

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

FORM 10-Q

(MARK ONE)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2000

☐ OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number 1-11239

HCA - THE HEALTHCARE COMPANY
(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction
of incorporation or organization)

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

ONE PARK PLAZA
NASHVILLE, TENNESSEE
(Address of principal executive offices)

37203
(Zip Code)

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

FORMER NAME:
Columbia/HCA Healthcare Corporation
Date of Change: May 25, 2000

NOT APPLICABLE
(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 ☒ NO ☐

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

CLASS OF COMMON STOCK

OUTSTANDING AT OCTOBER 31, 2000

Voting common stock, \$.01 par value
Nonvoting common stock, \$.01 par value

531,439,000 shares
21,000,000 shares

HCA -- THE HEALTHCARE COMPANY

FORM 10-Q
SEPTEMBER 30, 2000

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HCA -- THE HEALTHCARE COMPANY
CONDENSED CONSOLIDATED INCOME STATEMENTS
FOR THE QUARTERS AND NINE MONTHS ENDED SEPTEMBER 30, 2000 AND 1999
UNAUDITED
(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

	QUARTER		NINE MONTHS	
	2000	1999	2000	1999
Revenues.....	\$ 4,093	\$ 3,899	\$ 12,497	\$ 12,715
Salaries and benefits.....	1,650	1,569	4,956	5,083
Supplies.....	646	618	1,971	1,994
Other operating expenses.....	756	747	2,288	2,487
Provision for doubtful accounts.....	333	318	934	985
Depreciation and amortization.....	257	262	778	836
Interest expense.....	147	122	402	351
Equity in earnings of affiliates.....	(28)	(8)	(93)	(73)
Settlement with federal government.....	--	--	745	--
Gains on sales of facilities.....	(20)	--	(38)	(257)
Impairment of long-lived assets.....	17	--	17	160
Restructuring of operations and investigation related costs.....	16	24	41	84
	3,774	3,652	12,001	11,650
Income before minority interests and income taxes.....	319	247	496	1,065
Minority interests in earnings of consolidated entities.....	26	13	81	41
Income before income taxes.....	293	234	415	1,024
Provision for income taxes.....	119	96	217	458
Net income.....	\$ 174	\$ 138	\$ 198	\$ 566
Per share data:				
Basic earnings.....	\$.31	\$.25	\$.36	\$.95
Diluted earnings.....	\$.31	\$.24	\$.35	\$.95
Cash dividends.....	\$.02	\$.02	\$.06	\$.06
Shares used in earnings per share calculations (in thousands):				
Basic.....	553,642	562,539	557,200	593,021
Diluted.....	566,470	567,789	568,216	598,594

See accompanying notes.

HCA -- THE HEALTHCARE COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
UNAUDITED
(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

	SEPTEMBER 30, 2000	DECEMBER 31, 1999
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 180	\$ 190
Accounts receivable, less allowances for doubtful accounts of \$1,584 and \$1,567.....	2,044	1,873
Inventories.....	383	383
Income taxes receivable.....	158	178
Other.....	1,184	973
	-----	-----
	3,949	3,597
Property and equipment, at cost.....	14,772	14,084
Accumulated depreciation.....	(5,987)	(5,594)
	-----	-----
	8,785	8,490
Investments of insurance subsidiary.....	1,486	1,457
Investments in and advances to affiliates.....	586	654
Intangible assets, net.....	2,312	2,319
Other.....	389	368
	-----	-----
	\$17,507	\$16,885
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable.....	\$ 614	\$ 657
Accrued salaries.....	340	403
Government settlement accrual.....	745	--
Other accrued expenses.....	1,169	1,112
Long-term debt due within one year.....	1,434	1,160
	-----	-----
	4,302	3,332
Long-term debt.....	5,426	5,284
Professional liability risks, deferred taxes and other liabilities.....	1,671	1,889
Minority interests in equity of consolidated entities.....	702	763
Stockholders' equity:		
Common stock \$.01 par; authorized 1,600,000,000 voting shares and 50,000,000 nonvoting shares; outstanding 531,841,600 voting shares and 21,000,000 nonvoting shares -- 2000 and 543,272,900 voting shares and 21,000,000 nonvoting shares -- 1999.....	6	6
Capital in excess of par value.....	591	951
Other.....	8	8
Accumulated other comprehensive income.....	38	53
Retained earnings.....	4,763	4,599
	-----	-----
	5,406	5,617
	-----	-----
	\$17,507	\$16,885
	=====	=====

See accompanying notes.

HCA -- THE HEALTHCARE COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2000 AND 1999
UNAUDITED
(DOLLARS IN MILLIONS)

	2000	1999
	-----	-----
Cash flows from operating activities:		
Net income.....	\$ 198	\$ 566
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful accounts.....	934	985
Depreciation and amortization.....	778	836
Income taxes.....	(281)	(117)
Settlement with federal government.....	745	--
Gains on sales of facilities.....	(38)	(257)
Impairment of long-lived assets.....	17	160
Changes in operating assets and liabilities.....	(1,307)	(1,387)
Other.....	68	20
	-----	-----
Net cash provided by operating activities.....	1,114	806
	-----	-----
Cash flows from investing activities:		
Purchase of property and equipment.....	(860)	(936)
Acquisition of hospitals and health care entities.....	(338)	--
Disposition of property and equipment.....	295	660
Spin-off of facilities to stockholders.....	--	886
Change in investments.....	(78)	557
Other.....	(2)	17
	-----	-----
Net cash provided by (used in) investing activities.....	(983)	1,184
	-----	-----
Cash flows from financing activities:		
Issuance of long-term debt.....	2,736	1,024
Net change in revolving bank credit.....	(700)	(441)
Repayment of long-term debt.....	(1,710)	(826)
Payment of cash dividends.....	(34)	(35)
Repurchases of common stock, net.....	(400)	(1,905)
Other.....	(33)	20
	-----	-----
Net cash used in financing activities.....	(141)	(2,163)
	-----	-----
Change in cash and cash equivalents.....	(10)	(173)
Cash and cash equivalents at beginning of period.....	190	297
	-----	-----
Cash and cash equivalents at end of period.....	\$ 180	\$ 124
	=====	=====
Interest payments.....	\$ 342	\$ 320
Income tax payments, net.....	\$ 498	\$ 565

See accompanying notes.

HCA -- THE HEALTHCARE COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
UNAUDITED

NOTE 1 -- BASIS OF PRESENTATION

HCA -- The Healthcare Company, formerly known as Columbia/HCA Healthcare Corporation, is a holding company whose affiliates own and operate hospitals and related health care entities. The term "affiliates" includes direct and indirect subsidiaries of HCA -- The Healthcare Company and partnerships and joint ventures in which such subsidiaries are partners. At September 30, 2000, these affiliates owned and operated 189 hospitals, 76 freestanding surgery centers and provided extensive outpatient and ancillary services. Affiliates of HCA -- The Healthcare Company are also partners in several 50/50 joint ventures that own and operate nine hospitals and three freestanding surgery centers which are accounted for using the equity method. The Company's facilities are located in 24 states, England and Switzerland. The terms "HCA" or the "Company" as used in this Quarterly Report on Form 10-Q refer to HCA -- The Healthcare Company and its affiliates unless otherwise stated or indicated by context.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the quarter and nine months ended September 30, 2000, are not necessarily indicative of the results that may be expected for the year ending December 31, 2000. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 1999.

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

NOTE 2 -- INVESTIGATIONS AND UNDERSTANDING TO SETTLE CERTAIN GOVERNMENT CIVIL CLAIMS

The Company continues to be the subject of several Federal investigations into its business practices, as well as governmental investigations by various states. The Company is cooperating in these investigations and understands, through written notice and other means, that it is a target in these investigations. Given the breadth of the ongoing investigations, the Company expects additional investigative and prosecutorial activity to occur in these and other jurisdictions in the future. The Company is a defendant in several qui tam actions brought by private parties on behalf of the United States of America, which have been unsealed and served on the Company. The actions allege, in general, that the Company and certain subsidiaries and/or affiliated partnerships violated the False Claims Act by submitting improper claims to the government for reimbursement. The lawsuits generally seek damages of three times the amount of all Medicare or Medicaid claims (involving false claims) presented by the defendants to the Federal government, civil penalties of not less than \$5,000 nor more than \$10,000 for each such Medicare or Medicaid claim, attorneys' fees and costs. The government has intervened in six qui tam actions. The Company is aware of additional qui tam actions that remain under seal and believes that there are other sealed qui tam cases of which it is unaware.

The Company and its affiliates announced in May 2000 that an understanding had been reached with attorneys of the Civil Division of the Department of Justice ("DOJ") to recommend an agreement to settle, subject to certain conditions, civil claims actions against the Company relating to Diagnosis Related Group ("DRG") coding; outpatient laboratory billing; and home health issues. Civil issues that remain to be resolved are cost reports and physician relations issues.

The understanding with DOJ attorneys provides that the Company will compensate the government \$745 million (with interest at 6.5% beginning May 18, 2000) with respect to the issues covered by the understanding. This resulted in the Company recording an after-tax charge of \$498 million during the quarter ended June 30, 2000. The settlement is subject to approval by additional officials at the DOJ; execution of a corporate integrity agreement; execution of definitive settlement documents for the three issues included in the

HCA -- THE HEALTHCARE COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)
UNAUDITED

NOTE 2 -- INVESTIGATIONS AND UNDERSTANDING TO SETTLE CERTAIN GOVERNMENT CIVIL CLAIMS (CONTINUED)

understanding; execution of agreements to resolve all criminal investigations pending against the Company and court approval.

The date for completion of criminal settlements was automatically extended from September 30, 2000 to December 31, 2000. In the event the criminal settlement condition is not satisfied by December 31, 2000, the settlement agreement shall expire unless the Company elects to waive the criminal settlement condition. Notwithstanding the fixed expiration date, the parties expect to complete the settlement even after the expiration date so long as the criminal settlement condition is satisfied.

The understanding covers issues for the following years: DRG coding for calendar years 1990-1997; outpatient laboratory billings for calendar years 1989-1997; home health community education for Medicare cost report years 1994-1997; home health billing for calendar years 1995-1998; and certain home health management transactions for Medicare cost report years 1993-1998.

The Company's existing letter of credit agreement with the DOJ will be reduced from \$1 billion to \$250 million at the time of the settlement payment. In addition, the understanding provides that any future civil payments on cost reports or physician relations will reduce the remaining amount of the letter of credit dollar for dollar.

The Company and the Office of Inspector General of the Department of Health and Human Services have reached an understanding on the principal terms of a corporate integrity agreement. The corporate integrity agreement is intended to assure the government of the Company's overall Medicare compliance including DRG coding, outpatient laboratory billing and the two civil issues still to be resolved -- physician relations and cost reports. Execution of the corporate integrity agreement is expected to result in waiver of the government's discretionary right to exclude any of the Company's operations from participation in the Medicare program with respect to the issues settled.

The Company remains the subject of a formal order of investigation by the Securities and Exchange Commission ("SEC"). The Company understands that the investigation includes the anti-fraud, insider trading, periodic reporting and internal accounting control provisions of the Federal securities laws.

Management is unable to predict the outcome or effect of the remaining civil issues, the criminal investigation or other actions. The Company could be subject to substantial costs resulting from an adverse outcome of one or more such actions. Any such sanctions or losses could have a material adverse effect on the Company's financial position and results of operations. (See Note 10 -- Contingencies and Part II, Item 1: Legal Proceedings.)

NOTE 3 -- RESTRUCTURING OF OPERATIONS

HCA has completed a restructuring of its operations to create a smaller and more focused company. The restructuring included the divestitures of certain hospitals, surgery centers and related facilities, the spin-offs of LifePoint Hospitals, Inc. ("LifePoint") and Triad Hospitals, Inc. ("Triad") and the divestitures of the Company's home health and certain other businesses.

Divestiture of Certain Hospitals and Surgery Centers

During the first nine months of 2000, HCA recognized a pretax gain of \$38 million (\$18 million after-tax) on the sales of three consolidating hospitals. Proceeds from these sales were used to repay bank borrowings.

HCA -- THE HEALTHCARE COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)
UNAUDITED

NOTE 3 -- RESTRUCTURING OF OPERATIONS (CONTINUED)

Divestiture of Certain Hospitals and Surgery Centers (continued)

During the first nine months of 1999, HCA recognized a pretax gain of \$257 million (\$151 million after-tax) on the sales of three consolidating hospitals and certain related facilities. Proceeds from the sales were used to repay bank borrowings.

During the third quarter of 2000, management identified and initiated plans to sell during 2000 or 2001, one consolidating hospital and one non-consolidating hospital. The carrying value for the hospitals was reduced to fair value of approximately \$19 million, based upon estimates of sales values, for a total non-cash, pretax charge of approximately \$17 million. The consolidating hospital for which the impairment charge was recorded had revenues of approximately \$14 million and \$12 million for the quarters ended September 30, 2000 and 1999, respectively, and approximately \$39 million and \$34 million for the nine months ended September 30, 2000 and 1999, respectively. The hospitals for which the impairment charge was recorded had net losses from operations of approximately \$1 million and \$2 million for the quarters ended September 30, 2000 and 1999, respectively, and approximately \$3 million for each of the nine months ended September 30, 2000 and 1999.

During the first nine months of 1999, management identified and initiated, or revised, plans to sell or close during 1999 and 2000, 15 consolidating hospitals and four non-consolidating hospitals. The carrying value for the hospitals and other assets expected to be sold was reduced to fair value of approximately \$195 million, based upon estimates of sales values, for a total non-cash, pretax charge of approximately \$160 million. The hospitals and other assets for which the impairment charge was recorded had revenues (through the date of sale or closure) of approximately \$26 million and \$101 million for the quarters ended September 30, 2000 and 1999, respectively, and approximately \$84 million and \$421 million for the nine months ended September 30, 2000 and 1999, respectively. These facilities incurred net losses from operations of approximately one million and \$20 million for the quarters ended September 30, 2000 and 1999, respectively and approximately \$13 million and \$40 million for the nine months ended September 30, 2000 and 1999, respectively. During 1999 and the first nine months of 2000, the Company completed the divestitures or closures of nine of the consolidating hospitals and the four non-consolidating hospitals on which impairment charges had been recorded. The facilities spun-off to Triad included another three of the consolidating hospitals on which impairment charges had been recorded. Proceeds from the completed divestitures were used to repay bank borrowings.

Management's estimates of sales values are generally based upon internal evaluations of each market that include quantitative analyses of revenues and cash flows, reviews of recent sales of similar facilities and market responses based upon discussions with and offers received from potential buyers. The market responses are usually considered to provide the most reliable estimates of fair value.

The asset impairment charges did not have a significant impact on HCA's cash flows and are not expected to significantly impact cash flows for future periods. The impaired facilities are classified as "held for use" because economic and operational considerations justify operating the facilities and marketing them as operating enterprises; therefore, depreciation has not been suspended.

HCA -- THE HEALTHCARE COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)
UNAUDITED

NOTE 3 -- RESTRUCTURING OF OPERATIONS (CONTINUED)

Divestiture of Certain Hospitals and Surgery Centers (continued)

The impairment charges affected the Company's asset categories, as follows (in millions):

	NINE MONTHS 2000	NINE MONTHS 1999
	-----	-----
Property and equipment.....	\$11	\$101
Intangible assets.....	--	50
Investments in and advances to affiliates.....	6	9
	---	---
	\$17	\$160
	===	====

The impairment charges affected the Company's operating segments, as follows (in millions):

	NINE MONTHS 2000	NINE MONTHS 1999
	-----	-----
Eastern Group.....	\$ 6	\$ 12
Western Group.....	11	17
Corporate and other.....	--	3
Spin-offs.....	--	34
National Group.....	--	94
	---	---
	\$17	\$160
	===	====

Spin-Offs

On May 11, 1999, the Company completed the spin-offs of LifePoint and Triad through a distribution of one share of LifePoint common stock and one share of Triad common stock for every 19 shares of HCA's common stock outstanding on April 30, 1999. Triad was comprised of 34 consolidating hospitals and LifePoint was comprised of 23 consolidating hospitals.

