

TENET HEALTHCARE CORP

Form 10-Q

November 01, 2011

[Table of Contents](#)

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 September 30, 2011**

OR

.. **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from to**

Commission File Number 1-7293

TENET HEALTHCARE CORPORATION

(Exact name of Registrant as specified in its charter)

Nevada

(State of Incorporation)

95-2557091

(IRS Employer Identification No.)

1445 Ross Avenue, Suite 1400

Dallas, TX 75202

Edgar Filing: TENET HEALTHCARE CORP - Form 10-Q

(Address of principal executive offices, including zip code)

(469) 893-2200

(Registrant's telephone number, including area code)

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 (or for such shorter period that the Registrant was required to submit and post such files). Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company (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 October 25, 2011, there were 434,349,003 shares of the Registrant's common stock, \$0.05 par value, outstanding.

Table of Contents

TENET HEALTHCARE CORPORATION

TABLE OF CONTENTS

	Page
PART I. <u>FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements (Unaudited)</u>	
<u>Condensed Consolidated Financial Statements</u>	1
<u>Notes to Condensed Consolidated Financial Statements</u>	4
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	53
Item 4. <u>Controls and Procedures</u>	53
PART II. <u>OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	55
Item 1A. <u>Risk Factors</u>	55
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	55
Item 6. <u>Exhibits</u>	55

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****TENET HEALTHCARE CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

Dollars in Millions

(Unaudited)

	September 30, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 185	\$ 405
Accounts receivable, less allowance for doubtful accounts (\$377 at September 30, 2011 and \$352 at December 31, 2010)	1,221	1,143
Inventories of supplies, at cost	157	156
Income tax receivable	7	22
Current portion of deferred income taxes	247	282
Assets held for sale	2	14
Other current assets	357	289
Total current assets	2,176	2,311
Investments and other assets	159	164
Deferred income taxes, net of current portion	533	627
Property and equipment, at cost, less accumulated depreciation and amortization (\$3,304 at September 30, 2011 and \$3,100 at December 31, 2010)	4,201	4,304
Goodwill	724	652
Other intangible assets, at cost, less accumulated amortization (\$351 at September 30, 2011 and \$302 at December 31, 2010)	500	442
Total assets	\$ 8,293	\$ 8,500
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 129	\$ 67
Accounts payable	629	720
Accrued compensation and benefits	349	363
Professional and general liability reserves	79	84
Accrued interest payable	111	115
Accrued legal settlement costs	10	8
Other current liabilities	372	368
Total current liabilities	1,679	1,725
Long-term debt, net of current portion	3,966	3,997
Professional and general liability reserves	347	383
Accrued legal settlement costs	22	22
Other long-term liabilities	502	554

Edgar Filing: TENET HEALTHCARE CORP - Form 10-Q

Total liabilities	6,516	6,681
Commitments and contingencies		
Redeemable noncontrolling interests in equity of consolidated subsidiaries	16	0
Equity:		
Shareholders' equity:		
Preferred stock, \$0.15 par value; authorized 2,500,000 shares; 345,000 of 7% mandatory convertible shares with a liquidation preference of \$1,000 per share issued at September 30, 2011 and December 31, 2010	334	334
Common stock, \$0.05 par value; authorized 1,050,000,000 shares; 551,251,384 shares issued at September 30, 2011 and 550,882,110 shares issued at December 31, 2010	27	27
Additional paid-in capital	4,425	4,449
Accumulated other comprehensive loss	(43)	(43)
Accumulated deficit	(1,370)	(1,522)
Common stock in treasury, at cost, 96,253,367 shares at September 30, 2011 and 65,098,918 shares at December 31, 2010	(1,675)	(1,479)
Total shareholders' equity	1,698	1,766
Noncontrolling interests	63	53
Total equity	1,761	1,819
Total liabilities and equity	\$ 8,293	\$ 8,500

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

TENET HEALTHCARE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Dollars in Millions, Except Per-Share Amounts

