

TENET HEALTHCARE CORP  
Form 10-Q  
August 06, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

**Form 10-Q**

**x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**for the quarterly period ended June 30, 2013**

**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 1-7293**

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**TENET HEALTHCARE CORPORATION**

(Exact name of Registrant as specified in its charter)

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**Nevada**

(State of Incorporation)

**95-2557091**

(IRS Employer Identification No.)

**1445 Ross Avenue, Suite 1400**

**Dallas, TX 75202**

(Address of principal executive offices, including zip code)

**(469) 893-2200**

(Registrant's telephone number, including area code)

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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, 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 website, 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. 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 (as defined in Exchange Act Rule 12b-2).

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

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

As of July 31, 2013, there were 101,607,990 shares of the Registrant's common stock, \$0.05 par value, outstanding.



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Dollars in Millions

(Unaudited)

	June 30, 2013	December 31, 2012
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 90	\$ 364
Accounts receivable, less allowance for doubtful accounts (\$421 at June 30, 2013 and \$401 at December 31, 2012)	1,369	1,345
Inventories of supplies, at cost	153	153
Income tax receivable	12	7
Current portion of deferred income taxes	350	354
Other current assets	600	458
<b>Total current assets</b>	<b>2,574</b>	<b>2,681</b>
Investments and other assets	166	162
Deferred income taxes, net of current portion	420	342
Property and equipment, at cost, less accumulated depreciation and amortization (\$3,669 at June 30, 2013 and \$3,494 at December 31, 2012)	4,326	4,293
Goodwill	970	916
Other intangible assets, at cost, less accumulated amortization (\$467 at June 30, 2013 and \$426 at December 31, 2012)	700	650
<b>Total assets</b>	<b>\$ 9,156</b>	<b>\$ 9,044</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities:</b>		
Current portion of long-term debt	\$ 71	\$ 94
Accounts payable	587	722
Accrued compensation and benefits	402	415
Professional and general liability reserves	84	64
Accrued interest payable	91	125
Other current liabilities	423	343
<b>Total current liabilities</b>	<b>1,658</b>	<b>1,763</b>
Long-term debt, net of current portion	5,564	5,158
Professional and general liability reserves	265	292
Other long-term liabilities	608	597
<b>Total liabilities</b>	<b>8,095</b>	<b>7,810</b>
Commitments and contingencies		
Redeemable noncontrolling interests in equity of consolidated subsidiaries	80	16
<b>Equity:</b>		
<b>Shareholders' equity:</b>		
	7	7

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Common stock, \$0.05 par value; authorized 262,500,000 shares; 143,903,849 shares issued at June 30, 2013 and 142,363,915 shares issued at December 31, 2012

Additional paid-in capital	4,552	4,471
Accumulated other comprehensive loss	(68)	(68)
Accumulated deficit	(1,426)	(1,288)
Common stock in treasury, at cost, 42,165,478 shares at June 30, 2013 and 37,730,431 shares at December 31, 2012	(2,170)	(1,979)
<b>Total shareholders' equity</b>	<b>895</b>	<b>1,143</b>
<b>Noncontrolling interests</b>	<b>86</b>	<b>75</b>
<b>Total equity</b>	<b>981</b>	<b>1,218</b>
<b>Total liabilities and equity</b>	<b>\$ 9,156</b>	<b>\$ 9,044</b>

See accompanying Notes to Condensed Consolidated Financial Statements.

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**TENET HEALTHCARE CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

Dollars in Millions, Except Per-Share Amounts

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
<b>Net operating revenues:</b>				
Net operating revenues before provision for doubtful accounts	\$ 2,629	\$ 2,455	\$ 5,223	\$ 4,946
Less: Provision for doubtful accounts	207	190	414	379
<b>Net operating revenues</b>	<b>2,422</b>	<b>2,265</b>	<b>4,809</b>	<b>4,567</b>
<b>Operating expenses:</b>				
Salaries, wages and benefits	1,166	1,054	2,327	2,116
Supplies	387	389	771	788
Other operating expenses, net	567	534	1,135	1,065
Electronic health record incentives	(34)	0	(34)	0
Depreciation and amortization	121	104	235	204
Impairment and restructuring charges, and acquisition-related costs	11	3	25	6
Litigation and investigation costs	2	1	2	3
<b>Operating income</b>	<b>202</b>	<b>180</b>	<b>348</b>	<b>385</b>
Interest expense	(98)	(102)	(201)	(200)
Loss from early extinguishment of debt	(171)	0	(348)	0
Investment earnings	1	0	1	1
<b>Income (loss) from continuing operations, before income taxes</b>	<b>(66)</b>	<b>78</b>	<b>(200)</b>	<b>186</b>
Income tax benefit (expense)	20	(30)	73	(72)
<b>Income (loss) from continuing operations, before discontinued operations</b>	<b>(46)</b>	<b>48</b>	<b>(127)</b>	<b>114</b>
<b>Discontinued operations:</b>				
Income from operations	6	1	3	3
Impairment of long-lived assets and goodwill, and restructuring charges, net	0	(100)	0	(100)
Net gains on sales of facilities	0	2	0	2
Income tax benefit (expense)	(3)	29	(2)	28
<b>Income (loss) from discontinued operations</b>	<b>3</b>	<b>(68)</b>	<b>1</b>	<b>(67)</b>
<b>Net income (loss)</b>	<b>(43)</b>	<b>(20)</b>	<b>(126)</b>	<b>47</b>
Less: Preferred stock dividends	0	4	0	10
Less: Net income (loss) attributable to noncontrolling interests				
Continuing operations	7	2	12	5
Discontinued operations	0	(20)	0	(20)
<b>Net income (loss) attributable to Tenet Healthcare Corporation common shareholders</b>	<b>\$ (50)</b>	<b>\$ (6)</b>	<b>\$ (138)</b>	<b>\$ 52</b>
<b>Amounts attributable to Tenet Healthcare Corporation common shareholders</b>				
Income (loss) from continuing operations, net of tax	\$ (53)	\$ 42	\$ (139)	\$ 99

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Income (loss) from discontinued operations, net of tax	3	(48)	1	(47)
<b>Net income (loss) attributable to Tenet Healthcare Corporation common shareholders</b>	<b>\$ (50)</b>	<b>\$ (6)</b>	<b>\$ (138)</b>	<b>\$ 52</b>
<b>Earnings (loss) per share attributable to Tenet Healthcare Corporation common shareholders:</b>				
<b>Basic</b>				
Continuing operations	\$ (0.52)	\$ 0.40	\$ (1.34)	\$ 0.96
Discontinued operations	0.03	(0.46)	0.01	(0.46)
	<b>\$ (0.49)</b>	<b>\$ (0.06)</b>	<b>\$ (1.33)</b>	<b>\$ 0.50</b>
<b>Diluted</b>				
Continuing operations	\$ (0.52)	\$ 0.39	\$ (1.34)	\$ 0.93
Discontinued operations	0.03	(0.45)	0.01	(0.44)
	<b>\$ (0.49)</b>	<b>\$ (0.06)</b>	<b>\$ (1.33)</b>	<b>\$ 0.49</b>
<b>Weighted average shares and dilutive securities outstanding (in thousands):</b>				
Basic	103,010	103,753	103,557	103,298
Diluted	103,010	106,927	103,557	108,680

See accompanying Notes to Condensed Consolidated Financial Statements.



Table of Contents**TENET HEALTHCARE CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME****Dollars in Millions****(Unaudited)**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Net income (loss)	\$ (43)	\$ (20)	\$ (126)	\$ 47
Other comprehensive income:				
Adjustments for supplemental executive retirement plans	0	0	0	3
<b>Other comprehensive income before income taxes</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3</b>
Income tax expense related to items of other comprehensive income	0	0	0	0
<b>Total other comprehensive income, net of tax</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3</b>
<b>Comprehensive income (loss)</b>	<b>(43)</b>	<b>(20)</b>	<b>(126)</b>	<b>50</b>
<b>Less: Preferred stock dividends</b>	<b>0</b>	<b>4</b>	<b>0</b>	<b>10</b>
<b>Less: Comprehensive income (loss) attributable to noncontrolling interests</b>	<b>7</b>	<b>(18)</b>	<b>12</b>	<b>(15)</b>
<b>Comprehensive income (loss) attributable to Tenet Healthcare Corporation common shareholders</b>	<b>\$ (50)</b>	<b>\$ (6)</b>	<b>\$ (138)</b>	<b>\$ 55</b>

See accompanying Notes to Condensed Consolidated Financial Statements.

