HCA Holdings, Inc.
Form 10-Q
August 05, 2011

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

or

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

For the transition period from to

Commission file number 1-11239

HCA Holdings, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**27-3865930**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
One Park Plaza Nashville, Tennessee	**37203**
(Address of principal executive offices)	*(Zip Code)*

(615) 344-9551
(Registrant s telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

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 þ No o

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. (Check one):

Large accelerated filer o Accelerated filer o Non-accelerated filer þ Smaller reporting company o
(Do not check if a 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 o No þ

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

Class of Common Stock	**Outstanding at July 31, 2011**
Voting common stock, $.01 par value	517,179,600 shares

HCA HOLDINGS, INC.
Form 10-Q
June 30, 2011

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HCA HOLDINGS, INC.
CONDENSED CONSOLIDATED INCOME STATEMENTS
FOR THE QUARTERS AND SIX MONTHS ENDED JUNE 30, 2011 AND 2010
Unaudited

(Dollars in millions, except per share amounts)

	Quarter		Six Months	
	2011	2010	**2011**	2010
Revenues	**$ 8,063**	$ 7,756	**$ 16,118**	$ 15,300
Salaries and benefits	**3,320**	3,076	**6,615**	6,148
Supplies	**1,295**	1,251	**2,570**	2,451
Other operating expenses	**1,326**	1,226	**2,648**	2,428
Provision for doubtful accounts	**775**	788	**1,424**	1,352
Equity in earnings of affiliates	**(73)**	(75)	**(149)**	(143)
Depreciation and amortization	**358**	355	**716**	710
Interest expense	**520**	530	**1,053**	1,046
Losses on sales of facilities			**1**	
Impairments of long-lived assets		91		109
Loss on retirement of debt	**75**		**75**	
Termination of management agreement			**181**	
	7,596	7,242	**15,134**	14,101
Income before income taxes	**467**	514	**984**	1,199
Provision for income taxes	**147**	136	**330**	345
Net income	**320**	378	**654**	854
Net income attributable to noncontrolling interests	**91**	85	**185**	173
Net income attributable to HCA Holdings, Inc.	**$ 229**	$ 293	**$ 469**	$ 681
Per share data:				
Basic earnings per share	**$ 0.44**	$ 0.69	**$ 0.98**	$ 1.60
Diluted earnings per share	**$ 0.43**	$ 0.67	**$ 0.94**	$ 1.56
Shares used in earnings per share calculations (in thousands):				
Basic	**516,448**	426,329	**480,525**	426,340
Diluted	**538,557**	437,104	**500,463**	436,392

See accompanying notes.

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HCA HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
Unaudited
(Dollars in millions)

	June 30, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 539**	$ 411
Accounts receivable, less allowance for doubtful accounts of $3,955 and $3,939	**3,946**	3,832
Inventories	**887**	897
Deferred income taxes	**894**	931
Other	**625**	848
	6,891	6,919
Property and equipment, at cost	**26,338**	25,641
Accumulated depreciation	**(14,754)**	(14,289)
	11,584	11,352
Investments of insurance subsidiary	**515**	642
Investments in and advances to affiliates	**843**	869
Goodwill	**2,719**	2,693
Deferred loan costs	**332**	374
Other	**993**	1,003
	$ 23,877	$ 23,852
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Accounts payable	**$ 1,297**	$ 1,537
Accrued salaries	**1,009**	895
Other accrued expenses	**1,283**	1,245
Long-term debt due within one year	**689**	592
	4,278	4,269
Long-term debt	**24,631**	27,633
Professional liability risks	**987**	995
Income taxes and other liabilities	**1,515**	1,608
Equity securities with contingent redemption rights		141
Stockholders deficit:		

Common stock $0.01 par; authorized 1,800,000,000 shares; outstanding 517,094,100 shares in 2011 and 427,458,800 shares in 2010	**5**	4
Capital in excess of par value	**3,072**	386
Accumulated other comprehensive loss	**(339)**	(428)
Retained deficit	**(11,419)**	(11,888)
Stockholders deficit attributable to HCA Holdings, Inc.	**(8,681)**	(11,926)
Noncontrolling interests	**1,147**	1,132
	(7,534)	(10,794)
	$ 23,877	$ 23,852

See accompanying notes.

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HCA HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2011 AND 2010
Unaudited
(Dollars in millions)

	2011	2010
Cash flows from operating activities:		
Net income	**$ 654**	$ 854
Adjustments to reconcile net income to net cash provided by operating activities:		
Changes in operating assets and liabilities	**(1,576)**	(1,698)
Provision for doubtful accounts	**1,424**	1,352
Depreciation and amortization	**716**	710
Income taxes	**317**	(111)
Losses on sales of facilities	**1**	
Impairments of long-lived assets		109
Loss on retirement of debt	**75**	
Amortization of deferred loan costs	**39**	40
Share-based compensation	**16**	16
Other		23
Net cash provided by operating activities	**1,666**	1,295
Cash flows from investing activities:		
Purchase of property and equipment	**(776)**	(536)
Acquisition of hospitals and health care entities	**(168)**	(31)
Disposition of hospitals and health care entities	**54**	25
Change in investments	**76**	502
Other	**2**	(11)
Net cash used in investing activities	**(812)**	(51)
Cash flows from financing activities:		
Issuance of long-term debt		1,387
Net change in revolving credit facilities	**(1,524)**	1,329
Repayment of long-term debt	**(1,508)**	(1,529)
Distributions to noncontrolling interests	**(185)**	(176)
Distributions to stockholders	**(30)**	(2,251)
Payment of debt issuance costs	**(12)**	(25)
Issuance of common stock	**2,506**	
Income tax benefits	**49**	56
Other	**(22)**	3
Net cash used in financing activities	**(726)**	(1,206)
Change in cash and cash equivalents	**128**	38
Cash and cash equivalents at beginning of period	**411**	312

Cash and cash equivalents at end of period	**$**	**539**	$	350
Interest payments	**$**	**1,043**	$	973
Income tax (refunds) payments, net	**$**	**(36)**	$	400

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. completed its merger with Hercules Acquisition Corporation, pursuant to which the Company was acquired by Hercules Holding II, LLC, a Delaware limited liability company owned by a private investor group comprised of affiliates of Bain Capital Partners, Kohlberg Kravis Roberts & Co., BAML Capital Partners (formerly Merrill Lynch Global Private Equity) (each a Sponsor), affiliates of Citigroup Inc. and Bank of America Corporation (the Sponsor Assignees) and affiliates of HCA founder, Dr. Thomas F. Frist Jr., (the Frist Entities, and together with the Sponsors and the Sponsor Assignees, the Investors) and by members of management and certain other investors.

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. is a wholly-owned direct subsidiary of HCA Holdings, Inc. As part of the Corporate Reorganization, HCA Inc. s outstanding shares of capital stock were automatically converted, on a share for share basis, into identical shares of our common stock. Immediately following the Corporate Reorganization, our amended and restated certificate of incorporation, amended and restated bylaws, executive officers and board of directors were the same as HCA Inc. s in effect immediately prior to the Corporate Reorganization, and the rights, privileges and interests of HCA Inc. s stockholders remained the same with respect to us as the new holding company.

During February 2011, our Board of Directors approved an increase in the number of our authorized shares to 1,800,000,000 shares of common stock and a 4.505-to-one split of our issued and outstanding common shares. All common share and per common share amounts in these condensed consolidated financial statements and notes to condensed consolidated financial statements reflect the 4.505-to-one split. During March 2011, we completed the initial public offering of 87,719,300 shares of our common stock at a price of $30.00 per share (before deducting underwriter discounts, commissions and other related offering expenses). Certain of our stockholders also sold 57,410,700 shares of our common stock in this offering. We did not receive any proceeds from the shares sold by the selling stockholders. Our common stock is now traded on the New York Stock Exchange (symbol HCA).

The Investors have provided management and advisory services to the Company pursuant to a management agreement among HCA Inc. and the Investors executed in connection with the Investors acquisition of HCA Inc. in November 2006. The management agreement was terminated pursuant to its terms upon completion of the initial public offering of our common stock, and the Company paid the Investors a final fee of $181 million. The management agreement also provided that the Company pay a 1% fee in connection with certain financing, acquisition, divestiture and change of control transactions. The Company paid the Investors a fee of $26 million related to the initial public offering of our common stock, and this fee was recorded as a cost of the stock offering.

HCA Holdings, Inc. is a holding company whose affiliates own and operate hospitals and related health care entities. The term affiliates includes direct and indirect subsidiaries of HCA Holdings, Inc. and partnerships and joint ventures in which such subsidiaries are partners. At June 30, 2011, these affiliates owned and operated 157 hospitals, 98 freestanding surgery centers and facilities which provided extensive outpatient and ancillary services. Affiliates of HCA Holdings, Inc. are also partners in joint ventures that own and operate seven hospitals and 13 freestanding surgery centers, which are accounted for using the equity method. HCA Holdings, Inc. s facilities are located in 20 states and England. The terms Company, HCA, we, our or us, as used herein and unless 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.

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HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1 INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 cost of revenue items. Costs that could be classified as general and administrative would include our corporate office costs, which were $55 million and $44 million for the quarters ended June 30, 2011 and 2010, respectively, and $109 million and $84 million for the six months ended June 30, 2011 and 2010, respectively. Operating results for the quarter and six months ended June 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. 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, 2010.

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

NOTE 2 INCOME TAXES

At June 30, 2011, we were contesting, before the Internal Revenue Service (IRS) Appeals Division, certain claimed deficiencies and adjustments proposed by the IRS Examination Division in connection with its audit of HCA Inc. s 2005 and 2006 federal income tax returns. The disputed items include the timing of recognition of certain patient service revenues, the deductibility of certain debt retirement costs and our method for calculating the tax allowance for doubtful accounts. In addition, eight taxable periods of HCA Inc. and its predecessors ended in 1997 through 2004, for which the primary remaining issue is the computation of the tax allowance for doubtful accounts, were pending before the IRS Examination Division as of June 30, 2011. The IRS Examination Division began an audit of HCA Inc. s 2007, 2008 and 2009 federal income tax returns in 2010.

Our liability for unrecognized tax benefits was $399 million, including accrued interest of $91 million, as of June 30, 2011 ($413 million and $115 million, respectively, as of December 31, 2010). Unrecognized tax benefits of $198 million ($190 million as of December 31, 2010) would affect the effective rate, if recognized. The liability for unrecognized tax benefits does not reflect deferred tax assets of $55 million ($63 million as of December 31, 2010) related to deductible interest and state income taxes or a refundable deposit of $82 million ($82 million as of December 31, 2010), which is recorded in noncurrent assets. The provision for income taxes reflects $2 million and $59 million ($1 million and $37 million, net of tax) in reductions in interest expense related to taxing authority examinations for the quarters ended June 30, 2011 and 2010, respectively, and $26 million and $74 million ($16 million and $47 million, respectively, net of tax) reductions in interest expense related to taxing authority examinations for the six months ended June 30, 2011 and 2010, respectively.