NOTE 4 -- RESTRUCTURING OF OPERATIONS AND INVESTIGATION RELATED COSTS

HCA recorded the following pretax charges in connection with the restructuring of operations and investigations as discussed in Note 2 -- Investigations and Understanding to Settle Certain Government Civil Claims and Note 3 -- Restructuring of Operations (in millions):

	QUARTER		NINE MONTHS	
	2000	1999	2000	1999
	----	----	----	----
Professional fees related to investigations.....	\$16	\$20	\$36	\$62
Severance costs.....	--	--	--	2
Other.....	--	4	5	20
	---	---	---	---
	\$16	\$24	\$41	\$84
	===	===	===	===

The professional fees related to investigations represent incremental legal and accounting expenses that are being recognized on the basis of when the costs are incurred. The severance amounts in 1999 related primarily to a small group of executives associated with operations or functions that were ceased or divested. The liability balance for accrued severance and lease commitments was approximately \$9 million at September 30, 2000.

HCA -- THE HEALTHCARE COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)
UNAUDITED

NOTE 5 -- BUSINESS COMBINATIONS

The following is a summary of acquisitions consummated during the nine months ended September 30, 2000 (dollars in millions):

	SEPTEMBER 30, 2000 -----
Number of hospitals.....	7
Number of licensed beds.....	760
Purchase price information:	
Hospitals:	
Fair value of assets acquired.....	\$322
Liabilities assumed.....	(89)

Net assets acquired.....	233
Other health care entities acquired.....	105

Net cash paid.....	\$338
	=====

The purchase price paid in excess of the fair value of identifiable net assets of acquired entities aggregated \$90 million. The pro forma effect of these acquisitions on the Company's results of operations for the periods prior to the respective acquisition dates was not significant.

NOTE 6 -- INCOME TAXES

HCA is currently contesting before the United States Tax Court (the "Tax Court") and the United States Court of Federal Claims certain claimed deficiencies and adjustments proposed by the IRS in conjunction with its examination of the Company's 1994-1996 Federal income tax returns, Columbia Healthcare Corporation's ("CHC") 1993 and 1994 Federal income tax returns, HCA -- Hospital Corporation of America's ("Hospital Corporation of America") 1981 through 1988 and 1991 through 1993 Federal income tax returns and Healthtrust, Inc. -- The Hospital Company's ("Healthtrust") 1990 through 1994 Federal income tax returns. The disputed items include the disallowance of certain financing costs, system conversion costs and insurance premiums which were deducted in calculating taxable income, and the allocation of costs to fixed assets and goodwill in connection with hospitals acquired by the Company in 1995 and 1996. The IRS is claiming an additional \$196 million in income taxes and interest through September 30, 2000.

Tax Court decisions received in 1996 and 1997, related to the IRS' examination of Hospital Corporation of America's 1981 through 1988 Federal income tax returns, may be appealed by the IRS or the Company to the United States Court of Appeals, Sixth Circuit. The Company expects any decisions regarding the appeal of these rulings will be made during 2001. Because no final decisions have been made regarding appeals of the decisions, the Company is presently unable to estimate the amount of any additional income tax and interest which the IRS may claim.

During the first quarter of 2000, the IRS began an examination of the Company's 1997 and 1998 Federal income tax returns. HCA is presently unable to estimate the amount of any additional income tax and interest which the IRS may claim upon completion of the examination.

Management believes that adequate provisions have been recorded to satisfy final resolution of the disputed issues. Management believes that the Company, CHC, Hospital Corporation of America and Healthtrust properly reported taxable income and paid taxes in accordance with applicable laws and agreements established with the IRS during previous examinations and that the final resolution of these disputes will not have a material adverse effect on the results of operations or financial position of HCA.

HCA -- THE HEALTHCARE COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)
UNAUDITED

NOTE 7 -- EARNINGS PER SHARE

Basic earnings per share is computed on the basis of the weighted average number of common shares outstanding. Diluted earnings per share is computed on the basis of the weighted average number of common shares outstanding plus the dilutive effect of outstanding stock options and warrants, using the treasury stock method, and the assumed net share settlement of structured repurchases of common stock.

The following table sets forth the computation of basic and diluted earnings per share for the quarters and nine months ended September 30, 2000 and 1999 (dollars in millions, except per share amounts and shares in thousands):

	QUARTER		NINE MONTHS	
	2000	1999	2000	1999
Net income.....	\$ 174	\$ 138	\$ 198	\$ 566
Weighted average common shares outstanding....	553,642	562,539	557,200	593,021
Effect of dilutive securities:				
Stock options.....	10,973	4,285	7,939	3,446
Warrants and other.....	1,855	965	3,077	2,127
Shares used for diluted earnings per share....	566,470	567,789	568,216	598,594
Earnings per share:				
Basic earnings per share.....	\$.31	\$.25	\$.36	\$.95
Diluted earnings per share.....	\$.31	\$.24	\$.35	\$.95

NOTE 8 -- LONG-TERM DEBT

In March 2000, HCA entered into a \$1.2 billion term loan agreement (the "2000 Term Loan") with several banks. Proceeds from the 2000 Term Loan were used in the first quarter of 2000 to retire the outstanding balance under the \$1.0 billion interim term loan agreement entered into in March 1999 and to reduce outstanding loans under the Company's revolving credit facility.

During the second quarter of 2000, an English subsidiary of the Company entered into a \$168 million Term Facility Agreement ("English Term Loan") with a bank. The English Term Loan was used to purchase the ownership interest of the Company's 50/50 joint venture partner in England and to refinance existing indebtedness. The English Term Loan matures in May 2001. See Note 14 -- Subsequent Event.

In August 2000, HCA issued \$750 million of 8.75% notes due September 1, 2010. Proceeds from the notes were used to reduce outstanding loans under the Company's revolving credit facility by \$350 million, reduce the outstanding balance under the 2000 Term Loan by \$200 million and to settle \$200 million of forward purchase contracts. See Note 9 -- Stock Repurchase Program.

In September 2000, HCA issued \$500 million of floating rate notes due September 19, 2002. Proceeds from the notes were used to reduce the outstanding balance under the 2000 Term Loan.

NOTE 9 -- STOCK REPURCHASE PROGRAM

In March 2000, HCA announced that its Board of Directors authorized the repurchase of up to \$1 billion of common stock. Certain financial organizations purchased approximately 5.3 million shares of the Company's common stock for approximately \$119 million during the first quarter of 2000, approximately 11.3 million shares for approximately \$322 million during the second quarter of 2000 and approximately 2.8 million shares for approximately \$93 million during the third quarter of 2000 utilizing forward purchase contracts. In accordance with the terms of the contracts, these shares remain outstanding until settled by the Company. As

HCA -- THE HEALTHCARE COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)
UNAUDITED

NOTE 9 -- STOCK REPURCHASE PROGRAM (CONTINUED)

part of this stock repurchase program, HCA sold 5.7 million put options during the third quarter of 2000, each of which entitles the holder to sell HCA's stock to HCA at a specified price on a specified date. These put options expire on various dates through February 27, 2001 and have exercise prices ranging from \$33.32 to \$35.15 per share with an average exercise price of \$34.46 per share. The outstanding put options permit a net share settlement at the Company's election and do not result in a put option liability on the balance sheet. HCA expects to repurchase, from time to time, the remaining stock associated with the March 2000 repurchase authorization through open market purchases, privately negotiated transactions, forward purchase contracts or by utilizing the sale of additional put options.

In November 1999, HCA announced that its Board of Directors authorized the repurchase of up to \$1 billion of its common stock. During the first quarter of 2000, HCA settled forward purchase contracts associated with its November 1999 authorization of approximately 8.5 million shares at a cost of \$250 million; during the second quarter of 2000, settled forward purchase contracts of approximately 1.8 million shares at a cost of approximately \$53 million and during the third quarter of 2000, settled forward purchase contracts associated with the same authorization of approximately 6.6 million shares at a cost of approximately \$200 million. In accordance with the terms of the forward purchase contracts, approximately 17.5 million shares at a cost of approximately \$495 million remain outstanding until the forward purchase contracts are settled by the Company.

The significant terms of the forward purchase contracts utilized in the repurchase transactions include: (1) in consideration for the purchases, the Company is obligated to pay the counterparties an amount equal to their average cost to acquire the stock plus a rate of return that varies by contract (from LIBOR plus 100 basis points to LIBOR plus 150 basis points), (2) the contracts generally have a stated term of one year, but the Company may settle the contracts at any time, subject to certain notification requirements and (3) the Company may settle the contracts, at its discretion, by one of three methods: (a) physical settlement -- where the Company would pay cash in exchange for the shares, (b) net share settlement -- where the Company would issue shares to the counterparties or the counterparties would return shares to the Company in amounts that provide value equal to the differential between the market value of the shares on the settlement date less transaction costs and the counterparties' cost to acquire the shares plus the specified rate of return or (c) net cash settlement -- where the Company would pay cash to the counterparties or the counterparties would pay cash to the Company in amounts that would provide value equal to the differential between the market value of the shares on the settlement date less transaction costs and the cost to acquire the shares plus the specified rate of return.

During the first quarter of 1999, the Company entered into a Letter of Credit Agreement with the United States Department of Justice related to the Company's share repurchase programs. As part of the agreement, the Company provided the government with letters of credit totaling \$1 billion. The understanding reached with the government in May 2000, as discussed in Note 2 -- Investigations and Understanding to Settle Certain Government Civil Claims, provides that the letters of credit will be reduced from \$1 billion to \$250 million at the time of the settlement payment. In addition, the understanding provides that any future civil payments on cost reports or physician relations will reduce the remaining amount of the letters of credit dollar for dollar.

NOTE 10 -- CONTINGENCIES

Significant Legal Proceedings

Various lawsuits, claims and legal proceedings (see Note 2 -- Investigations and Understanding to Settle Certain Government Civil Claims and Part II, Item 1: Legal Proceedings, for a description of the ongoing government investigations and other legal proceedings) have been and are expected to be instituted or asserted

HCA -- THE HEALTHCARE COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)
UNAUDITED

NOTE 10 -- CONTINGENCIES (CONTINUED)

Significant Legal Proceedings (continued)
against the Company, including those relating to shareholder derivative and class action complaints; purported class action lawsuits filed by patients and payers alleging, in general, improper and fraudulent billing, coding, claims and overcharging, as well as other violations of law; certain qui tam or "whistleblower" actions alleging, in general, unlawful claims for reimbursement or unlawful payments to physicians for the referral of patients and other violations of law. While the amounts claimed may be substantial, the ultimate liability cannot be determined or reasonably estimated at this time due to the considerable uncertainties that exist. Therefore, it is possible that results of operations, financial position and liquidity in a particular period could be materially, adversely affected upon the resolution of certain of these contingencies.

General Liability Claims

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

NOTE 11 -- COMPREHENSIVE INCOME

The components of comprehensive income, net of related taxes, for the quarters and nine months ended September 30, 2000 and 1999 are as follows (in millions):

	QUARTER		NINE MONTHS	
	2000	1999	2000	1999
Net income.....	\$174	\$138	\$198	\$566
Unrealized gains on securities.....	(3)	(32)	(11)	(31)
Foreign currency translation adjustments.....	(2)	5	(4)	(6)
Comprehensive income.....	\$169	\$111	\$183	\$529
	=====	=====	=====	=====

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

	SEPTEMBER 30, 2000	DECEMBER 31, 1999
Net unrealized gains on securities.....	\$ 48	\$59
Foreign currency translation adjustments.....	(10)	(6)
Accumulated other comprehensive income.....	\$ 38	\$53
	=====	=====

NOTE 12 -- SEGMENT AND GEOGRAPHIC INFORMATION

HCA operates in one line of business, which is operating hospitals and related health care entities. During the quarters ended September 30, 2000 and 1999 approximately 27.6% and 27.9%, respectively, of the Company's revenues related to patients participating in the Medicare program. The Company's Medicare revenues approximated 28.7% and 29.3% of the Company's total revenues during the nine months ended September 30, 2000 and 1999, respectively.

HCA's operations are structured into two geographically organized groups: the Eastern Group is comprised of 97 consolidating hospitals located in the Eastern United States and the Western Group is

HCA -- THE HEALTHCARE COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)
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NOTE 12 -- SEGMENT AND GEOGRAPHIC INFORMATION -- (CONTINUED)

comprised of 78 consolidating hospitals located in the Western United States. These two groups represent HCA's core operations and are typically located in urban areas that are characterized by highly integrated facility networks. An additional group, the National Group, includes six consolidating hospitals which HCA intends to sell or close and the operations of certain other hospitals which have been sold. HCA also operates eight consolidating hospitals in England and Switzerland. HCA completed the spin-offs of LifePoint and Triad (the "Spin-offs") during the second quarter of 1999. At the time of the spin-offs, LifePoint included 23 consolidating hospitals and Triad included 34 consolidating hospitals. See Note 3 -- Restructuring of Operations.

HCA's Chief Operating Officer reviews geographic distributions of HCA's revenues, EBITDA, depreciation and amortization, and assets. EBITDA is defined as income before depreciation and amortization, interest expense, settlement with federal government, gains on sales of facilities, impairment of long-lived assets, restructuring of operations and investigation related costs, minority interests and income taxes. The Company uses EBITDA as an analytical indicator for purposes of allocating resources to geographic areas and assessing their performance. EBITDA is commonly used as an analytical indicator within the health care industry, and also serves as a measure of leverage capacity and debt service ability. EBITDA should not be considered as a measure of financial performance under generally accepted accounting principles, and the items excluded from EBITDA are significant components in understanding and assessing financial performance. Because EBITDA is not a measurement determined in accordance with generally accepted accounting principles and is thus susceptible to varying calculations, EBITDA, as presented, may not be comparable to other similarly titled measures of other companies. The geographic distributions of HCA's revenues, EBITDA, depreciation and amortization, and assets, restated for the restructuring of operations transactions (the spin-offs and transfers of certain facilities to the National Group), are summarized in the following table (dollars in millions):

	QUARTER ENDED SEPTEMBER 30,		QUARTER ENDED JUNE 30,		QUARTER ENDED MARCH 31,		NINE MONTHS ENDED SEPTEMBER 30,		YEAR ENDED DECEMBER 31,		
	2000	1999	2000	1999	2000	1999	2000	1999	1999	1998	1997
Revenues:											
Eastern Group.....	\$1,978	\$1,903	\$2,045	\$1,923	\$2,157	\$2,006	\$ 6,180	\$ 5,832	\$ 7,794	\$ 7,419	\$ 7,314
Western Group.....	1,888	1,723	1,864	1,766	1,883	1,769	5,635	5,258	7,016	6,493	6,229
Corporate and other(a)...	177	77	110	77	89	76	376	230	302	283	232
National Group.....	50	196	114	231	142	302	306	729	879	2,399	2,947
Spin-offs.....	--	--	--	164	--	502	--	666	666	2,087	2,097
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
	\$4,093	\$3,899	\$4,133	\$4,161	\$4,271	\$4,655	\$12,497	\$12,715	\$16,657	\$18,681	\$18,819
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
EBITDA:											
Eastern Group.....	\$ 384	\$ 392	\$ 453	\$ 433	\$ 540	\$ 503	\$ 1,377	\$ 1,328	\$ 1,727	\$ 1,571	\$ 1,444
Western Group.....	320	281	355	299	368	311	1,043	891	1,172	984	1,003
Corporate and other(a)...	46	5	6	(46)	(2)	(13)	50	(54)	(68)	8	(149)
National Group.....	(14)	(23)	(15)	--	--	14	(29)	(9)	(26)	99	283
Spin-offs.....	--	--	--	20	--	63	--	83	83	206	270
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
	\$ 736	\$ 655	\$ 799	\$ 706	\$ 906	\$ 878	\$ 2,441	\$ 2,239	\$ 2,888	\$ 2,868	\$ 2,851
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
Depreciation and amortization:											
Eastern Group.....	\$ 111	\$ 113	\$ 117	\$ 113	\$ 114	\$ 112	\$ 342	\$ 338	\$ 457	\$ 448	\$ 436
Western Group.....	103	108	111	111	110	107	324	326	435	404	400
Corporate and other(a)...	40	28	24	24	24	25	88	77	98	89	87
National Group.....	3	13	13	18	8	17	24	48	57	168	185
Spin-offs.....	--	--	--	12	--	35	--	47	47	138	130
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
	\$ 257	\$ 262	\$ 265	\$ 278	\$ 256	\$ 296	\$ 778	\$ 836	\$ 1,094	\$ 1,247	\$ 1,238
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====

HCA -- THE HEALTHCARE COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)
UNAUDITED

NOTE 12 -- SEGMENT AND GEOGRAPHIC INFORMATION -- (CONTINUED)

	SEPTEMBER 30, 2000	DECEMBER 31,		
		1999	1998	1997
Assets:				
Eastern Group.....	\$ 6,571	\$ 6,722	\$ 6,723	\$ 6,660
Western Group.....	6,442	6,591	6,811	6,448
Corporate and other(a).....	4,278	3,143	2,884	4,445
National Group.....	216	429	1,285	2,640
Spin-offs.....	--	--	1,726	1,809
	-----	-----	-----	-----
	\$17,507	\$16,885	\$19,429	\$22,002
	=====	=====	=====	=====

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(a) Includes the Company's eight consolidating hospitals located in England and Switzerland.

