

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 JUNE 30, 2001

☐ 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 INC.
(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:
HCA -- The Healthcare Company
Date of Change: July 1, 2001

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 JULY 31, 2001 -----
Voting common stock, \$.01 par value	492,661,500 shares
Nonvoting common stock, \$.01 par value	21,000,000 shares

HCA INC.

FORM 10-Q
JUNE 30, 2001

PAGE OF
FORM 10-Q

PART I.	FINANCIAL INFORMATION	
Item 1.	Financial Statements (Unaudited):	
	Condensed Consolidated Statements of Operations -- for the quarters and six months ended June 30, 2001 and 2000.....	3
	Condensed Consolidated Balance Sheets -- June 30, 2001 and December 31, 2000.....	4
	Condensed Consolidated Statements of Cash Flows -- for the six months ended June 30, 2001 and 2000.....	5
	Notes to Condensed Consolidated Financial Statements.....	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations.....	15
Item 3.	Quantitative and Qualitative Disclosure of Market Risk.....	29
PART II.	OTHER INFORMATION	
Item 1.	Legal Proceedings.....	30
Item 4.	Submission of Matters to a Vote of Security Holders.....	43
Item 6.	Exhibits and Reports on Form 8-K.....	44

HCA INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE QUARTERS AND SIX MONTHS ENDED JUNE 30, 2001 AND 2000
UNAUDITED
(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

	QUARTER		SIX MONTHS	
	2001	2000	2001	2000
Revenues.....	\$ 4,476	\$ 4,133	\$ 8,977	\$ 8,404
Salaries and benefits.....	1,822	1,645	3,604	3,306
Supplies.....	713	655	1,424	1,325
Other operating expenses.....	800	768	1,557	1,532
Provision for doubtful accounts.....	301	299	626	601
Depreciation and amortization.....	262	265	519	521
Interest expense.....	139	136	281	255
Equity in earnings of affiliates.....	(36)	(33)	(82)	(65)
Settlement with Federal government.....	2	745	2	745
Gains on sales of facilities.....	--	(18)	(13)	(18)
Restructuring of operations and investigation related costs.....	13	12	27	25
	4,016	4,474	7,945	8,227
Income (loss) before minority interests and income taxes.....	460	(341)	1,032	177
Minority interests in earnings of consolidated entities.....	29	29	59	55
Income (loss) before income taxes.....	431	(370)	973	122
Provision (benefit) for income taxes.....	168	(98)	384	98
Net income (loss).....	\$ 263	\$ (272)	\$ 589	\$ 24
Per share data:				
Basic earnings (loss).....	\$ 0.49	\$ (0.49)	\$ 1.10	\$ 0.04
Diluted earnings (loss).....	\$ 0.48	\$ (0.49)	\$ 1.07	\$ 0.04
Cash dividends.....	\$ 0.02	\$ 0.02	\$ 0.04	\$ 0.04
Shares used in earnings per share calculations (in thousands):				
Basic.....	531,617	554,759	536,472	558,999
Diluted.....	545,815	554,759	550,290	569,109

See accompanying notes.

HCA INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
UNAUDITED
(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

	JUNE 30, 2001	DECEMBER 31, 2000
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 124	\$ 314
Accounts receivable, less allowance for doubtful accounts of \$1,637 and \$1,583.....	2,364	2,211
Inventories.....	405	396
Income taxes receivable.....	73	197
Other.....	1,413	1,335
	-----	-----
	4,379	4,453
Property and equipment, at cost.....	14,695	14,290
Accumulated depreciation.....	(6,130)	(5,810)
	-----	-----
	8,565	8,480
Investments of insurance subsidiary.....	1,529	1,371
Investments in and advances to affiliates.....	831	779
Intangible assets, net.....	2,170	2,155
Other.....	406	330
	-----	-----
	\$17,880	\$17,568
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable.....	\$ 673	\$ 693
Accrued salaries.....	356	352
Government settlement accrual.....	745	840
Other accrued expenses.....	961	1,135
Long-term debt due within one year.....	218	1,121
	-----	-----
	2,953	4,141
Long-term debt.....	6,857	5,631
Professional liability risks, deferred taxes and other liabilities.....	2,313	2,050
Minority interests in equity of consolidated entities.....	596	572
Company-obligated mandatorily redeemable securities of affiliate holding solely Company securities.....	300	--
Forward purchase contracts and put options.....	--	769
Stockholders' equity:		
Common stock \$.01 par; authorized 1,650,000,000 shares; outstanding 518,222,700 shares in 2001 and 542,991,700 shares in 2000.....	5	5
Other.....	6	9
Accumulated other comprehensive income.....	37	52
Retained earnings.....	4,813	4,339
	-----	-----
	4,861	4,405
	-----	-----
	\$17,880	\$17,568
	=====	=====

See accompanying notes.

HCA INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2001 AND 2000
UNAUDITED
(DOLLARS IN MILLIONS)

	2001	2000
	-----	-----
Cash flows from operating activities:		
Net income.....	\$ 589	\$ 24
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful accounts.....	626	601
Depreciation and amortization.....	519	521
Income taxes.....	173	(282)
Settlement with Federal government.....	(95)	745
Gains on sales of facilities.....	(13)	(18)
Changes in operating assets and liabilities.....	(811)	(921)
Other.....	(4)	23
	-----	-----
Net cash provided by operating activities.....	984	693
	-----	-----
Cash flows from investing activities:		
Purchase of property and equipment.....	(591)	(586)
Acquisition of hospitals and health care entities.....	(94)	(290)
Investment in and advances to affiliates.....	(24)	--
Disposition of property and equipment.....	92	263
Change in investments.....	(198)	(96)
Other.....	(19)	(76)
	-----	-----
Net cash used in investing activities.....	(834)	(785)
	-----	-----
Cash flows from financing activities:		
Issuance of long-term debt.....	1,750	1,308
Net change in revolving bank credit.....	(200)	--
Repayment of long-term debt.....	(1,220)	(860)
Payment of cash dividends.....	(22)	(22)
Repurchases of common stock, net.....	(611)	(255)
Other.....	(37)	23
	-----	-----
Net cash (used in) provided by financing activities.....	(340)	194
	-----	-----
Change in cash and cash equivalents.....	(190)	102
Cash and cash equivalents at beginning of period.....	314	190
	-----	-----
Cash and cash equivalents at end of period.....	\$ 124	\$ 292
	=====	=====
Interest payments.....	\$ 240	\$ 247
Income tax payments.....	\$ 211	\$ 378

See accompanying notes.

HCA INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
UNAUDITED

NOTE 1 -- BASIS OF PRESENTATION

HCA Inc., formerly HCA -- The Healthcare Company, is a holding company whose affiliates own and operate hospitals and related health care entities. The term "affiliates" includes direct and indirect subsidiaries of HCA Inc. and partnerships and joint ventures in which such subsidiaries are partners. At June 30, 2001, these affiliates owned and operated 185 hospitals, 75 freestanding surgery centers and provided extensive outpatient and ancillary services. Affiliates of HCA Inc. are also partners in 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 Inc. 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 six months ended June 30, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001. 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, 2000.

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

NOTE 2 -- INVESTIGATIONS AND AGREEMENTS TO SETTLE CERTAIN GOVERNMENT CLAIMS

The Company continues to be the subject of governmental investigations and litigation relating to its business practices. Additionally, the Company is a defendant in several qui tam actions brought by private parties on behalf of the United States of America.

On December 14, 2000, the Company entered into a Plea Agreement with the Criminal Division of the Department of Justice and various U.S. Attorney's Offices (the "Plea Agreement") and a Civil and Administrative Settlement Agreement with the Civil Division of the Department of Justice (the "Civil Agreement"). The agreements resolve all Federal criminal issues outstanding against the Company and, subject to court approval, certain issues involving Federal civil claims by or on behalf of the government against the Company relating to DRG coding, outpatient laboratory billing and home health issues. The Company also entered into a Corporate Integrity Agreement ("CIA") with the Office of Inspector General of the Department of Health and Human Services.

Pursuant to the Plea Agreement, the Company and its affiliates received a full release from criminal liability for conduct arising from or relating to billing and reimbursement for services provided pursuant to Federal health care benefit programs regarding: Medicare cost reports; violations of the Anti-kickback Statute or the Physician Self-referral law, and any other conduct involving relations with referral sources and those in a position to influence referral sources; DRG billing; laboratory billing; the acquisition of home health agencies; and the provision of services by home health agencies. In addition, the government agreed not to prosecute the Company for other possible criminal offenses which are or have been under investigation by the Department of Justice arising from or relating to billing and reimbursement for services provided pursuant to Federal health care benefit programs. The Plea Agreement provided that the Company pay the government \$95 million, which payment was made during the first quarter of 2001, and that two non-operating subsidiaries enter certain criminal pleas, which pleas were entered in January 2001.

HCA INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)
UNAUDITED

NOTE 2 -- INVESTIGATIONS AND AGREEMENTS TO SETTLE CERTAIN GOVERNMENT CLAIMS

(CONTINUED)

The Civil Agreement covers, in general, the following issues: 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 Civil Agreement provides that in return for releases on these issues, the Company will pay the government \$745 million, with interest accruing from May 18, 2000 to the payment date at a rate of 6.5%. The civil payment will be made upon receipt of court approval of the Civil Agreement. On July 31, 2001, the government filed a motion to order payment of the settlement amount by the Company. On August 7, 2001, an order was entered approving the settlement and directing payment. On August 10, 2001, the payment was made by the Company. The civil issues that are not covered by the Civil Agreement and remain outstanding include claims related to cost reports and physician relations issues.

Under the Civil Agreement, the Company's existing Letter of Credit Agreement with the Department of Justice was reduced from \$1 billion to \$250 million upon payment of the settlement amount. Any future civil settlement or court ordered payments related to cost report or physician relations issues will reduce the remaining amount of the letter of credit dollar for dollar. The amount of any such future settlement or court ordered payments is not related to the remaining amount of the letter of credit.

The CIA is structured to assure the government of the Company's overall Medicare compliance and specifically covers DRG coding, outpatient laboratory billing, outpatient prospective payment system ("PPS") billing and physician relations. The CIA resulted in a waiver of the government's discretionary right to exclude any of the Company's operations from participation in the Medicare program for matters settled in the Civil Agreement.

The Company remains the subject of a formal order of investigation by the Securities and Exchange Commission (the "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.

The Company continues to cooperate in the governmental investigations. Given the scope of the investigations and current litigation, the Company anticipates continued investigative activity to occur in these and other jurisdictions in the future.

While management remains unable to predict the outcome of any of the investigations and litigation or the initiation of any additional investigations or litigation, were the Company to be found in violation of Federal or state laws relating to Medicare, Medicaid or similar programs or breach of the CIA, the Company could be subject to substantial monetary fines, civil and criminal penalties and/or exclusion from participation in the Medicare and Medicaid programs. Any such sanctions or expenses could have a material adverse effect on the Company's financial position, results of operations and liquidity. See Note 10 -- Contingencies and Part II, Item 1: Legal Proceedings.

NOTE 3 -- FACILITY SALE

During the first six months of 2001, HCA recognized a pretax gain of \$13 million (\$4 million after-tax) on the sale of one consolidating hospital. During the first six months of 2000, HCA recognized a pretax gain of \$18 million (\$8 million after-tax) on the sale of one consolidating hospital. Proceeds from each sale were used to repay bank borrowings in each respective period.