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net operating revenues	\$ 2,342	\$ 2,262	\$ 7,222	\$ 6,904
Operating expenses:				
Salaries, wages and benefits	1,019	977	3,053	2,933
Supplies	388	390	1,191	1,183
Provision for doubtful accounts	193	187	546	549
Other operating expenses, net	547	505	1,581	1,470
Depreciation and amortization	103	101	308	293
Impairment of long-lived assets and goodwill, and restructuring charges, net	8	3	18	1
Litigation and investigation costs	5	2	24	6
Operating income	79	97	501	469
Interest expense	(59)	(107)	(275)	(323)
Loss from early extinguishment of debt		(55)		(55)
Investment earnings	1	3	3	5
Income (loss) from continuing operations, before income taxes	21	(62)	229	96
Income tax benefit (expense)	(4)	1,002	(73)	979
Income from continuing operations, before discontinued operations	17	940	156	1,075
Discontinued operations:				
Loss from operations	(2)	(4)	(20)	(4)
Impairment of long-lived assets and goodwill, and restructuring charges, net	0	1	0	(1)
Income tax benefit	0	3	24	0
Income (loss) from discontinued operations	(2)	0	4	(5)
Net income	15	940	160	1,070
Less: Preferred stock dividends	6	6	18	18
Less: Net income attributable to noncontrolling interests	3	2	8	7
Net income attributable to Tenet Healthcare Corporation common shareholders	\$ 6	\$ 932	\$ 134	\$ 1,045
Amounts attributable to Tenet Healthcare Corporation common shareholders				
Income from continuing operations, net of tax	\$ 8	\$ 932	\$ 130	\$ 1,050
Income (loss) from discontinued operations, net of tax	(2)	0	4	(5)
Net income attributable to Tenet Healthcare Corporation common shareholders	\$ 6	\$ 932	\$ 134	\$ 1,045

Edgar Filing: TENET HEALTHCARE CORP - Form 10-Q

**Earnings (loss) per share attributable to Tenet Healthcare Corporation
common shareholders**

Basic								
Continuing operations	\$	0.02	\$	1.92	\$	0.27	\$	2.17
Discontinued operations		0.00		0.00		0.01		(0.01)
	\$	0.02	\$	1.92	\$	0.28	\$	2.16

Diluted								
Continuing operations	\$	0.02	\$	1.68	\$	0.26	\$	1.91
Discontinued operations		0.00		0.00		0.01		(0.01)
	\$	0.02	\$	1.68	\$	0.27	\$	1.90

**Weighted average shares and dilutive securities outstanding (in
thousands):**

Basic	468,753	485,210	480,817	483,912
Diluted	483,632	559,850	497,862	560,200

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

TENET HEALTHCARE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Dollars in Millions

(Unaudited)

	Nine Months Ended September 30,	
	2011	2010
Net income	\$ 160	\$ 1,070
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	308	293
Provision for doubtful accounts	546	549
Deferred income tax expense (benefit)	102	(984)
Stock-based compensation expense	17	18
Impairment of long-lived assets and goodwill, and restructuring charges, net	18	1
Fair market value adjustments related to interest rate swap and LIBOR cap agreements	0	3
Amortization of debt discount and debt issuance costs	23	23
Litigation and investigation costs	24	6
Loss from early extinguishment of debt	0	55
Pre-tax loss from discontinued operations	20	5
Other items, net	(12)	0
Changes in cash from operating assets and liabilities:		
Accounts receivable	(625)	(537)
Inventories and other current assets	(36)	2
Income taxes	(44)	40
Accounts payable, accrued expenses and other current liabilities	(98)	(146)
Other long-term liabilities	(11)	(23)
Payments against reserves for restructuring charges and litigation costs	(27)	(76)
Net cash used in operating activities from discontinued operations, excluding income taxes	(41)	(2)
Net cash provided by operating activities	324	297
Cash flows from investing activities:		
Purchases of property and equipment – continuing operations	(298)	(254)
Construction of new and replacement hospitals	0	(13)
Purchase of property and equipment – discontinued operations	0	(13)
Purchases of businesses or joint venture interests	(56)	(44)
Proceeds from sales of facilities and other assets – discontinued operations	0	19
Proceeds from sales of marketable securities, long-term investments and other assets	31	31
Other items, net	(1)	3
Net cash used in investing activities	(324)	(271)
Cash flows from financing activities:		
Repayments of borrowings	(4)	(886)
Proceeds from borrowings	0	601
Deferred debt issuance costs	0	(15)
Repurchases of common stock	(196)	0
Cash dividends on preferred stock	(18)	(18)
Distributions paid to noncontrolling interests	(8)	(6)
Other items, net	6	6