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**TENET HEALTHCARE CORPORATION AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**Dollars in Millions**

**(Unaudited)**

	Six Months Ended June 30,	
	2013	2012
<b>Net income (loss)</b>	\$ (126)	\$ 47
<b>Adjustments to reconcile net income (loss) to net cash provided by operating activities:</b>		
Depreciation and amortization	235	204
Provision for doubtful accounts	414	379
Deferred income tax expense (benefit)	(76)	37
Stock-based compensation expense	19	17
Impairment and restructuring charges, and acquisition-related costs	25	6
Litigation and investigation costs	2	3
Loss from early extinguishment of debt	348	0
Amortization of debt discount and debt issuance costs	9	11
Pre-tax (income) loss from discontinued operations	(3)	95
Other items, net	(18)	(4)
<b>Changes in cash from operating assets and liabilities:</b>		
Accounts receivable	(445)	(450)
Inventories and other current assets	(166)	(116)
Income taxes	(4)	(5)
Accounts payable, accrued expenses and other current liabilities	(65)	23
Other long-term liabilities	5	26
<b>Payments for restructuring charges, acquisition-related costs, and litigation costs and settlements</b>	<b>(19)</b>	<b>(50)</b>
<b>Net cash used in operating activities from discontinued operations, excluding income taxes</b>	<b>(7)</b>	<b>(22)</b>
<b>Net cash provided by operating activities</b>	<b>128</b>	<b>201</b>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment continuing operations	(256)	(251)
Purchases of property and equipment discontinued operations	0	(1)
Purchases of businesses or joint venture interests	(16)	(13)
Proceeds from sales of facilities and other assets discontinued operations	1	10
Proceeds from sales of marketable securities, long-term investments and other assets	3	5
Other long-term assets	6	(3)
Other items, net	2	5
<b>Net cash used in investing activities</b>	<b>(260)</b>	<b>(248)</b>
<b>Cash flows from financing activities:</b>		
Repayments of borrowings under credit facility	(620)	(973)
Proceeds from borrowing under credit facility	653	1,093
Repayments of other borrowings	(1,967)	(67)
Proceeds from other borrowings	1,907	292
Repurchases of preferred stock	(0)	(292)
Deferred debt issuance costs	(30)	(2)
Repurchases of common stock	(192)	(26)
Cash dividends on preferred stock	0	(12)

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Distributions paid to noncontrolling interests	(10)	(6)
Contributions from noncontrolling interests	98	2
Proceeds from exercise of stock options	21	4
Other items, net	(2)	3
<b>Net cash provided by (used in) financing activities</b>	<b>(142)</b>	<b>16</b>
Net decrease in cash and cash equivalents	(274)	(31)
Cash and cash equivalents at beginning of period	364	113
<b>Cash and cash equivalents at end of period</b>	<b>\$ 90</b>	<b>\$ 82</b>
Supplemental disclosures:		
Interest paid, net of capitalized interest	\$ (226)	\$ (181)
Income tax payments, net	\$ (8)	\$ (11)

See accompanying Notes to Condensed Consolidated Financial Statements.

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**TENET HEALTHCARE CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1. BASIS OF PRESENTATION**

*Description of Business*

Tenet Healthcare Corporation (together with our subsidiaries, referred to herein as *Tenet*, the *Company*, *we* or *us* ) is an investor-owned health care services company whose subsidiaries and affiliates as of June 30, 2013 primarily operated 49 hospitals with a total of 13,180 licensed beds, 126 outpatient centers and Conifer Health Solutions ( *Conifer* ), which provides business process solutions to more than 600 hospital and other clients nationwide.

*Basis of Presentation*

This quarterly report supplements our Annual Report on Form 10-K for the year ended December 31, 2012 ( *Annual Report* ). As permitted by the Securities and Exchange Commission ( *SEC* ) for interim reporting, we have omitted certain notes and disclosures that substantially duplicate those in our Annual Report. For further information, refer to the audited Consolidated Financial Statements and notes included in our Annual Report. Unless otherwise indicated, all financial and statistical data included in these notes to our Condensed Consolidated Financial Statements relate to our continuing operations, with dollar amounts expressed in millions (except per-share amounts). All amounts related to shares, share prices and earnings per share have been restated to give retrospective presentation for the reverse stock split described in Note 2 of our Annual Report. Furthermore, certain prior-year amounts have been reclassified to conform to the current-year presentation.

Although the Condensed Consolidated Financial Statements and related notes within this document are unaudited, we believe all adjustments considered necessary for a fair presentation have been included and are of a normal recurring nature. In preparing our financial statements in conformity with accounting principles generally accepted in the United States of America ( *GAAP* ), we must use estimates and assumptions that affect the amounts reported in our Condensed Consolidated Financial Statements and these accompanying notes. We regularly evaluate the accounting policies and estimates we use. In general, we base the estimates on historical experience and on assumptions that we believe to be reasonable given the particular circumstances in which we operate. Actual results may vary from those estimates. Financial and statistical information we report to other regulatory agencies may be prepared on a basis other than GAAP or using different assumptions or reporting periods and, therefore, may vary from amounts presented herein. Although we make every effort to ensure that the information we report to those agencies is accurate, complete and consistent with applicable reporting guidelines, we cannot be responsible for the accuracy of the information they make available to the public.

Operating results for the three and six month periods ended June 30, 2013 are not necessarily indicative of the results that may be expected for the full year. Reasons for this include, but are not limited to: overall revenue and cost trends, particularly the timing and magnitude of price changes; fluctuations in contractual allowances and cost report settlements and valuation allowances; managed care contract negotiations, settlements or terminations and payer consolidations; changes in Medicare and Medicaid regulations; Medicaid funding levels set by the states in which we operate; the timing of approval by the Centers for Medicare and Medicaid Services ( *CMS* ) of Medicaid provider fee revenue

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programs; trends in patient accounts receivable collectability and associated provisions for doubtful accounts; fluctuations in interest rates; levels of malpractice insurance expense and settlement trends; the timing of when we meet the criteria to recognize electronic health record incentives; impairment of long-lived assets and goodwill; restructuring charges; acquisition-related costs; losses, costs and insurance recoveries related to natural disasters; litigation and investigation costs; acquisitions and dispositions of facilities and other assets; income tax rates and deferred tax asset valuation allowance activity; changes in estimates of accruals for annual incentive compensation; the timing and amounts of stock option and restricted stock unit grants to employees and directors; gains or losses from early extinguishment of debt; and changes in occupancy levels and patient volumes. Factors that affect patient volumes and, thereby, the results of operations at our hospitals and related health care facilities include, but are not limited to: the business environment, economic conditions and demographics of local communities; the number of uninsured and underinsured individuals in local communities treated at our hospitals; seasonal cycles of illness; climate and weather conditions; physician recruitment, retention and attrition; advances in technology and treatments that reduce length of stay; local health care competitors; managed care contract negotiations or terminations; any unfavorable publicity about us, which impacts our relationships with physicians and patients; changes in health care regulations and the participation of individual states in federal programs; and the timing of elective procedures. These considerations apply to year-to-year comparisons as well.

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We recognize net operating revenues before provision for doubtful accounts in the period in which our services are performed. Net operating revenues before provision for doubtful accounts primarily consist of net patient service revenues that are recorded based on established billing rates (i.e., gross charges), less estimated discounts for contractual and other allowances, principally for patients covered by Medicare, Medicaid, managed care and other health plans, as well as certain uninsured patients under our *Compact with Uninsured Patients* ( Compact ).

The table below shows the sources of net operating revenues before provision for doubtful accounts:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
<b>General Hospitals:</b>				
Medicare	\$ 502	\$ 532	\$ 1,042	\$ 1,161
Medicaid	236	234	424	411
Managed care	1,387	1,328	2,748	2,654
Indemnity, self-pay and other	261	245	521	486
Acute care hospitals other revenue	11	13	39	37
<b>Other:</b>				
Other operations	232	103	449	197
<b>Net operating revenues before provision for doubtful accounts</b>	<b>\$ 2,629</b>	<b>\$ 2,455</b>	<b>\$ 5,223</b>	<b>\$ 4,946</b>

***Cash and Cash Equivalents***

We treat highly liquid investments with original maturities of three months or less as cash equivalents. Cash and cash equivalents were approximately \$90 million and \$364 million at June 30, 2013 and December 31, 2012, respectively. As of June 30, 2013 and December 31, 2012, our book overdrafts were approximately \$194 million and \$232 million, respectively, which were classified as accounts payable.

At June 30, 2013 and December 31, 2012, approximately \$75 million and \$65 million, respectively, of total cash and cash equivalents in the accompanying Condensed Consolidated Balance Sheets were intended for the operations of our captive insurance subsidiaries.