NOTE 13 -- RECENT PRONOUNCEMENTS

During June 1999, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 137, "Accounting for Derivative Instruments and Hedging Activities -- Deferral of the Effective Date of FASB Statement No. 133." SFAS 137 defers the effective date of SFAS 133 to years beginning after June 15, 2000. SFAS 133 will require the Company to recognize all derivatives on the balance sheet at fair value. Due to the Company's minimal use of derivatives, management does not believe that the adoption of SFAS 133 will have a material impact on its financial statements.

NOTE 14 -- SUBSEQUENT EVENT

In October 2000, HCA issued approximately \$217 million of 8.75% notes due November 1, 2010. Proceeds from the notes were used to repay the outstanding balance under the English Term Loan and for general corporate purposes.

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

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains disclosures which contain "forward-looking statements." Forward-looking statements include all statements that do not relate solely to historical or current facts, and may be identified by the use of words like "may," "believe," "will," "expect," "project," "estimate," "anticipate," "plan," "initiative," "should," "intends" or "continue." These forward-looking statements are based on the current plans and expectations of the Company and are subject to a number of known and unknown uncertainties and risks, many of which are beyond the Company's control, that could significantly affect current plans and expectations and the Company's future financial condition and results. These factors include, but are not limited to, (i) the outcome of the known and unknown governmental investigations and litigation involving the Company's business practices, (ii) the ability to negotiate and execute definitive settlement agreements relating to DRG coding, outpatient laboratory billing, home health issues and other matters, (iii) the highly competitive nature of the health care business, (iv) the efforts of insurers, health care providers and others to contain health care costs, (v) possible changes in the Medicare program that may limit reimbursements to health care providers and insurers, (vi) changes in Federal, state or local regulation affecting the health care industry, (vii) the possible enactment of Federal or state health care reform, (viii) the ability to attract and retain qualified management and personnel, including affiliated physicians, (ix) liabilities and other claims asserted against the Company, (x) fluctuations in the market value of the Company's common stock, (xi) ability to complete the share repurchase program and to settle related forward purchase contracts, (xii) changes in accounting practices, (xiii) changes in general economic conditions, (xiv) future divestitures which may result in additional charges, (xv) the ability to enter, renegotiate and renew managed care provider arrangements on acceptable terms, (xvi) the availability and terms of capital to fund the expansion of the Company's business, (xvii) changes in business strategy or development plans, (xviii) slowness of reimbursement, (xix) the ability to implement the Company's shared services and e-health initiatives, (xx) the outcome of pending and any future tax audits and litigation associated with the Company's tax positions, (xxi) the outcome of the Company's continuing efforts to monitor, maintain and comply with appropriate laws, regulations, policies and procedures and the Company's anticipated corporate integrity agreement with the government, (xxii) the ability to increase patient volumes and control the costs of providing services, (xxiii) future divestitures which may result in additional charges, and (xxiv) other risk factors. As a consequence, current plans, anticipated actions and future financial condition and results may differ from those expressed in any forward-looking statements made by or on behalf of the Company. You are cautioned not to unduly rely on such forward-looking statements when evaluating the information presented in this report, including in "Management's Discussion and Analysis of Financial Condition and Results of Operations."

INVESTIGATIONS AND UNDERSTANDING TO SETTLE CERTAIN GOVERNMENT CIVIL CLAIMS

The Company is currently the subject of several Federal investigations into certain of its business practices, as well as governmental investigations by various states. The Company is cooperating in these investigations and understands, through written notice and other means, that it is a target in these investigations. Given the breadth of the ongoing investigations, the Company expects additional investigative and prosecutorial activity to occur in these and other jurisdictions in the future.

The Company and its affiliates announced in May 2000 that an understanding had been reached with attorneys of the DOJ to recommend an agreement to settle, subject to certain conditions, civil claims actions against the Company relating to DRG coding, outpatient laboratory billing, and home health issues. Civil issues that remain to be resolved are cost reports and physician relations issues.

The understanding with DOJ attorneys provides that the Company will compensate the government \$745 million (with interest at 6.5% beginning May 18, 2000) with respect to the issues covered by the understanding. This resulted in the Company recording an after-tax charge of \$498 during the quarter ended June 30, 2000. The settlement is subject to approval by additional officials at the DOJ; execution of a

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

INVESTIGATIONS AND UNDERSTANDING TO SETTLE CERTAIN GOVERNMENT CIVIL CLAIMS
(CONTINUED)

corporate integrity agreement; execution of definitive settlement documents for the three issues included in the understanding; execution of agreements to resolve all pending criminal investigations; and court approval.

The date for completion of criminal settlements has been automatically extended from September 30, 2000 to December 31, 2000. In the event the criminal settlement condition is not satisfied by December 31, 2000, the settlement agreement shall expire unless the Company elects to waive the criminal condition. Notwithstanding the fixed date of expiration, the parties expect to complete the settlement even after the expiration date so long as the criminal settlement condition is satisfied.

The understanding covers issues for the following years: DRG coding for calendar years 1990-1997; outpatient laboratory billing for calendar years 1989-1997; home health community education for Medicare cost report years 1994-1997; home health billing for calendar years 1995-1998; and certain home health management transactions for Medicare cost report years 1993-1998.

The Company's existing letter of credit agreement with the DOJ will be reduced from \$1 billion to \$250 million at the time of the settlement payment. In addition, the understanding provides that any future civil payments on cost reports or physician relations will reduce the remaining amount of the letter of credit dollar for dollar.

The Company and the Office of Inspector General of the Department of Health and Human Services have reached an understanding on the principal terms of a corporate integrity agreement. The corporate integrity agreement is intended to assure the government of the Company's overall Medicare compliance and covers DRG coding, outpatient laboratory billing and the two civil issues still to be resolved -- physician relations and cost reports. Execution of the corporate integrity agreement is expected to result in waiver of the government's discretionary right to exclude any of the Company's operations from participation in the Medicare program with respect to the issues settled.

The Company remains the subject of a formal order of investigation by the SEC. The Company understands that the SEC investigation includes the anti-fraud, insider trading, periodic reporting and internal accounting control provisions of the Federal securities laws.

The Company cannot predict the outcome or quantify effects that the remaining civil issues, the criminal investigation or other actions will have on operations in future periods. The Company could be subject to substantial costs resulting from an adverse outcome of one or more such actions. Any such sanctions or losses could have a material adverse effect on the Company's financial position and results of operations. (See Note 10 -- Contingencies in the Notes to Condensed Consolidated Financial Statements.)

BUSINESS STRATEGY

HCA's primary objective is to provide the communities it serves a comprehensive array of quality health care services in the most cost effective manner and consistent with the Company's ethics and compliance program and governmental regulations. HCA also seeks to enhance financial performance by increasing utilization and improving operating efficiencies of the Company's facilities. To achieve these objectives, HCA pursues the following strategies:

- Reinforce HCA's "patients first" philosophy and the Company's commitment to ethics and compliance: HCA is committed to a values-based corporate culture that prioritizes the care and improvement of human life above all else. The values highlighted by the Company's corporate culture -- compassion, honesty, integrity, fairness, loyalty, respect and kindness -- are the cornerstone of HCA. To reinforce the Company's dedication to these values and to ensure integrity in all that HCA does, the Company has developed and implemented a comprehensive ethics and compliance program that articulates a

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

BUSINESS STRATEGY (CONTINUED)

high set of values and behavioral standards. HCA believes that this program has reinforced the Company's dedication to excellent patient care.

- Focus on strong assets in select, core communities: HCA focuses on communities where the Company is or can be the number one or number two health care provider. To achieve this goal, management initiated a comprehensive restructuring process that has transformed HCA into a smaller, more focused company. This restructuring allows HCA to focus its efforts on core communities, which are typically located in urban areas characterized by highly integrated health care facility networks. This restructuring included the divestiture of home health operations and the Value Health business units, the spin-offs of LifePoint and Triad to HCA's stockholders, and the sales of various other hospitals and surgery centers outside of HCA's strategic locations. HCA intends to continue to optimize core assets through selected divestitures, acquisitions and capital expenditures.
- Develop comprehensive local health care networks with a broad range of health care services: HCA seeks to operate each of the Company's facilities as part of a network with other health care facilities that HCA's affiliates own or operate within a common region. Being a comprehensive provider of quality health care services in selected communities should enable the Company to attract and serve patients and physicians.
- Grow through increased patient volume, expansion of specialty and outpatient services and selective acquisitions: HCA intends to identify opportunities in areas where demand for comprehensive health services is not adequately met. Expansion of specialty services should strengthen the Company's health care delivery networks and attract new patients. To support this expansion, HCA plans to actively recruit additional specialists. Recognizing that within the health care industry, the shift from inpatient to outpatient care is likely to continue, HCA intends to enhance the access to and the capabilities of the Company's outpatient services by devoting additional capital resources to outpatient facilities.
- Improve operating efficiencies through enhanced cost management, shared services and resource utilization: HCA has initiated several measures to improve the financial performance of the Company's facilities. To address labor costs, HCA implemented in many communities a flexible staffing model. To curtail supply cost, HCA formed a new group purchasing organization that allows the Company to achieve better pricing in negotiating purchasing and supply contracts. In addition, as HCA grows in select core markets, the Company should continue to benefit from economies of scale, including supply chain efficiencies and volume discount cost savings. Also, the Company expects to be able to reduce operating costs and to be better positioned to work with health maintenance organizations, preferred provider organizations and employers, by sharing certain services among several facilities in the same market.
- Recruit and develop strong relationships with physicians: HCA plans to actively recruit physicians to enhance patient care and fulfill the needs of the communities the Company serves. HCA believes that recruiting and retaining motivated physicians is essential to being a premier provider of health care services.
- Streamline and decentralize management consistent with our local focus: HCA's strategy to streamline and decentralize the Company's management structure affords management of the Company's facilities greater flexibility to make decisions that are specific to the respective local communities. This, in turn, leads to a smoother, less hierarchical operating structure and creates a more nimble, responsive organization.

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

BUSINESS STRATEGY (CONTINUED)

- Effectively allocate capital in order to maximize return: Management carefully evaluates investment opportunities and invests in projects that add to the primary objective of providing comprehensive, high-quality health care services in the most cost-effective manner. HCA maintains and replaces equipment, renovates and constructs replacement facilities and adds new services to increase the attractiveness of the Company's hospitals and other facilities to patients and physicians. In addition, HCA evaluates acquisitions that complement the Company's strategies and assesses opportunities to enhance stockholder value, including repayment of indebtedness and stock repurchases.

RESULTS OF OPERATIONS

Revenue/Volume Trends

HCA's revenues are affected by pressure on payment rates by government, managed care providers and others. Under the Balanced Budget Act of 1997 ("BBA-97"), the Company's reimbursement from the Medicare and Medicaid programs was reduced by significant changes that were phased in through October 1, 1998, and will continue to be reduced as certain changes continue to be phased in during 2000 and 2001. BBA-97 contains a requirement that the Health Care Financing Administration adopt a prospective payment system ("PPS") for outpatient hospital services which was implemented during August 2000. The outpatient PPS has not, at this point, had a measurable effect on the Company's financial results. The Company and the health care industry continue to experience a shift in business from Medicare and indemnity insurance to managed care. HCA generally receives lower payments per patient under managed care plans thereby reducing revenues, earnings and cash flows. Payer pressure to utilize outpatient and alternative health care delivery services also presents a challenge to the Company and the health care industry in general. Admissions related to Medicare, Medicaid and managed care plans and other discounted arrangements for the quarters and nine months ended September 30, 2000 and 1999 are set forth below.

	QUARTER		NINE MONTHS	
	2000	1999	2000	1999
Medicare.....	35.3%	35.7%	36.9%	37.7%
Medicaid.....	11.1	11.2	10.9	10.9
Managed care and other discounted.....	42.8	42.8	42.4	40.8
Other.....	10.8	10.3	9.8	10.6
	100.0%	100.0%	100.0%	100.0%
	=====	=====	=====	=====

Payment pressure by payers for patients to utilize outpatient or alternative delivery services and increasing percentages of patient volume being related to patients participating in managed care plans are expected to present ongoing challenges. The challenges presented by these trends are enhanced by HCA's inability to control these trends and the associated risks. To maintain and improve its operating margins in future periods, HCA must increase patient volumes while controlling the cost of providing services.

Management believes that the proper response to these challenges includes the delivery of a broad range of quality health care services to physicians and patients, with operating decisions being made by the local management teams and local physicians, and a focus on reducing operating costs through implementation of its shared services initiative.

