

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2002

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)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-d of the Exchange Act). YES ☒ NO ☐

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

Class of Common Stock

Outstanding at October 31, 2002

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

492,192,200 shares
21,000,000 shares

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[Certification Pursuant to 18 U.S.C. Section 1350](#)

HCA INC.

FORM 10-Q

September 30, 2002

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HCA INC.

CONDENSED CONSOLIDATED INCOME STATEMENTS
For the quarters and nine months ended September 30, 2002 and 2001
Unaudited
(Dollars in millions, except per share amounts)

	Quarter		Nine Months	
	2002	2001	2002	2001
Revenues	\$ 4,929	\$ 4,438	\$ 14,705	\$ 13,415
Salaries and benefits	1,999	1,808	5,889	5,412
Supplies	795	712	2,351	2,136
Other operating expenses	859	839	2,491	2,435
Provision for doubtful accounts	411	364	1,150	990
Depreciation and amortization	253	255	752	774
Interest expense	111	137	340	418
Insurance subsidiary (gains) losses on sales of investments	(2)	(15)	2	(54)
Equity in earnings of affiliates	(50)	(40)	(156)	(122)
Settlement with Federal government	—	—	—	2
Gains on sales of facilities	—	(112)	—	(125)
Impairment of investment securities	168	—	168	—
Impairment of long-lived assets	—	17	19	17
Investigation related costs	16	17	46	44
	<u>4,560</u>	<u>3,982</u>	<u>13,052</u>	<u>11,927</u>
Income before minority interests and income taxes	369	456	1,653	1,488
Minority interests in earnings of consolidated entities	34	33	111	92
	<u>335</u>	<u>423</u>	<u>1,542</u>	<u>1,396</u>
Income before income taxes	335	423	1,542	1,396
Provision for income taxes	135	167	607	551
	<u>200</u>	<u>256</u>	<u>935</u>	<u>845</u>
Reported net income	200	256	935	845
Goodwill amortization, net of tax	—	17	—	52
	<u>200</u>	<u>273</u>	<u>935</u>	<u>897</u>
Adjusted net income	\$ 200	\$ 273	\$ 935	\$ 897
Basic earnings per share:				
Reported net income	\$ 0.39	\$ 0.50	\$ 1.83	\$ 1.60
Goodwill amortization, net of tax	—	0.03	—	0.10
	<u>0.39</u>	<u>0.53</u>	<u>1.83</u>	<u>1.70</u>
Adjusted net income	\$ 0.39	\$ 0.53	\$ 1.83	\$ 1.70
Diluted earnings per share:				
Reported net income	\$ 0.38	\$ 0.48	\$ 1.78	\$ 1.56
Goodwill amortization, net of tax	—	0.03	—	0.10
	<u>0.38</u>	<u>0.51</u>	<u>1.78</u>	<u>1.66</u>
Adjusted net income	\$ 0.38	\$ 0.51	\$ 1.78	\$ 1.66
Cash dividends	\$ 0.02	\$ 0.02	\$ 0.06	\$ 0.06
Shares used in earnings per share calculations (in thousands):				
Basic	513,986	513,873	511,881	528,856
Diluted	527,260	529,491	525,659	543,274

See accompanying notes.

HCA INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

Unaudited

(Dollars in millions, except per share amounts)

	September 30, 2002	December 31, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 138	\$ 85
Accounts receivable, less allowance for doubtful accounts of \$1,975 and \$1,812	2,685	2,420
Inventories	438	423
Income taxes receivable	34	93
Other	1,214	1,120
	4,509	4,141
Property and equipment, at cost	16,456	15,222
Accumulated depreciation	(6,930)	(6,303)
	9,526	8,919
Investments of insurance subsidiary	1,384	1,453
Investments in and advances to affiliates	667	680
Goodwill	2,001	1,984
Deferred loan costs	69	67
Other	371	486
	\$18,527	\$17,730
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 742	\$ 755
Accrued salaries	423	386
Other accrued expenses	1,042	986
Government settlement accrual	250	250
Long-term debt due within one year	427	807
	2,884	3,184
Long-term debt	6,933	6,553
Professional liability risks, deferred taxes and other liabilities	2,375	2,268
Minority interests in equity of consolidated entities	598	563
Company-obligated mandatorily redeemable securities of affiliate holding solely Company securities	—	400
Stockholders' equity:		
Common stock \$.01 par; authorized 1,650,000,000 shares; outstanding 512,526,400 shares in 2002 and 509,297,200 shares in 2001	5	5
Capital in excess of par value	37	—
Other	6	7
Accumulated other comprehensive income	51	18
Retained earnings	5,638	4,732
	5,737	4,762
	\$18,527	\$17,730

See accompanying notes.

HCA INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the nine months ended September 30, 2002 and 2001

Unaudited

(Dollars in millions)

	2002	2001
Cash flows from operating activities:		
Net income	\$ 935	\$ 845
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful accounts	1,150	990
Depreciation and amortization	752	774
Income taxes	46	336
Gains on sales of facilities	—	(125)
Impairment of investment securities	168	—
Impairment of long-lived assets	19	17
Changes in operating assets and liabilities	(1,195)	(1,165)
Payment to Federal government	—	(840)
Other	89	(11)
Net cash provided by operating activities	1,964	821
Cash flows from investing activities:		
Purchase of property and equipment	(1,240)	(962)
Acquisition of hospitals and other health care entities	(118)	(94)
Investment in and advances to affiliates	—	(24)
Disposition of property and equipment	77	443
Change in investments	(65)	(124)
Other	(21)	(17)
Net cash used in investing activities	(1,367)	(778)
Cash flows from financing activities:		
Issuance of long-term debt	1,005	1,750
Net change in revolving bank credit	(255)	(15)
Repayment of long-term debt	(790)	(1,380)
Issuance of mandatorily redeemable securities of affiliate	—	500
Repurchases of common stock	(682)	(1,256)
Issuances of common stock	221	187
Payment of cash dividends	(30)	(32)
Other	(13)	(37)
Net cash used in financing activities	(544)	(283)
Change in cash and cash equivalents	53	(240)
Cash and cash equivalents at beginning of period	85	314
Cash and cash equivalents at end of period	\$ 138	\$ 74
Interest payments	\$ 308	\$ 420
Income tax payments	\$ 561	\$ 215

See accompanying notes.

HCA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

NOTE 1 — BASIS OF PRESENTATION

HCA Inc. 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 September 30, 2002, these affiliates owned and operated 175 hospitals, 74 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 six hospitals and four freestanding surgery centers which are accounted for using the equity method. The Company’s facilities are located in 22 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 nine months ended September 30, 2002, are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. 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, 2001.

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

NOTE 2 — INVESTIGATIONS AND SETTLEMENT OF CERTAIN GOVERNMENT CLAIMS

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

In December 2000, HCA entered into a Plea Agreement with the Criminal Division of the Department of Justice and various U.S. Attorneys’ 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 resolved all Federal criminal issues outstanding against HCA and certain issues involving Federal civil claims by or on behalf of the government against HCA relating to DRG coding, outpatient laboratory billing and home health issues. The civil issues that are not covered by the Civil Agreement and remain outstanding include claims related to cost reports and physician relations issues. The Civil Agreement was approved by the Federal District Court of the District of Columbia in August 2001. HCA paid the government \$95 million, as provided by the Plea Agreement, during the first quarter of 2001 and paid \$745 million (plus \$60 million of accrued interest), as provided by the Civil Agreement, during the third quarter of 2001. HCA also entered into a Corporate Integrity Agreement (“CIA”) with the Office of Inspector General of the Department of Health and Human Services.

Under the Civil Agreement, HCA’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.

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

HCA INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
Unaudited

NOTE 2 — INVESTIGATIONS AND SETTLEMENT OF CERTAIN GOVERNMENT CLAIMS (continued)

HCA continues to cooperate in the governmental investigations. Given the scope of the investigations and current litigation, HCA 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 HCA to be found in violation of Federal or state laws relating to Medicare, Medicaid or similar programs or breach of the CIA, HCA 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 HCA's financial position, results of operations and liquidity. See Note 3 — Understanding Regarding Claims for Medicare Reimbursement, Note 12 — Contingencies and Part II, Item 1: Legal Proceedings.

NOTE 3 — UNDERSTANDING REGARDING CLAIMS FOR MEDICARE REIMBURSEMENT

On March 28, 2002, HCA announced that it had reached an understanding with the Centers for Medicare and Medicaid Services ("CMS") to resolve all Medicare cost report, home office cost statement and appeal issues between HCA and CMS. The understanding provides that HCA would pay CMS \$250 million with respect to these matters. The understanding was reached as a means to resolve all outstanding appeals and more than 2,600 HCA cost reports for cost report periods ended on or before July 31, 2001, many of which CMS has yet to audit. The understanding with CMS is subject to approval by the U.S. Department of Justice, which has not yet been obtained, and execution of a definitive written agreement.

The understanding with CMS does not include resolution of the outstanding civil issues with the U.S. Department of Justice and relators with respect to cost reports and physician relations. See Note 2 — Investigations and Settlement of Certain Government Claims.

The understanding with CMS resulted in HCA recording a pretax charge of \$260 million (\$165 million after-tax), or \$0.32 per basic and \$0.30 per diluted share, consisting of the accrual of \$250 million for the settlement payment and the write-off of \$10 million of net Medicare cost report receivables. This charge was recorded in the consolidated income statement for the year ended December 31, 2001.

NOTE 4 — FACILITY SALES

During the third quarter of 2001, HCA recognized a pretax gain of \$79 million (\$48 million after-tax) on the sale of a provider of specialty managed care benefit programs. During the first nine months of 2001, HCA also recognized pretax gains of \$46 million (\$24 million after-tax) on the sales of two consolidating hospitals and two non-consolidating hospitals. Proceeds from each sale were used to repay bank borrowings.

NOTE 5 — IMPAIRMENT OF INVESTMENT SECURITIES

During the third quarter of 2002, HCA recorded an impairment charge on investment securities of \$168 million. The investment securities on which the impairment charge was recorded were primarily equity securities held by HCA's insurance subsidiary. These investments are classified as "available-for-sale" and they are carried at fair value with changes in unrealized gains and losses generally being recorded as adjustments to other comprehensive income. The fair value of investments is generally based on quoted market prices. Due to the continued overall market decline and management's review and evaluation of the individual investment securities, management deemed the market decline for certain investment securities (predominantly in the technology and communications industries) to be "other-than-temporary" and the related adjustment to fair value for these investment securities was recognized in the income statement. The

HCA INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
Unaudited

NOTE 5 — IMPAIRMENT OF INVESTMENT SECURITIES (continued)

declines in fair value are not expected to present a liquidity concern as claim payments during the next twelve months are expected to approximate \$250 million, and sufficient assets are available to pay the expected claims (See Note 9 — Investments of Insurance Subsidiary, for a summary of HCA's insurance subsidiary investment securities). The impairment charge affected the "investments of insurance subsidiary" asset category and the "corporate and other" operating segment.

NOTE 6 — IMPAIRMENT OF LONG-LIVED ASSETS

During the second quarter of 2002, management decided to delay the development and implementation of certain financial and procurement information system components of its enterprise resource planning program to concentrate and direct efforts to the patient accounting and human resources information system components, resulting in a non-cash, pretax charge of \$19 million. HCA reduced the carrying value for certain capitalized costs associated with the information system components that have been delayed. The decision to delay these activities is not expected to have a significant impact on HCA's operations or cash flows for future periods. The impairment charge affected the "property and equipment" asset category, and the "corporate and other" operating segment.

During the third quarter of 2001, HCA reduced the carrying value for a non-hospital, equity method joint venture to fair value, based upon estimates of sales value, for a non-cash, pretax charge of \$17 million. This joint venture's impact on HCA's operations was not significant. The impairment charge affected the "investments in and advances to affiliates" asset category and the "corporate and other" operating segment.

NOTE 7 — INCOME TAXES

HCA is currently contesting before the Appeals Division of the Internal Revenue Service (the "IRS"), 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 HCA's 1994-1998 Federal income tax returns, Columbia Healthcare Corporation's ("CHC") 1993 and 1994 Federal income tax returns, HCA — Hospital Corporation of America, Inc.'s ("Predecessor HCA") 1987, 1988 and 1991 through 1993 Federal income tax returns and Healthtrust, Inc. — The Hospital Company's ("Healthtrust") 1990 through 1994 Federal income tax returns. The disputed items include the amount of gain or loss recognized on the divestiture of certain non-core business units by HCA in 1998 and the allocation of costs among fixed assets and goodwill in connection with certain hospitals acquired by HCA in 1995 and 1996. The IRS is claiming an additional \$326 million in income taxes and interest through September 30, 2002.