HCA INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)
UNAUDITED

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 Agreements to Settle Certain Government Claims (in millions):

	QUARTER		SIX MONTHS	
	2001	2000	2001	2000
Professional fees related to investigations.....	\$10	\$12	\$20	\$20
Other.....	3	--	7	5
	---	---	---	---
	\$13	\$12	\$27	\$25
	===	===	===	===

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 liability balance for accrued severance and lease commitments was approximately \$5 million at June 30, 2001.

NOTE 5 -- 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 examinations 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") 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 \$212 million in income taxes and interest through June 30, 2001.

During the second quarter of 2001, the Company filed a notice of appeal with respect to two Tax Court decisions received in 1996 related to the IRS examination of Hospital Corporation of America's 1987 through 1988 Federal income tax returns. The Company expects to file an appeal with the United States Court of Appeals, Sixth Circuit, during the third quarter of 2001, contesting the Tax Court decisions related to the method that Hospital Corporation of America used to calculate its tax reserve for doubtful accounts and the timing of the recognition of deferred income in connection with its sale of certain subsidiaries to Healthtrust in 1987.

Neither the Company nor the IRS filed notices of appeal with respect to any other 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. Accordingly, these decisions have become final and Hospital Corporation of America's 1981 through 1986 taxable years are now closed.

During the first quarter of 2000, the IRS began an examination of the Company's 1997 and 1998 Federal income tax returns. The Company expects the IRS to complete its examination during the third quarter of 2001. 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 INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)
UNAUDITED

NOTE 6 -- 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 six months ended June 30, 2001 and 2000 (dollars in millions, except per share amounts and shares in thousands):

	QUARTER		SIX MONTHS	
	2001	2000	2001	2000
Net income (loss).....	\$ 263	\$ (272)	\$ 589	\$ 24
Weighted average common shares outstanding....	531,617	554,759	536,472	558,999
Effect of dilutive securities:				
Stock options.....	12,493	(a)	12,241	6,422
Other.....	1,705	(a)	1,577	3,688
Shares used for diluted earnings (loss) per share.....	545,815	554,759	550,290	569,109
Earnings per share:				
Basic earnings (loss) per share.....	\$ 0.49	\$ (0.49)	\$ 1.10	\$ 0.04
Diluted earnings (loss) per share.....	\$ 0.48	\$ (0.49)	\$ 1.07	\$ 0.04

(a) No incremental shares included due to the loss incurred for the quarter ended June 30, 2000.

NOTE 7 -- DERIVATIVES

Effective January 1, 2001, HCA adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities, as amended ("SFAS 133"). SFAS 133 requires HCA to recognize all derivatives on the balance sheet at fair value.

HCA entered into interest rate swap agreements to manage its exposure to fluctuations in interest rates. These swap agreements involve the exchange of fixed and variable rate interest payments between two parties, based on common notional principal amounts and maturity dates. The notional amounts and interest payments in these agreements match the cash flows of the related liabilities. The notional amounts of the swap agreements represent amounts used to calculate the exchange of cash flows and are not assets or liabilities of HCA. Any market risk or opportunity associated with these swap agreements is offset by the opposite market impact on the related debt. HCA's credit risk related to these agreements is considered low because the swap agreements are with creditworthy financial institutions. The interest payments under these agreements will be settled on a net basis.

In accordance with the provisions of SFAS 133, HCA designated its outstanding interest rate swap agreements as fair value hedges. HCA determined that the current agreements are highly effective in offsetting the fair value changes in a portion of HCA's debt portfolio. These derivatives and the related hedged debt amounts have been recognized in the financial statements at their respective fair values.

HCA INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)
UNAUDITED

NOTE 7 -- DERIVATIVES (CONTINUED)

The following table sets forth HCA's derivative financial instruments at June 30, 2001 (dollars in millions):

	NOTIONAL AMOUNT -----	TERMINATION DATE -----	FAIR VALUE -----
Interest rate swap -- floating.....	\$250	May 2006	\$1
Interest rate swap -- floating.....	\$250	May 2006	\$1

The fair value of the interest rate swaps at June 30, 2001 represents the estimated amounts HCA would have received upon termination of these agreements.

NOTE 8 -- LONG-TERM DEBT

In January 2001, HCA issued \$500 million of 7.875% notes due February 1, 2011. Proceeds from the notes were used to retire the outstanding balance under HCA's \$1.2 billion term loan agreement.

In April 2001, HCA entered into a new credit agreement with a group of banks consisting of a \$1.75 billion revolving credit loan (the "2001 Revolving Loan") and a \$750 million term loan (the "2001 Term Loan"), collectively, the "2001 Bank Loans". The 2001 Bank Loans have a final maturity in April 2006. The 2001 Revolving Loan refinanced and replaced HCA's \$2.0 billion revolving credit facility which was scheduled to mature in February 2002. The 2001 Term Loan proceeds were used to reduce outstanding bank loans and resulted in the reclassification of \$900 million of debt from current liabilities to noncurrent liabilities. Interest under the 2001 Bank Loans is payable generally at either LIBOR plus 1% to 2% or the prime lending rate plus 0% to 1% (in each case depending on HCA's credit ratings) or a competitive bid rate.

In May 2001, HCA issued \$500 million of 7.125% notes due June 1, 2006. Proceeds from the notes were used for general corporate purposes.

In April 2001, Moody's Investors Service upgraded HCA's senior debt rating to Ba1 and maintained a positive outlook on the Company. In May 2001, Standard & Poor's changed its rating outlook on HCA from stable to positive.

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. Through June 30, 2001, certain financial organizations had purchased 31.3 million shares of the Company's common stock for \$977 million utilizing forward purchase contracts. During 2000, HCA settled forward purchase contracts associated with the March 2000 authorization representing 11.7 million shares at a cost of \$300 million. During the first quarter of 2001, HCA settled forward purchase contracts representing 1.9 million shares at a cost of \$66 million. During the second quarter of 2001, HCA settled forward purchase contracts representing 12.1 million shares at a cost of \$405 million. In accordance with the terms of the contracts, 5.6 million shares at a cost of \$206 million remained outstanding at June 30, 2001; however, during July 2001, HCA settled these contracts. A component of the stock repurchase program was the sale of put options, which entitle the holder to sell HCA's stock to HCA at a specified price on a specified date. At December 31, 2000, 3.8 million put options, with an average exercise price of \$35.66 per share, were outstanding. During the first quarter of 2001, 1.0 million put options, at an exercise price of \$35.25 per share, were exercised and 2.8 million put options expired unexercised. There were no put options outstanding at June 30, 2001. In connection with the March 2000 authorization during 2001, HCA has also purchased 1.1 million shares through open market purchases at a cost of \$40 million and received \$17 million in premiums from the sale of put options.

HCA INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)
UNAUDITED

NOTE 9 -- STOCK REPURCHASE PROGRAM (CONTINUED)

In November 1999, HCA announced that its Board of Directors authorized the repurchase of up to \$1 billion of its common stock. During 2000, HCA settled forward purchase contracts associated with its November 1999 authorization representing 18.7 million shares at a cost of \$539 million. During the first quarter of 2001, HCA settled forward purchase contracts associated with its November 1999 authorization representing 5.6 million shares at a cost of \$163 million. During the second quarter of 2001, HCA settled the remaining forward purchase contracts associated with the November 1999 authorization representing 10.1 shares for \$298 million.

During the second quarter of 2001, the Company entered into an agreement with a financial institution that resulted in the financial institution investing \$300 million to capitalize an entity that would acquire HCA common shares. This consolidated affiliate acquired 16.8 million of HCA shares in connection with the Company's settlement of certain forward purchase contracts. The financial institution's investment in the consolidated affiliate is scheduled for repayment by the Company on April 30, 2003 and is reflected in HCA's balance sheet as "Company-obligated mandatorily redeemable securities of affiliate holding solely Company securities." The quarterly return on their investment, based upon a LIBOR plus 125 basis points return rate, is recorded as minority interest expense.

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 LIBOR plus 125 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.

At the November 2000 meeting of the Emerging Issues Task Force ("EITF"), the SEC provided guidance that in situations where public companies have outstanding equity derivative contracts that are not compliant with the EITF guidance in Issue 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock" ("Issue 00-19"), they are required to reclassify the maximum amount of the potential cash obligation (the forward price in a forward stock purchase contract or the strike price for a written put option) to temporary equity. Pursuant to this guidance, HCA reclassified \$769 million to temporary equity at December 31, 2000. The Company believes that the forward purchase contracts that were not settled at June 30, 2001 (representing 5.6 million shares at a cost of \$206 million) were compliant with the provisions of Issue 00-19.

In connection with the Company's share repurchase programs, the Company entered into a Letter of Credit Agreement with the United States Department of Justice. As part of the agreement, the Company provided the government with letters of credit totaling \$1 billion. As provided under the Civil Agreement with the government, as discussed in Note 2 -- Investigations and Agreements to Settle Certain Government Claims, the letters of credit were reduced from \$1 billion to \$250 million upon payment of the civil settlement.

HCA INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)
UNAUDITED

NOTE 10 -- CONTINGENCIES

Significant Legal Proceedings

Various lawsuits, claims and legal proceedings (see Note 2 -- Investigations and Agreements to Settle Certain Government Claims and Part II, Item 1: Legal Proceedings, for descriptions of the ongoing government investigations and other legal proceedings) have been and are expected to be instituted or asserted 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 six months ended June 30, 2001 and 2000 are as follows (in millions):

	QUARTER		SIX MONTHS	
	2001	2000	2001	2000
Net income (loss).....	\$263	\$(272)	\$589	\$24
Unrealized gains (losses) on securities.....	32	(16)	(7)	(8)
Foreign currency translation adjustments.....	(3)	(2)	(8)	(2)
Comprehensive income (loss).....	\$292	\$(290)	\$574	\$14
	====	=====	=====	===

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

	JUNE 30, 2001	DECEMBER 31, 2000
Net unrealized gains on securities.....	\$46	\$53
Foreign currency translation adjustments.....	(9)	(1)
Accumulated other comprehensive income.....	\$37	\$52
	===	===

NOTE 12 -- SEGMENT AND GEOGRAPHIC INFORMATION

HCA operates in one line of business, which is operating hospitals and related health care entities. During both quarters ended June 30, 2001 and 2000, 28% of the Company's revenues related to patients participating in the Medicare program. During both six month periods ended June 30, 2001 and 2000, 29% of the Company's revenues related to patients participating in the Medicare program.

HCA INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)
UNAUDITED

NOTE 12 -- SEGMENT AND GEOGRAPHIC INFORMATION (CONTINUED)

HCA's operations are structured into two geographically organized groups: the Eastern Group includes 96 consolidating hospitals located in the Eastern United States and the Western Group includes 77 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 four consolidating hospitals which HCA intends to sell or close and the residual operations of certain other hospitals which have been sold. HCA also operates eight consolidating hospitals in England and Switzerland.