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

RESULTS OF OPERATIONS (CONTINUED)

Operating Results Summary

The following are comparative summaries of results from operations for the quarters and nine months ended September 30, 2000 and 1999 (dollars in millions, except per share amounts):

	QUARTER			
	2000		1999	
	AMOUNT	RATIO	AMOUNT	RATIO
Revenues.....	\$ 4,093	100.0	\$ 3,899	100.0
Salaries and benefits.....	1,650	40.3	1,569	40.2
Supplies.....	646	15.8	618	15.9
Other operating expenses.....	756	18.5	747	19.1
Provision for doubtful accounts.....	333	8.1	318	8.2
Depreciation and amortization.....	257	6.3	262	6.8
Interest expense.....	147	3.6	122	3.1
Equity in earnings of affiliates.....	(28)	(0.7)	(8)	(0.2)
Gains on sales of facilities.....	(20)	(0.5)	--	--
Impairment of long-lived assets.....	17	0.4	--	--
Restructuring of operations and investigation related costs.....	16	0.4	24	0.6
	3,774	92.2	3,652	93.7
Income before minority interests and income taxes.....	319	7.8	247	6.3
Minority interests in earnings of consolidated entities.....	26	0.6	13	0.3
Income before income taxes.....	293	7.2	234	6.0
Provision for income taxes.....	119	2.9	96	2.5
Net income.....	\$ 174	4.3	\$ 138	3.5
	=====	=====	=====	=====
Basic earnings per share.....	\$.31		\$.25	
Diluted earnings per share.....	\$.31		\$.24	
% changes from prior year:				
Revenues.....	5.0%		(14.8)%	
Income before income taxes.....	25.1		(40.4)	
Net income.....	26.3		(15.2)	
Basic earnings per share.....	24.0		--	
Diluted earnings per share.....	29.2		(4.0)	
Admissions(a).....	2.9		(19.4)	
Equivalent admissions(b).....	1.9		(20.9)	
Revenue per equivalent admission.....	3.0		7.6	
Same facility % changes from prior year(c):				
Revenues.....	6.9		5.8	
Admissions(a).....	4.3		2.0	
Equivalent admissions(b).....	3.4		1.9	
Revenue per equivalent admission.....	3.4		3.8	

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

RESULTS OF OPERATIONS (CONTINUED)

Operating Results Summary (continued)

	NINE MONTHS			
	2000		1999	
	AMOUNT	RATIO	AMOUNT	RATIO
Revenues.....	\$12,497	100.0	\$12,715	100.0
Salaries and benefits.....	4,956	39.7	5,083	40.0
Supplies.....	1,971	15.8	1,994	15.7
Other operating expenses.....	2,288	18.2	2,487	19.5
Provision for doubtful accounts.....	934	7.5	985	7.8
Depreciation and amortization.....	778	6.2	836	6.4
Interest expense.....	402	3.2	351	2.8
Equity in earnings of affiliates.....	(93)	(0.7)	(73)	(0.6)
Settlement with federal government.....	745	6.0	--	--
Gains on sales of facilities.....	(38)	(0.3)	(257)	(2.0)
Impairment of long-lived assets.....	17	0.1	160	1.3
Restructuring of operations and investigation related costs.....	41	0.3	84	0.7
	12,001	96.0	11,650	91.6
Income before minority interests and income taxes.....	496	4.0	1,065	8.4
Minority interests in earnings of consolidated entities.....	81	0.7	41	0.3
Income before income taxes.....	415	3.3	1,024	8.1
Provision for income taxes.....	217	1.7	458	3.6
Net income.....	\$ 198	1.6	\$ 566	4.5
Basic earnings per share.....	\$.36		\$.95	
Diluted earnings per share.....	\$.35		\$.95	
% changes from prior year:				
Revenues.....	(1.7)%		(10.8)%	
Income before income taxes.....	(59.4)		(3.9)	
Net income.....	(65.0)		(2.0)	
Basic earnings per share.....	(62.1)		10.5	
Diluted earnings per share.....	(63.2)		10.5	
Admissions(a).....	(5.9)		(13.8)	
Equivalent admissions(b).....	(6.6)		(15.4)	
Revenue per equivalent admission.....	5.3		5.3	
Same facility % changes from prior year(c):				
Revenues.....	6.2		4.3	
Admissions(a).....	3.2		2.2	
Equivalent admissions(b).....	3.0		2.1	
Revenue per equivalent admission.....	3.1		2.2	

- (a) Represents the total number of patients admitted (in the facility for a period in excess of 23 hours) to the Company's hospitals and is used by management and certain investors as a general measure of inpatient volume.
- (b) Equivalent admissions are used by management and certain investors as a general measure of combined inpatient and outpatient volume. Equivalent admissions are computed by multiplying admissions (inpatient volume) by the sum of gross inpatient revenue and gross outpatient revenue and then dividing the resulting amount by gross inpatient revenue. The equivalent admissions computation "equates" outpatient revenue to the volume measure (admissions) used to measure inpatient volume resulting in a general measure of combined inpatient and outpatient volume.
- (c) Same facility information excludes the operations of hospitals and their related facilities which were either acquired or divested during the current and prior period.

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

RESULTS OF OPERATIONS (CONTINUED)

Quarters Ended September 30, 2000 and 1999

Income before income taxes increased 25.1% from income of \$234 million in 1999 to \$293 million in 2000 and pretax margins increased to 7.2% in 2000 from 6.0% in 1999. The increase in pretax income was primarily attributable to an increase in revenue per equivalent admission and improvement in certain operating expenses as a percentage of revenue.

Revenues increased 5.0% to \$4.1 billion in 2000 compared to \$3.9 billion in 1999. Inpatient admissions increased 2.9% from 1999 and equivalent admissions (adjusted to reflect combined inpatient and outpatient volume) increased 1.9%. On a same facility basis, revenues increased 6.9%, admissions increased 4.3% and equivalent admissions increased 3.4% from 1999. Revenue per equivalent admission increased 3.0% from 1999 and on a same facility basis increased 3.4%. The increase in revenue per equivalent admission was primarily the result of renegotiating and renewing certain managed care contracts on more favorable terms to the Company.

Salaries and benefits, as a percentage of revenues, increased slightly to 40.3% in 2000 from 40.2% in 1999 due to an increase in the wage rate per man hour of approximately 6% for the 2000 quarter compared to 1999.

Supply costs decreased slightly as a percentage of revenues to 15.8% in 2000 from 15.9% in 1999; however, the Company continues to experience cost pressures in this area due to increasing costs of new technology and pharmaceuticals.

Other operating expenses (primarily consisting of contract services, professional fees, repairs and maintenance, rents and leases, utilities, insurance and non-income taxes) as a percentage of revenues, decreased to 18.5% in the third quarter of 2000 from 19.1% in 1999 due to small decreases in several of these areas as a percentage of revenues.

Provision for doubtful accounts, as a percentage of revenues, decreased to 8.1% in 2000 from 8.2% in 1999, however, the Company continues to experience trends that make it difficult to maintain or reduce the provision for doubtful accounts as a percentage of revenues. These trends include payer mix shifts to managed care plans (resulting in increased amounts of patient co-payments and deductibles), delays in payments and the denial of claims by managed care payers and increases in the volume of health care services provided to uninsured patients in certain of the Company's facilities.

Equity in earnings of affiliates increased as a percentage of revenues to 0.7% in 2000 from 0.2% in 1999 due to improved operations during 2000 at certain of HCA's joint ventures accounted for using the equity method of accounting and an impairment charge related to one of our equity investment entities in the third quarter of 1999 (resulting in an \$11 million expense).

Depreciation and amortization decreased as a percentage of revenues to 6.3% in 2000 from 6.8% in 1999, primarily due to depreciation levels remaining relatively flat while revenues increased.

Interest expense increased to \$147 million in 2000 compared to \$122 million in 1999 primarily as a result of an increase in the general level of interest rates during 2000 compared to 1999 and the additional interest expense of approximately \$12 million recognized during the third quarter of 2000 related to the proposed settlement with the federal government. The average rates for the Company's bank borrowings increased from 6.65% during the quarter ended September 30, 1999 to 8.09% during the quarter ended September 30, 2000.

During 2000 and 1999, respectively, the Company incurred \$16 million and \$24 million of restructuring of operations and investigation related costs. The \$16 million of costs incurred during the 2000 quarter were professional fees (legal and accounting) related to the governmental investigations. In 1999, restructuring of operations and investigation related costs included \$20 million of professional fees (legal and accounting)

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

RESULTS OF OPERATIONS (CONTINUED)

Quarters Ended September 30, 2000 and 1999 (continued)
related to the governmental investigations and \$4 million of other costs. See Note 4 -- Restructuring of Operations and Investigation Related Costs in the Notes to Condensed Consolidated Financial Statements.

During the third quarter of 2000, the Company recognized a pretax gain of \$20 million (\$9 million after-tax) on the sales of two hospitals. Proceeds from the sales were used to repay bank borrowings. See Note 3 -- Restructuring of Operations in the Notes to Condensed Consolidated Financial Statements.

During the third quarter of 2000, the Company identified and initiated plans to sell during 2000 and 2001, one consolidating and one non-consolidating hospital. The carrying value for the hospitals was reduced to fair value based upon estimates of sales values, for a total non-cash, pretax charge of approximately \$17 million. See Note 3 -- Restructuring of Operations in the Notes to Condensed Consolidated Financial Statements.

Minority interests increased slightly as a percentage of revenues to 0.6% in 2000 from 0.3% in 1999 due to improved operations at certain joint ventures.

The effective income tax rate was 40.6% in 2000 and 41.2% in 1999 due to nondeductible intangible assets related to gains on sales of facilities and impairments of long-lived assets. If the effect of the nondeductible intangible assets and the related amortization were excluded, the effective income tax rate would have been approximately 39% for both 2000 and 1999.

Nine Months Ended September 30, 2000 and 1999

Income before income taxes decreased 59.4% to \$415 million in 2000 from \$1.0 billion in 1999 and pretax margins decreased to 3.3% in 2000 from 8.1% in 1999. The decrease in pretax income was primarily attributable to the accrual of \$745 million for an estimated settlement with the federal government in the second quarter of 2000. Excluding the settlement charge, income before income taxes increased 13.3% to \$1.2 billion in 2000.

Revenues decreased 1.7% to \$12.5 billion in 2000 compared to \$12.7 billion in 1999. Inpatient admissions decreased 5.9% from 1999 and equivalent admissions (adjusted to reflect combined inpatient and outpatient volume) decreased 6.6%. Revenues, admissions and equivalent admissions declined primarily as a result of the Company's restructuring of operations. During 1999, the Company completed the spin-offs of LifePoint and Triad and the sales of 24 hospital facilities. On a same facility basis, revenues increased 6.2%, admissions increased 3.2% and equivalent admissions increased 3.0% from 1999. Revenue per equivalent admission increased 5.3% from 1999 to 2000 and on a same facility basis increased 3.1%. The increase in revenue per equivalent admission on a same facility basis was primarily the result of renegotiating and renewing certain managed care contracts on more favorable terms to the Company. The increase in revenue per equivalent admission on a consolidated basis was the result of the combination of the same facility improvement and the benefit from the restructuring of operations transactions.

Salaries and benefits, as a percentage of revenues, decreased to 39.7% in 2000 from 40.0% in 1999 due to the restructuring of operations discussed above and in Note 3 -- Restructuring of Operations in the Notes to Condensed Consolidated Financial Statements. Salaries and benefits as a percentage of revenues for the facilities included in the spin-offs of Triad and LifePoint were 42.4% for 1999, and salaries and benefits as a percentage of revenues for the facilities included in the Company's National Group were 46.6% for 1999.

Supply costs increased as a percentage of revenues to 15.8% in 2000 from 15.7% in 1999 due to an increase in the cost of supplies per equivalent admission of 5.9% related to the increasing costs of new technology and pharmaceuticals.

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

RESULTS OF OPERATIONS (CONTINUED)

Nine Months Ended September 30, 2000 and 1999 (continued)

Other operating expenses (primarily consisting of contract services, professional fees, repairs and maintenance, rents and leases, utilities, insurance and non-income taxes) as a percentage of revenues, decreased to 18.2% in 2000 from 19.5% in 1999 due primarily to the restructuring of operations discussed above and in Note 3 -- Restructuring of Operations in the Notes to Condensed Consolidated Financial Statements. The other operating expenses as a percentage of revenues for the facilities included in the spin-offs of Triad and LifePoint were 22.4% for 1999, and the other operating expenses as a percentage of revenues for the facilities included in the Company's National Group were 27.5% for 1999. Another factor in the improvement in other operating expenses related to certain insurance subsidiary funds being reallocated among investment managers, resulting in the recognition of previously unrealized gains that decreased other operating expenses by approximately \$27 million during the second quarter of 2000.

Provision for doubtful accounts, as a percentage of revenues, decreased to 7.5% in 2000 from 7.8% in 1999, however, the Company continues to experience trends that make it difficult to maintain or reduce the provision for doubtful accounts as a percentage of revenues. These trends include payer mix shifts to managed care plans (resulting in increased amounts of patient co-payments and deductibles), delays in payments and the denial of claims by managed care payers and increases in the volume of health care services provided to uninsured patients in certain of the Company's facilities.

Equity in earnings of affiliates remained basically flat as a percentage of revenues at 0.7% in 2000 as compared to 0.6% in 1999.

Depreciation and amortization decreased as a percentage of revenues to 6.2% in 2000 from 6.4% in 1999, primarily due to the restructuring of operations discussed above and the same facility depreciation rates remaining flat while same facility revenues increased. Depreciation and amortization as a percentage of revenues for the facilities included in the spin-offs of Triad and LifePoint was 7.0% in 1999.

Interest expense increased to \$402 million in 2000 compared to \$351 million in 1999, primarily as a result of an increase in the general level of interest rates during 2000 compared to 1999 and the interest expense, beginning May 2000, of approximately \$18 million related to the settlement with the federal government. The average rates for the Company's bank borrowings increased from 6.37% during the nine months ended September 30, 1999 to 7.76% during the nine months ended September 30, 2000.

During 2000 and 1999, respectively, the Company incurred \$41 million and \$84 million of restructuring of operations and investigation related costs. In 2000, these costs included \$36 million of professional fees (legal and accounting) related to the governmental investigations and \$5 million of other costs. In 1999, restructuring of operations and investigation related costs included \$62 million of professional fees (legal and accounting) related to the governmental investigations, \$2 million of severance and \$20 million of other costs. See Note 4 -- Restructuring of Operations and Investigation Related Costs in the Notes to Condensed Consolidated Financial Statements.

During 2000, the Company recognized a pretax gain of \$38 million (\$18 million after-tax) on the sales of three hospitals. During 1999, the Company recognized a pretax gain of \$257 million (\$151 million after-tax) on the sale of three hospitals and certain related health care facilities. Proceeds from the sales were used to repay bank borrowings. See Note 3 -- Restructuring of Operations in the Notes to Condensed Consolidated Financial Statements.

During 2000, the Company identified and initiated plans to sell during 2000 or 2001, one consolidating and one non-consolidating hospital. The carrying value for the hospitals was reduced to fair value based upon estimates of sales values, for a total non-cash, pretax charge of approximately \$17 million. See Note 3 -- Restructuring of Operations in the Notes to Condensed Consolidated Financial Statements.

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

RESULTS OF OPERATIONS (CONTINUED)

Nine Months Ended September 30, 2000 and 1999 (continued)

During 1999, the Company also identified and initiated, or revised, plans to divest or close during 1999 and 2000, 15 consolidating hospitals and four non-consolidating hospitals. The carrying value for the hospitals and other assets expected to be sold was reduced to fair value based upon estimates of sales values, for a total non-cash, pretax charge of approximately \$160 million. See Note 3 -- Restructuring of Operations in the Notes to Condensed Consolidated Financial Statements.

Minority interests increased as a percentage of revenues to 0.7% in 2000 from 0.3% in 1999 due to improved operations at certain joint ventures.

The effective income tax rate was 52.3% in 2000 and 44.7% in 1999 due to a valuation allowance in 2000 and nondeductible intangible assets related to gains on sales of facilities and impairment of long-lived assets during both periods. If the effect of the valuation allowance, the nondeductible intangible assets and the related amortization were excluded, the effective income tax rate would have been approximately 39% for both 2000 and 1999.

Liquidity

Cash provided by operating activities improved to \$1.114 billion during the first nine months of 2000 compared to \$806 million in 1999. The improvement was primarily due to an increase in net income, excluding gains on sales of facilities, impairment of long-lived assets and the settlement with federal government to \$715 million in 2000 from \$608 million in 1999. The Company made tax payments of \$498 million during the first nine months of 2000 compared to \$565 million in 1999.

Cash used in investing activities was \$983 million in 2000, compared to cash provided of \$1.184 billion during 1999. The decrease was due primarily to: proceeds from the disposition of hospitals and other health care facilities of \$660 million in 1999 compared with \$295 million in 2000; cash flows from changes in investments were \$557 million in 1999 (including repayment by a nonconsolidating joint venture of Company advances of approximately \$330 million) compared with cash used of \$78 million in 2000; and the \$886 million in proceeds in 1999 related to the spin-offs. In 2000, the Company used \$338 million to acquire hospitals and health care entities, and there were no acquisitions in 1999.

Cash flows used in financing activities totaled \$141 million in the first nine months of 2000 compared to \$2.163 billion in 1999. The primary financing cash flow activities were the net repurchases of the Company's common stock (approximately \$400 million and \$1.9 billion during 2000 and 1999, respectively) and the receipt of net proceeds from debt issuances of \$326 million in 2000 compared to net debt payments of \$243 million in 1999.

