BROOKWOOD MEDICAL CENTER OF GULFPORT INC
Form 424B3
August 13, 2010

Filed Pursuant to Rule 424(b)(3)
Registration Nos. 333-159511 and 333-159511-01 to 333-159511-185
(excluding Registration Nos. 333-159511-07, 333-159511-134 and 333-159511-143)

HCA INC.
SUPPLEMENT NO. 16 TO
MARKET MAKING PROSPECTUS DATED
JULY 10, 2009
THE DATE OF THIS SUPPLEMENT IS AUGUST 12, 2010

On August 11, 2010, HCA Inc. filed the attached Quarterly Report on Form 10-Q for the quarter ended June 30, 2010.

On June 25, 2010, HCA Inc. filed the attached Current Report on Form 8-K.

On June 22, 2010, HCA Inc. filed the attached Information Statement on Schedule 14C.

This Prospectus Supplement is being filed to provide additional information contained in filings by HCA Inc. (the Company) with the Securities and Exchange Commission. This Prospectus Supplement should be read together with the Prospectus.

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

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2010

or

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

For the transition period from to

Commission file number 1-11239

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

Delaware	**75-2497104**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
One Park Plaza Nashville, Tennessee	**37203**
(Address of principal executive offices)	*(Zip Code)*

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

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

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

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

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

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

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

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

Class of Common Stock	Outstanding at July 31, 2010
Voting common stock, $.01 par value	94,640,800 shares

HCA INC.
Form 10-Q
June 30, 2010

HCA INC.
CONDENSED CONSOLIDATED INCOME STATEMENTS
FOR THE QUARTERS AND SIX MONTHS ENDED JUNE 30, 2010 AND 2009
Unaudited
(Dollars in millions)

	Quarter		Six Months	
	2010	**2009**	**2010**	**2009**
Revenues	**$ 7,756**	$ 7,483	**$ 15,300**	$ 14,914
Salaries and benefits	**3,076**	2,944	**6,148**	5,867
Supplies	**1,251**	1,211	**2,451**	2,421
Other operating expenses	**1,226**	1,124	**2,428**	2,226
Provision for doubtful accounts	**788**	866	**1,352**	1,673
Equity in earnings of affiliates	**(75)**	(61)	**(143)**	(129)
Depreciation and amortization	**355**	360	**710**	713
Interest expense	**530**	506	**1,046**	977
Losses on sales of facilities		3		8
Impairments of long-lived assets	**91**	4	**109**	13
	7,242	6,957	**14,101**	13,769
Income before income taxes	**514**	526	**1,199**	1,145
Provision for income taxes	**136**	161	**345**	348
Net income	**378**	365	**854**	797
Net income attributable to noncontrolling interests	**85**	83	**173**	155
Net income attributable to HCA Inc.	**$ 293**	$ 282	**$ 681**	$ 642
Per share data:				
Basic earnings per share	**$ 3.09**	$ 3.00	**$ 7.20**	$ 6.81
Diluted earnings per share	**$ 3.01**	$ 2.96	**$ 7.03**	$ 6.71
Shares used in earnings per share calculations (in thousands):				
Basic	**94,635**	94,398	**94,637**	94,386
Diluted	**97,026**	95,721	**96,868**	95,720

See accompanying notes.

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

	June 30, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 350**	$ 312
Accounts receivable, less allowance for doubtful accounts of $4,516 and $4,860	**3,769**	3,692
Inventories	**805**	802
Deferred income taxes	**1,126**	1,192
Other	**742**	579
	6,792	6,577
Property and equipment, at cost	**24,950**	24,669
Accumulated depreciation	**(13,798)**	(13,242)
	11,152	11,427
Investments of insurance subsidiary	**646**	1,166
Investments in and advances to affiliates	**870**	853
Goodwill	**2,583**	2,577
Deferred loan costs	**391**	418
Other	**986**	1,113
	$ 23,420	$ 24,131
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Accounts payable	**$ 1,179**	$ 1,460
Accrued salaries	**927**	849
Other accrued expenses	**1,262**	1,158
Long-term debt due within one year	**1,029**	846
	4,397	4,313
Long-term debt	**25,769**	24,824
Professional liability risks	**1,029**	1,057
Income taxes and other liabilities	**1,589**	1,768
Equity securities with contingent redemption rights	**144**	147
Stockholders deficit:		