The Company has filed an appeal with the United States Court of Appeals, Sixth Circuit with respect to two Tax Court decisions received in 1996 related to the IRS examination of Predecessor HCA's 1987 through 1988 Federal income tax returns. HCA is contesting the Tax Court decisions related to the method that Predecessor HCA used to calculate its tax reserve for doubtful accounts and the timing of deferred income recognition in connection with Predecessor HCA's sale of certain subsidiaries to Healthtrust in 1987. Neither the Company nor the IRS filed appeals with respect to any other Tax Court decisions received in 1996 and 1997 related to the IRS examination of Predecessor HCA's 1981 through 1988 Federal income tax returns, therefore, Predecessor HCA's 1981 through 1986 taxable years are now closed.

During the first quarter of 2002, the IRS began an examination of HCA's 1999 through 2000 Federal income tax returns. HCA is presently unable to estimate the amount of any additional income tax and interest that the IRS may claim upon completion of this examination.

Management believes that adequate provisions have been recorded to satisfy final resolution of the disputed issues. Management believes that the Company, CHC, Predecessor HCA and Healthtrust properly

HCA INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
Unaudited

NOTE 7 — INCOME TAXES (continued)

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.

NOTE 8 — 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.

The following table sets forth the computation of basic and diluted earnings per share for the quarters and nine months ended September 30, 2002 and 2001 (dollars in millions, except per share amounts and shares in thousands):

	Quarter		Nine Months	
	2002	2001	2002	2001
Reported net income	\$ 200	\$ 256	\$ 935	\$ 845
Goodwill amortization, net of tax	—	17	—	52
Adjusted net income	\$ 200	\$ 273	\$ 935	\$ 897
Weighted average common shares outstanding	513,986	513,873	511,881	528,856
Effect of dilutive securities:				
Stock options	11,664	13,964	12,247	12,815
Other	1,610	1,654	1,531	1,603
Shares used for diluted earnings per share	527,260	529,491	525,659	543,274
Basic earnings per share:				
Reported net income	\$ 0.39	\$ 0.50	\$ 1.83	\$ 1.60
Goodwill amortization, net of tax	—	0.03	—	0.10
Adjusted net income	\$ 0.39	\$ 0.53	\$ 1.83	\$ 1.70
Diluted earnings per share:				
Reported net income	\$ 0.38	\$ 0.48	\$ 1.78	\$ 1.56
Goodwill amortization, net of tax	—	0.03	—	0.10
Adjusted net income	\$ 0.38	\$ 0.51	\$ 1.78	\$ 1.66

HCA INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
Unaudited

NOTE 9 — INVESTMENTS OF INSURANCE SUBSIDIARY

A summary of the insurance subsidiary's investments at September 30, 2002 follows (dollars in millions):

		September 30, 2002				
		Amortized Cost	Unrealized Amounts		Fair Value	
			Gains	Losses		
Debt securities:						
United States Government	\$	4	\$	1	\$	5
States and municipalities		864		71		935
Mortgage-backed securities		79		3		81
Corporate and other		72		3		74
Money market funds		63		—		63
Redeemable preferred stocks		4		—		4
		1,086		78		1,162
Equity securities:						
Perpetual preferred stocks		7		—		7
Common stocks		498		31		465
		505		31		472
		\$1,591		\$109		\$1,634
Amounts classified as current assets						(250)
Investments carrying value						\$1,384

The fair value of investment securities is generally based on quoted market prices. At September 30, 2002 all of the investments of HCA's insurance subsidiary were classified as "available-for-sale." The aggregate common stock investment is comprised of 409 equity positions at September 30, 2002, with 122 positions reflecting unrealized gains and 287 positions reflecting unrealized losses (none of the individual unrealized loss positions exceed \$5 million). None of the equity positions with unrealized losses at September 30, 2002 represent situations where there is either a 50% decline from unamortized cost or a decline of 20% or more from cost for a period of over 12 months.

NOTE 10 — LONG-TERM DEBT

In April 2002, HCA issued \$500 million of 6.95% notes due May 1, 2012. Proceeds from the notes were used to repay the amounts outstanding under the Company's bank credit facility and for general corporate purposes.

In May 2002, HCA filed a shelf registration statement and prospectus with the SEC related to \$1.5 billion in debt securities.

In September 2002, HCA issued \$500 million of 6.30% notes due October 1, 2012. Proceeds from the notes were used to repay amounts outstanding under the Company's bank credit facility.

NOTE 11 — STOCK REPURCHASE PROGRAMS

In July 2002, HCA announced an authorization to repurchase up to 12 million shares of its common stock. During the third quarter of 2002, HCA made open market purchases of 6.2 million shares for \$282 million.

HCA INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
Unaudited

NOTE 11 — STOCK REPURCHASE PROGRAMS (continued)

In October 2001, HCA announced an authorization to repurchase up to \$250 million of its common stock. During the fourth quarter of 2001, HCA made open market purchases of 6.4 million shares for \$250 million, completing the repurchase authorization.

In April 2001, HCA entered into an agreement with a financial institution that resulted in the financial institution investing \$500 million (\$400 million at December 31, 2001) to capitalize an entity that would acquire HCA common stock. This consolidated affiliate acquired 16.8 million shares of HCA common stock in connection with HCA's settlement of certain forward purchase contracts. In June 2002, HCA repaid the financial institution and received the 16.8 million shares of the Company's common stock. The financial institution's investment in the consolidated affiliate was reflected in HCA's balance sheet as "Company-obligated mandatorily redeemable securities of affiliate holding solely Company securities".

In March 2000, HCA announced an authorization to repurchase up to \$1 billion of its common stock. 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 the remaining forward purchase contracts representing 19.6 million shares at a cost of \$677 million (1.9 million shares at a cost of \$66 million during the first quarter, 12.1 million shares at a cost of \$405 million during the second quarter and 5.6 million shares at a cost of \$206 million during the third quarter), 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 an authorization to repurchase 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 (5.6 million shares at a cost of \$163 million during the first quarter and 10.1 million shares at a cost of \$298 million during the second quarter).

In connection with its share repurchase programs, HCA entered into a Letter of Credit Agreement with the United States Department of Justice in 1999. As part of the agreement, HCA 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 Settlement of Certain Government Claims, the letters of credit were reduced from \$1 billion to \$250 million upon payment of the civil settlement.

NOTE 12 — CONTINGENCIES

Significant Legal Proceedings

Various lawsuits, claims and legal proceedings (see Note 2 — Investigations and Settlement of 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 HCA, 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.

HCA INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
Unaudited

NOTE 12 — CONTINGENCIES (continued)

General Liability Claims

HCA 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 HCA, 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 HCA's results of operations or financial position.

NOTE 13 — COMPREHENSIVE INCOME

The components of comprehensive income, net of related taxes, for the quarters and nine months ended September 30, 2002 and 2001 are as follows (in millions):

	Quarter		Nine Months	
	2002	2001	2002	2001
Net income	\$200	\$256	\$935	\$845
Unrealized gains (losses) on securities	53	(62)	13	(69)
Foreign currency translation adjustments	2	6	20	(2)
Comprehensive income	\$255	\$200	\$968	\$774

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

	September 30, 2002	December 31, 2001
Net unrealized gains on securities	\$ 32	\$ 19
Foreign currency translation adjustments	19	(1)
Accumulated other comprehensive income	\$ 51	\$ 18

NOTE 14 — SEGMENT AND GEOGRAPHIC INFORMATION

HCA operates in one line of business, which is operating hospitals and related health care entities. During both quarters ended September 30, 2002 and 2001, 27% of the Company's revenues related to patients participating in the Medicare program. During the nine month periods ended September 30, 2002 and 2001, respectively, 28% and 29% of the Company's revenues related to patients participating in the Medicare program.

HCA's operations are structured into two geographically organized groups: the Eastern Group includes 93 consolidating hospitals located in the Eastern United States and the Western Group includes 74 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, included hospitals located in the United States, but not in the Company's core markets. All of the hospitals that were included in the National Group had been sold as of December 31, 2001. HCA also operates 8 consolidating hospitals in England and Switzerland.

HCA's senior management reviews geographic distributions of HCA's revenues, equity in earnings of affiliates, EBITDA, depreciation and amortization, assets and goodwill. EBITDA is defined as income before depreciation and amortization, interest expense, settlement with Federal government, gains on sales of facilities, impairment of investment securities, impairment of long-lived assets, investigation related costs, minority interests and income taxes. HCA uses EBITDA as an analytical indicator for purposes of allocating

HCA INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
Unaudited

NOTE 14 — SEGMENT AND GEOGRAPHIC INFORMATION (continued)

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, restated for the transfers of certain facilities to the National Group and to Corporate and other, of HCA's revenues, equity in earnings of affiliates, EBITDA, depreciation and amortization, assets and goodwill, are summarized in the following table (dollars in millions):

	Quarter Ended March 31,		Quarter Ended June 30,		Quarter Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001	2002	2001	2002	2001
Revenues:								
Eastern Group	\$2,486	\$2,208	\$2,440	\$2,177	\$2,455	\$2,152	\$ 7,381	\$ 6,537
Western Group	2,258	2,055	2,331	2,078	2,340	2,108	6,929	6,241
Corporate and other(a)	121	158	130	146	134	131	385	435
National Group	8	80	2	75	—	47	10	202
	<u>\$4,873</u>	<u>\$4,501</u>	<u>\$4,903</u>	<u>\$4,476</u>	<u>\$4,929</u>	<u>\$4,438</u>	<u>\$14,705</u>	<u>\$13,415</u>
Equity in earnings of affiliates:								
Eastern Group	\$ (3)	\$ (3)	\$ (2)	\$ (5)	\$ (1)	\$ (6)	\$ (6)	\$ (14)
Western Group	(49)	(41)	(50)	(40)	(49)	(36)	(148)	(117)
Corporate and other(a)	1	(2)	(3)	9	—	2	(2)	9
National Group	—	—	—	—	—	—	—	—
	<u>\$ (51)</u>	<u>\$ (46)</u>	<u>\$ (55)</u>	<u>\$ (36)</u>	<u>\$ (50)</u>	<u>\$ (40)</u>	<u>\$ (156)</u>	<u>\$ (122)</u>
EBITDA:								
Eastern Group	\$ 580	\$ 549	\$ 541	\$ 498	\$ 492	\$ 401	\$ 1,613	\$ 1,448
Western Group	523	436	537	440	484	393	1,544	1,269
Corporate and other(a)	(55)	(6)	(52)	(61)	(59)	(54)	(166)	(121)
National Group	(5)	(7)	(8)	(1)	—	30	(13)	22
	<u>\$1,043</u>	<u>\$ 972</u>	<u>\$1,018</u>	<u>\$ 876</u>	<u>\$ 917</u>	<u>\$ 770</u>	<u>\$ 2,978</u>	<u>\$ 2,618</u>
Depreciation and amortization:								
Eastern Group	\$ 107	\$ 108	\$ 109	\$ 112	\$ 110	\$ 108	\$ 326	\$ 328
Western Group	106	108	111	108	107	108	324	324
Corporate and other(a)	30	36	33	38	37	35	100	109
National Group	1	5	2	4	(1)	4	2	13
	<u>\$ 244</u>	<u>\$ 257</u>	<u>\$ 255</u>	<u>\$ 262</u>	<u>\$ 253</u>	<u>\$ 255</u>	<u>\$ 752</u>	<u>\$ 774</u>

HCA INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
Unaudited

NOTE 14 — SEGMENT AND GEOGRAPHIC INFORMATION (continued)

	September 30, 2002	December 31, 2001
Assets:		
Eastern Group	\$ 7,028	\$ 6,623
Western Group	6,964	6,713
Corporate and other(a)	4,448	4,260
National Group	87	134
	<u>\$18,527</u>	<u>\$17,730</u>
Goodwill:		
Eastern Group	\$ 924	\$ 910
Western Group	844	839
Corporate and other(a)	222	210
National Group	11	25
	<u>\$ 2,001</u>	<u>\$ 1,984</u>

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

NOTE 15 — BUSINESS COMBINATIONS

The following is a summary of acquisitions consummated during the nine months ended September 30, 2002 and 2001 (dollars in millions):

	2002	2001
Number of hospitals	1	1
Number of licensed beds	164	180
Purchase price information:		
Hospitals:		
Fair value of assets acquired	\$ 28	\$ 69
Liabilities assumed	—	—
Net assets acquired	28	69
Other health care entities acquired	90	25
Net cash paid	<u>\$118</u>	<u>\$ 94</u>

The purchase price paid in excess of the fair value of identifiable net assets of acquired entities aggregated \$22 million in 2002 and \$51 million in 2001. 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.