At September 30, 2000, HCA had a working capital deficit of \$353 million compared to working capital of \$265 million at December 31, 1999. The decrease is due to the accrual of \$745 million related to the understanding to settle certain government civil claims. See Note 2 -- Investigations and Understanding to Settle Certain Government Civil Claims in the Notes to Condensed Consolidated Financial Statements. At September 30, 2000, management believes that cash flows from operations, amounts available under the Company's revolving credit facility (the "Credit Facility") and HCA's expected access to debt markets are sufficient to meet expected liquidity needs during the next twelve months.

Investments of HCA's professional liability insurance subsidiary to maintain statutory equity and pay claims totaled \$1.7 billion at both September 30, 2000 and December 31, 1999.

HCA has various agreements with joint venture partners whereby the partners have an option to sell or "put" their interests in the joint venture back to HCA within specific periods at fixed prices or prices based on certain formulas. The combined put price under all such agreements was approximately \$400 million at

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

RESULTS OF OPERATIONS (CONTINUED)

Liquidity (continued)

September 30, 2000. During 2000, two of the Company's joint venture partners exercised their put options whereby HCA purchased the partner's interest in the joint venture for approximately \$95 million. HCA cannot predict if, or when, other joint venture partners will exercise such options.

During the first quarter of 1998, the Internal Revenue Service (the "IRS") issued guidance regarding certain tax consequences of joint ventures between for-profit and not-for-profit hospitals. As a result of the tax ruling, the IRS may propose to revoke the tax-exempt or public charity status of not-for-profit entities which participate in such joint ventures or to treat joint venture income as unrelated business taxable income. The Company is continuing to review the impact of the tax ruling on its existing joint ventures, or the development of future ventures, and is consulting with its joint venture partners and tax advisers to develop appropriate courses of action. The tax ruling or any adverse determination by the IRS regarding the tax-exempt or public charity status of a not-for-profit partner or the characterization of joint venture income as unrelated business taxable income could limit joint venture development with not-for-profit hospitals, require the restructuring of certain existing joint ventures with not-for-profits, and/or influence the exercise of the put agreements by certain existing joint venture partners.

In March 2000, the Company announced that its Board of Directors authorized the repurchase of up to \$1 billion of additional common stock. Certain financial organizations purchased approximately 5.3 million shares of HCA's common stock for approximately \$119 million during the first quarter of 2000; approximately 11.3 million shares for approximately \$322 million during the second quarter of 2000 and approximately 2.8 million shares for approximately \$93 million during the third quarter of 2000, utilizing forward purchase contracts. In accordance with the terms of the contracts, these shares remain outstanding until settled by HCA. As part of this stock repurchase program, HCA sold 5.7 million put options during the third quarter of 2000, each of which entitles the holder to sell stock to HCA at a specified price on a specified date. These put options expire on various dates through February 27, 2001 and have exercise prices ranging from \$33.32 to \$35.15 per share with an average exercise price of \$34.46 per share. The outstanding put options permit a net share settlement at the Company's election and do not result in a put option liability on the balance sheet. HCA expects to repurchase, from time to time, the remaining stock associated with the March 2000 repurchase authorization through open market purchases, privately negotiated transactions, forward purchase contracts or by utilizing the sale of additional put options.

In November 1999, HCA announced that its Board of Directors authorized the repurchase of up to \$1 billion of its common stock. During the first quarter of 2000, HCA settled forward purchase contracts associated with its November 1999 authorization for approximately 8.5 million shares at a cost of \$250 million; during the second quarter of 2000, settled forward purchase contracts for approximately 1.8 million shares at a cost of approximately \$53 million and during the third quarter of 2000, settled forward purchase contracts associated with the same authorization for approximately 6.6 million shares at a cost of approximately \$200 million. In accordance with the terms of the forward purchase contracts, the shares purchased remain outstanding until the forward purchase contracts are settled by the Company. In accordance with the terms of the forward purchase contracts, approximately 17.5 million shares at a cost of approximately \$495 million remain outstanding until the forward purchase contracts are settled by the Company.

During the first quarter of 1999, as part of the agreement related to the Company's share repurchase programs, the Company entered into a Letter of Credit Agreement with the United States Department of Justice. The Company provided the government with letters of credit totaling \$1 billion. The understanding reached with the government in May 2000 provides that the letters of credit will be reduced from \$1 billion to \$250 million at the time of the settlement payment. In addition, the understanding is that any future civil payments on cost reports or physician relations will reduce the remaining amount of the letters of credit dollar for dollar.

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

RESULTS OF OPERATIONS (CONTINUED)

Liquidity (continued)

The resolution of the government investigations and the various lawsuits and legal proceedings that have been asserted could result in substantial liabilities to the Company. The ultimate liabilities cannot be reasonably estimated, as to the timing or amounts, at this time; however, it is possible that the resolution of certain of the contingencies could have a material adverse effect on the Company's results of operations, financial position and liquidity.

Capital Resources

Excluding acquisitions, capital expenditures were \$860 million during the first nine months of 2000 compared to \$936 million for the same period in 1999. Planned capital expenditures in 2000 are expected to approximate \$1.2 billion. Management believes that its capital expenditure program is adequate to expand, improve and equip its existing health care facilities.

Acquisitions of hospitals and health care entities totaled \$338 million during 2000 compared with none during the first nine months of 1999.

HCA expects to finance all capital expenditures with internally generated and borrowed funds. Available sources of capital include amounts available under the Company's Credit Facility (approximately \$1.087 billion as of October 31, 2000) and anticipated availability in public and private debt markets. At September 30, 2000, there were construction projects that have been approved by management which have an estimated additional cost to complete and equip over the next three years of approximately \$1.7 billion.

In March 2000, HCA entered into the 2000 Term Loan. Proceeds from the 2000 Term Loan were used in the first quarter of 2000 to retire the outstanding balance under the 1999 Term Loan and to reduce outstanding loans under the Credit Facility. At September 30, 2000, \$500 million remains outstanding under the 2000 Term Loan.

During the second quarter of 2000, an English subsidiary of the Company entered into a \$168 million Term Facility Agreement ("English Term Loan") with a bank. The term loan was used to purchase the ownership interest of the Company's 50/50 joint venture partner in England and to refinance existing indebtedness. The English Term Loan matures in May 2001.

In August 2000, HCA issued \$750 million of 8.75% notes due September 1, 2010. Proceeds from the notes were used to reduce outstanding loans under the Company's revolving credit facility by \$350 million, reduce the outstanding balance under the 2000 Term Loan by \$200 million and to settle \$200 million of forward purchase contracts related to the Company's common stock.

In September 2000, HCA issued \$500 million of floating rate notes due September 19, 2002. Proceeds from the notes were used to reduce the outstanding balance under the 2000 Term Loan.

In October 2000, HCA issued approximately \$217 million of 8.75% notes due November 1, 2010. Proceeds from the notes were used to repay the outstanding balance under the English Term Loan and for general corporate purposes.

The Credit Facility, the 2000 Term Loan and the \$1.0 billion term loan which HCA entered into in July 1998 (the "1998 Term Loan") contain customary covenants which include (i) limitations on additional debt, (ii) limitations on sales of assets, mergers and changes of ownership, and (iii) maintenance of certain interest coverage ratios. HCA is currently in compliance with all such covenants.

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

RESULTS OF OPERATIONS (CONTINUED)

Market Risk

The Company is exposed to market risk related to changes in interest rates and market values of securities. HCA currently does not use derivative instruments to offset the market risk exposure of the investments in debt or equity securities of HCA's wholly-owned insurance subsidiary or to alter the interest rate characteristics of the Company's debt instruments.

The Company's investments in debt and equity securities were \$1.2 billion and \$518 million, respectively, at September 30, 2000. These investments are carried at fair value with changes in unrealized gains and losses being recorded as adjustments to stockholders' equity. The fair value of investments is generally based on quoted market prices. Changes in interest rates and market values of securities are not expected to be material in relation to the financial position and operating results of the Company.

With respect to the Company's interest-bearing liabilities, approximately \$2.02 billion of long-term debt at September 30, 2000 is subject to variable rates of interest, while the remaining balance in long-term debt of \$4.84 billion at September 30, 2000 is subject to fixed rates of interest. The Company's variable interest rate is affected by both the general level of U.S. interest rates and the Company's credit rating. The Company's variable rate debt is comprised of the Company's Credit Facility of which interest is payable generally at LIBOR plus 0.45% to 1.5% (depending on the Company's credit ratings), and bank term loans of which interest is payable generally at LIBOR plus 0.75% to 2.5%. Due to increases in LIBOR, the average rate for the Company's Credit Facility increased from 6.19% for the quarter ended September 30, 1999 to 7.51% for the quarter ended September 30, 2000, and the average rate for the Company's term loans increased from 6.78% for the quarter ended September 30, 1999 to 8.19% for the quarter ended September 30, 2000. The estimated fair value of the Company's total long-term debt was \$6.6 billion at September 30, 2000. The estimates of fair value are based upon the quoted market prices for the same or similar issues of long-term debt with the same maturities. Based on a hypothetical 1% increase in interest rates, the potential annualized losses in future pretax earnings would be approximately \$20.4 million. The impact of such a change in interest rates on the carrying value of long-term debt would not be significant. The estimated changes to interest expense and the fair value of long-term debt are determined considering the impact of hypothetical interest rates on the Company's borrowing cost and long-term debt balances. To mitigate the impact of fluctuations in interest rates, the Company generally targets a portion of its debt portfolio at a fixed rate, either by borrowing on a fixed or floating rate basis or entering into interest rate swap transactions. The Company has not, during 2000 or 1999, participated in any interest rate swap agreements.

Foreign operations and the related market risks associated with foreign currency are currently insignificant to the Company's results of operations and financial position.

IMPACT OF YEAR 2000 COMPUTER ISSUES

The Company experienced no material adverse effect on its results of operations, financial condition or ability to provide for its patients' safety and health as a result of the Year 2000 date conversion in its or third party computer systems and programs.

PENDING IRS DISPUTES

The Company is contesting income taxes and related interest proposed by the IRS for prior years aggregating approximately \$196 million as of September 30, 2000. Management believes that final resolution of these disputes will not have a material adverse effect on the results of operations or liquidity of the Company. (See Note 6 -- Income Taxes in the Notes to Condensed Consolidated Financial Statements for a description of the pending IRS disputes).

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

OPERATING DATA

	2000	1999
	-----	-----
CONSOLIDATING		
Number of hospitals in operation at:		
March 31.....	192	273
June 30.....	195	204
September 30.....	189	202
December 31.....		195
Number of freestanding outpatient surgical centers in operation at:		
March 31.....	80	95
June 30.....	80	81
September 30.....	76	81
December 31.....		80
Licensed hospital beds at(a):		
March 31.....	42,006	51,797
June 30.....	42,240	43,969
September 30.....	41,298	43,461
December 31.....		42,484
Weighted average licensed beds(b):		
Quarter:		
First.....	42,184	52,451
Second.....	41,923	46,490
Third.....	41,409	43,511
Fourth.....		42,850
Year.....		46,291
Average daily census(c):		
Quarter:		
First.....	22,697	26,546
Second.....	20,526	21,467
Third.....	20,028	19,704
Fourth.....		20,385
Year.....		22,002
Admissions(d):		
Quarter:		
First.....	408,100	477,400
Second.....	380,600	395,800
Third.....	381,200	370,500
Fourth.....		381,700
Year.....		1,625,400
Equivalent admissions(e):		
Quarter:		
First.....	595,900	703,300
Second.....	570,600	596,900
Third.....	568,500	557,900
Fourth.....		567,000
Year.....		2,425,100
Average length of stay (days)(f):		
Quarter:		
First.....	5.1	5.0
Second.....	4.9	4.9
Third.....	4.8	4.9
Fourth.....		4.9
Year.....		4.9

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

OPERATING DATA (CONTINUED)

	2000	1999
	-----	-----
NON-CONSOLIDATING(G)		
Number of hospitals in operation at:		
March 31.....	13	24
June 30.....	9	16
September 30.....	9	12
December 31.....		12
Number of freestanding outpatient surgical centers in operation at:		
March 31.....	3	5
June 30.....	3	4
September 30.....	3	3
December 31.....		3
Licensed hospital beds at:		
March 31.....	3,251	6,015
June 30.....	2,697	3,868
September 30.....	2,697	3,153
December 31.....		3,179

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- (a) Licensed beds are those beds for which a facility has been granted approval to operate from the applicable state licensing agency.
- (b) Weighted average licensed beds represents the average number of licensed beds, weighted based on periods owned.
- (c) Represents the average number of patients in the Company's hospital beds each day.
- (d) Represents the total number of patients admitted (in the facility for a period in excess of 23 hours) to the Company's hospitals and is used by management and certain investors as a general measure of inpatient volume.
- (e) Equivalent admissions are used by management and certain investors as a general measure of combined inpatient and outpatient volume. Equivalent admissions are computed by multiplying admissions (inpatient volume) by the sum of gross inpatient revenue and gross outpatient revenue and then dividing the resulting amount by gross inpatient revenue. The equivalent admissions computation "equates" outpatient revenue to the volume measure (admissions) used to measure inpatient volume resulting in a general measure of combined inpatient and outpatient volume.
- (f) Represents the average number of days admitted patients stay in the Company's hospitals.
- (g) The non-consolidating facilities include facilities operated through 50/50 joint ventures which are not controlled by the Company and are accounted for using the equity method of accounting.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE OF MARKET RISK.

The information called for by this item is provided under the caption "Market Risk" under Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

PART II: OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS.

The Company is facing significant legal challenges. The Company is the subject of various Federal and state investigations, qui tam actions, shareholder derivative and class action suits filed in Federal court, shareholder derivative actions filed in state courts, patient/payer actions and general liability claims.

FEDERAL AND STATE INVESTIGATIONS

In March 1997, various facilities of the Company's El Paso, Texas operations were searched by Federal authorities pursuant to search warrants, and the government removed various records and documents. In February 1998, also in El Paso, an additional warrant was executed and a single computer was seized.

In July 1997, various Company affiliated facilities and offices were searched pursuant to search warrants issued by the United States District Court in several states. During July, September and November 1997, the Company was also served with subpoenas requesting records and documents related to laboratory billing and DRG coding in various states and home health operations in various jurisdictions, including, but not limited to, Florida. In January 1998, the Company received a subpoena which requested records and documents relating to physician relationships. In June 1999, Columbia Home Care Group received a subpoena seeking records related to home health operations. In March 2000, the Company received a subpoena that requested records relating to wound care centers.

Also, in July 1997, the United States District Court for the Middle District of Florida, in Fort Myers, issued an indictment against three employees of a subsidiary of the Company. The indictment related to the alleged false characterization of interest payments on certain debt resulting in Medicare and Tricare (formerly CHAMPUS) overpayments since 1986 to Fawcett Memorial Hospital, a Port Charlotte, Florida hospital that was acquired by the Company in 1992. The Company has been served with subpoenas for various records and documents. A fourth employee of a subsidiary of the Company was indicted in July 1998 by a superseding indictment. The trial on this matter commenced on May 3, 1999. On July 2, 1999, the jury returned a mixed verdict, finding two such employees guilty and acquitting one. The jury was unable to reach a verdict as to the fourth employee. The government and the fourth employee executed an agreement to defer prosecution for 18 months after which charges will be dismissed. The two convicted employees were sentenced in December 1999 and both have appealed to the 11th Circuit.

Several hospitals and other facilities affiliated with the Company in various states have also received individual Federal and/or state government inquiries, both informal and formal, requesting information related to reimbursement from government programs.

In general, the Company believes that the United States Department of Justice and other Federal and state governmental authorities are investigating certain acts, practices or omissions alleged to have been engaged in by the Company with respect to Medicare, Medicaid and Tricare patients regarding (a) allegedly improper DRG coding (commonly referred to as "upcoding") relating to bills submitted for medical services, (b) allegedly improper outpatient laboratory billing (e.g., unbundling of services and medically unnecessary tests), (c) inclusion of allegedly improper items in cost reports submitted as a basis for reimbursement under Medicare, Medicaid and similar government programs, (d) arrangements with physicians and other parties that allegedly violate certain Federal and state laws governing fraud and abuse, anti-kickback and "Stark" laws and (e) allegedly improper acquisitions of home health care agencies and allegedly excessive billing for home health care services.