HCA's senior management reviews geographic distributions of HCA's revenues, EBITDA and depreciation and amortization. EBITDA is defined as income before depreciation and amortization, interest expense, settlement with Federal government, gains on sales of facilities, restructuring of operations and investigation related costs, minority interests and income taxes. HCA 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 and depreciation and amortization are summarized in the following table (dollars in millions):

	QUARTER ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2001	2000	2001	2000
Revenues:				
Eastern Group.....	\$2,216	\$2,032	\$4,465	\$4,175
Western Group.....	2,078	1,863	4,133	3,746
Corporate and other(a).....	146	110	304	199
National Group.....	36	128	75	284
	-----	-----	-----	-----
	\$4,476	\$4,133	\$8,977	\$8,404
	=====	=====	=====	=====
EBITDA:				
Eastern Group.....	\$ 498	\$ 451	\$1,050	\$ 989
Western Group.....	437	355	871	723
Corporate and other(a).....	(58)	6	(62)	4
National Group.....	(1)	(13)	(11)	(11)
	-----	-----	-----	-----
	\$ 876	\$ 799	\$1,848	\$1,705
	=====	=====	=====	=====
Depreciation and amortization:				
Eastern Group.....	\$ 115	\$ 115	\$ 224	\$ 229
Western Group.....	109	110	217	220
Corporate and other(a).....	34	26	71	49
National Group.....	4	14	7	23
	-----	-----	-----	-----
	\$ 262	\$ 265	\$ 519	\$ 521
	=====	=====	=====	=====

- - - - -

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

HCA INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)
UNAUDITED

NOTE 13 -- BUSINESS COMBINATIONS

The following is a summary of acquisitions consummated during the six months ended June 30, 2001 and 2000 (dollars in millions):

	2001	2000
	----	----
Number of hospitals.....	1	7
Number of licensed beds.....	180	760
Purchase price information:		
Hospitals:		
Fair value of assets acquired.....	\$ 69	\$322
Liabilities assumed.....	--	(89)
	----	----
Net assets acquired.....	69	233
Other health care entities acquired.....	25	57
	----	----
Net cash paid.....	\$ 94	\$290
	====	====

The purchase price paid in excess of the fair value of identifiable net assets of acquired entities aggregated \$49 million in 2001 and \$82 million in 2000. 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 14 -- RECENT PRONOUNCEMENTS

During July 2001, the Financial Accounting Standards Board ("FASB") issued Statements of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141") and No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 141 is effective for transactions completed subsequent to June 30, 2001 and SFAS 142 is effective for years beginning after December 15, 2001. Under the provisions of SFAS 142, goodwill will no longer be amortized but will be subject to annual impairment tests. Other intangible assets will continue to be amortized over their useful lives. HCA will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of 2002. Application of the nonamortization provisions of SFAS 142 is expected to result in an increase in net income of approximately \$76 million (\$0.14 per share) per year. HCA will perform the first of the required impairment tests of goodwill and indefinite lived intangible assets as of January 1, 2002 and has not yet determined what effect the results of these tests will have on the Company's results of operations and financial position.

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 litigation and governmental investigations and litigation involving the Company's business practices, including the ability to negotiate, execute and timely consummate definitive settlement agreements in the government's remaining civil cases and to obtain court approval thereof, (ii) the highly competitive nature of the health care business, (iii) the efforts of insurers, health care providers and others to contain health care costs, (iv) possible changes in the Medicare and Medicaid programs that may limit reimbursements to health care providers and insurers, (v) changes in Federal, state or local regulation affecting the health care industry, (vi) the possible enactment of Federal or state health care reform, (vii) the ability to attract and retain qualified management and personnel, including affiliated physicians, nurses and medical support personnel, (viii) liabilities and other claims asserted against the Company, (ix) fluctuations in the market value of the Company's common stock, (x) ability to complete the share repurchase program and to settle related purchase contracts, (xi) changes in accounting practices, (xii) changes in general economic conditions, (xiii) future divestitures which may result in additional charges, (xiv) changes in revenue mix and the ability to enter into and renew managed care provider arrangements on acceptable terms, (xv) the availability and terms of capital to fund the expansion of the Company's business, (xvi) changes in business strategy or development plans, (xvii) slowness of reimbursement, (xviii) the ability to implement the Company's shared services and other initiatives and realize a decrease in administrative, supply and infrastructure costs, (xix) the outcome of pending and future tax audits and litigation associated with the Company's tax positions, (xx) the outcome of the Company's continuing efforts to monitor, maintain and comply with appropriate laws, regulations, policies and procedures and the Company's corporate integrity agreement with the government, (xxi) increased reviews of the Company's cost reports, (xxii) the ability to maintain and increase patient volumes and control the costs of providing services, and (xxiii) 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 AGREEMENTS TO SETTLE CERTAIN GOVERNMENT CLAIMS

The Company continues to be the subject of governmental investigations and litigation relating to its business practices. Additionally, the Company is a defendant in several qui tam actions brought by private parties on behalf of the United States of America.

On December 14, 2000, the Company entered into a Plea Agreement with the Criminal Division of the Department of Justice and various U.S. Attorney's Offices (the "Plea Agreement") and a Civil and Administrative Settlement Agreement with the Civil Division of the Department of Justice (the "Civil Agreement"). The agreements resolve all Federal criminal issues outstanding against the Company and, subject to court approval, certain issues involving Federal civil claims by or on behalf of the government against the Company relating to DRG coding, outpatient laboratory billing and home health issues. The Company also entered into a Corporate Integrity Agreement ("CIA") with the Office of Inspector General of the Department of Health and Human Services.

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

INVESTIGATIONS AND AGREEMENTS TO SETTLE CERTAIN GOVERNMENT CLAIMS (CONTINUED)

Pursuant to the Plea Agreement, the Company and its affiliates received a full release from criminal liability for conduct arising from or relating to billing and reimbursement for services provided pursuant to Federal health care benefit programs regarding: Medicare cost reports; violations of the Anti-kickback Statute or the Physician Self-referral law, and any other conduct involving relations with referral sources and those in a position to influence referral sources; DRG billing; laboratory billing; the acquisition of home health agencies; and the provision of services by home health agencies. In addition, the government agreed not to prosecute the Company for other possible criminal offenses which are or have been under investigation by the Department of Justice arising from or relating to billing and reimbursement for services provided pursuant to Federal health care benefit programs. The Plea Agreement provided that the Company pay the government \$95 million, which payment was made during the first quarter of 2001, and that two non-operating subsidiaries enter certain criminal pleas, which pleas were entered in January 2001.

The Civil Agreement covers, in general, the following issues: 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 Civil Agreement provides that in return for releases on these issues, the Company will pay the government \$745 million, with interest accruing from May 18, 2000 to the payment date at a rate of 6.5%. The civil payment will be made upon receipt of court approval of the Civil Agreement. On July 31, 2001, the government filed a motion to order payment of the settlement amount by the Company. On August 7, 2001, an order was entered approving the settlement and directing payment. On August 10, 2001, the payment was made by the Company. The civil issues that are not covered by the Civil Agreement and remain outstanding include claims related to cost reports and physician relations issues.

Under the Civil Agreement, the Company's existing Letter of Credit Agreement with the Department of Justice was reduced from \$1 billion to \$250 million upon payment of the settlement amount. Any future civil settlement or court ordered payments related to cost report or physician relations issues will reduce the remaining amount of the letter of credit dollar for dollar. The amount of any such future settlement or court ordered payments is not related to the remaining amount of the letter of credit.

The CIA is structured to assure the government of the Company's overall Medicare compliance and specifically covers DRG coding, outpatient laboratory billing, outpatient PPS billing and physician relations. The CIA resulted in a waiver of the government's discretionary right to exclude any of the Company's operations from participation in the Medicare Program for matters settled in the Civil Agreement.

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

The Company continues to cooperate in the governmental investigations. Given the scope of the investigations and current litigation, the Company anticipates continued investigative activity to occur in these and other jurisdictions in the future.

While management is unable to predict the outcome of any of the investigations and litigation or the initiation of any additional investigations or litigation, were the Company to be found in violation of Federal or state laws relating to Medicare, Medicaid or similar programs or breach of the CIA, the Company could be subject to substantial monetary fines, civil and criminal penalties and/or exclusion from participation in the Medicare and Medicaid programs. Any such sanctions or expenses could have a material adverse effect on the Company's financial position, results of operations and liquidity. See Note 2 -- Investigations and Agreements to Settle Certain Government Claims and Note 10 -- Contingencies in the Notes to Condensed Consolidated Financial Statements and Part II, Item 1: Legal Proceedings.

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

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, the CIA 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:

- Emphasize a "patients first" philosophy and a 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 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 in 1997 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. 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 Company's outpatient services by devoting additional capital resources to outpatient facilities.
- Improve operating efficiencies through enhanced cost management and resource utilization, and the implementation of shared services initiatives: 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 costs, HCA formed a 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. 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, develop and maintain 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

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

BUSINESS STRATEGY (CONTINUED)

that recruiting and retaining quality physicians is essential to being a premier provider of health care services.

- Streamline and decentralize management, consistent with HCA's 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 operating structure creates a more nimble, responsive organization.
- Effectively allocate capital to maximize return on investments: 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. Subsequent to BBA-97, two relief bills were passed by Congress. The Medicare, Medicaid and SCHIP Balanced Budget Refinement Act of 1999 ("BBRA") was passed in November 1999 and was primarily directed at reducing potential future Medicare cuts that would have occurred as a result of BBA-97. The Medicare, Medicaid and SCHIP Benefit Improvement and Protection Act of 2000 ("BIPA") was enacted in December 2000. Under BIPA, HCA believes it may realize Medicare rate increases over the next five years which began in April 2001. BBA-97 contained a requirement that the Centers for Medicare and Medicaid Services (formerly known as 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 had a measurable effect on the Company's financial results. During the second quarter of 2001, the Company experienced an increase in revenue per equivalent admission of 7.2% over the second quarter of 2000 due to renegotiating and renewing certain managed care contracts on more favorable terms, shifts of managed care admissions from HMO business to PPO business and improved reimbursement from the government as a result of BIPA. Admissions related to Medicare, Medicaid and managed care plans and other discounted arrangements for the quarters and six months ended June 30, 2001 and 2000 are set forth below.