Also at June 30, 2013 and December 31, 2012, we had \$55 million and \$98 million, respectively, of property and equipment purchases accrued for items received but not yet paid. Of these amounts, \$43 million and \$93 million, respectively, were included in accounts payable.

During the six months ended June 30, 2013 and 2012, we entered into non-cancellable capital leases of approximately \$79 million and \$29 million, respectively, primarily for equipment.

*Other Intangible Assets*

The following table provides information regarding other intangible assets, which are included in the accompanying Condensed Consolidated Balance Sheets as of June 30, 2013 and December 31, 2012:

	Gross Carrying Amount		Accumulated Amortization		Net Book Value
<b>June 30, 2013:</b>					
Capitalized software costs	\$	1,002	\$	(437)	\$ 565
Long-term debt issuance costs		106		(22)	84
Other		59		(8)	51
<b>Total</b>	<b>\$</b>	<b>1,167</b>	<b>\$</b>	<b>(467)</b>	<b>\$ 700</b>
<b>December 31, 2012:</b>					
Capitalized software costs	\$	927	\$	(399)	\$ 528
Long-term debt issuance costs		106		(25)	81
Other		43		(2)	41
<b>Total</b>	<b>\$</b>	<b>1,076</b>	<b>\$</b>	<b>(426)</b>	<b>\$ 650</b>

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Estimated future amortization of other intangible assets with finite useful lives as of June 30, 2013 is as follows:

	Total	2013	2014	Years Ending December 31,		2015	2016	2017	Later Years
Amortization of intangible assets	\$ 700	\$ 76	\$ 94	\$	78	\$	70	\$ 55	\$ 327

## NOTE 2. ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

The principal components of accounts receivable are shown in the table below:

	June 30, 2013	December 31, 2012
<b>Continuing operations:</b>		
Patient accounts receivable	\$ 1,724	\$ 1,668
Allowance for doubtful accounts	(421)	(396)
Estimated future recoveries from accounts assigned to our Conifer subsidiary	91	88
Net cost reports and settlements payable and valuation allowances	(26)	(24)
	1,368	1,336
<b>Discontinued operations:</b>		
Patient accounts receivable	2	11
Allowance for doubtful accounts	0	(5)
Estimated future recoveries from accounts assigned to our Conifer subsidiary	0	2
Net cost reports and settlements receivable (payable) and valuation allowances	(1)	1
	1	9
<b>Accounts receivable, net</b>	<b>\$ 1,369</b>	<b>\$ 1,345</b>

Our self-pay collection rate, which is the blended collection rate for uninsured and balance after insurance accounts receivable, was approximately 28.7% and 28.9% as of June 30, 2013 and December 31, 2012, respectively. These self-pay collection rates include payments made by patients, including co-payments and deductibles paid by patients with insurance. Our estimated collection rate from managed care payers was approximately 98.2% and 98.0% at June 30, 2013 and December 31, 2012, respectively. As of June 30, 2013 and December 31, 2012, our allowance for doubtful accounts for self-pay uninsured accounts was 89.0% and 87.3%, respectively, of our self-pay uninsured patient accounts receivable. As of June 30, 2013 and December 31, 2012, our allowance for doubtful accounts for self-pay balance after insurance accounts was 57.0% and 54.5%, respectively, of our self-pay balance after insurance patient accounts receivable, consisting primarily of co-payments and deductibles owed by patients with insurance. Our self-pay write-offs, including uninsured and balance after insurance accounts, increased approximately \$23 million from \$184 million in the six months ended June 30, 2012 to \$207 million in the six months ended June 30, 2013 primarily due to an increase in patient account assignments to our Conifer subsidiary. The increase in provision for doubtful accounts primarily related to the increase in uninsured patient revenues and higher co-payments and deductibles owed by patients with insurance in the six months ended June 30, 2013 compared to the six months ended June 30, 2012, partially offset by the impact of a 20 basis point improvement in our collection rate on self-pay accounts. As of June 30, 2013 and December 31, 2012, our allowance for doubtful accounts for managed care accounts was 8.6% and 9.4%, respectively, of our managed care patient accounts receivable.

The estimated costs (based on selected operating expenses, which include salaries, wages and benefits, supplies and other operating expenses) of caring for our self-pay patients for the three months ended June 30, 2013 and 2012 were approximately \$122 million and \$111 million, respectively, and for the six months ended June 30, 2013 and 2012 were approximately \$226 million and \$216 million, respectively. Our



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estimated costs (based on the selected operating expenses described above) of caring for charity care patients for both the three months ended June 30, 2013 and 2012 were \$31 million, and for the six months ended June 30, 2013 and 2012 were approximately \$63 million and \$62 million, respectively. Most states include an estimate of the cost of charity care in the determination of a hospital's eligibility for Medicaid disproportionate share hospital ( DSH ) payments. Revenues attributable to DSH payments and other state-funded subsidy payments for the three months ended June 30, 2013 and 2012 were approximately \$119 million and \$109 million, respectively, and for the six months ended June 30, 2013 and 2012 were approximately \$186 million and \$154 million, respectively. These payments are intended to mitigate our cost of uncompensated care, as well as reduced Medicaid funding levels.

### **NOTE 3. DISCONTINUED OPERATIONS**

In the three months ended June 30, 2013, we recognized a \$7 million gain in discontinued operations related to the sale of land.

In the three months ended June 30, 2012, our Creighton University Medical Center hospital ( CUMC ) in Nebraska was reclassified into discontinued operations based on the guidance in the Financial Accounting Standards Board's Accounting

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Standards Codification (ASC) 360, Property, Plant and Equipment, as a result of our plan to sell CUMC. We recorded an impairment charge in discontinued operations of \$100 million, consisting of \$98 million for the write-down of CUMC's long-lived assets to their estimated fair values, less estimated costs to sell, and a \$2 million charge for the write-down of goodwill related to CUMC in the three months ended June 30, 2012. We completed the sale of CUMC on August 31, 2012. In May 2012, we completed the sale of Diagnostic Imaging Services, Inc. (DIS), our former diagnostic imaging center business in Louisiana, for net proceeds of approximately \$10 million. As a result of the sale, DIS was reclassified into discontinued operations in the three months ended June 30, 2012, and a gain on sale of approximately \$2 million was recognized in discontinued operations.

Net operating revenues and income (loss) before income taxes reported in discontinued operations are as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2013		2012	2013		2012
Net operating revenues	\$	0	\$ 56	\$	3	\$ 112
Income (loss) before income taxes		6	(97)		3	(95)

Should we dispose of additional hospitals or other assets in the future, we may incur additional asset impairment and restructuring charges in future periods.

## NOTE 4. IMPAIRMENT AND RESTRUCTURING CHARGES, AND ACQUISITION-RELATED COSTS

During the six months ended June 30, 2013, we recorded impairment and restructuring charges and acquisition-related costs of \$25 million, consisting of \$2 million relating to the impairment of property, \$7 million of restructuring costs, \$5 million of employee severance costs, \$1 million of lease termination costs, and \$10 million in acquisition-related costs.

During the six months ended June 30, 2012, we recorded impairment and restructuring charges and acquisition-related costs of \$6 million, consisting of \$3 million relating to the impairment of obsolete assets, \$2 million of employee severance costs and \$1 million of other related costs.

Our impairment tests presume stable, improving or, in some cases, declining results in our hospitals, which are based on programs and initiatives being implemented that are designed to achieve the hospital's most recent projections. If these projections are not met, or if in the future negative trends occur that impact our future outlook, impairments of long-lived assets and goodwill may occur, and we may incur additional restructuring charges, which could be material.

As of June 30, 2013, our continuing operations consisted of two operating segments, our Conifer subsidiary and our hospital and other operations. Our hospital and other operations were structured as follows as of June 30, 2013:

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- Our California region included all of our hospitals and other operations in California;
  
- Our Central region included all of our hospitals and other operations in Missouri, New Mexico, Tennessee and Texas;
  
- Our Florida region included all of our hospitals and other operations in Florida; and
  
- Our Southern States region included all of our hospitals and other operations in Alabama, Georgia, North Carolina, Pennsylvania and South Carolina.

These regions are reporting units used to perform our goodwill impairment analysis and are one level below our hospital operations reportable business segment level.