The Company and its affiliates announced in May 2000 that an understanding had been reached with attorneys of the DOJ to recommend an agreement to settle, subject to certain conditions, civil claims actions against the Company relating to DRG coding, outpatient laboratory billing, and home health issues. Civil issues that remain to be resolved are cost reports and physician relations issues.

The understanding with DOJ attorneys provides that the Company will compensate the government \$745 million (with interest at 6.5% beginning May 18, 2000) with respect to the issues covered by the

understanding. This resulted in the Company recording an after-tax charge of \$498 million during the quarter ended June 30, 2000. The settlement is subject to approval by additional officials at the DOJ, other federal agencies as well as state officials; execution of a corporate integrity agreement; execution of definitive settlement documents for the three issues included in the understanding; execution of agreements to resolve all criminal investigations pending against the Company and court approval.

The date for completion of criminal settlements has been automatically extended from September 30, 2000 to December 31, 2000. In the event the criminal settlement condition is not satisfied by December 31, 2000, the settlement agreement shall expire unless the Company elects to waive the criminal condition. Notwithstanding the fixed date of expiration, the parties expect to complete the settlement even after the expiration date so long as the criminal settlement condition is satisfied.

The understanding provides releases for the following years: DRG coding for calendar years 1990-1997; outpatient laboratory billings for calendar years 1989-1997; home health community education for Medicare cost report years 1994-1997; home health billing for calendar years 1995-1998; and certain home health management transactions for Medicare cost report years 1993-1998.

The Company's existing letter of credit agreement with the DOJ will be reduced from \$1 billion to \$250 million at the time of the settlement payment. In addition, the understanding provides that any future civil payments on cost reports or physician relations will reduce the remaining amount of the letter of credit dollar for dollar.

The Company also reached an understanding with the Office of Inspector General of the Department of Health and Human Services on the principal terms of a corporate integrity agreement. The corporate integrity agreement is intended to assure the government of the Company's overall Medicare compliance including DRG coding, outpatient laboratory billing and the two civil issues still to be resolved -- physician relations and cost reports. Execution of the corporate integrity agreement is expected to result in waiver of the government's discretionary right to exclude any of the Company's operations from participation in the Medicare program with respect to the issues settled.

The Company continues to cooperate in these investigations and understands, through written notice and other means, that it is a target in these investigations. Given the scope of the ongoing investigations, the Company expects additional subpoenas and other investigative and prosecutorial activity to occur in these and other jurisdictions in the future.

In July 1999, Olsten Corporation and its subsidiary, Kimberly Home Health (neither of which is affiliated with the Company), announced that they will pay \$61 million to settle allegations that both companies defrauded the Medicare program. Kimberly pled guilty to three separate felony charges (conspiracy, mail fraud and violating the Medicare anti-kickback statute) filed by the U.S. Attorneys in the Middle and Southern District of Florida and the Northern District of Georgia. While the Company was not specifically named in these guilty pleas, the guilty pleas refer to the involvement of a "Company A" or a "company not named as a defendant." The Company believes these references refer to the Company or its subsidiaries.

The Company remains the subject of a formal order of investigation by the Securities and Exchange Commission. The Company understands that the investigation relates to the anti-fraud, insider trading, periodic reporting and internal accounting control provisions of the Federal securities laws.

While we remain unable to predict the outcome of any of the ongoing investigations or the initiation of any additional investigations, were the Company to be found in violation of Federal or state laws relating to Medicare, Medicaid or similar programs, the Company could be subject to substantial monetary fines, civil and criminal penalties and exclusion from participation in the Medicare and Medicaid programs. Any such sanctions could have a material adverse effect on the Company's financial position and results of operations. (See Note 2 -- Investigations and Understanding to Settle Certain Government Civil Claims and Note 10 -- Contingencies in the Notes to Condensed Consolidated Financial Statements.)

LAWSUITS

Qui Tam Actions

Several qui tam actions have been brought by private parties ("relators") on behalf of the United States of America and have been unsealed and served on the Company. With the exception of six cases discussed below, the government has declined to intervene in the qui tam actions unsealed to date. To the best of the Company's knowledge, the actions allege, in general, that the Company and certain subsidiaries and/or affiliated partnerships violated the False Claims Act, 31 U.S.C. sec.3729 et seq., for improper claims submitted to the government for reimbursement. The lawsuits generally seek damages of three times the amount of all Medicare or Medicaid claims (involving false claims) presented by the defendants to the Federal government, civil penalties of not less than \$5,000 nor more than \$10,000 for each such Medicare or Medicaid claim, attorneys' fees and costs. The Company is aware of additional qui tam actions that remain under seal and believes that there are other sealed qui tam cases of which it is unaware.

On February 12, 1999, the United States filed a Motion before the Judicial Panel on Multidistrict Litigation ("MDL Panel") seeking to transfer and consolidate, pursuant to 28 U.S.C. sec. 1407, all qui tam actions against the Company, including those sealed and unsealed, for purposes of discovery and pretrial matters, to the United States District Court for the District of Columbia. The MDL Panel denied the Motion on procedural grounds. On August 12, 1999, the United States Government filed an Application to Conduct 28 U.S.C. sec. 1407 Consolidated Proceedings under seal with the MDL Panel. The underlying motion to consolidate the proceedings relates to the qui tam cases against the Company, both sealed and unsealed.

On October 5, 1998, the matter of United States of America ex rel. James F. Alderson v. Columbia/HCA Healthcare Corp., Healthtrust -- The Hospital Company and Quorum Health Group, et al., Case No. 97-2035-CIV-T-23E, in the Middle District of Florida, Tampa Division, was unsealed. The government intervened in this action on October 1, 1998. The Complaint was originally filed in Montana in 1993 but was later transferred to Florida. The Complaint alleges that defendants made false statements in annual Medicare cost reports over a period of ten years. The Complaint further alleges that defendants engaged in a scheme of filing improper reimbursement claims while keeping a "secret" set of books which were known as "reserve cost reports" and concealing these books from Medicare auditors. The government filed and served an Amended Complaint against Quorum Health Group. In October 2000, Quorum announced that it had reached an understanding to settle the matter. The government has not yet served an Amended Complaint on the HCA defendants.

The matter of United States of America ex rel. Sara Ortega v. Columbia/HCA Healthcare Corp., et al., No. EP95-CA-259H, was unsealed on July 31, 1998 in the Western District of Texas, El Paso Division. The Complaint alleges that defendants submitted false statements to the Joint Commission on Accreditation of Healthcare Organizations (JCAHO) in order to be eligible for Medicare payments, thereby rendering false defendants' claims for Medicare reimbursement. An Amended Complaint, which has not been served on the Company, also alleges that defendants engaged in fraudulent accounting practices, paid kickbacks for patient referrals, upcoded claims for reimbursement from Federal health care programs and shifted costs to its Medicare cost reports. Defendants have moved to dismiss the Complaint, and that motion is pending. Defendants have also moved to stay discovery while the motion to dismiss is pending. The government announced that it intervened on all counts of the Amended Complaint except for the count alleging false statements to JCAHO.

The matter of United States of America, ex rel. Scott Pogue v. Diabetes Treatment Centers of America, Inc., et al., Civil Action No. 3-94-0515, was filed under seal on June 23, 1994 in the United States District Court for the Middle District of Tennessee. On February 6, 1995, the United States filed its Notice of Non-Intervention and on that same date, the District Court ordered the complaint unsealed. In general, the relator contends that sums paid by the Diabetes Treatment Centers of America to physicians who served as Medical Directors at a hospital affiliated with the Company, were unlawful payments for the referrals of their patients. Relator filed a motion for partial summary judgment. The court ordered relator's motion for partial summary

judgment stricken. The relator did not file an amended motion for summary judgment and the court's deadline for filing such a motion has passed. This action is currently stayed.

In December 1998, the matter of United States of America ex rel. John W. Schilling v. Columbia/HCA Healthcare Corporation, et al., Civil Action No. 96-1264-CIV-T-23B, in the Middle District of Florida, was unsealed. The government has intervened in this action. The Complaint alleges that defendants made false statements in annual Medicare cost reports. The Complaint further alleges, as in Alderson (above), that the Company kept "reserve cost reports." The government has not yet served the Complaint on Defendants, and the case is currently stayed.

In June 1998, the case United States of America ex rel. Joseph "Mickey" Parslow v. Columbia/HCA Healthcare Corporation and Curative Health Services, Incorporated, No. 98-1260-CIV-T-23F, in the Middle District of Florida, Tampa Division, was filed. This complaint was unsealed by the court on April 9, 1999. The government has intervened in this lawsuit but has not yet served the complaint on the Company. This qui tam action alleges that the Company submitted false claims relating to contracts with Curative for the management of certain wound care centers. The complaint further alleges that management fees paid to Curative were excessive and not reasonable and that the claims for reimbursement for these management fees violated the anti-kickback statutes.

A lawsuit captioned United States of America ex rel. James Thompson v. Columbia/HCA Healthcare Corporation, et al. was filed on March 10, 1995 in the United States District Court for the Southern District of Texas, Corpus Christi Division (Civil Action No. C-95-110). In general, the relator claims that the defendants (the Company and certain subsidiaries and affiliated partnerships) engaged in a widespread strategy to pay physicians money for referrals and engaged in other conduct to induce referrals, such as: (i) offering physicians equity interests in hospitals; (ii) offering loans to physicians; (iii) paying money under the guise of "consultation fees" to physicians to guarantee their capital investment; (iv) paying consultation fees, rent or other monies to physicians; (v) providing office space for free or reduced rent; (vi) providing free or reduced rate vacations and trips; (vii) providing free or reduced rate opportunities for additional medical training; (viii) providing income guarantees; and (ix) granting physicians exclusive rights to perform procedures in particular fields of practice. The defendants filed a Motion to Dismiss the Second Amended Complaint in November 1995 which was granted by the court in July 1996. In August 1996, the relator appealed to the United States Court of Appeals for the Fifth Circuit, and in October 1997, the Fifth Circuit affirmed in part and vacated and remanded in part the trial court's rulings. Defendants filed a Second Amended Motion to Dismiss which was denied on August 18, 1998. On August 21, 1998, relator filed a Third Amended Complaint. Although some discovery has occurred, there is currently a stay of discovery.

The matter of United States ex rel. McLendon v. Columbia/HCA, et al., Civ. No. 1 97 CV 0890, was filed under seal on April 4, 1997 in the U.S. District Court for the Northern District of Georgia, Atlanta Division. On July 19, 1999, the court unsealed this action. The Complaint alleges that the Company acted to illegally obtain Medicare reimbursement for costs incurred in purchasing home health agencies. The Complaint also alleges that the Company illegally billed Medicare for certain sales and marketing activities and for certain home care visits. The government has intervened in this action but has not served the Complaint.

In August 1999, the Company was made aware that the case of United States ex rel. Tonya M. Atchison v. Col/HCA Healthcare, Inc., El Paso Healthcare System, Ltd., Columbia West Radiology Group, P.A., West Texas Radiology Group, Rio Grande Physicians' Services Inc., El Paso Nurses Unlimited Inc., El Paso Healthcare Systems Limited, and El Paso Healthcare Systems United Partnership, No. EP 97-CA234, was unsealed in the U.S. District Court for the Western District of Texas and the Company was served on or about September 16, 1999. In general, the complaint alleges that the defendants submitted false claims regarding the 72-hour rule, cost reports and central business office billings, wrote-off bad debt on international patients, inflated financial information on the sale of a hospital, improperly billed pharmacy charges and radiology charges, improperly billed skilled nursing facility charges, improperly accounted for discounts and rebates, improperly billed certified first assistants in surgery, home health visits, senior health centers, diabetic

treatment and wound care centers. The government has not intervened in this action. The parties have agreed to extend the time within which to respond to the complaint.

On November 10, 1999, the Company was served with the case of United States ex rel. Ronald L. Campbell and Daniel C. Rice v. Montgomery County Hospital District, Montgomery County Health Care Foundation, and Conroe Hospital Corp., Case No. H-97-3502, in the Southern District of Texas. The complaint alleges that the Company conspired with Montgomery County Hospital District ("MCHD") to conceal the fact that MCHD knowingly overstated capital losses, resulting in the avoidance of "recapture liability" on the cost reports. The court has stayed this case. The government has not intervened in this case.

In February 2000, the matter of United States of America, ex rel. Michael R. Marine v. Columbia Aventura Medical Center, Columbia Cedars Medical Center, Columbia Hospital, Columbia/HCA Healthcare Corporation, Columbia JFK Medical Center, Columbia Kendall Regional Medical Center, Columbia Miami Heart Institute, Columbia Northwest Medical Center, Columbia University Hospital and Medical Center, and Columbia Westside Regional Medical Center Case No. 97-4368 (S.D. Fla.) was unsealed. The government intervened on or about February 15, 2000. The complaint alleges that the Company submitted false claims pertaining to the costs incurred by its nine south Florida hospitals for home health services furnished to homebound patients. The Company has not been served with the Complaint.

In approximately March 2000, the matter of United States of America ex rel., Bruce S. Skinner, M.D. v. North Trident Regional Hospital, Inc., Columbia/HCA Healthcare Corp. of South Carolina, Inc., Columbia Physician Services, Inc., and Columbia/HCA Healthcare Corporation, Case No. 2-00-0076-23 (U.S. District Court, District of South Carolina, Charleston Division) was unsealed. The complaint alleges that the defendants committed fraud and engaged in the upcoding of billing for physician/employees' professional services. The government has declined to intervene in this case.

The Company intends to pursue the defense of the qui tam actions vigorously.

Shareholder Derivative and Class Action Complaints Filed in the U.S. District Courts

Since April 1997, numerous securities class action and derivative lawsuits have been filed in the United States District Court for the Middle District of Tennessee against the Company and a number of its current and former directors, officers and/or employees.

On October 10, 1997, the court entered an order consolidating the above-mentioned securities class action claims into a single-captioned case, Morse, Sidney, et al. v. R. Clayton McWhorter, et al., Case No. 3-97-0370. All of the other individual securities class action lawsuits were administratively closed by the court. The consolidated Morse lawsuit is a purported class action seeking the certification of a class of persons or entities who acquired the Company's common stock from April 9, 1994 to September 9, 1997. The consolidated lawsuit was brought against the Company, Richard Scott, David Vandewater, Thomas Frist, Jr., R. Clayton McWhorter, Carl E. Reichardt, Magdalena Averhoff, M.D., T. Michael Long and Donald S. MacNaughton. The lawsuit alleges, among other things, that the defendants committed violations of the Federal securities laws by materially inflating the Company's revenues and earnings through a number of practices, including upcoding, maintaining reserve cost reports, disseminating false and misleading statements, cost shifting, illegal reimbursements, improper billing, unbundling and violating various Medicare laws. The lawsuit seeks damages, costs and expenses.

On October 10, 1997, the court entered an order consolidating the above-mentioned derivative law claims into a single-captioned case, McCall, H. Carl, as Comptroller of the State of New York and as Trustee of the New York State Common Retirement Fund, derivatively on behalf of Columbia/HCA Healthcare Corporation v. Richard L. Scott, et al., No. 3-97-0838. All of the other derivative lawsuits were administratively closed by the court. The consolidated McCall lawsuit was brought against the Company, Thomas Frist, Jr., Richard L. Scott, David T. Vandewater, R. Clayton McWhorter, Magdalena Averhoff, M.D., Frank S. Royal, M.D., T. Michael Long, William T. Young and Donald S. MacNaughton. The lawsuit alleges, among other things, derivative claims against the individual defendants that they intentionally or negligently breached their fiduciary duties to the Company by authorizing, permitting or failing to prevent the Company from engaging

in various schemes involving improperly increasing revenue, upcoding, improper cost reporting, improper referrals, improper acquisition practices and overbilling. In addition, the lawsuit asserts a derivative claim against some of the individual defendants for breaching their fiduciary duties by allegedly engaging in improper insider trading. The lawsuit seeks restitution, damages, recoupment of fines or penalties paid by the Company, restitution and pre-judgment interest against the alleged insider trading defendants, and costs and expenses. In addition, the lawsuit seeks orders: (i) prohibiting the Company from paying individual defendants employment benefits; (ii) terminating all improper business relationships with individual defendants; and (iii) requiring the Company to implement effective corporate governance and internal control mechanisms designed to monitor compliance with Federal and state laws and ensure reports to the Board of material violations.

