

HCA Holdings, Inc.
Form 10-Q
October 29, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

Or

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

For the transition period from _____ to _____

Commission file number 1-11239

HCA Holdings, Inc.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of

27-3865930
(I.R.S. Employer

incorporation or organization)

Identification No.)

One Park Plaza

Nashville, Tennessee
(Address of principal executive offices)

37203
(Zip Code)

(615) 344-9551

(Registrant's telephone number, including area code)

Not Applicable

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

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

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

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

Large accelerated filer Accelerated filer

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

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

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

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

Outstanding at October 23, 2015
407,667,700 shares

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Form 10-Q

September 30, 2015

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HCA HOLDINGS, INC.

CONDENSED CONSOLIDATED INCOME STATEMENTS

FOR THE QUARTERS AND NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014

Unaudited

(Dollars in millions, except per share amounts)

	Quarter		Nine Months	
	2015	2014	2015	2014
Revenues before provision for doubtful accounts	\$ 11,014	\$ 9,978	\$ 32,268	\$ 29,619
Provision for doubtful accounts	1,158	758	2,839	2,337
Revenues	9,856	9,220	29,429	27,282
Salaries and benefits	4,619	4,211	13,509	12,359
Supplies	1,644	1,539	4,952	4,603
Other operating expenses	1,796	1,688	5,268	4,977
Electronic health record incentive income	(9)	(32)	(46)	(97)
Equity in earnings of affiliates	(9)	(14)	(38)	(32)
Depreciation and amortization	482	460	1,424	1,361
Interest expense	411	427	1,255	1,314
Losses (gains) on sales of facilities	2	12	(2)	(20)
Losses on retirement of debt			125	226
Legal claim costs	77		77	78
	9,013	8,291	26,524	24,769
Income before income taxes	843	929	2,905	2,513
Provision for income taxes	270	318	947	816
Net income	573	611	1,958	1,697
Net income attributable to noncontrolling interests	124	93	411	349
Net income attributable to HCA Holdings, Inc.	\$ 449	\$ 518	\$ 1,547	\$ 1,348
Per share data:				
Basic earnings per share	\$ 1.08	\$ 1.20	\$ 3.71	\$ 3.08
Diluted earnings per share	\$ 1.05	\$ 1.16	\$ 3.60	\$ 2.98
Shares used in earnings per share calculations (in millions):				
Basic	414.939	432.617	417.146	437.832
Diluted	426.441	447.260	430.354	452.538

See accompanying notes.

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HCA HOLDINGS, INC.

CONDENSED CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS

FOR THE QUARTERS AND NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014

Unaudited

(Dollars in millions)

	Quarter		Nine Months	
	2015	2014	2015	2014
Net income	\$ 573	\$ 611	\$ 1,958	\$ 1,697
Other comprehensive income (loss) before taxes:				
Foreign currency translation	(54)	(58)	(41)	(18)
Unrealized gains (losses) on available-for-sale securities	2	2	(2)	10
Defined benefit plans				
Pension costs included in salaries and benefits	6	3	17	11
	6	3	17	11
Change in fair value of derivative financial instruments	(17)	8	(47)	(21)
Interest costs included in interest expense	31	34	93	99
	14	42	46	78
Other comprehensive income (loss) before taxes	(32)	(11)	20	81
Income taxes (benefits) related to other comprehensive income items	(13)	(4)	6	30
Other comprehensive income (loss)	(19)	(7)	14	51
Comprehensive income	554	604	1,972	1,748
Comprehensive income attributable to noncontrolling interests	124	93	411	349
Comprehensive income attributable to HCA Holdings, Inc.	\$ 430	\$ 511	\$ 1,561	\$ 1,399

See accompanying notes.

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

	September 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 588	\$ 566
Accounts receivable, less allowance for doubtful accounts of \$5,111 and \$5,011	5,827	5,694
Inventories	1,379	1,279
Deferred income taxes	412	366
Other	1,015	1,025
	9,221	8,930
Property and equipment, at cost	34,207	32,980
Accumulated depreciation	(19,503)	(18,625)
	14,704	14,355
Investments of insurance subsidiaries	409	494
Investments in and advances to affiliates	186	165
Goodwill and other intangible assets	6,540	6,416
Other	836	620
	\$ 31,896	\$ 30,980
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Accounts payable	\$ 1,877	\$ 2,035
Accrued salaries	1,358	1,370
Other accrued expenses	1,701	1,737
Long-term debt due within one year	1,377	338
	6,313	5,480
Long-term debt, less net debt issuance costs of \$160 and \$219	28,375	29,088
Professional liability risks	1,117	1,078
Income taxes and other liabilities	1,903	1,832
Stockholders' deficit:		
Common stock \$0.01 par; authorized 1,800,000,000 shares; outstanding 412,638,300 shares in 2015 and 420,477,900 shares in 2014	4	4
Accumulated other comprehensive loss	(309)	(323)
Retained deficit	(6,989)	(7,575)
Stockholders' deficit attributable to HCA Holdings, Inc.	(7,294)	(7,894)
Noncontrolling interests	1,482	1,396

(5,812) (6,498)

\$ 31,896 \$ 30,980

See accompanying notes.

Table of Contents**HCA HOLDINGS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014****Unaudited****(Dollars in millions)**

	2015	2014
Cash flows from operating activities:		
Net income	\$ 1,958	\$ 1,697
Adjustments to reconcile net income to net cash provided by operating activities:		
Decrease in cash from operating assets and liabilities:		
Accounts receivable	(2,976)	(2,655)
Provision for doubtful accounts	2,839	2,337
Accounts receivable, net	(137)	(318)
Inventories and other assets	(205)	(248)
Accounts payable and accrued expenses	(152)	(42)
Depreciation and amortization	1,424	1,361
Income taxes	(148)	(61)
Gains on sales of facilities	(2)	(20)
Losses on retirement of debt	125	226
Legal claim costs	77	78
Amortization of debt issuance costs	27	33
Share-based compensation	171	118
Other	38	(3)
Net cash provided by operating activities	3,176	2,821
Cash flows from investing activities:		
Purchase of property and equipment	(1,571)	(1,482)
Acquisition of hospitals and health care entities	(184)	(97)
Disposal of hospitals and health care entities	27	38
Change in investments	94	22
Other	3	7
Net cash used in investing activities	(1,631)	(1,512)
Cash flows from financing activities:		
Issuances of long-term debt	4,048	3,502
Net change in revolving bank credit facilities	(270)	(160)
Repayment of long-term debt	(3,702)	(3,525)
Distributions to noncontrolling interests	(367)	(325)
Payment of debt issuance costs	(34)	(49)
Repurchases of common stock	(1,386)	(750)
Income tax benefits	231	119
Other	(43)	(20)
Net cash used in financing activities	(1,523)	(1,208)

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Change in cash and cash equivalents	22	101
Cash and cash equivalents at beginning of period	566	414
Cash and cash equivalents at end of period	\$ 588	\$ 515
Interest payments	\$ 1,349	\$ 1,441
Income tax payments, net	\$ 864	\$ 758

See accompanying notes.

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HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

HCA Holdings, Inc. is a holding company whose affiliates own and operate hospitals and related health care entities. The term "affiliates" includes direct and indirect subsidiaries of HCA Holdings, Inc. and partnerships and joint ventures in which such subsidiaries are partners. At September 30, 2015, these affiliates owned and operated 168 hospitals, 114 freestanding surgery centers and provided extensive outpatient and ancillary services. HCA Holdings, Inc.'s facilities are located in 20 states and England. The terms "Company," "HCA," "we," "our" or "us," as used and unless otherwise stated or indicated by context, refer to HCA Holdings, Inc. and its affiliates. The terms "facilities" or "hospitals" refer to entities owned and operated by affiliates of HCA and the term "employees" refers to employees of affiliates of HCA.

Basis of Presentation

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

The majority of our expenses are costs of revenues items. Costs that could be classified as general and administrative would include our corporate office costs, which were \$79 million and \$71 million for the quarters ended September 30, 2015 and 2014, respectively, and \$237 million and \$206 million for the nine months ended September 30, 2015 and 2014, respectively. Operating results for the quarter and nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. For further information, refer to the consolidated financial statements and footnotes thereto included in our annual report on Form 10-K for the year ended December 31, 2014.

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

Revenues are recorded during the period the health care services are provided, based upon the estimated amounts due from the patients and third-party payers. Third-party payers include federal and state agencies (under Medicare, Medicaid and other programs), managed care health plans (includes the health insurance exchanges), commercial insurance companies and employers. Estimates of contractual allowances under managed care health plans are based upon the payment terms specified in the related contractual agreements. Revenues related to uninsured patients and copayment and deductible amounts for patients who have health care coverage may have discounts applied (uninsured discounts and contractual discounts). We also record a provision for doubtful accounts related to uninsured accounts to record the net self-pay revenues at the estimated amounts we expect to collect. Our revenues from third-party payers, the uninsured and other payers for the quarters and nine months ended September 30, 2015 and 2014 are summarized in the following table (dollars in millions):

	Quarter			
	2015	Ratio	2014	Ratio
Medicare	\$ 2,122	21.5%	\$ 2,120	23.0%
Managed Medicare	1,031	10.5	901	9.8
Medicaid	402	4.1	372	4.0
Managed Medicaid	553	5.6	510	5.5
Managed care and other insurers	5,457	55.4	5,073	55.0
International (managed care and other insurers)	316	3.2	323	3.5
	9,881	100.3	9,299	100.8
Uninsured	695	7.0	313	3.4
Other	438	4.4	366	4.0
Revenues before provision for doubtful accounts	11,014	111.7	9,978	108.2
Provision for doubtful accounts	(1,158)	(11.7)	(758)	(8.2)
Revenues	\$ 9,856	100.0%	\$ 9,220	100.0%

	Nine Months			
	2015	Ratio	2014	Ratio
Medicare	\$ 6,500	22.1%	\$ 6,285	23.0%
Managed Medicare	3,099	10.5	2,706	9.9
Medicaid	1,262	4.3	1,404	5.1
Managed Medicaid	1,673	5.7	1,383	5.1
Managed care and other insurers	16,134	54.8	14,742	54.0
International (managed care and other insurers)	964	3.3	983	3.6
	29,632	100.7	27,503	100.7
Uninsured	1,321	4.5	1,019	3.7
Other	1,315	4.5	1,097	4.0
Revenues before provision for doubtful accounts	32,268	109.7	29,619	108.4
Provision for doubtful accounts	(2,839)	(9.7)	(2,337)	(8.4)

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Revenues	\$	29,429	100.0%	\$	27,282	100.0%
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The decline in Medicaid revenues for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 was primarily due to our recording of an adjustment to increase Medicaid revenues during the quarter ended June 30, 2014 by \$142 million, or \$0.20 per diluted share, related to the receipt of reimbursements in excess of our estimates for the indigent care component of the Texas Medicaid Waiver Program for the program year ended September 30, 2013.

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HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Recent Pronouncements

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

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

Reclassifications

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

NOTE 2 ACQUISITIONS AND DISPOSITIONS

During the nine months ended September 30, 2015, we paid \$15 million to acquire a hospital and \$169 million to acquire other nonhospital health care entities. During the nine months ended September 30, 2014, we paid \$14 million to acquire a hospital and \$83 million to acquire other nonhospital health care entities.

During the nine months ended September 30, 2015, we received proceeds of \$27 million and recognized net pretax gains of \$2 million related to sales of real estate and other investments. During the nine months ended September 30, 2014, we received proceeds of \$38 million and recognized net pretax gains of \$20 million related to sales of real estate and other investments.

NOTE 3 INCOME TAXES

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

Our liability for unrecognized tax benefits was \$541 million, including accrued interest of \$69 million, as of September 30, 2015 (\$548 million and \$58 million, respectively, as of December 31, 2014). Unrecognized tax benefits of \$228 million (\$205 million as of December 31, 2014) would affect the effective rate, if recognized. The provision for income taxes reflects \$2 million and \$3 million (\$1 million and \$2 million, respectively, net of tax) of interest expense related to taxing authority examinations for the quarters ended September 30, 2015 and

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

2014, respectively. The provision for income taxes reflects \$6 million and \$11 million (\$4 million and \$7 million, net of tax) of interest expense related to taxing authority examinations for the nine months ended September 30, 2015 and 2014, respectively.