Common stock $0.01 par; authorized 125,000,000 shares; outstanding 94,638,800 shares in 2010 and 94,637,400 shares in 2009	**1**	1
Capital in excess of par value	**312**	226
Accumulated other comprehensive loss	**(505)**	(450)
Retained deficit	**(10,333)**	(8,763)
Stockholders deficit attributable to HCA Inc.	**(10,525)**	(8,986)
Noncontrolling interests	**1,017**	1,008
	(9,508)	(7,978)
	$ 23,420	$ 24,131

See accompanying notes.

HCA INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009
Unaudited
(Dollars in millions)

	2010	2009
Cash flows from operating activities:		
Net income	**$ 854**	$ 797
Adjustments to reconcile net income to net cash provided by operating activities:		
Changes in operating assets and liabilities	**(1,698)**	(1,654)
Provision for doubtful accounts	**1,352**	1,673
Depreciation and amortization	**710**	713
Income taxes	**(55)**	(417)
Losses on sales of facilities		8
Impairments of long-lived assets	**109**	13
Amortization of deferred loan costs	**40**	40
Share-based compensation	**16**	14
Pay-in-kind interest		58
Other	**23**	29
Net cash provided by operating activities	**1,351**	1,274
Cash flows from investing activities:		
Purchase of property and equipment	**(536)**	(619)
Acquisition of hospitals and health care entities	**(31)**	(41)
Disposition of hospitals and health care entities	**25**	29
Change in investments	**502**	71
Other	**(11)**	11
Net cash used in investing activities	**(51)**	(549)
Cash flows from financing activities:		
Issuance of long-term debt	**1,387**	1,751
Net change in revolving credit facilities	**1,329**	(505)
Repayment of long-term debt	**(1,529)**	(1,782)
Distributions to noncontrolling interests	**(176)**	(159)
Payment of debt issuance costs	**(25)**	(45)
Payment of cash distributions to stockholders	**(2,251)**	
Other	**3**	
Net cash used in financing activities	**(1,262)**	(740)
Change in cash and cash equivalents	**38**	(15)
Cash and cash equivalents at beginning of period	**312**	465
Cash and cash equivalents at end of period	**$ 350**	$ 450

Interest payments	**$ 973**	$ 822
Income tax payments, net	**$ 400**	$ 765

See accompanying notes.

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, or funds sponsored by, Bain Capital Partners, LLC, Kohlberg Kravis Roberts & Co., Merrill Lynch Global Private Equity (now BAML Capital Partners) (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 June 30, 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.

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 $44 million and $40 million for the quarters ended June 30, 2010 and 2009, respectively, and $82 million and $77 million for the six months ended June 30, 2010 and 2009, respectively. Operating results for the quarter and six months ended June 30, 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.

HCA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2 INCOME TAXES

During the quarter ended June 30, 2010, we finalized a settlement with the Appeals Division of the Internal Revenue Service (IRS) resolving the deductibility of our 2003 government settlement payment and the timing of certain patient service revenues for 2003 and 2004.

The IRS completed its audit of our 2005 and 2006 federal income tax returns during the quarter ended June 30, 2010. We have submitted a protest contesting certain proposed adjustments, including the timing of recognition of certain patient service revenues, the deductibility of certain debt retirement costs and our method for calculating the tax allowance for doubtful accounts. Eight taxable periods of HCA and its predecessors ended in 1997 through 2004, for which the primary remaining issue is the computation of the tax allowance for doubtful accounts, were pending before the IRS Examination Division as of June 30, 2010. We expect the IRS Examination Division will begin an audit of the 2007, 2008 and 2009 federal income tax returns for HCA and one or more HCA affiliated partnerships during 2010.

