

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 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, 1994

OR

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

For the transition period from to

Commission file number 1-11239

COLUMBIA/HCA HEALTHCARE CORPORATION
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

75-2497104
(I.R.S. Employer
Identification No.)

201 West Main Street, Louisville, Kentucky
(Address of principal executive offices)

40202
(Zip Code)

(502) 572-2000
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15 (d) of the Securities Exchange Act
of 1934 during the preceding 12 months, and (2) has been subject to such
filing requirements for the past 90 days.

YES X NO

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

Class of Common Stock	Outstanding at July 31, 1994
Voting common stock, \$.01 par value	326,314,000 shares
Nonvoting common stock, \$.01 par value	14,190,000 shares

Part I: Financial Information

Form 10-Q

Item 1. Financial Statements

Condensed Consolidated Statement of Income - for the quarters and six months ended June 30, 1994 and 1993	3
Condensed Consolidated Balance Sheet - June 30, 1994 and December 31, 1993	4
Consolidated Statement of Cash Flows - for the six months ended June 30, 1994 and 1993	5
Notes to Condensed Consolidated Financial Statements	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	14

Part II: Other Information

Items 1 to 6	20
--------------------	----

COLUMBIA/HCA HEALTHCARE CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF INCOME
For the quarters and six months ended June 30, 1994 and 1993
Unaudited
(Dollars in millions, except per share amounts)

	Quarter		Six Months	
	1994	1993	1994	1993
Revenues	\$ 2,689	\$ 2,536	\$ 5,467	\$ 5,190
Salaries, wages and benefits	1,090	1,049	2,203	2,121
Supplies	414	413	848	846
Other operating expenses	512	461	1,004	939
Provision for doubtful accounts	151	132	301	258
Depreciation and amortization	144	138	288	274
Interest expense	56	85	120	170
Investment income	(21)	(15)	(35)	(27)
Non-recurring transactions	-	-	159	-
	2,346	2,263	4,888	4,581
Income from continuing operations before minority interests and income taxes	343	273	579	609
Minority interests in earnings of consolidated entities	6	3	9	7
Income from continuing operations before income taxes	337	270	570	602
Provision for income taxes	132	104	228	231
Income from continuing operations	205	166	342	371
Income from operations of discontinued health plan segment, net of income taxes	-	-	-	16
Extraordinary loss on extinguishment of debt, net of income tax benefit	-	-	(92)	-
Net income	\$ 205	\$ 166	\$ 250	\$ 387

Earnings per common and common equivalent share:								
Income from continuing operations	\$	.60	\$	.49	\$	1.00	\$	1.10
Income from operations of discontinued health plan segment		-		-		-		.04
Extraordinary loss on extinguishment of debt		-		-		(.27)		-
Net income	\$	.60	\$	.49	\$	.73	\$	1.14
Cash dividends per common share	\$	.03	\$	-	\$	.06	\$	-
Shares used in earnings per common and common equivalent share computation (000)	342,103	338,544	341,862	338,165				

See accompanying notes.

COLUMBIA/HCA HEALTHCARE CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEET
Unaudited
(Dollars in millions, except per share amounts)

	June 30, 1994	December 31, 1993
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 93	\$ 224
Accounts receivable less allowance for loss of \$553 - June 30, 1994 and \$513 - December 31, 1993.	1,530	1,566
Inventories	258	245
Other	485	453
	2,366	2,488
Property and equipment, at cost	8,791	8,392
Accumulated depreciation	(3,030)	(2,792)
	5,761	5,600
Investments of professional liability insurance subsidiaries.....	711	700
Intangible assets	1,325	1,232
Other	235	196
	\$ 10,398	\$ 10,216

LIABILITIES AND COMMON STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$ 399	\$ 445
Salaries, wages and other compensation	229	232
Other accrued expenses	817	853
Income taxes	69	22
Long-term debt due within one year	79	363
	1,593	1,915
Long-term debt	3,577	3,335
Deferred credits and other liabilities	1,361	1,438
Minority interests in equity of consolidated entities	143	57

Contingencies

Common stockholders' equity:

Common stock, \$.01 par; authorized 800,000,000 voting shares and 25,000,000 nonvoting shares; issued and outstanding 324,555,000 voting shares and 14,190,000 nonvoting shares - June 30, 1994 and 317,686,800 voting shares

and 18,990,000 nonvoting shares - December 31,		
1993	3	3
Other	3,721	3,468
	3,724	3,471
	\$ 10,398	\$ 10,216

See accompanying notes.

COLUMBIA/HCA HEALTHCARE CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
For the six months ended June 30, 1994 and 1993
Unaudited
(Dollars in millions)

	1994	1993
Cash flows from continuing operations:		
Net income	\$ 250	\$ 387
Adjustments to reconcile net income to net cash provided by operating activities:		
Income from discontinued operations	-	(16)
Non-recurring transactions	159	-
Depreciation and amortization	288	274
Deferred income taxes	(84)	-
Change in operating assets and liabilities:		
(Increase) decrease in accounts receivable	66	(13)
(Increase) decrease in inventories and other assets	(52)	16
Increase in income taxes	55	89
Decrease in other liabilities	(167)	-
Extraordinary loss on extinguishment of debt	149	-
Other	28	25
Net cash provided by continuing operations	692	762
Cash flows from investing activities:		
Purchase of property and equipment	(440)	(386)
Acquisition of hospitals and health care facilities	(127)	(73)
Disposition of property and equipment	66	94
Change in investments	(50)	(9)
Other	(103)	(10)
Net cash used in investing activities	(654)	(384)
Cash flows from financing activities:		
Issuance of long-term debt	475	-
Net changes in commercial paper borrowings and lines of credit	1,510	(30)
Repayment of long-term debt	(2,179)	(214)
Payment of cash dividends	(15)	(36)
Issuance of common stock	14	17
Payment to Humana Inc. in spinoff transaction	-	(135)
Other	26	13
Net cash used in financing activities	(169)	(385)
Change in cash and cash equivalents	(131)	(7)
Cash and cash equivalents at beginning of period	224	217
Cash and cash equivalents at end of period	\$ 93	\$ 210
Interest payments	\$ 156	\$ 134
Income tax payments, net of refunds	200	142

See accompanying notes.

