) | (0.6) |
| Equity in earnings of affiliates | (8) | (0.1) | (11) | (0.1) |
| Depreciation and amortization | 424 | 5.0 | 417 | 4.9 |
| Interest expense | 472 | 5.6 | 442 | 5.3 |
| Losses on sales of facilities | 16 | 0.2 | 1 | |
| Loss on retirement of debt | 17 | 0.2 | | |
| | 7,801 | 92.4 | 7,442 | 88.5 |
| Income before income taxes | 639 | 7.6 | 963 | 11.5 |
| Provision for income taxes | 201 | 2.4 | 324 | 3.9 |
| Net income | 438 | 5.2 | 639 | 7.6 |
| Net income attributable to noncontrolling interests | 94 | 1.1 | 99 | 1.2 |
| Net income attributable to HCA Holdings, Inc. | \$ 344 | 4.1 | \$ 540 | 6.4 |
| % changes from prior year: | | | | |
| Revenues | 0.4% | | 13.5% | |
| Income before income taxes | (33.6) | | 86.4 | |
| Net income attributable to HCA Holdings, Inc. | (36.3) | | 125.2 | |
| Admissions(a) | 0.2 | | 9.0 | |
| Equivalent admissions(b) | (0.4) | | 11.4 | |
| Revenue per equivalent admission | 0.9 | | 1.9 | |
| Same facility % changes from prior year(c): | | | | |
| Revenues | 0.1 | | 5.1 | |
| Admissions(a) | 0.1 | | 3.2 | |
| Equivalent admissions(b) | (0.7) | | 4.8 | |
| Revenue per equivalent admission | 0.8 | | 0.3 | |

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- (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) 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 March 31, 2013 and 2012

Net income attributable to HCA Holdings, Inc. totaled \$344 million, or \$0.74 per diluted share, for the first quarter of 2013 compared to \$540 million, or \$1.18 per diluted share, for the first quarter of 2012. First quarter 2013 results include net losses on sales of facilities of \$16 million, or \$0.02 per diluted share, and a loss on retirement of debt of \$17 million, or \$0.03 per diluted share. First quarter 2012 results include two Medicare adjustments (and related expenses) that added \$170 million to income before income taxes, or \$0.22 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 462.4 million shares and 458.3 million shares for the quarters ended March 31, 2013 and 2012, respectively.

For the first quarter of 2013, consolidated and same facility admissions increased 0.2% and 0.1%, respectively, compared to the first quarter of 2012. Consolidated and same facility outpatient surgical volumes declined 2.9% and 4.3%, respectively, during the first quarter of 2013, compared to the first quarter of 2012. Consolidated and same facility inpatient surgeries declined 2.8% and 2.6%, respectively, in the first quarter of 2013, compared to the first quarter of 2012. Consolidated and same facility emergency department visits increased 3.6% and 3.8%, respectively, during the quarter ended March 31, 2013, compared to the quarter ended March 31, 2012.

Revenues before provision for doubtful accounts declined 0.1% for the first quarter of 2013 compared to the first quarter of 2012. Provision for doubtful accounts declined \$40 million from \$794 million in the first quarter of 2012 to \$754 million in the first quarter of 2013. 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 \$107 million and \$311 million, respectively, during the first quarter of 2013, compared to the first quarter of 2012. 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 30.0% for the first quarter of 2013, compared to 27.8% for the first quarter of 2012. At March 31, 2013, our allowance for doubtful accounts represented approximately 93% of the \$5.179 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 0.4% primarily due to the net impact of revenue per equivalent admission growth of 0.9% and a decline of 0.4% in equivalent admissions for the first quarter of 2013 compared to the first quarter of 2012. Same facility revenues increased 0.1% due to the net impact of a 0.8% increase in same facility revenue per equivalent admission and a 0.7% decline in same facility equivalent admissions for the first quarter of 2013 compared to the first quarter of 2012. The growth rate in revenues for the first quarter of 2013 compared to the first quarter of 2012 was reduced due to two adjustments (Rural Floor Provision Settlement and SSI ratios) related to Medicare revenues for prior periods. The net effect of the Medicare adjustments on 2012 revenues was an increase of \$188 million.