Our liability for unrecognized tax benefits was $361 million, including accrued interest of $78 million as of June 30, 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 the resolution with taxing authorities of tax positions taken in prior years. Unrecognized tax benefits of $152 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 $49 million ($77 million as of December 31, 2009) related to deductible interest and state income taxes. The provision for income taxes reflects $59 million and $14 million ($37 million and $9 million, respectively, net of tax) reductions in interest expense related to taxing authority examinations for the quarters ended June 30, 2010 and 2009, respectively, and $74 million and $34 million ($47 million and $22 million, respectively, net of tax) reductions in interest expense related to taxing authority examinations for the six months ended June 30, 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 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, computed using the treasury stock method.

The following table sets forth the computation of basic and diluted earnings per share for the quarters and six months ended June 30, 2010 and 2009 (dollars in millions, except per share amounts, and shares in thousands):

	Quarter		Six Months	
	2010	**2009**	**2010**	**2009**
Net income attributable to HCA Inc.	**$ 293**	$ 282	**$ 681**	$ 642

Weighted average common shares outstanding	**94,635**	94,398	**94,637**	94,386
Effect of dilutive stock options	**2,391**	1,323	**2,231**	1,334
Shares used for diluted earnings per share	**97,026**	95,721	**96,868**	95,720
Earnings per share:				
Basic earnings per share	**$ 3.09**	$ 3.00	**$ 7.20**	$ 6.81
Diluted earnings per share	**$ 3.01**	$ 2.96	**$ 7.03**	$ 6.71

HCA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 4 INVESTMENTS OF INSURANCE SUBSIDIARY

A summary of our insurance subsidiary s investments at June 30, 2010 and December 31, 2009 follows (dollars in millions):

	June 30, 2010			
		Unrealized Amounts		
	Amortized Cost	Gains	Losses	Fair Value
Debt securities:				
States and municipalities	**$ 302**	**$ 16**	**$**	**$ 318**
Auction rate securities	**296**		**(5)**	**291**
Asset-backed securities	**29**		**(1)**	**28**
Money market funds	**142**			**142**
	769	**16**	**(6)**	**779**
Equity securities	**8**	**1**	**(1)**	**8**
	$ 777	**$ 17**	**$ (7)**	**787**
Amounts classified as current assets				**(141)**
Investment carrying value				**$ 646**

	December 31, 2009			
		Unrealized Amounts		
	Amortized Cost	Gains	Losses	Fair Value
Debt securities:				
States and municipalities	$ 668	$ 30	$ (3)	$ 695
Auction rate securities	401		(5)	396
Asset-backed securities	43		(1)	42
Money market funds	176			176
	1,288	30	(9)	1,309
Equity securities	8	1	(2)	7
	$ 1,296	$ 31	$ (11)	1,316
Amounts classified as current assets				(150)

Investment carrying value	$ 1,166

At June 30, 2010 and December 31, 2009, the investments of our insurance subsidiary were classified as available-for-sale. During the quarter ended June 30, 2010, investments in debt securities were reduced as a result of the insurance subsidiary distributing $500 million of excess capital to the Company. Changes in temporary unrealized gains and losses are recorded as adjustments to other comprehensive income. At June 30, 2010 and December 31, 2009, $93 million and $100 million, respectively, of our investments were subject to restrictions included in insurance bond collateralization and assumed reinsurance contracts.

HCA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 4 INVESTMENTS OF INSURANCE SUBSIDIARY (continued)

Scheduled maturities of investments in debt securities at June 30, 2010 were as follows (dollars in millions):

	Amortized Cost	Fair Value
Due in one year or less	$ 164	$ 165
Due after one year through five years	138	144
Due after five years through ten years	119	127
Due after ten years	23	24
	444	460
Auction rate securities	296	291
Asset-backed securities	29	28
	$ 769	$ 779

The average expected maturity of the investments in debt securities at June 30, 2010 was 3.0 years, compared to the average scheduled maturity of 12.5 years. Expected and scheduled maturities may differ because the issuers of certain securities have the right to call, prepay or otherwise redeem such obligations prior to the scheduled maturity date. The average expected maturities for our auction rate and asset-backed securities were derived from valuation models of expected cash flows and involved management s judgment. The average expected maturities for our auction rate and asset-backed securities at June 30, 2010 were 4.3 years and 6.1 years, respectively, compared to average scheduled maturities of 25.0 years and 26.1 years, respectively.