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

NOTE 4 EARNINGS PER SHARE

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

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

	Quarter		Nine Months	
	2015	2014	2015	2014
Net income attributable to HCA Holdings, Inc.	\$ 449	\$ 518	\$ 1,547	\$ 1,348
Weighted average common shares outstanding	414.939	432.617	417.146	437.832
Effect of dilutive incremental shares	11.502	14.643	13.208	14.706
Shares used for diluted earnings per share	426.441	447.260	430.354	452.538
Earnings per share:				
Basic earnings per share	\$ 1.08	\$ 1.20	\$ 3.71	\$ 3.08
Diluted earnings per share	\$ 1.05	\$ 1.16	\$ 3.60	\$ 2.98

NOTE 5 INVESTMENTS OF INSURANCE SUBSIDIARIES

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

	Amortized Cost	September 30, 2015 Unrealized Amounts		Fair Value
		Gains	Losses	
Debt securities:				
States and municipalities	\$ 429	\$ 16	\$ (1)	\$ 444
Money market funds	13			13
	442	16	(1)	457
Equity securities	1	2		3

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	\$ 443	\$ 18	\$ (1)	460
Amounts classified as current assets				(51)
Investment carrying value				\$ 409

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

At September 30, 2015 and December 31, 2014, the investments of our insurance subsidiaries were classified as available-for-sale. Changes in temporary unrealized gains and losses are recorded as adjustments to other comprehensive income (loss).

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

	Amortized Cost	Fair Value
Due in one year or less	\$ 61	\$ 61
Due after one year through five years	172	177
Due after five years through ten years	108	114
Due after ten years	101	105
	\$ 442	\$ 457

The average expected maturity of the investments in debt securities at September 30, 2015 was 4.2 years, compared to the average scheduled maturity of 5.8 years. Expected and scheduled maturities may differ because the issuers of certain securities have the right to call, prepay or otherwise redeem such obligations prior to their scheduled maturity date.

NOTE 6 FINANCIAL INSTRUMENTS*Interest Rate Swap Agreements*

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

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

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The following table sets forth our interest rate swap agreements, which have been designated as cash flow hedges, at September 30, 2015 (dollars in millions):

	Notional Amount	Maturity Date	Fair Value
Pay-fixed interest rate swaps	\$ 3,000	December 2016	\$ (118)
Pay-fixed interest rate swaps	1,000	December 2017	(35)

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

Derivatives Results of Operations

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

Derivatives in Cash Flow Hedging Relationships	Amount of Loss Recognized in OCI on Derivatives, Net of Tax	Location of Loss Reclassified from Accumulated OCI into Operations	Amount of Loss Reclassified from Accumulated OCI into Operations
Interest rate swaps	\$ 30	Interest expense	\$ 93

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 September 30, 2015, we have not been required to post any collateral related to these agreements. If we had breached these provisions at September 30, 2015, we would have been required to settle our obligations under the agreements at their aggregate, estimated termination value of \$155 million.

NOTE 7 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

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

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

liability, which are typically based on an entity's own assumptions, as there is little, if any, related

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HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

Cash Traded Investments

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

Derivative Financial Instruments

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

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

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HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Derivative Financial Instruments (continued)

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

	September 30, 2015 Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets and Liabilities Fair Value (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets:				
Investments of insurance subsidiaries:				
Debt securities:				
States and municipalities	\$ 444	\$	\$ 438	\$ 6
Money market funds	13	13		
	457	13	438	6
Equity securities	3	3		
	460	16	438	6
Investments of insurance subsidiaries	460	16	438	6
Less amounts classified as current assets	(51)	(13)	(38)	
	\$ 409	\$ 3	\$ 400	\$ 6
Liabilities:				
Interest rate swaps (Income taxes and other liabilities)	\$ 153	\$	\$ 153	\$

	December 31, 2014 Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1) Fair Value	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets:				
Investments of insurance subsidiaries:				
Debt securities:				
States and municipalities	\$ 494	\$	\$ 488	\$ 6
Money market funds	61	61		

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

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

The estimated fair value of our long-term debt was \$30.765 billion and \$30.861 billion at September 30, 2015 and December 31, 2014, respectively, compared to carrying amounts, excluding net debt issuance costs, aggregating \$29.912 billion and \$29.645 billion, respectively. The estimates of fair value are generally based upon the quoted market prices or quoted market prices for similar issues of long-term debt with the same maturities.

NOTE 8 LONG-TERM DEBT

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

	September 30, 2015	December 31, 2014
Senior secured asset-based revolving credit facility (effective interest rate of 1.7%)	\$ 2,610	\$ 2,880
Senior secured revolving credit facility		
Senior secured term loan facilities (effective interest rate of 4.9%)	5,668	5,517
Senior secured first lien notes (effective interest rate of 5.5%)	11,100	11,100
Other senior secured debt (effective interest rate of 5.9%)	632	573
First lien debt	20,010	20,070
Senior unsecured notes (effective interest rate of 6.6%)	9,902	9,575
Less net debt issuance costs	(160)	(219)
Total debt (average life of 6.1 years, rates averaging 5.4%)	29,752	29,426
Less amounts due within one year	1,377	338
	\$ 28,375	\$ 29,088

2015 Activity

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

During May 2015, we issued \$1.600 billion aggregate principal amount of 5.375% senior notes due 2025. We used the net proceeds to redeem all \$1.525 billion aggregate principal amount of 7³/₄% senior notes due 2021 of HCA Holdings, Inc. The pretax loss on retirement of debt related to this redemption was \$122 million.

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

2014 Activity

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

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HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 8 LONG-TERM DEBT (continued)

2014 Activity (continued)

2014, we used a portion of the proceeds from the October 2014 debt issuances to redeem all \$1.400 billion aggregate principal amount of our outstanding 7¹/₄% senior secured notes due 2020. The pretax loss on retirement of debt related to this redemption was \$109 million.

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

NOTE 9 CONTINGENCIES AND LEGAL CLAIM COSTS

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

Government Investigations, Claims and Litigation

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

In July 2012, the Civil Division of the U.S. Attorney's Office in Miami requested information on reviews assessing the medical necessity of interventional cardiology services provided at any Company facility (other than peer reviews). The Company cooperated with the government's request and produced medical records associated with particular reviews at eight hospitals, located primarily in Florida. On February 24, 2015, the United States District Court for the Southern District of Florida unsealed a *qui tam* action which had been filed under seal on February 16, 2012 and alleges particular FCA violations relating to two specific facilities that were among the subjects of the Miami U.S. Attorney's Office investigation. On January 30, 2015, the U.S. Attorney's Office filed with the District Court a formal notice that the Department of Justice had declined to intervene in that action. The relator subsequently dismissed this *qui tam* action without prejudice. An additional *qui tam* action relating to these topics was unsealed and voluntarily dismissed by the relator. The U.S. Attorney's Office in Miami is continuing its evaluation of the medical necessity of certain interventional cardiology services at the other hospitals for which the Company produced records. At this time, we cannot predict what effect, if any, the

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HCA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9 CONTINGENCIES AND LEGAL CLAIM COSTS (continued)

Government Investigations, Claims and Litigation (continued)

qui tam actions, or any claims that might result from the U.S. Attorney's continued review, including any potential claims under the federal FCA, other statutes, regulations or laws, could have on the Company.

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

Securities Class Action Litigation

On October 28, 2011, a shareholder action, *Schuh v. HCA Holdings, Inc. et al.*, was filed in the United States District Court for the Middle District of Tennessee seeking monetary relief. The case sought to include as a class all persons who acquired the Company's stock pursuant or traceable to the Company's Registration Statement issued in connection with the March 9, 2011 initial public offering. The lawsuit asserted a claim under Section 11 of the Securities Act of 1933 against the Company, certain members of the board of directors, and certain underwriters in the offering. It further asserted a claim under Section 15 of the Securities Act of 1933 against the same members of the board of directors. The action alleged various deficiencies in the Company's disclosures in the Registration Statement. Subsequently, two additional class action complaints, *Kishtah v. HCA Holdings, Inc. et al.* and *Daniels v. HCA Holdings, Inc. et al.*, setting forth substantially similar claims against substantially the same defendants were filed in the same federal court on November 16, 2011 and December 12, 2011, respectively. All three of the cases were consolidated. On May 3, 2012, the court appointed New England Teamsters & Trucking Industry Pension Fund as Lead Plaintiff for the consolidated action. On July 13, 2012, the lead plaintiff filed an amended complaint asserting claims under Sections 11 and 12(a)(2) of the Securities Act of 1933 against the Company, certain members of the board of directors, and certain underwriters in the offering. It further asserts a claim under Section 15 of the Securities Act of 1933 against the same members of the board of directors and Hercules Holding II, LLC, a majority shareholder of the Company at the time of the initial public offering. The consolidated complaint alleges deficiencies in the Company's disclosures in the Registration Statement and Prospectus relating to: (1) the accounting for the Company's 2006 recapitalization and 2010 reorganization; (2) the Company's failure to maintain effective internal controls relating to its accounting for such transactions; and (3) the Company's Medicare and Medicaid revenue growth rates. The Company and other defendants moved to dismiss the amended complaint on September 11, 2012. The court granted the motion in part on May 28, 2013. The action proceeded to discovery on the remaining claims. The plaintiffs' motion for class certification was granted on September 22, 2014. The court certified a class consisting of all persons that acquired HCA stock on or before October 28, 2011 (the date of the lawsuit) pursuant to the Registration Statement issued in connection with the March 9, 2011 initial public offering. A request to the court of appeals to hear an immediate appeal of this ruling was denied. Plaintiffs and defendants have each filed motions for summary judgment and to strike certain of the expert witnesses. If the case is not otherwise resolved, trial is likely to occur in 2016.

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

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

Health Midwest Litigation

In October 2009, the Health Care Foundation of Greater Kansas City, a nonprofit health foundation, filed suit against HCA Inc. in the Circuit Court of Jackson County, Missouri and alleged that HCA did not fund the level of capital expenditures and uncompensated care agreed to in connection with HCA's purchase of hospitals from Health Midwest in 2003. The central issue in the case was whether HCA's construction of new hospitals counted towards its \$450 million five-year capital commitments. In addition, the plaintiff alleged that HCA did not make its required capital expenditures in a timely fashion. On January 24, 2013, the court ruled in favor of the plaintiff and awarded at least \$162 million. The court also ordered a court-supervised accounting of HCA's capital expenditures, as well as of expenditures on charity and uncompensated care during the ten years following the purchase. The court also indicated it would award plaintiff attorneys fees, which the parties have stipulated are approximately \$12 million for the trial phase. HCA recorded \$175 million of legal claim costs in the fourth quarter of 2012 related to this ruling, and consistent with the judge's order, has been accruing interest on that sum at 9% per annum. On April 25, 2014, the parties stipulated to an additional \$78 million shortfall relating to the capital expenditures issue. HCA recorded \$78 million of legal claims costs in the first quarter of 2014 as a result of the stipulation, and is accruing interest on that amount at 9% per annum. Pursuant to the terms of the stipulation, the parties have preserved their respective rights to contest the judge's underlying ruling, whether through motions in the trial court or on appeal. On February 9, 2015, the parties reached an agreement to settle the part of their dispute relating to charity and uncompensated care for \$15 million. The foundation is required to use that amount, net of attorneys fees, for charitable activities in the Kansas City area. The parties also agreed on an additional amount for attorneys fees for the plaintiff for the accounting phase of the case. The parties filed post-trial motions, on which the court ruled on October 21, 2015. The court denied defendants' motion to have the court change its rulings on liability and damages related to the capital expenditures issue, and granted the plaintiff's motion for an award of additional pre-judgment interest. As a result of the court's ruling on pre-judgment interest, the Company recognized \$77 million of legal claim costs in its condensed consolidated income statements for the quarter and nine months ended September 30, 2015, and will continue to accrue

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

interest at 9% per annum until the matter is resolved. At September 30, 2015, the Company had an accrued liability of \$382 million in connection with this litigation. Once final judgment is entered, the Company plans to pursue an appeal.