	QUARTER		SIX MONTHS	
	2001	2000	2001	2000
Medicare.....	37.6%	36.8%	38.3%	37.6%
Medicaid.....	10.4	10.6	10.5	10.7
Managed care and other discounted.....	41.5	42.7	40.9	42.2
Other.....	10.5	9.9	10.3	9.5
	100.0%	100.0%	100.0%	100.0%
	=====	=====	=====	=====

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

RESULTS OF OPERATIONS (CONTINUED)

Revenue/Volume Trends (continued)

The approximate percentages of inpatient revenues of the Company's facilities related to Medicare, Medicaid and managed care plans and other discounted arrangements for the quarters and six months ended June 30, 2001 and 2000 are set forth below:

	QUARTER		SIX MONTHS	
	2001	2000	2001	2000
Medicare.....	39.5%	41.1%	40.2%	41.8%
Medicaid.....	6.7	7.4	6.8	7.5
Managed care and other discounted.....	39.7	37.1	38.8	35.8
Other.....	14.1	14.4	14.2	14.9
	100.0%	100.0%	100.0%	100.0%
	=====	=====	=====	=====

Payment pressure on payment rates and pressure by payers for patients to utilize outpatient or alternative delivery services presents an ongoing challenge. 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 six months ended June 30, 2001 and 2000 (dollars in millions, except per share amounts):

	QUARTER			
	2001		2000	
	AMOUNT	RATIO	AMOUNT	RATIO
Revenues.....	\$4,476	100.0	\$4,133	100.0
Salaries and benefits.....	1,822	40.7	1,645	39.8
Supplies.....	713	15.9	655	15.9
Other operating expenses.....	800	17.9	768	18.6
Provision for doubtful accounts.....	301	6.7	299	7.2
Depreciation and amortization.....	262	5.9	265	6.3
Interest expense.....	139	3.1	136	3.3
Equity in earnings of affiliates.....	(36)	(0.8)	(33)	(0.8)
Settlement with Federal government.....	2	--	745	18.0
Gains on sales of facilities.....	--	--	(18)	(0.4)
Restructuring of operations and investigation related costs.....	13	0.3	12	0.3
	4,016	89.7	4,474	108.2
Income (loss) before minority interests and income taxes.....	460	10.3	(341)	(8.2)
Minority interests in earnings of consolidated entities.....	29	0.7	29	0.8
Income (loss) before income taxes.....	431	9.6	(370)	(9.0)
Provision (benefit) for income taxes.....	168	3.7	(98)	(2.4)
Net income (loss).....	\$ 263	5.9	\$ (272)	(6.6)
Basic earnings (loss) per share.....	\$ 0.49		\$(0.49)	
Diluted earnings (loss) per share.....	\$ 0.48		\$(0.49)	
% changes from prior year:				
Revenues.....	8.3%		(0.7)%	
Income (loss) before income taxes.....	216.3		(268.5)	
Net income (loss).....	196.5		(354.8)	
Basic earnings (loss) per share.....	200.0		(372.2)	
Diluted earnings (loss) per share.....	198.0		(372.2)	
Admissions(a).....	2.1		(3.8)	
Equivalent admissions(b).....	1.0		(4.4)	
Revenue per equivalent admission.....	7.2		3.9	
Same facility % changes from prior year(c):				
Revenues.....	10.6		5.2	
Admissions(a).....	4.2		3.0	
Equivalent admissions(b).....	3.5		2.8	
Revenue per equivalent admission.....	6.9		2.4	

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

RESULTS OF OPERATIONS (CONTINUED)

Operating Results Summary (continued)

	SIX MONTHS			
	2001		2000	
	AMOUNT	RATIO	AMOUNT	RATIO
Revenues.....	\$ 8,977	100.0	\$8,404	100.0
Salaries and benefits.....	3,604	40.1	3,306	39.3
Supplies.....	1,424	15.9	1,325	15.8
Other operating expenses.....	1,557	17.3	1,532	18.2
Provision for doubtful accounts.....	626	7.0	601	7.2
Depreciation and amortization.....	519	5.8	521	6.2
Interest expense.....	281	3.1	255	3.0
Equity in earnings of affiliates.....	(82)	(0.9)	(65)	(0.8)
Settlement with Federal government.....	2	--	745	8.9
Gains on sales of facilities.....	(13)	(0.1)	(18)	(0.2)
Restructuring of operations and investigation related costs.....	27	0.3	25	0.3
	7,945	88.5	8,227	97.9
Income before minority interests and income taxes.....	1,032	11.5	177	2.1
Minority interests in earnings of consolidated entities.....	59	0.7	55	0.7
Income before income taxes.....	973	10.8	122	1.4
Provision for income taxes.....	384	4.2	98	1.1
Net income.....	\$ 589	6.6	\$ 24	0.3
Basic earnings per share.....	\$ 1.10		\$ 0.04	
Diluted earnings per share.....	\$ 1.07		\$ 0.04	
% changes from prior year:				
Revenues.....	6.8%		(4.7)%	
Income before income taxes.....	699.0		(84.6)	
Net income.....	2,359.0		(94.4)	
Basic earnings per share.....	2,650.0		(94.3)	
Diluted earnings per share.....	2,575.0		(94.3)	
Admissions(a).....	1.5		(9.7)	
Equivalent admissions(b).....	0.7		(10.3)	
Revenue per equivalent admission.....	6.1		6.3	
Same facility % changes from prior year(c):				
Revenues.....	8.6		5.8	
Admissions(a).....	3.2		2.6	
Equivalent admissions(b).....	2.6		2.6	
Revenue per equivalent admission.....	5.9		3.1	

- (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 June 30, 2001 and 2000

Income before income taxes increased 216.3% from a loss of \$370 million in 2000 to income of \$431 million in 2001, and pretax margins increased to 9.6% in 2001 from (9.0)% in 2000. The increase in pretax income was primarily attributable to the \$745 million accrual for settlement with the Federal government in 2000 as well as an increase in revenue per equivalent admission and improvement in other operating expenses as a percentage of revenues.

Revenues increased 8.3% to \$4.5 billion in 2001 from \$4.1 billion in 2000. The increase was the result of increasing volumes and increases in revenue per equivalent admission. Admissions increased 2.1% from 2000 and equivalent admissions (adjusted to reflect combined inpatient and outpatient volume) increased 1.0%. Revenue per equivalent admission increased 7.2% over 2000. On a same facility basis, revenues increased 10.6%, admissions increased 4.2% and equivalent admissions increased 3.5% from 2000. Revenue per equivalent admission on a same facility basis increased 6.9% over 2000. The increase in revenue per equivalent admission resulted from successes achieved in negotiating and renewing certain managed care contracts on more favorable terms, a shift in HCA's managed care business from HMO to PPO products and from managed Medicare to traditional Medicare, and improved reimbursement from government payers due to BIPA.

Salaries and benefits, as a percentage of revenues, increased to 40.7% in 2001 from 39.8% in 2000. Increasing wage rates, as evidenced by labor cost per man-hour increasing 6.0% over the second quarter of 2000, continue to present a management and industry challenge. Salaries and benefits, as a percentage of revenues, also increased due to man-hours associated with HCA's shared services initiatives.

Supply costs remained flat as a percentage of revenues at 15.9% in the second quarter of 2001 and 2000. The rate of increase in the cost of pharmaceutical, orthopedic and cardiac supplies was generally consistent with the increase in revenue per equivalent admission.

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 17.9% in 2001 from 18.6% in 2000 due to small decreases in several of these areas.

The provision for doubtful accounts, as a percentage of revenues, decreased to 6.7% in the second quarter of 2001 from 7.2% in 2000. HCA continues to focus on collections and work with managed care providers to ensure timely and accurate reimbursement.

Depreciation and amortization decreased as a percentage of revenues to 5.9% in the second quarter of 2001 from 6.3% in the second quarter of 2000, primarily due to depreciation and amortization levels remaining relatively unchanged while revenues increased.

Interest expense increased to \$139 million in the second quarter of 2001 from \$136 million in the second quarter of 2000. The Company recognized \$12 million of interest expense during the second quarter of 2001 related to the Federal government settlement compared to \$6 million in the second quarter of 2000.

Equity in earnings of affiliates remained flat as a percentage of revenues at 0.8% in 2001 and 2000 as improved operations at hospital joint ventures were offset by a loss incurred by a start-up purchasing organization affiliate.

During the second quarter of 2000, HCA recognized a pretax gain of \$18 million (\$8 million after-tax) on the sale of one hospital. Proceeds from the sale were used to repay bank borrowings.

During 2001 and 2000, respectively, the Company incurred \$13 million and \$12 million of restructuring of operations and investigation related costs. In 2001, the restructuring of operations and investigation related

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

RESULTS OF OPERATIONS (CONTINUED)

Quarters Ended June 30, 2001 and 2000 (continued)

costs included \$10 million of legal and accounting fees related to the governmental investigations and \$3 million of other costs. In 2000, the costs included \$12 million of legal and accounting fees.

Minority interests decreased slightly as a percentage of revenues to 0.7% during the second quarter of 2001 compared to 0.8% during the second quarter of 2000.

Six Months Ended June 30, 2001 and 2000

Income before income taxes increased 699.0% from \$122 million for the six months ended June 30, 2000 to \$973 million for the same period of 2001. Pretax margins increased to 10.8% from 1.4% for the same period a year ago. The increase in pretax income was primarily due to the \$745 million accrual for settlement with the Federal government in 2000 and increases in volumes and in revenue per equivalent admission.

Revenues increased 6.8% to \$9.0 billion for the first half of 2001 compared to \$8.4 billion for 2000. The increase was due to increasing volumes and an increase in revenue per equivalent admission. HCA increased volumes while reducing the number of hospitals from 195 in 2000 to 185 in 2001. Admissions increased 1.5% from 2000, and equivalent admissions (adjusted to reflect combined inpatient and outpatient volume) increased 0.7%. Revenue per equivalent admission increased 6.1% over 2000. On a same facility basis, revenues increased 8.6%, admissions increased 3.2% and equivalent admissions increased 2.6%. Revenue per equivalent admission on a same facility basis increased 5.9%.

Salaries and benefits, as a percentage of revenues increased to 40.1% in 2001 from 39.3% in 2000. Increasing wage rates, as evidenced by labor cost per man-hour increasing 7.0% over the second quarter of 2000, continue to present a management and industry challenge. Salaries and benefits as a percentage of revenues, also increased due to man-hours associated with HCA's shared services initiatives.

Supply costs remained relatively flat as a percentage of revenues at 15.9% for the six months ended June 30, 2001, compared to 15.8% for the same period of 2000.

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 17.3% in 2001 from 18.2% in 2000 due to small decreases in several of these areas.

The provision for doubtful accounts, as a percentage of revenues, improved to 7.0% from 7.2% in 2000 as HCA continues to focus on collections and work with managed care providers to ensure the Company receives appropriate payments on a timely basis.

Depreciation and amortization decreased as a percentage of revenues to 5.8% for the first half of 2001 compared to 6.2% for the same period of 2000. Depreciation and amortization levels remained relatively unchanged while revenues increased over the prior year.

Interest expense increased to \$281 million in 2001 from \$255 million 2000. The Company recognized \$24 million of interest expense during 2001 related to the settlement with the Federal government compared to \$6 million in 2000.

Equity in earnings of affiliates remained relatively flat as a percentage of revenues at 0.9% in 2001 compared to 0.8% in 2000.

During the first six months of 2001, HCA recognized a pretax gain of \$13 million (\$4 million after-tax) on the sale of one hospital. Proceeds from the sale were used to repay bank borrowings. During 2000, HCA recognized a pretax gain of \$18 million (\$8 million after-tax) on the sale of one hospital.

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

RESULTS OF OPERATIONS (CONTINUED)

Six Months Ended June 30, 2001 and 2000 (continued)

During 2001 and 2000, respectively, the Company incurred \$27 million and \$25 million of restructuring of operations and investigation related costs. The restructuring of operations and investigation related costs included \$20 million of legal and accounting fees related to the governmental investigations in both 2001 and 2000. HCA also recognized \$7 million and \$5 million, in 2001 and 2000, respectively, of other costs.

Minority interests remained unchanged as a percentage of revenues at 0.7% during the six months ended June 30, 2001 compared to the same period ended June 30, 2000.

The effective income tax rate was 80.3% in 2000 due to an increase in the valuation allowance. If the effect of the valuation allowance was excluded, the effective income tax rate would have been approximately 39% in 2000, as it was in 2001.