On January 1, 2002, HCA adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). Under SFAS 142, goodwill and intangible assets with indefinite lives are no longer amortized, but reviewed at least annually for impairment. The Company completed the transitional impairment tests during the first quarter of 2002, which resulted in no goodwill impairment. The change in the carrying amount of goodwill during the nine months ended September 30, 2002 was due primarily to the completion of the acquisitions of one hospital and other health care entities.

HCA INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
Unaudited

NOTE 16 — RECENT PRONOUNCEMENTS

During April 2002, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards No. 145, “Rescission of FASB Statements No. 4, 44 and 62, Amendment of FASB Statement No. 13, and Technical Corrections” (“SFAS 145”).

For most companies, under the provisions of SFAS 145 gains and losses on extinguishments of debt will be classified as income or loss from continuing operations, rather than as extraordinary items as previously required under FASB Statement No. 4. Extraordinary item treatment will be required for certain extinguishments that comply with the provisions of Accounting Principles Board (“APB”) Opinion No. 30. Upon adoption, any gain or loss on extinguishment of debt previously classified as an extraordinary item in prior periods that does not meet the criteria of APB Opinion 30 for such classification should be reclassified to conform to the provisions of SFAS 145. The provisions of SFAS 145 will be applied in fiscal years beginning after May 15, 2002; however, early adoption is encouraged and HCA has elected to adopt SFAS 145 effective January 1, 2002. During the fourth quarter of 2001, HCA recognized an extraordinary charge on extinguishment of debt of \$27 million (\$17 million, net of tax) that will be reclassified.

During June 2002, the FASB issued Statement of Financial Accounting Standards No. 146, “Accounting for Costs Associated with Exit or Disposal Activities” (“SFAS 146”). SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under previous accounting standards, a liability for an exit cost was recognized at the date of an entity’s commitment to an exit plan. The provisions of SFAS 146 will be applied for exit or disposal activities initiated after December 31, 2002. If HCA initiates exit or disposal activities after December 31, 2002, SFAS 146 could have a material effect on the timing of the recognition of exit costs in future financial statements.

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 can be identified by the use of words like “may,” “believe,” “will,” “expect,” “project,” “estimate,” “anticipate,” “plan,” “initiative” or “continue.” These forward-looking statements are based on the current plans and expectations of HCA and are subject to a number of known and unknown uncertainties and risks, many of which are beyond HCA’s control, that could significantly affect current plans and expectations and HCA’s future financial position and results of operations. These factors include, but are not limited to, (i) the outcome of the known and unknown litigation and the governmental investigations and litigation involving HCA’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 ability to consummate the understanding with the Centers for Medicare and Medicaid Services (“CMS”), and the impact on reimbursement, (iii) the highly competitive nature of the health care business, (iv) the efforts of insurers, health care providers and others to contain health care costs, (v) possible changes in the Medicare and Medicaid programs that may limit reimbursements to health care providers and insurers, (vi) changes in Federal, state or local regulations affecting the health care industry, (vii) the possible enactment of Federal or state health care reform, (viii) the ability to attract and retain qualified management and personnel, including affiliated physicians, nurses and medical support personnel, (ix) liabilities and other claims asserted against HCA and the ability to secure adequate insurance at cost-effective rates, (x) fluctuations in the market value of HCA’s common stock, (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, terms and cost 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 HCA’s shared services and other initiatives and realize decreases in administrative, supply and infrastructure costs, (xix) the outcome of pending and any future tax audits and litigation associated with HCA’s tax positions, (xx) the outcome of HCA’s continuing efforts to monitor, maintain and comply with appropriate laws, regulations, policies and procedures and HCA’s corporate integrity agreement with the government, (xxi) increased reviews of HCA’s cost reports, (xxii) the ability to maintain and increase patient volumes and control the costs of providing services, (xxiii) the ability to negotiate a definitive agreement for the acquisition of Health Midwest and successfully consummate the acquisition and integrate its operations, (xxiv) other risk factors, including those discussed in the Company’s annual report on Form 10-K and other reports filed with the Securities and Exchange Commission (the “SEC”). As a consequence, current plans, anticipated actions and future financial position and results of operations may differ from those expressed in any forward-looking statements made by or on behalf of HCA. 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 Settlement of Certain Government Claims

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

In December 2000, HCA entered into a Plea Agreement with the Criminal Division of the Department of Justice and various U.S. Attorneys’ 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 resolved all Federal criminal issues outstanding against HCA and certain issues involving Federal civil claims by or on behalf of the government against HCA relating to DRG coding, outpatient laboratory

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

Investigations and Settlement of Certain Government Claims (continued)

billing and home health issues. The civil issues that are not covered by the Civil Agreement and remain outstanding include claims related to cost reports and physician relations issues. The Civil Agreement was approved by the Federal District Court of the District of Columbia in August 2001. HCA paid the government \$95 million, as provided by the Plea Agreement, during the first quarter of 2001 and paid \$745 million (plus \$60 million of accrued interest), as provided by the Civil Agreement, during the third quarter of 2001. HCA also entered into a Corporate Integrity Agreement ("CIA") with the Office of Inspector General of the Department of Health and Human Services.

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

HCA continues to cooperate in the governmental investigations. Given the scope of the investigations and current litigation, HCA 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 HCA to be found in violation of Federal or state laws relating to Medicare, Medicaid or similar programs or breach of the CIA, HCA 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 HCA's financial position, results of operations and liquidity. See Note 12 — Contingencies in the notes to condensed consolidated financial statements and Part II, Item 1: Legal Proceedings.

Understanding Regarding Claims for Medicare Reimbursement

On March 28, 2002, HCA announced that it had reached an understanding with CMS to resolve all Medicare cost report, home office cost statement and appeal issues between HCA and CMS. The understanding provides that HCA would pay CMS \$250 million with respect to these matters. The understanding was reached as a means to resolve all outstanding appeals and more than 2,600 HCA cost reports for cost report periods ended on or before July 31, 2001, many of which CMS has yet to audit. The understanding with CMS is subject to approval by the U.S. Department of Justice, which has not yet been obtained, and execution of a definitive written agreement.

The understanding with CMS does not include resolution of the outstanding civil issues with the U.S. Department of Justice and relators with respect to cost reports and physician relations. See Part II, Item 1: Legal Proceedings.

The understanding with CMS resulted in HCA recording a pretax charge of \$260 million (\$165 million after-tax), or \$.32 per basic and \$0.30 per diluted share, consisting of the accrual of \$250 million for the settlement payment and the write-off of \$10 million of net Medicare cost report receivables. This charge was recorded in the consolidated income statement for the year ended December 31, 2001.

At September 30, 2002, no liability has been accrued related to the remaining cost report and physician relations issues. The criteria that management must evaluate in determining when a loss contingency shall be accrued are: (1) that it is probable that a liability has been incurred and (2) that the loss can be reasonably estimated. Management has determined that due to the considerable uncertainties that exist regarding the cost report and physician relations issues, the ultimate liability cannot be determined or reasonably estimated at this time. Management recognizes that this determination must be continually reassessed as negotiations develop and new information becomes available. The amounts claimed are substantial and, upon resolution of these contingencies, it is possible that results of operations, financial position and liquidity could be materially, adversely affected.

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 HCA’s ethics and compliance program, governmental regulations and guidelines and industry standards. HCA also seeks to enhance financial performance by increasing utilization of its facilities and improving operating efficiencies. To achieve these objectives, HCA pursues the following strategies:

- *Emphasize a “patients first” philosophy and a commitment to ethics and compliance:* The foundation of HCA is putting patients first and providing quality health care services in the communities HCA serves. HCA continuously updates and implements quality assurance procedures to monitor level of care and patient safety issues. HCA identifies best practices in its many health care facilities and shares those practices throughout its network of hospitals and health care facilities to help achieve better outcomes for patients. HCA is committed to a values-based corporate culture that prioritizes the care and improvement of human life. The values highlighted by HCA’s corporate culture — compassion, honesty, integrity, fairness, loyalty, respect and kindness — are the cornerstone of HCA. To reinforce HCA’s dedication to these values and to ensure integrity in all that it does, HCA 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 reinforces its dedication to providing excellent patient care.
- *Focus on strong assets in select, core communities:* HCA focuses on communities where it is, or can be, the number one or number two health care provider and which are typically located in urban areas characterized by highly integrated health care facility networks. HCA intends to continue to optimize core assets through capital expenditures and selective acquisitions and divestitures.
- *Develop comprehensive local health care networks with a broad range of health care services:* HCA seeks to operate each of its facilities as part of a network with other health care facilities that HCA’s affiliates own or operate within a common region that should enable these local health care networks to effectively contract with managed care and other payers and attract and serve patients and physicians.
- *Grow through increased patient volume, expansion of specialty services and emergency rooms and selective acquisitions:* HCA plans capital spending to increase bed capacity, provide new or expanded services, and provide renovated and expanded emergency rooms, operating rooms, women’s services, imaging, oncology, open-heart areas and intensive and critical care units.
- *Improve operating efficiencies through enhanced cost management and resource utilization, and the implementation of shared services initiatives:* HCA has initiated several measures designed to improve the financial performance of its facilities. To address labor costs, HCA implemented a best practices initiative that provides HCA’s hospitals with strategies to improve recruiting, compensation programs and productivity; implemented training programs for middle managers at the hospital level; and created an internal contract labor agency that provides for improved quality at a reduced cost. To curtail supply costs, HCA formed a group purchasing organization that allows the achievement of better pricing in negotiating purchasing and supply contracts. In addition, as HCA grows in select core markets, benefits should continue to be realized from economies of scale, including supply chain efficiencies and volume discount cost savings. HCA 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 by consolidating hospitals’ back office functions such as billings and collections.
- *Recruit, develop and maintain relationships with physicians:* HCA plans to actively recruit physicians to enhance patient care and fulfill the needs of the communities it serves. HCA believes that recruiting and retaining quality physicians is essential to being a premier provider of health care services.

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

Business Strategy (continued)

- *Streamline and decentralize management, consistent with HCA’s local focus:* HCA’s strategy to streamline and decentralize management structure affords management of HCA’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:* HCA maintains and replaces equipment, renovates and constructs replacement facilities and adds new services to increase the attractiveness of its hospitals and other facilities to patients and physicians. In addition, HCA evaluates acquisitions that complement its strategies and assesses opportunities to enhance stockholder value, including repayment of indebtedness and stock repurchases.

Results of Operations

Revenue/Volume Trends

HCA’s revenues depend upon inpatient occupancy levels, the ancillary services and therapy programs ordered by physicians and provided to patients, the volume of outpatient procedures and the charge and negotiated payment rates for such services.

HCA’s health care facilities have entered into agreements with third-party payers, including government programs and managed care health plans, under which the facilities are paid based upon established charges, the cost of providing services, predetermined rates per diagnosis, fixed per diem rates or discounts from established charges. HCA’s facilities have experienced revenue growth due to increases in same facility volume growth, changes in patient mix and favorable pricing trends. HCA has experienced increases in same facility revenue per equivalent admission over the same period of the prior year of 8.3% and 8.1%, in the third quarters of 2002 and 2001, respectively, and of 8.7% and 6.7% in the first nine months of 2002 and 2001, respectively. There can be no assurances that HCA will continue to receive these levels of revenue increases in the future. These increases were the result of 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.

Admissions related to Medicare, Medicaid and managed care plans and other discounted arrangements for the quarters and nine months ended September 30, 2002 and 2001 are set forth below.

	Quarter		Nine Months	
	2002	2001	2002	2001
Medicare	37.1%	36.5%	38.4%	37.7%
Medicaid	10.9	11.2	10.8	10.7
Managed care and other discounted	42.1	42.0	41.2	41.3
Other	9.9	10.3	9.6	10.3
	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 nine months ended September 30, 2002 and 2001 are set forth below:

	Quarter		Nine Months	
	2002	2001	2002	2001
Medicare	37.2%	37.8%	38.1%	39.4%
Medicaid	7.5	7.5	7.3	7.0
Managed care and other discounted	43.0	40.0	41.0	39.2
Other	12.3	14.7	13.6	14.4
	100.0%	100.0%	100.0%	100.0%

HCA has recorded \$231 million and \$184 million of revenues related to Medicare operating outlier cases for the nine months ended September 30, 2002 and 2001, respectively. These amounts represent 5.6% and 4.8% of Medicare revenues and 1.6% and 1.4% of total revenues for the nine months ended September 30, 2002 and 2001, respectively. There can be no assurances that HCA will continue to receive these levels of Medicare outlier payments in future periods. Future Medicare outlier payments may be materially, adversely affected by: (a) changes in Medicare regulations; (b) changes to the methodology utilized by CMS to compute outlier payments; and (c) updates of the cost-to-charges ratios used in the computation of HCA’s outlier payments, upon approval and implementation of the Company’s understanding with CMS.

