

HCA INC/TN  
Form 10-Q  
May 07, 2010

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

**Form 10-Q**

(Mark One)

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

**For the quarterly period ended March 31, 2010**

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 Inc.**

*(Exact name of registrant as specified in its charter)*

**Delaware**

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

**75-2497104**

*(I.R.S. Employer  
Identification No.)*

**One Park Plaza**

**Nashville, Tennessee**

*(Address of principal executive offices)*

**37203**

*(Zip Code)*

**(615) 344-9551**

*(Registrant's telephone number, including area code)*

**Not Applicable**

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

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

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

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

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

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

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

<b>Class of Common Stock</b>	<b>Outstanding at April 30, 2010</b>
Voting common stock, \$.01 par value	94,633,300 shares

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**HCA INC.**

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**HCA INC.**  
**CONDENSED CONSOLIDATED INCOME STATEMENTS**  
**FOR THE QUARTERS ENDED MARCH 31, 2010 AND 2009**  
**Unaudited**  
**(Dollars in millions)**

	<b>2010</b>	<b>2009</b>
Revenues	<b>\$ 7,544</b>	<b>\$ 7,431</b>
Salaries and benefits	<b>3,072</b>	2,923
Supplies	<b>1,200</b>	1,210
Other operating expenses	<b>1,202</b>	1,102
Provision for doubtful accounts	<b>564</b>	807
Equity in earnings of affiliates	<b>(68)</b>	(68)
Depreciation and amortization	<b>355</b>	353
Interest expense	<b>516</b>	471
Losses on sales of facilities		5
Impairments of long-lived assets	<b>18</b>	9
	<b>6,859</b>	6,812
Income before income taxes	<b>685</b>	619
Provision for income taxes	<b>209</b>	187
Net income	<b>476</b>	432
Net income attributable to noncontrolling interests	<b>88</b>	72
Net income attributable to HCA Inc.	<b>\$ 388</b>	<b>\$ 360</b>

See accompanying notes.

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

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 388	\$ 312
Accounts receivable, less allowance for doubtful accounts of \$4,519 and \$4,860	3,878	3,692
Inventories	794	802
Deferred income taxes	1,181	1,192
Other	497	579
	<b>6,738</b>	<b>6,577</b>
Property and equipment, at cost	<b>24,766</b>	24,669
Accumulated depreciation	<b>(13,514)</b>	(13,242)
	<b>11,252</b>	11,427
Investments of insurance subsidiary	<b>1,146</b>	1,166
Investments in and advances to affiliates	<b>851</b>	853
Goodwill	<b>2,561</b>	2,577
Deferred loan costs	<b>411</b>	418
Other	<b>1,132</b>	1,113
	<b>\$ 24,091</b>	<b>\$ 24,131</b>
<b>LIABILITIES AND STOCKHOLDERS DEFICIT</b>		
Current liabilities:		
Accounts payable	\$ 1,199	\$ 1,460
Accrued salaries	893	849
Other accrued expenses	1,498	1,158
Long-term debt due within one year	981	846
	<b>4,571</b>	<b>4,313</b>
Long-term debt	<b>25,874</b>	24,824
Professional liability risks	<b>1,058</b>	1,057
Income taxes and other liabilities	<b>1,742</b>	1,768
Equity securities with contingent redemption rights	<b>144</b>	147
Stockholders deficit:		

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Common stock \$0.01 par; authorized 125,000,000 shares; outstanding 94,626,100 shares in 2010 and 94,637,400 shares in 2009	<b>1</b>	1
Capital in excess of par value	<b>291</b>	226
Accumulated other comprehensive loss	<b>(479)</b>	(450)
Retained deficit	<b>(10,126)</b>	(8,763)
Stockholders' deficit attributable to HCA Inc.	<b>(10,313)</b>	(8,986)
Noncontrolling interests	<b>1,015</b>	1,008
	<b>(9,298)</b>	(7,978)
	<b>\$ 24,091</b>	\$ 24,131

See accompanying notes.

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**HCA INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE QUARTERS ENDED MARCH 31, 2010 AND 2009**

**Unaudited**  
**(Dollars in millions)**

	2010	2009
<b>Cash flows from operating activities:</b>		
Net income	\$ 476	\$ 432
Adjustments to reconcile net income to net cash provided by operating activities:		
Changes in operating assets and liabilities	(838)	(1,111)
Provision for doubtful accounts	564	807
Depreciation and amortization	355	353
Income taxes	280	41
Losses on sales of facilities		5
Impairments of long-lived assets	18	9
Amortization of deferred loan costs	20	21
Share-based compensation	8	7
Pay-in-kind interest		39
Other	18	12
Net cash provided by operating activities	901	615
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(214)	(337)
Acquisition of hospitals and health care entities	(21)	(38)
Disposition of hospitals and health care entities	24	5
Change in investments	29	76
Other	1	6
Net cash used in investing activities	(181)	(288)
<b>Cash flows from financing activities:</b>		
Issuance of long-term debt	1,387	300
Net change in revolving credit facilities	1,339	(335)
Repayment of long-term debt	(1,510)	(339)
Distributions to noncontrolling interests	(83)	(55)
Payment of debt issuance costs	(25)	(14)
Payment of cash distribution to stockholders	(1,751)	
Other	(1)	7
Net cash used in financing activities	(644)	(436)
Change in cash and cash equivalents	76	(109)
Cash and cash equivalents at beginning of period	312	465
Cash and cash equivalents at end of period	\$ 388	\$ 356



Interest payments	\$	<b>374</b>	\$	344
Income tax (refunds) payments, net	\$	<b>(71)</b>	\$	146

See accompanying notes.