Liquidity and Capital Resources

Cash provided by operating activities totaled \$984 million during the first six months of 2001 compared to \$693 million in 2000. The increase in cash provided by operating activities during 2001 was primarily due to an increase in net income.

Working capital totaled \$1.4 billion at June 30, 2001 and \$312 million at December 31, 2000. During 2001, HCA refinanced \$900 million of debt which was included in current liabilities at December 31, 2000.

Cash used in investing activities was \$834 million in 2001 compared to \$785 million in 2000. Excluding acquisitions, capital expenditures were \$591 million in 2001 and \$586 million in 2000. Planned capital expenditures in 2001 are expected to approximate \$1.3 billion. At June 30, 2001, there were projects under construction which had an estimated additional cost to complete and equip, over the next five years, of approximately \$2.1 billion. HCA expects to finance capital expenditures with internally generated and borrowed funds. Available sources of capital include amounts available under HCA's credit agreement (approximately \$700 million as of July 31, 2001) and anticipated access to public and private debt markets. Management believes that its capital expenditure program is adequate to expand, improve and equip its existing health care facilities.

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 \$527 million at June 30, 2001. During 2000, two of HCA's joint venture partners exercised their put options whereby HCA purchased the partners' interests in the joint ventures for approximately \$95 million. HCA cannot predict if, or when, other joint venture partners will exercise such options.

During 1998, the Internal Revenue Service ("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 has proposed and may in the future propose to revoke the tax-exempt or public charity status of certain not-for-profit entities that participate in such joint ventures, or to treat joint venture income as unrelated business taxable income. HCA 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. In January 2001, a not-for-profit entity that participates in a joint venture with HCA filed a refund suit in Federal District Court seeking to recover taxes, interest and penalties assessed by the IRS in connection with the IRS' proposed revocation of the not-for-profit entity's tax-exempt status. In the event that the not-for-profit entity's tax-exempt status is upheld, the IRS has proposed to treat the not-for-profit entity's share of joint venture income as unrelated business taxable income. HCA is not a party to this lawsuit. The tax ruling or any adverse determination by the IRS or the courts regarding the tax-exempt or

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

RESULTS OF OPERATIONS (CONTINUED)

Liquidity and Capital Resources (continued)

public charity status of a not-for-profit partner or the characterization of joint venture income as unrelated business taxable income could limit the development of joint ventures with not-for-profit hospitals, require the restructuring of certain existing joint ventures with not-for-profits and influence the exercise of the put agreements by certain existing joint venture partners.

Investments of the Company's professional liability insurance subsidiary, to maintain statutory equity and pay claims, totaled \$1.7 billion at both June 30, 2001 and December 31, 2000. HCA's wholly-owned insurance subsidiary has entered into certain reinsurance contracts, and the obligations covered by the reinsurance contracts remain on the Company's balance sheet as HCA remains liable to the extent that the reinsurers do not meet their obligations under the reinsurance contracts. The unamortized balance of the amounts receivable related to the reinsurance contracts of \$225 million at June 30, 2001 and \$230 million at December 31, 2000, are included in other assets.

HCA has entered into retroactive insurance contracts in regards to certain workers' compensation and professional liability risks. As a result of the reinsurance and retroactive contracts, deferred gains of \$78 million at June 30, 2001 and \$21 million at December 31, 2000 are included in other liabilities and will be recognized over the estimated recovery period using the interest method.

Cash flows used in financing activities totaled \$340 million during 2001 compared to cash provided of \$194 million during 2000. The cash flows provided by operating activities were primarily used to repurchase common stock.

In March 2000, HCA announced that its Board of Directors authorized the repurchase of up to \$1 billion of the Company's common stock. Through June 30, 2001, certain financial organizations had purchased approximately 31.3 million shares of the Company's common stock for \$977 million utilizing forward purchase contracts. During 2000, HCA settled forward purchase contracts associated with the March 2000 authorization representing 11.7 million shares at a cost of \$300 million. During 2001, HCA settled forward purchase contracts representing 14.0 million shares at a cost of \$471 million. In accordance with the terms of the contracts, approximately 5.6 million shares at a cost of \$206 million remained outstanding at June 30, 2001; however, during July 2001, HCA settled these contracts. A component of the stock repurchase program has been the sale of put options, which entitle the holder to sell HCA's stock to HCA at a specified price on a specified date. At December 31, 2000, 3.8 million put options, with an average exercise price of \$35.66 per share, were outstanding. During the first quarter of 2001, 1.0 million put options, at an exercise price of \$35.25 per share, were exercised and 2.8 million put options expired unexercised. There were no put options outstanding at June 30, 2001. In addition, during 2001, HCA purchased 1.1 million shares through open market purchases at a cost of \$40 million, and received \$17 million in premiums from the sale of put options.

In November 1999, HCA announced that its Board of Directors had authorized the repurchase of up to \$1 billion of its common stock. During 2000, HCA settled forward purchase contracts associated with its November 1999 authorization representing 18.7 million shares at a cost of \$539 million. During 2001, HCA settled the remaining forward purchase contracts associated with its November 1999 authorization representing 15.7 million shares at a cost of \$461 million.

During the second quarter of 2001, the Company entered into an agreement with a financial institution that resulted in the financial institution investing \$300 million to capitalize an entity that would acquire HCA common shares. This consolidated affiliate acquired 16.8 million of HCA shares in connection with the Company's settlement of certain forward purchase contracts. The financial institution's investment in the consolidated affiliate is scheduled for repayment by the Company on April 30, 2003 and is reflected in HCA's balance sheet as "Company-obligated mandatorily redeemable securities of affiliate holding solely Company

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

RESULTS OF OPERATIONS (CONTINUED)

Liquidity and Capital Resources (continued)

securities." The quarterly return on their investment, based upon a LIBOR plus 125 basis points return rate, is recorded as minority interest expense.

In connection with the Company's share repurchase programs, the Company entered into a Letter of Credit Agreement with the United States Department of Justice. As part of the agreement, the Company provided the government with letters of credit totaling \$1 billion. The settlement reached with the government in December 2000, as discussed in Note 2 -- Investigations and Agreements to Settle Certain Government Claims in the Notes to Condensed Consolidated Financial Statements, provides that the letters of credit were reduced from \$1 billion to \$250 million upon payment of the civil settlement.

The resolution of the remaining government investigations and litigation, and the various other 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.

In December 2000, HCA filed a "shelf" registration statement and prospectus with the SEC relating to \$1.5 billion in debt securities. At June 30, 2001, \$1.0 billion has been issued related to this shelf.

In January 2001, the Company issued \$500 million of 7.875% notes due 2011. Proceeds from the notes were used to retire the outstanding balance under the 2000 Term Loan.

In April 2001, HCA entered into a new credit agreement with a group of banks consisting of a \$1.75 billion revolving credit loan (the "2001 Revolving Loan") and a \$750 million term loan (the "2001 Term Loan"), collectively, the "2001 Bank Loans". The 2001 Bank Loans have a final maturity in April 2006. The 2001 Revolving Loan refinanced and replaced HCA's \$2.0 billion revolving credit facility which was scheduled to mature in February 2002. The 2001 Term Loan proceeds were used to reduce outstanding bank loans and resulted in the reclassification of \$900 million of debt from current liabilities to noncurrent liabilities. Interest under the 2001 Bank Loans is payable generally at either LIBOR plus 1% to 2% or the prime lending rate plus 0% to 1% (in each case depending on HCA's credit ratings) or a competitive bid rate.

In May 2001, HCA issued \$500 million of 7.125% notes due June 1, 2006. Proceeds from the notes were used for general corporate purposes.

The 2001 Bank Loans 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.

In April 2001, Moody's Investors Service upgraded HCA's senior debt rating to Ba1 and maintained a positive outlook on the Company. In May 2001, Standard & Poor's changed its rating outlook on HCA from stable to positive.

Management believes that cash flows from operations, amounts available under the 2001 Bank Loans and the Company's anticipated access to public and private debt markets are sufficient to meet expected liquidity needs during the next twelve months.

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; however, HCA periodically enters into interest rate swap agreements to manage its exposure to fluctuations in interest rates.

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

RESULTS OF OPERATIONS (CONTINUED)

Market Risk (continued)

The investments of HCA's wholly-owned insurance subsidiary were \$1.1 billion in debt securities and \$573 million in equity securities at June 30, 2001. These investments are carried at fair value with changes in unrealized gains and losses being recorded as adjustments to comprehensive income. 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.

HCA's interest rate swap agreements involve the exchange of fixed and variable rate interest payments between two parties, based on common notional principal amounts and maturity dates. The notional amounts and interest payments in these agreements match the cash flows of the related liabilities. The notional amounts of the swap agreements represent balances used to calculate the exchange of cash flows and are not assets or liabilities of HCA. Any market risk or opportunity associated with these swap agreements is offset by the opposite market impact on the related debt. HCA's credit risk related to these agreements is considered low because the swap agreements are with creditworthy financial institutions. The interest payments under these agreements will be settled on a net basis. These derivatives and the related hedged debt amounts have been recognized in the financial statements at their respective fair values.

With respect to the Company's interest-bearing liabilities and after taking into account the effect of the interest rate swap agreements, approximately \$1.8 billion of long-term debt at June 30, 2001 was subject to variable rates of interest, while the remaining balance in long-term debt of \$5.3 billion at June 30, 2001 was subject to fixed rates of interest. The Company's variable interest rate debt is affected by both the general level of U.S. interest rates and, as to bank loans, the Company's credit rating. The estimated fair value of the Company's total long-term debt was \$7.1 billion at June 30, 2001. Based on a hypothetical 1% increase in interest rates, the potential annualized losses in future pretax earnings would be approximately \$18 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. The Company manages the impact of fluctuations in interest rates either by borrowing on a fixed or variable rate basis and by entering into interest rate swap transactions.

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

PENDING IRS DISPUTES

The Company is contesting income taxes and related interest proposed by the IRS for prior years aggregating approximately \$212 million as of June 30, 2001. 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 5 -- 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

	2001	2000
	-----	-----
CONSOLIDATING		
Number of hospitals in operation at:		
March 31.....	185	192
June 30.....	185	195
September 30.....		189
December 31.....		187
Number of freestanding outpatient surgical centers in operation at:		
March 31.....	74	80
June 30.....	75	80
September 30.....		76
December 31.....		75
Licensed hospital beds at(a):		
March 31.....	40,895	42,006
June 30.....	41,032	42,240
September 30.....		41,298
December 31.....		41,009
Weighted average licensed beds(b):		
Quarter:		
First.....	40,950	42,184
Second.....	40,852	41,923
Third.....		41,409
Fourth.....		41,128
Year.....		41,659
Average daily census(c):		
Quarter:		
First.....	22,842	22,697
Second.....	21,124	20,526
Third.....		20,028
Fourth.....		20,572
Year.....		20,952
Admissions(d):		
Quarter:		
First.....	412,000	408,100
Second.....	388,500	380,600
Third.....		381,200
Fourth.....		383,600
Year.....		1,553,500
Equivalent admissions(e):		
Quarter:		
First.....	597,800	595,900
Second.....	576,500	570,600
Third.....		568,500
Fourth.....		565,800
Year.....		2,300,800
Average length of stay (days)(f):		
Quarter:		
First.....	5.0	5.1
Second.....	4.9	4.9
Third.....		4.8
Fourth.....		4.9
Year.....		4.9

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

OPERATING DATA (CONTINUED)

	2001	2000
	-----	-----
NON-CONSOLIDATING(G)		
Number of hospitals in operation at:		
March 31.....	9	13
June 30.....	9	9
September 30.....		9
December 31.....		9
Number of freestanding outpatient surgical centers in operation at:		
March 31.....	3	3
June 30.....	3	3
September 30.....		3
December 31.....		3
Licensed hospital beds at:		
March 31.....	2,698	3,251
June 30.....	2,699	2,697
September 30.....		2,697
December 31.....		2,715

- - - - -

- (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 government investigations and litigation, qui tam actions, shareholder derivative and class action suits filed in Federal court, shareholder derivative actions filed in state court, patient/payer actions and general liability claims.