NOTE 10 CAPITAL STRUCTURE

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

	Equity (Deficit) Attributable to HCA Holdings, Inc.					Equity Attributable to Noncontrolling Interests	Total
	Common Stock Shares	Common Stock Par Value	Capital in Excess of Par Value	Accumulated Other Comprehensive Loss	Retained Deficit		
Balances at December 31, 2014	420.478	\$ 4	\$	\$ (323)	\$ (7,575)	\$ 1,396	\$ (6,498)
Comprehensive income				14	1,547	411	1,972
Repurchase of common stock	(17.629)		(425)		(961)		(1,386)
Distributions						(367)	(367)
Share-based benefit plans	9.789		433				433
Other			(8)			42	34
Balances at September 30, 2015	412.638	\$ 4	\$	\$ (309)	\$ (6,989)	\$ 1,482	\$ (5,812)

On April 18, 2015, the Company entered into an agreement to repurchase 3,806,460 shares of its common stock beneficially owned by affiliates of Bain Capital Investors, LLC (the Bain Entities) and certain charitable organizations that received shares of common stock as charitable contributions from certain partners and other employees of the Bain Entities at a purchase price of \$77.26 per share, the closing price of the Company's common stock on the New York Stock Exchange on April 17, 2015, less a discount of 1% (the Share Repurchase). The Share Repurchase was made pursuant to the authorization of our Board of Directors in February 2015 to repurchase up to \$1.0 billion of our outstanding common stock. During May 2015, our Board of Directors authorized an additional share repurchase program for up to \$1.0 billion of our outstanding common stock. During the nine months ended September 30, 2015, we repurchased 13,822,818 shares of our common stock at an average price of \$78.96 per share through market purchases, resulting in total repurchases pursuant to the February 2015 and May 2015 authorizations of 17,629,278 shares of our common stock at an average price of \$78.60 per share. At September 30, 2015, we had no repurchase authorization remaining under the \$1.0 billion February 2015 authorization and \$614 million of repurchase authorization available under the \$1.0 billion May 2015 authorization.

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

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

	Unrealized Gains on Available- for-Sale Securities	Foreign Currency Translation Adjustments	Defined Benefit Plans	Change in Fair Value of Derivative Instruments	Total
Balances at December 31, 2014	\$ 13	\$ (36)	\$ (174)	\$ (126)	\$ (323)
Unrealized losses on available-for-sale securities, net of income tax benefit	(2)				(2)
Foreign currency translation adjustments, net of \$17 income tax benefit		(24)			(24)
Change in fair value of derivative instruments, net of \$17 income tax benefit				(30)	(30)
Expense reclassified into operations from other comprehensive income, net of \$6 and \$34, respectively, income tax benefits			11	59	70
Balances at September 30, 2015	\$ 11	\$ (60)	\$ (163)	\$ (97)	\$ (309)

NOTE 11 SEGMENT AND GEOGRAPHIC INFORMATION

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

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

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

	Quarter		Nine Months	
	2015	2014	2015	2014
Revenues:				
National Group	\$ 4,580	\$ 4,334	\$ 13,928	\$ 12,766
American Group	4,772	4,350	13,972	12,949
Corporate and other	504	536	1,529	1,567
	\$ 9,856	\$ 9,220	\$ 29,429	\$ 27,282
Equity in earnings of affiliates:				
National Group	\$ (1)	\$ (6)	\$ (8)	\$ (12)
American Group	(9)	(8)	(25)	(23)
Corporate and other	1		(5)	3
	\$ (9)	\$ (14)	\$ (38)	\$ (32)
Adjusted segment EBITDA:				
National Group	\$ 919	\$ 952	\$ 3,084	\$ 2,755
American Group	1,035	959	3,026	2,942
Corporate and other	(139)	(83)	(326)	(225)
	\$ 1,815	\$ 1,828	\$ 5,784	\$ 5,472
Depreciation and amortization:				
National Group	\$ 195	\$ 187	\$ 572	\$ 564
American Group	219	212	662	627
Corporate and other	68	61	190	170
	\$ 482	\$ 460	\$ 1,424	\$ 1,361
Adjusted segment EBITDA	\$ 1,815	\$ 1,828	\$ 5,784	\$ 5,472
Depreciation and amortization	482	460	1,424	1,361

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Interest expense	411	427	1,255	1,314
Losses (gains) on sales of facilities	2	12	(2)	(20)
Losses on retirement of debt			125	226
Legal claim costs	77		77	78
Income before income taxes	\$ 843	\$ 929	\$ 2,905	\$ 2,513

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

During November 2010, HCA Holdings, Inc. issued \$1.525 billion aggregate principal amount of 7³/₄% senior unsecured notes due 2021. During May 2015, we redeemed all \$1.525 billion aggregate principal amount of 7³/₄% unsecured senior notes due 2021. During December 2012, HCA Holdings, Inc. issued \$1.000 billion aggregate principal amount of 6.25% senior unsecured notes due 2021. These notes are senior unsecured obligations and are not guaranteed by any of our subsidiaries.

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

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

HCA HOLDINGS, INC.**CONDENSED CONSOLIDATING COMPREHENSIVE INCOME STATEMENT****FOR THE QUARTER ENDED SEPTEMBER 30, 2015****(Dollars in millions)**

	HCA Holdings, Inc. Issuer	HCA Inc. Issuer	Subsidiary Guarantors	Subsidiary Non- Guarantors	Eliminations	Condensed Consolidated
Revenues before provision for doubtful accounts	\$	\$	\$ 5,721	\$ 5,293	\$	\$ 11,014
Provision for doubtful accounts			689	469		1,158
Revenues			5,032	4,824		9,856
Salaries and benefits			2,357	2,262		4,619
Supplies			853	791		1,644
Other operating expenses	7		865	924		1,796
Electronic health record incentive income			(6)	(3)		(9)
Equity in earnings of affiliates	(464)		(1)	(8)	464	(9)
Depreciation and amortization			230	252		482
Interest expense	16	608	(156)	(57)		411
Losses (gains) on sales of facilities			(1)	3		2
Legal claim costs		77				77
Management fees			(178)	178		
	(441)	685	3,963	4,342	464	9,013

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Income (loss) before income taxes	441	(685)	1,069	482	(464)	843
Provision (benefit) for income taxes	(8)	(258)	394	142		270
Net income (loss)	449	(427)	675	340	(464)	573
Net income attributable to noncontrolling interests			21	103		124
Net income (loss) attributable to HCA Holdings, Inc.	\$ 449	\$ (427)	\$ 654	\$ 237	\$ (464)	\$ 449
Comprehensive income (loss) attributable to HCA Holdings, Inc.	\$ 430	\$ (418)	\$ 657	\$ 206	\$ (445)	\$ 430

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

	HCA Holdings, Inc. Issuer	HCA Inc. Issuer	Subsidiary Guarantors	Subsidiary Non- Guarantors	Eliminations	Condensed Consolidated
Revenues before provision for doubtful accounts	\$	\$	\$ 5,133	\$ 4,845	\$	\$ 9,978
Provision for doubtful accounts			457	301		758
Revenues			4,676	4,544		9,220
Salaries and benefits			2,176	2,035		4,211
Supplies			797	742		1,539
Other operating expenses	4		804	880		1,688
Electronic health record incentive income			(22)	(10)		(32)
Equity in earnings of affiliates	(549)		(3)	(11)	549	(14)
Depreciation and amortization			225	235		460
Interest expense	46	536	(115)	(40)		427
Losses (gains) on sales of facilities			16	(4)		12
Management fees			(178)	178		
	(499)	536	3,700	4,005	549	8,291
Income (loss) before income taxes	499	(536)	976	539	(549)	929
Provision (benefit) for income taxes	(19)	(205)	365	177		318
Net income (loss)	518	(331)	611	362	(549)	611
Net income attributable to noncontrolling interests			18	75		93
Net income (loss) attributable to HCA Holdings, Inc.	\$ 518	\$ (331)	\$ 593	\$ 287	\$ (549)	\$ 518
Comprehensive income (loss) attributable to HCA Holdings, Inc.	\$ 511	\$ (303)	\$ 595	\$ 250	\$ (542)	\$ 511

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	HCA Holdings, Inc. Issuer	HCA Inc. Issuer	Subsidiary Guarantors	Subsidiary Non- Guarantors	Eliminations	Condensed Consolidated
Revenues before provision for doubtful accounts	\$	\$	\$ 16,519	\$ 15,749	\$	\$ 32,268
Provision for doubtful accounts			1,535	1,304		2,839
Revenues			14,984	14,445		29,429
Salaries and benefits			6,824	6,685		13,509
Supplies			2,576	2,376		4,952
Other operating expenses	9		2,523	2,736		5,268
Electronic health record incentive income			(31)	(15)		(46)
Equity in earnings of affiliates	(1,690)		(4)	(34)	1,690	(38)
Depreciation and amortization			683	741		1,424
Interest expense	100	1,807	(498)	(154)		1,255
Losses (gains) on sales of facilities			(5)	3		(2)
Losses on retirement of debt	122	3				125
Legal claim costs		77				77
Management fees			(534)	534		
	(1,459)	1,887	11,534	12,872	1,690	26,524
Income (loss) before income taxes	1,459	(1,887)	3,450	1,573	(1,690)	2,905
Provision (benefit) for income taxes	(88)	(716)	1,284	467		947
Net income (loss)	1,547	(1,171)	2,166	1,106	(1,690)	1,958
Net income attributable to noncontrolling interests			68	343		411
Net income (loss) attributable to HCA Holdings, Inc.	\$ 1,547	\$ (1,171)	\$ 2,098	\$ 763	\$ (1,690)	\$ 1,547
Comprehensive income (loss) attributable to HCA Holdings, Inc.	\$ 1,561	\$ (1,142)	\$ 2,109	\$ 737	\$ (1,704)	\$ 1,561

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

	HCA Holdings, Inc. Issuer	HCA Inc. Issuer	Subsidiary Guarantors	Subsidiary Non- Guarantors	Eliminations	Condensed Consolidated
Revenues before provision for doubtful accounts	\$	\$	\$ 15,242	\$ 14,377	\$	\$ 29,619
Provision for doubtful accounts			1,388	949		2,337
Revenues			13,854	13,428		27,282
Salaries and benefits			6,393	5,966		12,359
Supplies			2,416	2,187		4,603
Other operating expenses	14		2,366	2,597		4,977
Electronic health record incentive income			(68)	(29)		(97)
Equity in earnings of affiliates	(1,443)		(5)	(27)	1,443	(32)
Depreciation and amortization			667	694		1,361
Interest expense	138	1,629	(349)	(104)		1,314
Gains on sales of facilities			(16)	(4)		(20)
Losses on retirement of debt		226				226
Legal claim costs		78				78
Management fees			(528)	528		
	(1,291)	1,933	10,876	11,808	1,443	24,769
Income (loss) before income taxes	1,291	(1,933)	2,978	1,620	(1,443)	2,513
Provision (benefit) for income taxes	(57)	(729)	1,098	504		816
Net income (loss)	1,348	(1,204)	1,880	1,116	(1,443)	1,697
Net income attributable to noncontrolling interests			65	284		349
Net income (loss) attributable to HCA Holdings, Inc.	\$ 1,348	\$ (1,204)	\$ 1,815	\$ 832	\$ (1,443)	\$ 1,348
Comprehensive income (loss) attributable to HCA Holdings, Inc.	\$ 1,399	\$ (1,154)	\$ 1,822	\$ 826	\$ (1,494)	\$ 1,399

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

SEPTEMBER 30, 2015

(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	\$	\$	\$ 109	\$ 479	\$	\$ 588
Accounts receivable, net			2,874	2,953		5,827
Inventories			821	558		1,379
Deferred income taxes	412					412
Other	13		428	574		1,015
	425		4,232	4,564		9,221
Property and equipment, net			8,078	6,626		14,704
Investments of insurance subsidiaries				409		409
Investments in and advances to affiliates	23,674		17	169	(23,674)	186
Goodwill and other intangible assets			1,703	4,837		6,540
Other	625		24	187		836
	\$ 24,724	\$	\$ 14,054	\$ 16,792	\$ (23,674)	\$ 31,896
LIABILITIES AND STOCKHOLDERS (DEFICIT)						
EQUITY						
Current liabilities:						
Accounts payable	\$ 9	\$	\$ 1,165	\$ 703	\$	\$ 1,877
Accrued salaries			770	588		1,358
Other accrued expenses	14	245	540	902		1,701
Long-term debt due within one year		1,264	61	52		1,377
	23	1,509	2,536	2,245		6,313
Long-term debt, net	982	26,874	222	297		28,375
Intercompany balances	30,472	(10,757)	(22,877)	3,162		
Professional liability risks				1,117		1,117
Income taxes and other liabilities	541	534	428	400		1,903