Salaries and benefits, as a percentage of revenues, were 46.4% in the first quarter of 2013 and 44.5% in the first quarter of 2012. Salaries and benefits per equivalent admission increased 5.3% in the first quarter of 2013 compared to the first quarter of 2012. Same facility labor rate increases averaged 2.0% for the first quarter of 2013 compared to the first quarter of 2012.

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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 March 31, 2013 and 2012 (continued)

Supplies, as a percentage of revenues, were 17.5% in the first quarter of 2013 and 16.9% in the first quarter of 2012. Supply cost per equivalent admission increased 4.7% in the first quarter of 2013 compared to the first quarter of 2012. Supply costs per equivalent admission increased 5.0% for medical devices, 1.1% for pharmacy supplies and 6.8% for general medical and surgical items in the first quarter of 2013 compared to the first quarter of 2012.

Other operating expenses, as a percentage of revenues, increased to 18.1% in the first quarter of 2013 from 17.6% in the first quarter of 2012. 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. Other operating expenses include \$50 million and \$80 million of indigent care costs in certain Texas markets during the first quarters of 2013 and 2012, respectively. Provisions for losses related to professional liability risks were \$80 million and \$94 million for the first quarters of 2013 and 2012, respectively.

We recognized \$39 million and \$55 million of electronic health record incentive income primarily related to Medicare during the first quarters of 2013 and 2012, respectively.

Equity in earnings of affiliates was \$8 million and \$11 million in the first quarters of 2013 and 2012, respectively.

Depreciation and amortization increased \$7 million, from \$417 million in the first quarter of 2012 to \$424 million in the first quarter of 2013.

Interest expense increased from \$442 million in the first quarter of 2012 to \$472 million in the first quarter of 2013. The increase in interest expense was due to increases in both the average debt balance and average interest rate. Our average debt balance was \$28.559 billion for the first quarter of 2013 compared to \$27.537 billion for the first quarter of 2012. The average effective interest rate for our long term debt increased to 6.7% for the quarter ended March 31, 2013 from 6.5% for the quarter ended March 31, 2012.

During the first quarters of 2013 and 2012, we recorded net losses on sales of facilities of \$16 million and \$1 million, respectively.

During March 2013, we redeemed all \$201 million aggregate principal amount of our 9 7/8% senior secured second lien notes due 2017, at a redemption price of 104.938% of the principal amount. The pretax loss on retirement of debt related to this redemption was \$17 million.

The effective tax rates were 36.9% and 37.4% for the first quarters of 2013 and 2012, respectively. The effective tax rate computations exclude net income attributable to noncontrolling interests as it relates to consolidated partnerships.

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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 March 31, 2013 and 2012 (continued)

Net income attributable to noncontrolling interests declined from \$99 million for the first quarter of 2012 to \$94 million for the first quarter of 2013.

Liquidity and Capital Resources

Cash provided by operating activities totaled \$740 million in the first quarter of 2013 compared to \$797 million in the first quarter of 2012. The \$57 million decline in cash provided by operating activities in the first quarter of 2013 compared to the first quarter of 2012 related primarily to the net impact of the decline in net income of \$168 million, excluding the losses on sales of facilities of \$16 million and loss on retirement of debt of \$17 million, partially offset by a positive impact from changes in working capital items of \$50 million and a reduction of \$50 million in income taxes. The combined interest payments and net tax refunds in the first quarters of 2013 and 2012 were \$348 million and \$492 million, respectively. Working capital totaled \$1.796 billion at March 31, 2013 and \$1.591 billion at December 31, 2012.

Cash used in investing activities was \$373 million in the first quarter of 2013 compared to \$437 million in the first quarter of 2012. Excluding acquisitions, capital expenditures were \$404 million in the first quarter of 2013 and \$335 million in the first quarter of 2012. We expended \$22 million to acquire nonhospital health care facilities during the first quarter of 2013. We expended \$58 million for the acquisition of a hospital facility and expended \$54 million to acquire nonhospital health care facilities during the first quarter of 2012. Capital expenditures are expected to approximate \$2.0 billion in 2013. At March 31, 2013, there were projects under construction which had estimated additional costs to complete and equip over the next five years of approximately \$1.97 billion. We expect to finance capital expenditures with internally generated and borrowed funds. We received net cash flows from our investments of \$51 million and \$6 million in the first quarters of 2013 and 2012, respectively.