GOVERNMENT INVESTIGATIONS AND LITIGATION

The Company continues to be the subject of governmental investigations and litigation relating to its business practices. Additionally, the Company is a defendant in several qui tam actions brought by private parties on behalf of the United States of America.

On December 14, 2000, the Company entered into a Plea Agreement with the Criminal Division of the Department of Justice and various U.S. Attorney's Offices (the "Plea Agreement") and a Civil and Administrative Settlement Agreement with the Civil Division of the Department of Justice (the "Civil Agreement"). The agreements resolve all Federal criminal issues outstanding against the Company and, subject to court approval, certain issues involving Federal civil claims by or on behalf of the government against the Company relating to DRG coding, outpatient laboratory billing and home health issues. The Company also entered into a Corporate Integrity Agreement ("CIA") with the Office of Inspector General of the Department of Health and Human Services.

Pursuant to the Plea Agreement, the Company and its affiliates received a full release from criminal liability for conduct arising from or relating to billing and reimbursement for services provided pursuant to Federal health care benefit programs regarding: Medicare cost reports; violations of the Anti-kickback Statute or the Physician Self-referral law, and any other conduct involving relations with referral sources and those in a position to influence referral sources; DRG billing; laboratory billing; the acquisition of home health agencies; and the provision of services by home health agencies. In addition, the government agreed not to prosecute the Company for other possible criminal offenses which are or have been under investigation by the Department of Justice arising from or relating to billing and reimbursement for services provided pursuant to Federal health care benefit programs. The Plea Agreement provided that the Company pay the government \$95 million, which payment was made during the first quarter of 2001, and that two non-operating subsidiaries enter certain criminal pleas, which pleas were entered in January 2001.

The Civil Agreement covers, in general, the following issues: 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 Civil Agreement provides that in return for releases on these issues, the Company will pay the government \$745 million, with interest accruing from May 18, 2000 to the payment date at a rate of 6.5%. The civil payment will be made upon receipt of court approval of the Civil Agreement. On July 31, 2001, the government filed a motion to order payment of the settlement amount by the Company. On August 7, 2001, an order was entered approving the settlement and directing payment. On August 10, 2001, the payment was made by the Company. The civil issues that are not covered by the Civil Agreement and remain outstanding include claims related to cost reports and physician relations issues.

Under the Civil Agreement, the Company's existing Letter of Credit Agreement with the Department of Justice was reduced from \$1 billion to \$250 million at the time of the settlement payment. Any future civil settlement or court ordered payments related to cost report or physician relations issues will reduce the remaining amount of the letter of credit dollar for dollar. The amount of any such future settlement or court ordered payments is not related to the remaining amount of the letter of credit.

The CIA is structured to assure the government of the Company's overall Medicare compliance and specifically covers DRG coding, outpatient laboratory billing, outpatient PPS billing and physician relations.

The CIA resulted in a waiver of the government's discretionary right to exclude any of the Company's operations from participation in the Medicare program for matters settled in the Civil Agreement.

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

The Company continues to cooperate in government investigations. Given the scope of the investigations and current litigation, the Company anticipates continued investigative activity to occur in these and other jurisdictions in the future.

While management remains unable to predict the outcome of any of the investigations and litigation or the initiation of any additional investigations or litigation, were the Company to be found in violation of Federal or state laws relating to Medicare, Medicaid or similar programs or breach of the CIA, the Company could be subject to substantial monetary fines, civil and criminal penalties and/or exclusion from participation in the Medicare and Medicaid programs. Any such sanctions or expenses could have a material adverse effect on the Company's financial position, results of operations and liquidity. See Note 2 -- Investigations and Agreements to Settle Certain Government 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 and have been unsealed and served on the Company. The actions allege, in general, that the Company and certain affiliates violated the False Claims Act, 31 U.S.C. 3729 et seq., for improper claims submitted to the government for reimbursement. The lawsuits generally seek damages of three times the amount of excessive Medicare or Medicaid claims (involving false claims) presented by the defendants to the Federal government, civil penalties of not less than \$5,000 or more than \$11,000 for each such Medicare or Medicaid claim, attorneys' fees and costs. In many instances there are additional common law claims.

On February 12, 1999, the United States filed a motion before the Judicial Panel on Multidistrict Litigation ("MDL") seeking to transfer and consolidate, pursuant to 28 U.S.C. 1407, 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 granted the motion and all of the qui tam cases subject to the motion have been consolidated to the U.S. District Court of the District of Columbia. There are some qui tam actions that remain outside the consolidation.

On January 30, 2001, the District Court in the District of Columbia entered an order establishing an initial schedule for the consolidated qui tam cases. Among other things, the Court ordered that for those qui tam cases which will be dismissed in full or in part pursuant to the Civil Agreement, the parties must file motions to dismiss by February 14, 2001. The Court ordered that, by March 15, 2001, the government must make an intervention decision on the remaining cases and file and serve a Complaint for those cases in which it intervenes. On March 15, 2001, the government filed its notice of intervention or notice declining intervention (where it had not already declined intervention) in each qui tam action in the MDL proceeding. In each case where the government intervened, it served the complaint on the Company. In those cases where the government declined intervention, the respective relators were required to serve the complaint by March 15, 2001 or within 15 days after the government's notice declining intervention, whichever is later.

The qui tam Complaints included in the consolidated MDL proceeding include the following:

In October 1998, the U.S. District Court for the Middle District of Florida unsealed United States ex rel. Alderson v. Columbia/HCA et al, Case No. 97-2-35-CIV-T-23E. The case had been pending under seal since 1992, and is a qui tam action alleging various violations of the Federal False Claims Act concerning the Company's claims for reimbursement under various Federal programs including Medicare, Medicaid and

other federally funded programs. The complaint focuses on the alleged creation of certain "cost report reserves" in connection with the preparation of hospital cost reports submitted for the purpose of federal reimbursement. On October 1, 1998, the government intervened in this case and on March 15, 2001, served an amended complaint on the Company. The Company filed an answer and counterclaim in response to the complaint. The counterclaim seeks payment which includes, but is not limited to, the amounts owed to the Company, with interest, for all outstanding cost reports not settled by the government dating back to cost report years ended in 1994 and thereafter. The government has filed a motion to dismiss the counterclaim. In addition, the relator has served a complaint to preserve the non-intervened claims.

In December 1998, the U.S. District for the Middle District of Florida unsealed United States, ex rel. Schilling v. Columbia/HCA, Civil Action No. 96M-1264-CIV-T-23B. The case alleges violations of the False Claims Act, also concerning cost reporting issues. On December 30, 1998, the government intervened in this case and, on March 15, 2001, the government served an amended complaint on the Company. Certain claims alleging home health issues have been dismissed as being covered by the Civil Agreement. The Company filed an answer and counterclaim in response to the complaint. The counterclaim seeks payment which includes, but is not limited to, the amounts owed to the Company, with interest, for all outstanding cost reports not settled by the government dating back to cost report years ended in 1994 and thereafter. The government has filed a motion to dismiss the counterclaim. In addition, the relator has served a complaint to preserve the non-intervened claims.

On July 31, 1998, the U.S. District Court for the Western District of Texas, unsealed United States ex rel. Sara Ortega v. Columbia/HCA Healthcare Corp., et al. No. EP 95-CA-259H. The case had been pending under seal since 1995, and alleges various violations of the False Claims Act concerning statements made to the Joint Commission on Accreditation of Healthcare Organizations ("Joint Commission"). In 1997, the relator filed an amended complaint alleging other issues, including DRG upcoding, physician referral violations and certain cost reporting issues. In September 1998, the government intervened in some of these allegations, but not the allegations relating to the Joint Commission issues. The court has dismissed the DRG upcoding allegations as being covered by the Civil Agreement. On March 15, 2001, the government moved to dismiss relator's physician referral allegations and certain of the relator's cost report allegations on jurisdictional grounds. The government also withdrew its intervention on the one cost-shifting allegation, and relator has dismissed that allegation. The government retained intervention in the surviving cost-shifting allegations. The first amended complaint was served on the Company on March 9, 2001. The Company has filed a Motion to Dismiss the complaint, which is pending before the Court.

The matter of United States ex rel. James Thompson v. Columbia/HCA Healthcare Corp., et al., Civ. Action No. C-95-110 was filed on March 10, 1995 in the United States District Court for the Southern District of Texas. The relator alleges that the Company engaged in improper financial arrangements with physicians to induce referrals. 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. Discovery in this matter is currently stayed. Effective February 16, 2001, the government intervened in this case and, on March 15, 2001, served its amended complaint on the Company. The Company filed an answer to the complaint on May 14, 2001, and an amended answer on July 27, 2001.

The matter of United States 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 to physicians by the Diabetes Treatment Centers of America, who served as medical directors at a hospital affiliated with the Company, were unlawful payments for the referrals of their patients. The relator filed a motion for partial summary judgment. The court ordered the relator's motion for partial summary judgment stricken. The relator did not file an amended motion for summary judgment.

In June 1998, the case United States 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. The government intervened in this action on March 31, 1999. This 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 included non-allowable costs which were reimbursed and that the claims for reimbursement for these management fees violated the Anti-kickback Statute. On March 15, 2001, the government withdrew its intervention as to certain claims and served a complaint on the Company. The relator has moved to dismiss the remaining non-intervened claims. The Company filed an answer to the complaint on May 14, 2001, and an amended answer on July 27, 2001.

The case United States ex rel. Lanni v. Curative Health Services, et al., 98 Civ. 2501 (S.D. N.Y.) was filed on April 8, 1998 in the United States District Court for the Southern District of New York. The government has intervened in the case, in part, in order to seek dismissal of any outpatient laboratory claims covered by the Civil Agreement and has dismissed those allegations. On March 15, 2001, the government intervened in certain claims relating to the request for reimbursement for non-allowable costs and served its complaint on the Company. The relator has moved to dismiss the remaining claims. The Company filed an answer to the complaint on May 14, 2001, and an amended answer on July 27, 2001.

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 intervened in this action and served the complaint. On February 16, 2001, the court dismissed this case as released under the Civil Agreement. Final payment under the Civil Agreement was made to the U.S. Government by the Company on August 10, 2001.

