

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

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2006

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)

One Park Plaza
Nashville, Tennessee

(Address of principal executive offices)

75-2497104

(I.R.S. Employer
Identification No.)

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definitions of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 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 practicable date.

Class of Common Stock	Outstanding at June 30, 2006
Voting common stock, \$.01 par value	388,237,500 shares
Nonvoting common stock, \$.01 par value	21,000,000 shares

HCA INC.

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HCA INC.
CONDENSED CONSOLIDATED INCOME STATEMENTS
FOR THE QUARTERS AND SIX MONTHS ENDED JUNE 30, 2006 AND 2005

Unaudited

(Dollars in millions, except per share amounts)

	Quarter		Six Months	
	2006	2005	2006	2005
Revenues	\$ 6,360	\$ 6,070	\$ 12,775	\$ 12,252
Salaries and benefits	2,605	2,463	5,216	4,906
Supplies	1,091	1,042	2,205	2,093
Other operating expenses	995	981	2,032	1,953
Provision for doubtful accounts	677	541	1,273	1,115
Gains on investments	(25)	(22)	(100)	(31)
Equity in earnings of affiliates	(47)	(53)	(108)	(106)
Depreciation and amortization	352	364	697	701
Interest expense	196	165	382	329
Gains on sales of facilities	(5)	(29)	(5)	(29)
	5,839	5,452	11,592	10,931
Income before minority interests and income taxes	521	618	1,183	1,321
Minority interests in earnings of consolidated entities	46	49	101	89
Income before income taxes	475	569	1,082	1,232
Provision for income taxes	180	164	408	413
Net income	\$ 295	\$ 405	\$ 674	\$ 819
Per share data:				
Basic earnings per share	\$ 0.73	\$ 0.91	\$ 1.67	\$ 1.88
Diluted earnings per share	\$ 0.72	\$ 0.90	\$ 1.64	\$ 1.84
Cash dividends declared per share	\$ 0.17	\$ 0.15	\$ 0.34	\$ 0.30
Shares used in earnings per share calculations (in thousands):				
Basic	402,081	443,489	403,366	435,626
Diluted	408,202	451,731	409,731	443,739

See accompanying notes.

HCA INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
Unaudited
(Dollars in millions)

	June 30, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 736	\$ 336
Accounts receivable, less allowance for doubtful accounts of \$3,196 and \$2,897	3,414	3,332
Inventories	646	616
Deferred income taxes	552	372
Other	570	559
	<u>5,918</u>	<u>5,215</u>
Property and equipment, at cost	21,592	20,818
Accumulated depreciation	(10,014)	(9,439)
	<u>11,578</u>	<u>11,379</u>
Investments of insurance subsidiary	2,134	2,134
Investments in and advances to affiliates	665	627
Goodwill	2,648	2,626
Deferred loan costs	74	85
Other	103	159
	<u>\$ 23,120</u>	<u>\$ 22,225</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,240	\$ 1,484
Accrued salaries	639	561
Other accrued expenses	1,506	1,264
Long-term debt due within one year	659	586
	<u>4,044</u>	<u>3,895</u>
Long-term debt	11,005	9,889
Professional liability risks	1,315	1,336
Deferred income taxes and other liabilities	1,029	1,414
Minority interests in equity of consolidated entities	901	828
Stockholders' equity:		
Common stock \$.01 par; authorized 1,650,000,000 shares; outstanding 409,237,500 shares in 2006 and 417,512,700 shares in 2005	4	4
Accumulated other comprehensive income	88	130
Retained earnings	4,734	4,729
	<u>4,826</u>	<u>4,863</u>
	<u>\$ 23,120</u>	<u>\$ 22,225</u>

See accompanying notes.

HCA INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005

Unaudited
(Dollars in millions)

	2006	2005
Cash flows from operating activities:		
Net income	\$ 674	\$ 819
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful accounts	1,273	1,115
Depreciation and amortization	697	701
Income taxes	(408)	222
Gains on sales of facilities	(5)	(29)
Changes in operating assets and liabilities	(1,597)	(1,236)
Other	137	99
Net cash provided by operating activities	771	1,691
Cash flows from investing activities:		
Purchase of property and equipment	(820)	(625)
Acquisition of hospitals and health care entities	(105)	(84)
Disposition of hospitals and health care entities	291	36
Change in investments	(150)	(110)
Other	(11)	25
Net cash used in investing activities	(795)	(758)
Cash flows from financing activities:		
Issuance of long-term debt	1,400	—
Net change in revolving bank credit facility	945	(700)
Repayment of long-term debt	(1,162)	(480)
Payment of cash dividends	(131)	(123)
Repurchases of common stock	(653)	—
Issuances of common stock	76	922
Other	(51)	(113)
Net cash provided by (used in) financing activities	424	(494)
Change in cash and cash equivalents	400	439
Cash and cash equivalents at beginning of period	336	258
Cash and cash equivalents at end of period	\$ 736	\$ 697
Interest payments	\$ 351	\$ 308
Income tax payments, net of refunds	\$ 810	\$ 191

See accompanying notes.

HCA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Unaudited

NOTE 1 — INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 June 30, 2006, these affiliates owned and operated 176 hospitals, 92 freestanding surgery centers and facilities which provided extensive outpatient and ancillary services. Affiliates of HCA Inc. are also partners in joint ventures that own and operate seven hospitals and nine freestanding surgery centers which are accounted for using the equity method. The Company’s facilities are located in 21 states, England and Switzerland. The terms “HCA,” “Company,” “we,” “our” or “us,” 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 consolidated financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal and recurring nature. The majority of our expenses are “cost of revenue” items. Costs that could be classified as general and administrative would include our corporate office costs, which were \$44 million and \$43 million for the quarters ended June 30, 2006 and 2005, respectively, and \$86 million and \$82 million for the six months ended June 30, 2006 and 2005, respectively. Operating results for the quarter and six months ended June 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. For further information, refer to the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2005.