The defendants filed motions to dismiss in both the Morse and McCall lawsuits. These motions were referred to the Magistrate Judge for consideration. In June 1998, the Magistrate Judge recommended that the court grant the motions to dismiss in both cases. Plaintiffs in both cases filed objections to the Magistrate's recommendations with the District Court, and defendants filed responsive pleadings. In September 1999, the District Court entered an Order granting the defendants' motion to dismiss McCall, H. Carl, as Comptroller of the State of New York and as Trustee of the New York State Retirement Fund, derivatively on behalf of Columbia/HCA Healthcare Corporation v. Richard L. Scott, et al., No. 3-97-0838 with prejudice. The plaintiffs in the McCall lawsuit have filed an appeal from that order. Defendants filed their brief in opposition to the appeal in March 2000. All parties have filed their briefs with the Sixth Circuit Court of Appeals.

On July 28, 2000, the District Court entered an Order granting the defendants' motions to dismiss in Morse. The District Court's order dismissed Morse with prejudice. On or about August 10, 2000, plaintiffs filed a Motion to Alter or Amend Judgment and for Leave to File an Amended Complaint and requested oral argument on their motion. The plaintiffs' motion to alter or amend was denied in October 2000. On October 18, 2000, plaintiffs filed their Notice of Appeal.

Shareholder Derivative Actions Filed in State Courts

Several derivative actions have been filed in state court by certain purported stockholders of the Company against certain of the Company's current and former officers and directors alleging breach of fiduciary duty, and failure to take reasonable steps to ensure that the Company did not engage in illegal practices thereby exposing the Company to significant damages.

Two purported derivative actions entitled Barron, Evelyn, et al. v. Magdalena Averhoff, et al., (Civil Action No. 15822NC), filed on July 22, 1997, and Kovalchick, John E. v. Magdalena Averhoff, et al., (Civil Action No. 15829NC), filed on July 29, 1997, have been filed in the Court of Chancery of the State of Delaware in and for New Castle County. The actions were brought on behalf of the Company by certain purported shareholders of the Company against certain of the Company's current and former officers and directors. The suits seek damages, attorneys' fees and costs. In the Barron lawsuit, plaintiffs also seek an Order (i) requiring individual defendants to return to the Company all salaries or remunerations paid them by the Company, together with proceeds of the sale of the Company's stock made in breach of their fiduciary duties; (ii) prohibiting the Company from paying any individual defendant any benefits pursuant to the terms of employment, consulting or partnership agreements; and (iii) terminating all improper business relationships between the Company and any individual defendant. In the Kovalchick lawsuit, plaintiffs also seek an Order (i) requiring individual defendants to return to the Company all salaries or remunerations paid to them by the Company and all proceeds from the sale of the Company's stock made in breach of their fiduciary duties; (ii) requiring that an impartial Compliance Committee be appointed to meet regularly; and (iii) requiring that the Company be prohibited from paying any director/defendant any benefits pursuant to terms of employment, consulting or partnership agreements. The parties have stipulated to a temporary stay of the Kovalchick lawsuit. Plaintiffs in both Barron and Kovalchick have granted the defendants an indefinite extension of time to respond to the Complaints. On August 14, 1997, a similar purported derivative action entitled State Board of Administration of Florida, the public pension fund of the State of Florida in behalf of itself and in behalf of all other stockholders of Columbia/HCA Healthcare Corporation derivatively in behalf of Columbia/HCA Healthcare Corporation vs. Magdalena Averhoff, et al., (No. 97-2729), was filed in the

Circuit Court in Davidson County, Tennessee on behalf of the Company by certain purported shareholders of the Company against certain of the Company's current and former directors and officers. These lawsuits seek damages and costs as well as orders (i) enjoining the Company from paying benefits to individual defendants; (ii) requiring termination of all improper business relationships with individual defendants; (iii) requiring the Company to provide for independent public directors; and (iv) requiring the Company to put in place proper mechanisms of corporate governance. The court has entered an Order temporarily staying the lawsuit.

The matter of Louisiana State Employees Retirement System, a public pension fund of the State of Louisiana, in behalf of itself and in behalf of all other stockholders of Columbia/HCA Healthcare Corporation derivatively in behalf of Columbia/HCA Healthcare Corporation v. Magdalena Averhoff, et al., another derivative action, was filed on March 19, 1998 in the Circuit Court of the Eleventh Judicial Circuit, Dade County, Florida, General Jurisdiction Division (Case No. 98-6050 CA04), and the defendants removed it to the United States District Court, Southern District of Florida (Case No. 98-814-CIV). The suit alleges, among other things, breach of fiduciary duties resulting in damage to the Company. The lawsuit seeks damages from the individual defendants to be paid to the Company and attorneys' fees, costs and expenses. In addition, the lawsuit seeks orders (i) requiring the individual defendants to pay to the Company all benefits received by them from the Company; (ii) enjoining the Company from paying any benefits to individual defendants; (iii) requiring that defendants terminate all improper business relationships with the Company and any individual defendants; (iv) requiring that the Company provide for appointment of a majority of independent public directors; and (v) requiring that the Company put in place proper mechanisms of corporate governance. On August 10, 1998, the court transferred this case to the United States District Court, Middle District of Tennessee (Case No. 3:98-0846). By agreement of the parties, the case has been administratively closed pending the outcome of the court's ruling on the defendants' motions to dismiss the McCall action referred to above. As a result of the court's September 1, 1999, order dismissing the McCall lawsuit, this lawsuit was also dismissed with prejudice. The plaintiffs in this lawsuit have filed an appeal from that order. Defendants filed their brief in opposition to the appeal in March 2000. Plaintiffs filed their reply brief in May 2000.

The Company intends to pursue the defense of these Federal and state shareholder derivative and class action complaints vigorously.

Patient/Payer Actions and Other Class Actions

The Company is a party to several purported class action lawsuits which have been filed by patients and/or payers against the Company and/or certain of its current and/or former officers and/or directors alleging, in general, improper and fraudulent billing, overcharging, coding and physician referrals, as well as other violations of law. Certain of the lawsuits have been conditionally certified as class actions.

The matter of In re: Columbia/HCA Healthcare Corporation Billing Practices Litigation, Master File No. MDL 1227, was commenced by Order of the MDL Panel entered on June 11, 1998 granting the Company's petition to consolidate the Boyson and Operating Engineers cases for pretrial purposes in the Middle District of Tennessee pursuant to 28 U.S.C. 1407. Three other cases (see cases below) that have been consolidated with Boyson and Operating Engineers in the MDL proceeding are (i) Board of Trustees of the Carpenters & Millwrights of Houston & Vicinity Welfare Trust Fund, (ii) Board of Trustees of the Texas Ironworkers' Health Benefit Plan, and (iii) Tennessee Laborers Health and Welfare Fund. On September 21, 1998, the plaintiffs in five consolidated cases filed a Coordinated Class Action Complaint, which the Company answered on October 13, 1998. The plaintiffs seek certification of two proposed classes including all private individuals and all employee welfare benefit plans that have paid for health-related goods or services provided by the Company. The plaintiffs allege, among other things, that the Company has engaged in a pattern and practice of inflating charges, concealing the true nature of patients' illnesses, providing unnecessary medical care, and billing for services never rendered. The plaintiffs seek damages, attorneys' fees and costs, as well as disgorgement and injunctive relief. A scheduling order was entered that provided for class certification motions to be filed by February 22, 1999 and for discovery to be completed by June 30, 1999. In February 1999, plaintiffs filed a motion to extend the time periods in the scheduling order, which was granted by the court on August 24, 1999. However, the court has not entered a new scheduling order. Effective November 2, 1999, a

sixth case, The United Paperworkers International Union, et al. v. Columbia/HCA Healthcare Corporation, et al., was transferred by the MDL Panel for consolidated pretrial proceedings. On December 30, 1999, plaintiffs filed a motion seeking leave to file a first amended coordinated complaint. On March 15, 2000, the court entered an order granting the plaintiffs' motion. The amended complaint did not include Board of Trustees of the Texas Ironworkers' Health Benefit Plan as a plaintiff but added Board of Trustees of the Pipefitters Local 522 Hospital, Medical and Life Benefit Fund. Defendants have filed an answer to the amended complaint. The parties are currently engaged in discovery.

The matter of Boyson, Cordula, on behalf of herself and all others similarly situated v. Columbia/HCA Healthcare Corporation was filed on September 8, 1997 in the United States District Court for the Middle District of Tennessee, Nashville Division (Civil Action No. 3-97-0936). The original complaint, which sought certification of a national class comprised of all persons or entities who have paid for medical services provided by the Company, alleges, among other things, that the Company has engaged in a pattern and practice of (i) inflating diagnosis and medical treatments of its patients to receive larger payments from the purported class members; (ii) providing unnecessary medical care; and (iii) billing for services never rendered. This lawsuit seeks injunctive relief requiring the Company to perform an accounting to identify and disgorge medical bill overcharges. It also seeks damages, attorneys' fees, interest and costs. In an Order entered on June 11, 1998 by the MDL Panel, other lawsuits against the Company were consolidated with the Boyson case in the Middle District of Tennessee. The amended complaint in Boyson was withdrawn and superseded by the Coordinated Class Action Complaint filed in the MDL proceeding on September 21, 1998. (See In re: Columbia/HCA Healthcare Corporation Billing Practices Litigation, above.)

The matter of Operating Engineers Local No. 312 Health & Welfare Fund, on behalf of itself and as representative of a class of those similarly situated v. Columbia/HCA Healthcare Corporation was filed on August 6, 1997 in the United States District Court for the Eastern District of Texas, Civil Action No. 597CV203. The original complaint alleged violations of the Racketeering Influence and Corrupt Organizations Act ("RICO") based on allegations that the defendant employed one or more schemes or artifices to defraud the plaintiff and purported class members through fraudulent billing for services not performed, fraudulent overcharging in excess of correct rates and fraudulent concealment and misrepresentation. In October 1997, the Company filed a motion to transfer venue and to dismiss the lawsuit on jurisdiction and venue grounds because the RICO claims are deficient. The motion to transfer was denied on January 23, 1998. The motion to dismiss was also denied. In February 1998, defendant filed a petition with the MDL Panel to consolidate this case with Boyson for pretrial proceedings in the Middle District of Tennessee. During the pendency of the motion to consolidate, plaintiff amended its Complaint to add allegations under the Employee Retirement Income Security Act of 1974 ("ERISA") as well as state law claims. The amended complaint seeks damages, attorneys' fees and costs, as well as disgorgement and injunctive relief. The MDL Panel granted defendant's motion to consolidate in June 1998, and this action was transferred to the Middle District of Tennessee. The amended complaint in Operating Engineers was withdrawn and superseded by the Coordinated Class Action Complaint filed in the MDL proceeding on September 21, 1998. (See In re: Columbia/HCA Healthcare Corporation Billing Practices Litigation, above.)

On April 24, 1998, two matters, Board of Trustees of the Carpenters & Millwrights of Houston & Vicinity Welfare Trust Fund v. Columbia/HCA Healthcare Corporation, Case No. 598CV157, and Board of Trustees of the Texas Ironworkers' Health Benefit Plan v. Columbia/HCA Healthcare Corporation, Case No. 598CV158, were filed in the United States District Court for the Eastern District of Texas. The original Complaint in these suits alleged violations of RICO only. Plaintiffs in both cases principally alleged that in order to inflate its revenues and profits, defendant engaged in fraudulent billing for services not performed, fraudulent overcharging in excess of correct rates and fraudulent concealment and misrepresentation. These suits seek damages, attorneys' fees and costs, as well as disgorgement and injunctive relief. Plaintiffs subsequently amended their complaint to add allegations under ERISA as well as state law claims. These suits have been consolidated by the MDL Panel with Boyson and transferred to the Middle District of Tennessee for pretrial proceedings. The amended complaints in these suits were withdrawn and superseded by the Coordinated Class Action Complaint filed in the MDL proceeding on September 21, 1998. (See In re: Columbia/HCA Healthcare Corporation Billing Practices Litigation, above.)

The matter of Tennessee Laborers Health and Welfare Fund, on behalf of itself and all others similarly situated vs. Columbia/HCA Healthcare Corporation, Case No. 3-98-0437, was filed in the United States District Court of the Middle District of Tennessee, Nashville Division, on May 14, 1998. The lawsuit seeks certification of a national class comprised of all employee welfare benefit plans that have paid for medical services provided by the Company. This case involves allegations under ERISA, as well as state law claims which are similar to those alleged in Boyson. Plaintiff, an Employee Welfare Benefit Plan, alleges that defendant violated the terms of the Plan documents by overbilling the Plans, including but not limited to, exaggerating the severity of illnesses, providing unnecessary treatment, billing for services not rendered and other methods of overbilling and further violated the terms of the Plan documents by taking Plan assets in payment of such improper bills. Plaintiff further alleges that defendant intentionally concealed or suppressed the true nature of its patients' illnesses, and the actual treatment provided to those patients, and its improper billing. The suit seeks injunctive relief in the form of an accounting, damages, attorneys' fees, interest and costs. This suit has been consolidated by the court with Boyson and the other cases transferred by the MDL Panel to the Middle District of Tennessee. The complaint in Tennessee Laborers was withdrawn and superseded with the filing of the Coordinated Class Action Complaint in the MDL proceeding on September 21, 1998. (See In re: Columbia/HCA Healthcare Corporation Billing Practices Litigation, above.)

The matter of The United Paper Workers International Union, et al. v. Columbia/HCA Healthcare Corporation, et al., was filed on September 3, 1998 in the Circuit Court for Washington County, Tennessee, Civil Action No. 19350. The lawsuit contains billing fraud allegations similar to those in the Ferguson case and seeks certification of a national class comprised of all self-insured employers who paid or were obligated to pay any portion of a bill for, among other things, pharmaceuticals, medical supplies or medical services. The suit seeks declaratory relief, damages, interest, attorneys' fees and other litigation costs. In addition, the suit seeks an Order (i) requiring defendants to provide an accounting to plaintiffs and class members who overpaid or were obligated to overpay, (ii) requiring defendants to disgorge all monies illegally collected from plaintiffs and the class, and (iii) rescinding all contracts of defendants with plaintiffs and all class members. Following the service of this complaint on the Company on August 20, 1999, the Company subsequently removed this lawsuit to the United States District Court for the Eastern District of Tennessee and it was conditionally transferred by the MDL Panel to the Middle District of Tennessee for consolidated pretrial proceedings with In re: Columbia/HCA Healthcare Corporation Billing Practices Litigation and was later formally joined in plaintiffs' amended complaint (See In re: Columbia/HCA Healthcare Corporation Billing Practices Litigation, above.)

The matter of Brown, Nancy, individually and on behalf of all others similarly situated v. Columbia/HCA Healthcare Corporation was filed on November 16, 1995, in the Fifteenth Judicial Circuit Court in and for Palm Beach County, Florida, Case No. 95-9102 AD. The suit alleges that Palms West Hospital charged excessive amounts for goods and services associated with patient care and treatment, including items such as pharmaceuticals, medical supplies, laboratory tests, medical equipment and related medical services such as x-rays. The suit seeks the certification of a nationwide class, and damages for patients who have paid bills for the allegedly unreasonable portion of the charges as well as interest, attorneys' fees and costs. In response to defendant's amended motion to dismiss filed in January 1996, plaintiff amended the Complaint and defendant subsequently filed an answer and defenses in June 1996. On October 15, 1997, Harald Jackson moved to intervene in the lawsuit (see case below). The court denied Jackson's motion on December 19, 1997. To date, discovery is proceeding and no class has been certified.