The tables below are reconciliations of beginning and ending liability balances in connection with restructuring charges recorded during the six months ended June 30, 2013 and 2012 in continuing and discontinued operations:

	Balances at Beginning of Period		Restructuring Charges, Net		Cash Payments		Other		Balances at End of Period
<b>Six Months Ended June 30, 2013</b>									
Continuing operations:									
Lease and other costs, and employee severance-related costs in connection with hospital cost-control programs and general overhead-reduction plans	\$	8	\$	13	\$	(13)	\$	(2)	\$ 6
Discontinued operations:									
Employee severance-related costs, and other estimated costs associated with the sale or closure of hospitals and other facilities	\$	4	\$	0	\$	0	\$	0	\$ 4
	\$	12	\$	13	\$	(13)	\$	(2)	\$ 10

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	Balances at Beginning of Period	Restructuring Charges, Net	Cash Payments	Other	Balances at End of Period
<b>Six Months Ended June 30, 2012</b>					
Continuing operations:					
Lease and other costs, and employee severance-related costs in connection with hospital cost-control programs and general overhead-reduction plans	\$ 6	\$ 3	\$ (2)	\$ (0)	\$ 7
Discontinued operations:					
Employee severance-related costs, and other estimated costs associated with the sale or closure of hospitals and other facilities	5	0	0	0	5
	\$ 11	\$ 3	\$ (2)	\$ (0)	\$ 12

The above liability balances at June 30, 2013 are included in other current liabilities and other long-term liabilities in the accompanying Condensed Consolidated Balance Sheets. Cash payments to be applied against these accruals at June 30, 2013 are expected to be approximately \$4 million in 2013 and \$6 million thereafter. The column labeled **Other** above represents charges recorded in restructuring expense that are not recorded in the liability account, such as the acceleration of stock-based compensation expense related to severance agreements.

**NOTE 5. LONG-TERM DEBT AND LEASE OBLIGATIONS**

The table below shows our long-term debt as of June 30, 2013 and December 31, 2012:

	June 30, 2013	December 31, 2012
Senior notes:		
73/8%, due 2013	\$ 0	\$ 55
97/8%, due 2014	60	60
91/4%, due 2015	474	474
63/4%, due 2020	300	300
8%, due 2020	750	750
67/8%, due 2031	430	430
Senior secured notes:		
61/4%, due 2018	1,041	1,041
10%, due 2018	0	714
87/8%, due 2019	0	925
43/4%, due 2020	500	500
41/2%, due 2021	850	0
43/8%, due 2021	1,050	0
Credit facility due 2016	33	0
Capital leases and mortgage notes	177	119
Unamortized note discounts and premium	(30)	(116)
<b>Total long-term debt</b>	<b>5,635</b>	<b>5,252</b>
Less current portion	71	94
<b>Long-term debt, net of current portion</b>	<b>\$ 5,564</b>	<b>\$ 5,158</b>

*Credit Agreement*

We have a senior secured revolving credit facility, as amended November 29, 2011 ( *Credit Agreement* ), that provides, subject to borrowing availability, for revolving loans in an aggregate principal amount of up to \$800 million, with a \$300 million subfacility for standby letters of credit. The Credit Agreement has a scheduled maturity date of November 29, 2016, subject to our repayment or refinancing on or before December 3, 2014 of approximately \$238 million of the aggregate outstanding principal amount of our 9 1/4% senior notes due 2015 (approximately \$474 million of which was outstanding at June 30, 2013). If such repayment or refinancing does not occur, borrowings under the Credit Agreement will be due December 3, 2014. The revolving credit facility is collateralized by patient accounts receivable of all of our wholly owned acute care and specialty hospitals. In addition, borrowings under the Credit Agreement are guaranteed by our wholly owned hospital subsidiaries. Outstanding revolving loans accrued interest during a six-month initial period that ended in May 2012 at the rate of either (i) a base rate plus a margin of 1.25% or (ii) the London Interbank Offered Rate ( *LIBOR* ) plus a margin of 2.25% per annum. Outstanding revolving loans now accrue interest at a base rate plus a margin ranging from 1.00% to 1.50% or

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LIBOR plus a margin ranging from 2.00% to 2.50% per annum based on available credit. An unused commitment fee was payable on the undrawn portion of the revolving loans at a six-month initial rate that ended in May 2012 of 0.438% per annum. The unused commitment fee now ranges from 0.375% to 0.500% per annum based on available credit. Our borrowing availability is based on a specified percentage of eligible accounts receivable, including self-pay accounts. At June 30, 2013, we had \$33 million of cash borrowings outstanding under the revolving credit facility subject to an interest rate of 2.61%, and we had approximately \$152 million of standby letters of credit outstanding. Based on our eligible receivables, approximately \$615 million was available for borrowing under the revolving credit facility at June 30, 2013.

***Senior Secured Notes***

In May 2013, we sold \$1.050 billion aggregate principal amount of 43/8% senior secured notes, which will mature on October 1, 2021. We will pay interest on the 43/8% senior secured notes semi-annually in arrears on January 1 and July 1 of each year, commencing on January 1, 2014. We used a portion of the proceeds from the sale of the notes to purchase approximately \$767 million aggregate principal amount outstanding of our 87/8% senior secured notes due 2019 in a tender offer and to call approximately \$158 million of the remaining aggregate principal amount outstanding of those notes. In connection with the purchase, we recorded a loss from early extinguishment of debt of \$171 million, primarily related to the difference between the purchase prices and the par values of the purchased notes, as well as the write-off of unamortized note discounts and issuance costs.

In February 2013, we sold \$850 million aggregate principal amount of 4 1/2% senior secured notes, which will mature on April 1, 2021. We will pay interest on the 4 1/2% senior secured notes semi-annually in arrears on April 1 and October 1 of each year, commencing on October 1, 2013. We used a portion of the proceeds from the sale of the notes to purchase approximately \$645 million aggregate principal amount outstanding of our 10% senior secured notes due 2018 in a tender offer and to call approximately \$69 million of the remaining aggregate principal amount outstanding of those notes. In connection with the purchase, we recorded a loss from early extinguishment of debt of \$177 million, primarily related to the difference between the purchase prices and the par values of the purchased notes, as well as the write-off of unamortized note discounts and issuance costs. The remaining net proceeds were used for general corporate purposes, including the repayment of borrowings under our senior secured revolving credit facility.

**NOTE 6. GUARANTEES**

At June 30, 2013, the maximum potential amount of future payments under our income guarantees to certain physicians who agree to relocate and revenue collection guarantees to hospital-based physician groups providing certain services at our hospitals was \$104 million. We had a liability of \$73 million recorded for these guarantees included in other current liabilities at June 30, 2013.

We have also guaranteed minimum rent revenue to certain landlords who built medical office buildings on or near our hospital campuses. The maximum potential amount of future payments under these guarantees at June 30, 2013 was \$4 million. We had a liability of \$2 million recorded for these guarantees at June 30, 2013, of which \$1 million was included in other current liabilities and \$1 million was included in other long-term liabilities.

**NOTE 7. EMPLOYEE BENEFIT PLANS**

At June 30, 2013, approximately 2.4 million shares of common stock were available under our 2008 Stock Incentive Plan for future stock option grants and other incentive awards, including restricted stock units. Options have an exercise price equal to the fair market value of the shares on the date of grant and generally expire 10 years from the date of grant. A restricted stock unit is a contractual right to receive one share of our common stock or the equivalent value in cash in the future. Options and restricted stock units typically vest one-third on each of the first three anniversary dates of the grant; however, from time to time, we grant (i) options and stock units with different time-based vesting terms, and (ii) performance-based options and restricted stock units that vest subject to the achievement of specified performance goals within a specified timeframe.

Our income from continuing operations for the six months ended June 30, 2013 and 2012 includes \$22 million and \$17 million, respectively, of pre-tax compensation costs related to our stock-based compensation arrangements.

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The following table summarizes stock option activity during the six months ended June 30, 2013:

	Options	Weighted Average Exercise Price Per Share	Aggregate Intrinsic Value (In Millions)	Weighted Average Remaining Life
Outstanding as of December 31, 2012	4,289,192	\$ 30.49		
Granted	295,639	39.31		
Exercised	(875,005)	23.92		
Forfeited/Expired	(118,433)	59.40		
<b>Outstanding as of June 30, 2013</b>	<b>3,591,393</b>	<b>\$ 31.86</b>	<b>\$ 55</b>	<b>3.7 years</b>
<b>Vested and expected to vest at June 30, 2013</b>	<b>3,572,505</b>	<b>\$ 31.83</b>	<b>\$ 54</b>	<b>3.7 years</b>
<b>Exercisable as of June 30, 2013</b>	<b>3,015,246</b>	<b>\$ 31.96</b>	<b>\$ 46</b>	<b>3.1 years</b>

There were 875,005 stock options exercised during the six months ended June 30, 2013 with a \$16 million aggregate intrinsic value, and 1,119,415 stock options exercised during the same period in 2012 with a \$17 million aggregate intrinsic value.