Managed care plan provisions that are structured to influence patients to utilize outpatient or alternative delivery services are expected to present ongoing challenges. The challenges presented by payer plan provisions 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 initiatives.

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

Results of Operations (continued)

Operating Results Summary

The following are comparative summaries of results from operations for the quarters and nine months ended September 30, 2002 and 2001 (dollars in millions, except per share amounts):

	Quarter			
	2002		2001	
	Amount	Ratio	Amount	Ratio
Revenues	\$4,929	100.0	\$4,438	100.0
Salaries and benefits	1,999	40.6	1,808	40.7
Supplies	795	16.1	712	16.0
Other operating expenses	859	17.4	839	18.9
Provision for doubtful accounts	411	8.3	364	8.2
Depreciation and amortization	253	5.1	255	5.7
Interest expense	111	2.3	137	3.1
Insurance subsidiary gains on sales of investments	(2)	—	(15)	(0.3)
Equity in earnings of affiliates	(50)	(1.0)	(40)	(0.9)
Gains on sales of facilities	—	—	(112)	(2.5)
Impairment of investment securities	168	3.4	—	—
Impairment of long-lived assets	—	—	17	0.4
Investigation related costs	16	0.3	17	0.4
	4,560	92.5	3,982	89.7
Income before minority interests and income taxes	369	7.5	456	10.3
Minority interests in earnings of consolidated entities	34	0.7	33	0.8
Income before income taxes	335	6.8	423	9.5
Provision for income taxes	135	2.7	167	3.7
Reported net income	200	4.1	256	5.8
Goodwill amortization, net of tax	—	—	17	0.4
Adjusted net income	\$ 200	4.1	\$ 273	6.2
Basic earnings per share	\$ 0.39		\$ 0.53(d)	
Diluted earnings per share	\$ 0.38		\$ 0.51(d)	
% changes from prior year:				
Revenues	11.1%		8.4%	
Income before income taxes	(21.0)		44.0	
Reported net income	(21.7)		47.1	
Adjusted net income	(26.6)		39.1	
Basic earnings per share	(26.4)		51.4	
Diluted earnings per share	(25.5)		45.7	
Admissions(a)	3.0		(0.1)	
Equivalent admissions(b)	3.2		(0.3)	
Revenue per equivalent admission	7.6		8.7	
Same facility % changes from prior year(c):				
Revenues	12.2		10.8	
Admissions(a)	3.4		2.6	
Equivalent admissions(b)	3.6		2.5	
Revenue per equivalent admission	8.3		8.1	

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

Results of Operations (continued)

Operating Results Summary (continued)

	Nine Months			
	2002		2001	
	Amount	Ratio	Amount	Ratio
Revenues	\$14,705	100.0	\$13,415	100.0
Salaries and benefits	5,889	40.0	5,412	40.3
Supplies	2,351	16.0	2,136	15.9
Other operating expenses	2,491	17.0	2,435	18.2
Provision for doubtful accounts	1,150	7.8	990	7.4
Depreciation and amortization	752	5.3	774	5.8
Interest expense	340	2.3	418	3.1
Insurance subsidiary (gains) losses on sales of investments	2	—	(54)	(0.4)
Equity in earnings of affiliates	(156)	(1.1)	(122)	(0.9)
Settlement with Federal government	—	—	2	—
Gains on sales of facilities	—	—	(125)	(0.9)
Impairment of insurance subsidiary investments	168	1.1	—	—
Impairment of long-lived assets	19	0.1	17	0.1
Investigation related costs	46	0.3	44	0.3
	13,052	88.8	11,927	88.9
Income before minority interests and income taxes	1,653	11.2	1,488	11.1
Minority interests in earnings of consolidated entities	111	0.7	92	0.7
Income before income taxes	1,542	10.5	1,396	10.4
Provision for income taxes	607	4.1	551	4.1
Reported net income	935	6.4	845	6.3
Goodwill amortization, net of tax	—	—	52	0.4
Adjusted net income	\$ 935	6.4	\$ 897	6.7
Basic earnings per share	\$ 1.83		\$ 1.70(d)	
Diluted earnings per share	\$ 1.78		\$ 1.66(d)	
% changes from prior year:				
Revenues	9.6%		7.3%	
Income before income taxes	10.5		235.9	
Reported net income	10.7		326.2	
Adjusted net income	4.2		247.4	
Basic earnings per share	7.6		261.7	
Diluted earnings per share	7.2		268.9	
Admissions(a)	0.8		1.0	
Equivalent admissions(b)	1.3		0.4	
Revenue per equivalent admission	8.2		7.0	
Same facility % changes from prior year(c):				
Revenues	11.7		9.4	
Admissions(a)	2.2		3.0	
Equivalent admissions(b)	2.7		2.6	
Revenue per equivalent admission	8.7		6.7	

(a) Represents the total number of patients admitted 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.

(d) Earnings per share amounts have been computed using adjusted net income.

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

Results of Operations (continued)

Quarters Ended September 30, 2002 and 2001

Income before income taxes decreased 21.0% from \$423 million for the third quarter of 2001 to \$335 million for the third quarter of 2002. The decrease was primarily due to the combined effect of a \$168 million impairment charge on investment securities incurred in the third quarter of 2002 and a \$112 million gain on the sales of facilities reported during the third quarter of 2001. Excluding the effects of both the \$168 million impairment charge in 2002 and the \$112 million of gains on sales of facilities in 2001, income before taxes increased 61.1% from \$311 million for the third quarter of 2001 to \$503 million for the third quarter of 2002.

Revenues increased 11.1% due to a 3.2% increase in equivalent admissions and an increase of 7.6% in revenue per equivalent admission over the third quarter of 2001. The revenue per equivalent admission increase was primarily the result of continued efforts in renegotiating and renewing certain managed care contracts on more favorable terms. Admissions increased 3.0% on a reported basis and increased 3.4% on a same facility basis. Same facility emergency room visits and surgery cases increased 5.4% and 3.3%, respectively, during the third quarter of 2002 compared to the third quarter of 2001.

Salaries and benefits decreased, as a percentage of revenues, to 40.6% during the third quarter of 2002 from 40.7% during the third quarter of 2001. Salaries and benefits per equivalent admission increased 7.2% during the third quarter of 2002, while revenues per equivalent admission increased 7.6% compared to the third quarter of 2001.

Supply costs increased as a percentage of revenues from 16.0% during the third quarter of 2001 to 16.1% during the third quarter of 2002. Supplies per equivalent admission increased 8.2% during the third quarter of 2002.

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 17.4% in the third quarter of 2002 from 18.9% in the third quarter of 2001. The decrease was primarily due to a reduction in contract services costs that were incurred during 2001 related to the preliminary project stage activities being performed to develop the Company's shared services initiatives.

Provision for doubtful accounts, as a percentage of revenues, increased to 8.3% in 2002 from 8.2% in 2001. The effect of rate increases on a small component of the Company's overall business, primarily self pay and the uninsured, has resulted in an increase in bad debts, measured as a percentage of net revenue. The revenues associated with these patients are generally recorded at gross charges which are typically higher than what government programs and managed care plans pay, and the majority of bad debts are attributed to this payer class.

Depreciation and amortization decreased, as a percentage of revenues, to 5.1% in the third quarter of 2002 from 5.7% in the third quarter of 2001. HCA adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142") on January 1, 2002. Under the provisions of SFAS 142, goodwill is no longer amortized, but is subject to annual impairment tests. During the third quarter of 2001, \$18 million of goodwill amortization was included in depreciation and amortization.

Interest expense decreased to \$111 million for the third quarter of 2002 from \$137 million for the third quarter of 2001. Interest expense on HCA's variable rate bank debt decreased due to a general decline in interest rates, and an improvement in HCA's credit rating.

Insurance subsidiary gains on sales of investments consist of realized gains and losses on the sales of investment securities by HCA's wholly-owned insurance subsidiary. In the third quarter of 2001, HCA had net gains of \$15 million compared to \$2 million in the third quarter of 2002.

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

Results of Operations (continued)

Quarters Ended September 30, 2002 and 2001 (continued)

Equity in earnings of affiliates, as a percentage of revenues, increased to 1.0% in 2002 compared to 0.9% in 2001. The equity in earnings of affiliates includes operations of HCA's joint ventures that are accounted for using the equity method of accounting.

During the third quarter of 2001, HCA recognized a pretax gain of \$112 million (\$68 million after-tax) on the sale of one consolidating hospital, two non-consolidating hospitals and a provider of specialty managed care benefit programs. Proceeds from the sales were used to repay bank borrowings.

During the third quarter of 2002, due to the continued overall market decline and management's review and evaluation of the individual investment securities, management concluded that certain unrealized losses on HCA's equity investments should be classified as "other-than-temporary" and recorded an impairment charge on investment securities of \$168 million. During 2001, HCA reduced the carrying value for a non-hospital, equity method joint venture to fair value, based upon estimates of sales value for a non-cash, pretax charge of \$17 million.

During the third quarters of 2002 and 2001, HCA incurred \$16 million and \$17 million, respectively, of investigation related costs. In 2002, these costs included \$15 million of professional fees (legal and accounting) related to the governmental investigations and litigation and \$1 million of other costs. In 2001, these costs included \$15 million of professional fees (legal and accounting) related to the governmental investigations and litigation and \$2 million of other costs.

Minority interests remained relatively flat as a percentage of revenues at 0.7% in the third quarter of 2002 compared to 0.8% in 2001.

Nine Months Ended September 30, 2002 and 2001

Income before income taxes increased 10.5% from \$1.4 billion for the nine months ended September 30, 2001 to \$1.5 billion for the same period of 2002. The increase in pretax income was primarily due to achieving a 9.6% increase in revenues while being able to attain a 120 basis point reduction in other operating expenses as a percentage of revenues.

Revenues increased 9.6% to \$14.7 billion for the first nine months of 2002 compared to \$13.4 billion for 2001. The increase was primarily due to an 8.2% increase in revenue per equivalent admission. Admissions increased 0.8% from 2001, and equivalent admissions (adjusted to reflect combined inpatient and outpatient volume) increased 1.3%. On a same facility basis, revenues increased 11.7%, admissions increased 2.2% and equivalent admissions increased 2.7%. Revenue per equivalent admission on a same facility basis increased 8.7%.

Salaries and benefits, as a percentage of revenues, decreased to 40.0% in 2002 from 40.3% in 2001. Salaries and benefits per equivalent admission increased 7.4% over 2001.

Supply costs increased as a percentage of revenues from 15.9% during the nine months ended September 30, 2001 to 16.0% for the nine months ended 2002. Supplies per equivalent admission increased 8.6%.

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 17.0% in 2002 from 18.2% in 2001. The decrease was primarily due to a reduction in contract services costs that were incurred during 2001 related to the preliminary project stage activities being performed to develop the Company's shared services initiatives.

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

Results of Operations (continued)

Nine Months Ended September 30, 2002 and 2001 (continued)

Provision for doubtful accounts, as a percentage of revenues, increased to 7.8% in 2002 from 7.4% in 2001. The effect of rate increases on a small component of the Company's overall business, primarily self pay and the uninsured, has resulted in an increase in bad debts, measured as a percentage of net revenue. The revenues associated with these patients are generally recorded at gross charges which are typically higher than what government programs and managed care plans pay, and the majority of bad debts are attributed to this payer class.

Depreciation and amortization decreased, as a percentage of revenues, to 5.3% in the first nine months of 2002 from 5.8% in the first nine months of 2001. HCA adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142") on January 1, 2002. Under the provisions of SFAS 142, goodwill is no longer amortized but is subject to annual impairment tests. During the first nine months of 2001, \$57 million of goodwill amortization was included in depreciation and amortization.

Interest expense decreased to \$340 million for the first nine months of 2002 from \$418 million for the first nine months of 2001. Interest expense on HCA's variable rate bank debt decreased due to a general decline in interest rates, and an improvement in HCA's credit rating.

Insurance subsidiary gains and losses on sales of investments consist of realized gains and losses on the sales of investment securities by HCA's wholly-owned insurance subsidiary. In the first nine months of 2001, HCA had net gains of \$54 million compared to net losses of \$2 million for the same period of 2002.

Equity in earnings of affiliates remained relatively flat as a percentage of revenues at 1.1% in 2002 compared to 0.9% in 2001.

During the first nine months of 2001, HCA recognized a pretax gain of \$125 million (\$72 million after-tax) on the sale of two consolidating hospitals, two non-consolidating hospitals and a provider of specialty managed care benefit programs. Proceeds from these sales were used to repay bank borrowings.