Edgar Filing: TENET HEALTHCARE CORP - Form 10-Q

Net cash used in financing activities	(220)	(318)
Net decrease in cash and cash equivalents	(220)	(292)
Cash and cash equivalents at beginning of period	405	690
Cash and cash equivalents at end of period	\$ 185	\$ 398
Supplemental disclosures:		
Interest paid, net of capitalized interest	\$ (255)	\$ (313)
Income tax refunds, net	\$ 9	\$ 34

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

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 as Tenet, the Company, we or us) is an investor-owned health care services company whose subsidiaries and affiliates principally operate acute care hospitals and related health care facilities. At September 30, 2011, our subsidiaries operated 49 acute care hospitals, including four academic medical centers, and one critical access hospital, with a combined total of 13,453 licensed beds, primarily serving urban and suburban communities in 11 states. We also own an interest in a health maintenance organization (HMO) and operate various related health care facilities, including a long-term acute care hospital and a number of medical office buildings (all of which are located on, or nearby, one of our general hospital campuses); revenue cycle management and patient communications services businesses; physician practices; captive insurance companies; a management services subsidiary that provides network development, utilization management, claims processing and contract negotiation services to physician organizations and hospitals that assume managed care risk; and other ancillary health care businesses (including ambulatory surgery centers, diagnostic imaging centers, and occupational and rural health care clinics).

Basis of Presentation

This quarterly report supplements our Annual Report on Form 10-K for the year ended December 31, 2010 (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). 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. 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 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 nine month periods ended September 30, 2011 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 trends in patient accounts receivable collectability and associated provisions for doubtful accounts; 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; fluctuations in interest rates; levels of malpractice insurance expense and settlement trends; impairment of long-lived assets and goodwill; restructuring charges; 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; and changes in occupancy levels and patient volumes. Factors that affect patient volumes and, thereby, our 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 regulation; and the timing of elective procedures. These considerations apply to year-to-year comparisons as well.

Table of Contents

Net Operating Revenues

We recognize net operating revenues in the period in which services are performed. Net operating revenues 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*.

Under certain provisions of the American Recovery and Reinvestment Act of 2009, federal incentive payments are available to hospitals, physicians and certain other professionals (Providers) when they adopt certified electronic health record (EHR) technology or become meaningful users of EHR technology in ways that demonstrate improved quality, safety and effectiveness of care. Providers can become eligible for annual Medicare incentive payments by demonstrating meaningful use of EHR technology in each period over four periods. Medicaid Providers can receive their initial incentive payment by adopting, implementing or upgrading (AIU) certified EHR technology, but must demonstrate meaningful use of EHR technology in subsequent years in order to qualify for additional payments. Hospitals may be eligible for both Medicare and Medicaid EHR incentive payments; however, physicians and other professionals may be eligible for either Medicare or Medicaid incentive payments, but not both. Medicaid EHR incentive payments to Providers are 100% federally funded and administered by the states; however, the states are not required to offer EHR incentive payments to Providers. The Centers for Medicare and Medicaid Services (CMS) established calendar year 2011 as the first year states could offer EHR incentive payments. Before a state may offer EHR incentive payments, the state must submit and CMS must approve the state s incentive plan. During the nine months ended September 30, 2011, we acquired certified EHR technology for all of our acute care hospitals and certain of our employed physicians, and CMS approved state plans in all but one state (Nebraska) in which we operate. Accordingly, we are entitled to receive Medicaid incentive payments for the adoption of certified EHR technology for our eligible hospitals and employed physicians in the states that received CMS approval as we have satisfied the statutory and regulatory AIU requirements. As a result, during the nine months ended September 30, 2011, we recognized as revenue approximately \$50 million of Medicaid hospital and physician incentive payments, most of which we expect to receive by the end of 2011. Also, if we satisfy specified meaningful use criteria in future periods, we may become entitled to additional Medicaid incentive payments, as well as Medicare incentive payments as further described in the Regulatory and Legislative Changes section in Part II of our Annual Report.