As of June 30, 2013, there were \$6 million of total unrecognized compensation costs related to stock options. These costs are expected to be recognized over a weighted average period of 2.2 years.

In the six months ended June 30, 2013, we granted an aggregate of 295,639 stock options under our 2008 Stock Incentive Plan to certain of our senior officers. These stock options will all vest on the third anniversary of the grant date, subject to the terms of the plan, and will expire on the fifth anniversary of the grant date. In the six months ended June 30, 2012, we granted an aggregate of 440,000 stock options under our 2008 Stock Incentive Plan to certain of our senior officers. Half of these stock options are subject to time-vesting and the remainder were granted subject to performance-based vesting. Because all conditions were met, the performance-based options will vest and be settled ratably over a three-year period from the grant date.

The weighted average estimated fair value of stock options we granted in the six months ended June 30, 2013 and 2012 was \$14.46 and \$11.96 per share, respectively. These fair values were calculated based on each grant date, using a binomial lattice model with the following assumptions:

	Six Months Ended June 30,	
	2013	2012
Expected volatility	50%	52%
Expected dividend yield	0%	0%
Expected life	3.6 years	6.9 years
Expected forfeiture rate	6%	2%
Risk-free interest rate	0.48%	1.41%
Early exercise threshold	100% gain	70% gain



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Early exercise rate	50% per year	20% per year
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The expected volatility used in the binomial lattice model incorporated historical and implied share-price volatility and was based on an analysis of historical prices of our stock and open-market exchanged options. The expected volatility reflects the historical volatility for a duration consistent with the contractual life of the options, and the volatility implied by the trading of options to purchase our stock on open-market exchanges. The historical share-price volatility excludes the movements in our stock price on two dates (one in 2010 and one in 2011) with unusual volatility due to an unsolicited acquisition proposal. The expected life of options granted is derived from the output of the binomial lattice model and represents the period of time that the options are expected to be outstanding. This model incorporates an early exercise assumption in the event of a significant increase in stock price. The risk-free interest rates are based on zero-coupon United States Treasury yields in effect at the date of grant consistent with the expected exercise timeframes.

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The following table summarizes information about our outstanding stock options at June 30, 2013:

Range of Exercise Prices	Number of Options	Options Outstanding		Options Exercisable	
		Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
\$0.00 to \$4.569	372,791	5.6 years	\$ 4.56	372,791	\$ 4.56
\$4.57 to \$25.089	1,042,631	6.5 years	20.86	762,123	20.09
\$25.09 to \$32.569	529,031	3.0 years	29.68	529,031	29.68
\$32.57 to \$42.529	830,574	2.7 years	41.15	534,935	42.17
\$42.53 to \$55.129	690,116	0.7 years	48.44	690,116	48.44
\$55.13 to \$70.249	126,250	0.3 years	60.67	126,250	60.67
	<b>3,591,393</b>	<b>3.7 years</b>	<b>\$ 31.86</b>	<b>3,015,246</b>	<b>\$ 31.96</b>

## Restricted Stock Units

The following table summarizes restricted stock unit activity during the six months ended June 30, 2013:

	Restricted Stock Units	Weighted Average Grant Date Fair Value Per Unit
Unvested as of December 31, 2012	2,295,942	\$ 23.40
Granted	1,222,300	40.88
Vested	(918,520)	24.16
Forfeited	(103,882)	30.08
<b>Unvested as of June 30, 2013</b>	<b>2,495,840</b>	<b>\$ 31.41</b>

In the six months ended June 30, 2013, we granted 804,062 restricted stock units subject to time-vesting, of which 723,929 will vest and be settled ratably over a three-year period from the date of the grant and 80,133 will vest 100% on the fifth anniversary of the grant date. In addition, we granted 206,058 performance-based restricted stock units to certain of our senior officers. If all conditions are met, the performance-based restricted stock units will vest and be settled ratably over a three-year period from the grant date. We also awarded a grant of 212,180 restricted stock units to our chief executive officer, of which 106,090 are subject to time-vesting and 106,090 are performance-based. If target conditions are met, 50% of this grant will vest three years from the grant date and the remaining 50% will vest six years from the grant date. The award also allows for an additional 106,090 shares to be issued if higher performance criteria are met. In the six months ended June 30, 2012, we granted 1,478,937 restricted units subject to time-vesting. In addition, we granted 116,250 performance-based restricted stock units to certain of our senior officers. Because all conditions were met, the performance-based restricted stock units will vest and be settled ratably over a three-year period from the grant date.

As of June 30, 2013, there were \$66 million of total unrecognized compensation costs related to restricted stock units. These costs are expected to be recognized over a weighted average period of 3.2 years.

## NOTE 8. EQUITY

***Mandatory Convertible Preferred Stock***

In April 2012, we repurchased and subsequently retired 298,700 shares of our 7% mandatory convertible preferred stock with a carrying value of \$289 million. In a related private financing, we issued an additional \$141 million aggregate principal amount of our 6¼% senior secured notes due 2018 at a premium for \$142 million of cash proceeds and an additional \$150 million aggregate principal amount of our 8% senior notes due 2020. On October 1, 2012, the remaining 46,300 shares outstanding of our mandatory convertible preferred stock automatically converted to 1,978,633 shares of our common stock.

***Share Repurchase Program***

In October 2012, we announced that our board of directors had authorized the repurchase of up to \$500 million of our common stock through a share repurchase program expiring in December 2013. Under the program, shares may be purchased in the open market or through privately negotiated transactions in a manner consistent with applicable securities laws and regulations, including pursuant to a Rule 10b5-1 plan maintained by the Company. Shares will be repurchased at times and in amounts based on market conditions and other factors. Pursuant to the share repurchase program, we paid approximately \$292 million to repurchase a total of 7,858,799 shares during the period from the commencement of the program through June 30, 2013.

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Period	Total Number of Shares Purchased (In Thousands)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program (In Thousands)	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Program (In Millions)
<b>November 1, 2012 through December 31, 2012</b>	<b>3,406</b>	<b>\$ 29.36</b>	<b>3,406</b>	<b>\$ 400</b>
January 1, 2013 through January 31, 2013	531	37.13	531	380
February 1, 2013 through February 28, 2013	914	39.30	914	344
March 1, 2013 through March 31, 2013	1,010	43.95	1,010	300
<b>Three Months Ended March 31, 2013</b>	<b>2,455</b>	<b>40.74</b>	<b>2,455</b>	<b>300</b>
May 1, 2013 through May 31, 2013	933	46.78	933	256
June 1, 2013 through June 30, 2013	1,065	45.71	1,065	208
<b>Three Months ended June 30, 2013</b>	<b>1,998</b>	<b>46.21</b>	<b>1,998</b>	<b>208</b>
<b>Total</b>	<b>7,859</b>	<b>\$ 37.20</b>	<b>7,859</b>	<b>\$ 208</b>

Repurchased shares are recorded based on settlement date and are held as treasury stock.

*Changes in Redeemable Noncontrolling Interests in Equity of Consolidated Subsidiaries*

The following table shows the changes in redeemable noncontrolling interests in equity of consolidated subsidiaries during the six months ended June 30, 2013 and 2012:

	Six Months Ended June 30,	
	2013	2012
<b>Balances at beginning of period</b>	<b>\$ 16</b>	<b>\$ 16</b>
Net income	4	0
Distributions paid to noncontrolling interests	0	0
Sales of joint venture interests	50	0
Purchases of joint venture interests	10	0
<b>Balances at end of period</b>	<b>\$ 80</b>	<b>\$ 16</b>

*Changes in Shareholders' Equity*

The following table shows the changes in consolidated equity during the six months ended June 30, 2013 and 2012 (dollars in millions, share amounts in thousands):

Tenet Healthcare Corporation Shareholders' Equity							
Common Stock	Additional	Accumulated			Treasury	Noncontrolling	Total
Shares Outstanding	Issued Par Amount	Paid-in Capital	Comprehensive Loss	Accumulated Deficit	Stock	Interests	Equity