COLUMBIA/HCA HEALTHCARE CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Unaudited

NOTE 1 - REPORTING ENTITY

Columbia/HCA Healthcare Corporation ("Columbia/HCA") is a Delaware corporation which began operations on February 10, 1994 as a result of a merger involving Columbia Healthcare Corporation ("Columbia") and HCA - Hospital Corporation of America ("HCA") (the "HCA Merger"). See Note 4 for a description of the specific terms of the HCA Merger.

Prior to the HCA Merger, Columbia began operations on September 1, 1993 as a result of a merger involving a wholly owned subsidiary of Columbia Hospital Corporation ("CHC") and Galen Health Care, Inc. ("Galen") (the "Galen Merger"). See Note 5 for a description of the specific terms of the Galen Merger.

Columbia/HCA primarily operates hospitals and ancillary health care facilities through either (i) wholly owned subsidiaries or (ii) ownership of controlling interests in various partnerships in which subsidiaries of Columbia/HCA serve as the managing general partner.

NOTE 2 - BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements do not include all of the disclosures normally required by generally accepted accounting principles or those normally required in annual reports filed on Form 10-K. Accordingly, these financial statements should be read in conjunction with the audited consolidated financial statements of Columbia/HCA for the year ended December 31, 1993 filed on Form 10-K with the Securities and Exchange Commission.

The financial information has been prepared in accordance with Columbia/HCA's customary accounting practices and has not been audited. Management believes that the financial information presented reflects all adjustments necessary for a fair statement of interim results. All such adjustments are of a normal and recurring nature.

For accounting purposes, the HCA and Galen Mergers have been treated as poolings of interests. Accordingly, these financial statements give retroactive effect to the mergers and include the combined operations of the respective former entities for all periods presented. In addition, the historical financial information related to Galen (which prior to the Galen Merger was reported on a fiscal year ending August 31) has been recast to conform to Columbia/HCA's annual reporting period ending December 31.

NOTE 3 - EARNINGS PER SHARE

Earnings per common and common equivalent share are based upon weighted average common shares outstanding adjusted for the dilutive effect of common stock equivalents consisting primarily of stock options. Fully diluted earnings per common and common equivalent share are not presented because such amounts approximate earnings per common and common equivalent share.

NOTE 4 - HCA MERGER

On October 2, 1993, Columbia entered into a definitive agreement to merge with HCA. This transaction was completed on February 10, 1994. In connection with the HCA Merger, Columbia stockholders approved an amendment to Columbia's Certificate of Incorporation changing the name of the corporation to "Columbia/HCA Healthcare Corporation". HCA was then merged into a wholly owned subsidiary of Columbia/HCA. Shares of HCA Class A voting common stock and Class B nonvoting common stock were converted on a tax-free basis into approximately 166,846,000 shares of Columbia/HCA

COLUMBIA/HCA HEALTHCARE CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)
Unaudited

NOTE 4 - HCA MERGER (Continued)

voting common stock and approximately 18,990,000 shares of Columbia/HCA nonvoting common stock, respectively (an exchange ratio of 1.05 shares of Columbia/HCA common stock for each share of HCA voting and nonvoting common stock).

The HCA Merger has been accounted for as a pooling of interests, and accordingly, the condensed consolidated financial statements give retroactive effect to the HCA Merger and include the combined operations of Columbia and HCA for all periods presented. The following is a summary of the results of operations of the separate entities for periods prior to the HCA Merger (dollars in millions):

	Columbia	HCA	Consolidated
One month ended January 31, 1994:			
Revenues	\$ 480	\$ 460	\$ 940
Net income	33	44	77
Three months ended June 30, 1993:			
Revenues	\$1,262	\$1,274	\$2,536
Net income	70	96	166
Six months ended June 30, 1993:			
Revenues	\$2,591	\$2,599	\$5,190
Net income:			
Continuing operations	\$ 160	\$ 211	\$ 371
Discontinued operations	16	-	16
	\$ 176	\$ 211	\$ 387

NOTE 5 - GALEN MERGER

On August 31, 1993, the stockholders of both CHC and Galen approved the Galen Merger, effective as of September 1, 1993. In connection with the Galen Merger, CHC, a Nevada corporation, was merged into Columbia. Each CHC share of common stock was converted on a tax-free basis into one share of Columbia common stock. Immediately subsequent thereto, a wholly owned subsidiary of Columbia was merged into Galen, at which time Galen became a wholly owned subsidiary of Columbia. In connection with this transaction, Columbia issued approximately 123,830,000 shares of common stock in a tax-free exchange for all of the outstanding common shares of Galen (an exchange ratio of 0.775 of a share of Columbia common stock for each share of Galen common stock).