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 \$185 million and \$405 million at September 30, 2011 and December 31, 2010, respectively. As of September 30, 2011 and December 31, 2010, our book overdrafts were approximately \$188 million and \$243 million, respectively, which were classified as accounts payable.

At September 30, 2011 and December 31, 2010, approximately \$81 million and \$109 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. During the nine months ended September 30, 2011, we repatriated \$21 million of excess cash from our foreign insurance subsidiary to our corporate domestic bank account.

Also at September 30, 2011 and December 31, 2010, we had \$56 million and \$91 million, respectively, of property and equipment purchases accrued for items received but not yet paid. Of these amounts, \$51 million and \$87 million, respectively, were included in accounts payable.

During the nine months ended September 30, 2011, we entered into non-cancellable capital leases of approximately \$15 million, primarily for equipment.

Table of Contents**NOTE 2. ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS**

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

	September 30, 2011	December 31, 2010
Continuing operations:		
Patient accounts receivable	\$ 1,600	\$ 1,472
Allowance for doubtful accounts	(370)	(337)
Estimated future recoveries from accounts assigned to our collection agency subsidiary	56	33
Net cost reports and settlements payable and valuation allowances	(62)	(26)
	1,224	1,142
Discontinued operations:		
Patient accounts receivable	6	17
Allowance for doubtful accounts	(7)	(15)
Estimated future recoveries from accounts assigned to our collection agency subsidiary	0	1
Net cost reports and settlements payable and valuation allowances	(2)	(2)
	(3)	1
Accounts receivable, net	\$ 1,221	\$ 1,143

As of September 30, 2011, our estimated collection rates on managed care accounts and self-pay accounts, including co-pays and deductibles, were approximately 98.4% and 27.7%, respectively, which included collections from point-of-service through collections by our collection agency subsidiary. The comparable managed care and self-pay collection rates as of December 31, 2010 were approximately 98.4% and 28.3%, respectively.

Accounts that are pursued for collection through our regional business offices are maintained on our hospitals' books and reflected in patient accounts receivable with an allowance for doubtful accounts established to reduce the carrying value of such receivables to their estimated net realizable value. We estimate this allowance based on the aging of our accounts receivable by hospital, our historical collection experience by hospital and for each type of payer over an 18-month look-back period, and other relevant factors.

Accounts assigned to our collection agency subsidiary are written off and excluded from patient accounts receivable and allowance for doubtful accounts; however, an estimate of future recoveries from all accounts at our collection agency subsidiary is determined based on historical experience and recorded on our hospitals' books as a component of accounts receivable in the accompanying Condensed Consolidated Balance Sheets.

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 September 30, 2011 and 2010 were approximately \$105 million and \$97 million, respectively, and for the nine months ended September 30, 2011 and 2010 were approximately \$298 million and \$285 million, respectively. We also provide charity care to patients who are financially unable to pay for the health care services they receive. Most patients who qualify for charity care are charged a per-diem amount for services received, subject to a cap. Except for the per-diem amounts, our policy is not to pursue collection of amounts determined to qualify as charity care; therefore, we do not report these amounts in net operating revenues or in provision for doubtful accounts. 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 September 30, 2011 and 2010 were approximately \$41 million and \$37 million, respectively, and for the nine months ended September 30, 2011 and 2010 were approximately \$199 million and \$134 million, respectively. These payments are intended to mitigate our cost of uncompensated care, as well as reduced Medicaid funding levels. Our estimated costs (based on the selected operating expenses described above) of caring for charity care patients for the three months ended September 30, 2011 and 2010 were \$33 million and \$36 million, respectively, and for the nine months ended September 30, 2011 and 2010 were \$96 million and \$90 million, respectively. Our method of measuring the estimated costs uses adjusted self-pay/charity patient days multiplied by selected operating expenses per adjusted patient day. The adjusted self-pay/charity patient days represents actual self-pay/charity patient days adjusted to include self-pay/charity outpatient services by multiplying actual self-pay/charity patient days by the sum of gross self-pay/charity inpatient revenues and gross self-pay/charity outpatient

revenues and dividing the results by gross self-pay/charity inpatient revenues.