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<b>Balances at</b>												
<b>December 31, 2012</b>	<b>104,633</b>	<b>\$</b>	<b>7</b>	<b>\$</b>	<b>4,471</b>	<b>\$</b>	<b>(68)</b>	<b>\$</b>	<b>(1,288)</b>	<b>\$</b>	<b>(1,979)</b>	<b>\$ 75 1,218</b>
Net income (loss)	0		0		0		0		(138)		0	8 (130)
Distributions paid to noncontrolling interests	0		0		0		0		0		0	(10) (10)
Sale of joint venture interest	0		0		53		0		0		0	0 53
Purchase of businesses or joint venture interests	0		0		0		0		0		0	13 13
Repurchase of common stock	(4,453)		0		0		0		0		(192)	0 (192)
Stock-based compensation expense and issuance of common stock	1,558		0		28		0		0		1	0 29
<b>Balances at June 30, 2013</b>	<b>101,738</b>	<b>\$</b>	<b>7</b>	<b>\$</b>	<b>4,552</b>	<b>\$</b>	<b>(68)</b>	<b>\$</b>	<b>(1,426)</b>	<b>\$</b>	<b>(2,170)</b>	<b>\$ 86 981</b>

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Tenet Healthcare Corporation Shareholders' Equity										
	Common Stock		Additional		Accumulated		Treasury		Noncontrolling	
	Shares	Issued	Shares	Issued Par	Paid-in	Comprehensive	Accumulated	Stock	Interests	Total
	Outstanding	Amount	Outstanding	Amount	Capital	Loss	Deficit			Equity
<b>Balances at December 31, 2011</b>	<b>345,000</b>	<b>\$ 334</b>	<b>103,756</b>	<b>\$ 7</b>	<b>\$ 4,427</b>	<b>\$ (52)</b>	<b>\$ (1,440)</b>	<b>\$ (1,853)</b>	<b>\$ 69</b>	<b>\$ 1,492</b>
Net income (loss)	0	0	0	0	0	0	62	0	(15)	47
Distributions paid to noncontrolling interests	0	0	0	0	0	0	0	0	(6)	(6)
Contribution from noncontrolling interests	0	0	0	0	0	0	0	0	2	2
Purchase of businesses or joint venture interests	0	0	0	0	0	0	0	0	3	3
Other comprehensive income	0	0	0	0	0	3	0	0	0	3
Preferred stock dividends	0	0	0	0	(10)	0	0	0	0	(10)
Repurchase of common stock	0	0	(1,327)	0	0	0	0	(26)	0	(26)
Repurchase of preferred stock	(298,700)	(289)	0	0	0	0	0	0	0	(289)
Stock-based compensation expense and issuance of common stock	0	0	1,694	0	13	0	0	0	0	13
<b>Balances at June 30, 2012</b>	<b>46,300</b>	<b>\$ 45</b>	<b>104,123</b>	<b>\$ 7</b>	<b>\$ 4,430</b>	<b>\$ (49)</b>	<b>\$ (1,378)</b>	<b>\$ (1,879)</b>	<b>\$ 53</b>	<b>\$ 1,229</b>

**NOTE 9. PROPERTY AND PROFESSIONAL AND GENERAL LIABILITY INSURANCE**

*Property Insurance*

We have property, business interruption and related insurance coverage to mitigate the financial impact of catastrophic events or perils that is subject to deductible provisions based on the terms of the policies. These policies are on an occurrence basis. For the annual policy periods April 1, 2011 through March 31, 2014, we have coverage totaling \$600 million per occurrence, after deductibles and exclusions, with annual aggregate sub-limits of \$100 million each for floods and earthquakes and a per-occurrence sub-limit of \$100 million for windstorms with no annual aggregate. With respect to fires and other perils, excluding floods, earthquakes and windstorms, the total \$600 million limit of coverage per occurrence applies. Deductibles are 5% of insured values up to a maximum of \$25 million for floods, California earthquakes and wind-related claims, and 2% of insured values for New Madrid fault earthquakes, with a maximum per claim deductible of \$25 million. Other covered losses, including fires and other perils, have a minimum deductible of \$1 million.

*Professional and General Liability Insurance*

At June 30, 2013 and December 31, 2012, the aggregate current and long-term professional and general liability reserves in our accompanying Condensed Consolidated Balance Sheets were approximately \$349 million and \$356 million, respectively. These reserves include the reserves recorded by our captive insurance subsidiaries and our self-insured retention reserves recorded based on actuarial estimates for the portion of our

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professional and general liability risks, including incurred but not reported claims, for which we do not have insurance coverage. We estimated the reserves for losses and related expenses using expected loss-reporting patterns discounted to their present value under a risk-free rate approach using a Federal Reserve seven-year maturity rate of 1.96% and 1.18% at June 30, 2013 and December 31, 2012, respectively.

For the policy period June 1, 2013 through May 31, 2014, our hospitals generally have a self-insurance retention of \$5 million per occurrence for all claims incurred. Our captive insurance company, The Healthcare Insurance Corporation ( THINC ), retains \$10 million per occurrence coverage above our hospitals \$5 million self-insurance retention level. The next \$10 million of claims in excess of these aggregate self-insurance retentions of \$15 million per occurrence are 85% reinsured by THINC with independent reinsurance companies, with THINC retaining 15% or a maximum of \$1.5 million. Claims in excess of \$25 million are covered by our excess professional and general liability insurance policies with major independent insurance companies, on a claims-made basis, subject to an aggregate limit of \$175 million.

For the policy period June 1, 2012 through May 31, 2013, our hospitals generally have a self-insurance retention of \$5 million per occurrence for all claims incurred. THINC retains \$10 million per occurrence coverage above our hospitals \$5 million self-insurance retention level. The next \$10 million of claims in excess of these aggregate self-insurance retentions of

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\$15 million per occurrence are 80% reinsured by THINC with independent reinsurance companies, with THINC retaining 20% or a maximum of \$2 million. Claims in excess of \$25 million are covered by our excess professional and general liability insurance policies with major independent insurance companies, on a claims-made basis, subject to an aggregate limit of \$175 million.

If the aggregate limit of any of our excess professional and general liability policies is exhausted, in whole or in part, it could deplete or reduce the excess limits available to pay any other material claims applicable to that policy period.

Included in other operating expenses, net, in the accompanying Condensed Consolidated Statements of Operations is malpractice expense of \$52 million and \$57 million for the six months ended June 30, 2013 and 2012, respectively.

**NOTE 10. CLAIMS AND LAWSUITS**

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 continue to be instituted or asserted against us. The resolution of any of these matters could have a material adverse effect on our results of operations, financial condition or cash flows in a given period.

In accordance with ASC 450, Contingencies, and related guidance, we record accruals for estimated losses relating to claims and lawsuits when available information indicates that a loss is probable and the amount of the loss, or range of loss, can be reasonably estimated. Where a loss on a material matter is reasonably possible and estimable, we disclose an estimate of the loss or a range of loss. In cases where we have not disclosed an estimate, we have concluded that the loss is either not reasonably possible or the loss, or a range of loss, is not reasonably estimable, based on available information.

1. **Governmental Reviews** Health care companies are subject to numerous investigations by various governmental agencies. Further, private parties have the right to bring qui tam or whistleblower lawsuits against companies that allegedly submit false claims for payments to, or improperly retain overpayments from, the government and, in some states, private payers. Certain of our individual facilities have received inquiries from government agencies, and our facilities may receive such inquiries in future periods. The following material governmental reviews are currently pending.

- **Review of Billing Practices for Kyphoplasty Procedures.** The U.S. Department of Justice ( DOJ ), in coordination with the Office of Inspector General ( OIG ) of the U.S. Department of Health and Human Services has contacted a number of hospitals nationwide requesting information regarding their billing practices in connection with kyphoplasty procedures. More specifically, the government is investigating the appropriateness of Medicare patients receiving kyphoplasty which is a minimally invasive spinal procedure used to treat vertebral compression fractures on an inpatient as opposed to an outpatient basis. In March 2009, one of our hospitals received an information request from the DOJ regarding these procedures and, in July 2010, we were notified that six additional hospitals were also under review. Following a chart review by our external clinical expert and non-binding discussions with the government, we entered into an agreement with the DOJ in January 2013 for approximately \$900,000 (which was previously reserved) to settle claims relating to the first hospital to receive an information request. In September 2012, we reached agreement with the DOJ on the appropriate methodology to review the billing practices of a second hospital, and our expert has completed the chart review for that hospital. As a result, in the three months ended December 31, 2012, management established a reserve, as described below, to reflect the current estimate of probable liability for that second hospital. We are unable to calculate



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an estimate of loss or range of loss with respect to the five remaining hospitals under review because (i) our external clinical expert has not completed its review of the billing practices of three of those hospitals, and (ii) we have not reached agreement with the DOJ on the appropriate review methodology with respect to the remaining two hospitals.