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	32,018	18,160	(19,691)	7,221		37,708
Stockholders (deficit) equity attributable to HCA Holdings, Inc.	(7,294)	(18,160)	33,626	8,208	(23,674)	(7,294)
Noncontrolling interests			119	1,363		1,482
	(7,294)	(18,160)	33,745	9,571	(23,674)	(5,812)
	\$ 24,724	\$	\$ 14,054	\$ 16,792	\$ (23,674)	\$ 31,896

Table of Contents**HCA HOLDINGS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 12 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (continued)****HCA HOLDINGS, INC.****CONDENSED CONSOLIDATING BALANCE SHEET****DECEMBER 31, 2014****(Dollars in millions)**

	HCA Holdings, Inc. Issuer	HCA Inc. Issuer	Subsidiary Guarantors	Subsidiary Non- Guarantors	Eliminations	Condensed Consolidated
ASSETS						
Current assets:						
Cash and cash equivalents	\$	\$	\$ 87	\$ 479	\$	\$ 566
Accounts receivable, net			2,812	2,882		5,694
Inventories			756	523		1,279
Deferred income taxes	366					366
Other	118		376	531		1,025
	484		4,031	4,415		8,930
Property and equipment, net			7,871	6,484		14,355
Investments of insurance subsidiaries				494		494
Investments in and advances to affiliates	21,970		16	149	(21,970)	165
Goodwill and other intangible assets			1,705	4,711		6,416
Other	435		27	158		620
	\$ 22,889	\$	\$ 13,650	\$ 16,411	\$ (21,970)	\$ 30,980
LIABILITIES AND STOCKHOLDERS (DEFICIT) EQUITY						
Current liabilities:						
Accounts payable	\$ 1	\$	\$ 1,272	\$ 762	\$	\$ 2,035
Accrued salaries			783	587		1,370
Other accrued expenses	45	317	517	858		1,737
Long-term debt due within one year		231	56	51		338
	46	548	2,628	2,258		5,480
Long-term debt, net	2,499	26,124	185	280		29,088
Intercompany balances	27,685	(10,141)	(21,405)	3,861		
Professional liability risks				1,078		1,078
Income taxes and other liabilities	553	487	605	187		1,832
	30,783	17,018	(17,987)	7,664		37,478
	(7,894)	(17,018)	31,516	7,472	(21,970)	(7,894)

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Stockholders (deficit) equity attributable to HCA Holdings, Inc.						
Noncontrolling interests			121	1,275		1,396
	(7,894)	(17,018)	31,637	8,747	(21,970)	(6,498)
	\$ 22,889	\$	\$ 13,650	\$ 16,411	\$ (21,970)	\$ 30,980

Table of Contents**HCA HOLDINGS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 12 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (continued)****HCA HOLDINGS, INC.****CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015****(Dollars in millions)**

	HCA Holdings, Inc. Issuer	HCA Inc. Issuer	Subsidiary Guarantors	Subsidiary Non- Guarantors	Eliminations	Condensed Consolidated
Cash flows from operating activities:						
Net income (loss)	\$ 1,547	\$ (1,171)	\$ 2,166	\$ 1,106	\$ (1,690)	\$ 1,958
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:						
Changes in operating assets and liabilities	(22)	(56)	(1,959)	(1,296)		(3,333)
Provision for doubtful accounts			1,535	1,304		2,839
Depreciation and amortization			683	741		1,424
Income taxes	(148)					(148)
Losses (gains) on sales of facilities			(5)	3		(2)
Losses on retirement of debt	122	3				125
Legal claim costs		77				77
Amortization of debt issuance costs	3	24				27
Share-based compensation	171					171
Equity in earnings of affiliates	(1,690)				1,690	
Other	49	3		(14)		38
Net cash provided by (used in) operating activities	32	(1,120)	2,420	1,844		3,176
Cash flows from investing activities:						
Purchase of property and equipment			(764)	(807)		(1,571)
Acquisition of hospitals and health care entities			(51)	(133)		(184)
Disposition of hospitals and health care entities			19	8		27
Change in investments			2	92		94
Other			(6)	9		3
Net cash used in investing activities			(800)	(831)		(1,631)
Cash flows from financing activities:						
Issuance of long-term debt		4,048				4,048
Net change in revolving credit facilities		(270)				(270)
Repayment of long-term debt	(1,632)	(2,001)	(45)	(24)		(3,702)
Distributions to noncontrolling interests			(70)	(297)		(367)
Payment of debt issuance costs		(34)				(34)
Repurchases of common stock	(1,386)					(1,386)
Changes in intercompany balances with affiliates, net	2,784	(623)	(1,483)	(678)		
Income tax benefits	231					231
Other	(29)			(14)		(43)

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Net cash (used in) provided by financing activities	(32)	1,120	(1,598)	(1,013)	(1,523)
Change in cash and cash equivalents			22		22
Cash and cash equivalents at beginning of period			87	479	566
Cash and cash equivalents at end of period	\$	\$	\$ 109	\$ 479	\$ 588

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

	HCA Holdings, Inc. Issuer	HCA Inc. Issuer	Subsidiary Guarantors	Subsidiary Non- Guarantors	Eliminations	Condensed Consolidated
Cash flows from operating activities:						
Net income (loss)	\$ 1,348	\$ (1,204)	\$ 1,880	\$ 1,116	\$ (1,443)	\$ 1,697
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:						
Changes in operating assets and liabilities	18	(151)	(1,660)	(1,152)		(2,945)
Provision for doubtful accounts			1,388	949		2,337
Depreciation and amortization			667	694		1,361
Income taxes	(61)					(61)
Gains on sales of facilities			(16)	(4)		(20)
Losses on retirement of debt		226				226
Legal claim costs		78				78
Amortization of deferred loan costs	2	31				33
Share-based compensation	118					118
Equity in earnings of affiliates	(1,443)				1,443	
Other		3		(6)		(3)
Net cash (used in) provided by operating activities	(18)	(1,017)	2,259	1,597		2,821
Cash flows from investing activities:						
Purchase of property and equipment			(893)	(589)		(1,482)
Acquisition of hospitals and health care entities			(7)	(90)		(97)
Disposition of hospitals and health care entities			31	7		38
Change in investments			22			22
Other				7		7
Net cash used in investing activities			(847)	(665)		(1,512)
Cash flows from financing activities:						
Issuance of long-term debt		3,502				3,502
Net change in revolving credit facilities		(160)				(160)
Repayment of long-term debt		(3,462)	(35)	(28)		(3,525)
Distributions to noncontrolling interests			(45)	(280)		(325)
Payment of debt issuance costs		(49)				(49)
Repurchase of common stock	(750)					(750)
Changes in intercompany balances with affiliates, net	654	1,186	(1,331)	(509)		
Income tax benefits	119					119
Other	(5)			(15)		(20)

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Net cash provided by (used in) financing activities	18	1,017	(1,411)	(832)	(1,208)
Change in cash and cash equivalents			1	100	101
Cash and cash equivalents at beginning of period			112	302	414
Cash and cash equivalents at end of period	\$	\$	\$ 113	\$ 402	\$ 515

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

Forward-Looking Statements

This quarterly report on Form 10-Q includes certain disclosures which contain forward-looking statements. Forward-looking statements include statements regarding estimated Electronic Health Record (EHR) incentive income and related EHR operating expenses, expected share-based compensation expense, expected capital expenditures and expected net claim payments and all other statements that do not relate solely to historical or current facts, and can be identified by the use of words like may, believe, will, expect, project, estimate, anticipate, plan, continue. These forward-looking statements are based on our current plans and expectations and are subject to a number of known and unknown uncertainties and risks, many of which are beyond our control, which could significantly affect current plans and expectations and our future financial position and results of operations. These factors include, but are not limited to, (1) the impact of our substantial indebtedness and the ability to refinance such indebtedness on acceptable terms, (2) the effects related to the implementation of the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act (collectively, the Health Reform Law), possible delays in or complications related to implementation of the Health Reform Law, court challenges, the possible enactment of additional federal or state health care reforms and possible changes to the Health Reform Law and other federal, state or local laws or regulations affecting the health care industry, (3) the effects related to the continued implementation of the sequestration spending reductions required under the Budget Control Act of 2011, and related legislation extending these reductions, and the potential for future deficit reduction legislation that may alter these spending reductions, which include cuts to Medicare payments, or create additional spending reductions, (4) increases in the amount and risk of collectability of uninsured accounts and deductibles and copayment amounts for insured accounts, (5) the ability to achieve operating and financial targets, and attain expected levels of patient volumes and control the costs of providing services, (6) possible changes in Medicare, Medicaid and other state programs, including Medicaid upper payment limit programs or Waiver Programs, that may impact reimbursements to health care providers and insurers, (7) the highly competitive nature of the health care business, (8) changes in service mix, revenue mix and surgical volumes, including potential declines in the population covered under managed care agreements, the ability to enter into and renew managed care provider agreements on acceptable terms and the impact of consumer-driven health plans and physician utilization trends and practices, (9) the efforts of insurers, health care providers and others to contain health care costs, (10) the outcome of our continuing efforts to monitor, maintain and comply with appropriate laws, regulations, policies and procedures, (11) increases in wages and the ability to attract and retain qualified management and personnel, including affiliated physicians, nurses and medical and technical support personnel, (12) the availability and terms of capital to fund the expansion of our business and improvements to our existing facilities, (13) changes in accounting practices, (14) changes in general economic conditions nationally and regionally in our markets, (15) the emergence and effects related to infectious diseases, including Ebola, (16) future divestitures which may result in charges and possible impairments of long-lived assets, (17) changes in business strategy or development plans, (18) delays in receiving payments for services provided, (19) the outcome of pending and any future tax audits, disputes and litigation associated with our tax positions, (20) potential adverse impact of known and unknown government investigations, litigation and other claims that may be made against us, (21) our ongoing ability to demonstrate meaningful use of certified EHR technology and recognize income for the related Medicare or Medicaid incentive payments, and (22) other risk factors described in our annual report on Form 10-K for the year ended December 31, 2014 and our other filings with the Securities and Exchange Commission. As a consequence, current plans, anticipated actions and future financial position and results of operations may differ from those expressed in any forward-looking statements made by or on behalf of HCA. You are cautioned not to unduly rely on such forward-looking statements when evaluating the information presented in this report, which forward-looking statements reflect management's views only as of the date of this report. We undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise.

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

Health Care Reform

The Health Reform Law changes how health care services are covered, delivered and reimbursed through expanded coverage of uninsured individuals, reduced growth in Medicare program spending, reductions in Medicare and Medicaid Disproportionate Share Hospital payments, and the establishment of programs in which reimbursement is tied to quality and integration. In addition, the Health Reform Law reforms certain aspects of health insurance, expands existing efforts to tie Medicare and Medicaid payments to performance and quality, and contains provisions intended to strengthen fraud and abuse enforcement. Based on the Congressional Budget Office's March 2015 projection, by 2025, the Health Reform Law will expand coverage to 25 million additional individuals. This increased coverage will occur through a combination of public program expansion and private sector health insurance and other reforms. In *King v. Burwell*, the Supreme Court upheld subsidies for enrollees on the federally-facilitated exchanges and settled a significant challenge to the Health Reform Law's effectiveness in reducing the number of uninsured individuals. Most of the provisions of the Health Reform Law that seek to decrease the number of uninsured became effective January 1, 2014. However, the employer mandate, which requires firms with 50 or more full-time employees to offer health insurance or pay fines, has been delayed and will not be fully implemented until January 1, 2016. In addition, a number of states have opted out of the Medicaid expansion, but these states could choose to implement the expansion at a later date. It is unclear how many states will ultimately implement the Medicaid expansion provisions of the law.