Cash used in financing activities totaled \$478 million during the first quarter of 2013 compared to \$262 million during the first quarter of 2012. During the first quarter of 2013, net cash flows used in financing activities included net debt repayments of \$351 million, distributions to noncontrolling interests of \$102 million, distributions to stockholders of \$10 million and receipts of \$36 million of income tax benefits for certain items (primarily related to employee exercises of stock options). During the first quarter of 2012, net cash flows used in financing activities included increases in net borrowings of \$787 million, distributions to noncontrolling interests of \$93 million, distributions to stockholders of \$982 million, payments of debt issuance costs of \$16 million and receipts of \$49 million of income tax benefits for certain items (primarily distributions to holders of our stock options).

We are a highly leveraged company with significant debt service requirements. Our debt totaled \$28.608 billion at March 31, 2013. Our interest expense was \$472 million for the first quarter of 2013 and \$442 million for the first quarter of 2012. The increase in interest expense was related to increases in both the average debt balance and average interest rate.

In addition to cash flows from operations, available sources of capital include amounts available under our senior secured credit facilities (\$2.575 billion and \$2.695 billion available as of March 31, 2013 and April 30, 2013, respectively) and anticipated access to public and private debt markets.

During March 2013, we redeemed all \$201 million aggregate principal amount of our 9 7/8% senior secured second lien notes due 2017, at a redemption price of 104.938% of the principal amount. The pretax loss on retirement of debt related to this redemption was \$17 million.

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

Liquidity and Capital Resources (continued)

Investments of our professional liability insurance subsidiaries, to maintain statutory equity and pay claims, totaled \$548 million and \$570 million at March 31, 2013 and December 31, 2012, respectively. An insurance subsidiary maintained net reserves for professional liability risks of \$320 million and \$352 million at March 31, 2013 and December 31, 2012, respectively. Our facilities are insured by a wholly-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 \$947 million and \$896 million at March 31, 2013 and December 31, 2012, respectively. Claims payments, net of reinsurance recoveries, during the next 12 months are expected to approximate \$312 million. We estimate that approximately \$246 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 wholly-owned insurance subsidiaries were \$545 million and \$3 million, respectively, at March 31, 2013. These investments are carried at fair value, with changes in unrealized gains and losses being recorded as adjustments to other comprehensive income. At March 31, 2013, 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 wholly-owned insurance subsidiaries could be impaired by the inability to access the capital markets. Should the wholly-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. At March 31, 2013, our wholly-owned insurance subsidiaries had invested \$70 million (\$74 million par value) in tax-exempt student loan auction rate securities that continue to experience market illiquidity. 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 \$3.303 billion of long-term debt at March 31, 2013 was subject to variable rates of interest, while the remaining balance in long-term debt of \$25.305 billion at March 31, 2013 was subject to fixed rates of interest. Both the general level of interest rates and, for the senior

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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)

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 increased from 6.5% for the quarter ended March 31, 2012 to 6.7% for the quarter ended March 31, 2013.

The estimated fair value of our total long-term debt was \$30.572 billion at March 31, 2013. 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 \$33 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 European term loan expose us to market risks associated with foreign currencies. In order to mitigate the currency exposure related to debt service obligations under the European term loan, we have entered into a cross currency swap agreement. A cross currency swap is an agreement between two parties to exchange a stream of principal and interest payments in one currency for a stream of principal and interest payments in another currency over a specified period. Our credit risk related to this agreement is considered low because the swap agreement is with a creditworthy financial institution.

IRS Examinations

We expect the IRS Examination Division will begin an audit of HCA Holdings, Inc.'s 2010 and 2011 federal income tax returns in 2013.