- *Review of Billing Practices for Cardiac Defibrillator Implantation Procedures.* The DOJ has contacted a number of hospitals nationwide requesting information regarding their Medicare billing practices in connection with the implantation of cardiac defibrillators. As previously reported, in March 2010, the DOJ issued a civil investigative demand to one of our hospitals pursuant to the federal False Claims Act seeking information to determine if procedures to implant cardiac defibrillators at that hospital from 2002 to 2010 were performed in accordance with Medicare coverage requirements. Also as previously reported, in September 2010, the DOJ notified us that its review may extend to billing procedures at 32 of our other hospitals in addition to the hospital that received the original information request. The number of hospitals under review may increase or decrease depending on the timeframe of the government's examination. The parties are currently engaged in discussions regarding a resolution of any potential liability associated with claims submitted to Medicare for the implantation of cardiac defibrillators during the relevant period, but it is impossible at this time to predict the outcome of those discussions or the amount of any potential resolution.

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- *Review of Arrangements with Local Service Provider.* As previously reported, we received a subpoena from the OIG in Atlanta seeking documents from January 2004 through May 2012 related to the relationship that Atlanta Medical Center, North Fulton Regional Hospital, South Fulton Medical Center (now known as Atlanta Medical Center – South Campus) and Spalding Regional Hospital (all located in Georgia) and Hilton Head Hospital (located in South Carolina) had with Hispanic Medical Management, Inc. ( HMM ). HMM is an unaffiliated entity that owns and operates clinics that provide, among other things, prenatal care predominantly to Hispanic women. The hospitals contracted with HMM for translation, marketing and Medicaid eligibility determination services. The investigation, which is being conducted by the U.S. Attorney’s Office for the Middle District of Georgia, the U.S. Attorney’s Office for the Northern District of Georgia, the DOJ and the Georgia Attorney General’s office relates to HMM’s relationships with various hospitals. The investigation arises out of a qui tam action captioned *United States of America, ex. rel. Ralph D. Williams v. Health Management Associates, Inc., et al.* filed in the United States District Court for the Middle District of Georgia. We understand the government’s review focuses on whether the arrangements violated the federal and state anti-kickback statutes and false claims acts. We have produced documents and information responsive to the subpoena and are cooperating with the government’s review. On April 30, 2013, the U.S. Attorney’s Office and the DOJ filed a notice that the government was choosing not to intervene in the qui tam suit at this time. The Georgia Attorney General’s office filed a notice of intervention on May 31, 2013 and filed its complaint in intervention on July 31, 2013. If the qui tam action continues, we will vigorously defend the matter. At this time, we are unable to determine the potential impact, if any, that will result from the final resolution of this investigation.

Except with respect to the matter settled in January 2013 involving one hospital, as discussed above, our analysis of these pending reviews is still ongoing, and we are unable to predict with any certainty the progress or final outcome of any discussions with government agencies at this time. Based on currently available information, as of June 30, 2013, we had recorded reserves of approximately \$3 million in the aggregate with respect to three hospitals under review in the foregoing governmental proceedings. Changes in the reserves may be required in the future as additional information becomes available. We cannot predict the ultimate resolution of any governmental review, and the final amounts paid in settlement or otherwise, if any, could differ materially from our currently recorded reserves.

2. **Hospital-Related Tort Claim** As previously reported, in May 2012, the Superior Court in Los Angeles County, California reduced punitive damages awarded in connection with an alleged April 2006 assault at Tarzana Regional Medical Center (a hospital we divested in 2008) from \$65 million to \$5 million. (The plaintiff was also previously awarded compensatory damages of approximately \$2.4 million in the lawsuit which is captioned *Rosenberg v. Encino-Tarzana Regional Medical Center and Tenet Healthcare Corporation.*) The plaintiff subsequently filed a motion seeking attorneys’ fees in the amount of \$6 million; however, the judge instead awarded attorneys’ fees of \$1.5 million. Both parties have filed notices appealing all aspects of the final judgment and have also agreed to attempt to resolve this matter through non-binding mediation, which we expect will take place during the three months ending September 30, 2013.

In the three months ended December 31, 2011, the Company recorded a reserve of approximately \$6 million in discontinued operations for this matter. For purposes of computing the reserve, management estimated that the probable range of loss would be between approximately \$6 million and \$25 million (including approximately \$1 million in attorneys’ fees) based on our expectation, after analysis of relevant case law, that a California court would apply U.S. Supreme Court opinions that generally limit, as a matter of constitutional law, the amount of a punitive award to be no more than a multiple of nine times the compensatory award and, in the case of a substantial compensatory award, to be no more than a multiple of one times that award. At that time, management concluded that no amount within this range is any more likely than any other; therefore, in accordance with ASC 450, the accrual was recorded at the low end of the estimated range.

Although we are unable to predict the ultimate resolution of this lawsuit at this time, we continue to believe that the current reserve, recorded at the low end of the estimated range, reflects our probable liability. We intend to continue to vigorously defend ourselves in this matter.

3. **Suits Relating to Pending Acquisition** In June 2013, we entered into a definitive agreement to acquire Vanguard Health Systems, Inc. ( Vanguard ) for \$21 per share in an all cash transaction. On June 25, 2013, a purported Vanguard stockholder filed a putative class

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action lawsuit in the Chancery Court for Davidson County, Tennessee, captioned *James A. Kaurich v. Vanguard Health Systems, Inc., et al.*, Case No. 13-905-IV and, on June 27, 2013, a second purported Vanguard stockholder filed a substantively identical putative class action lawsuit in the Chancery Court for Davidson County, Tennessee, captioned *Marion Edinburgh TTEE FBO Marion Edinburgh Trust U/T/D/ 7/8/1991 v. Vanguard Health Systems, Inc., et al.*, Case No. 13-921-IV. Both complaints name as defendants Vanguard, Tenet Healthcare Corporation, the merger subsidiary we formed solely for the purpose of completing the merger with Vanguard, and the members of Vanguard's board of directors, and allege, among other things, that we aided and abetted Vanguard's directors' breach of their fiduciary duties with respect to the process and terms of the merger. Both complaints seek to enjoin the merger and to create a constructive trust for the purportedly improper benefits received by Vanguard's directors. We believe that each of these actions is without merit and intend to vigorously defend against each of them.

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4. Ordinary Course Matters Also, as previously reported, we are defendants in a class action lawsuit in which the plaintiffs claim that in April 1996 patient identifying records from a psychiatric hospital that we closed in 1995 were temporarily placed in an unsecure location while the hospital was undergoing renovations. The lawsuit, *Doe, et al. v. Jo Ellen Smith Medical Foundation*, was filed in the Civil District Court for the Parish of Orleans in Louisiana in March 1997 and is currently pending. The plaintiffs' claims include allegations of tortious invasion of privacy and negligent infliction of emotional distress. The plaintiffs contend that the class consists of over 5,000 persons; however, only eight individuals have been identified to date in the class certification process. The plaintiffs have asserted each member of the class is entitled to common damages under a theory of presumed common damage regardless of whether or not any members of the class were actually harmed or even aware of the incident. We believe there is no authority for an award of common damages under Louisiana law. In addition, we believe that there is no basis for the certification of this proceeding as a class action under applicable federal and Louisiana law precedents. However, the trial court has denied our motions for summary judgment and our motion to decertify the class. In March 2012, the Louisiana Supreme Court denied our interlocutory appeal of the trial court's decision on summary judgment based on procedural grounds, noting that we retain an adequate remedy to appeal any adverse judgment that might be rendered by the trial court. In April 2012, we filed a notice of appeal of the trial court's denial of our motion to decertify the proceeding as a class action. The notice of appeal was granted, and the trial was stayed pending the outcome of the appeal. On April 24, 2013, the court of appeal affirmed the trial court's denial of our motion to decertify the proceeding as a class action. We are currently seeking review of the court of appeal's decision by the Louisiana Supreme Court. The trial remains stayed. At this time, we are not able to estimate the reasonably possible loss or reasonably possible range of loss given: the small number of class members that have been identified or otherwise responded to the class certification process; the novel theories asserted by plaintiffs, including their assertion that a theory of presumed common damage exists under Louisiana law; uncertainties as to the timing and outcome of the appeals process; and the failure of the plaintiffs to provide any evidence of damages. We intend to vigorously contest the plaintiffs' claims.

In addition to the matters described above, our hospitals are subject to investigations, claims and legal proceedings in the ordinary course of our business. Most of these matters involve allegations of medical malpractice or other injuries suffered at our hospitals. We are also party in the normal course of business to regulatory proceedings and private litigation concerning the terms of our union agreements and the application of various federal and state labor laws, rules and regulations governing, among other things, a variety of workplace wage and hour issues. Furthermore, our hospitals are routinely subject to sales and use tax audits and personal property tax audits by the state and local government jurisdictions in which they do business. The results of the audits are frequently disputed, and such disputes are ordinarily resolved by administrative appeals or litigation. It is management's opinion that the ultimate resolution of these ordinary course investigations, claims and legal proceedings will not have a material adverse effect on our business, financial condition, results of operations or cash flows.