NOTE 5 LONG-TERM DEBT

A summary of long-term debt at June 30, 2010 and December 31, 2009, including related interest rates at June 30, 2010, follows (dollars in millions):

	June 30, 2010	December 31, 2009
Senior secured asset-based revolving credit facility (effective interest rate of 1.9%)	**$ 1,875**	$ 715
Senior secured revolving credit facility (effective interest rate of 2.1%)	**169**	
Senior secured term loan facilities (effective interest rate of 6.9%)	**7,551**	8,987
Senior secured first lien notes (effective interest rate of 8.4%)	**4,072**	2,682
Other senior secured debt (effective interest rate of 6.8%)	**342**	362
First lien debt	**14,009**	12,746

Senior secured cash-pay notes (effective interest rate of 9.7%)	**4,501**	4,500
Senior secured toggle notes (effective interest rate of 10.0%)	**1,578**	1,578
Second lien debt	**6,079**	6,078
Senior unsecured notes (effective interest rate of 7.1%)	**6,710**	6,846
Total debt (average life of six years, rates averaging 7.5%)	**26,798**	25,670
Less amounts due within one year	**1,029**	846
	$ 25,769	$ 24,824

During March 2010, we issued $1.400 billion aggregate principal amount of 71/4% senior secured first lien notes due 2020 at a price of 99.095% of their face value, resulting in $1.387 billion of gross proceeds. After the

HCA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5 LONG-TERM DEBT (continued)

payment of related fees and expenses, we used the proceeds to repay outstanding indebtedness under our senior secured term loan facilities.

NOTE 6 FINANCIAL INSTRUMENTS

Interest Rate Swap Agreements

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

The following table sets forth our interest rate swap agreements, which have been designated as cash flow hedges, at June 30, 2010 (dollars in millions):

	Notional Amount	Maturity Date	Fair Value
Pay-fixed interest rate swaps	$ 7,100	November 2011	$ (390)
Pay-fixed interest rate swaps (starting November 2011)	2,000	December 2016	(118)

Certain of our interest rate swaps are not designated as hedges, and changes in fair value are recognized in results of operations. The following table sets forth our interest rate swap agreements, which were not designated as hedges, at June 30, 2010 (dollars in millions):

	Notional Amount	Maturity Date	Fair Value
Pay-fixed interest rate swap	$ 500	March 2011	$ (9)
Pay-variable interest rate swap	500	March 2011	(1)
Pay-fixed interest rate swap	900	November 2011	(48)
Pay-variable interest rate swap	900	November 2011	1

During the next 12 months, we estimate $350 million will be reclassified from other comprehensive income (OCI) to interest expense.

Cross Currency Swaps

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

HCA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6 FINANCIAL INSTRUMENTS (continued)

Cross Currency Swaps (continued)

Certain of our cross currency swaps are not designated as hedges, and changes in fair value are recognized in results of operations. The following table sets forth our cross currency swap agreement which was not designated as a hedge at June 30, 2010 (amounts in millions):

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

The following table sets forth our cross currency swap agreements, which have been designated as cash flow hedges, at June 30, 2010 (amounts in millions):

	Notional Amount	Maturity Date	Fair Value
GBP United States Dollar currency swaps	100 GBP	November 2010	$ (26)

Derivatives Results of Operations

The following tables present the effect on our results of operations of our interest rate and cross currency swaps for the six months ended June 30, 2010 (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	$ 142	Interest expense	$ 188
Cross currency swaps	8	Interest expense	1
	$ 150		$ 189

Derivatives Not Designated as Hedging Instruments	Location of Loss Recognized in Operations on Derivatives	Amount of Loss Recognized in Operations on Derivatives
Interest rate swaps	Other operating expense	$ 1
Cross currency swap	Other operating expense	79

Credit-risk-related Contingent Features

We have agreements with each of our derivative counterparties that contain a provision where we could be declared in default on our derivative obligations if repayment of the underlying indebtedness is accelerated by the lender due to our default on the indebtedness. As of June 30, 2010, we have not been required to post any collateral related to these agreements. If we had breached these provisions at June 30, 2010, we would have been required to settle our obligations under the agreements at their aggregate, estimated termination value of $628 million.