Third Quarter 2015 Operations Summary

Revenues increased to \$9.856 billion in the third quarter of 2015 from \$9.220 billion in the third quarter of 2014. Net income attributable to HCA Holdings, Inc. totaled \$449 million, or \$1.05 per diluted share, for the quarter ended September 30, 2015, compared to \$518 million, or \$1.16 per diluted share, for the quarter ended September 30, 2014. Third quarter 2015 results include legal claim costs of \$77 million, or \$0.12 per diluted share, and net losses on sales of facilities of \$2 million. Third quarter 2014 results include net losses on sales of facilities of \$12 million, or \$0.02 per diluted share. All per diluted share disclosures are based upon amounts net of the applicable income taxes. Shares used for diluted earnings per share were 426.441 million shares for the quarter ended September 30, 2015 and 447.260 million shares for the quarter ended September 30, 2014. During 2014 and the first nine months of 2015, we repurchased 28.583 million and 17.629 million shares of our common stock, respectively.

Revenues increased 6.9% on a consolidated basis and increased 5.5% on a same facility basis for the quarter ended September 30, 2015, compared to the quarter ended September 30, 2014. The increase in consolidated revenues can be attributed primarily to the combined impact of a 2.0% increase in revenue per equivalent admission and a 4.8% increase in equivalent admissions. The same facility revenues increase resulted primarily from the combined impact of a 1.9% increase in same facility revenue per equivalent admission and a 3.6% increase in same facility equivalent admissions.

During the quarter ended September 30, 2015, consolidated admissions and same facility admissions increased 3.8% and 2.9%, respectively, compared to the quarter ended September 30, 2014. Inpatient surgeries increased 2.0% on a consolidated basis and 1.6% on a same facility basis during the quarter ended September 30, 2015, compared to the quarter ended September 30, 2014. Outpatient surgeries increased 1.7% on a consolidated basis and 1.2% on a same facility basis during the quarter ended September 30, 2015, compared to the quarter ended September 30, 2014. Emergency department visits increased 7.2% on a consolidated basis and 5.8% on a same facility basis during the quarter ended September 30, 2015, compared to the quarter ended September 30, 2014.

For the quarter ended September 30, 2015, the provision for doubtful accounts increased \$400 million, compared to the quarter ended September 30, 2014. The self-pay revenue deductions for charity care and

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

Third Quarter 2015 Operations Summary (continued)

uninsured discounts declined \$106 million and increased \$677 million, respectively, during the third quarter of 2015, compared to the third quarter of 2014. The sum of the provision for doubtful accounts, uninsured discounts and charity care, as a percentage of the sum of revenues, provision for doubtful accounts, uninsured discounts and charity care, was 33.1% for the third quarter of 2015, compared to 29.8% for the third quarter of 2014. Same facility uninsured admissions increased 13.6% for the quarter ended September 30, 2015, compared to the quarter ended September 30, 2014.

Electronic health record incentive income declined \$23 million, from \$32 million in the third quarter of 2014 to \$9 million in the third quarter of 2015. Share-based compensation expense increased \$27 million, from \$41 million in the third quarter of 2014 to \$68 million in the third quarter of 2015.

Cash flows from operating activities declined \$27 million from \$1.128 billion for the third quarter of 2014 to \$1.101 billion for the third quarter of 2015. The decline is related primarily to a \$42 million increase in net income tax payments.

Results of Operations

Revenue/Volume Trends

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

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

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

Revenues increased 6.9% from \$9.220 billion in the third quarter of 2014 to \$9.856 billion in the third quarter of 2015. Revenues are recorded during the period the health care services are provided, based upon the estimated amounts due from the patients and third-party payers. Third-party payers include federal and state agencies (under Medicare, Medicaid and other programs), managed care health plans (includes the health insurance exchanges), commercial insurance companies and employers. Estimates of contractual allowances under managed care health plans are based upon the payment terms specified in the related contractual agreements. Revenues related to uninsured patients and copayment and deductible amounts for patients who have health care coverage may have discounts applied (uninsured discounts and contractual discounts). We also record a provision for doubtful accounts related to uninsured accounts to record the net self-pay revenues at the estimated amounts we expect to collect. Our revenues from our third-party payers, the uninsured and other payers for the quarters and nine months ended September 30, 2015 and 2014 are summarized in the following table (dollars in millions):

	Quarter			
	2015	Ratio	2014	Ratio
Medicare	\$ 2,122	21.5%	\$ 2,120	23.0%
Managed Medicare	1,031	10.5	901	9.8
Medicaid	402	4.1	372	4.0
Managed Medicaid	553	5.6	510	5.5
Managed care and other insurers	5,457	55.4	5,073	55.0
International (managed care and other insurers)	316	3.2	323	3.5
	9,881	100.3	9,299	100.8
Uninsured	695	7.0	313	3.4
Other	438	4.4	366	4.0
Revenues before provision for doubtful accounts	11,014	111.7	9,978	108.2
Provision for doubtful accounts	(1,158)	(11.7)	(758)	(8.2)
Revenues	\$ 9,856	100.0%	\$ 9,220	100.0%

	Nine Months			
	2015	Ratio	2014	Ratio
Medicare	\$ 6,500	22.1%	\$ 6,285	23.0%
Managed Medicare	3,099	10.5	2,706	9.9
Medicaid	1,262	4.3	1,404	5.1
Managed Medicaid	1,673	5.7	1,383	5.1
Managed care and other insurers	16,134	54.8	14,742	54.0
International (managed care and other insurers)	964	3.3	983	3.6
	29,632	100.7	27,503	100.7
Uninsured	1,321	4.5	1,019	3.7
Other	1,315	4.5	1,097	4.0

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Revenues before provision for doubtful accounts	32,268	109.7	29,619	108.4
Provision for doubtful accounts	(2,839)	(9.7)	(2,337)	(8.4)
Revenues	\$ 29,429	100.0%	\$ 27,282	100.0%

The increases in uninsured revenues for the quarter and nine months ended September 30, 2015 compared to the respective prior year periods are primarily due to increases in uninsured admissions and fluctuations in the number of accounts that are pending the determination of eligibility for Medicaid coverage.

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

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

Consolidated and same facility revenue per equivalent admission increased 2.0% and 1.9%, respectively, in the third quarter of 2015, compared to the third quarter of 2014. Consolidated and same facility equivalent admissions increased 4.8% and 3.6%, respectively, in the third quarter of 2015, compared to the third quarter of 2014. Consolidated and same facility admissions increased 3.8% and 2.9%, respectively, in the third quarter of 2015, compared to the third quarter of 2014. Consolidated and same facility outpatient surgeries increased 1.7% and 1.2%, respectively, in the third quarter of 2015, compared to the third quarter of 2014. Consolidated and same facility inpatient surgeries increased 2.0% and 1.6%, respectively, in the third quarter of 2015, compared to the third quarter of 2014. Consolidated and same facility emergency department visits increased 7.2% and 5.8%, respectively, in the third quarter of 2015, compared to the third quarter of 2014.

To quantify the total impact of and trends related to uninsured accounts, we believe it is beneficial to view the direct uninsured revenue deductions (charity care and uninsured discounts) and provision for doubtful accounts in combination, rather than each separately. At September 30, 2015, our allowance for doubtful accounts represented approximately 94% of the \$5.426 billion total patient due accounts receivable balance. The patient due accounts receivable balance represents the estimated uninsured portion of our accounts receivable. A summary of these adjustments to revenues amounts, related to uninsured accounts, for the quarters and nine months ended September 30, 2015 and 2014 follows (dollars in millions):

	Quarter				Nine Months			
	2015	Ratio	2014	Ratio	2015	Ratio	2014	Ratio
Charity care	\$ 929	19%	\$ 1,035	26%	\$ 2,715	20%	\$ 2,860	24%
Uninsured discounts	2,796	57	2,119	54	7,770	58	6,562	56
Provision for doubtful accounts	1,158	24	758	20	2,839	22	2,337	20
Totals	\$ 4,883	100%	\$ 3,912	100%	\$ 13,324	100%	\$ 11,759	100%

Same facility uninsured admissions increased by 4,450 admissions, or 13.6%, in the third quarter of 2015, compared to the third quarter of 2014. Same facility uninsured admissions increased by 8.7%, in the second quarter of 2015, compared to the second quarter of 2014. Same facility uninsured admissions declined by 12.5%, in the first quarter of 2015, compared to the first quarter of 2014. Same facility uninsured admissions in 2014, compared to 2013, declined 8.8% in the fourth quarter of 2014, declined 14.8% in the third quarter of 2014, declined 14.7% in the second quarter of 2014 and increased 2.1% in the first quarter of 2014. We believe the declines, compared to the prior year quarter, for the second quarter of 2014 through the first quarter of 2015 were primarily due to previously uninsured patients obtaining medical coverage through the health insurance exchanges and Medicaid expansion programs. We believe the reversal during the second and third quarters of 2015, of the trend of declines during the previous four quarters, was primarily due to the anniversary of the benefits from the health insurance exchanges and Medicaid expansion programs that we began realizing during the second quarter of 2014.

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

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

The approximate percentages of our admissions related to Medicare, managed Medicare, Medicaid, managed Medicaid, managed care and other insurers and the uninsured for the quarters and nine months ended September 30, 2015 and 2014 are set forth in the following table.

	Quarter		Nine Months	
	2015	2014	2015	2014
Medicare	30%	31%	31%	32%
Managed Medicare	14	14	15	14
Medicaid	6	7	6	7
Managed Medicaid	12	11	12	10
Managed care and other insurers	30	30	29	30
Uninsured	8	7	7	7
	100%	100%	100%	100%

The approximate percentages of our inpatient revenues, before provision for doubtful accounts, related to Medicare, managed Medicare, Medicaid, managed Medicaid, managed care and other insurers and the uninsured for the quarters and nine months ended September 30, 2015 and 2014 are set forth in the following table.

	Quarter		Nine Months	
	2015	2014	2015	2014
Medicare	26%	31%	28%	30%
Managed Medicare	12	11	12	11
Medicaid	6	5	6	6
Managed Medicaid	5	5	5	5
Managed care and other insurers	46	48	47	47
Uninsured	5		2	1
	100%	100%	100%	100%

At September 30, 2015, we had 81 hospitals in the states of Texas and Florida. During the third quarter of 2015, 56% of our admissions and 47% of our revenues were generated by these hospitals. Uninsured admissions in Texas and Florida represented 68% of our uninsured admissions during the third quarter of 2015.

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

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

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

Results of Operations (continued)

Revenue/Volume Trends (continued)

no contractual or legal obligation to provide such indigent care. The public hospital districts or counties have elected to transfer some portion of these available funds to the state's Medicaid program. Such action is at the sole discretion of the public hospital districts or counties. It is anticipated that these contributions to the state will be matched with federal Medicaid funds. The state then may make supplemental payments to hospitals in the state for Medicaid services rendered. Hospitals receiving Medicaid supplemental payments may include those that are providing additional indigent care services. Our Texas Medicaid revenues included \$87 million (\$22 million DSRIP related and \$65 million indigent care related) and \$23 million (all DSRIP related) during the third quarters of 2015 and 2014, respectively, and \$252 million (\$70 million DSRIP related and \$182 million indigent care related) and \$346 million (\$66 million DSRIP related and \$280 million indigent care related) during the first nine months of 2015 and 2014, respectively, of Medicaid supplemental payments. During the third quarter of 2014, we recorded a reduction of \$68 million to Medicaid revenues related to the Texas Medicaid Waiver Program. During the second quarter of 2014, we recorded a \$142 million increase to Medicaid revenues related to the receipt of reimbursements in excess of our estimates for the indigent care component of the Texas Medicaid Waiver Program for the program year ended September 30, 2013.

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 CMS, and some states have made waiver requests to CMS to replace their existing supplemental payment programs. It is possible these reviews and waiver requests will result in the restructuring of such supplemental payment programs and could result in the payment programs being reduced or eliminated. Because deliberations about these programs are ongoing, we are unable to estimate the financial impact the program structure modifications, if any, may have on our results of operations.