New claims or inquiries may be initiated against us from time to time. These matters could (1) require us to pay substantial damages or amounts in judgments or settlements, which individually or in the aggregate could exceed amounts, if any, that may be recovered under our insurance policies where coverage applies and is available, (2) cause us to incur substantial expenses, (3) require significant time and attention from our management, and (4) cause us to close or sell hospitals or otherwise modify the way we conduct business.

The table below presents reconciliations of the beginning and ending liability balances in connection with legal settlements and related costs recorded during the six months ended June 30, 2013 and 2012:

	Balances at Beginning of Period	Litigation and Investigation Costs	Cash Payments	Balances at End of Period
<b>Six Months Ended June 30, 2013</b>				
Continuing operations	\$ 5	\$ 2	\$ (2)	\$ 5
Discontinued operations	5	0	(1)	4
	<b>\$ 10</b>	<b>\$ 2</b>	<b>\$ (3)</b>	<b>\$ 9</b>
<b>Six Months Ended June 30, 2012</b>				
Continuing operations	\$ 49	\$ 3	\$ (48)	\$ 4

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Discontinued operations		17		0		(12)		5
	\$	66	\$	3	\$	(60)	\$	9

For the six months ended June 30, 2013 and 2012, we recorded net litigation and investigation costs of \$2 million and \$3 million, respectively, primarily related to costs associated with various legal proceedings and governmental reviews.

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Income tax expense in the six months ended June 30, 2013 included expense of \$7.3 million (\$6.8 million related to continuing operations and \$0.5 million related to discontinued operations) attributable to an increase in our estimated liabilities for uncertain tax positions, net of related deferred tax effects. The total amount of unrecognized tax benefits as of June 30, 2013 was \$41 million (\$40 million related to continuing operations and \$1 million related to discontinued operations), of which \$39 million (\$38 million related to continuing operations and \$1 million related to discontinued operations), if recognized, would impact our effective tax rate and income tax expense (benefit).

Our practice is to recognize interest and penalties related to income tax matters in income tax expense in our consolidated statements of operations. Approximately \$0.4 million of interest and penalties related to accrued liabilities for uncertain tax positions related to continuing operations are included in the accompanying Condensed Consolidated Statement of Operations for the six months ended June 30, 2013. Total accrued interest and penalties on unrecognized tax benefits as of June 30, 2013 were \$9 million, all of which related to continuing operations.

As of June 30, 2013, approximately \$8 million of unrecognized federal and state tax benefits, as well as reserves for interest and penalties, may decrease in the next 12 months as a result of the settlement of audits, the filing of amended tax returns or the expiration of statutes of limitations.

**NOTE 12. EARNINGS (LOSS) PER COMMON SHARE**

The table below is a reconciliation of the numerators and denominators of our basic and diluted earnings (loss) per common share calculations for income (loss) from continuing operations for the three and six months ended June 30, 2013 and 2012. Income (loss) is expressed in millions and weighted average shares are expressed in thousands.

	Income (Loss) (Numerator)	Weighted Average Shares (Denominator)	Per-Share Amount
<b>Three Months Ended June 30, 2013</b>			
Loss to Tenet Healthcare Corporation common shareholders for basic earnings per share	\$ (53)	103,010	\$ (0.52)
Effect of dilutive stock options and restricted stock units	0	0	0
<b>Loss to Tenet Healthcare Corporation common shareholders for diluted earnings per share</b>	<b>\$ (53)</b>	<b>103,010</b>	<b>\$ (0.52)</b>
<b>Three Months Ended June 30, 2012</b>			
Income available to Tenet Healthcare Corporation common shareholders for basic earnings per share	\$ 42	103,753	\$ 0.40
Effect of dilutive stock options and restricted stock units	0	3,174	(0.01)
<b>Income available to Tenet Healthcare Corporation common shareholders for diluted earnings per share</b>	<b>\$ 42</b>	<b>106,927</b>	<b>\$ 0.39</b>
<b>Six Months Ended June 30, 2013</b>			
	\$ (139)	103,557	\$ (1.34)

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Loss to Tenet Healthcare Corporation common shareholders for basic earnings per share

Effect of dilutive stock options and restricted stock units	0	0	0
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<b>Loss to Tenet Healthcare Corporation common shareholders for diluted earnings per share</b>	<b>\$ (139)</b>	<b>103,557</b>	<b>\$ (1.34)</b>
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**Six Months Ended June 30, 2012**

Income available to Tenet Healthcare Corporation common shareholders for basic earnings per share	\$ 99	103,298	\$ 0.96
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Effect of dilutive stock options, restricted stock units and mandatory convertible preferred stock	2	5,382	(0.03)
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<b>Income available to Tenet Healthcare Corporation common shareholders for diluted earnings per share</b>	<b>\$ 101</b>	<b>108,680</b>	<b>\$ 0.93</b>
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All potentially dilutive securities were excluded from the calculation of diluted earnings (loss) per share for the three and six months ended June 30, 2013 because we did not report income from continuing operations in those periods. In circumstances where we do not have income from continuing operations, the effect of stock options and other potentially dilutive securities is anti-dilutive, that is, a loss from continuing operations has the effect of making the diluted loss per share less than the basic loss per share. Had we generated income from continuing operations in those periods, the effect (in thousands) of employee stock options, restricted stock units and deferred compensation units on the diluted shares calculation would have been an increase of 2,326 and 2,282 shares for the three and six months ended June 30, 2013, respectively. Stock options (in thousands) whose exercise price exceeded the average market price of our common stock and, therefore, were not included in the computation of diluted shares for the three months ended June 30, 2013 and 2012 were 816 and 3,889 shares, respectively, and for the six months ended June 30, 2013 and 2012 were 934 and 3,691 shares, respectively.

Table of Contents**NOTE 13. FAIR VALUE MEASUREMENTS**

Our financial assets and liabilities recorded at fair value on a recurring basis primarily relate to investments in available-for-sale securities held by our captive insurance subsidiaries. The following tables present information about our assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2013 and December 31, 2012. The following tables also indicate the fair value hierarchy of the valuation techniques we utilized to determine such fair values. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. We consider a security that trades at least weekly to have an active market. Fair values determined by Level 2 inputs utilize data points that are observable, such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

	June 30, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments:</b>				
Marketable securities    current	\$ 2	\$ 2	\$ 0	\$ 0
Investments in Reserve Yield Plus Fund	2	0	2	0
Marketable debt securities    noncurrent	12	0	11	1
	<b>\$ 16</b>	<b>\$ 2</b>	<b>\$ 13</b>	<b>\$ 1</b>

	December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments:</b>				
Marketable securities    current	\$ 4	\$ 4	\$ 0	\$ 0
Investments in Reserve Yield Plus Fund	2	0	2	0
Marketable debt securities    noncurrent	14	2	11	1
	<b>\$ 20</b>	<b>\$ 6</b>	<b>\$ 13</b>	<b>\$ 1</b>

At June 30, 2013, one of our captive insurance subsidiaries held \$1 million of preferred stock and other securities that were distributed from auction rate securities whose auctions have failed due to sell orders exceeding buy orders. We were not required to record an other-than-temporary impairment of these securities during the six months ended June 30, 2013 or 2012.

The fair value of our long-term debt is based on quoted market prices (Level 1). At June 30, 2013 and December 31, 2012, the estimated fair value of our long-term debt was approximately 98.6% and 108.2%, respectively, of the carrying value of the debt.

**NOTE 14. ACQUISITIONS**



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During the six months ended June 30, 2013, we acquired four ambulatory surgery centers (in one of which we had previously held a noncontrolling interest) and various physician practice entities. The fair value of the consideration conveyed in the acquisitions (the purchase price ) was \$16 million.

We are required to allocate the purchase prices of the acquired businesses to assets acquired or liabilities assumed and, if applicable, noncontrolling interests based on their fair values. The excess of the purchase price allocation over those fair values is recorded as goodwill. We are in process of finalizing the purchase price allocations, including valuations of the acquired property and equipment, for several of the recently acquired outpatient centers; therefore, the purchase price allocations for those centers are subject to adjustment once the valuations are completed.

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Purchase price allocations for the acquisitions made during the six months ended June 30, 2013 are as follows:

Current assets	\$	1
Property and equipment		4
Goodwill		46
Current liabilities		(1)
Long-term liabilities		(1)
Redeemable noncontrolling interests in equity of consolidated subsidiaries		(10)
Noncontrolling interests		(13)
Net assets acquired		