NOTE 7 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

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

ASC 820 emphasizes fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions market participants would

HCA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, ASC 820 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs classified within Levels 1 and 2 of the hierarchy) and the reporting entity s own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, which are typically based on an entity s own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Cash Traded Investments

Our cash traded investments are generally classified within Level 1 or Level 2 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. Certain types of cash traded instruments are classified within Level 3 of the fair value hierarchy because they trade infrequently and therefore have little or no price transparency. Such instruments include auction rate securities (ARS) and limited partnership investments. The transaction price is initially used as the best estimate of fair value.

Our wholly-owned insurance subsidiary had investments in tax-exempt ARS, which are backed by student loans substantially guaranteed by the federal government, of $291 million ($296 million par value) at June 30, 2010. We do not currently intend to attempt to sell the ARS as the liquidity needs of our insurance subsidiary are expected to be met by other investments in its investment portfolio. These securities continue to accrue and pay interest semi-annually based on the failed auction maximum rate formulas stated in their respective Official Statements. During 2009 and the first six months of 2010, certain issuers and their broker/dealers redeemed or repurchased $172 million and $105 million, respectively, of our ARS at par value. The valuation of these securities involved management s judgment, after consideration of market factors and the absence of market transparency, market liquidity and observable inputs. Our valuation models derived a fair market value compared to tax-equivalent yields of other student loan backed variable rate securities of similar credit worthiness and similar effective maturities.

Derivative Financial Instruments

We have entered into interest rate and cross currency swap agreements to manage our exposure to fluctuations in interest rates and foreign currency risks. The valuation of these instruments is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves, foreign exchange rates and implied volatilities. To comply with the provisions of ASC 820, we incorporate credit valuation adjustments to reflect both our own nonperformance risk and the respective counterparty s nonperformance risk in the fair value measurements.

Although we have 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

HCA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Derivative Financial Instruments (continued)

estimates of current credit spreads to evaluate the likelihood of default by us and our counterparties. However, we have assessed the significance of the impact of the credit valuation adjustments on the overall valuation of our derivative positions and have determined that the credit valuation adjustments were not significant to the overall valuation of our derivatives at June 30, 2010. As a result, we have determined that our derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy at June 30, 2010.

Fair Value Summary

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

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments of insurance subsidiary:				
Debt securities:				
States and municipalities	$ 318	$	$ 318	$
Auction rate securities	291			291
Asset-backed securities	28		28	
Money market funds	142	142		
	779	142	346	291
Equity securities	8	1	5	2
Investments of insurance subsidiary	787	143	351	293
Less amounts classified as current assets	(141)	(141)		
	$ 646	$ 2	$ 351	$ 293

Liabilities:				
Interest rate swaps (Income taxes and other liabilities)	$ 565		$ 565	$
Cross currency swaps (Income taxes and other liabilities)	26		26	

The following table summarizes the activity related to the auction rate and equity securities investments of our insurance subsidiary, which have fair value measurements based on significant unobservable inputs (Level 3), during the six months ended June 30, 2010 (dollars in millions):

Asset balances at December 31, 2009	$ 397
Unrealized gains included in other comprehensive income	1
Settlements	(105)
Asset balances at June 30, 2010	$ 293

HCA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Fair Value Summary (continued)

The estimated fair value of our long-term debt was $26.554 billion and $25.659 billion at June 30, 2010 and December 31, 2009, respectively, compared to carrying amounts aggregating $26.798 billion and $25.670 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 CONTINGENCIES

We operate in a highly regulated and litigious industry. As a result, various lawsuits, claims and legal and regulatory proceedings have been and can be expected to be instituted or asserted against us. The resolution of any such lawsuits, claims or legal and regulatory proceedings could have a material, adverse effect on our results of operations or financial position in a given period.