Table of Contents**NOTE 3. DISCONTINUED OPERATIONS**

Effective April 1, 2010, we completed the sale of certain of our owned assets at NorthShore Regional Medical Center (NorthShore), located in Slidell, Louisiana, for approximately \$16 million of cash proceeds. At that time, we also terminated our operating lease agreement for the hospital. We recorded \$1 million of net impairment and restructuring charges in discontinued operations during the nine months ended September 30, 2010, consisting of a \$3 million write-down of land to expected sales proceeds related to a previously divested hospital, partially offset by \$1 million in impairment credits to discontinued operations relating to an increase in the estimated fair values of NorthShore's long-lived assets, less estimated costs to sell, and \$1 million for a reduction in reserves recorded in previous periods.

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

	Three Months		Nine Months	
	Ended		Ended	
	September 30,	September 30,	September 30,	September 30,
	2011	2010	2011	2010
Net operating revenues	\$ (3)	\$ 0	\$ 5	\$ 22
Loss before income taxes	(2)	(3)	(20)	(5)

Included in loss before income taxes from discontinued operations in the nine months ended September 30, 2011 is approximately \$10 million of expense related to the settlement of two Hurricane Katrina-related class action lawsuits, which amount is net of approximately \$10 million of expected recoveries from our reinsurance carriers in connection with the settlement. We had previously recorded a \$5 million reserve for this matter as of December 31, 2010.

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

During the nine months ended September 30, 2011, we recorded \$18 million of net impairment and restructuring charges. We recorded \$4 million for the write-down of buildings and equipment of one of our previously impaired hospitals to their estimated fair values primarily due to a decline in the fair value of real estate in the market in which the hospital operates and a decline in the estimated fair value of equipment. Material adverse trends in our most recent estimates of future undiscounted cash flows of the hospital, consistent with our previous estimates in prior years when impairment charges were recorded at this hospital, indicated the carrying value of the hospital's long-lived assets was not recoverable from the estimated future cash flows. We believe the most significant factors contributing to the continuing adverse financial trends include reductions in volumes of insured patients, shifts in payer mix from commercial to governmental payers combined with reductions in reimbursement rates from governmental payers, and high levels of uninsured patients. As a result, we updated the estimate of the fair value of the hospital's long-lived assets and compared the fair value estimate to the carrying value of the hospital's long-lived assets. Because the fair value estimate was lower than the carrying value of the hospital's long-lived assets, an impairment charge was recorded for the difference in the amounts. Unless the anticipated future financial trends of this hospital improve to the extent that the estimated future undiscounted cash flows exceed the carrying value of the long-lived assets, this hospital is at risk of future impairments, particularly if we spend significant amounts of capital at the hospital without generating a corresponding increase in the hospital's fair value or if the fair value of the hospital's real estate or equipment continues to decline. We also recorded an impairment charge of \$1 million related to a cost basis investment, \$7 million in employee severance costs, \$3 million in lease termination costs and \$3 million of other related costs.

During the nine months ended September 30, 2010, we recorded \$1 million of net impairment and restructuring charges. We recorded \$3 million for the write-down of buildings, equipment and other long-lived assets, primarily capitalized software costs classified in other intangible assets, of one of our previously impaired hospitals to their estimated fair values primarily due to a decline in the fair value of real estate in the market in which the hospital operates and a decline in the estimated fair value of equipment. This charge was partially offset by a \$2 million credit related to the collection of a note receivable due from a buyer of one of our previously divested hospitals, which had been fully reserved in a prior year.

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.

Table of Contents

As of September 30, 2011, our continuing operations were structured as follows:

Our California region included all of our hospitals in California and Nebraska;

Our Central region included all of our hospitals in Missouri, Tennessee and Texas;

Our Florida region included all of our hospitals in Florida; and

Our Southern States region included all of our hospitals 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 operating segment level. Our hospitals in Pennsylvania, which were previously part of a separate market, became part of our Southern States region effective May 1, 2011. This change did not have any impact on our consolidated financial condition, results of operations or cash flows.