The Galen Merger has been accounted for as a pooling of interests, and accordingly, the condensed consolidated financial statements give retroactive effect to the Galen Merger and include the combined operations of CHC and Galen for all periods presented. The following is a summary of the results of operations of the separate entities for the respective 1993 periods (dollars in millions):

COLUMBIA/HCA HEALTHCARE CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)
Unaudited

NOTE 5 - GALEN MERGER (Continued)

	CHC	Galen	Consolidated
Three months ended June 30, 1993:			
Revenues	\$ 312	\$ 950	\$1,262
Net income	10	60	70
Six months ended June 30, 1993:			
Revenues	\$ 624	\$1,967	\$2,591
Net income:			
Continuing operations	\$ 20	\$ 140	\$ 160
Discontinued operations	-	16	16
	\$ 20	\$ 156	\$ 176

NOTE 6 - SPINOFF TRANSACTION AND DISCONTINUED OPERATIONS

Prior to the Galen Merger, Galen began operating its hospital business as an independent publicly held corporation on March 1, 1993 as a result of a spinoff transaction by Humana Inc. ("Humana")(the "Spinoff"), which retained its managed care health plan business. The Spinoff separated Humana's previously integrated hospital and managed care health plan businesses and was effected through the distribution of Galen common stock to then current Humana stockholders on a one-for-one basis.

For accounting purposes, because of the relative significance of the hospital business, the consolidated financial statements of Galen (and now those of Columbia/HCA) include the separate results of Humana's hospital business, while the operations and net assets of Humana's managed care health plans have been classified as discontinued operations.

Revenues of the discontinued managed care health plan business (included in discontinued operations in the condensed consolidated statement of income) were \$523 million for the six months ended June 30, 1993.

NOTE 7 - NON-RECURRING TRANSACTIONS AND EXTINGUISHMENT OF DEBT

In the first quarter of 1994 Columbia/HCA recorded the following charges in connection with the HCA Merger (dollars in millions):

Employee benefit and certain severance actions	\$ 40
Investment advisory and professional fees	12
Costs of information systems consolidations	
primarily related to the writedown of assets	42
Writedown of assets in connection with	
consolidation of duplicative facilities	53
Other	12
	\$ 159

In addition to employee severance costs above, Columbia/HCA is a party to employment agreements with certain key employees as a result of the Galen and HCA Mergers. Future severance payments under these agreements, which may occur as a result of continued consolidation activities, will be charged to earnings as incurred.

COLUMBIA/HCA HEALTHCARE CORPORATION NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) Unaudited

NOTE 7 - NON-RECURRING TRANSACTIONS AND EXTINGUISHMENT OF DEBT (Continued)

In the first quarter of 1994, Columbia/HCA refinanced approximately \$2 billion of HCA's high coupon fixed and floating rate long-term debt. These transactions were effected to reduce future interest expense and eliminate certain restrictive covenants. After-tax losses from these extinguishments of debt aggregated \$92 million or \$.27 per share.

NOTE 8 - ACQUISITIONS

The following is a summary of acquisitions and joint ventures consummated during the respective six month periods (dollars in millions):

	1994	1993
Number of hospitals	7	2
Number of licensed beds	1,664	843
Purchase price information:		
Fair value of assets acquired	\$ 280	\$ 145
Liabilities assumed	(55)	(33)
Net assets acquired	225	112
Net assets sold in exchange for acquired properties	(45)	-
Contributions from minority partners	(47)	(27)
Net cash acquired	(6)	(12)
Net cash paid for acquisitions	\$ 127	\$ 73

NOTE 9 - INCOME TAXES

The Internal Revenue Service (the "IRS") has issued statutory notices of deficiency in connection with its examinations of HCA's federal income tax returns for 1981 through 1988. Columbia/HCA is currently contesting these claimed deficiencies in the United States Tax Court. In addition, the IRS has proposed certain adjustments in connection with its examinations of HCA's 1989 and 1990 federal income tax returns. The following is a discussion of the disputed items with respect to these years.

Method of Accounting

For years 1981 through 1986, most of HCA's hospital subsidiaries (the "Subsidiaries") reported taxable income primarily using the cash method of accounting. This method was prevalent within the hospital industry and the Subsidiaries applied the method in accordance with prior agreements with the IRS. The IRS now asserts that the accrual method of accounting should have been used by the Subsidiaries. The Tax Reform Act of 1986 (the "1986 Act") requires the use of the accrual method of accounting beginning in 1987. Consequently, the Subsidiaries changed to the accrual method of accounting beginning January 1, 1987. In accordance with the provisions of the 1986 Act, income that had been deferred at the end of 1986 is being recognized as taxable income by the Subsidiaries in equal annual installments over ten years. If the IRS should ultimately prevail in its claim that the Subsidiaries should have used the accrual method for 1981 through 1986, the claim would be reduced to the extent that HCA has recognized as taxable income a portion of such deferred income taxes since 1986. In addition, the sale by HCA of numerous Subsidiaries in 1987 that had been using the cash method resulted in the recognition of a substantial gain that would not have been recognized had the Subsidiaries been using the accrual method. If the IRS were successful with

COLUMBIA/HCA HEALTHCARE CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)
Unaudited

NOTE 9 - INCOME TAXES (Continued)

respect to this issue, Columbia/HCA would owe an additional \$110 million in income taxes and \$457 million in interest as of June 30, 1994.

Hospital Acquisitions

In connection with hospitals acquired by HCA in 1981 and 1985, the IRS has asserted that a portion of the costs allocated to identifiable assets with ascertainable useful lives should be reclassified as nondeductible goodwill.

If the IRS ultimately prevails in this regard, Columbia/HCA would owe an additional \$113 million in income taxes and \$150 million in interest as of June 30, 1994.

Insurance Subsidiary

Based on a Sixth Circuit Court of Appeals decision (the Court having jurisdiction over the HCA issues), HCA has claimed that insurance premiums paid to its wholly owned insurance subsidiary ("Parthenon") are deductible, while the IRS asserts that such premiums are not deductible and that corresponding losses are only deductible at the time and to the extent that claims are actually paid. HCA has claimed the additional deductions in its Tax Court petitions. Through June 30, 1994, Columbia/HCA is seeking a refund totaling \$51 million in income taxes and \$98 million in interest in connection with this issue.