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

However, we are currently unable to estimate the range of any possible change.

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HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3 EARNINGS PER SHARE

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

The following table sets forth the computation of basic and diluted earnings per share for the quarters and six months ended June 30, 2011 and 2010 (dollars in millions, except per share amounts, and shares in thousands):

	Quarter		Six Months	
	2011	**2010**	**2011**	**2010**
Net income attributable to HCA Holdings, Inc.	**$ 229**	$ 293	**$ 469**	$ 681
Weighted average common shares outstanding	**516,448**	426,329	**480,525**	426,340
Effect of dilutive securities	**22,109**	10,775	**19,938**	10,052
Shares used for diluted earnings per share	**538,557**	437,104	**500,463**	436,392
Earnings per share:				
Basic earnings per share	**$ 0.44**	$ 0.69	**$ 0.98**	$ 1.60
Diluted earnings per share	**$ 0.43**	$ 0.67	**$ 0.94**	$ 1.56

NOTE 4 INVESTMENTS OF INSURANCE SUBSIDIARY

A summary of our insurance subsidiary s investments at June 30, 2011 and December 31, 2010 follows (dollars in millions):

	June 30, 2011			
		Unrealized Amounts		
	Amortized Cost	Gains	Losses	Fair Value
Debt securities:				
States and municipalities	**$ 305**	**$ 12**	**$ (1)**	**$ 316**
Auction rate securities	**152**		**(3)**	**149**
Asset-backed securities	**23**			**23**
Money market funds	**229**			**229**
	709	**12**	**(4)**	**717**
Equity securities	**8**	**1**	**(1)**	**8**
	$ 717	**$ 13**	**$ (5)**	**725**

Amounts classified as current assets	**(210)**
Investment carrying value	**$ 515**

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HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 4 INVESTMENTS OF INSURANCE SUBSIDIARY (continued)

	December 31, 2010			
		Unrealized Amounts		
	Amortized Cost	Gains	Losses	Fair Value
Debt securities:				
States and municipalities	$ 312	$ 12	$ (1)	$ 323
Auction rate securities	251		(1)	250
Asset-backed securities	26	1	(1)	26
Money market funds	135			135
	724	13	(3)	734
Equity securities	8	1	(1)	8
	$ 732	$ 14	$ (4)	742
Amounts classified as current assets				(100)
Investment carrying value				$ 642

At June 30, 2011 and December 31, 2010, the investments of our insurance subsidiary were classified as available-for-sale. Changes in temporary unrealized gains and losses are recorded as adjustments to other comprehensive income. At June 30, 2011 and December 31, 2010, $19 million and $92 million, respectively, of our investments were subject to restrictions included in insurance bond collateralization and assumed reinsurance contracts.

Scheduled maturities of investments in debt securities at June 30, 2011 were as follows (dollars in millions):

	Amortized Cost	Fair Value
Due in one year or less	$ 249	$ 250
Due after one year through five years	139	147
Due after five years through ten years	122	124
Due after ten years	24	24
	534	545
Auction rate securities	152	149
Asset-backed securities	23	23

$	709	$	717

The average expected maturity of the investments in debt securities at June 30, 2011 was 2.6 years, compared to the average scheduled maturity of 8.6 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 June 30, 2011, the average expected maturities for our auction rate and asset-backed securities were 4.4 years and 5.1 years, respectively, compared to average scheduled maturities of 25.2 years and 25.1 years, respectively.

HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5 LONG-TERM DEBT

A summary of long-term debt at June 30, 2011 and December 31, 2010, including related interest rates at June 30, 2011, follows (dollars in millions):

	June 30, 2011	December 31, 2010
Senior secured asset-based revolving credit facility (effective interest rate of 1.4%)	**$ 1,080**	$ 1,875
Senior secured revolving credit facility		729
Senior secured term loan facilities (effective interest rate of 7.4%)	**7,541**	7,530
Senior secured first lien notes (effective interest rate of 8.4%)	**4,078**	4,075
Other senior secured debt (effective interest rate of 7.1%)	**304**	322
First lien debt	**13,003**	14,531
Senior secured cash-pay notes (effective interest rate of 9.7%)	**3,396**	4,501
Senior secured toggle notes (effective interest rate of 10.0%)	**1,578**	1,578
Second lien debt	**4,974**	6,079
Senior unsecured notes (effective interest rate of 7.1%)	**7,343**	7,615
Total debt (average life of 6.5 years, rates averaging 7.7%)	**25,320**	28,225
Less amounts due within one year	**689**	592
	$ 24,631	$ 27,633

During March 2011, pending permanent application, we used the net proceeds of $2.506 billion from the initial public offering of our common stock to reduce amounts outstanding under our revolving credit facilities.

On May 4, 2011, we completed amendments to our senior secured credit agreement and senior secured asset-based revolving credit agreement, as well as extensions of certain of our term loans. The amendments extend approximately $594 million of our term loan A-1 facility with a final maturity of November 2012 to a final maturity of May 2016 and approximately $2.373 billion of our term loan A-1 and term loan B-1 facilities with final maturities of November 2012 and November 2013, respectively, to a final maturity of May 2018.

On June 2, 2011, we redeemed all $1.000 billion aggregate principal amount of our 91/8% Senior Secured Notes due 2014, at a redemption price of 104.563% of the principal amount, and $108 million aggregate principal amount of our 97/8% Senior Secured Notes due 2017, at a redemption price of 109.875% of the principal amount. The pretax loss on retirement of debt related to these redemptions was $75 million.

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. Pay-variable interest rate swaps effectively convert fixed interest rate obligations to LIBOR indexed variable rate obligations. The interest payments under these agreements are settled on a net basis. The net interest payments, based on the notional amounts in these agreements, generally match the timing of the related liabilities, for the interest rate swap agreements which have been designated as cash flow hedges. The notional amounts of the swap agreements represent amounts used to

HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6 FINANCIAL INSTRUMENTS (continued)

Interest Rate Swap Agreements (continued)

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 June 30, 2011 (dollars in millions):

	Notional Amount	Maturity Date	Fair Value
Pay-fixed interest rate swaps	$ 7,100	November 2011	$ (125)
Pay-fixed interest rate swaps (starting November 2011)	500	December 2014	2
Pay-fixed interest rate swaps (starting November 2011)	3,000	December 2016	(195)
Pay-fixed interest rate swaps (starting November 2011)	1,000	December 2017	11

Certain of our interest rate swaps are not designated as hedges, and changes in fair value are recognized in results of operations. The following table sets forth our interest rate swap agreements, which were not designated as hedges, at June 30, 2011 (dollars in millions):

	Notional Amount	Maturity Date	Fair Value
Pay-fixed interest rate swap	$ 900	November 2011	$ (15)
Pay-variable interest rate swap	900	November 2011	2

During the next 12 months, we estimate $214 million will be reclassified from other comprehensive income (OCI) to interest expense.

Cross Currency Swaps

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 entered into various cross currency swaps. Our credit risk related to these agreements is considered low because the swap agreements are with creditworthy financial institutions.

Certain of our cross currency swaps are not designated as hedges, and changes in fair value are recognized in results of operations. The following table sets forth our cross currency swap agreement, which was not designated as a hedge, at June 30, 2011 (amounts in millions):

	Notional Amount	Maturity Date	Fair Value
Euro United States Dollar currency swap	351 Euro	December 2011	$ 78

Derivatives Results of Operations

The following tables present the effect on our results of operations of our interest rate and cross currency swaps for the quarter ended June 30, 2011 (dollars in millions):

Derivatives in Cash Flow Hedging Relationships	Amount of Loss Recognized in OCI on Derivatives, Net of Tax	Location of Loss Reclassified from Accumulated OCI into Operations	Amount of Loss Reclassified from Accumulated OCI into Operations
Interest rate swaps	$ 49	Interest expense	$ 186

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HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6 FINANCIAL INSTRUMENTS (continued)

Derivatives Results of Operations (continued)

Derivatives Not Designated as Hedging Instruments	Location of Gain Recognized in Operations on Derivatives	Amount of Gain Recognized in Operations on Derivatives
Cross currency swap	Other operating expenses	$ 39

Credit-risk-related Contingent Features

We have agreements with each of our derivative counterparties that contain a provision where we could be declared in default on our derivative obligations if repayment of the underlying indebtedness is accelerated by the lender due to our default on the indebtedness. As of June 30, 2011, we have not been required to post any collateral related to these agreements. If we had breached these provisions at June 30, 2011, we would have been required to settle our obligations under the agreements at their aggregate, estimated termination value of $263 million.

NOTE 7 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

Accounting Standards Codification (ASC) 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.

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. Such instruments include auction rate securities (ARS) and limited partnership investments. The transaction price is initially used as the best estimate of fair value.

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HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Cash Traded Investments (continued)

Our wholly-owned insurance subsidiary had investments in tax-exempt ARS, which are backed by student loans substantially guaranteed by the federal government, of $149 million ($152 million par value) at June 30, 2011. We do not currently intend to attempt to sell the ARS as the liquidity needs of our insurance subsidiary are expected to be met by other investments in its investment portfolio. During 2010 and the first six months of 2011, certain issuers and their broker/dealers redeemed or repurchased $150 million and $99 million, respectively, of our ARS at par value. 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 volatilities. To comply with the provisions of ASC 820, we incorporate credit valuation adjustments to reflect both our own nonperformance risk and the respective counterparty s nonperformance risk in the fair value measurements.

Although we determined the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by us and our counterparties. We assessed the significance of the impact of the credit valuation adjustments on the overall valuation of our derivative positions and at June 30, 2011 and December 31, 2010, we determined the credit valuation adjustments were not significant to the overall valuation of our derivatives.

HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Fair Value Summary

The following table summarizes our assets and liabilities measured at fair value on a recurring basis as of June 30, 2011 and December 31, 2010, aggregated by the level in the fair value hierarchy within which those measurements fall (dollars in millions):

		June 30, 2011 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 subsidiary:				
Debt securities:				
States and municipalities	$ 316	$	$ 316	$
Auction rate securities	149			149
Asset-backed securities	23		23	
Money market funds	229	229		
	717	229	339	149
Equity securities	8	2	4	2
Investments of insurance subsidiary	725	231	343	151
Less amounts classified as current assets	(210)	(210)		
	$ 515	$ 21	$ 343	$ 151
Cross currency swap (Other assets)	$ 78	$	$ 78	$
Liabilities:				
Interest rate swaps (Income taxes and other liabilities)	$ 320	$	$ 320	$

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HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Fair Value Summary (continued)

		December 31, 2010 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 subsidiary:				
Debt securities:				
States and municipalities	$ 323	$	$ 323	$
Auction rate securities	250			250
Asset-backed securities	26		26	
Money market funds	135	135		
	734	135	349	250
Equity securities	8	2	5	1
Investments of insurance subsidiary	742	137	354	251
Less amounts classified as current assets	(100)	(100)		
	$ 642	$ 37	$ 354	$ 251
Cross currency swap (Other assets)	$ 39	$	$ 39	$
Liabilities:				
Interest rate swaps (Income taxes and other liabilities)	$ 426	$	$ 426	$

The following table summarizes the activity related to the auction rate and equity securities investments of our insurance subsidiary, which have fair value measurements based on significant unobservable inputs (Level 3), during the six months ended June 30, 2011 (dollars in millions):

Asset balances at December 31, 2010	$ 251
Unrealized losses included in other comprehensive income	(1)
Settlements	(99)
Asset balances at June 30, 2011	$ 151

The estimated fair value of our long-term debt was $26.060 billion and $28.738 billion at June 30, 2011 and December 31, 2010, respectively, compared to carrying amounts aggregating $25.320 billion and $28.225 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.

HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 8 CONTINGENCIES

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 have a material, adverse effect on our results of operations or financial position in a given period.

Health care companies are subject to numerous investigations by various governmental agencies. Under the federal False Claims Act 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 government inquiries from federal and state agencies and our facilities may receive such inquiries in future periods. 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 results of operations or financial position.

We are 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. It is management s opinion that 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.

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 Centers for Medicare & Medicaid Services 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. The review could potentially give rise to claims against the Company under the federal False Claims Act 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.

NOTE 9 COMPREHENSIVE INCOME AND CAPITAL STRUCTURE

The components of comprehensive income, net of related taxes, for the quarters and six months ended June 30, 2011 and 2010 are only attributable to HCA Holdings, Inc. and are as follows (dollars in millions):

	Quarter		**Six Months**	
	2011	**2010**	**2011**	**2010**
Net income attributable to HCA Holdings, Inc.	**$ 229**	$ 293	**$ 469**	$ 681
Change in fair value of derivative instruments	**2**	(14)	**69**	(26)
Change in fair value of available-for-sale securities		(8)	**(1)**	(7)
Foreign currency translation adjustments		(6)	**14**	(27)
Defined benefit plans	**3**	2	**7**	5
Comprehensive income	**$ 234**	$ 267	**$ 558**	$ 626

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HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9 COMPREHENSIVE INCOME AND CAPITAL STRUCTURE (continued)

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

	June 30, 2011	December 31, 2010
Change in fair value of derivative instruments	**$ (203)**	$ (272)
Change in fair value of available-for-sale securities	**5**	6
Foreign currency translation adjustments	**(5)**	(19)
Defined benefit plans	**(136)**	(143)
Accumulated other comprehensive loss	**$ (339)**	$ (428)

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 Shares (000)	Common Stock Par Value	Capital in Excess of Par Value	Accumulated Other Comprehensive Loss	Retained Deficit	Equity Attributable to Noncontrolling Interests	Total
Balances, December 31, 2010	427,459	$ 4	$ 386	$ (428)	$ (11,888)	$ 1,132	$ (10,794)
Net income					469	185	654
Other comprehensive income				89			89
Issuance of common stock	87,719	1	2,505				2,506
Distributions						(185)	(185)
Share-based benefit plans	1,916		18				18
Reclassification of certain equity securities with contingent redemption rights			141				141
Other			22			15	37
Balances, June 30, 2011	517,094	$ 5	$ 3,072	$ (339)	$ (11,419)	$ 1,147	$ (7,534)

During February 2011, our Board of Directors approved an increase in the number of our authorized shares to 1,800,000,000 shares of common stock and a 4.505-to-one split of our issued and outstanding commons shares. During March 2011, we completed the initial public offering of 87,719,300 shares of our common stock at a price of $30.00 per share and realized net proceeds (after costs of the offering) of $2.506 billion.

Prior to the consummation of the initial public offering of our common stock, certain employees could elect to have the Company redeem their common stock and vested options in the event of death or permanent disability, pursuant to the terms of their management stockholder agreements. The consummation of the initial public offering of our common stock effectively terminated the contingent redemption rights and the applicable amounts have been reclassified to stockholders equity.

NOTE 10 SEGMENT AND GEOGRAPHIC INFORMATION

We operate in one line of business, which is operating hospitals and related health care entities. During the quarters ended June 30, 2011 and 2010, 23.2% and 23.5%, respectively, of our revenues related to patients participating in the fee-for-service Medicare program. During each of the six months ended June 30, 2011 and 2010, 24.0% of our revenues related to patients participating in the fee-for-service Medicare program.

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HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 10 SEGMENT AND GEOGRAPHIC INFORMATION (continued)

Our operations are structured into three geographically organized groups: the National, Southwest and Central Groups. During February 2011, we reorganized our operational groups and have restated the prior period amounts to reflect this reorganization. The National Group includes 65 consolidating hospitals located in Florida, South Carolina, southern Georgia, Alaska, California, Nevada, Utah and Idaho, The Southwest Group includes 39 consolidating hospitals located in Texas, Oklahoma and the Wichita, Kansas market, and the Central Group includes 47 consolidating hospitals located in Louisiana, Indiana, Kentucky, Tennessee, Virginia, New Hampshire, northern Georgia and the Kansas City market. We also operate six consolidating hospitals in England, and these facilities are included in the Corporate and other Group.

Adjusted segment EBITDA is defined as income before depreciation and amortization, interest expense, losses on sales of facilities, impairments of long-lived assets, loss on retirement of debt, termination of management agreement, income taxes and net income attributable to noncontrolling interests. We use adjusted segment EBITDA as an analytical indicator for purposes of allocating resources to geographic areas and assessing their performance. Adjusted segment EBITDA is commonly used as an analytical indicator within the health care industry, and also serves as a measure of leverage capacity and debt service ability. Adjusted segment EBITDA should not be considered as a measure of financial performance under generally accepted accounting principles, and the items excluded from adjusted segment EBITDA are significant components in understanding and assessing financial performance. Because adjusted segment EBITDA is not a measurement determined in accordance with generally accepted accounting principles and is thus susceptible to varying calculations, adjusted segment EBITDA, as presented, may not be comparable to other similarly titled measures of other companies. The geographic distributions of our revenues, equity in earnings of affiliates, adjusted segment EBITDA, and depreciation and amortization for the quarters and six months ended June 30, 2011 and 2010 are summarized in the following table (dollars in millions):

	Quarter		**Six Months**	
	2011	**2010**	**2011**	**2010**
Revenues:				
National Group	**$ 3,448**	$ 3,292	**$ 6,903**	$ 6,495
Southwest Group	**2,445**	2,384	**4,880**	4,722
Central Group	**1,885**	1,836	**3,764**	3,600
Corporate and other	**285**	244	**571**	483
	$ 8,063	$ 7,756	**$ 16,118**	$ 15,300
Equity in earnings of affiliates:				
National Group	**$ (1)**	$ (1)	**$ (2)**	$ (2)
Southwest Group	**(73)**	(74)	**(148)**	(140)
Central Group				(1)
Corporate and other	**1**		**1**	
	$ (73)	$ (75)	**$ (149)**	$ (143)

Adjusted segment EBITDA:				
National Group	**$ 576**	$ 602	**$ 1,248**	$ 1,264
Southwest Group	**567**	568	**1,162**	1,135
Central Group	**318**	324	**651**	667
Corporate and other	**(41)**	(4)	**(51)**	(2)
	$ 1,420	$ 1,490	**$ 3,010**	$ 3,064

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HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 10 SEGMENT AND GEOGRAPHIC INFORMATION (continued)

	Quarter		Six Months	
	2011	**2010**	**2011**	**2010**
Depreciation and amortization:				
National Group	**$ 127**	$ 128	**$ 252**	$ 256
Southwest Group	**110**	106	**221**	213
Central Group	**89**	90	**177**	178
Corporate and other	**32**	31	**66**	63
	$ 358	$ 355	**$ 716**	$ 710
Adjusted segment EBITDA	**$ 1,420**	$ 1,490	**$ 3,010**	$ 3,064
Depreciation and amortization	**358**	355	**716**	710
Interest expense	**520**	530	**1,053**	1,046
Losses on sales of facilities			**1**	
Impairments of long-lived assets		91		109
Loss on retirement of debt	**75**		**75**	
Termination of management agreement			**181**	
Income before income taxes	**$ 467**	$ 514	**$ 984**	$ 1,199

NOTE 11 ACQUISITIONS, DISPOSITIONS AND IMPAIRMENTS OF LONG-LIVED ASSETS

During the six months ended June 30, 2011, we paid $136 million to acquire a hospital in the National Group and $32 million to acquire other nonhospital health care entities. During the six months ended June 30, 2010, we paid $31 million to acquire nonhospital health care entities.

During the six months ended June 30, 2011, we received proceeds of $54 million and recognized a net pretax loss of $1 million related to the sales of a hospital facility and our investment in a hospital joint venture. During the six months ended June 30, 2010, we received proceeds of $25 million related to sales of real estate investments, and the proceeds were equal to the carrying amounts.

During the quarter ended June 30, 2010, we recorded impairments of long-lived assets of $91 million, comprised of impairment charges of $56 million related to revised, reduced projections of future expected cash flows for a hospital facility in our Central Group and $35 million for capitalized engineering and design costs in our Corporate and other Group related to certain building safety requirements (California earthquake standards) that have been revised, to adjust the carrying values to estimated fair value. During the six months ended June 30, 2010, we recorded impairments of long-lived assets of $109 million, including the second quarter 2010 charges of $91 million and the first quarter 2010 impairment charges of $18 million to adjust the carrying values of real estate and other investments in our National, Southwest and Corporate and other Groups to estimated fair value. There were no impairments of long-lived assets for the quarter or six months ended June 30, 2011.

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 new parent company, and HCA Inc. is now 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. These notes are senior unsecured obligations and are not guaranteed by any of our subsidiaries.

Our 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).

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HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (continued)

Our summarized condensed consolidating balance sheets at June 30, 2011 and December 31, 2010, condensed consolidating statements of income for the quarters and six months ended June 30, 2011 and 2010 and condensed consolidating statements of cash flows for the six months ended June 30, 2011 and 2010, segregating HCA Holdings, Inc. issuer, HCA Inc. issuer, the subsidiary guarantors, the subsidiary non-guarantors and eliminations, follow:

HCA HOLDINGS, INC.
CONDENSED CONSOLIDATING INCOME STATEMENT
FOR THE QUARTER ENDED JUNE 30, 2011
(Dollars in millions)

	HCA Holdings, Inc. Issuer	HCA Inc. Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Eliminations	Condensed Consolidated
Revenues	$	$	$ 4,515	$ 3,548	$	$ 8,063
Salaries and benefits			1,872	1,448		3,320
Supplies			720	575		1,295
Other operating expenses		2	686	638		1,326
Provision for doubtful accounts			457	318		775
Equity in earnings of affiliates	(246)		(30)	(43)	246	(73)
Depreciation and amortization			194	164		358
Interest expense	30	741	(153)	(98)		520
Loss on retirement of debt		75				75
Management fees			(129)	129		
	(216)	818	3,617	3,131	246	7,596
Income (loss) before income taxes	216	(818)	898	417	(246)	467
Provision for income taxes	(13)	(323)	347	136		147
Net income (loss)	229	(495)	551	281	(246)	320
Net income attributable to noncontrolling interests			18	73		91
Net income (loss) attributable to HCA	$ 229	$ (495)	$ 533	$ 208	$ (246)	$ 229

Holdings, Inc.