Jane Doe and her husband, John Doe, on their own behalf, and on behalf of all other persons similarly situated vs. HCA Health Services of Tennessee, Inc., d/b/a HCA Donelson Hospital n/k/a Summit Medical Center is a class action suit filed on August 17, 1992 in the First Circuit Court for Davidson County, Tennessee, Case No. 92C-2041. The suit principally alleges that Summit Medical Center's charges for hospital services and supplies for medical services (a hysterectomy in the plaintiff's case) exceeded the reasonable costs of its goods and services, that the overcharges constitute a breach of contract and an unfair or deceptive trade practice as well as a breach of the duty of good faith and fair dealing. This suit seeks damages, costs and attorneys' fees. In addition, the suit seeks a declaratory judgment recognizing plaintiffs' rights to be free from predatory billing and collection practices and an Order (i) requiring defendants to notify plaintiff

class members of entry of declaratory judgment and (ii) enjoining defendants from further efforts to collect charges from the plaintiffs. In 1997, this case was certified as a class action consisting of all past, present and future patients at Summit Medical Center. In July 1997, Summit filed a Motion for Summary Judgment. In March 1998, the court denied the Motion for Summary Judgment and ordered the parties into mediation. In June 1998, the Court of Appeals denied defendant's application for permission to appeal the trial court's denial of the summary judgment motion. Summit filed an application for permission to appeal to the Supreme Court of Tennessee, which the Supreme Court granted on November 9, 1998, and the Supreme Court remanded the case to the Court of Appeals for review on the merits. On August 27, 1999, the Court of Appeals issued an opinion affirming the trial court's denial of Summit's Motion for Summary Judgment. Summit filed an application for permission to appeal to the Tennessee Supreme Court in October 1999. On December 10, 1999, the Tennessee Supreme Court granted permission for the Tennessee Hospital Association and Adventist Health System Sunbelt Healthcare Corporation to file an amicus brief in this case. On October 3, 2000, the Tennessee Supreme Court heard oral argument in this case.

Ferguson, Charles, on behalf of himself and all other similarly situated v. Columbia/HCA Healthcare Corporation, et al. was filed on September 16, 1997 in the Circuit Court for Washington County, Tennessee, Civil Action No. 18679. This lawsuit seeks certification of a national class comprised of all individuals and entities who paid or were responsible for payment of any portion of a bill for medical care or treatment provided by the Company and alleges, among other things, that the Company engaged in billing fraud by excessively billing patients for services rendered, billing patients for services not rendered or not medically necessary, uniformly using improper codes to report patient diagnosis, and improperly and illegally recruiting doctors to refer patients to the Company's hospitals. The proposed class is broad enough to encompass all private payers, including individuals, insurers and health and welfare plans. The suit seeks damages, interest, attorneys' fees, costs and expenses. In addition, the suit seeks an Order (i) requiring defendants to provide an accounting of plaintiffs and class members who overpaid or were obligated to overpay; and (ii) requiring defendants to disgorge all monies illegally collected from plaintiffs and the class. Plaintiff filed a Motion for Class Certification in September 1997. No ruling has been made on the motion. In December 1997, the Company filed a Motion for Summary Judgment which was denied. In January 1998, plaintiff filed a Motion for Leave to File a Second Amended Class Action Complaint to Add an Additional Class Representative which was granted but the court dismissed the claims asserted by the additional plaintiff. In June 1998, plaintiff filed a Motion for Leave of Court to File a Third Amended Class Action Complaint, and in October 1998 plaintiff filed a Motion for Leave of Court to File a Fourth Amended Class Action Complaint. Both proposed Amended Complaints seek to add new named plaintiffs to represent the proposed class. Both seek to add additional allegations of billing fraud, including improper billing for laboratory tests, inducing doctors to perform unnecessary medical procedures, improperly admitting patients from emergency rooms and maximizing patients' lengths of stay as inpatients in order to increase charges, and improperly inducing doctors to refer patients to the Company's home health care units or psychiatric hospitals. Both seek an additional order that the Company's contracts with plaintiffs and all class members are rescinded and that the Company must repay all monies received from plaintiffs and the class members. The court has not ruled on either Motion for Leave to Amend. Discovery is underway in the case. The Company in September 1998 filed another Motion for Summary Judgment contesting the standing of the named plaintiffs to bring the alleged claims. That motion has not been ruled on by the court. Amended motions for summary judgment were filed in January 2000. Those motions have not yet been ruled on by the court.

The matter of Hoop, Kemp, et al. v. Columbia/HCA Health Corporation, et al. was filed on August 18, 1997 in the District Court of Johnson County, Texas, Civil Action No. 249-171-97. This suit seeks certification of a Texas class comprised of persons who paid for any portion of an improper or fraudulent bill for medical services rendered by any Texas facility owned or operated by the Company. The suit seeks damages, attorneys' fees, costs and expenses, as well as restitution to plaintiffs and the class in the amount by which defendants have been unjustly enriched and equitable and injunctive relief. The lawsuit principally alleges that the Company perpetrated a fraudulent scheme that consisted of systematic and routine overbilling through false and inaccurate bills, including padding, billing for services never provided, and exaggerating the seriousness of patients' illnesses. The lawsuit also alleges that the Company systematically entered into illegal

kickback schemes with doctors for patient referrals. The Company filed its answer in November 1997 denying the claims. Discovery has commenced.

The matter of Jackson, Harald F., individually and on behalf of all others similarly situated v. Columbia/HCA Healthcare Corporation was initially filed as a motion to intervene in the Brown matter (above) in October 1997 in the Fifteenth Judicial Circuit Court in and for Palm Beach County, Florida. The court denied Jackson's motion on December 19, 1997, and Jackson subsequently filed a Complaint in the same state court on December 23, 1997, Case No. 97-011419-AI. This suit seeks certification of a national class of persons or entities who were allegedly overcharged for medical services by the Company through an alleged practice of systematically and unlawfully inflating prices, concealing its practice of inflating prices, and engaging in, and concealing, a uniform practice of overbilling. The proposed class is broad enough to encompass all private payers, including individuals, insurers and health and welfare plans. This suit seeks damages on behalf of the plaintiff and individual members of the class as well as interest, attorneys' fees and costs. In January 1998, the case was removed to the United States District Court, Southern District of Florida, Case No. 98-CIV-8050. In February 1998, Jackson filed an amended complaint, and the case was remanded to state court. The Company has filed motions in response to the amended complaint which are pending. Jackson moved to transfer the case to the judge handling the Brown case which is also pending, but the motion to transfer was denied on April 8, 1999. Discovery has commenced.

The matter of Ultimate Home Healthcare, Inc., on behalf of itself and all other entities similarly situated in the states of Tennessee, Texas, Florida and Georgia v. Columbia/HCA Healthcare Corporation, Columbia Homecare Group, Olsten Corporation, and Olsten Health Management a/k/a Hospital Contract Management Services was filed in the United States District Court for the Middle District of Tennessee on June 14, 2000, as Civil Case No. 3-00-0560. The case is filed as a purported class action on behalf of home health care companies and agencies that conducted business in Tennessee, Texas, Florida and Georgia during the years 1994 through 1996. On July 21, 2000 an amended complaint was filed. The amended complaint alleges violations of civil RICO, antitrust and consumer protection laws, and other business torts arising out of transactions and operations in which the Company's affiliates purchased home health care agencies, or assets of agencies, from Olsten Corporation affiliates. The complaint seeks compensatory and punitive damages in an unstated amount plus costs and attorneys' fees. The suit is in its early stages and no response by the Company has been filed.

The Company intends to pursue the defense of these class actions vigorously.

While it is premature to predict the outcome of the qui tam, shareholder derivative and class action lawsuits, the amounts in question are substantial. It is possible that an adverse resolution, individually or in the aggregate, could have a material adverse impact on the Company's liquidity, financial position and results of operations. See Note 2 -- Investigations and Understanding to Settle Certain Government Civil Claims and Note 10 -- Contingencies in the Notes to Condensed Consolidated Financial Statements.

General Liability and Other Claims

The matter of Landgraff, Anne M. and Gina Magarian, on behalf of the Columbia/HCA Stock Bonus Plan v. Columbia/HCA Healthcare Corporation of America, et al. was originally filed on November 7, 1997 in the United States District Court for the Northern District of Georgia, Atlanta Division, Civil Action No. 97-CV-3381 and transferred by agreement of the parties to the United States District Court for the Middle District of Tennessee, Civil Action No. 3-98-0090. The plaintiffs filed a second amended complaint on April 24, 1998 against the Company and certain members of the Company's Retirement Committee during 1997 alleging breach of fiduciary duty owed to the participants in the Company's Stock Bonus Plan by failing to sell the Plan holdings of Company stock based upon knowledge of material public and non-public adverse information and by failing to act solely in the interests and for the benefit of the participants. The suit generally alleges that the defendants fraudulently concealed information from the public and fraudulently inflated the Company's stock price through billing fraud, overcharges, inaccurate Medicare cost reports and illegal kickbacks for physician referrals. The suit seeks an order allowing the plaintiffs to proceed on behalf of the plan as in a derivative action, a judgment for compensatory and restitutionary damages for the losses

allegedly experienced by the Plan because of breaches of fiduciary duty, an order transferring management of the plan to a competent, neutral third-party, and an award of pre-judgment interest, reasonable attorneys' fees and costs. A bench trial was held from June 8 through July 1, 1999. Additional oral arguments were held on March 23, 2000. On May 24, 2000, the court issued a Memorandum opinion and an Order dismissing the plaintiffs' action with prejudice and entered a judgment in favor of defendants. The court ruled that the defendants did not breach their fiduciary duty to the Stock Bonus Plan. On June 12, 2000, plaintiffs filed a notice of appeal.

On December 4, 1997, a lawsuit captioned Florida Software Systems, Inc., a Florida corporation v. Columbia/HCA Healthcare Corporation, a Delaware corporation was filed in the United States District Court for the Middle District of Florida (Civil Action No. 97-2866-C.V.-T-17b). The lawsuit alleges that the defendant breached an agreement under which Florida Software Systems, Inc. was allegedly granted the exclusive right to provide medical claims management for certain claims made by the Company for payment to any third party payers in connection with the rendering of medical care or services. The lawsuit alleges claims for fraud, breach of implied contract and breach of contract. The lawsuit seeks damages, attorneys' fees and costs in excess of \$2 billion, as well as injunctive relief. The court denied the plaintiff's motion for a preliminary injunction. On October 15, 1998, the Company filed a counterclaim and third-party complaint against Florida Software Systems, Inc., Receivable Dynamics Inc., Nevada Communications Corporation, Norman R. Dobiesz, Maureen Donovan Dobiesz, Stuart M. Lopata, and Samuel A. Greco (a former senior officer at the Company). The counterclaim alleges racketeering, conspiracy, breach of fiduciary duty, and breach of contract. Defendants in the counterclaim and third-party complaint have filed answers to the counterclaim and third-party complaint. Discovery has been conducted and several dispositive motions are pending with the court. A related pending lawsuit, Nevada Communications Corporation, a Delaware Corporation v. Columbia/HCA Healthcare Corporation, a Delaware Corporation, which was filed in the 12th Judicial Circuit Court for Manatee County, Florida (Civil Action No. CA 98-3039) involves similar issues and alleges breach of a telecommunications contract. The Company has filed a counterclaim containing allegations similar to the counterclaim in the Florida Software lawsuit. A trial on the Nevada Communications matter is set for April 2001.

Two law firms representing groups of health insurers have approached the Company and alleged that the Company's affiliates may have overcharged or otherwise improperly billed the health insurers for various types of medical care during the time frame from 1994 through 1997. The Company has engaged in discussions with these law firms, but no litigation has been filed. The Company is unable to determine if litigation will be filed, and if filed, what damages would be asserted.

The Company intends to pursue the defense of these actions and prosecution of its counterclaims and third party claims vigorously.

The Company from time to time is a party to certain proceedings in the United States Tax Court and the United States Court of Federal Claims. For a description of those proceedings, see Note 6 -- Income Taxes in the Notes to Condensed Consolidated Financial Statements.

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

ITEM 2: CHANGES IN SECURITIES AND USE OF PROCEEDS.

Part I, Item 2 -- Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity includes a reference to HCA's share repurchase programs. As part of these programs, during the quarter ended September 30, 2000, HCA sold 5.7 million put options, each of which entitles the holder to sell stock to the Company at a specified price on a specified date. These put options expire on various dates through February 27, 2001 and have exercise prices ranging from \$33.32 to \$35.15 per share with an average exercise price of \$34.46 a share.

All of these transactions were exempt from registration under Section 4(2) of the Securities Act of 1933, as amended. Each transaction was privately negotiated, and each purchaser of options was an accredited investor and qualified institutional buyer. No public offering or public solicitation was made by HCA in the placement of these securities.

ITEM 6: EXHIBITS AND REPORTS ON FORM 8-K.

(a) List of Exhibits:

Exhibit 3.1 -- Second Amended and Restated Bylaws of the Company (filed as Exhibit 3 to the Company's Form 8-A/A, Amendment No. 1, dated October 19, 2000, and incorporated herein by reference).

Exhibit 4.1 -- Specimen Certificate for shares of Common Stock, par value \$0.01 per share, of the Company (filed as Exhibit 4 to the Company's Form 8-A/A, Amendment No. 1 dated October 19, 2000, and incorporated herein by reference).

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

Exhibit 27 -- Financial Data Schedule.*

*Included only in filings under the Electronic Data, Gathering, Analysis and Retrieval system.

(b) Reports on Form 8-K filed during the quarter ended September 30, 2000:

On August 24, 2000, the Company filed a report on Form 8-K which announced the issuance of \$750 million of 8.75% Notes due 2010.

On September 21, 2000, the Company filed a report on Form 8-K which announced the issuance of \$500 million of Floating Rate Senior Notes due September 19, 2002.

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.

HCA -- THE HEALTHCARE COMPANY

/s/ R. MILTON JOHNSON

R. Milton Johnson
Senior Vice President and Controller

Date: November 8, 2000

HCA -- THE HEALTHCARE COMPANY
 COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
 FOR THE QUARTERS AND NINE MONTHS ENDED SEPTEMBER 30, 2000 AND 1999
 (DOLLARS IN MILLIONS)

	QUARTER		NINE MONTHS	
	2000	1999	2000	1999
	----	----	----	-----
EARNINGS:				
Income before minority interests and income taxes.....	\$319	\$247	\$496	\$1,065
Fixed charges, excluding capitalized interest.....	173	147	479	435
	-----	-----	-----	-----
	\$492	\$394	\$975	\$1,500
	=====	=====	=====	=====
FIXED CHARGES:				
Interest charged to expense.....	\$147	\$122	\$402	\$ 351
Interest portion of rental expense and amortization of deferred loan costs.....	26	25	77	84
	----	----	----	-----
Fixed charges, excluding capitalized interest.....	173	147	479	435
Capitalized interest.....	6	5	17	16
	-----	-----	-----	-----
	\$179	\$152	\$496	\$ 451
	=====	=====	=====	=====
Ratio of earnings to fixed charges.....	2.75	2.59	1.97	3.33

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE STATEMENTS OF INCOME AND BALANCE SHEETS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000,000

9-MOS		
	DEC-31-2000	
	JAN-01-2000	
	SEP-30-2000	180
		0
		3,628
		1,584
		383
		3,949
		14,772
		5,987
		17,507
	4,302	
		5,426
	0	
		0
		6
		5,400
17,507		
		0
	12,497	
		0
		6,927
		2,288
		934
		402
		415
		217
	198	
		0
		0
		0
		198
		.36
		.35