As an alternative to its position, HCA has asserted that in connection with the sale of hospitals to HealthTrust, Inc. - The Hospital Company ("HealthTrust") in 1987, premiums paid to Parthenon by the sold hospitals, if not deductible as discussed above, became deductible at the time of the sale. Accordingly, HCA claimed such deduction in its 1987 federal income tax return. The IRS has disallowed the deduction and is claiming an additional \$5 million in income taxes and \$16 million in interest. A final determination that the premiums are not deductible either when paid to Parthenon or upon the sale of certain hospitals to HealthTrust would increase the taxable basis in the hospitals sold, thereby reducing HCA's gain realized on the sale.

HealthTrust Sale

In connection with its sale of certain Subsidiaries to HealthTrust in 1987 in exchange for cash, HealthTrust preferred stock and stock purchase warrants, HCA calculated its gain based on the valuation of such stock and warrants by an independent appraiser. The IRS claims a higher aggregate valuation, based on the face amount of the preferred stock and a separate appraisal HealthTrust obtained for the stock purchase warrants. Application of the higher valuation would increase the gain recognized by HCA on the sale. However, if the IRS succeeds in its assertion, HCA's tax basis in its HealthTrust preferred stock and warrants will be increased accordingly, thereby substantially reducing the tax from the sale of such preferred stock and warrants by a corresponding amount. By December 31, 1992, HCA had sold its entire interest in the HealthTrust preferred stock and warrants. Including the effect of the sales of these securities, the IRS is claiming additional interest of \$67 million through June 30, 1994.

Also in connection with the 1987 sale of certain Subsidiaries to HealthTrust, the IRS claims that HCA's basis in the stock of the Subsidiaries sold to HealthTrust should be calculated by adjusting such basis to reflect accelerated rather than straight-line depreciation, which would reduce HCA's basis in the stock sold and increase the taxable gain on the sale. The IRS position is contrary to a Tax Court decision in a similar

COLUMBIA/HCA HEALTHCARE CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)
Unaudited

NOTE 9 - INCOME TAXES (Continued)

case. The IRS is claiming additional income taxes of \$79 million and interest of \$72 million through June 30, 1994.

In connection with the 1987 HealthTrust transactions, the IRS further asserts that, to the extent the Subsidiaries were properly on the cash method through 1986, and therefore properly recognizing taxable income over the ten-year transition period, HCA should have additional income in 1987 equal to the unamortized portion of the deferred income. It is HCA's position that no additional income need be included in 1987 and that the deferred income

continues to qualify for the ten-year transition period after the sale. Should the IRS prevail, Columbia/HCA would owe \$11 million of additional income taxes and \$18 million of interest through June 30, 1994. The position of the IRS is an alternative to its denial of the use of the cash method of accounting previously discussed.

Doubtful Accounts

The IRS is asserting that in 1986 HCA was not entitled to include charity care writeoffs in the formula used to calculate its deduction for doubtful accounts. For years 1987 and 1988, the IRS is asserting that HCA was not entitled to exclude from income amounts which are unlikely to be collected. Management believes that such exclusions are permissible under the accrual method of accounting, and because HCA is a "service business" and not a "merchandising business," it is entitled to a special exclusion provided to service businesses by the 1986 Act. The IRS disagrees, asserting that HCA is engaged, at least in part, in a merchandising business. Notwithstanding this assertion, the IRS contends that the exclusion taken by HCA is excessive under applicable Temporary Treasury Regulations. Columbia/HCA believes that the calculation of the exclusion is inaccurate since it does not permit the exclusion in accordance with the controlling statute. If the IRS prevails, Columbia/HCA would owe additional income taxes of \$102 million and interest of \$55 million through June 30, 1994.

Leveraged Buy-out Expenses

The IRS has asserted that no deduction is allowed for various expenses incurred in connection with HCA's leveraged buy-out transaction in 1989, including the amortization of loan costs incurred to borrow funds to acquire the stock of the former shareholders, certain fees incurred by the Special Committee of HCA's Board of Directors to evaluate the buy-out proposal, compensation payments to cancel employee stock plans, and various other costs incurred after the buy-out which have been treated as part of the transaction by the IRS. Columbia/HCA believes that all of these costs are deductible. If the IRS prevails on these issues, Columbia/HCA would owe income taxes of \$94 million and interest of \$29 million through June 30, 1994.

Other Issues

Additional federal income tax issues primarily concern disputes over the depreciable lives utilized by HCA for constructed hospital facilities, investment tax credits, vacation pay deductions and income from foreign operations. Many of these items, including depreciation, investment tax credits and foreign issues, have been resolved favorably in previous settlements. The IRS is claiming an additional \$44 million in income taxes and \$27 million in interest through June 30, 1994.

COLUMBIA/HCA HEALTHCARE CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)
Unaudited

NOTE 9 - INCOME TAXES (Continued)

On March 24, 1994, Columbia/HCA made an advance payment to the IRS of approximately \$75 million in connection with certain disputed prior years income taxes and related interest. This payment will not have a material effect on 1994 earnings.

Management believes that HCA had properly reported its income and paid its taxes in accordance with applicable laws and agreements established with the IRS during previous examinations, and that final resolution of these disputes will not have a material adverse effect on the results of operations or financial position of Columbia/HCA.

NOTE 10 - CONTINGENCIES

Management continually evaluates contingencies based upon the best available

evidence. In addition, allowances for loss are provided currently for disputed items that have continuing significance, such as certain third-party reimbursements and deductions that continue to be claimed in current cost reports and tax returns.