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**HCA INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Unaudited**

**NOTE 1 INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

*Merger, Recapitalization and Reporting Entity*

On November 17, 2006, HCA Inc. completed its merger (the Merger) with Hercules Acquisition Corporation, pursuant to which the Company was acquired by Hercules Holding II, LLC (Hercules Holding), a Delaware limited liability company owned by a private investor group comprised of affiliates of Bain Capital Partners, Kohlberg Kravis Roberts & Co., Merrill Lynch Global Private Equity (each a Sponsor), affiliates of Citigroup Inc. and Bank of America Corporation (the Sponsor Assignees) and affiliates of HCA founder, Dr. Thomas F. Frist Jr., (the Frist Entities, and together with the Sponsors and the Sponsor Assignees, the Investors) and by members of management and certain other investors. The Merger, the financing transactions related to the Merger and other related transactions are collectively referred to in this quarterly report as the Recapitalization. The Merger was accounted for as a recapitalization in our financial statements, with no adjustments to the historical basis of our assets and liabilities. As a result of the Recapitalization, our outstanding capital stock is owned by the Investors, certain members of management and key employees. On April 29, 2008, we registered our common stock pursuant to Section 12(g) of the Securities Exchange Act of 1934, as amended, thus subjecting us to the reporting requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended. Our common stock is not traded on a national securities exchange.

HCA 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 Inc. and partnerships and joint ventures in which such subsidiaries are partners. At March 31, 2010, these affiliates owned and operated 154 hospitals, 98 freestanding surgery centers and facilities which provided extensive outpatient and ancillary services. Affiliates of HCA are also partners in joint ventures that own and operate eight hospitals and eight freestanding surgery centers which are accounted for using the equity method. The Company's facilities are located in 20 states and England. The terms HCA, Company, we, our or us, as used in this quarterly report on Form 10-Q, refer to HCA Inc. and its affiliates unless otherwise stated or indicated by context.

*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. In accordance with Accounting Standards Codification (ASC) 810, Consolidation (ASC 810), references in this report to net income attributable to HCA Inc. and stockholders' deficit attributable to HCA Inc. do not include noncontrolling interests (previously reported as minority interests), which we now report separately. The implementation of ASC 810 also results in the cash flow impact of distributions to and certain other transactions with noncontrolling interests that were previously classified within operating activities, being classified within financing activities. Such treatment is consistent with the view that, under ASC 810, transactions between HCA Inc. and noncontrolling interests are considered to be equity transactions.

The majority of our expenses are cost of revenue items. Costs that could be classified as general and administrative would include our corporate office costs, which were \$38 million and \$37 million for the quarters ended March 31,

2010 and 2009, respectively. Operating results for the quarter ended March 31, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. 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, 2009.

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

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At March 31, 2010, we were contesting before the Appeals Division of the Internal Revenue Service ( IRS ), certain claimed deficiencies and adjustments proposed by the IRS in connection with its examination of the 2003 and 2004 federal income tax returns for HCA and eight affiliates that are treated as partnerships for federal income tax purposes ( affiliated partnerships ). The disputed items include the timing of recognition of certain patient service revenues and our method for calculating the tax allowance for doubtful accounts.

Six taxable periods of HCA and its predecessors ended in 1997 through 2002 and the 2002 taxable year of four affiliated partnerships, for which the primary remaining issue is the computation of the tax allowance for doubtful accounts, were pending before the IRS Examination Division as of March 31, 2010.

We expect the IRS Examination Division will complete its audit of HCA s 2005 and 2006 federal income tax returns and will begin an audit of the 2007, 2008 and 2009 federal income tax returns for HCA and one or more affiliated partnerships during 2010.

Our liability for unrecognized tax benefits was \$550 million, including accrued interest of \$137 million as of March 31, 2010 (\$628 million and \$156 million, respectively, as of December 31, 2009). The reduction in our liability for unrecognized tax benefits was principally based on new information received related to tax positions taken in prior years. Unrecognized tax benefits of \$201 million (\$236 million as of December 31, 2009) would affect the effective rate, if recognized. The liability for unrecognized tax benefits does not reflect deferred tax assets of \$71 million (\$77 million as of December 31, 2009) related to deductible interest and state income taxes or a refundable deposit of \$104 million, which is recorded in noncurrent assets. The provision for income taxes reflects reductions of \$15 million and \$20 million in interest expense related to taxing authority examinations for the quarters ended March 31, 2010 and 2009, respectively.

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

**NOTE 3 INVESTMENTS OF INSURANCE SUBSIDIARY**

A summary of our insurance subsidiary s investments at March 31, 2010 and December 31, 2009 follows (dollars in millions):

	Amortized Cost	March 31, 2010 Unrealized Amounts		Fair Value
		Gains	Losses	
Debt securities:				
States and municipalities	\$ 648	\$ 29	\$ (2)	\$ 675
Auction rate securities	336		(3)	333

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Asset-backed securities	<b>40</b>		<b>(1)</b>	<b>39</b>
Money market funds	<b>249</b>			<b>249</b>
	<b>1,273</b>	<b>29</b>	<b>(6)</b>	<b>1,296</b>
Equity securities	<b>8</b>		<b>(1)</b>	<b>7</b>
	<b>\$ 1,281</b>	<b>\$ 29</b>	<b>\$ (7)</b>	<b>1,303</b>
Amounts classified as current assets				<b>(157)</b>
Investment carrying value				<b>\$ 1,146</b>

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	<b>December 31, 2009</b>			
	<b>Amortized</b>	<b>Unrealized</b>		<b>Fair</b>
	<b>Cost</b>	<b>Gains</b>	<b>Losses</b>	<b>Value</b>
Debt securities:				
States and municipalities	\$ 668	\$ 30	\$ (3)	\$ 695
Auction rate securities	401		(5)	