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HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (continued)

HCA HOLDINGS, INC.
CONDENSED CONSOLIDATING INCOME STATEMENT
FOR THE QUARTER ENDED JUNE 30, 2010
(Dollars in millions)

	HCA Inc. Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Eliminations	Condensed Consolidated
Revenues	$	$ 4,479	$ 3,277	$	$ 7,756
Salaries and benefits		1,809	1,267		3,076
Supplies		724	527		1,251
Other operating expenses	1	665	560		1,226
Provision for doubtful accounts		499	289		788
Equity in earnings of affiliates	(745)	(28)	(47)	745	(75)
Depreciation and amortization		197	158		355
Interest expense	668	(122)	(16)		530
Impairments of long-lived assets		38	53		91
Management fees		(120)	120		
	(76)	3,662	2,911	745	7,242
Income before income taxes	76	817	366	(745)	514
Provision for income taxes	(217)	259	94		136
Net income	293	558	272	(745)	378
Net income attributable to noncontrolling interests		14	71		85
Net income attributable to HCA Holdings, Inc.	$ 293	$ 544	$ 201	$ (745)	$ 293

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HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (continued)

HCA HOLDINGS, INC.
CONDENSED CONSOLIDATING INCOME STATEMENT
FOR THE SIX MONTHS ENDED JUNE 30, 2011
(Dollars in millions)

	HCA Holdings, Inc. Issuer	HCA Inc. Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Eliminations	Condensed Consolidated
Revenues	$	$	$ 9,093	$ 7,025	$	$ 16,118
Salaries and benefits			3,768	2,847		6,615
Supplies			1,431	1,139		2,570
Other operating expenses		4	1,367	1,277		2,648
Provision for doubtful accounts			874	550		1,424
Equity in earnings of affiliates	(504)		(60)	(89)	504	(149)
Depreciation and amortization			389	327		716
Interest expense	60	1,432	(316)	(123)		1,053
Losses (gains) on sales of facilities			16	(15)		1
Loss on retirement of debt		75				75
Termination of management agreement		181				181
Management fees			(253)	253		
	(444)	1,692	7,216	6,166	504	15,134
Income (loss) before income taxes	444	(1,692)	1,877	859	(504)	984
Provision for income taxes	(25)	(698)	762	291		330
Net income (loss)	469	(994)	1,115	568	(504)	654
Net income attributable to noncontrolling interests			31	154		185
Net income (loss) attributable to HCA Holdings, Inc.	$ 469	$ (994)	$ 1,084	$ 414	$ (504)	$ 469

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HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (continued)

HCA HOLDINGS, INC.
CONDENSED CONSOLIDATING INCOME STATEMENT
FOR THE SIX MONTHS ENDED JUNE 30, 2010
(Dollars in millions)

	HCA Inc. Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Eliminations	Condensed Consolidated
Revenues	$	$ 8,853	$ 6,447	$	$ 15,300
Salaries and benefits		3,635	2,513		6,148
Supplies		1,414	1,037		2,451
Other operating expenses	3	1,303	1,122		2,428
Provision for doubtful accounts		857	495		1,352
Equity in earnings of affiliates	(1,556)	(55)	(88)	1,556	(143)
Depreciation and amortization		392	318		710
Interest expense	1,316	(237)	(33)		1,046
Impairments of long-lived assets		53	56		109
Management fees		(238)	238		
	(237)	7,124	5,658	1,556	14,101
Income before income taxes	237	1,729	789	(1,556)	1,199
Provision for income taxes	(444)	572	217		345
Net income	681	1,157	572	(1,556)	854
Net income attributable to noncontrolling interests		29	144		173
Net income attributable to HCA Holdings, Inc.	$ 681	$ 1,128	$ 428	$ (1,556)	$ 681

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HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (continued)

HCA HOLDINGS, INC.
CONDENSED CONSOLIDATING BALANCE SHEET
JUNE 30, 2011
(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	$	$	$ 131	$ 408	$	$ 539
Accounts receivable, net			2,235	1,711		3,946
Inventories			545	342		887
Deferred income taxes	894					894
Other			182	443		625
	894		3,093	2,904		6,891
Property and equipment, net			6,953	4,631		11,584
Investments of insurance subsidiary				515		515
Investments in and advances to affiliates			222	621		843
Goodwill			1,609	1,110		2,719
Deferred loan costs	23	309				332
Investments in and advances to subsidiaries	14,786				(14,786)	
Other	668	92	29	204		993
	$ 16,371	$ 401	$ 11,906	$ 9,985	$ (14,786)	$ 23,877
LIABILITIES AND STOCKHOLDERS (DEFICIT) EQUITY						
Current liabilities:						
Accounts payable	$	$	$ 751	$ 546	$	$ 1,297
Accrued salaries			628	381		1,009
Other accrued expenses	50	271	318	644		1,283
Long-term debt due within one year		651	14	24		689

	50	922	1,711	1,595		4,278
Long-term debt	1,525	22,437	82	587		24,631
Intercompany balances	23,040	(11,785)	(13,775)	2,520		
Professional liability risks				987		987
Income taxes and other liabilities	437	334	535	209		1,515
	25,052	11,908	(11,447)	5,898		31,411
Stockholders (deficit) equity attributable to HCA Holdings, Inc.	(8,681)	(11,507)	23,251	3,042	(14,786)	(8,681)
Noncontrolling interests			102	1,045		1,147
	(8,681)	(11,507)	23,353	4,087	(14,786)	(7,534)
	$ 16,371	$ 401	$ 11,906	$ 9,985	$ (14,786)	$ 23,877

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, 2010
(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	$ 6	$	$ 156	$ 249	$	$ 411
Accounts receivable, net			2,214	1,618		3,832
Inventories			547	350		897
Deferred income taxes	931					931
Other	202		223	423		848
	1,139		3,140	2,640		6,919
Property and equipment, net			6,817	4,535		11,352
Investments of insurance subsidiary				642		642
Investments in and advances to affiliates			248	621		869
Goodwill			1,635	1,058		2,693
Deferred loan costs	23	351				374
Investments in and advances to subsidiaries	14,282				(14,282)	
Other	776	39	21	167		1,003
	$ 16,220	$ 390	$ 11,861	$ 9,663	$ (14,282)	$ 23,852
LIABILITIES AND STOCKHOLDERS (DEFICIT) EQUITY						
Current liabilities:						
Accounts payable	$	$	$ 919	$ 618	$	$ 1,537
Accrued salaries			556	339		895
Other accrued expenses	12	296	328	609		1,245
Long-term debt due within one year		554	12	26		592

		12		850		1,815		1,592			4,269
Long-term debt		1,525		25,758		95		255			27,633
Intercompany balances		25,985		(16,130)		(12,833)		2,978			
Professional liability risks								995			995
Income taxes and other liabilities		483		425		505		195			1,608
		28,005		10,903		(10,418)		6,015			34,505
Equity securities with contingent redemption rights		141									141
Stockholders (deficit) equity attributable to HCA Holdings, Inc.		(11,926)		(10,513)		22,167		2,628		(14,282)	(11,926)
Noncontrolling interests						112		1,020			1,132
		(11,926)		(10,513)		22,279		3,648		(14,282)	(10,794)
	$	16,220	$	390	$	11,861	$	9,663	$	(14,282)	$ 23,852

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HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (continued)

HCA HOLDINGS, INC.
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2011
(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	$ 469	$ (994)	$ 1,115	$ 568	$ (504)	$ 654
Adjustments to reconcile net income to net cash provided by (used in) operating activities:						
Changes in operating assets and liabilities	4	(24)	(916)	(640)		(1,576)
Provision for doubtful accounts			874	550		1,424
Depreciation and amortization			389	327		716
Income taxes	317					317
Losses (gains) on sales of facilities			15	(14)		1
Loss on retirement of debt		75				75
Amortization of deferred loan costs		39				39
Share-based compensation	16					16
Equity in earnings of affiliates	(504)				504	
Other		6		(6)		
Net cash provided by (used in) operating activities	302	(898)	1,477	785		1,666
Cash flows from investing activities:						
Purchase of property and equipment			(389)	(387)		(776)
Acquisition of hospitals and health care entities			(136)	(32)		(168)
Disposition of hospitals and health care entities			1	53		54
Change in investments			24	52		76
Other				2		2

Net cash used in investing activities			(500)	(312)		(812)
Cash flows from financing activities:						
Net change in revolving bank credit facilities		(1,524)				(1,524)
Repayment of long-term debt		(1,456)	(6)	(46)		(1,508)
Distributions to noncontrolling interests			(41)	(144)		(185)
Distributions to stockholders	(30)					(30)
Changes in intercompany balances with affiliates, net	(2,805)	3,890	(955)	(130)		
Payment of debt issuance costs		(12)				(12)
Issuances of common stock	2,506					2,506
Income tax benefits	49					49
Other	(28)			6		(22)
Net cash (used in) provided by financing activities	(308)	898	(1,002)	(314)		(726)
Change in cash and cash equivalents	(6)		(25)	159		128
Cash and cash equivalents at beginning of period	6		156	249		411
Cash and cash equivalents at end of period	$	$	$ 131	$ 408	$	$ 539

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HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (continued)

HCA HOLDINGS, INC.
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2010
(Dollars in millions)

	HCA Inc. Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Eliminations	Condensed Consolidated
Cash flows from operating activities:					
Net income	$ 681	$ 1,157	$ 572	$ (1,556)	$ 854
Adjustments to reconcile net income to net cash (used in) provided by operating activities:					
Changes in operating assets and liabilities	31	(1,057)	(672)		(1,698)
Provision for doubtful accounts		857	495		1,352
Depreciation and amortization		392	318		710
Income taxes	(111)				(111)
Impairments of long-lived assets		48	61		109
Amortization of deferred loan costs	40				40
Share-based compensation	16				16
Equity in earnings of affiliates	(1,556)			1,556	
Other	23				23
Net cash (used in) provided by operating activities	(876)	1,397	774		1,295
Cash flows from investing activities:					
Purchase of property and equipment		(225)	(311)		(536)
Acquisition of hospitals and health care entities		(21)	(10)		(31)
Disposition of hospitals and health care entities		24	1		25
Change in investments		10	492		502
Other		(1)	(10)		(11)
Net cash (used in) provided by investing activities		(213)	162		(51)
Cash flows from financing activities:					
Issuance of long-term debt	1,387				1,387

Net change in revolving credit facilities	1,329				1,329
Repayment of long-term debt	(1,508)	(11)	(10)		(1,529)
Distributions to noncontrolling interests		(41)	(135)		(176)
Distributions to stockholders	(2,251)				(2,251)
Changes in intercompany balances with affiliates, net	1,893	(1,119)	(774)		
Payment of debt issuance costs	(25)				(25)
Income tax benefits	56				56
Other	(5)		8		3
Net cash provided by (used in) financing activities	876	(1,171)	(911)		(1,206)
Change in cash and cash equivalents		13	25		38
Cash and cash equivalents at beginning of period		95	217		312
Cash and cash equivalents at end of period	$	$ 108	$ 242	$	$ 350

HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 13 SUBSEQUENT EVENTS

On August 1, 2011, we issued $5.000 billion aggregate principal amount of notes, comprised of $3.000 billion of 61/2% senior secured first lien notes due 2020 and $2.000 billion of 71/2% senior unsecured notes due 2022. After the payment of related fees and expenses, we intend to use the net proceeds from these debt issuances to redeem all of our outstanding $1.578 billion 95/8%/103/8% second lien toggle notes due 2016 and all of our outstanding $3.200 billion 91/4% second lien notes due 2016. The pretax debt retirement charge related to these redemptions is expected to be approximately $396 million.