During the third quarter of 2002, due to the continued overall market decline and management's review and evaluation of the individual investment securities, management concluded that certain unrealized losses on HCA's equity investments should be classified as "other-than-temporary" and recorded an impairment charge on investment securities of \$168 million. During 2001, HCA reduced the carrying value for a non-hospital, equity method joint venture to fair value, based upon estimates of sales value, for a non-cash, pretax charge of \$17 million.

Minority interests remained unchanged as a percentage of revenues at 0.7% during the nine months ended September 30, 2002 and September 30, 2001.

During the first nine months of 2002 and 2001, HCA incurred \$46 million and \$44 million, respectively, of investigation related costs. In 2002, these costs included \$44 million of professional fees (legal and accounting) related to the governmental investigations and litigation and \$2 million of other costs. In 2001, these costs included \$35 million of professional fees (legal and accounting) related to the governmental investigations and litigation and \$9 million of other costs.

Liquidity and Capital Resources

Cash provided by operating activities totaled \$2.0 billion in 2002 compared to \$821 million in 2001. The increase in cash provided by operating activities during 2002 was primarily due to a \$840 million settlement payment to the Federal government during 2001 and an increase in net income during 2002. Working capital totaled \$1.6 billion at September 30, 2002 and \$957 million at December 31, 2001.

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

Results of Operations (continued)

Liquidity and Capital Resources (continued)

Cash used in investing activities was \$1.4 billion in 2002 compared to \$778 million in 2001. Excluding acquisitions, capital expenditures were \$1.2 billion in 2002 and \$962 million in 2001. Annual planned capital expenditures are projected to approximate \$1.7 billion in 2002 and \$1.8 billion in 2003. A significant portion of the Company's total capital spending in a particular period is subject to the timing of major construction projects. At September 30, 2002, there were projects under construction, which had an estimated additional cost to complete and equip over the next five years of approximately \$2.7 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 \$1.3 billion as of October 31, 2002) 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.

During the third quarter of 2002, HCA announced that the Board of Directors of Health Midwest of Kansas City, Missouri voted to conduct exclusive negotiations and enter into an agreement in principle for HCA to acquire the 14-hospital Health Midwest system for \$1.125 billion. HCA will also commit to make \$450 million in capital expenditures in the Kansas City market during the next five years. The Company expects to finance this acquisition with public and bank debt.

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 which 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. In June 2002, the Federal District Court ruled in favor of the not-for-profit entity. In September 2002, the IRS filed a notice of appeal with respect to the Federal District Court's decision. 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 public charity status of a not-for-profit partner or the characterization of joint venture income as unrelated business taxable income could limit joint venture development with not-for-profit hospitals and require the restructuring of certain existing joint ventures with not-for-profits.

Investments of the Company's professional liability insurance subsidiary to maintain statutory equity and pay claims totaled \$1.6 billion and \$1.7 billion at September 30, 2002 and December 31, 2001, respectively. Claim payments during the next twelve months are expected to approximate \$250 million. HCA's wholly-owned insurance subsidiary has entered into certain reinsurance contracts, and the obligations covered by the reinsurance contracts remain on the balance sheet as the subsidiary remains liable to the extent that the reinsurers do not meet their obligations under the reinsurance contracts. To minimize its exposure to losses from reinsurer insolvencies, HCA evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar activities or economic characteristics of the reinsurers. The amounts receivable related to the reinsurance contracts of \$236 million at September 30, 2002 and \$313 million at December 31, 2001, are included in other assets.

Cash flows used in financing activities totaled \$544 million during 2002 and \$283 million during 2001. The cash flows provided by operating activities were primarily used to fund the capital expenditures and to repurchase HCA common stock.

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

Results of Operations (continued)

Liquidity and Capital Resources (continued)

In July 2002, HCA announced an authorization to repurchase up to 12 million shares of its common stock. During the third quarter of 2002, HCA made open market purchases of 6.2 million shares for \$282 million. The repurchase is intended to offset the dilutive effect of employee stock compensation programs.

During the second quarter of 2001, HCA entered into an agreement with a financial institution that resulted in the financial institution investing \$500 million (\$400 million at December 31, 2001) to capitalize an entity that would acquire HCA common stock. This consolidated affiliate acquired 16.8 million HCA shares in connection with HCA’s settlement of certain forward purchase contracts. In June 2002, HCA repaid the financial institution and received the 16.8 million shares of the Company’s common stock.

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 HCA. 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 HCA’s results of operations, financial position and liquidity.

HCA has a \$2.5 billion credit agreement (the “2001 Credit Agreement”) with a group of banks consisting of a \$1.75 billion revolving credit facility (the “Credit Facility”) and a \$750 million term loan. The 2001 Credit Agreement contains customary covenants which include (i) limitations on debt levels, (ii) limitations on sales of assets, mergers and changes of ownership, and (iii) maintenance of minimum interest coverage ratios. HCA is currently in compliance with all such covenants.

In April 2002, HCA issued \$500 million of 6.95% notes due May 1, 2012. Proceeds from the notes were used to repay the amounts outstanding under the Credit Facility and for general corporate purposes.

In May 2002, HCA filed a shelf registration statement and prospectus with the SEC related to up to \$1.5 billion in debt securities.

In September 2002, HCA issued \$500 million of 6.30% notes due October 1, 2012. Proceeds from the notes were issued to repay amounts outstanding under the Credit Facility.

Management believes that cash flows from operations, amounts available under the Credit Facility and HCA’s anticipated access to public and private debt markets are sufficient to meet expected liquidity needs during the next twelve months.

Market Risk

HCA is exposed to market risk related to changes in market values of securities. The investments in debt and equity securities of HCA’s wholly-owned insurance subsidiary were \$1.162 billion and \$472 million, respectively, at September 30, 2002. These investments are classified as “available for sale” and are carried at fair value with changes in unrealized gains and losses generally being recorded as adjustments to other comprehensive income. The fair value of investments is generally based on quoted market prices. During the third quarter of 2002, due to the continued overall market decline and management’s review and evaluation of the individual investment securities, management concluded that certain unrealized losses of HCA’s insurance subsidiary’s equity investments were considered “other-than-temporary”. HCA recorded an impairment charge on investment securities of \$168 million. HCA evaluates, among other things, the financial position and near term prospects of the issuer, conditions in the issuer’s industry, liquidity of the investment, changes in the amount or timing of expected future cash flows from the investment, and recent downgrades of the issuer by a rating agency to determine if and when a decline in the fair value of an investment below amortized cost is considered “other-than-temporary”. The length of time and extent to which the fair value of the investment

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

Results of Operations (continued)

Market Risk (continued)

is less than amortized cost and HCA's ability and intent to retain the investment to allow for any anticipated recovery in the investment's fair value are important components of management's investment securities evaluation process. At September 30, 2002, HCA had a net unrealized gain of \$43 million on the insurance subsidiary's investment securities.

HCA is also exposed to market risk related to changes in interest rates, and HCA periodically enters into interest rate swap agreements to manage its exposure to these fluctuations. 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 are settled on a net basis, semiannually. These derivatives and the related hedged debt amounts have been recorded in the financial statements at their respective fair values.

With respect to HCA's interest-bearing liabilities, approximately \$2.0 billion of long-term debt at September 30, 2002 is subject to variable rates of interest, while the remaining balance in long-term debt of \$5.4 billion at September 30, 2002 is subject to fixed rates of interest. Both the general level of interest rates and, for the 2001 Credit Agreement, the credit ratings affect HCA's variable interest rates. HCA's variable rate debt is comprised of the Credit Facility on which interest is payable generally at LIBOR plus 0.7% to 1.5% (depending on HCA's credit ratings), a bank term loan on which interest is payable generally at LIBOR plus 1% to 2%, and floating rate notes on which interest is payable at LIBOR plus 1.9% to 2.4%. Due to decreases in LIBOR and improvement in the Company's credit rating, the average rate for the Credit Facility decreased from 4.5% for the quarter ended September 30, 2001 to 2.5% for the quarter ended September 30, 2002, and the average rate for the Company's term loans decreased from 4.6% for the quarter ended September 30, 2001 to 2.8% for the quarter ended September 30, 2002. The estimated fair value of HCA's total long-term debt was \$7.6 billion at September 30, 2002. The estimates of fair value are based upon the quoted market prices for the same or similar issues of long-term debt with the same maturities. Based on a hypothetical 1% increase in interest rates, the potential annualized reduction to future pretax earnings would be approximately \$20 million. The impact of such a change in interest rates on the fair 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 HCA's borrowing cost and long-term debt balances. To mitigate the impact of fluctuations in interest rates, HCA generally targets a portion of its debt portfolio to be maintained at fixed rates.

Foreign operations and the related market risks associated with foreign currency are currently insignificant to HCA'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 \$326 million as of September 30, 2002. 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 7 — 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

	2002	2001
CONSOLIDATING		
Number of hospitals in operation at:		
March 31	175	185
June 30	175	185
September 30	175	182
December 31		178
Number of freestanding outpatient surgical centers in operation at:		
March 31	74	74
June 30	75	75
September 30	74	75
December 31		76
Licensed hospital beds at(a):		
March 31	40,054	40,895
June 30	39,930	41,032
September 30	40,056	40,450
December 31		40,112
Weighted average licensed beds(b):		
Quarter:		
First	40,079	40,950
Second	39,844	40,852
Third	39,998	40,458
Fourth		40,329
Year		40,645
Average daily census(c):		
Quarter:		
First	22,897	22,842
Second	21,185	21,124
Third	20,883	20,363
Fourth		20,347
Year		21,160
Admissions(d):		
Quarter:		
First	407,300	412,000
Second	391,400	388,500
Third	392,400	380,800
Fourth		382,800
Year		1,564,100
Equivalent admissions(e):		
Quarter:		
First	594,700	597,800
Second	584,200	576,500
Third	585,200	567,000
Fourth		570,400
Year		2,311,700
Average length of stay (days)(f):		
Quarter:		
First	5.1	5.0
Second	4.9	4.9
Third	4.9	4.9
Fourth		4.9
Year		4.9

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

Operating Data (continued)

	2002	2001
NON-CONSOLIDATING(g)		
Number of hospitals in operation at:		
March 31	6	9
June 30	6	9
September 30	6	7
December 31		6
Number of freestanding outpatient surgical centers in operation at:		
March 31	3	3
June 30	5	3
September 30	4	3
December 31		3
Licensed hospital beds at:		
March 31	2,063	2,698
June 30	2,063	2,699
September 30	2,047	2,406
December 31		2,063

- (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 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.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

HCA’s chief executive officer and chief accounting officer have reviewed and evaluated the effectiveness of HCA’s disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) promulgated under the Securities Exchange Act of 1934 (the “Exchange Act”) as of a date within ninety days before the filing date of this quarterly report. Based on that evaluation, the chief executive officer and chief accounting officer have concluded that HCA’s disclosure controls and procedures effectively and timely provide them

Operating Data (continued)

with material information relating to HCA and its consolidated subsidiaries required to be disclosed in the reports HCA files or submits under the Exchange Act.

Changes in Internal Controls

There have not been any significant changes in HCA's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation. There were no significant deficiencies or material weaknesses, and therefore no corrective actions were taken.

ITEM 5. OTHER INFORMATION

In accordance with Section 10A of the Securities Exchange Act of 1934, as amended by Section 202 of the Sarbanes-Oxley Act of 2002, non-audit services and the related maximum aggregate fees were approved by the Company's Audit Committee to be performed by Ernst & Young LLP, the Company's independent auditors, during the period September 1, 2002 through June 30, 2003 principally relating to the following: (i) audits of various subsidiaries for regulatory purposes (including the Company's approximately 40 Florida-based hospitals) and audits of approximately 15 benefit plans (\$2.3 million), (ii) agreed upon procedures relating to reports on internal controls (\$250,000), (iii) tax related services (\$1.6 million), (iv) issuance of comfort letters and consents relating to Securities and Exchange Commission filings (\$100,000), (v) accounting, financial and tax due diligence services in connection with proposed acquisitions (\$200,000) and (vi) consultation and assistance with third party payment and regulatory issues and other accounting and regulatory related services (\$750,000). The approved fee for the HCA Inc. consolidated audit and related quarterly reviews for 2002 is \$3.8 million.

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

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

In December 2000, HCA entered into a Plea Agreement with the Criminal Division of the Department of Justice and various U.S. Attorneys' 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 resolved all Federal criminal issues outstanding against HCA and 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 civil issues that are not covered by the Civil Agreement and remain outstanding include claims related to cost reports and physician relations issues. The Civil Agreement was approved by the Federal District Court of the District of Columbia in August 2001. HCA paid the government \$95 million, as provided by the Plea Agreement, during the first quarter of 2001 and paid \$745 million (plus \$60 million of accrued interest), as provided by the Civil Agreement, during the third quarter of 2001. HCA also entered into a Corporate Integrity Agreement ("CIA") with the Office of Inspector General of the Department of Health and Human Services.