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 and radiology charges, improperly billed skilled nursing facility charges, improperly accounted for discounts and rebates, and improperly billed charges for certified first assistants in surgery, home health visits, senior health centers, diabetic treatment centers and wound care centers. Also in 1997, the relator filed a case, United States ex rel. Atchison v. Columbia/HCA Healthcare, Inc., Civ. Action No. 3-97-0571 (M.D. Tenn.) in the United States District Court for the Middle District of Tennessee alleging the same violations. The court has dismissed claims relating to the home health issues as being covered by the Civil Agreement. On March 15, 2001, the government declined to intervene on both complaints. Relator has served both complaints on the Company. On June 5, 2001, the Company filed a motion to extend the time for responding to the duplicative complaints until such time as the relator elects which complaint she intends to pursue.

In December 1997, United States ex rel. Michael R. Marine v. Columbia Aventura Medical Center, et al., Case No. 97-4368 (S.D. Fla.) was filed in the United States District Court for the Southern District of Florida. In general, the case alleges that the Company engaged in improper cost shifting between facilities to improperly maximize reimbursement and then filing false claims on its cost reports. The government intervened on February 11, 2000. On March 15, 2001, the government withdrew its intervention on certain claims and served the complaint on the Company. The Company filed an answer to the complaint on May 14, 2001. Relator has served a complaint to preserve its non-intervened counts, and the Company intends to respond.

In 1997, United States ex rel. Adams v. Columbia/HCA Healthcare Corp., Civ. Action No. SA-97-CA-1230 (W.D. Tex.) was filed in the United States District Court for the Western District of Texas. In general, the complaint alleges that the Company engaged in improper financial arrangements with physicians to induce referrals, in violation of the Anti-kickback Statute. On March 15, 2001, the government declined to intervene in this case. Relator served the complaint on the Company, and the Company filed a motion to dismiss, which is currently pending before the court.

In August 1997, United States ex rel. Baker, Trent & Ekery v. Columbia/HCA Healthcare Corp., et al., Civ. Action No. SA-97-CA-0955 (W.D. Tex.) was filed in the United States District Court for the Western District of Texas. In general, the case alleges that the Company engaged in improper financial arrangements with physicians to induce referrals in violation of the Anti-kickback Statute as well as engaging in improper cost shifting, allegedly creating the filing of false cost report claims. On March 15, 2001, the government declined to intervene in this case. Relator did not serve a complaint on the Company.

In 1996, United States ex rel. King v. Columbia/HCA Healthcare Corp., et al., Civ. Action No. EP-96-CA-342 (W.D. Tex.) was filed in the United States District Court for the Western District of Texas. In general, the case alleges that the Company engaged in improper financial relationships with physicians to induce referrals in violation of the Anti-kickback Statute as well as other alleged improper cost reporting practices in violation of the False Claims Act, including improper billing, laboratory fraud, falsification of records, upcoding, and lack of certification to perform specific services. On March 15, 2001, the government intervened in part and declined to intervene as to the billing fraud allegations. The government served the complaint on the Company. The Company filed an answer to the complaint on May 14, 2001, and an amended answer on July 27, 2001. Relator has withdrawn the non-intervened counts.

On September 2, 1997, United States ex rel. Ann Mroz v. Columbia/HCA Healthcare Corp., Civ. Action No. 97-2828 (S.D. Fla.) was filed in the United States District Court for the Southern District of Florida. This case alleges that the Company engaged in improper arrangements with physicians to induce referrals in violation of the Anti-kickback Statute. On March 15, 2001, the government intervened in this case and served the complaint on the Company. The Company filed an answer to the complaint on May 14, 2001, and an amended answer on July 27, 2001.

In 1998, United States ex rel Barrett and Goodwin v. Columbia/HCA Healthcare Corp., et al., Civ. Action No. H-98-0861 (S.D. Tex.) was filed in the United States District Court for the Southern District of Texas. In general, the complaint alleges that the Company engaged in improper financial arrangements with physicians to induce referrals in violation of the Anti-kickback Statute as well as improper upcoding of DRG codes. On March 15, 2001, the government declined to intervene in this case. Relator served the complaint and the Company filed a Motion to Dismiss, which is currently pending before the court.

In 1996, United States ex rel Rappaport v. Hospital Corp. of America, et al., Civ. Action No. CV 96-N-1491-S (A)(N.D. Ala.) was filed in the United States District Court for the Northern District of Alabama. In general, the complaint alleges the Company engaged in improper financial arrangements with physicians to induce referrals in violation of the Anti-kickback Statute as well as upcoding, improper lab billing, cost-shifting and other improper cost reporting practices in violation of the False Claims Act. On February 16, 2001 the court dismissed the DRG upcoding claims. On March 9, 2000, the government declined to intervene in this case. Relator did not serve a complaint on the Company.

In 1999, United States ex rel. Hampton v. Columbia/HCA Healthcare Corp., et al., Civ. Action No. 5:99-CV-59-2 (M.D. Ga.) was filed in the United States District Court for the Middle District of Georgia. In general, the case alleges improper billing and improper practices with regard to home health agencies. The government has intervened in this case for the purpose of dismissing the relator's home health claims as being covered by the Civil Agreement. On March 15, 2001, the government moved to dismiss the claims. The government also declined to intervene in the kickback allegations. The relator served the complaint on the Company on March 15, 2001. On July 6, 2001, the court dismissed the relator's complaint.

In 1998, United States ex rel. Buck v. St. Petersburg General Hospital, et al., Civ. Action No. 98-1631-CIV-T26B (M.D. Fla.) was filed in United States District Court for the Middle District of Florida. In general,

the complaint alleges that the Company improperly billed Medicare for private rooms for patients when they were actually put in semi-private rooms. On December 27, 1999, the government declined to intervene in this case. Relator did not serve a complaint on the Company.

In 1997, United States ex rel. Hockett, Thompson & Staley v. Columbia/HCA Healthcare Corp., et al., Civ. Action No. 97-MC-29-A (W.D. Va.) was filed in the United States District Court for the Western District of Virginia. In general, the case alleges that the Company filed false claims in connection with the filing of its cost reports by improper inflation of cost basis relating to the gero-psych ward. On March 15, 2001, the government declined to intervene in this case. The relator served the complaint on the Company, and the Company has filed an answer to the complaint.

In 1998, United States ex rel. Scussel v. Patton Medical. Inc. et al, Civ. Action No. 4:98-CV-145 (M.D. Ga.) was filed in the United States District Court for the Middle District of Georgia. In general, the complaint alleges that the Company entered into an improper referral arrangement with a durable medical equipment supplier. On February 2, 2001, the government declined to intervene in this case. On March 8, 2001, the Company was served with a complaint by the relator. The Company has filed a motion to dismiss, which is currently pending before the court.

In 1999, United States ex rel. McCready v. Columbia North Monroe Hospital, Civil Action No. 99-1099M was filed in the United States District Court for the Western District of Louisiana. In general, the case alleges that a Company hospital failed to timely transfer patients to the rehabilitation unit, a practice which allegedly resulted in improper cost allocation to the hospital's acute care services and thus improperly increased reimbursement. On February 13, 2001, the government declined to intervene in this case. The relator served the complaint on the Company, and the Company filed an answer to the complaint on June 15, 2001.

In 1996, United States ex rel. Health Outcomes v. Columbia Medical Center East, et al., Civ. Action No. 96-1552 (E.D. Pa.) was filed in the United States District Court for the Eastern District of Pennsylvania. In general, the complaint alleges improper upcoding of DRG codes. The government has intervened for the purpose of dismissing the claims covered by the Civil Agreement. On February 16, 2001, the court dismissed this case. Final payment under the Civil Agreement was made to the U.S. Government by the Company on August 10, 2001.

In 1999, United States ex rel. Cianci v. Columbia/HCA Healthcare Corp., et al., was filed in United States District Court for the Middle District of Florida. The complaint alleges improper upcoding of DRG codes. On February 13, 2001, the government intervened in this case for the purpose of dismissing the claims in the complaint. On July 6, 2001, the court dismissed the complaint.

In 1995, United States ex rel. Wyman & Rothfeder v. Healthtrust, Inc. et al., Civ. Action No. 2:95CVM-0079-K (D. Utah) was filed in the United States District Court for the District of Utah. In general, the case alleges improper billing of laboratory tests. On February 16, 2001, the court dismissed this action in its entirety as being covered by the Civil Agreement. Final payment under the Civil Agreement was made to the U.S. Government by the Company on August 10, 2001.

In August 1997, United States ex rel. Boston v. Columbia/HCA Healthcare Corp., No. 3-97-CV1943-R (N.D. Tex.), was filed in the United States District Court for the Northern District of Texas. In general, the Complaint alleges improper billing relating to home health agencies. The government has intervened in this action for the purpose of dismissing the claims covered by the Civil Agreement, and on February 16, 2001, the court dismissed the case. Final payment under the Civil Agreement was made to the U.S. Government by the Company on August 10, 2001.

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

During the April 1997 to October 1997 period, numerous securities class action and derivative lawsuits were 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. In September 1999, the District Court entered an order granting the defendants' motion to dismiss McCall with prejudice. The plaintiffs in the McCall lawsuit filed an appeal from that order. On February 13, 2001, the United States Court of Appeals for the Sixth Circuit entered an order reversing, in part, the district court's dismissal order and remanding the case to the trial court. On April 23, 2001, the Sixth Circuit denied defendants' motion for rehearing, or certification to the Delaware Supreme Court. On July 25, 2001, the trial court issued a Second Case Management Order. A trial date has not been set.

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. That appeal is currently pending before the Sixth Circuit.

Shareholder Derivative Actions Filed in State Courts

Several derivative actions have been filed in state courts 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. In addition, a purported derivative action entitled Williams v. Averhoff, (Civil Action No. 15055-NC) was filed on August 5, 1997, in the Court of Chancery of the State of Delaware in and for New Castle County, but has not been served on any defendants. 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 and Williams lawsuits, 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 and Williams lawsuits. 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 filed an appeal from that order. On February 13, 2001, the United States Court of Appeals for the Sixth Circuit entered an order reversing, in part, the district court's dismissal order and remanding the case to the trial court, and, on April 23, 2001, the Sixth Circuit denied defendants' motion for rehearing, or, in the alternative, certification to the Delaware Supreme Court. (See Carl H. McCall, 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., above.)

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 former officers and 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 (see cases below) 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 a new plaintiff, 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 pending a ruling on plaintiffs' motion to modify the case schedule. In addition, in an order and memorandum opinion dated April 12, 2000, the Court ordered the Company to produce certain documents that the Company listed as subject to the attorney-client privilege and/or the attorney work product doctrine on privilege logs. The Company appealed the court's decision to the United States Court of Appeals for the Sixth Circuit. The matter has been fully briefed in the Court of Appeals. No oral argument date has been set. At a status conference on April 27, 2001, the court ordered a joint audit of the medical and billing records for certain beneficiaries of one or more of the plaintiff Health and Welfare Funds. Another status conference is scheduled for September 14, 2001.

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.)

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 Influenced 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.)

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.)

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.)

The matter of The United Paperworkers 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 (below) 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.)

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.

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.

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 ("Summit") 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. 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 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 arguments in this case. On May 24 2001, the Supreme Court ruled that the hospital's admissions contract did not supply a definite price term as required by Tennessee contract law. However, the court further held that under quasi-contract principles, the hospital is entitled to recover the reasonable value of medical goods and services provided to patients. Defendants have filed a motion for entry of judgment.