The tables below are reconciliations of beginning and ending liability balances in connection with restructuring charges recorded during the nine months ended September 30, 2011 and 2010 in continuing and discontinued operations:

	Balances at Beginning of Period	Restructuring Charges, Net	Cash Payments	Other	Balances at End of Period
Nine Months Ended September 30, 2011					
Continuing operations:					
Lease and other costs, and employee severance-related costs in connection with hospital cost-control programs and general overhead-reduction plans	\$ 4	\$ 13	\$ (6)	\$ (1)	\$ 10
Discontinued operations:					
Employee severance-related costs, and other estimated costs associated with the sale or closure of hospitals and other facilities	6	0	(1)	0	5
	\$ 10	\$ 13	\$ (7)	\$ (1)	\$ 15
Nine Months Ended September 30, 2010					
Continuing operations:					
Lease and other costs, and employee severance-related costs in connection with hospital cost-control programs and general overhead-reduction plans	\$ 6	\$ 0	\$ (3)	\$ 0	\$ 3
Discontinued operations:					
Employee severance-related costs, and other estimated costs associated with the sale or closure of hospitals and other facilities	8	(1)	(1)	0	6
	\$ 14	\$ (1)	\$ (4)	\$ 0	\$ 9

The above liability balances at September 30, 2011 are included in other current liabilities and other long-term liabilities in the accompanying Condensed Consolidated Balance Sheet. Cash payments to be applied against these accruals at September 30, 2011 are expected to be approximately \$3 million in 2011 and \$12 million thereafter.

Table of Contents**NOTE 5. LONG-TERM DEBT AND LEASE OBLIGATIONS**

The table below shows our long-term debt as of September 30, 2011 and December 31, 2010:

	September 30, 2011	December 31, 2010
Senior notes:		
6 ³ / ₈ %, due 2011	\$ 65	\$ 65
6 ¹ / ₂ %, due 2012	57	57
7 ³ / ₈ %, due 2013	216	216
9 ⁷ / ₈ %, due 2014	60	60
9 ¹ / ₄ %, due 2015	474	474
8%, due 2020	600	600
6 ⁷ / ₈ %, due 2031	430	430
Senior secured notes:		
9%, due 2015	714	714
10%, due 2018	714	714
8 ⁷ / ₈ %, due 2019	925	925
Capital leases and mortgage notes	21	6
Unamortized note discounts	(181)	(197)
Total long-term debt	4,095	4,064
Less: Current portion	129	67
Long-term debt, net of current portion	\$ 3,966	\$ 3,997

Credit Agreement

We have a senior secured revolving credit facility 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 is scheduled to expire on October 19, 2015; however, this date could be accelerated to as early as the fourth quarter of 2014 if 80% of our notes due in 2015 are not repaid, defeased or refinanced 60 business days prior to their maturity. 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 accrue interest during a six-month initial period at the rate of either (i) a base rate plus a margin of 2.00% or (ii) the London Interbank Offered Rate (LIBOR) plus a margin of 3.00% per annum. Thereafter, outstanding revolving loans accrue interest at a base rate plus a margin ranging from 1.75% to 2.25% or LIBOR plus a margin ranging from 2.75% to 3.25% per annum based on available credit. An unused commitment fee will be payable on the undrawn portion of the revolving loans at a six-month initial rate of 0.50% per annum. Thereafter, the unused commitment fee will range from 0.375% to 0.625% per annum based on available credit. Our borrowing availability is based on a specified percentage of eligible accounts receivable, including self-pay accounts. There were no cash borrowings outstanding under the revolving credit facility at September 30, 2011, and we had approximately \$169 million of standby letters of credit outstanding. Based on our eligible receivables, approximately \$540 million was available for borrowing under the revolving credit facility at September 30, 2011.

Interest Rate Swap and LIBOR Cap Agreements

We were party to an interest rate swap agreement for an aggregate notional amount of \$600 million from February 14, 2011 through August 2, 2011. The interest rate swap agreement was designated as a fair value hedge and was being used to manage our exposure to future changes in interest rates. It had the effect of converting our 10% senior secured notes due 2018 from a fixed interest rate paid semi-annually to a variable interest rate paid semi-annually based on the six-month LIBOR plus a floating rate spread of 6.60%. During the term of the interest rate swap agreement, changes in the fair value of the interest rate swap agreement and changes in the fair value of the 10% senior secured notes, which we expected to substantially offset each other, were recorded in interest expense. During the nine months ended September 30, 2011, our interest rate swap agreement generated approximately \$8 million of cash interest savings and a \$22 million gain on the settlement of the agreement.