Under the Civil Agreement, HCA'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.

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

HCA continues to cooperate in the governmental investigations. Given the scope of the investigations and current litigation, HCA anticipates continued investigative activity may 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 HCA to be found in violation of Federal or state laws relating to Medicare, Medicaid or similar programs or breach of the CIA, HCA 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 HCA's financial position, results of operations and liquidity. See Note 2 — Investigations and Settlement of Certain Government Claims, Note 3 — Understanding Regarding Claims for Medicare Reimbursement and Note 12 — 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 Medicare or Medicaid claims (involving false claims) presented by the defendants to the Federal government, civil penalties of not less than \$5,500 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.

In February 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.

In January 2001, the District Court in the District of Columbia entered an order establishing an initial schedule for the consolidated *qui tam* cases. 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 the later of March 15, 2001 or within 15 days after the government's notice declining intervention.

A. Qui Tam Actions in Which the United States Has Intervened

The United States intervened in eight of the consolidated cases, which fall generally in three categories: (1) cost reports allegedly constituting false claims; (2) alleged improper financial arrangements with physicians to induce referrals; and (3) alleged false claims pertaining to certain management fees paid to Curative Health Services.

1. Cost Report Cases

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 1993, and is a *qui tam* action alleging various violations of the 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, certain 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 certain non-intervened claims. Discovery regarding all claims began in August 2001, and is ongoing. Depositions commenced in the fall of 2002. The government has filed a motion to consolidate the case with *United States ex rel. Schilling v. Columbia/HCA*, which the Company has opposed.

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, certain amounts owed to the Company, with interest, for 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 certain non-intervened claims. Discovery regarding all claims began in August 2001, and is ongoing. Depositions

commenced in the fall of 2002. The government has filed a motion to consolidate the case with *United States ex rel. Alderson v. Columbia/HCA*, which the Company has opposed.

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 filed an answer on June 15, 2001. The Company reached a tentative settlement with the government regarding the intervened count. On June 12, 2002, the Company filed a motion to dismiss all of relator's claims. The Company and relator have agreed to stay remaining discovery on relator's claims until resolution of the motion to dismiss.

2. Physician Referral Cases

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. 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. This matter has been consolidated with *United States ex rel. King v. Columbia/HCA Healthcare Corp., et al.* and *United States ex rel. Mroz v. Columbia/HCA Healthcare Corp., et al.* for purposes of discovery and pretrial matters, and discovery is ongoing.

In 1996, the case *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 charges. The government's complaint alleges that the Company's financial relationships with certain physicians violated the False Claims Act, Anti-kickback Statute, and Stark Law. The government's complaint also asserts common law claims based on the same allegations. The Company filed an answer to the government's complaint on May 14, 2001, and an amended answer on July 27, 2001. Relator has withdrawn the non-intervened counts. This matter has been consolidated with *United States ex rel. Thompson v. Columbia/HCA Healthcare Corp., et al.* and *United States ex rel. Mroz v. Columbia/HCA Healthcare Corp., et al.* for purposes of discovery and pretrial matters, and discovery is ongoing.

On September 2, 1997, the case *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 a Company's hospital engaged in improper arrangements with physicians to induce referrals in violation of the Anti-kickback Statute. The government intervened in this case, and on March 15, 2001 served its complaint on the Company. The government's complaint alleges that the Company's financial relationships with certain physicians violated the False Claims Act, Anti-kickback Statute, and Stark Law. The government's complaint also asserts common law claims based on the same allegations. The Company filed an answer to the government's complaint on May 14, 2001, and an amended answer on July 27, 2001. This matter has been consolidated with *United States ex rel. Thompson v.*

Columbia/HCA Healthcare Corp., et al. and United States ex rel. King v. Columbia/HCA Healthcare Corp., et al. for purposes of discovery and pretrial matters, and discovery is ongoing.

3. Curative Health Services Cases

In June of 1998, the case *United States of America ex rel. Joseph “Mickey” Parslow v. Columbia/HCA Healthcare Corporation and Curative Health Services, Incorporated*, No. 98-1260-CIV-T-23F was filed, in the Middle District of Florida, Tampa Division. The Relator’s complaint was unsealed by the court on April 9, 1999. The government has intervened in this lawsuit and served its own complaint on the Company on March 15, 2001. Relator subsequently dismissed from his complaint all causes of action not alleged in the government’s complaint. This *qui tam* action alleges that the Company submitted false claims relating to contracts with Curative Health Services, Incorporated (“Curative”) for the management of certain wound care centers. The complaint further alleges that the claims for reimbursement of management fees paid to Curative violated the Anti-kickback Statute. The Company filed an answer to the complaint on May 14, 2001. Discovery is ongoing. On October 25, 2001, relator filed a motion to use certain documents that the Company maintains are subject to the attorney-client privilege and/or the attorney work product protection in the prosecution of his case. This issue has been fully briefed by relator and the Company, and the government filed a Statement of Interest on the issue.

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 complaint has allegations similar to those in the *Parslow* case (above). 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 dismissed the remaining claims. The Company filed an answer to the complaint on May 14, 2001, and an amended answer on July 27, 2001. Discovery is ongoing.

B. Qui Tam Actions in Which the United States Has Not Intervened

In 1997, the case *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. Relator served the complaint and the Company filed a motion to dismiss, which is currently pending before the court.

In 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. In general, the complaint alleges that the defendants submitted false claims regarding the three day DRG payment window rule, cost reports and central business office billings, wrote off bad debt on international patients, inflated financial information on the sale of a hospital, improperly billed pharmacy charges and radiology charges, improperly billed skilled nursing facility charges, improperly accounted for discounts and rebates, improperly billed certified first assistants in surgery, home health visits, senior health centers, diabetic treatment and wound care centers. In 1997, relator also filed a second suit, *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. Relator served both complaints in March 2001. On June 5, 2001, the Company filed a motion to extend the time for responding to the duplicative complaints until such time as relator elects which complaint she intends to pursue. The court has stayed discovery pending a ruling on the motion to extend.

In 1998, the case *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. The relators served the complaint, and the Company filed a motion to dismiss, which is currently pending. Discovery is stayed pending a ruling on the motion to dismiss.

In 1999, the case *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 relator served the complaint, which the court dismissed on July 6, 2001. The relator filed a notice of appeal in August 2001. The appeal has been fully briefed and argument has been scheduled for November 2002.

In 1997, the case *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 such as including improper inflation of cost basis, costs relating to unnecessary care to patients, and falsification of records. The Company has been served with the complaint, which it answered. Discovery is stayed pending a ruling on another defendant's motion to dismiss.

In 1999, the case *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 that allegedly resulted in improper cost allocation to the hospital's acute care services and thus improperly increased reimbursement. The Company was served with the complaint and filed an answer. Discovery is stayed pending a ruling on another defendant's motion to dismiss.

On July 31, 1998, the U.S. District Court for the Western District of Texas, unsealed *United States of America 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 is a *qui tam* action alleging various violations of the Federal False Claims Act concerning statements made to the Joint Commission in order to be eligible for Medicare payments, thereby allegedly rendering false the defendants' claims for Medicare reimbursement. In 1997, the relator filed an amended complaint alleging other issues, including DRG upcoding, physician referral violations and certain cost reporting issues. Some of the claims were dismissed as released under the Settlement Agreement. The Company filed a motion to dismiss the remaining allegations in the complaint. Discovery has been stayed pending a ruling on the motion to dismiss.

The matter of *United States of America, ex rel. Scott Pogue v. Diabetes Treatment Centers of America, Inc., et al.*, Civil Action No. 3-94-0515, was filed under seal on June 23, 1994 in the United States District Court for the Middle District of Tennessee. On February 6, 1995, the United States filed its Notice of Non-Intervention and on that same date the District Court ordered the complaint unsealed. In general, the relator contends that sums paid 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. Relator filed a motion for partial summary judgment. The court ordered relator's motion for partial summary judgment stricken. The relator did not file an amended motion for summary judgment. Discovery is ongoing.

In 1998, the case *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. The Company was served with the relator's complaint. The Company filed a motion to dismiss, which is pending. The relator filed an amended complaint that did not include the Company as a defendant, and Therefore, The Company is no longer a party in this matter.

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, *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.*, 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 was heard before the Sixth Circuit Court of Appeals on April 23, 2002. The Sixth Circuit reversed and remanded the case to district court. Plaintiffs filed a fourth amended complaint, and defendants have moved to dismiss. That motion has not yet been fully briefed.

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* lawsuits, 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. On March 30, 1999, the *Barron* case was dismissed without prejudice. 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. On January 31, 2002, the plaintiffs in *Kovalchick* and *Williams* advised the court that they intended to lift the stay of proceedings in this matter and proceed with discovery. The Company has filed motions opposing plaintiffs' request to lift the stays.

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. 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 plaintiffs' complaint seeks 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 complaint alleges, 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. The plaintiffs filed a motion for class certification on July 19, 2002, seeking certification only of the class of employee welfare benefit plans, naming only two of the named plaintiffs (the Carpenters & Millwrights and Tennessee Laborers plans) as class representatives, and focusing their claims on claims for services never rendered. The Company filed its response to the motion for class certification on August 16, 2002, and the court has scheduled a hearing on class certification for December 9, 2002. On August 14, 2002, the United Paperworkers International Union voluntarily withdrew from the case as a named plaintiff, and on September 6, 2002, the Board of Trustees of the Pipefitters Local 522 Hospital, Medical and Life Benefit Fund also voluntarily withdrew from the case as a named plaintiff. 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. A three-judge panel of the Court of Appeals affirmed the district court's decision on June 10, 2002. The Company moved for reconsideration of the decision on June 24, 2002, and requested rehearing of

the matter by the full court. On September 9, 2002, the full Court of Appeals denied the motion and remanded the case to the district court.

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 Racketeer 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*. The plaintiff, an employee welfare benefit plan, alleges that the 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. The plaintiff further alleges that the 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. On August 14, 2002, plaintiffs in this matter voluntarily withdrew from the case as a named plaintiff. (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. There has been no activity since April 1999.

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 but the motion to transfer was denied on April 8, 1999. An order dismissing the case for lack of prosecution was entered by the court on June 1, 2000. Plaintiff filed a Showing of Good Cause on June 28, 2000. A hearing was held on July 18, 2000, after which the court entered an order requiring that the action remain pending. There has been no activity in the case since July 2000.

Smallwood, Peggy Sue and her husband, John R. Smallwood (formerly described as 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 seeking declaratory relief under Rule 23.02(2) of the Tennessee Rules of Civil Procedure on the validity of the price term in the contract. In July 1997, Summit filed a Motion for Summary Judgment asserting that the complaint should be dismissed because Summit had billed the patient in accordance with its standard price list. In March 1998, the court denied the motion for summary judgment. On August 27, 1999, the Court of Appeals issued an opinion affirming the trial court's denial of Summit's motion for summary judgment and the Tennessee Supreme Court granted review. 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 held that under quasi-contract principles, the hospital is entitled to recover the reasonable value of medical goods and services provided to patients. Summit filed a motion for entry of judgment, which the court granted in part and denied in part. The court then granted plaintiffs' motion for leave to amend their complaint. The amended complaint alleges that the collection of money for services and treatment at Summit from class members has resulted in the unjust enrichment of the hospital since the hospital had collected or had claims in excess of the alleged reasonable value of its services. The plaintiffs then filed on February 11, 2002, a motion for class certification as a damages class with notice and opt-out rights under Rule 23.2(3) of the Tennessee Rules of Civil Procedure. Summit opposed the motion in papers filed with the court on April 5, 2002, and at the evidentiary hearing in September 2002. On October 26, 2002, the court entered an order denying the plaintiff's motion for class certification, and extending relief to include attorneys fees and costs to plaintiff's counsel.

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. The 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 that 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. The proposed third and fourth 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 the plaintiffs and all class members are rescinded and that the Company must repay all monies received from the 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 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 Settlement of Certain Government Claims and Note 12 — Contingencies in the notes to condensed consolidated financial statements.

General Liability and Other Claims

The matter of *Rocky Mountain Medical Center, Inc. v. Northern Utah Healthcare Corporation, d/b/a St. Mark's Hospital*, Case No. 000906627, was filed in the 3rd Judicial District Court of Salt Lake County, Utah on August 22, 2000 with a request for injunctive relief and damages under Utah antitrust law. Specific counts in the complaint include illegal boycott, unreasonable restraint of trade, attempt to monopolize and interference with prospective economic relations. At issue are St. Mark's Hospital's contracts with certain managed care organizations. The court denied the plaintiff's request for a preliminary injunction. Cross-motions for summary judgment were filed by both parties and both motions were denied in December 2001. Discovery is ongoing.