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 diagnoses, 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. Action in this case is stayed by agreement of the parties pending the audit and status conference in the Columbia/HCA Billing Practices litigation.

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 District Court dismissed plaintiff's RICO, intentional interference with prospective economic advantage, and unjust enrichment claims. The complaint seeks compensatory and punitive damages in an unstated amount plus costs and attorneys' fees. The suit is in its early stages. The Company has filed a response denying the allegations.

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 Agreements to Settle Certain Government 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. The appeal has been fully briefed. Oral argument before the Sixth Circuit Court of Appeals has been set for September 21, 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 is engaged in discussions with

these insurers, 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 5 -- 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 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

The Company's annual meeting of stockholders was held on May 24, 2001. The following matters were voted upon at the meeting:

	VOTES IN FAVOR -----	VOTES WITHHELD -----	
1. Election of Directors			
Magdalena H. Averhoff, M.D.	454,812,299	3,392,393	
Jack O. Bovender, Jr.	454,809,354	3,395,337	
J. Michael Cook.....	454,814,190	3,390,501	
Martin Feldstein.....	454,741,705	3,462,987	
Thomas F. Frist, Jr., M.D.	454,802,595	3,402,096	
Frederick W. Gluck.....	454,802,234	3,402,457	
Glenda A. Hatchett.....	454,795,385	3,409,307	
T. Michael Long.....	454,810,070	3,394,621	
John H. McArthur.....	454,651,583	3,553,109	
Thomas S. Murphy.....	454,612,960	3,591,732	
Kent C. Nelson.....	454,812,256	3,392,436	
Carl E. Reichardt.....	454,725,486	3,479,205	
Franck S. Royal, M.D.	454,786,062	3,418,630	
Harold T. Shapiro.....	454,716,816	3,487,875	
	VOTES IN FAVOR -----	VOTES WITHHELD -----	ABSTENTIONS -----
2. Approval of the Amended and Restated HCA Employee Stock Purchase Plan, as described in the Proxy Statement.....	450,853,976	5,639,674	1,705,837
3. Ratification of Ernst & Young LLP as HCA's independent auditors.....	455,206,269	1,511,337	1,486,736

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

(a) List of Exhibits:

Exhibit 4.1 -- Second Supplemental Indenture dated as of July 1, 2001 between the Company and Bank One Trust Company, N.A., as Trustee (which Supplement is filed herewith).*

Exhibit 10.1 -- Loan Agreement among the Company, lenders party to the agreement and Toronto Dominion (Texas), Inc., as administrative agent, dated as of June 28, 2001 and amended and restated as of July 31, 2001 (filed as Exhibit 10.1 to the Company's Registration Statement on Form S-3 (File No 333-67040), and incorporated herein by reference).

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

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

(b) Reports on Form 8-K filed during the quarter ended June 30, 2001:

On April 24, 2001, the Company filed a report on Form 8-K which announced its operating results for the first quarter ended March 31, 2001.

On May 23, 2001, the Company filed a report on Form 8-K which announced the Issuance of \$500 million of 7.125% Notes due 2006.

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 Inc.

/s/ R. MILTON JOHNSON

R. Milton Johnson
Senior Vice President and Controller

Date: August 14, 2001

HCA INC.

TO

BANK ONE TRUST COMPANY, N.A.,
TRUSTEE

SECOND SUPPLEMENTAL INDENTURE

TO

INDENTURE OF COLUMBIA HEALTHCARE CORPORATION

Dated as of July 1, 2001

Supplementing the Indenture, dated as of December 16, 1993, by and between Columbia Healthcare Corporation and The First National Bank of Chicago, as supplemented by the First Supplemental Indenture dated May 25, 2000, by and between HCA - The Healthcare Company (successor-in-interest to Columbia Healthcare Corporation) and Bank One Trust Company, N.A. (successor-in-interest to The First National Bank of Chicago).

THIS SECOND SUPPLEMENTAL INDENTURE (the "Supplemental Indenture"), dated as of July 1, 2001, by and among HCA Inc., a corporation duly organized and existing under the laws of the State of Delaware ("HCA"), having its principal offices at One Park Plaza, Nashville, Tennessee 37203, formerly known as HCA - The Healthcare Company; and Bank One Trust Company, N.A., a national banking association duly organized and existing under the laws of the United States of America ("Bank One"), having its principal corporate trust offices in the State of New York at 153 West 51st Street, New York, New York, 10019.

WHEREAS, Columbia Healthcare Corporation, a Delaware corporation, duly executed and delivered to The First National Bank of Chicago, as trustee ("Trustee"), that certain Indenture, dated as of December 16, 1993 (the "Indenture"), as supplemented by that certain First Supplemental Indenture dated as of May 25, 2000 by and between HCA (then known as HCA - The Healthcare Company) and Bank One (successor in interest to the Trustee); and relating to the issuance from time to time of debentures, notes, bonds and other evidences of indebtedness (collectively, the "Debt Securities");

WHEREAS, pursuant to the terms of that certain Certificate of Ownership and Merger (the "Merger Certificate"), effective as of July 1, 2001, by and between HCA (then known as HCA - The Healthcare Company) and its wholly-owned subsidiary, HCA Inc., a Delaware corporation ("Merger Subsidiary"), Merger Subsidiary was merged with and into HCA, for the sole purpose and with the sole effect of changing HCA's name from HCA - The Healthcare Company to HCA Inc. (the "Merger");

WHEREAS, Section 901(1) of the Indenture requires HCA to execute and deliver a supplemental indenture to the Trustee providing for, among other matters, the assumption by HCA of the due and punctual payment of the principal of (and premium, if any), and interest on all the Debt Securities, according to their tenor, and the due and punctual performance and observance of all of the covenants and conditions of the Indenture to be performed or observed by HCA;

WHEREAS, pursuant to Section 1001(1) of the Indenture, this Supplemental Indenture may be executed and delivered by the Trustee and HCA (the continuing corporation) without the consent of the Holders (as defined in the Indenture) of the Debt Securities;

WHEREAS, the Board of Directors of HCA has authorized the execution of this Supplemental Indenture and its delivery to the Trustee; and

WHEREAS, all acts and things necessary to make this Supplemental Indenture the valid, binding and legal obligation of HCA in accordance with its terms have been done.

NOW, THEREFORE, in consideration of the premises, it is mutually covenanted and agreed for the equal and proportionate benefit of all Holders of the Debt Securities as follows. Capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the Indenture.

ARTICLE I.

ASSUMPTION OF HCA - THE HEALTHCARE COMPANY'S
OBLIGATIONS BY HCA INC.

Section 1.1 HCA, a corporation duly organized and validly existing under the laws of the State of Delaware, hereby expressly assumes the due and punctual payment of the principal of (and premium, if any) and interest on all the Debt Securities, according to their tenor, and the due and punctual performance and observance of all of the covenants and conditions of the Indenture to be performed or observed by HCA and shall otherwise succeed and be substituted for HCA in the Indenture and in the Debt Securities with the same effect as if HCA had been named therein as HCA.

Section 1.2 HCA hereby represents and warrants that, immediately after giving effect to the Merger, no Event of Default, and no event which, after notice or lapse of time, or both, would become an Event of Default, has occurred or is continuing.

ARTICLE II.

MISCELLANEOUS

Section 2.1 The Indenture shall be deemed to be modified and amended as herein provided, but, except as modified and amended by this Supplemental Indenture, the Indenture shall continue in full force and effect.

Section 2.2 The Indenture, the First Supplemental Indenture and this Supplemental Indenture shall be read, taken and construed as one and the same instrument.

Section 2.3 This Supplemental Indenture shall become effective at the effective time of the Merger upon the execution and delivery hereof by each of the parties hereto.

Section 2.4 The Trustee makes no representations as to the validity or sufficiency of this Supplemental Indenture, except the due and valid execution hereof by the Trustee. The Trustee's execution of this Supplemental Indenture should not be construed to be an approval or disapproval of the advisability of the action taken by HCA (then known as HCA - The Healthcare Company) and Merger Subsidiary with respect to the Merger.

Section 2.5 This Supplemental Indenture shall be governed by and construed in accordance with the laws of the State of New York.

Section 2.6 This Supplemental Indenture may be executed in any number of counterparts each of which shall be an original, but all of which together shall be deemed to constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed, and their respective corporate seals to be hereunto affixed and duly attested, all as of the day and year first above written.

HCA Inc.

By: /s/ R. Milton Johnson

R. Milton Johnson
Senior Vice President and Controller

(CORPORATE SEAL)

Attest

/s/ John M. Franck II

By: John M. Franck II
Title: Vice President - Legal and Corporate Secretary

Bank One Trust Company, N.A.,
As Trustee

By: /s/ Sandra Whalen

Name: Sandra Whalen

Title: Vice President

(CORPORATE SEAL)

Attest

/s/ Mary R. Fonti

By: Mary R. Fonti
Title: Vice President

Personally appeared before me, the undersigned, a Notary Public, R. Milton Johnson, with whom I am personally acquainted, and who acknowledged that he executed the within instrument for the purposes therein contained, and who further acknowledged that he is the Senior Vice President and Controller of HCA Inc., a Delaware corporation, and is authorized by the corporation to execute this instrument on behalf of the corporation.

WITNESS my hand, at office, this 1st day of July, 2001.

/s/ Shirley E. Scharf

Notary Public

My Commission Expires: My Commission Expires NOV. 30, 2002

STATE OF NY)
)
 COUNTY OF NY)

Personally appeared before me, the undersigned, a Notary Public, Sandra Whalen, with whom I am personally acquainted, and who acknowledged that she executed the within instrument for the purposes therein contained, and who further acknowledged that she is the Vice President of Bank One Trust Company, N.A., a national banking association, and is authorized by corporation to execute this instrument on behalf of the corporation.

WITNESS my hand, at office, this 1st day of July, 2001.

/s/ Mark E. Davis

 Notary Public

My Commission Expires: 3/23/02

MARK E. DAVIS
 Notary Public, State of New York
 Reg. No. 01DA6004466
 Qualified in New York County
 Commission Expires March 23, 2002

HCA INC.
 COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
 FOR THE QUARTERS AND SIX MONTHS JUNE 30, 2001 AND 2000
 (DOLLARS IN MILLIONS)

	QUARTER		SIX MONTHS	
	2001	2000	2001	2000
EARNINGS:				
Income (loss) before minority interests and income taxes....	\$460	\$(341)	\$1,032	\$177
Fixed charges, excluding capitalized interest.....	168	162	337	306
	-----	-----	-----	-----
	\$628	\$(179)	\$1,369	\$483
	=====	=====	=====	=====
FIXED CHARGES:				
Interest charged to expense.....	\$139	\$ 136	\$ 281	\$255
Interest portion of rental expense and amortization of deferred loan costs.....	29	26	56	51
	-----	-----	-----	-----
Fixed charges, excluding capitalized interest.....	168	162	337	306
Capitalized interest.....	3	6	7	11
	-----	-----	-----	-----
	\$171	\$ 168	\$ 344	\$317
	=====	=====	=====	=====
Ratio of earnings to fixed charges.....	3.67	(a)	3.98	1.52

- - - - -

(a) For the quarter ended June 30, 2000, earnings are inadequate to cover fixed charges by \$347 million.