Management believes HCA Holdings, Inc. and its affiliates properly reported taxable income and paid taxes in accordance with applicable laws and agreements established with the IRS 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

| | 2013 | 2012 |
|---|---------|-----------|
| Number of hospitals in operation at: | | |
| March 31 | 162 | 164 |
| June 30 | | 163 |
| September 30 | | 162 |
| December 31 | | 162 |
| Number of freestanding outpatient surgical centers in operation at: | | |
| March 31 | 113 | 109 |
| June 30 | | 110 |
| September 30 | | 112 |
| December 31 | | 112 |
| Licensed hospital beds at(a): | | |
| March 31 | 41,891 | 41,815 |
| June 30 | | 41,817 |
| September 30 | | 41,884 |
| December 31 | | 41,804 |
| Weighted average licensed beds(b): | | |
| Quarter: | | |
| First | 41,867 | 41,740 |
| Second | | 41,789 |
| Third | | 41,873 |
| Fourth | | 41,777 |
| Year | | 41,795 |
| Average daily census(c): | | |
| Quarter: | | |
| First | 24,147 | 23,284 |
| Second | | 22,113 |
| Third | | 22,122 |
| Fourth | | 22,567 |
| Year | | 22,521 |
| Admissions(d): | | |
| Quarter: | | |
| First | 444,200 | 443,300 |
| Second | | 428,200 |
| Third | | 430,500 |
| Fourth | | 438,700 |
| Year | | 1,740,700 |
| Equivalent admissions(e): | | |
| Quarter: | | |
| First | 708,000 | 711,100 |
| Second | | 700,800 |
| Third | | 705,200 |
| Fourth | | 715,000 |
| Year | | 2,832,100 |

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

Operating Data (continued)

| | 2013 | 2012 |
|--|-----------|-----------|
| Average length of stay (days)(f): | | |
| Quarter: | | |
| First | 4.9 | 4.8 |
| Second | | 4.7 |
| Third | | 4.7 |
| Fourth | | 4.7 |
| Year | | 4.7 |
| Emergency room visits(g): | | |
| Quarter: | | |
| First | 1,749,300 | 1,688,400 |
| Second | | 1,714,200 |
| Third | | 1,724,000 |
| Fourth | | 1,785,400 |
| Year | | 6,912,000 |
| Outpatient surgeries(h): | | |
| Quarter: | | |
| First | 211,100 | 217,500 |
| Second | | 219,800 |
| Third | | 212,300 |
| Fourth | | 224,000 |
| Year | | 873,600 |
| Inpatient surgeries(i): | | |
| Quarter: | | |
| First | 124,700 | 128,300 |
| Second | | 126,700 |
| Third | | 124,700 |
| Fourth | | 126,800 |
| Year | | 506,500 |
| Days revenues in accounts receivable(j): | | |
| Quarter: | | |
| First | 52 | 53 |
| Second | | 50 |
| Third | | 52 |
| Fourth | | 51 |
| Year | | 52 |
| Gross patient revenues(k) (dollars in millions): | | |
| Quarter: | | |
| First | \$ 44,791 | \$ 41,377 |
| Second | | 40,327 |
| Third | | 40,125 |
| Fourth | | 43,785 |
| Year | | 165,614 |
| Outpatient revenues as a % of patient revenues(l): | | |
| Quarter: | | |
| First | 37% | 37% |
| Second | | 39% |

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| | |
|--------|-----|
| 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)**

Operating Data (continued)

BALANCE SHEET DATA

| | % of Accounts Receivable | | |
|--|--------------------------|---------------|---------------|
| | Under 91 Days | 91 - 180 Days | Over 180 Days |
| Accounts receivable aging at March 31, 2013 (m): | | | |
| Medicare and Medicaid | 14% | 2% | 1% |
| Managed care and other discounted | 22 | 4 | 4 |
| Uninsured | 16 | 8 | 29 |
| Total | 52% | 14% | 34% |

- (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 period by the days in the period. Days revenues in accounts receivable is then calculated as accounts receivable, net of allowance for doubtful accounts, at the end of the period divided by the revenues per day.
- (k) Gross patient revenues are based upon our standard charge listing. Gross charges/revenues typically do not reflect what our hospital facilities are paid. Gross charges/revenues are reduced by contractual adjustments, discounts and charity care to determine reported revenues.
- (l) Represents the percentage of patient revenues related to patients who are not admitted to our hospitals.
- (m) Accounts receivable aging data is based upon consolidated gross accounts receivable of \$9.673 billion (each 1% is equivalent to approximately \$97 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.