Electronic Health Record Incentive Payments

The American Recovery and Reinvestment Act of 2009 provides for Medicare and Medicaid incentive payments for eligible hospitals and professionals that adopt and meaningfully use certified EHR technology. We recognized \$9 million and \$32 million of electronic health record incentive income, primarily related to Medicare, during the third quarters of 2015 and 2014, respectively. We recognized \$46 million and \$97 million of electronic health record incentive income, primarily related to Medicare, during the first nine months of 2015 and 2014, respectively.

For 2015, we estimate EHR incentive income will be recognized in the range of \$46 million to \$50 million. 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 and our ability to continue to demonstrate meaningful use of certified EHR technology. The failure of our ability to continue to demonstrate meaningful use of EHR technology could have a material, adverse effect on our results of operations.

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

Results of Operations (continued)*Operating Results Summary*

The following is a comparative summary of results from operations for the quarters and nine months ended September 30, 2015 and 2014 (dollars in millions):

	Quarter			
	2015		2014	
	Amount	Ratio	Amount	Ratio
Revenues before provision for doubtful accounts	\$ 11,014		\$ 9,978	
Provision for doubtful accounts	1,158		758	
Revenues	9,856	100.0	9,220	100.0
Salaries and benefits	4,619	46.9	4,211	45.7
Supplies	1,644	16.7	1,539	16.7
Other operating expenses	1,796	18.2	1,688	18.3
Electronic health record incentive income	(9)	(0.1)	(32)	(0.3)
Equity in earnings of affiliates	(9)	(0.1)	(14)	(0.2)
Depreciation and amortization	482	4.8	460	5.0
Interest expense	411	4.2	427	4.6
Losses on sales of facilities	2		12	0.1
Legal claim costs	77	0.8		
	9,013	91.4	8,291	89.9
Income before income taxes	843	8.6	929	10.1
Provision for income taxes	270	2.8	318	3.5
Net income	573	5.8	611	6.6
Net income attributable to noncontrolling interests	124	1.2	93	1.0
Net income attributable to HCA Holdings, Inc.	\$ 449	4.6	\$ 518	5.6
<i>% changes from prior year:</i>				
Revenues	6.9%		9.0%	
Income before income taxes	(9.2)		32.4	
Net income attributable to HCA Holdings, Inc.	(13.4)		42.0	
Admissions(a)	3.8		3.9	
Equivalent admissions(b)	4.8		5.5	
Revenue per equivalent admission	2.0		3.3	
<i>Same facility % changes from prior year(c):</i>				
Revenues	5.5		8.1	
Admissions(a)	2.9		2.8	
Equivalent admissions(b)	3.6		4.1	
Revenue per equivalent admission	1.9		3.8	

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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)*

	Nine Months			
	2015		2014	
	Amount	Ratio	Amount	Ratio
Revenues before provision for doubtful accounts	\$ 32,268		\$ 29,619	
Provision for doubtful accounts	2,839		2,337	
Revenues	29,429	100.0	27,282	100.0
Salaries and benefits	13,509	45.9	12,359	45.3
Supplies	4,952	16.8	4,603	16.9
Other operating expenses	5,268	17.9	4,977	18.2
Electronic health record incentive income	(46)	(0.2)	(97)	(0.4)
Equity in earnings of affiliates	(38)	(0.1)	(32)	(0.1)
Depreciation and amortization	1,424	4.8	1,361	5.1
Interest expense	1,255	4.3	1,314	4.8
Gains on sales of facilities	(2)		(20)	(0.1)
Losses on retirement of debt	125	0.4	226	0.8
Legal claim costs	77	0.3	78	0.3
	26,524	90.1	24,769	90.8
Income before income taxes	2,905	9.9	2,513	9.2
Provision for income taxes	947	3.2	816	3.0
Net income	1,958	6.7	1,697	6.2
Net income attributable to noncontrolling interests	411	1.4	349	1.3
Net income attributable to HCA Holdings, Inc.	\$ 1,547	5.3	\$ 1,348	4.9
<i>% changes from prior year:</i>				
Revenues	7.9%		7.6%	
Income before income taxes	15.6		17.1	
Net income attributable to HCA Holdings, Inc.	14.7		19.1	
Admissions(a)	4.8		2.1	
Equivalent admissions(b)	6.2		3.3	
Revenue per equivalent admission	1.6		4.2	
<i>Same facility % changes from prior year(c):</i>				
Revenues	6.7		6.4	
Admissions(a)	4.1		1.1	
Equivalent admissions(b)	5.2		2.0	
Revenue per equivalent admission	1.4		4.3	

- (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

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outpatient revenues and then dividing the resulting amount by gross inpatient revenues. The equivalent admissions computation equates outpatient revenues to the volume measure (admissions) used to measure inpatient volume, resulting in a general measure of combined inpatient and outpatient volume.

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

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

Results of Operations (continued)*Quarters Ended September 30, 2015 and 2014*

Net income attributable to HCA Holdings, Inc. totaled \$449 million, or \$1.05 per diluted share, for the third quarter of 2015 compared to \$518 million, or \$1.16 per diluted share, for the third quarter of 2014. Third quarter 2015 results include legal claim costs of \$77 million, or \$0.12 per diluted share, and net losses on sales of facilities of \$2 million. During the quarter ended September 30, 2014, we recorded \$94 million, or \$0.13 per diluted share, of Medicare revenues as the estimated settlement amount for certain claims denied by RAC entities conducting reviews on behalf of CMS and currently pending in the appeals process. CMS offered an administrative agreement to providers willing to withdraw their pending appeals in exchange for a timely partial payment (generally, 68% of the claim amount, subject to certain adjustments). We also recorded a reduction of \$68 million, or \$0.09 per diluted share, to Medicaid revenues related to the Texas Medicaid Waiver Program. All revenue amounts and revenue-related statistics for the third quarter of 2014 include the impact of these changes in estimates and the resulting \$26 million net increase in revenues. Third quarter 2014 results include net losses on sales of facilities of \$12 million, or \$0.02 per diluted share. All per diluted share disclosures are based upon amounts net of the applicable income taxes. Shares used for diluted earnings per share were 426.441 million shares for the quarter ended September 30, 2015 and 447.260 million shares for the quarter ended September 30, 2014. During 2014 and the first nine months of 2015, we repurchased 28.583 million and 17.629 million shares of our common stock, respectively.

For the third quarter of 2015, consolidated and same facility admissions increased 3.8% and 2.9%, respectively, compared to the third quarter of 2014. Consolidated and same facility outpatient surgical volumes increased 1.7% and 1.2%, respectively, during the third quarter of 2015, compared to the third quarter of 2014. Consolidated and same facility inpatient surgeries increased 2.0% and 1.6%, respectively, in the third quarter of 2015, compared to the third quarter of 2014. Consolidated and same facility emergency department visits increased 7.2% and 5.8%, respectively, during the quarter ended September 30, 2015, compared to the quarter ended September 30, 2014.

Revenues before provision for doubtful accounts increased 10.4% for the third quarter of 2015 compared to the third quarter of 2014. The provision for doubtful accounts increased \$400 million from \$758 million in the third quarter of 2014 to \$1.158 billion in the third quarter of 2015. The provision for doubtful accounts relates primarily to uninsured amounts due directly from patients, including copayment and deductible amounts for patients who have health care coverage. The self-pay revenue deductions for charity care and uninsured discounts declined \$106 million and increased \$677 million, respectively, during the third quarter of 2015, compared to the third quarter of 2014. The sum of the provision for doubtful accounts, uninsured discounts and charity care, as a percentage of the sum of revenues, the provision for doubtful accounts, uninsured discounts and charity care, was 33.1% for the third quarter of 2015, compared to 29.8% for the third quarter of 2014. We believe this increase, which represents a reversal from the trend of declines during the four quarters preceeding the second quarter of 2015, is primarily attributed to the anniversary of the benefits we began realizing during the second quarter of 2014 related to the health insurance exchanges and Medicaid expansion programs. At September 30, 2015, our allowance for doubtful accounts represented approximately 94% of the \$5.426 billion total patient due accounts receivable balance, including accounts, net of estimated contractual discounts, related to patients for which eligibility for Medicaid coverage or uninsured discounts was being evaluated.

Revenues increased 6.9% due primarily to the combined impact of revenue per equivalent admission growth of 2.0% and a 4.8% increase in equivalent admissions for the third quarter of 2015 compared to the third quarter of 2014. Same facility revenues increased 5.5% due to the combined impact of a 1.9% increase in same facility revenue per equivalent admission and a 3.6% increase in same facility equivalent admissions for the third quarter of 2015 compared to the third quarter of 2014.

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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 September 30, 2015 and 2014 (continued)

Salaries and benefits, as a percentage of revenues, were 46.9% in the third quarter of 2015 and 45.7% in the third quarter of 2014. Salaries and benefits per equivalent admission increased 4.7% in the third quarter of 2015 compared to the third quarter of 2014. Same facility labor rate increases averaged 2.8% for the third quarter of 2015 compared to the third quarter of 2014. Contract labor increased \$55 million, or 35.5%, in the third quarter of 2015 compared to the third quarter of 2014.

Supplies, as a percentage of revenues, were 16.7% in each of the third quarters of 2015 and 2014. Supply costs per equivalent admission increased 2.0% in the third quarter of 2015 compared to the third quarter of 2014. Supply costs per equivalent admission increased 6.9% for pharmacy supplies, 1.9% for medical devices and 0.3% for general medical and surgical items in the third quarter of 2015 compared to the third quarter of 2014.

Other operating expenses, as a percentage of revenues, were 18.2% in the third quarter of 2015 and 18.3% in the third quarter of 2014. Other operating expenses is primarily comprised of contract services, professional fees, repairs and maintenance, rents and leases, utilities, insurance (including professional liability insurance) and nonincome taxes. Provisions for losses related to professional liability risks were \$72 million and \$96 million for the third quarters of 2015 and 2014, respectively. During the third quarter of 2015, we recorded a reduction of \$29 million to our provision for professional liability risks related to the receipt of updated actuarial information.

We recognized \$9 million and \$32 million of electronic health record incentive income primarily related to Medicare incentives during the third quarters of 2015 and 2014, respectively.

Equity in earnings of affiliates was \$9 million and \$14 million in the third quarters of 2015 and 2014, respectively.

Depreciation and amortization increased \$22 million, from \$460 million in the third quarter of 2014 to \$482 million in the third quarter of 2015.

Interest expense was \$411 million in the third quarter of 2015 and \$427 million in the third quarter of 2014. The decline in interest expense was due to a decline in the average interest rate. Our average debt balance was \$29.696 billion for the third quarter of 2015 compared to \$28.350 billion for the third quarter of 2014. The average effective interest rate for our long-term debt declined from 6.0% for the quarter ended September 30, 2014 to 5.5% for the quarter ended September 30, 2015.

During the third quarters of 2015 and 2014, we recorded net losses on sales of facilities of \$2 million and \$12 million, respectively.

We recorded \$77 million of legal claim costs during the third quarter of 2015 for additional court-awarded interest costs related to the previously disclosed lawsuit alleging we did not make the full level of capital expenditures agreed to in connection with the purchase of hospitals from Health Midwest in 2003.

The effective tax rates were 37.6% and 38.0% for the third quarters of 2015 and 2014, respectively. The effective tax rate computations exclude net income attributable to noncontrolling interests as it relates to consolidated partnerships.

Net income attributable to noncontrolling interests increased from \$93 million for the third quarter of 2014 to \$124 million for the third quarter of 2015. The increase in net income attributable to noncontrolling interests related primarily to joint ventures in two of our Texas markets.

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

Results of Operations (continued)*Nine Months Ended September 30, 2015 and 2014*

Net income attributable to HCA Holdings, Inc. totaled \$1.547 billion, or \$3.60 per diluted share, in the nine months ended September 30, 2015 compared to \$1.348 billion, or \$2.98 per diluted share, in the nine months ended September 30, 2014. The first nine months of 2015 results include losses on retirement of debt of \$125 million, or \$0.18 per diluted share, legal claim costs of \$77 million, or \$0.11 per diluted share, and net gains on sales of facilities of \$2 million. The first nine months of 2014 results include losses on retirement of debt of \$226 million, or \$0.32 per diluted share, net gains on sales of facilities of \$20 million, or \$0.03 per diluted share, and legal claim costs of \$78 million, or \$0.11 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 430.354 million shares and 452.538 million shares for the nine months ended September 30, 2015 and 2014, respectively. During 2014 and the first nine months of 2015, we repurchased 28.583 million and 17.629 million shares of our common stock, respectively.