Edgar Filing: TENET HEALTHCARE CORP - Form 10-Q

The fair value of the LIBOR cap agreement included in investments and other assets in the accompanying Condensed Consolidated Balance Sheet at September 30, 2011 totaled less than \$1 million. During the nine months ended September 30, 2011, mark-to-market adjustments of the LIBOR cap agreement did not have a material impact on interest expense in the accompanying Condensed Consolidated Statements of Operations. In addition, see Note 14 for the disclosure of the fair value of the LIBOR cap agreement.

Table of Contents**NOTE 6. GUARANTEES**

Consistent with our policy on physician relocation and recruitment, we provide income guarantee agreements to certain physicians who agree to relocate to fill a community need in the service area of one of our hospitals and commit to remain in practice in the area for a specified period of time. Under such agreements, we are required to make payments to the physicians in excess of the amounts they earn in their practices up to the amount of the income guarantee. The income guarantee periods are typically 12 months. If a physician does not fulfill his or her commitment period to the community, which is typically three years subsequent to the guarantee period, we seek recovery of the income guarantee payments from the physician on a prorated basis. We also provide revenue collection guarantees to hospital-based physician groups providing certain services at our hospitals with terms generally ranging from one to three years.

At September 30, 2011, the maximum potential amount of future payments under our income and revenue collection guarantees was \$87 million. We had a liability of \$76 million recorded for the fair value of these guarantees included in other current liabilities at September 30, 2011.

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 September 30, 2011 was \$7 million. We had a liability of \$5 million recorded for the fair value of these guarantees, of which \$1 million was included in other current liabilities and \$4 million was included in other long-term liabilities, at September 30, 2011.

NOTE 7. EMPLOYEE BENEFIT PLANS

At September 30, 2011, approximately 22 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, in some cases, 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 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 nine months ended September 30, 2011 and 2010 includes \$17 million and \$18 million, respectively, of pre-tax compensation costs related to our stock-based compensation arrangements.

Stock Options

The following table summarizes stock option activity during the nine months ended September 30, 2011:

	Options	Weighted Average Exercise Price Per Share	Aggregate Intrinsic Value (In Millions)	Weighted Average Remaining Life
Outstanding as of December 31, 2010	43,155,549	\$ 9.97		
Granted	0	0		
Exercised	(2,465,783)	1.31		
Forfeited/Expired	(4,016,924)	28.02		
Outstanding as of September 30, 2011	36,672,842	\$ 8.57	\$ 48	5.2 years
Vested and expected to vest at September 30, 2011	36,541,652	\$ 8.60	\$ 48	5.2 years
Exercisable as of September 30, 2011	29,415,190	\$ 10.32	\$ 29	4.6 years

There were 2,465,783 stock options exercised during the nine months ended September 30, 2011 with a \$14 million aggregate intrinsic value, and 1,823,678 stock options exercised during the same period in 2010 with a \$8 million aggregate intrinsic value.

Edgar Filing: TENET HEALTHCARE CORP - Form 10-Q

In the nine months ended September 30, 2011, there were no stock options granted. In the nine months ended September 30, 2010, there were 964,008 stock options granted under our 2008 Stock Incentive Plan.

Table of Contents

As of September 30, 2011, there were \$3 million of total unrecognized compensation costs related to stock options. These costs are expected to be recognized over a weighted average period of 0.8 years.

The following table summarizes information about our outstanding stock options at September 30, 2011:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
\$0.00 to \$1.149	16,042,131	7.4 years	\$ 1.14	9,540,752	\$ 1.14
\$1.15 to \$10.639	10,998,516	5.2 years	7.26	10,242,243	7.45
\$10.64 to \$13.959	2,879,551	2.4 years	12.11	2,879,551	12.11
\$13.96 to \$17.589	3,594,422	1.3 years	17.09	3,594,422	17.09
\$17.59 to \$28.759	612,000	1.1 years	28.16	612,000	28.16
\$28.76 and over	2,546,222	0.2 years	40.37	2,546,222	40.37
	36,672,842	5.2 years	\$ 8.57	29,415,190	\$ 10.32

Restricted Stock Units

The following table summarizes restricted stock unit activity during the nine months ended September 30, 2011:

	Restricted Stock Units	Weighted Average Grant Date Fair Value Per Unit
Unvested as of December 31, 2010	6,321,270	\$ 5.14
Granted	4,274,884	6.89
Vested	(2,557,367)	5.00
Forfeited	(214,217)	5.89
Unvested as of September 30, 2011	7,824,570	\$ 6.12

In the nine months ended September 30, 2011, we granted 3,519,448 restricted stock units subject to time-vesting. In addition, we granted 755,436 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 date of the grant.