Management believes that allowances for loss have been provided to the extent necessary and that its assessment of contingencies is reasonable. Management believes that resolution of contingencies will not materially affect Columbia/HCA's financial position or results of operations.

Principal contingencies are described below:

Revenues

Certain third-party payments are subject to examination by agencies administering the programs. Columbia/HCA is contesting certain issues raised in audits of prior year cost reports.

Professional Liability Risks

Columbia/HCA has provided for loss for professional liability risks based upon actuarially determined estimates. Actual settlements and expenses incident thereto may differ from the provisions for loss.

Income Taxes

Columbia/HCA is contesting adjustments proposed by the IRS.

Spinoff

Certain subsidiaries of Columbia/HCA are parties to risk-sharing arrangements with Humana.

Regulatory Review

Federal regulators are investigating certain financial arrangements with physicians at two psychiatric hospitals.

COLUMBIA/HCA HEALTHCARE CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)
Unaudited

NOTE 10 - CONTINGENCIES (Continued)

Litigation

Various suits and claims arising in the ordinary course of business are pending against Columbia/HCA.

NOTE 11 - PROPOSED MERGER TRANSACTION

On May 23, 1994, Columbia/HCA entered into a definitive agreement to merge with Medical Care America, Inc. ("MCA") in a tax-free stock-for-stock transaction (the "MCA Merger"). Under the terms of the agreement, which was approved by the boards of both companies, MCA stockholders would receive shares of Columbia/HCA common stock in an exchange ratio that values MCA common stock at \$29 if the average price of Columbia/HCA common stock is between \$36 and \$40; \$29 to \$30 if the average price of Columbia/HCA common stock is greater than \$40 and up to or equal to \$44; \$30 if the average price of Columbia/HCA common stock is over \$44; or a fixed ratio of 0.8056 shares of Columbia/HCA common stock per share of MCA common stock if the average price of Columbia/HCA common stock is less than \$36. The average price of Columbia/HCA common stock will be determined over a 20-trading day period

ending five days prior to the closing date. Assuming the average price of the Columbia/HCA common stock is \$38 for the measurement period, Columbia/HCA would issue approximately 22 million shares of common stock in connection with the transaction. The MCA Merger is expected to be tax-free to stockholders of both companies and will be accounted for as a purchase.

The MCA Merger is subject to various conditions, including approval by MCA stockholders, expiration of the waiting period applicable to the consummation of the MCA Merger under the Hart-Scott-Rodino Act and receipt of certain legal opinions with respect to the tax consequences of the proposed transaction. A proxy statement and prospectus detailing the MCA Merger has been distributed to MCA stockholders and a meeting to vote on the transaction is scheduled for September 1, 1994.

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

Background Information and Business Strategy

HCA Merger

As discussed in Note 4 of the Notes to Condensed Consolidated Financial Statements, the HCA Merger was completed on February 10, 1994. For accounting purposes, this transaction was treated as a pooling of interests. Accordingly, the accompanying condensed consolidated financial statements and financial and operating data included in this discussion and analysis give retroactive effect to the HCA Merger and include the combined operations of Columbia and HCA for all periods presented.

Galen Merger

The Galen Merger was completed on September 1, 1993 and was also accounted for as a pooling of interests. See Note 5 of the Notes to Condensed Consolidated Financial Statements for a discussion of the Galen Merger. The accompanying condensed consolidated financial statements and financial and operating data included in this discussion and analysis give retroactive effect to the Galen Merger and include the combined operations of CHC and Galen for all periods presented. In addition, the historical financial information related to Galen (which prior to the Galen Merger was reported on a fiscal year ending August 31) has been recast to conform to Columbia/HCA's annual reporting period ending December 31.

Spinoff Transaction

Prior to the merger with CHC, Galen became a publicly held corporation as a result of the Spinoff which was completed on March 1, 1993. The Spinoff separated Humana's previously integrated hospital and managed care health plan businesses and was effected through the distribution of Galen common stock to then current Humana common stockholders on a one-for-one basis. For accounting purposes, because of the relative significance of the hospital business, the pre-Spinoff financial statements of Galen (and now those of Columbia/HCA) include the separate results of Humana's hospital business, while the operating results and net assets of Humana's managed care health plans have been classified as discontinued operations.

Business Strategy

Columbia/HCA primarily operates hospitals and ancillary health care facilities through either (i) wholly owned subsidiaries or (ii) ownership of controlling interests in various partnerships in which subsidiaries of Columbia/HCA serve as the managing general partner. Columbia/HCA's business strategy centers on the development of comprehensive, integrated healthcare delivery networks with physicians and other healthcare providers in targeted markets, which typically involves significant health care facility acquisitions and consolidation activities.

During the past several years, hospital industry inpatient admission trends

have been adversely impacted by cost containment efforts initiated by federal and state governments and various third-party payers, including health maintenance organizations, preferred provider organizations, commercial insurance companies and employer-sponsored networks. In addition, a significant number of medical procedures have shifted from inpatient to less expensive outpatient settings as a result of both cost containment pressures and advances in medical technology.

In response to changes in the health care industry, Columbia/HCA has developed the following strategy to provide the highest quality health care services at the lowest possible cost:

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

Background Information and Business Strategy (Continued)

Become a significant provider of services - Columbia/HCA attempts to (i) consolidate services to reduce costs and (ii) develop the geographic coverage necessary for inclusion in most managed care and employer-sponsored networks in each market.

Provide a comprehensive range of services - In addition to the operation of general, acute care hospitals, Columbia/HCA also operates psychiatric and rehabilitation facilities, outpatient surgery and diagnostic centers, home health agencies and other services. This strategy enables Columbia/HCA to attract business from managed care plans and major employers seeking efficient access to a wide array of health care services.