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

NOTE 9 COMPREHENSIVE INCOME AND CAPITAL STRUCTURE

The components of comprehensive income, net of related taxes, for the quarters and six months ended June 30, 2010 and 2009 are only attributable to HCA Inc. and are as follows (dollars in millions):

	Quarter		Six Months	
	2010	**2009**	**2010**	**2009**
Net income attributable to HCA Inc.	**$ 293**	$ 282	**$ 681**	$ 642
Change in fair value of derivative instruments	**(14)**	62	**(26)**	54
Change in fair value of available-for-sale securities	**(8)**	11	**(7)**	15
Foreign currency translation adjustments	**(6)**	34	**(27)**	32
Defined benefit plans	**2**	3	**5**	5
Comprehensive income	**$ 267**	$ 392	**$ 626**	$ 748

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

	June 30,	December 31,

	2010	2009
Change in fair value of derivative instruments	**$ (381)**	$ (355)
Change in fair value of available-for-sale securities	**7**	14
Foreign currency translation adjustments	**(30)**	(3)
Defined benefit plans	**(101)**	(106)
Accumulated other comprehensive loss	**$ (505)**	$ (450)

HCA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9 COMPREHENSIVE INCOME AND CAPITAL STRUCTURE (continued)

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

	Equity (Deficit) Attributable to HCA Inc.						
	Common Stock Shares (000)	Common Stock Par Value	Capital in Excess of Par Value	Accumulated Other Comprehensive Loss	Retained Deficit	Equity Attributable to Noncontrolling Interests	Total
Balances, December 31, 2009	94,637	$ 1	$ 226	$ (450)	$ (8,763)	$ 1,008	$ (7,978)
Net income					681	173	854
Other comprehensive loss				(55)			(55)
Distributions					(2,251)	(176)	(2,427)
Share-based benefit plans	2		59				59
Other			27			12	39
Balances, June 30, 2010	94,639	$ 1	$ 312	$ (505)	$ (10,333)	$ 1,017	$ (9,508)

On January 27, 2010, our Board of Directors declared a distribution to the Company s stockholders and holders of vested stock options. The distribution was $17.50 per share and vested stock option, or $1.751 billion in the aggregate. The distribution was paid on February 5, 2010 to holders of record on February 1, 2010. The distribution was funded using funds available under our existing senior secured credit facilities and approximately $100 million of cash on hand. Pursuant to the terms of our stock option plans, the holders of nonvested stock options received a $17.50 per share reduction to the exercise price of their share-based awards.

On May 5, 2010, our Board of Directors declared a distribution to the Company s stockholders and holders of vested stock options. The distribution was $5.00 per share and vested stock option, or $500 million in the aggregate. The distribution was paid on May 14, 2010 to holders of record on May 6, 2010. The distribution was funded using funds available under our existing senior secured credit facilities. Pursuant to the terms of our stock option plans, the holders of nonvested stock options received a $5.00 per share reduction to the exercise price of their share-based awards.

On May 5, 2010, our Board of Directors granted approval for the Company to file with the Securities and Exchange Commission a registration statement on Form S-1 relating to a proposed initial public offering of its common stock. We filed the Form S-1 on May 7, 2010. We intend to use the anticipated net proceeds to repay certain of our existing indebtedness, as will be determined prior to our offering, and for general corporate purposes. Upon completion of the offering and in connection with our termination of the management agreement we have with affiliates of the Investors, we will be required to pay a termination fee based upon the net present value of our future obligations under the management agreement.

NOTE 10 SEGMENT AND GEOGRAPHIC INFORMATION

We operate in one line of business, which is operating hospitals and related health care entities. During the quarters ended June 30, 2010 and 2009, approximately 24% and 23%, respectively, of our patient revenues related to patients participating in the fee-for-service Medicare program. During each of the six months ended June 30, 2010 and 2009, approximately 24% of our patient revenues related to patients participating in the fee-for-service Medicare program.