As of September 30, 2011, there were \$33 million of total unrecognized compensation costs related to restricted stock units. These costs are expected to be recognized over a weighted average period of 2.3 years.

NOTE 8. EQUITY

We accrued approximately \$6 million, or \$17.50 per share, for dividends on our 7% mandatory convertible preferred stock in each of the three months ended March 31, 2011, June 30, 2011 and September 30, 2011, and paid the dividends in April 2011, July 2011 and October 2011, respectively.

Edgar Filing: TENET HEALTHCARE CORP - Form 10-Q

On September 7, 2011, we entered into an amendment to our Section 382 Rights Agreement dated as of January 7, 2011 (the Rights Agreement) to accelerate the final expiration date of the rights issued under the Rights Agreement to the close of business on September 12, 2011. Accordingly, as of the close of business on September 12, 2011, the rights issued under the Rights Agreement expired and are no longer outstanding.

On May 9, 2011, we announced that our board of directors had authorized the repurchase of up to \$400 million of our common stock through a share repurchase program. 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. The share repurchase program does not obligate us to acquire any specific number of shares and may be modified, suspended or discontinued at any time. The share repurchase program will expire on May 9, 2012. Pursuant to the program, we repurchased a total of 35,478,972 shares for approximately \$196 million during the nine months ended September 30, 2011 as shown in the following table:

Table of Contents

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Program
May 12, 2011 through May 31, 2011	4,582,299	\$ 6.44	4,582,299	\$ 370,475,865
June 1, 2011 through June 30, 2011	6,882,130	6.17	6,882,130	328,002,443
Three Months Ended June 30, 2011	11,464,429	6.28	11,464,429	328,002,443
July 1, 2011 through July 31, 2011	5,354,419	6.16	5,354,419	295,011,008
August 1, 2011 through August 31, 2011	11,326,556	5.02	11,326,556	238,182,249
September 1, 2011 through September 30, 2011	7,333,568	4.63	7,333,568	204,221,164
Three Months Ended September 30, 2011	24,014,543	5.15	24,014,543	204,221,164
Total	35,478,972	\$ 5.52	35,478,972	\$ 204,221,164

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

The following table shows the changes in consolidated equity during the nine months ended September 30, 2011 and 2010 (dollars in millions, share amounts in thousands):

	Tenet Healthcare Corporation Shareholders' Equity												
	Preferred Stock		Common Stock					Accumulated			Treasury Stock	Noncontrolling Interests	Total Equity
	Shares Outstanding	Issued Amount	Shares Outstanding	Issued Par Amount	Additional Paid-in Capital	Comprehensive Loss	Other Accumulated Deficit						
Balances at December 31, 2010	345,000	\$ 334	485,783	\$ 27	\$ 4,449	\$ (43)	\$ (1,522)	\$ (1,479)	\$ 53	\$ 1,819			
Net income	0	0	0	0	0	0	152	0	8	160			
Distributions paid to noncontrolling interests	0	0	0	0	0	0	0	0	(8)	(8)			
Purchases of businesses or joint venture interests	0	0	0	0	0	0	0	0	10	10			
Preferred stock dividends	0	0	0	0	(18)	0	0	0	0	(18)			
Repurchases of common stock	0	0	(35,479)	0	0	0	0	(196)	0	(196)			
Stock-based compensation expense, including associated deferred tax asset adjustments, and issuance of common stock	0	0	4,694	0	(6)	0	0	0	0	(6)			
Balances at September 30, 2011	345,000	\$ 334	454,998	\$ 27	\$ 4,425	\$ (43)	\$ (1,370)	\$ (1,675)	\$ 63	\$ 1,761			
Balances at December 31, 2009	345,000	\$ 334	481,135	\$ 27	\$ 4,461	\$ (32)	\$ (2,665)						