On August 2, 2011, we entered into a definitive Membership Interest Purchase Agreement with The Colorado Health Foundation for the purchase (or redemption) of the Foundation s remaining ownership interest in HCA-HealthONE LLC for $1.45 billion. Subject to regulatory review, the transaction is expected to close in the third quarter of 2011. We intend to fund the purchase price at the closing of the acquisition through amounts available under our revolving credit facility.

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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 all 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, initiat 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 Budget Control Act of 2011 (BCA) and 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) increases in the amount and risk of collectibility of uninsured accounts and deductibles and copayment amounts for insured accounts, (4) the ability to achieve operating and financial targets, and attain expected levels of patient volumes and control the costs of providing services, (5) possible changes in the Medicare, Medicaid and other state programs, including Medicaid supplemental payments pursuant to upper payment limit (UPL) programs, that may impact reimbursements to health care providers and insurers, (6) the highly competitive nature of the health care business, (7) changes in revenue mix, including potential declines in the population covered under managed care agreements and the ability to enter into and renew managed care provider agreements on acceptable terms, (8) the efforts of insurers, health care providers and others to contain health care costs, (9) the outcome of our continuing efforts to monitor, maintain and comply with appropriate laws, regulations, policies and procedures, (10) increases in wages and the ability to attract and retain qualified management and personnel, including affiliated physicians, nurses and medical and technical support personnel, (11) the availability and terms of capital to fund the expansion of our business and improvements to our existing facilities, (12) changes in accounting practices, (13) changes in general economic conditions nationally and regionally in our markets, (14) future divestitures which may result in charges and possible impairments of long-lived assets, (15) changes in business strategy or development plans, (16) delays in receiving payments for services provided, (17) the outcome of pending and any future tax audits, appeals and litigation associated with our tax positions, (18) potential adverse impact of known and unknown government investigations, litigation and other claims that may be made against us, (19) our ability to demonstrate meaningful use of certified electronic health record technology and recognize revenues for the related Medicare or Medicaid incentive payments, and (20) other risk factors described in our annual report on Form 10-K for the year ended December 31, 2010 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, reductions in

Medicare and Medicaid Disproportionate Share Hospital payments, and the establishment of programs in which reimbursement is tied to quality and integration. In addition, the Health Reform Law reforms certain aspects of health insurance, expands existing efforts to tie Medicare and Medicaid payments to performance and quality, and contains provisions intended to strengthen fraud and abuse enforcement.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Second Quarter 2011 Operations Summary

Net income attributable to HCA Holdings, Inc. totaled $229 million, or $0.43 per diluted share, for the quarter ended June 30, 2011, compared to $293 million, or $0.67 per diluted share, for the quarter ended June 30, 2010. Revenues increased to $8.063 billion in the second quarter of 2011 from $7.756 billion in the second quarter of 2010. Second quarter 2011 results include a loss on retirement of debt of $75 million, or $0.08 per diluted share. Second quarter 2010 results include impairments of long-lived assets of $91 million, or $0.13 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 538.6 million shares for the quarter ended June 30, 2011 and 437.1 million shares for the quarter ended June 30, 2010. During March 2011, we completed the initial public offering of 87,719,300 shares of our common stock.

Revenues increased 4.0% on a consolidated basis and increased 2.4% on a same facility basis for the quarter ended June 30, 2011, compared to the quarter ended June 30, 2010. The increase in consolidated revenues can be attributed primarily to the combined impact of a 0.5% increase in revenue per equivalent admission and a 3.4% increase in equivalent admissions. The same facility revenues increase resulted primarily from the combined impact of a 0.5% increase in same facility revenue per equivalent admission and a 1.9% increase in same facility equivalent admissions. We experienced a shift in service mix from more complex surgical cases to less acute medical cases, resulting in lower than anticipated revenue growth for the quarter ended June 30, 2011. Revenues for the second quarter of 2011 included $39 million of Medicaid incentive revenues related to certain of our hospitals completing attestations to their adoption or implementation of certified electronic health record technology.

During the quarter ended June 30, 2011, consolidated admissions and same facility admissions increased 3.2% and 1.8%, respectively, compared to the quarter ended June 30, 2010. Inpatient surgeries declined 1.3% on a consolidated basis and 1.5% on a same facility basis during the quarter ended June 30, 2011, compared to the quarter ended June 30, 2010. Outpatient surgeries increased 0.3% on a consolidated basis and declined 0.6% on a same facility basis during the quarter ended June 30, 2011, compared to the quarter ended June 30, 2010. Emergency department visits increased 5.3% on a consolidated basis and 4.5% on a same facility basis during the quarter ended June 30, 2011, compared to the quarter ended June 30, 2010.

For the quarter ended June 30, 2011, the provision for doubtful accounts declined $13 million to 9.6% of revenues from 10.2% of revenues for the quarter ended June 30, 2010. The self-pay revenue deductions for charity care and uninsured discounts increased $58 million and $270 million, respectively, during the second quarter of 2011, compared to the second quarter of 2010. The sum of the provision for doubtful accounts, uninsured discounts and charity care, as a percentage of the sum of revenues, uninsured discounts and charity care, was 27.6% for the second quarter of 2011, compared to 26.1% for the second quarter of 2010. Same facility uninsured admissions increased 10.6% and same facility uninsured emergency room visits increased 3.7% for the quarter ended June 30, 2011, compared to the quarter ended June 30, 2010.

Interest expense declined $10 million to $520 million for the quarter ended June 30, 2011 from $530 million for the quarter ended June 30, 2010. The decline in interest expense was due to a decline in the average debt balance.

Cash flows from operating activities increased $312 million from $436 million for the second quarter of 2010 to $748 million for the second quarter of 2011. The increase related primarily to lower income tax payments during the second quarter of 2011.

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,

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Results of Operations (continued)

Revenue/Volume Trends (continued)

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 a historical collection experience) related to uninsured patients in the period the services are provided.

Revenues increased 4.0% from $7.756 billion in the second quarter of 2010 to $8.063 billion in the second quarter of 2011. Revenues are recorded during the period the health care services are provided, based upon the estimated amounts due from the patients and third-party payers. Third-party payers include federal and state agencies (under the Medicare and Medicaid programs), managed care health plans, commercial insurance companies and employers. Estimates of contractual allowances under managed care health plans are based upon the payment terms specified in the related contractual agreements. Revenues related to uninsured patients and copayment and deductible amounts for patients who have health care coverage may have discounts applied (uninsured discounts and contractual discounts). We also record a provision for doubtful accounts related to uninsured accounts to record the net self pay accounts receivable at the estimated amounts we expect to collect. Our revenues from our third party payers and the uninsured for quarters and six months ended June 30, 2011 and 2010 are summarized in the following tables (dollars in millions):

	Quarter			
	2011	**Ratio**	**2010**	**Ratio**
Medicare	**$ 1,871**	**23.2%**	$ 1,824	23.5%
Managed Medicare	**584**	**7.3**	549	7.1
Medicaid	**479**	**5.9**	511	6.6
Managed Medicaid	**316**	**3.9**	281	3.6
Managed care and other insurers	**3,916**	**48.6**	3,733	48.2
International (managed care and other insurers)	**233**	**2.9**	193	2.5
	7,399	**91.8**	7,091	91.5
Uninsured	**492**	**6.1**	523	6.7
Other	**172**	**2.1**	142	1.8
Revenues	**$ 8,063**	**100.0%**	$ 7,756	100.0%

	Six Months			
	2011	**Ratio**	**2010**	**Ratio**

Medicare	**$ 3,871**	**24.0%**	$ 3,675	24.0%
Managed Medicare	**1,196**	**7.4**	1,099	7.2
Medicaid	**987**	**6.1**	989	6.5
Managed Medicaid	**635**	**3.9**	578	3.8
Managed care and other insurers	**7,772**	**48.2**	7,445	48.7
International (managed care and other insurers)	**466**	**2.9**	382	2.5
	14,927	**92.5**	14,168	92.7
Uninsured	**882**	**5.5**	870	5.7
Other	**309**	**2.0**	262	1.6
Revenues	**$ 16,118**	**100.0%**	$ 15,300	100.0%

Consolidated and same facility revenue per equivalent admission each increased 0.5% in the second quarter of 2011, compared to the second quarter of 2010. Consolidated and same facility equivalent admissions increased 3.4% and 1.9%, respectively, in the second quarter of 2011, compared to the second quarter of 2010. Consolidated and same facility admissions increased 3.2% and 1.8%, respectively, in the second quarter of 2011, compared to 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)

second quarter of 2010. Consolidated and same facility outpatient surgeries increased 0.3% and declined 0.6%, respectively, in the second quarter of 2011, compared to the second quarter of 2010. Consolidated and same facility inpatient surgeries declined 1.3% and 1.5%, respectively, in the second quarter of 2011, compared to the second quarter of 2010. Consolidated and same facility emergency department visits increased 5.3% and 4.5%, respectively, in the second quarter of 2011, compared to the second quarter of 2010.