Deliver high quality services - Through the use of clinical information systems and continuous quality enhancement programs, Columbia/HCA focuses on patient outcomes and strives to continuously improve the quality of care and service provided to patients.

Integrate fragmented delivery systems - Through its networks, Columbia/HCA focuses on coordinating pricing, contracting, information systems, economic incentives and quality assurance activities among providers in each market.

Management intends to implement its strategy discussed above in a substantial number of former Galen and HCA markets as well as new markets, and further develop the integrated health care networks in its five pre-Galen Merger markets.

Results of Operations

Revenues increased 6% to \$2.7 billion in the second quarter of 1994 and 5% to \$5.5 billion for the six months ended June 30, 1994 compared to the respective periods last year, primarily as a result of price increases, growth in inpatient and outpatient volumes and acquisitions. On a same-hospital basis, admissions increased 1.1% and 1.3% for the second quarter and six months periods, respectively, and outpatient visits increased 22% and 17.8% for the respective periods compared to 1993. The increase in outpatient visits is primarily a result of expanding home health and other ancillary outpatient services.

Despite a continued deterioration in payer mix, income from continuing operations before non-recurring transactions, depreciation, interest expense, minority interests, income taxes and amortization ("EBDITA") increased 10% to \$543 million in second quarter 1994 from \$496 million last year and 9% to \$1.1 billion for the first half of 1994 from \$1 billion last year. The increase in EBDITA margins to 20.2% and 21% in the second quarter and first six months of 1994, respectively, from 19.5% and 20.3% last year, respectively, resulted primarily from volume growth, improvements in staffing levels, increased discounts on medical supplies and other operating efficiencies related to growth in volume of services. Medicare admissions as a percentage of total admissions were 39% for both the second quarter of 1993 and 1994, while discounted and managed care admissions grew from 35% to

39%, respectively. For the six month periods, Medicare admissions as a percentage of total admissions increased from 39% in 1993 to 40% in 1994, and discounted and managed care admissions grew from 33% last year to 38% this year.

During the first quarter of 1994, Columbia/HCA recorded \$159 million (before income taxes) of certain non-recurring charges in connection with the HCA Merger. In addition to investment and advisory fees associated with the HCA Merger, these charges reflect management's actions to reduce overhead costs, eliminate duplicative operating facilities in certain markets and consolidate management information systems. These cost-saving measures should be completed during 1994. Management believes that these

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

Results of Operations (Continued)

actions related to the HCA Merger, combined with cost reductions from renegotiations of medical supply contracts and interest savings from the first quarter 1994 refinancing of long term debt, could result in annual pretax savings of approximately \$130 million, of which as much as \$75 million could be realized in 1994.

Income from continuing operations increased 24% to \$205 million (\$.60 per share) in the second quarter of 1994 from \$166 million (\$.49 per share) last year, and, excluding the effects of non-recurring transactions, income from continuing operations increased 20% to \$444 million (\$1.30 per share) for the six months ended June 30, 1994 from \$371 million (\$1.10 per share) for the first half of last year. The increase in both periods was attributable to the previously discussed growth of EBDITA and declines in interest expense resulting from refinancing activities and reductions of long-term debt.

Results of operations for the periods prior to the Spinoff in 1993 include income from discontinued operations of \$16 million or \$.04 per share related to Humana's health plan business. See Note 6 of the Notes to Condensed Consolidated Financial Statements.

In the first quarter of 1994, Columbia/HCA refinanced approximately \$2 billion of HCA's high coupon fixed and floating rate long-term debt. These transactions were effected to reduce future interest expense and eliminate certain restrictive covenants. After-tax losses from these extinguishments of debt aggregated \$92 million or \$.27 per share.

In connection with the Galen Merger, Columbia/HCA recorded charges in the third quarter of 1993 totaling \$151 million (before income taxes) for management actions similar to those previously discussed as part of the HCA Merger. Consolidation and cost-saving activities related to these charges have been substantially completed. Management believes that these actions related to the Galen Merger, combined with cost reductions from renegotiations of medical supply contracts and interest savings from the third quarter 1993 refinancing of long-term debt, could result in annual pretax savings in 1994 of approximately \$30 million.

Liquidity

Cash provided by continuing operations totaled \$692 million for the six months ended June 30, 1994 compared to \$762 million last year. Cash flows in 1994 were reduced by approximately \$75 million in connection with the payment to the IRS related to disputed prior year income taxes and interest. In both periods, cash flows in excess of Columbia/HCA's capital expenditure program were used primarily to reduce long-term debt and in 1993, to finance a payment of \$135 million to Humana in connection with the Spinoff. Working capital totaled \$773 million at June 30, 1994 compared to \$573 million at December 31, 1993. Management believes that cash flows from operations and amounts available under Columbia/HCA's revolving credit facilities and related commercial paper programs are sufficient to meet expected future liquidity needs.

A substantial portion of the non-recurring transactions recorded in the first quarter of 1994 comprises the writedown of recorded assets and, accordingly, management does not expect that these transactions will have a material adverse effect on cash flows from continuing operations in 1994.

Investments of Columbia/HCA's professional liability insurance subsidiaries to maintain statutory equity and pay claims totaled \$796 million at June 30, 1994 and \$778 million at December 31, 1993.

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

Capital Resources

Excluding acquisitions, capital expenditures totaled \$440 million in the first half of 1994 compared to \$386 million for the same period in 1993. Planned capital expenditures in 1994 (excluding acquisitions) are expected to approximate \$900 million. Management believes that its capital expenditure program is adequate to expand, improve and equip existing health care facilities.