Our operations are structured into three geographically organized groups: the Eastern Group includes 48 consolidating hospitals located in the Eastern United States, the Central Group includes 46 consolidating hospitals located in the Central United States and the Western Group includes 54 consolidating hospitals located in the Western United States. We also operate six consolidating hospitals in England, and these facilities are included in the Corporate and other group.

HCA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 10 SEGMENT AND GEOGRAPHIC INFORMATION (continued)

Adjusted segment EBITDA is defined as income before depreciation and amortization, interest expense, losses on sales of facilities, impairments of long-lived assets, 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

HCA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 10 SEGMENT AND GEOGRAPHIC INFORMATION (continued)

EBITDA and depreciation and amortization for the quarters and six months ended June 30, 2010 and 2009 are summarized in the following table (dollars in millions):

	Quarter		Six Months	
	2010	**2009**	**2010**	**2009**
Revenues:				
Central Group	**$ 1,836**	$ 1,805	**$ 3,600**	$ 3,608
Eastern Group	**2,273**	2,181	**4,506**	4,456
Western Group	**3,402**	3,278	**6,710**	6,429
Corporate and other	**245**	219	**484**	421
	$ 7,756	$ 7,483	**$ 15,300**	$ 14,914
Equity in earnings of affiliates:				
Central Group	**$**	$ (1)	**$ (1)**	$ (2)
Eastern Group		(1)	**(1)**	(1)
Western Group	**(73)**	(59)	**(140)**	(126)
Corporate and other	**(2)**		**(1)**	
	$ (75)	$ (61)	**$ (143)**	$ (129)
Adjusted segment EBITDA:				
Central Group	**$ 324**	$ 344	**$ 666**	$ 695
Eastern Group	**392**	340	**832**	773
Western Group	**778**	712	**1,569**	1,445
Corporate and other	**(4)**	3	**(3)**	(57)
	$ 1,490	$ 1,399	**$ 3,064**	$ 2,856
Depreciation and amortization:				
Central Group	**$ 90**	$ 88	**$ 177**	$ 176
Eastern Group	**89**	93	**180**	183
Western Group	**143**	146	**287**	290
Corporate and other	**33**	33	**66**	64
	$ 355	$ 360	**$ 710**	$ 713

Adjusted segment EBITDA	**$ 1,490**	$ 1,399	**$ 3,064**	$ 2,856
Depreciation and amortization	**355**	360	**710**	713
Interest expense	**530**	506	**1,046**	977
Losses on sales of facilities		3		8
Impairments of long-lived assets	**91**	4	**109**	13
Income before income taxes	**$ 514**	$ 526	**$ 1,199**	$ 1,145

HCA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

During the six months ended June 30, 2010 and 2009, we paid $31 million and $41 million, respectively, to acquire nonhospital health care entities.

During the six months ended June 30, 2010, we received proceeds of $25 million related to sales of real estate investments and the proceeds were equal to the carrying amounts. During the quarter ended June 30, 2009, we recognized a net pretax loss of $3 million related to sales of hospital facilities and other investments. During the six months ended June 30, 2009, we received proceeds of $29 million and recognized a net pretax loss of $8 million related to sales of hospital facilities and other investments.

During the quarter ended June 30, 2010, we recorded impairments of long-lived assets of $91 million, comprised of impairment charges of $56 million related to revised, reduced projections of future expected cash flows for a hospital facility in our Central Group and $35 million for capitalized engineering and design costs in our Corporate and Other Group related to certain building safety requirements (California earthquake standards) that have been revised, to adjust the carrying values to estimated fair value. During the six months ended June 30, 2010, we recorded impairments of long-lived assets of $109 million, including the second quarter 2010 charges of $91 million and the first quarter 2010 impairment charges of $18 million to adjust the carrying values of real estate and other investments in our Eastern, Western and Corporate and Other Groups to estimated fair value. During the quarter and six months ended June 30, 2009, we recorded charges of $4 million and $13 million, respectively, to adjust the carrying values of certain real estate investments in our Central Group to estimated fair value.