For the first nine months of 2015, consolidated and same facility admissions increased 4.8% and 4.1%, respectively, compared to the first nine months of 2014. Consolidated and same facility outpatient surgical volumes increased 1.7% and 1.3%, respectively, during the first nine months of 2015, compared to the first nine months of 2014. Consolidated and same facility inpatient surgeries increased 2.5% and 2.3%, respectively, in the first nine months of 2015, compared to the first nine months of 2014. Consolidated and same facility emergency department visits increased 9.3% and 8.2%, respectively, during the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014.

Revenues before provision for doubtful accounts increased 8.9% for the first nine months of 2015 compared to the first nine months of 2014. Provision for doubtful accounts increased \$502 million from \$2.337 billion in the first nine months of 2014 to \$2.839 billion in the first nine months of 2015. The provision for doubtful accounts relates primarily to uninsured amounts due directly from patients, including copayment and deductible amounts for patients who have health care coverage. The self-pay revenue deductions for charity care and uninsured discounts declined \$145 million and increased \$1.208 billion, respectively, during the first nine months of 2015, compared to the first nine months of 2014. The sum of the provision for doubtful accounts, uninsured discounts and charity care, as a percentage of the sum of revenues, the provision for doubtful accounts, uninsured discounts and charity care, was 31.2% for the first nine months of 2015, compared to 30.1% for the first nine months of 2014. At September 30, 2015, our allowance for doubtful accounts represented approximately 94% of the \$5.426 billion total patient due accounts receivable balance, including accounts, net of estimated contractual discounts, related to patients for which eligibility for Medicaid coverage or uninsured discounts was being evaluated.

Revenues increased 7.9% due primarily to the combined impact of revenue per equivalent admission growth of 1.6% and an increase of 6.2% in equivalent admissions for the first nine months of 2015 compared to the first nine months of 2014. Same facility revenues increased 6.7% due primarily to the combined impact of a 1.4% increase in same facility revenue per equivalent admission and a 5.2% increase in same facility equivalent admissions for the first nine months of 2015 compared to the first nine months of 2014.

Salaries and benefits, as a percentage of revenues, were 45.9% in the first nine months of 2015 and 45.3% in the first nine months of 2014. Salaries and benefits per equivalent admission increased 2.9% in the first nine months of 2015 compared to the first nine months of 2014. Same facility labor rate increases averaged 2.7% for the first nine months of 2015 compared to the first nine months of 2014. Contract labor increased \$130 million, or 28.2%, for the first nine months of 2015 compared to the first nine months of 2014.

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

Results of Operations (continued)

Nine Months Ended September 30, 2015 and 2014 (continued)

Supplies, as a percentage of revenues, were 16.8% in the first nine months of 2015 and 16.9% in the first nine months of 2014. Supply cost per equivalent admission increased 1.3% in the first nine months of 2015 compared to the first nine months of 2014. Supply costs per equivalent admission increased 1.3% for medical devices, 4.6% for pharmacy supplies and 0.4% for general medical and surgical items in the first nine months of 2015 compared to the first nine months of 2014.

Other operating expenses, as a percentage of revenues, declined to 17.9% in the first nine months of 2015 from 18.2% in the first nine months of 2014. Other operating expenses is primarily comprised of contract services, professional fees, repairs and maintenance, rents and leases, utilities, insurance (including professional liability insurance) and nonincome taxes. Provisions for losses related to professional liability risks were \$266 million and \$288 million for the first nine months of 2015 and 2014, respectively. During the first nine months of 2015, we recorded a reduction of \$29 million to our provision for professional liability risks related to the receipt of updated actuarial information.

We recognized \$46 million and \$97 million of electronic health record incentive income primarily related to Medicare incentives during the first nine months of 2015 and 2014, respectively.

Equity in earnings of affiliates was \$38 million and \$32 million in the first nine months of 2015 and 2014, respectively.

Depreciation and amortization increased \$63 million, from \$1.361 billion in the first nine months of 2014 to \$1.424 billion in the first nine months of 2015.

Interest expense declined from \$1.314 billion in the first nine months of 2014 to \$1.255 billion in the first nine months of 2015 due primarily to a decline in the average interest rate. Our average debt balance was \$29.574 billion for the first nine months of 2015 compared to \$28.401 billion for the first nine months of 2014. The average effective interest rate for our long term debt declined from 6.2% for the nine months ended September 30, 2014 to 5.7% for the nine months ended September 30, 2015.

During the first nine months of 2015 and 2014, we recorded net gains on sales of facilities of \$2 million and \$20 million, respectively.

During June 2015, we entered into a joinder agreement to retire certain of our existing senior secured term loans using proceeds from a new \$1.400 billion senior secured term loan credit facility maturing on June 10, 2020. The pretax loss on retirement of debt was \$3 million. During May 2015, we issued \$1.600 billion aggregate principal amount of 5.375% senior notes due 2025. We used the net proceeds to redeem all \$1.525 billion aggregate principal amount of 7³/₄% senior notes due 2021 of HCA Holdings, Inc. The pretax loss on retirement of debt related to this redemption was \$122 million.

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

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Results of Operations (continued)

Nine Months Ended September 30, 2015 and 2014 (continued)

We recorded \$77 million of legal claim costs during the first nine months of 2015 for additional court-awarded interest costs, and we recorded \$78 million of legal claim costs during the first nine months of 2014 to increase the estimate of our legal liability. Both amounts relate to the previously disclosed lawsuit alleging we did not make the full level of capital expenditures agreed to in connection with the purchase of hospitals from Health Midwest in 2003.

The effective tax rates were 38.0% and 37.7% for the first nine months of 2015 and 2014, respectively. The effective tax rate computations exclude net income attributable to noncontrolling interests as it relates to consolidated partnerships.

Net income attributable to noncontrolling interests increased from \$349 million for the first nine months of 2014 to \$411 million for the first nine months of 2015. The increase in net income attributable to noncontrolling interests related primarily to joint ventures in our United Kingdom market, a Texas market and an Oklahoma market.

Liquidity and Capital Resources

Cash provided by operating activities totaled \$3.176 billion in the first nine months of 2015 compared to \$2.821 billion in the first nine months of 2014. The \$355 million increase in cash provided by operating activities in the first nine months of 2015 compared to the first nine months of 2014 related primarily to the \$261 million increase in net income and net positive changes in working capital items of \$114 million. The combined interest payments and net tax payments in the first nine months of 2015 and 2014 were \$2.213 billion and \$2.199 billion, respectively. Working capital totaled \$2.908 billion at September 30, 2015 and \$3.450 billion at December 31, 2014.

Cash used in investing activities was \$1.631 billion in the first nine months of 2015 compared to \$1.512 billion in the first nine months of 2014. Excluding acquisitions, capital expenditures were \$1.571 billion in the first nine months of 2015 and \$1.482 billion in the first nine months of 2014. We expended \$15 million for the acquisition of a hospital facility and \$169 million to acquire nonhospital health care facilities during the first nine months of 2015. We expended \$14 million for the acquisition of a hospital facility and \$83 million to acquire nonhospital health care entities during the first nine months of 2014. Capital expenditures, excluding acquisitions, are expected to approximate \$2.4 billion in 2015. At September 30, 2015, there were projects under construction which had estimated additional costs to complete and equip over the next five years of approximately \$2.4 billion. We expect to finance capital expenditures with internally generated and borrowed funds. We received \$27 million and \$38 million from sales of real estate and other investments during the first nine months of 2015 and 2014, respectively. We received \$94 million and \$22 million of net cash flows from our investments in the first nine months of 2015 and 2014, respectively.

Cash used in financing activities totaled \$1.523 billion in the first nine months of 2015 compared to \$1.208 billion in the first nine months of 2014. During the first nine months of 2015, net cash flows used in financing activities included a net increase of \$76 million in our indebtedness, repurchases of common stock of \$1.386 billion, distributions to noncontrolling interests of \$367 million, payments of debt issuance costs of \$34 million and receipts of \$231 million of income tax benefits for certain items (primarily related to employee exercises of stock options). During the first nine months of 2014, net cash flows used in financing activities included a net decline of \$183 million in our indebtedness, repurchase of common stock of \$750 million, distributions to noncontrolling interests of \$325 million, payments of debt issuance costs of \$49 million and receipts of \$119 million of income tax benefits for certain items (primarily related to employee exercises of stock options).

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

Liquidity and Capital Resources (continued)

We are a highly leveraged company with significant debt service requirements. Our debt totaled \$29.752 billion at September 30, 2015. Our interest expense was \$1.255 billion for the first nine months of 2015 and \$1.314 billion for the first nine months of 2014. The decline in interest expense was due to the decline in the average interest rate.

In addition to cash flows from operations, available sources of capital include amounts available under our senior secured credit facilities (\$2.587 billion and \$2.427 billion available as of September 30, 2015 and October 23, 2015, respectively) and anticipated access to public and private debt markets.

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

During May 2015, we issued \$1.600 billion aggregate principal amount of 5.375% senior notes due 2025. We used the net proceeds to redeem all \$1.525 billion aggregate principal amount of 7³/₄% senior notes due 2021 of HCA Holdings, Inc. The pretax loss on retirement of debt related to this redemption was \$122 million.

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

During October 2014, we issued \$600 million aggregate principal amount of 4.25% senior secured notes due 2019 and \$1.400 billion aggregate principal amount of 5.25% senior secured notes due 2025. During November 2014, we used a portion of the proceeds from the October 2014 debt issuances to redeem all \$1.400 billion aggregate principal amount of our outstanding 7¹/₄% senior secured notes due 2020. The pretax loss on retirement of debt related to this redemption was \$109 million.

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

Investments of our professional liability insurance subsidiaries, to maintain statutory equity and pay claims, totaled \$460 million and \$558 million at September 30, 2015 and December 31, 2014, respectively. An insurance subsidiary maintained net reserves for professional liability risks of \$261 million and \$347 million at September 30, 2015 and December 31, 2014, respectively. Our facilities are insured by a 100% owned insurance subsidiary for losses up to \$50 million per occurrence; however, this coverage is subject to a \$15 million per occurrence self-insured retention. Net reserves for the self-insured professional liability risks retained were \$1.159 billion and \$1.035 billion at September 30, 2015 and December 31, 2014, respectively. Claims payments, net of reinsurance recoveries, during the next 12 months are expected to approximate \$330 million. We estimate that approximately \$279 million of the expected net claim payments during the next 12 months will relate to claims subject to the self-insured retention.

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

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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

We are exposed to market risk related to changes in market values of securities. The investments in debt and equity securities of our 100% owned insurance subsidiaries were \$457 million and \$3 million, respectively, at September 30, 2015. These investments are carried at fair value, with changes in unrealized gains and losses being recorded as adjustments to other comprehensive income. At September 30, 2015, we had a net unrealized gain of \$17 million on the insurance subsidiaries' investment securities.

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

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

With respect to our interest-bearing liabilities, approximately \$4.279 billion of long-term debt at September 30, 2015 was subject to variable rates of interest, while the remaining balance in long-term debt of \$25.473 billion at September 30, 2015 was subject to fixed rates of interest. Both the general level of interest rates and, for the senior secured credit facilities, our leverage affect our variable interest rates. Our variable debt is comprised primarily of amounts outstanding under the senior secured credit facilities. Borrowings under the senior secured credit facilities bear interest at a rate equal to an applicable margin plus, at our option, either (a) a base rate determined by reference to the higher of (1) the federal funds rate plus 0.50% and (2) the prime rate of Bank of America or (b) a LIBOR rate for the currency of such borrowing for the relevant interest period. The applicable margin for borrowings under the senior secured credit facilities may fluctuate according to a leverage ratio. The average effective interest rate for our long-term debt declined from 6.2% for the nine months ended September 30, 2014 to 5.7% for the nine months ended September 30, 2015.

The estimated fair value of our total long-term debt was \$30.765 billion at September 30, 2015. 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 \$43 million. To mitigate the impact of fluctuations in interest rates, we generally target a portion of our debt portfolio to be maintained at fixed rates.