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.

In July 2002, the Company became aware of a potential violation of the Company's code of conduct relating to certain payments made by two United Kingdom (U.K.) affiliated hospitals to a referring physician

in an Eastern European country. The Company investigated the events and received information that the physician may have governmental responsibilities in his country. The payments in question (which total approximately \$20,000) could be subject to potential application of the U.S. Foreign Corrupt Practices Act and other laws. The Company notified governmental officials in the U.S. and U.K. of the events in question. The Company terminated certain employees who may have been involved in these transactions. The Company completed its investigation of the matter.

The Company is a party to certain proceedings in the United States Tax Courts, the United States Court of Federal Claims and the United States Court of Appeals, Sixth Circuit. For a description of those proceedings, see Note 7 — 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 6: *Exhibits and Reports on Form 8-K*

(a) List of Exhibits:

Exhibit 10 — Aircraft Hourly Rental Agreement, dated September 30, 2002, by and between Tomco II, LLC and HCA Management Services, L.P.

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

Exhibit 99.1 — Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 99.2 — Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K filed during the quarter ended September 30, 2002:

On July 25, 2002, the Company filed a report on Form 8-K which announced its operating results for the second quarter ended June 30, 2002.

On August 13, 2002, the Company filed a report on Form 8-K which announced that the Company's principal executive officer and principal financial officer submitted sworn statements pursuant to Securities and Exchange Commission Order No 4-460.

On September 25, 2002, the Company filed a report on Form 8-K which announced the issuance of \$500 million of 6.30% Notes due 2012.

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: November 13, 2002

CERTIFICATIONS

I, Jack O. Bovender, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of HCA Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 13, 2002

/s/ JACK O. BOVENDER, JR.

Jack O. Bovender, Jr.
Chairman of the Board and Chief Executive Officer

I, R. Milton Johnson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of HCA Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal

controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 13, 2002

/s/ R. MILTON JOHNSON

R. Milton Johnson
Senior Vice President and Controller

AIRCRAFT HOURLY RENTAL AGREEMENT

THIS AGREEMENT made as of the 30th day of September, 2002, ("Agreement") by and between Tomco II, LLC, a Tennessee Limited Liability Company ("Owner"), and HCA Management Services, L.P., a Delaware Partnership ("Operator").

1. Rental of the Aircraft

Owner hereby agrees to rent to Operator from time-to-time a certain aircraft, as identified on Exhibit A, (the "Aircraft"), which is owned and registered at the FAA aircraft registry in the name of Owner. The parties understand that the Aircraft will be available to Operator for its operation and use hereunder for a series of rental periods that are estimated to not exceed 100 hours in the aggregate during any annual period during the Term. Owner retains the right to rent the aircraft to any other operator. The Aircraft is being rented by Operator for the purpose of transporting Operator's directors, officers, employees and guests or the directors, officers, employees and guests of Operator's subsidiaries in furtherance of its primary, non-transportation business.

2. Term

The term of this Agreement ("Term") shall commence on the date hereof, and shall continue for a period of ten (10) years, unless either party terminates this Agreement pursuant to Section 17 of this Agreement.

3. Delivery of Aircraft

The Aircraft shall be delivered to Operator at the location indicated on Exhibit A, or such other location upon which the parties may agree. Each date on which Owner delivers possession of the Aircraft to Operator is referred to in this Agreement as a "Delivery Date." Each rental period shall commence with delivery and conclude with return of the Aircraft to Owner. If requested by Owner, Operator shall execute a Delivery and Acceptance Certificate in the form attached to this Agreement each time Operator accepts delivery of the Aircraft.

4. Rental Period

The "Rental Period" shall consist of time commencing with delivery of possession of the Aircraft to Operator until Operator returns the Aircraft to Owner. The Aircraft shall be available to Operator at all times other than when it is (a) previously scheduled by Owner or any other operator or (b) otherwise unavailable, such as due to maintenance.

5. Rent

Operator shall pay Owner the base rent as indicated on Exhibit A for use of the Aircraft. The sum of the base rent and all other charges, payments, and indemnities due to Owner by Operator hereunder are hereinafter referred to as "Aggregate Rentals." After each use of the Aircraft by Operator, Owner shall invoice Operator for rent based on the number of hours flown by Operator. Operator shall pay the invoiced amount within thirty (30) days after the invoice is sent. The hourly charges shall be calculated based on the time from takeoff to landing at destination of each leg of the trip as reflected on the Hobbs Meter. Operator shall maintain accurate Aircraft and engine logs for the Aircraft and make them available for examination by Owner. The base rate on Exhibit A will be agreed to annually by the parties on the anniversary of the execution date of this agreement. If no agreement is reached, the rate used in the previous year will continue until such time the parties agree to a change in that rate.

6. Certain Covenants of Operator. Operator agrees as follows:

a. Furnishing of Information

Operator shall furnish from time to time to Owner such information regarding Operator's use, operation, or maintenance of the Aircraft as Owner may reasonably request.

b. Lawful Use

The Aircraft shall not be used, operated or stored by Operator in violation of any law or any rule, regulation, or order of any government or governmental authority having jurisdiction (domestic or foreign), or in violation of any airworthiness certificate, license, or registration relating to the Aircraft or its use, or in violation or breach of any representation or warranty made with respect to obtaining insurance on the Aircraft or any term or condition of such insurance policy. Aircraft operations shall be limited to operations allowed under Part 91 of Title 14 of the Code of Federal Regulations.

c. Aircraft Location

The Aircraft shall not be operated or located by Operator in (i) any area excluded from coverage by the terms of insurance covering the Aircraft, or (ii) any recognized or threatened area of hostilities, unless fully covered to Owner's satisfaction by war risk insurance.

d. Base of the Aircraft

The Aircraft shall be principally based as indicated on Exhibit A unless otherwise approved by Owner.

e. Aircraft Operation

Operator will be in operational control of the Aircraft at all times during each Rental Period. During each Rental Period, Operator shall be solely responsible for its possession, use, and operation of the Aircraft.

f. Aircraft Operation Expenses

During each Rental Period, Operator shall bear the following operating costs: the cost of fuel, crew costs, expenses, and employee benefits; landing, handling, and custom fees and related charges; and all fines, fees, or penalties arising directly or indirectly out of the Operator's use and operation of the Aircraft.

g. Assignment

Operator shall not sell, transfer, assign, encumber or sublet the Aircraft or its rights under this Agreement without Owner's prior written consent, which consent may be withheld in Owner's sole discretion, and no such action without Owner's written consent shall be valid or effective.

h. Log Books

Operator shall maintain current and complete logs, books, and records pertaining to the Aircraft during each Rental Period in accordance with Federal Aviation Administration ("FAA") rules and regulations and Operator shall deliver such records in legible form to Owner when it returns the Aircraft pursuant to Section 11 herein.

i. Pilots

The Aircraft shall, at all times during each Rental Period, be operated by two (2) duly qualified, current, and rated (appropriate to the Aircraft) pilots employed and contracted for by Operator, at Operator's expense, whose licenses are in good standing, who meet the requirements established and specified by the insurance policies required hereunder, and by the FAA, and any other reasonable requirements established by Owner in writing and delivered to Operator from time to time.

j. Liens

Operator will not directly or indirectly create, incur, or permit to be created as a result of Operator's acts or omissions, any liens on or with respect to (i) the Aircraft or any part thereof, (ii) Owner's title thereto or any interest of Owner in or to the Aircraft, or (iii) Operator's interest under this Agreement. Operator shall promptly, at its own expense, take such action as may be necessary to promptly discharge any such lien created, incurred, or permitted to be created.

k. Taxes

Operator shall pay to and indemnify the Owner for, and hold the Owner harmless from and against, all landing charges, airport use fees, departure taxes and similar taxes, levies, charges or fees imposed on Operator's operation and use of the

Aircraft during any Rental Period whether imposed against or levied upon Owner, Operator, or the Aircraft or any part thereof by any federal or foreign government, any state, municipal or local subdivision, any agency or instrumentality thereof or other taxing authority.

7. Aircraft Maintenance and Registration

During the term of this agreement all maintenance, inspection, repair, overhaul and modification costs will be borne by Owner. Owner shall keep the Aircraft at all times in (a) fully operational, duly certified, and airworthy condition, (b) condition adequate to comply with all regulations of the FAA or any other governmental agency having jurisdiction over the maintenance, use or operation of the Aircraft. Operator shall return the Aircraft to Owner in accordance with Section 11 herein and in the same condition as existed when the Aircraft was delivered to Operator, normal wear and tear excepted. During the Term, Owner shall be responsible for maintaining U.S. registration of the Aircraft in the name of Owner.

8. Inspection

Owner or its designee shall have the right, but not the duty, to inspect the Aircraft at any reasonable time and upon reasonable notice. Upon Owner's request, Operator shall advise Owner of the Aircraft's location and, within a reasonable time and, provided there is no undue inconvenience and delay to Operator, shall permit Owner to examine all information, logs, documents, and Operator's records regarding or with respect to the Aircraft and its use or condition.

9. Loss or Damage

a. Risk of Loss

Owner shall bear the risk of loss of its Aircraft, even while the Aircraft is being used by Operator, and shall have the sole right to insurance proceeds payable under hull insurance policies maintained by it in the event of any loss or casualty occurrence.

b. Repair or Replacement

No party shall be obligated to repair or replace its Aircraft after a loss or casualty occurrence. If the Aircraft becomes unavailable due to loss or casualty, either party shall have the right to terminate this Agreement by written notice to the other party.

10. Insurance

Owner shall secure and maintain in effect at its own expense throughout the term hereof such hull insurance covering the Aircraft against Casualty Occurrence as Owner shall

deem appropriate. Owner shall secure and maintain in effect at its own expense throughout the term hereof public liability and property damage with respect to the Aircraft for an amount not less than Ten Million Dollars (\$10,000,000) single limit liability coverage. The Aircraft shall be operated with two pilots. Owner shall add Operator as an additional insured under the liability insurance policy maintained by Owner on its Aircraft (with such insurance being primary and non-contributory, over any insurance coverage maintained by the Operator with respect to claims pertaining to the Aircraft), but the Operator shall have no claim to the proceeds of hull insurance, if any, maintained with respect to such Aircraft. Owner's insurance policy shall include a waiver of subrogation with respect to claims for loss or damage to the Aircraft while being operated by the Operator under this Agreement to the extent such claims are waived hereunder and shall provide that as to the Operator the liability insurance coverage shall not be invalidated by acts or negligence of any named insured. All insurance required hereunder shall provide that coverage may not be adversely reduced or canceled by the insurer without thirty (30) days' prior written notice to the Operator. The Operator shall be furnished with insurance certificates evidencing such insurance as of the date hereof. Each party hereby waives all rights against the other party and against those for whom the other party is legally responsible for all losses covered by any insurance maintained hereunder or by any additional or supplemental insurance maintained by a party on the Aircraft or the use thereof. Owner shall be responsible for and provide adequate written notice from the respective insurer that pilots of Operator are approved to operate the Aircraft.

11. Return

Upon the termination or expiration of each Rental Period, Operator shall return the Aircraft to the location designated on the Delivery and Acceptance Certificate, if such a certificate was executed by Operator, or another mutually agreeable location. All expenses for delivery and return of the Aircraft shall be borne by Operator.

12. Owner's Disclaimer

EXCEPT AS OTHERWISE SET FORTH HEREIN, NEITHER OWNER (NOR ITS AFFILIATES) MAKES, HAS MADE, OR SHALL BE DEEMED TO MAKE OR HAVE MADE, ANY WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, WRITTEN OR ORAL, WITH RESPECT TO THE AIRCRAFT RENTED HEREUNDER OR ANY ENGINE OR COMPONENT THEREOF, INCLUDING, WITHOUT LIMITATION, ANY WARRANTY AS TO DESIGN, COMPLIANCE WITH SPECIFICATIONS, QUALITY OF MATERIALS OR WORKMANSHIP, MERCHANTABILITY, FITNESS FOR ANY PURPOSE, USE OR OPERATION, AIRWORTHINESS, SAFETY, PATENT, TRADEMARK OR COPYRIGHT INFRINGEMENT, OR TITLE.