To quantify the total impact of and trends related to uninsured accounts, we believe it is beneficial to view the uninsured revenue deductions and provision for doubtful accounts in combination, rather than each separately. A summary of these amounts for the quarters and six months ended June 30, 2011 and 2010 follows (dollars in millions):

	Quarter				Six Months			
	2011	**Ratio**	**2010**	**Ratio**	**2011**	**Ratio**	**2010**	**Ratio**
Provision for doubtful accounts	**$ 775**	**28%**	$ 788	32%	**$ 1,424**	**27%**	$ 1,352	29%
Uninsured discounts	**1,342**	**48**	1,072	44	**2,615**	**49**	2,107	46
Charity care	**657**	**24**	599	24	**1,292**	**24**	1,144	25
Totals	**$ 2,774**	**100%**	$ 2,459	100%	**$ 5,331**	**100%**	$ 4,603	100%

Same facility uninsured admissions increased by 2,756 admissions, or 10.6%, in the second quarter of 2011, compared to the second quarter of 2010. Same facility uninsured admissions increased by 4.7% in the first quarter of 2011, compared to the first quarter of 2010. Same facility uninsured admissions in 2010, compared to 2009, increased 8.9% in the fourth quarter of 2010, increased 3.9% in the third quarter of 2010, increased 2.1% in the second quarter of 2010 and increased 6.8% in the first quarter of 2010.

The approximate percentages of our admissions related to Medicare, managed Medicare, Medicaid, managed Medicaid, managed care and other insurers and the uninsured for the quarters and six months ended June 30, 2011 and 2010 are set forth in the following table.

	Quarter		Six Months	
	2011	**2010**	**2011**	**2010**
Medicare	**35%**	34%	**35%**	35%
Managed Medicare	**11**	10	**11**	10
Medicaid	**9**	9	**9**	9

Managed Medicaid	**7**	7	**7**	7
Managed care and other insurers	**31**	33	**31**	32
Uninsured	**7**	7	**7**	7
	100%	100%	**100%**	100%

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Results of Operations (continued)

Revenue/Volume Trends (continued)

The approximate percentages of our inpatient revenues related to Medicare, managed Medicare, Medicaid, managed Medicaid, managed care and other insurers and the uninsured for the quarters and six months ended June 30, 2011 and 2010 are set forth in the following table.

	Quarter		Six Months	
	2011	2010	2011	2010
Medicare	**31%**	31%	**32%**	32%
Managed Medicare	**9**	9	**9**	9
Medicaid	**9**	9	**9**	9
Managed Medicaid	**4**	4	**4**	4
Managed care and other insurers	**44**	43	**44**	43
Uninsured	**3**	4	**2**	3
	100%	100%	**100%**	100%

At June 30, 2011, we had 75 hospitals in the states of Texas and Florida. During the second quarter of 2011, 57% of our admissions and 51% of our revenues were generated by these hospitals. Uninsured admissions in Texas and Florida represented 64% of our uninsured admissions during the second quarter of 2011.

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. Additional indigent care provided by private hospitals allows public hospital districts or counties in Texas to have funds available 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. Such payments must be within the federal UPL established by federal regulation. Our Texas Medicaid revenues included $134 million and $167 million during the second quarters of 2011 and 2010, respectively, and $301 million and $336 million during the first six months of 2011 and 2010, respectively, of Medicaid supplemental payments pursuant to UPL programs. 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 & 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. 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.

The American Recovery and Reinvestment Act of 2009 provides for Medicare and Medicaid incentive payments beginning in 2011 for eligible hospitals and professionals that adopt and meaningfully use certified electronic health record (EHR) technology. We will recognize revenues related to the Medicare or Medicaid incentive payments as we are able to complete attestations as to our eligible hospitals adopting, implementing or demonstrating meaningful use of certified EHR technology. We recognized $39 million of revenues related to Medicaid incentive programs in certain states during the second quarter of 2011 and expect to recognize revenues for additional state programs during the third and fourth quarters of 2011. We estimate that during 2011 the amount

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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)

of Medicare and Medicaid incentive payments realizable (and revenues recognized) will be in the range of $290 million to $340 million. We estimate that approximately 80% of our total expected incentive payments for 2011 relate to Medicare incentives, and we expect to recognize the applicable revenues primarily during the fourth quarter of 2011. Actual incentive payments could vary from these estimates due to certain factors such as availability of federal funding for both Medicare and Medicaid incentive payments, timing of the approval of state Medicaid incentive payment plans by CMS and our ability to implement and demonstrate meaningful use of certified EHR technology. 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 will not correlate with the receipt of the incentive payments and the recognition of revenues. We estimate that operating expenses to implement our certified EHR technology and meet meaningful use will be in the range of $100 million to $125 million for 2011. Actual operating expenses could vary from these estimates. For the second quarter and first six months of 2011, we incurred $24 million and $44 million, respectively, of operating expenses to implement our certified EHR technology and meet meaningful use. There can be no assurance that we will be able to demonstrate meaningful use of certified EHR technology, and the failure to do so 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 are comparative summaries of results from operations for the quarters and six months ended June 30, 2011 and 2010 (dollars in millions):

	Quarter			
	2011		2010	
	Amount	Ratio	Amount	Ratio
Revenues	**$ 8,063**	**100.0**	$ 7,756	100.0
Salaries and benefits	**3,320**	**41.2**	3,076	39.6
Supplies	**1,295**	**16.1**	1,251	16.1
Other operating expenses	**1,326**	**16.4**	1,226	15.9
Provision for doubtful accounts	**775**	**9.6**	788	10.2
Equity in earnings of affiliates	**(73)**	**(0.9)**	(75)	(1.0)
Depreciation and amortization	**358**	**4.5**	355	4.6
Interest expense	**520**	**6.4**	530	6.8
Impairments of long-lived assets			91	1.2
Loss on retirement of debt	**75**	**0.9**		
	7,596	**94.2**	7,242	93.4
Income before income taxes	**467**	**5.8**	514	6.6
Provision for income taxes	**147**	**1.8**	136	1.7
Net income	**320**	**4.0**	378	4.9
Net income attributable to noncontrolling interests	**91**	**1.2**	85	1.1
Net income attributable to HCA Holdings, Inc.	**$ 229**	**2.8**	$ 293	3.8
% changes from prior year:				
Revenues	**4.0%**		3.7%	
Income before income taxes	**(9.2)**		(2.2)	
Net income attributable to HCA Holdings, Inc.	**(21.5)**		3.4	
Admissions(a)	**3.2**		(0.6)	
Equivalent admissions(b)	**3.4**		1.3	
Revenue per equivalent admission	**0.5**		2.3	
Same facility % changes from prior year(c):				
Revenues	**2.4**		3.8	
Admissions(a)	**1.8**		(0.3)	
Equivalent admissions(b)	**1.9**		1.6	

Revenue per equivalent admission	**0.5**	2.2

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Results of Operations (continued)

Operating Results Summary (continued)

	Six Months			
	2011		2010	
	Amount	Ratio	Amount	Ratio
Revenues	**$ 16,118**	**100.0**	$ 15,300	100.0
Salaries and benefits	**6,615**	**41.0**	6,148	40.2
Supplies	**2,570**	**15.9**	2,451	16.0
Other operating expenses	**2,648**	**16.5**	2,428	15.9
Provision for doubtful accounts	**1,424**	**8.8**	1,352	8.8
Equity in earnings of affiliates	**(149)**	**(0.9)**	(143)	(0.9)
Depreciation and amortization	**716**	**4.5**	710	4.7
Interest expense	**1,053**	**6.5**	1,046	6.8
Losses on sales of facilities	**1**			
Impairments of long-lived assets			109	0.7
Loss on retirement of debt	**75**	**0.5**		
Termination of management agreement	**181**	**1.1**		
	15,134	**93.9**	14,101	92.2
Income before income taxes	**984**	**6.1**	1,199	7.8
Provision for income taxes	**330**	**2.0**	345	2.2
Net income	**654**	**4.1**	854	5.6
Net income attributable to noncontrolling interests	**185**	**1.2**	173	1.1
Net income attributable to HCA Holdings, Inc.	**$ 469**	**2.9**	$ 681	4.5
% changes from prior year:				
Revenues	**5.3%**		2.6%	
Income before income taxes	**(18.0)**		4.7	
Net income attributable to HCA Holdings, Inc.	**(31.1)**		6.0	
Admissions(a)	**2.6**		0.1	
Equivalent admissions(b)	**3.6**		1.1	
Revenue per equivalent admission	**1.7**		1.5	
Same facility % changes from prior year(c):				
Revenues	**4.1**		2.7	
Admissions(a)	**1.7**		0.3	
Equivalent admissions(b)	**2.6**		1.3	

Revenue per equivalent admission	**1.5**	1.3

(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)

Operating Results Summary (continued)

Supplemental Non-GAAP Disclosures
Operating Measures on a Cash Revenues Basis
(Dollars in millions)

The results from operations presented on a cash revenues basis for the quarters and six months ended June 30, 2011 and 2010 follow:

	Quarter					
	2011			2010		
	Amount	Non-GAAP % of Cash Revenues Ratios(b)	GAAP % of Revenues Ratios(b)	Amount	Non-GAAP % of Cash Revenues Ratios(b)	GAAP % of Revenues Ratios(b)
Revenues	**$ 8,063**		**100.0**	$ 7,756		100.0
Provision for doubtful accounts	**775**			788		
Cash revenues(a)	**7,288**	**100.0**		6,968	100.0	
Salaries and benefits	**3,320**	**45.5**	**41.2**	3,076	44.1	39.6
Supplies	**1,295**	**17.8**	**16.1**	1,251	17.9	16.1
Other operating expenses	**1,326**	**18.2**	**16.4**	1,226	17.7	15.9
% changes from prior year:						
Revenues	**4.0%**			3.7%		
Cash revenues	**4.6**			5.3		
Revenue per equivalent admission	**0.5**			2.3		
Cash revenue per equivalent admission	**1.1**			4.0		

	Six Months					
	2011			2010		
		Non-GAAP % of Cash Revenues	GAAP % of Revenues		Non-GAAP % of Cash Revenues	GAAP % of Revenues

	Amount	Ratios(b)	Ratios(b)	Amount	Ratios(b)	Ratios(b)
Revenues	**$ 16,118**		**100.0**	$ 15,300		100.0
Provision for doubtful accounts	**1,424**			1,352		
Cash revenues(a)	**14,694**	**100.0**		13,948	100.0	
Salaries and benefits	**6,615**	**45.0**	**41.0**	6,148	44.1	40.2
Supplies	**2,570**	**17.5**	**15.9**	2,451	17.6	16.0
Other operating expenses	**2,648**	**18.0**	**16.5**	2,428	17.3	15.9
% changes from prior year:						
Revenues	**5.3%**			2.6%		
Cash revenues	**5.3**			5.3		
Revenue per equivalent admission	**1.7**			1.5		
Cash revenue per equivalent admission	**1.7**			4.2		

(a) Cash revenues is defined as reported revenues less the provision for doubtful accounts. We use cash revenues as an analytical indicator for purposes of assessing the effect of uninsured patient volumes, adjusted for the effect of both the revenue deductions related to uninsured accounts (charity care and uninsured discounts) and the provision for doubtful accounts (which relates primarily to uninsured accounts), on our revenues and certain operating expenses, as a percentage of cash revenues. During the second quarter and first six months of 2011, uninsured discounts increased $270 million and $508 million, respectively, charity care increased $58 million and $148 million, respectively, and the provision for doubtful accounts declined $13 million and increased $72 million, respectively, compared to the same periods for 2010. Cash revenues is commonly used as an analytical indicator within the health care industry. Cash revenues should not be considered as a measure of financial performance under generally accepted accounting principles (GAAP). Because cash revenues is not a measurement determined in accordance with GAAP and is thus susceptible to varying calculations, cash revenues, as presented, may not be comparable to other similarly titled measures of other health care companies.