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

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

Tax Examinations

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

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

Operating Data

	2015	2014
Number of hospitals in operation at:		
March 31	168	165
June 30	168	165
September 30	168	165
December 31		166
Number of freestanding outpatient surgical centers in operation at:		
March 31	113	115
June 30	112	115
September 30	114	113
December 31		113
Licensed hospital beds at(a):		
March 31	43,500	43,000
June 30	43,647	43,025
September 30	43,731	43,241
December 31		43,356
Weighted average licensed beds(b):		
Quarter:		
First	43,451	42,958
Second	43,619	43,020
Third	43,700	43,226
Fourth		43,321
Year		43,132
Average daily census(c):		
Quarter:		
First	26,039	24,414
Second	24,920	23,468
Third	24,573	23,372
Fourth		24,094
Year		23,835
Admissions(d):		
Quarter:		
First	470,900	445,100
Second	464,200	442,800
Third	466,400	449,400
Fourth		458,000

Year

1,795,300

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

Operating Data (continued)

	2015	2014
Equivalent admissions(e):		
Quarter:		
First	769,400	713,000
Second	778,200	734,200
Third	787,300	751,300
Fourth		760,200
Year		2,958,700
Average length of stay (days)(f):		
Quarter:		
First	5.0	4.9
Second	4.9	4.8
Third	4.8	4.8
Fourth		4.8
Emergency room visits(g):		
Quarter:		
First	1,982,000	1,765,000
Second	2,007,400	1,849,800
Third	2,023,100	1,886,700
Fourth		1,949,200
Year		7,450,700
Outpatient surgeries(h):		
Quarter:		
First	214,500	210,500
Second	228,300	225,000
Third	226,400	222,700
Fourth		233,400
Year		891,600
Inpatient surgeries(i):		
Quarter:		
First	130,100	126,300
Second	131,800	128,700
Third	134,000	131,300
Fourth		132,600
Year		518,900
Days revenues in accounts receivable(j):		
Quarter:		
First	55	56
Second	53	54
Third	54	55
Fourth		54
Outpatient revenues as a % of patient revenues(k):		
Quarter:		
First	38%	37%
Second	40%	38%
Third	40%	38%
Fourth		39%
Year		38%

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

BALANCE SHEET DATA

	% of Accounts Receivable		
	Under 91 Days	91 - 180 Days	Over 180 Days
Accounts receivable aging at September 30, 2015(1):			
Medicare and Medicaid	13%	1%	1%
Managed care and other discounted	25	5	6
Uninsured	17	7	25
Total	55%	13%	32%

- (a) Licensed beds are those beds for which a facility has been granted approval to operate from the applicable state licensing agency.
- (b) Represents the average number of licensed beds, weighted based on periods owned.
- (c) Represents the average number of patients in our hospital beds each day.
- (d) Represents the total number of patients admitted to our hospitals and is used by management and certain investors as a general measure of inpatient volume.
- (e) Equivalent admissions are used by management and certain investors as a general measure of combined inpatient and outpatient volume. Equivalent admissions are computed by multiplying admissions (inpatient volume) by the sum of gross inpatient revenues and gross outpatient revenues and then dividing the resulting amount by gross inpatient revenues. The equivalent admissions computation equates outpatient revenues to the volume measure (admissions) used to measure inpatient volume resulting in a general measure of combined inpatient and outpatient volume.
- (f) Represents the average number of days admitted patients stay in our hospitals.
- (g) Represents the number of patients treated in our emergency rooms.
- (h) Represents the number of surgeries performed on patients who were not admitted to our hospitals. Pain management and endoscopy procedures are not included in outpatient surgeries.
- (i) Represents the number of surgeries performed on patients who have been admitted to our hospitals. Pain management and endoscopy procedures are not included in inpatient surgeries.
- (j) Revenues per day is calculated by dividing the revenues for the quarter by the days in the quarter. Days revenues in accounts receivable is then calculated as accounts receivable, net of allowance for doubtful accounts, at the end of the quarter divided by the revenues per day. Revenues used in this computation are net of the provision for doubtful accounts.
- (k) Represents the percentage of patient revenues related to patients who are not admitted to our hospitals.
- (l) Accounts receivable aging data is based upon consolidated gross accounts receivable of \$10.938 billion (each 1% is equivalent to approximately \$109 million of gross accounts receivable).

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

Government Investigations, Claims and Litigation

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

In July 2012, the Civil Division of the U.S. Attorney's Office in Miami requested information on reviews assessing the medical necessity of interventional cardiology services provided at any Company facility (other than peer reviews). The Company cooperated with the government's request and produced medical records associated with particular reviews at eight hospitals, located primarily in Florida. On February 24, 2015, the United States District Court for the Southern District of Florida unsealed a *qui tam* action which had been filed under seal on February 16, 2012 and alleges particular FCA violations relating to two specific facilities that were among the subjects of the Miami U.S. Attorney's Office investigation. On January 30, 2015, the U.S. Attorney's Office filed with the District Court a formal notice that the Department of Justice had declined to intervene in that action. The relator subsequently dismissed this *qui tam* action without prejudice. An additional *qui tam*

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action relating to these topics was unsealed and voluntarily dismissed by the relator. The U.S. Attorney's Office in Miami is continuing its evaluation of the medical necessity of certain interventional cardiology services at the other hospitals for which the Company produced records. At this time, we cannot predict what effect, if any, the *qui tam* actions, or any claims that might result from the U.S. Attorney's continued review, including any potential claims under the federal FCA, other statutes, regulations or laws, could have on the Company.

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

Securities Class Action Litigation

On October 28, 2011, a shareholder action, *Schuh v. HCA Holdings, Inc. et al.*, was filed in the United States District Court for the Middle District of Tennessee seeking monetary relief. The case sought to include as a class all persons who acquired the Company's stock pursuant or traceable to the Company's Registration Statement issued in connection with the March 9, 2011 initial public offering. The lawsuit asserted a claim under Section 11 of the Securities Act of 1933 against the Company, certain members of the board of directors, and certain underwriters in the offering. It further asserted a claim under Section 15 of the Securities Act of 1933 against the same members of the board of directors. The action alleged various deficiencies in the Company's disclosures in the Registration Statement. Subsequently, two additional class action complaints, *Kishtah v. HCA Holdings, Inc. et al.* and *Daniels v. HCA Holdings, Inc. et al.*, setting forth substantially similar claims against substantially the same defendants were filed in the same federal court on November 16, 2011 and December 12, 2011, respectively. All three of the cases were consolidated. On May 3, 2012, the court appointed New England Teamsters & Trucking Industry Pension Fund as Lead Plaintiff for the consolidated action. On July 13, 2012, the lead plaintiff filed an amended complaint asserting claims under Sections 11 and 12(a)(2) of the Securities Act of 1933 against the Company, certain members of the board of directors, and certain underwriters in the offering. It further asserts a claim under Section 15 of the Securities Act of 1933 against the same members of the board of directors and Hercules Holding II, LLC, a majority shareholder of the Company at the time of the initial public offering. The consolidated complaint alleges deficiencies in the Company's disclosures in the Registration Statement and Prospectus relating to: (1) the accounting for the Company's 2006 recapitalization and 2010 reorganization; (2) the Company's failure to maintain effective internal controls relating to its accounting for such transactions; and (3) the Company's Medicare and Medicaid revenue growth rates. The Company and other defendants moved to dismiss the amended complaint on September 11, 2012. The court granted the motion in part on May 28, 2013. The action proceeded to discovery on the remaining claims. The plaintiffs' motion for class certification was granted on September 22, 2014. The court certified a class consisting of all persons that acquired HCA stock on or before October 28, 2011 (the date of the lawsuit) pursuant to the Registration Statement issued in connection with the March 9, 2011 initial public offering. A request to the court of appeals to hear an immediate appeal of this ruling was denied. Plaintiffs and defendants have each filed motions for summary judgment and to strike certain of the expert witnesses. If the case is not otherwise resolved, trial is likely to occur in 2016.

In addition to the above described shareholder class actions, on December 8, 2011, a federal shareholder derivative action, *Sutton v. Bracken, et al.*, putatively initiated in the name of the Company, was filed in the

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

Health Midwest Litigation

In October 2009, the Health Care Foundation of Greater Kansas City, a nonprofit health foundation, filed suit against HCA Inc. in the Circuit Court of Jackson County, Missouri and alleged that HCA did not fund the level of capital expenditures and uncompensated care agreed to in connection with HCA's purchase of hospitals from Health Midwest in 2003. The central issue in the case was whether HCA's construction of new hospitals counted towards its \$450 million five-year capital commitments. In addition, the plaintiff alleged that HCA did not make its required capital expenditures in a timely fashion. On January 24, 2013, the court ruled in favor of the plaintiff and awarded at least \$162 million. The court also ordered a court-supervised accounting of HCA's capital expenditures, as well as of expenditures on charity and uncompensated care during the ten years following the purchase. The court also indicated it would award plaintiff attorneys fees, which the parties have stipulated are approximately \$12 million for the trial phase. HCA recorded \$175 million of legal claim costs in the fourth quarter of 2012 related to this ruling, and consistent with the judge's order, has been accruing interest on that sum at 9% per annum. On April 25, 2014, the parties stipulated to an additional \$78 million shortfall relating to the capital expenditures issue. HCA recorded \$78 million of legal claims costs in the first quarter of 2014 as a result of the stipulation, and is accruing interest on that amount at 9% per annum. Pursuant to the terms of the stipulation, the parties have preserved their respective rights to contest the judge's underlying ruling, whether through motions in the trial court or on appeal. On February 9, 2015, the parties reached an agreement to settle the part of their dispute relating to charity and uncompensated care for \$15 million. The foundation is required to use that amount, net of attorneys fees, for charitable activities in the Kansas City area. The parties also agreed on an additional amount for attorneys fees for the plaintiff for the accounting phase of the case. The parties filed post-trial motions, on which the court ruled on October 21, 2015. The court denied defendants' motion to have the court change its rulings on liability and damages related to the capital expenditures issue, and granted the plaintiff's motion for an award of additional pre-judgment interest. As a result of the court's ruling on pre-judgment interest, the Company recognized \$77 million of legal claim costs in its condensed consolidated income statements for the quarter and nine months ended September 30, 2015, and will continue to accrue interest at 9% per annum until the matter is resolved. At September 30, 2015, the Company had an accrued liability of \$382 million in connection with this litigation. Once final judgment is entered, the Company plans to pursue an appeal.

ITEM 1A. RISK FACTORS

Reference is made to the factors set forth under the caption "Forward-Looking Statements" in Part I, Item 2 of this Form 10-Q and other risk factors described in our annual report on Form 10-K for the year ended December 31, 2014, which are incorporated herein by reference. There have not been any material changes to the risk factors previously disclosed in our annual report on Form 10-K for the year ended December 31, 2014.

Table of Contents**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

On February 2, 2015, our Board of Directors authorized a share repurchase program for up to \$1 billion of our outstanding common stock. This authorization was completed in July 2015. On May 4, 2015, our Board of Directors authorized another share repurchase program for up to \$1 billion of our outstanding common stock. Repurchases made during the third quarter of 2015, as detailed below, were made through market purchases pursuant to the February 2015 and May 2015 authorizations. On October 26, 2015, our Board of Directors authorized an additional share repurchase program for up to \$3 billion of our outstanding common stock.

The following table provides certain information with respect to our repurchases of common stock from July 1, 2015 through September 30, 2015 (dollars in millions, except per share amounts).

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under Publicly Announced Plans or Programs
July 1, 2015 through July 31, 2015	1,254,629	\$ 92.48	1,254,629	\$ 944
August 1, 2015 through August 31, 2015	2,054,016	\$ 88.65	2,054,016	\$ 762
September 1, 2015 through September 30, 2015	1,768,389	\$ 83.46	1,768,389	\$ 614
Total for third quarter 2015	5,077,034	\$ 87.79	5,077,034	\$ 614

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ITEM 6. EXHIBITS

(a) List of Exhibits:

December 31, 2014, (ii) the condensed consolidated income statements for the quarters and nine months ended September 30, 2015 and 2014, (iii) the condensed con

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SIGNATURES

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

HCA Holdings, Inc.

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

Date: October 29, 2015