13. Indemnification

a. General Indemnity

- i. In the event that any claim is made or any suit filed against Owner, or any affiliate of Owner, or any officer, director or employee of Owner or an affiliate of Owner ("Owner Indemnified Persons"), which claim or suit relates to the possession, maintenance, condition, storage, use, or operation of the Aircraft and is based upon a transaction, incident or occurrence which transpires during a Rental Period and is not attributable to a breach by Owner of its obligations hereunder or to the gross negligence or willful misconduct of any Owner Indemnified Person, then, to the extent not covered by the insurance required to be maintained hereunder, Operator shall indemnify and hold harmless the Owner Indemnified Persons against any and all costs, expenses or judgments arising out of such claim or suit (including, without limitation, reasonable attorneys' fees and expenses).
- ii. In the event that any claim is made or any suit filed against Operator, or any affiliate of Operator, or any officer, director or employee of Operator or an affiliate of Operator ("Operator Indemnified Persons"), which claim or suit relates to the possession, maintenance, condition, storage, use, operation or ownership of the Aircraft and is not based upon a transaction, incident or occurrence which transpires during a Rental Period or attributable to a breach by Operator of its obligations hereunder or to the gross negligence or willful misconduct of any Operator Indemnified Person, then, to the extent not covered by the insurance required to be maintained hereunder, Owner shall indemnify and hold harmless the Operator Indemnified Persons against any and all costs, expenses or judgments arising out of such claim or suit (including, without limitation, reasonable attorneys' fees and expenses).

b. Survival

The parties' obligations under this Section 13 shall survive termination of this Agreement and shall remain in effect until all required indemnity payments have been made. All references to Owner in this Section 12 include Owner and any consolidated taxpayer group of which Owner is a member.

14. Operator's Default

Each of the following events shall constitute an "Event of Default" hereunder (whatever the reason for such event of default and whether it shall be voluntary or involuntary, or come about or be effected by operation of law, or be pursuant to or in compliance with

any judgment, degree, or order of any court of any order, rule, or regulation of any administrative or governmental body):

- a. Operator shall fail to make payment of any Aggregate Rental within thirty (30) days after the same shall become due and such failure shall continue for five (5) days after written notice thereof from Owner to Operator; or
- b. Operator shall fail to perform or observe any covenant, condition, or agreement to be performed or observed by it under this Agreement or any agreement, document, or certificate delivered by Operator in connection herewith. Owner shall endeavor to provide Operator with written notice and three (3) days to cure such breach, except in the case of emergency or a continuing breach which cannot be cured; or
- c. Any representation or warranty made by Operator in this Agreement or any agreement, document, or certificate delivered by the Operator in connection herewith is or shall become incorrect in any material respect, and, if such a default is susceptible of being corrected, Operator fails to correct such default within three (3) days of a written notice of Owner requesting correction of same; or
- d. Operator shall become insolvent; or
- e. Operator makes an assignment for the benefit of creditors, or if a petition is filed by or against Operator under any bankruptcy or insolvency law; or
- f. A receiver is appointed for Operator or any of Operator's property.

15. Owner's Remedies

a. Remedies

Upon the occurrence of any Event of Default Owner may, at its option, exercise any or all remedies available to Owner at law or in equity, including, without limitation, any or all of the following remedies, as Owner in its sole discretion shall elect:

- i. By notice in writing terminate this Agreement, whereupon all rights of the Operator to the use of the Aircraft or any part thereof shall absolutely cease and terminate, but Operator shall remain liable as hereinafter provided; and thereupon Operator, if so requested by the Owner, shall at its expense promptly return the Aircraft as required by Section 10 hereof, or Owner, at its option, may, with or without legal process, enter upon the premises where the Aircraft may be located and take immediate possession of and remove the same. Operator specifically authorizes Owner's entry upon any premises where the Aircraft may be located for the purpose of,

and waives any cause of action Operator may have arising from, a peaceful retaking of the Aircraft. Operator shall, without further demand, forthwith pay to Owner as liquidated damages for loss of a bargain and not as a penalty, an amount equal to the total accrued and unpaid Aggregate Rentals, plus all other accrued and unpaid amounts due to Owner hereunder; and

- ii. Perform or cause to be performed any obligation, covenant, or agreement of Operator hereunder. Operator agrees to pay all reasonable costs and expenses incurred by Owner for such performance as additional Aggregate Rental hereunder and acknowledges that such performance by Owner shall not be deemed to cure said Event of Default.

b. Costs and Attorneys' Fees

Operator shall be liable for all costs, charges, and expenses, including reasonable legal fees and disbursements, incurred by Owner by reason of the occurrence of any Event of Default or the exercise of Owner's remedies with respect thereto.

c. Nonexclusive

No remedy referred to herein is intended to be exclusive, but each shall be cumulative and in addition to any other remedy referred to above or otherwise available to Owner at law or in equity. Owner shall not be deemed to have waived any breach, Event of Default or right hereunder unless the same is acknowledged in writing by a duly authorized representative of Owner. No waiver by Owner of any default or Event of Default hereunder shall in any way be, or be construed to be, a waiver of any future or subsequent default or Event of Default. The failure or delay of Owner in exercising any rights granted it hereunder upon any occurrence of any of the contingencies set forth herein shall not constitute a waiver of any such right upon the continuation or recurrence of any such contingencies or similar contingencies and any single or partial exercise of any particular right by Owner shall not exhaust the same or constitute a waiver of any other right provided herein.

16. Operator's Remedy

Upon the occurrence of any breach by Owner of Owner's obligations hereunder, Operator may, at its option, exercise any or all remedies available to Operator at law or in equity, as Operator in its sole discretion shall elect.

17. Termination

Either party may terminate this Agreement by providing the other party written notice of termination at least thirty days (30) prior to the date of termination. Within ten (10) days after the date of termination, Owner shall provide Operator with an accounting of all

outstanding charges or costs relating to this Agreement. Operator shall pay to Owner any outstanding charges and costs for which it may be responsible within thirty (30) days after receipt of such accounting. Both parties agree to take all necessary action with respect to the FAA and insurance companies to inform them of the termination of this Agreement.

18. Notices

Unless specifically provided to the contrary herein all notices permitted or required by this Agreement shall be in writing and shall be deemed given if sent by commercial courier, or by registered mail or certified mail, return receipt requested, postage prepaid, to the address set forth herein below, or such other address as may hereafter be designated by the addressee in a written notice to the other party.

Owner: Tomco II, LLC
3319 West End Avenue
Suite 900A
Nashville, TN 37203

Operator: HCA Management Services, L.P.
One Park Plaza
Nashville, TN 37203
ATTN: President

19. Entire Agreement

The terms and conditions of this Agreement constitute the entire agreement between the parties as to the subject matter hereof and supersede all prior written and oral negotiations, representations, and agreements, if any, between the parties on such matters and shall be binding upon the parties, their successors, assigns, and legal representatives.

20. Modification of Agreement

No change or modification hereof or waiver of any term or condition hereof shall be effective unless the change or modification is in writing and signed by both parties.

21. Time of the Essence

Time is of the essence in this Agreement.

22. Headings

The headings of Sections and subsections of this Agreement are included for convenience only and shall not be used in its construction or interpretation.

23. Governing Law

THE PARTIES HERETO ACKNOWLEDGE THAT THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ALL RESPECT IN ACCORDANCE WITH THE SUBSTANTIVE LAWS OF THE STATE OF TENNESSEE (WITHOUT REGARD TO ITS CHOICE OF LAWS RULES).

24. Truth-in-Leasing

- a. OWNER CERTIFIES THAT THE AIRCRAFT HAS BEEN MAINTAINED AND INSPECTED DURING THE 12 MONTHS PRECEDING THE EXECUTION OF THIS AGREEMENT UNDER PART 91 OF THE FEDERAL AVIATION REGULATIONS.
- b. OPERATOR, HCA MANAGEMENT SERVICES, L.P., ONE PARK PLAZA, NASHVILLE, TENNESSEE 37203 CERTIFIES THAT OPERATOR, AND NOT OWNER, IS RESPONSIBLE FOR OPERATIONAL CONTROL OF THE AIRCRAFT UNDER THIS AGREEMENT DURING EACH RENTAL PERIOD. OPERATOR AND OWNER FURTHER CERTIFY THAT THEY EACH UNDERSTAND THEIR RESPECTIVE RESPONSIBILITIES FOR COMPLIANCE WITH APPLICABLE FEDERAL AVIATION REGULATIONS.
- c. OPERATOR UNDERSTANDS THAT AN EXPLANATION OF FACTORS BEARING ON OPERATIONAL CONTROL AND PERTINENT FEDERAL AVIATION REGULATIONS CAN BE OBTAINED FROM THE NEAREST FAA FLIGHT STANDARDS DISTRICT OFFICE

IN WITNESS WHEREOF, the parties hereto have each caused this Agreement to be duly executed as of the year and day first above written. THIS AGREEMENT SHALL NOT BE EFFECTIVE UNTIL EXECUTED ON BEHALF OF EACH PARTY.

OWNER:

Tomco II, LLC

By: /s/ Thomas R. Frist, Jr.

Thomas F. Frist, Jr., M.D.
President

OPERATOR:

HCA MANAGEMENT SERVICES, L.P.

By: CMS GP, LLC
Its: General Partner

By: /s/ A. Bruce Moore, Jr.

A. Bruce Moore, Jr.
President

DELIVERY AND ACCEPTANCE CERTIFICATE

This Certificate is delivered by the undersigned Operator ("Operator") pursuant to the Aircraft Agreement dated as of September 30, 2002 ("Agreement"), and in connection with the following aircraft ("Aircraft") rented thereunder:

Manufacturer: Cessna Aircraft Corporation
Model: Cessna 560
Serial Number: 560-0573
Registration Number: N 162TF

Operator hereby certifies that the Aircraft (including all pertinent operational equipment and logs and maintenance manuals) has been delivered to Operator, that Operator has caused its duly qualified expert to inspect the Aircraft (and all pertinent operational equipment and logs and maintenance manuals), and that, based upon such inspection (which is entirely to Operator's satisfaction), Operator hereby accepts the Aircraft as of the Delivery Date specified below for all purposes of the Agreement (including, without limitation, "operational control" thereof as such term is used and defined under the Federal Aviation Regulations). Operator will have operational control commencing at the beginning of each Rental Period and ending upon the return of the Aircraft to Owner at the end of each Rental Period throughout the term of this Agreement. Operator hereby further certifies that the following information is true and correct:

Delivery Date: The date of Operator's execution of this Certificate.

Delivery Time: _____

Delivery Location: Nashville, TN, BNA

Return Date: _____

Anticipated Return Time: _____

Return Location: Nashville, TN, BNA

OWNER:

Tomco II, LLC

By: _____

Date: _____

WITNESS:

By: _____

Date: _____

OPERATOR:

HCA MANAGEMENT SERVICES, L.P.

By: _____

Date: _____

EXHIBIT A

AIRCRAFT IDENTIFICATION

Manufacturer: Cessna Aircraft Corporation
Model: Cessna 560
Serial Number: 560-0573
Registration Number: N 162TF

BASE RENT

\$1,200 per Hobbs Hour

HOME BASE

Nashville, TN

BNA

HCA INC.
 COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
 FOR THE QUARTERS AND NINE MONTHS SEPTEMBER 30, 2002 AND 2001
 (DOLLARS IN MILLIONS)

	QUARTER		NINE MONTHS	
	2002	2001	2002	2001
EARNINGS:				
Income before minority interests and income taxes.....	\$369	\$456	\$1,653	\$1,488
Fixed charges, excluding capitalized interest.....	139	164	425	501
	-----	-----	-----	-----
	\$508	\$620	\$2,078	\$1,989
	=====	=====	=====	=====
FIXED CHARGES:				
Interest charged to expense.....	\$111	\$137	\$ 340	\$ 418
Interest portion of rental expense and amortization of deferred loan costs.....	28	27	85	83
	-----	-----	-----	-----
Fixed charges, excluding capitalized interest.....	139	164	425	501
Capitalized interest.....	9	5	22	12
	-----	-----	-----	-----
	\$148	\$169	\$ 447	\$ 513
	=====	=====	=====	=====
Ratio of earnings to fixed charges.....	3.43	3.67	4.65	3.88

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of HCA Inc. (the "Company") on Form 10-Q for the period ending September 30, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jack O. Bovender, Jr., Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. sec. 1350, as adopted pursuant to sec. 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ JACK O. BOVENDER, JR.

- - - - -

Jack O. Bovender, Jr.
Chief Executive Officer

November 13, 2002

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of HCA Inc. (the "Company") on Form 10-Q for the period ending September 30, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, R. Milton Johnson, Senior Vice President and Controller of the Company, certify, pursuant to 18 U.S.C. sec.1350, as adopted pursuant to sec.906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ R. MILTON JOHNSON

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R. Milton Johnson
Senior Vice President and Controller

November 13, 2002