Columbia/HCA also expended \$127 million and \$73 million for acquisitions and joint ventures during the respective six month periods of 1994 and 1993. See Note 8 of the Notes to Condensed Consolidated Financial Statements for a description of these activities. As part of its business strategy, Columbia/HCA intends to acquire additional health care facilities in the future.

Columbia/HCA intends to finance all capital expenditures with internally generated and borrowed funds. Available sources of capital include public or private debt, commercial paper, unused bank revolving credits and equity. At June 30, 1994, there were projects under construction which had an estimated additional cost to complete of approximately \$282 million.

On April 29, 1994, Columbia/HCA filed a registration statement on Form S-3 with the Securities and Exchange Commission in connection with the planned public offering of up to approximately \$1.5 billion of long-term debt. The proceeds from the sales of such securities will be used for general corporate purposes, which may include repayment of commercial paper and other indebtedness, additional capitalization of Columbia/HCA's subsidiaries, capital expenditures and possible acquisitions. Subsequent to June 30, 1994, the Company issued \$500 million of fixed and floating rate medium term notes, the proceeds from which were used primarily to repay commercial paper and bank borrowings.

Other Information

As discussed in Note 9 of the Notes to Condensed Consolidated Financial Statements, Columbia/HCA is contesting certain income taxes and related interest aggregating \$1.3 billion at June 30, 1994 proposed by the IRS for prior years. Management believes that final resolution of these disputes will not have a material adverse effect on the financial position, results of operations or liquidity of Columbia/HCA. However, if all or a majority of the positions of the IRS are upheld, the financial position, results of operations and liquidity of Columbia/HCA would be materially adversely affected.

On March 24, 1994, Columbia/HCA made an advance payment to the IRS of approximately \$75 million in connection with certain disputed prior year income taxes and related interest. This payment will not have a material effect on 1994 earnings.

Resolution of various other loss contingencies, including litigation pending against Columbia/HCA in the ordinary course of business, is not expected to have a material adverse effect on its financial position or results of

operations.

Agreements relating to long-term debt require, among other things, maintenance of certain levels of interest coverage and provide limitations on long-term debt, sales of assets, mergers, changes in ownership and certain other financing activities. Columbia/HCA was in compliance with all such covenants at June 30, 1994.

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

Operating Data

	1994	1993
Number of hospitals in operation at:		
March 31	196	197
June 30	196	195
September 30		191
December 31		193
Licensed beds at:		
March 31	43,171	42,786
June 30	43,092	42,576
September 30		42,170
December 31		42,237
Weighted average licensed beds:		
Quarter:		
First	41,955	41,525
Second	42,237	41,824
Third		41,149
Fourth		41,221
Year		41,263
Average daily census:		
Quarter:		
First	20,341	20,880
Second	18,272	18,634
Third		17,425
Fourth		17,917
Year		18,702
Admissions:		
Quarter:		
First	309,800	306,200
Second	292,300	286,500
Third		278,600
Fourth		287,100
Year		1,158,400
Length of stay:		
Quarter:		
First	5.9	6.1
Second	5.7	5.9
Third		5.8
Fourth		5.7
Year		5.9

Operating Data

	1994	1993
Outpatient visits:		
Quarter:		
First	1,522,500 (a)	1,378,500
Second	1,766,400	1,411,800
Third		1,311,600
Fourth		1,389,000
Year		5,490,900
Emergency room visits:		
Quarter:		
First	788,300	791,900
Second	816,300	792,600
Third		778,500
Fourth		776,700
Year		3,139,700

(a) Restated to reflect visits related to the acquisition of a home health agency.

Part II: Other Information

Item 1: Legal Proceedings.

On December 10, 1992 and December 15, 1992, respectively, two virtually identical purported class action lawsuits (Berger v. Roger E. Mick et al., 92 CIV 8960, United States District Court, Southern District of New York and Fox v. Roger E. Mick et al., 92 CIV 9139, United States District Court, Southern District of New York) were filed by, respectively, holders of 400 and 500 shares of HCA's Class A Common Stock against HCA, three of its officers and/or directors (Messrs. Thomas F. Frist, Jr., Roger E. Mick and Donald J. Israel) and the underwriters of its February 1992 initial public offering of Class A Common Stock, on behalf of all purchasers of HCA's Class A Common Stock from the time of the initial public offering (February 26, 1992) until HCA issued a press release in respect of its psychiatric division restructuring on September 18, 1992. In the lawsuits it was alleged that HCA failed to disclose material adverse financial information regarding its psychiatric division in its February 1992 offering prospectus in respect of such initial public offering and in HCA's subsequent Forms 10-Q for the quarters ended March 31 and June 30, 1992. Violations of the Securities Act of 1933 and the Securities Exchange Act of 1934 were alleged. Columbia/HCA settled these lawsuits in the second quarter of 1994 by agreeing to pay \$25,000 in costs incurred by the plaintiffs and donate \$200,000 to charities designated by the plaintiffs.

Item 4: Submission of Matters to a Vote of Security Holders.

The Company's Annual Meeting of Stockholders was held May 12, 1994. Matters voted on at the meeting included the following:

- 1) The stockholders approved amendments to the Columbia Hospital Corporation 1992 Stock and Incentive Plan which, among other things, increased the number of authorized shares thereunder from 2,000,000 to 20,000,000 with 189,373,917 affirmative votes, 55,438,227 negative votes and 1,498,813 abstentions.

- 2) The stockholders approved the adoption of the Columbia/HCA Healthcare Corporation Annual Incentive Plan with 269,261,897 affirmative votes, 10,719,152 negative votes and 1,651,507 abstentions.

Item 5: Other Information.