HCA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION

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

Our summarized condensed consolidating balance sheets at June 30, 2010 and December 31, 2009, condensed consolidating statements of income for the quarters and six months ended June 30, 2010 and 2009 and condensed consolidating statements of cash flows for the six months ended June 30, 2010 and 2009, segregating the parent company issuer, the subsidiary guarantors, the subsidiary non-guarantors and eliminations, follow:

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

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

HCA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (continued)

HCA INC.
CONDENSED CONSOLIDATING INCOME STATEMENT
FOR THE QUARTER ENDED JUNE 30, 2009
(Dollars in millions)

	Parent Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Eliminations	Condensed Consolidated
Revenues	$	$ 4,420	$ 3,063	$	$ 7,483
Salaries and benefits		1,760	1,184		2,944
Supplies		712	499		1,211
Other operating expenses	7	619	498		1,124
Provision for doubtful accounts		546	320		866
Equity in earnings of affiliates	(674)	(24)	(37)	674	(61)
Depreciation and amortization		200	160		360
Interest expense	583	(70)	(7)		506
Losses (gains) on sales of facilities		5	(2)		3
Impairments of long-lived assets		4			4
Management fees		(115)	115		
	(84)	3,637	2,730	674	6,957
Income before income taxes	84	783	333	(674)	526
Provision for income taxes	(198)	273	86		161
Net income	282	510	247	(674)	365
Net income attributable to noncontrolling interests		12	71		83
Net income attributable to HCA Inc.	$ 282	$ 498	$ 176	$ (674)	$ 282

HCA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (continued)

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

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

HCA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (continued)

HCA INC.
CONDENSED CONSOLIDATING INCOME STATEMENT
FOR THE SIX MONTHS ENDED JUNE 30, 2009
(Dollars in millions)

	Parent Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Eliminations	Condensed Consolidated
Revenues	$	$ 8,813	$ 6,101	$	$ 14,914
Salaries and benefits		3,515	2,352		5,867
Supplies		1,433	988		2,421
Other operating expenses	12	1,236	978		2,226
Provision for doubtful accounts		1,054	619		1,673
Equity in earnings of affiliates	(1,379)	(48)	(81)	1,379	(129)
Depreciation and amortization		396	317		713
Interest expense	1,125	(136)	(12)		977
Losses on sales of facilities		6	2		8
Impairments of long-lived assets		13			13
Management fees		(231)	231		
	(242)	7,238	5,394	1,379	13,769
Income before income taxes	242	1,575	707	(1,379)	1,145
Provision for income taxes	(400)	543	205		348
Net income	642	1,032	502	(1,379)	797
Net income attributable to noncontrolling interests		26	129		155
Net income attributable to HCA Inc.	$ 642	$ 1,006	$ 373	$ (1,379)	$ 642

HCA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (continued)

HCA INC.
CONDENSED CONSOLIDATING BALANCE SHEET
JUNE 30, 2010
(Dollars in millions)

	Parent Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Eliminations	Condensed Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$	$ 108	$ 242	$	$ 350
Accounts receivable, net		2,170	1,599		3,769
Inventories		488	317		805
Deferred income taxes	1,126				1,126
Other	93	195	454		742
	1,219	2,961	2,612		6,792
Property and equipment, net		6,826	4,326		11,152
Investments of insurance subsidiary			646		646
Investments in and advances to affiliates		247	623		870
Goodwill		1,635	948		2,583
Deferred loan costs	391				391
Investments in and advances to subsidiaries	23,386			(23,386)	
Other	857	16	113		986
	$ 25,853	$ 11,685	$ 9,268	$ (23,386)	$ 23,420
LIABILITIES AND STOCKHOLDERS (DEFICIT) EQUITY					
Current liabilities:					
Accounts payable	$	$ 710	$ 469	$	$ 1,179
Accrued salaries		590	337		927
Other accrued expenses	313	300	649		1,262
Long-term debt due within one year	989	10	30		1,029
	1,302	1,610	1,485		