(b) Salaries and benefits, supplies and other operating expenses, as a percentage of cash revenues (a non-GAAP financial measure), present the impact on these ratios due to the adjustment of deducting the provision for doubtful accounts from reported revenues and results in these ratios being non-GAAP financial measures. We believe these non-GAAP financial measures are useful to investors to provide disclosures of our results of operations on the same basis as that used by management. Management uses this information to compare certain operating expense categories as a percentage of cash revenues. Management finds this information useful to evaluate certain expense category trends without the influence of whether adjustments related to revenues for uninsured accounts are recorded as revenue adjustments (charity care and uninsured discounts) or operating expenses (provision for doubtful accounts), and thus the expense category trends are generally analyzed as a percentage of cash revenues. These non-GAAP financial measures should not be considered alternatives to GAAP financial measures. We believe this supplemental information provides management and the users of our financial statements with useful information for period-to-period comparisons. Investors are encouraged to use GAAP measures when evaluating our overall financial performance.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Results of Operations (continued)

Quarters Ended June 30, 2011 and 2010

Net income attributable to HCA Holdings, Inc. totaled $229 million, or $0.43 per diluted share, for the second quarter of 2011 compared to $293 million, or $0.67 per diluted share, for the second quarter of 2010. Second quarter 2011 results include a loss on retirement of debt of $75 million, or $0.08 per diluted share. Second quarter 2010 results include impairments of long-lived assets of $91 million, or $0.13 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 538.6 million shares for the quarter ended June 30, 2011 and 437.1 million shares for the quarter ended June 30, 2010.

Revenues increased 4.0% due to the combined impact of revenue per equivalent admission growth of 0.5% and an increase of 3.4% in equivalent admissions for the second quarter of 2011 compared to the second quarter of 2010. Cash revenues (reported revenues less the provision for doubtful accounts) increased 4.6% for the second quarter of 2011 compared to the second quarter of 2010. Revenues for the second quarter of 2011 included $39 million of Medicaid incentive revenues related to certain of our hospitals completing attestations to their adoption or implementation of certified electronic health record technology.

For the second quarter of 2011, consolidated and same facility admissions increased 3.2% and 1.8%, respectively, compared to the second quarter of 2010. Consolidated and same facility outpatient surgical volumes increased 0.3% and declined 0.6%, respectively, during the second quarter of 2011, compared to the second quarter of 2010. Consolidated and same facility inpatient surgeries declined 1.3% and 1.5%, respectively, in the second quarter of 2011, compared to the second quarter of 2010. Consolidated and same facility emergency department visits increased 5.3% and 4.5%, respectively, during the quarter ended June 30, 2011, compared to the quarter ended June 30, 2010.

Salaries and benefits, as a percentage of revenues, were 41.2% in the second quarter of 2011 and 39.6% in the second quarter of 2010. Salaries and benefits, as a percentage of cash revenues, were 45.5% in the second quarter of 2011 and 44.1% in the second quarter of 2010. Salaries and benefits per equivalent admission increased 4.4% in the second quarter of 2011 compared to the second quarter of 2010. Same facility labor rate increases averaged 2.7% for the second quarter of 2011 compared to the second quarter of 2010.

Supplies, as a percentage of revenues, were 16.1% in each of the second quarters of 2011 and 2010. Supplies, as a percentage of cash revenues, were 17.8% in the second quarter of 2011 and 17.9% in the second quarter of 2010. Supply cost per equivalent admission increased 0.1% in the second quarter of 2011 compared to the second quarter of 2010. Supply costs per equivalent admission increased 1.5% for pharmacy supplies, 3.4% for blood products and 3.4% for general medical and surgical items and declined 2.1% for medical devices in the second quarter of 2011 compared to the second quarter of 2010.

Other operating expenses, as a percentage of revenues, increased to 16.4% in the second quarter of 2011 from 15.9% in the second quarter of 2010. Other operating expenses, as a percentage of cash revenues, increased to 18.2% in the second quarter of 2011 from 17.7% in the second quarter of 2010. 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 $79 million and $91 million of indigent care costs in certain Texas markets during the second quarters of 2011 and 2010, respectively. Provisions for losses related to professional liability risks were $60 million and $55 million for the second quarters of 2011 and 2010, respectively.

Provision for doubtful accounts declined $13 million from $788 million in the second quarter of 2010 to $775 million in the second quarter of 2011, and as a percentage of revenues, declined to 9.6% in the second quarter of 2011 from 10.2% in the second quarter of 2010. The provision for doubtful accounts and the allowance for doubtful accounts relate primarily to uninsured amounts due directly from patients. The combined self-pay revenue deductions for charity care and uninsured discounts increased $58 million and $270 million, respectively, during the

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Results of Operations (continued)

Quarters Ended June 30, 2011 and 2010 (continued)

second quarter of 2011, compared to the second quarter of 2010. The sum of the provision for doubtful accounts, uninsured discounts and charity care, as a percentage of the sum of revenues, uninsured discounts and charity care, was 27.6% for the second quarter of 2011, compared to 26.1% for the second quarter of 2010. To quantify the total impact of and trends related to uninsured accounts, we believe it is beneficial to review the related revenue deductions and the provision for doubtful accounts in combination, rather than separately. At June 30, 2011, our allowance for doubtful accounts represented approximately 93% of the $4.248 billion total patient due accounts receivable balance. The patient due accounts receivable balance represents the estimated uninsured portion of our accounts receivable.

Equity in earnings of affiliates was $73 million and $75 million in the second quarters of 2011 and 2010, respectively. Equity in earnings of affiliates relates primarily to our Denver, Colorado market joint venture.

Depreciation and amortization increased $3 million, from $355 million in the second quarter of 2010 to $358 million in the second quarter of 2011.

Interest expense declined from $530 million in the second quarter of 2010 to $520 million in the second quarter of 2011 due primarily to a decline in the average debt balance. Our average debt balance was $25.437 billion for the second quarter of 2011 compared to $26.966 billion for the second quarter of 2010. The average effective interest rate for our long term debt increased from 7.9% for the quarter ended June 30, 2010 to 8.2% for the quarter ended June 30, 2011.

During the second quarter of 2010, we recorded impairments of long-lived assets of $91 million, comprised of impairment charges of $56 million for a hospital facility and $35 million for capitalized engineering and design costs related to certain building safety requirements (California earthquake standards) that have been revised, to adjust the carrying values to estimated fair value. There were no impairments of long-lived assets during the second quarter of 2011.

During the second quarter of 2011, we recorded a loss on retirement of debt of $75 million related to the redemptions of all $1.000 billion aggregate principal amount of our 91/8% Senior Secured Notes due 2014, at a redemption price of 104.563% of the principal amount, and $108 million aggregate principal amount of our 97/8% Senior Secured Notes due 2017, at a redemption price of 109.875% of the principal amount.

The effective tax rates were 39.1% and 31.8% for the second quarters of 2011 and 2010, respectively. The effective tax rate computations exclude net income attributable to noncontrolling interests as it relates to consolidated partnerships. Our provision for income taxes for the second quarter of 2010 was reduced by $37 million related to reductions in interest expense related to taxing authority examinations. Excluding the effect of this adjustment, the effective tax rate for the second quarter of 2010 would have been 40.5%.

Net income attributable to noncontrolling interests increased from $85 million for the second quarter of 2010 to $91 million for the second quarter of 2011.

Six Months Ended June 30, 2011 and 2010

Net income attributable to HCA Holdings, Inc. totaled $469 million, or $0.94 per diluted share, in the six months ended June 30, 2011 compared to $681 million, or $1.56 per diluted share, in the six months ended June 30, 2010. A large component of the $212 million decline in net income attributable to HCA Holdings, Inc. in the six months ended June 30, 2011, compared to the six months ended June 30, 2010, relates to the termination of management agreement charge of $181 million (pretax), or $149 million (net of taxes) and $0.30 per diluted share, in the six months ended June 30, 2011. Revenues increased 5.3% due to the combined impact of revenue per equivalent admission growth of 1.7% and an increase of 3.6% in equivalent admissions for the first six months of

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Results of Operations (continued)

Six Months Ended June 30, 2011 and 2010 (continued)

2011 compared to the first six months of 2010. Cash revenues (reported revenues less the provision for doubtful accounts) increased 5.3% in the six months ended June 30, 2011 compared to the six months ended June 30, 2010.

For the first six months of 2011, consolidated and same facility admissions increased 2.6% and 1.7%, respectively, compared to the first six months of 2010. Consolidated and same facility outpatient surgical volumes increased 0.7% and 0.1%, respectively, during the first six months of 2011, compared to the first six months of 2010. Consolidated and same facility inpatient surgeries declined 1.8% and 2.0%, respectively, in the first six months of 2011, compared to the first six months of 2010. Consolidated and same facility emergency department visits increased 8.4% and 7.8%, respectively, during the six months ended June 30, 2011, compared to the six months ended June 30, 2010.

Salaries and benefits, as a percentage of revenues, were 41.0% in the first six months of 2011 and 40.2% in the first six months of 2010. Salaries and benefits, as a percentage of cash revenues, were 45.0% in the first six months of 2011 and 44.1% in the first six months of 2010. Salaries and benefits per equivalent admission increased 3.9% in the first six months of 2011 compared to the first six months of 2010. Same facility labor rate increases averaged 2.8% for the first six months of 2011 compared to the first six months of 2010.

Supplies, as a percentage of revenues, were 15.9% in the first six months of 2011 and 16.0% in the first six months of 2010. Supplies, as a percentage of cash revenues, were 17.5% in first six months of 2011 and 17.6% in the first six months of 2010. Supply cost per equivalent admission increased 1.3% in the first six months of 2011 compared to the first six months of 2010. Supply costs per equivalent admission increased 1.0% for pharmacy supplies, 0.8% for blood products and 4.4% for general medical and surgical items and declined 1.5% for medical devices in the first six months of 2011 compared to the first six months of 2010.

Other operating expenses, as a percentage of revenues, increased to 16.5% in the first six months of 2011 from 15.9% in the first six months of 2010. Other operating expenses, as a percentage of cash revenues, increased to 18.0% in the first six months of 2011 from 17.3% in the first six months of 2010. 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 $170 million and $181 million of indigent care costs in certain Texas markets during the first six months of 2011 and 2010, respectively. Provisions for losses related to professional liability risks were $121 million and $111 million for the first six months of 2011 and 2010, respectively.