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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 is currently producing 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.

New Hampshire Hospital Litigation

In 2006, the Foundation for Seacoast Health (the Foundation) filed suit against HCA in state court in New Hampshire. The Foundation alleged that both the 2006 recapitalization transaction and a prior 1999 intra-corporate transaction violated a 1983 agreement that placed certain restrictions on transfers of the Portsmouth Regional Hospital. In May 2007, the trial court ruled against the Foundation on all its claims. On appeal, the New Hampshire Supreme Court affirmed the ruling on the 2006 recapitalization, but remanded to the trial court the claims based on the 1999 intra-corporate transaction. The trial court ruled in December 2009 that the 1999 intra-corporate transaction breached the transfer restriction provisions of the 1983 agreement. In September of 2011, the trial court issued its remedies phase decision and held that the only remedy to which the Foundation was entitled was rescission of the intra-corporate transfer that breached the transfer restriction (the Company has complied with the Court's order, and it is not expected that such compliance will have any material effect on our operations or financial position). The Court awarded the Foundation, under the terms of the Asset Purchase Agreement, a fraction of its attorney fees. The Foundation appealed the remedy phase ruling, and the Company cross-appealed the liability determination. On October 31, 2011, the New Hampshire Supreme Court, on its own, raised the question whether the appeal needed to await the trial court's further ruling on attorney fees. On November 21, 2011, after the parties briefed the issue, the New Hampshire Supreme Court dismissed the appeal as premature and remanded the case to the trial court. In February 2012, the trial court certified the case for a possible interlocutory appeal without addressing the attorney fees issue. The New Hampshire Supreme Court rejected the request for an interlocutory appeal. The parties subsequently reached a stipulation regarding the attorney fees. The trial court accepted the parties' stipulation regarding attorneys fees and entered final judgment on liability and remedies on May 4, 2012. Both sides filed appeals with the New Hampshire Supreme Court, and briefing was completed in early February 2013. Oral argument has been scheduled, and a decision on appeal is anticipated mid-to-late 2013.

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. 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

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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 heard argument on the motion in April 2013. A decision on the motion is anticipated mid-to-late 2013.

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 have been consolidated in the Middle District of Tennessee, and the parties have agreed that those cases shall be stayed pending developments in the shareholder class actions. The state derivative action has also been stayed pending developments in the shareholder class actions.

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. Should the accounting fail to satisfy the Court concerning HCA's compliance with its capital and charity care commitments, the amount of the judgment award could substantially increase. The Court also indicated it would award plaintiff attorneys fees, which the parties have stipulated are about \$12 million. HCA recorded \$175 million of legal claim costs in the fourth quarter of 2012 related to this ruling; however, the Company plans to appeal the ruling.

General Liability and Other Claims

We are subject to claims for additional income taxes and related interest. For a description of those proceedings, see Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations - IRS Examinations and Note 3 to our condensed consolidated financial statements.

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, 2012, 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, 2012.

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ITEM 6. EXHIBITS

(a) List of Exhibits:

- 10.1 Second Amendment to the 2006 Stock Incentive Plan for Key Employees of HCA Holdings, Inc. and its Affiliates, as amended and restated.*
- 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 ended March 31, 2013 and 2012, filed with the SEC on May 7, 2013, formatted in Extensible Business Reporting Language (XBRL): (i) the condensed consolidated balance sheets at March 31, 2013 and December 31, 2012, (ii) the condensed consolidated income statements for the quarters ended March 31, 2013 and 2012, (iii) the condensed consolidated comprehensive income statements for the quarters ended March 31, 2013 and 2012, (iv) the condensed consolidated statements of cash flows for the quarters ended March 31, 2013 and 2012 and (v) the notes to condensed consolidated financial statements.(1)

- (1) The XBRL related information in Exhibit 101 to this quarterly report on Form 10-Q shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability of that section and shall not be incorporated by reference into any filing or other document pursuant to the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing or document.

* 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/ R. MILTON JOHNSON*
R. Milton Johnson
President and Chief Financial Officer

Date: May 7, 2013