Columbia/HCA's ratio of earnings to fixed charges was 5.39 and 3.56 for the three months ended June 30, 1994 and 1993, respectively, and 4.58 and 3.86 for the six months ended June 30, 1994 and 1993, respectively.

Item 6: Exhibits and Reports on Form 8-K.

(a) Exhibits:

Exhibit 11 - Statement re Computation of Earnings Per Common and Common Equivalent Share.

Exhibit 12 - Statement re Computation of Ratio of Earnings to Fixed Charges.

(b) Reports on Form 8-K:

On May 12, 1994, Columbia/HCA filed a report on Form 8-K which disclosed the selection of Ernst & Young as principal independent auditors and the termination of such relationship with Coopers & Lybrand.

Item 6: Exhibits and Reports on Form 8-K (Continued)

On May 24, 1994, Columbia/HCA filed a report on Form 8-K announcing the execution of a definitive agreement between Columbia/HCA and Medical Care America, Inc. to merge in a tax-free stock-for-stock transaction. A copy of the press release issued by Columbia/HCA on May 23, 1994 was included in the report.

On July 11, 1994, Columbia/HCA filed a report on Form 8-K which included the Distribution Agreement and the Form of the Notes in connection with its \$1,525,000,000 medium term note program.

On July 21, 1994, Columbia/HCA filed a report on Form 8-K in connection with the issuance of floating rate notes.

On July 28, 1994, Columbia/HCA reported on Form 8-K its consolidated earnings for the second quarter ended June 30, 1994. A copy of the press release issued by Columbia/HCA on July 28, 1994 was included in the report.

Signatures

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

COLUMBIA/HCA HEALTHCARE
CORPORATION

Date: August 12, 1994

/s/ David C. Colby
David C. Colby
Senior Vice President,
Chief Financial
Officer and Treasurer
(Principal Financial
Officer)

Date: August 12, 1994

/s/ Richard A. Lechleiter
Richard A. Lechleiter
Vice President and
Controller
(Principal Accounting
Officer)

COLUMBIA/HCA HEALTHCARE CORPORATION
 COMPUTATION OF EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE
 For the quarters and six months ended June 30, 1994 and 1993
 (Dollars in millions, except per share amounts)

	Quarter		Six Months	
	1994	1993	1994	1993
Primary Earnings per Common and Common Equivalent Share:				
Earnings:				
Income from continuing operations	\$ 205	\$ 166	\$ 342	\$ 371
Income from operations of discontinued health plan segment, net of income taxes	-	-	-	16
Extraordinary loss on extinguishment of debt, net of income tax benefit	-	-	(92)	-
Net income	\$ 205	\$ 166	\$ 250	\$ 387
Shares used in the computation (000):				
Weighted average common shares outstanding	338,175	333,298	337,699	332,723
Dilutive effect of common stock equivalents	3,928	5,246	4,163	5,442
Shares used in earnings per common and common equivalent share computation	342,103	338,544	341,862	338,165

Primary earnings per common and common equivalent share:				
Income from continuing operations	\$.60	\$.49	\$ 1.00	\$ 1.10
Income from operations of discontinued health plan segment	-	-	-	.04
Extraordinary loss on extinguishment of debt	-	-	(.27)	-
Net income	\$.60	\$.49	\$.73	\$ 1.14

Exhibit 11

COLUMBIA/HCA HEALTHCARE CORPORATION
 COMPUTATION OF EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE
 For the quarters and six months ended June 30, 1994 and 1993
 (Dollars in millions, except per share amounts)

	Quarter		Six Months	
	1994	1993	1994	1993
Fully Diluted Earnings per Common and Common Equivalent Share:				
Earnings:				
Income from continuing operations	\$ 205	\$ 166	\$ 342	\$ 371
Interest addback on convertible securities, net of income taxes	1	-	1	1
Income applicable to common stock	206	166	343	372
Income from operations of discontinued health plan segment, net of income taxes	-	-	-	16
Extraordinary loss on extinguishment of debt, net of income tax benefit	-	-	(92)	-
Net income	\$ 206	\$ 166	\$ 251	\$ 388

Shares used in the computation (000):

Weighted average common shares outstanding	338,175	333,298	337,699	332,723
Dilutive effect of common stock equivalents and other dilutive securities	6,022	7,685	5,210	7,958
Shares used in earnings per common and common equivalent share computation	344,197	340,983	342,909	340,681
Fully diluted earnings per common and common equivalent share:				
Income from continuing operations	\$.60	\$.49	\$ 1.00	\$ 1.09
Income from operations of discontinued health plan segment	-	-	-	.04
Extraordinary loss on extinguishment of debt	-	-	(.27)	-
Net income	\$.60	\$.49	\$.73	\$ 1.13

COLUMBIA/HCA HEALTHCARE CORPORATION
 COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
 For the quarters and six months ended June 30, 1994 and 1993
 (Dollars in millions)

	Quarter		Six Months	
	1994	1993	1994	1993
Earnings:				
Income from continuing operations				
before minority interests and income taxes	\$ 343	\$ 273	\$ 579	\$ 609
Fixed charges, exclusive of capitalized interest	74	102	154	205
	\$ 417	\$ 375	\$ 733	\$ 814
 Fixed Charges:				
Interest charged to expense	\$ 56	\$ 85	\$ 120	\$ 170
One-third of rent expense and amortization of deferred loan costs (a)	18	17	34	35
Fixed charges, exclusive of capitalized interest	74	102	154	205
Capitalized interest	3	4	6	6
	\$ 77	\$ 106	\$ 160	\$ 211
 Ratio of earnings to fixed charges	5.39	3.56	4.58	3.86

(a) One-third of rent expense is considered representative of the underlying interest.