Provision for doubtful accounts increased $72 million from $1.352 billion in the first six months of 2010 to $1.424 billion in the first six months of 2011, and as a percentage of revenues, remained 8.8% in each of the first six months of 2011 and 2010. The provision for doubtful accounts and the allowance for doubtful accounts relate primarily to uninsured amounts due directly from patients. The combined self-pay revenue deductions for charity care and uninsured discounts increased $148 million and $508 million, respectively, during the first six months of 2011, compared to the first six months of 2010. The sum of the provision for doubtful accounts, uninsured discounts and charity care, as a percentage of the sum of revenues, uninsured discounts and charity care, was 26.6% for the first six months of 2011, compared to 24.8% for the first six months of 2010. To quantify the total impact of and trends related to uninsured accounts, we believe it is beneficial to review the related revenue deductions and the provision for doubtful accounts in combination, rather than separately. At June 30, 2011, our allowance for doubtful accounts represented approximately 93% of the $4.248 billion total patient due accounts receivable balance. The patient due accounts receivable balance represents the estimated uninsured portion of our accounts receivable.

Equity in earnings of affiliates was $149 million and $143 million in the first six months of 2011 and 2010, respectively. Equity in earnings of affiliates relates primarily to our Denver, Colorado market joint venture.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Results of Operations (continued)

Six Months Ended June 30, 2011 and 2010 (continued)

Depreciation and amortization increased $6 million, from $710 million in the first six months of 2010 to $716 million in the first six months of 2011.

Interest expense increased from $1.046 billion in the first six months of 2010 to $1.053 billion in the first six months of 2011 due primarily to an increase in the average effective interest rate. Our average debt balance was $26.544 billion for the first six months of 2011 compared to $26.609 billion for the first six months of 2010. The average effective interest rate for our long term debt increased from 7.9% for the first six months of 2010 to 8.0% for the first six months of 2011.

During the first six months of 2011, we recorded net losses on sales of facilities of $1 million. During the first six months of 2010, no gains or losses on sales of facilities were recognized.

During the first six months of 2010, we recorded impairments of long-lived assets of $109 million, including impairment charges of $56 million for a hospital facility and $35 million for capitalized engineering and design costs related to certain building safety requirements (California earthquake standards) that have been revised, to adjust the carrying values to estimated fair value. There were no impairments of long-lived assets during the first six months of 2011.

During the first six months of 2011, we recorded a loss on retirement of debt of $75 million related to the redemptions of all $1.000 billion aggregate principal amount of our 91/8% Senior Secured Notes due 2014, at a redemption price of 104.563% of the principal amount, and $108 million aggregate principal amount of our 97/8% Senior Secured Notes due 2017, at a redemption price of 109.875% of the principal amount.

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

The effective tax rates were 41.3% and 33.7% for the first six months of 2011 and 2010, respectively. The effective tax rate computations exclude net income attributable to noncontrolling interests as it relates to consolidated partnerships. Our provision for income taxes for the first six months of 2011 and 2010 was increased by $16 million and reduced by $47 million, respectively, related to adjustments to our liability for unrecognized tax benefits, including reductions in interest expense related to taxing authority examinations. Our provision for income taxes for the first six months of 2010 declined by $47 million related to reductions in interest expense related to taxing authority examinations. Excluding the effect of these adjustments, the effective tax rates for the first six months of 2011 and 2010 would have been 39.3% and 38.2%, respectively.

Net income attributable to noncontrolling interests increased from $173 million for the first six months of 2010 to $185 million for the first six months of 2011.

Liquidity and Capital Resources

Cash provided by operating activities totaled $1.666 billion in the first six months of 2011 compared to $1.295 billion in the first six months of 2010. The $371 million increase in cash provided by operating activities in the first six months of 2011 compared to the first six months of 2010 related primarily to the combined impact of positive cash flows from changes in working capital items and income tax payments (refunds) exceeding the decline in net income, which was primarily due to the termination of management agreement charge. The combined interest payments and net tax payments (refunds) in the first six months of 2011 and 2010 were $1.007 billion and $1.373 billion, respectively. Working capital totaled $2.613 billion at June 30, 2011 and $2.650 billion at December 31, 2010.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Liquidity and Capital Resources (continued)

Cash used in investing activities was $812 million in the first six months of 2011 compared to $51 million in the first six months of 2010. Excluding acquisitions, capital expenditures were $776 million in the first six months of 2011 and $536 million in the first six months of 2010. We expended $136 million for the acquisition of a hospital facility and $32 million to acquire nonhospital health care facilities during the first six months of 2011. We paid $31 million for acquisitions of nonhospital health care facilities during the first six months of 2010. Capital expenditures are expected to approximate $1.6 billion in 2011. At June 30, 2011, there were projects under construction which had estimated additional costs to complete and equip over the next five years of approximately $1.710 billion. We expect to finance capital expenditures with internally generated and borrowed funds. We received $54 million and $25 million from sales of hospitals and health care entities during the first six months of 2011 and 2010, respectively. We received net cash flows from our investments of $76 million and $502 million in the first six months of 2011 and 2010, respectively. During the first six months of 2010, we liquidated certain investments of the insurance subsidiary in order to distribute $500 million of excess capital to the Company.

Cash used in financing activities totaled $726 million during the first six months of 2011 compared to $1.206 billion during the first six months of 2010. During the first six months of 2011, net cash flows used in financing activities included reductions in net borrowings of $3.032 billion, net proceeds of $2.506 billion related to the issuance of common stock in conjunction with our initial public offering, distributions to noncontrolling interests of $185 million, distributions to stockholders of $30 million, payments of debt issuance costs of $12 million and receipts of $49 million of income tax benefits for certain items (primarily related to our stock options). During the first six months of 2010, cash flows used in financing activities included payment of cash distributions to stockholders of $2.251 billion ($4.99 per common share), increases in net borrowings of $1.187 billion, payments of debt issuance costs of $25 million, distributions to noncontrolling interests of $176 million and receipts of $56 million of income tax benefits million 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 $25.320 billion at June 30, 2011. Our interest expense was $1.053 billion for the first six months of 2011 and $1.046 billion for the first six months of 2010. The increase in interest expense is due primarily to an increase in the average effective interest rate.

In addition to cash flows from operations, available sources of capital include amounts available under our senior secured credit facilities ($2.854 billion and $3.024 billion available as of June 30, 2011 and July 31, 2011, respectively) and anticipated access to public and private debt markets.

On May 4, 2011, we completed amendments to our senior secured credit agreement and senior secured asset-based revolving credit agreement, as well as extensions of certain of our term loans. The amendments extend approximately $594 million of our term loan A facility with a final maturity of November 2012 to a final maturity of May 2016 and approximately $2.373 billion of our term loan A and term loan B-1 facilities with final maturities of November 2012 and November 2013, respectively, to a final maturity of May 2018.

On June 2, 2011, we redeemed all $1.000 billion aggregate principal amount of our 91/8% Senior Secured Notes due 2014, at a redemption price of 104.563% of the principal amount, and $108 million aggregate principal amount of our 97/8% Senior Secured Notes due 2017, at a redemption price of 109.875% of the principal amount. The pretax loss on retirement of debt related to these redemptions was $75 million.

On August 1, 2011, we issued $5.000 billion aggregate principal amount of notes, comprised of $3.000 billion of 61/2% senior secured first lien notes due 2020 and $2.000 billion of 71/2% senior unsecured notes due 2022. After the payment of related fees and expenses, we intend to use the net proceeds from these debt issuances to redeem all of our outstanding $1.578 billion 95/8%/103/8% second lien toggle notes due 2016 and all of our outstanding $3.200 billion 91/4% second lien notes due 2016. The pretax debt retirement charge related to these redemptions is expected to be approximately $396 million.

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 subsidiary, to maintain statutory equity and pay claims, totaled $725 million and $742 million at June 30, 2011 and December 31, 2010, respectively. The insurance subsidiary maintained net reserves for professional liability risks of $423 million and $452 million at June 30, 2011 and December 31, 2010, respectively. Our facilities are insured by our 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 $818 million and $796 million at June 30, 2011 and December 31, 2010, respectively. Claims payments, net of reinsurance recoveries, during the next 12 months are expected to approximate $275 million. We estimate that approximately $180 million of the expected net claim payments during the next 12 months will relate to claims in 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 subsidiary were $717 million and $8 million, respectively, at June 30, 2011. These investments are carried at fair value, with changes in unrealized gains and losses being recorded as adjustments to other comprehensive income. At June 30, 2011, we had a net unrealized gain of $8 million on the insurance subsidiary s investment securities.

We are exposed to market risk related to market illiquidity. Liquidity of the investments in debt and equity securities of our wholly-owned insurance subsidiary could be impaired by the inability to access the capital markets. Should the wholly-owned insurance subsidiary 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 June 30, 2011, our wholly-owned insurance subsidiary had invested $149 million ($152 million par value) in tax-exempt student loan auction rate securities that continue to experience market illiquidity. It is uncertain if auction-related market liquidity will resume for these securities. We may be required to recognize other-than-temporary impairments on these long-term investments 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 $1.524 billion of long-term debt at June 30, 2011 was subject to variable rates of interest, while the remaining balance in long-term debt of $23.796 billion at June 30, 2011 was subject to fixed rates of interest. Both the general level of interest rates and, for the senior secured credit facilities, our leverage affect our variable interest rates. Our variable debt is comprised primarily of amounts outstanding under the senior secured credit facilities. Borrowings under the senior secured credit facilities bear interest at a rate equal to an applicable margin plus, at our option, either (a) a base rate determined by reference to

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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)

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 7.9% for the six months ended June 30, 2010 to 8.0% for the six months ended June 30, 2011.

The estimated fair value of our total long-term debt was $26.060 billion at June 30, 2011. 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 $15 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 foreign currency denominated loans expose us to market risks associated with foreign currencies. In order to mitigate the currency exposure related to foreign currency denominated debt service obligations, we have entered into cross currency swap agreements. 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 these agreements is considered low because the swap agreements are with creditworthy financial institutions.

Pending IRS Disputes

At June 30, 2011, we were contesting, before the IRS Appeals Division, certain claimed deficiencies and adjustments proposed by the IRS Examination Division in connection with its audit of HCA Inc. s 2005 and 2006 federal income tax returns. The disputed items include the timing of recognition of certain patient service revenues, the deductibility of certain debt retirement costs and our method for calculating the tax allowance for doubtful accounts. In addition, eight taxable periods of HCA Inc. and its predecessors ended in 1997 through 2004, for which the primary remaining issue is the computation of the tax allowance for doubtful accounts, were pending before the IRS Examination Division as of June 30, 2011. The IRS Examination Division began an audit of HCA Inc. s 2007, 2008 and 2009 federal income tax returns in 2010.

Management believes that HCA, its predecessors, subsidiaries and affiliates properly reported taxable income and paid taxes in accordance with applicable laws and agreements established with the IRS and that final resolution of these disputes will not have a material, adverse effect on our results of operations or financial position. However, if payments due upon final resolution of these 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

	2011	2010
CONSOLIDATING		