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

Recent Pronouncements

In November 2005, the Financial Accounting Standards Board (the “FASB”) issued FASB Staff Position No. 45-3, “Application of FASB Interpretation No. 45 to Minimum Revenue Guarantees Granted to a Business or its Owners” (“FSP FIN 45-3”). It serves as an amendment to FASB Interpretation No. 45 “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others” (“FIN 45”) by adding minimum revenue guarantees to the list of examples of contracts to which FIN 45 applies. Under FSP FIN 45-3, a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. One example cited in FSP FIN 45-3 involves a guarantee provided by a health care entity to a nonemployed physician in order to recruit such physician to move to the entity’s geographical area and establish a private practice, which is an approach we use to recruit physicians.

FSP FIN 45-3 is effective for new minimum revenue guarantees issued or modified on or after January 1, 2006. For periods before January 1, 2006, we expensed physician recruitment agreement amounts as incurred to the recruited physicians, which was generally over a 12 month period. We do not expect the impact of the adoption of FSP FIN 45-3 to be material to our results of operations for 2006 and future periods.

Professional Liability Insurance Claims

A substantial portion of our professional liability risks is insured through a wholly-owned insurance subsidiary, which is funded annually. Reserves for professional liability risks were \$1.595 billion and \$1.621 billion at June 30, 2006 and December 31, 2005, respectively. The current portion of the reserves, \$280 million and \$285 million at June 30, 2006 and December 31, 2005, respectively, is included in “other accrued expenses” in the condensed consolidated balance sheet. Provisions for losses related to professional liability risks were \$8 million and

HCA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 1 — INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Professional Liability Insurance Claims (continued)

\$59 million for the quarters ended June 30, 2006 and 2005, respectively, and \$97 million and \$161 million for the six months ended June 30, 2006 and 2005, respectively, and are included in “other operating expenses” in the condensed consolidated income statement. We recognized a reduction in our estimated professional liability reserves of \$85 million pretax, or \$0.13 per diluted share, during the second quarter of 2006. Results for the second quarter of 2005 included a reduction in our estimated professional liability reserves of \$36 million pretax, or \$0.05 per diluted share. The malpractice reserve reductions in 2006 and 2005 reflect the recognition by our external actuaries of improving frequency and severity claim trends. This declining frequency and moderating severity can be primarily attributed to tort reforms enacted in key states, particularly Texas, and our risk management and patient safety initiatives, particularly in the areas of obstetrics and emergency services.

NOTE 2 — SHARE-BASED COMPENSATION

Effective January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123(R), “Share-Based Payment” (“SFAS 123(R)”), using the modified prospective application transition method. Under this method, compensation cost is recognized, beginning January 1, 2006, based on the requirements of SFAS 123(R) for all share-based payments granted after the effective date, and based on Statement of Financial Accounting Standards No. 123, “Accounting for Stock-Based Compensation” (“SFAS 123”), for all awards granted to employees prior to January 1, 2006 that remain unvested on the effective date. Prior to January 1, 2006, we applied Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” (“APB 25”) and related interpretations in accounting for our employee stock benefit plans. Accordingly, no compensation cost was recognized for stock options granted under the plans because the exercise prices for options granted were equal to the quoted market prices on the option grant dates and all option grants were to employees or directors. Results for prior periods have not been restated.

As a result of adopting SFAS 123(R), income before taxes for the quarter and six months ended June 30, 2006 was lower by \$10 million and \$18 million, respectively (\$8 million and \$15 million, respectively, after tax), or \$0.02 and \$0.04, respectively, per diluted share, than if we had continued to account for share-based compensation under APB 25. SFAS 123(R) requires that the benefits of tax deductions in excess of amounts recognized as compensation cost be reported as a financing cash flow, rather than an operating cash flow, as required under prior accounting guidance. Tax deductions in excess of amounts recognized as compensation cost of \$2 million and \$7 million, respectively, were reported as financing cash flows in the quarter and six months ended June 30, 2006 compared to \$72 million and \$155 million, respectively, being reported as operating cash flows for the quarter and six months ended June 30, 2005.

For periods prior to the adoption of SFAS 123(R), SFAS 123 required us to determine pro forma net income and earnings per share as if compensation cost for our employee stock option and stock purchase plans had been

HCA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 2 — SHARE-BASED COMPENSATION (continued)

determined based upon fair values at the grant dates. These pro forma amounts for the quarter and six months ended June 30, 2005 are as follows (dollars in millions, except per share amounts):

	Second Quarter 2005	Six Months 2005
Net income:		
As reported	\$ 405	\$ 819
Share-based employee compensation expense determined under a fair value method, net of income taxes	2	9
Pro forma	<u>\$ 403</u>	<u>\$ 810</u>
Basic earnings per share:		
As reported	\$ 0.91	\$ 1.88
Pro forma	\$ 0.91	\$ 1.86
Diluted earnings per share:		
As reported	\$ 0.90	\$ 1.84
Pro forma	\$ 0.89	\$ 1.82

As of January 1, 2006, we had the following share-based compensation plans:

HCA 2005 Equity Incentive Plan

In May 2005, our stockholders approved the HCA 2005 Equity Incentive Plan (the "2005 Plan"). The 2005 Plan is the primary plan under which stock options and restricted stock may be granted to officers, employees and directors. Prior to 2005, we primarily utilized stock option grants for equity compensation purposes. During 2005, an increasing equity compensation emphasis was placed on restricted share grants. The restricted shares granted in 2005 are subject to back-end vesting provisions, with no shares vesting in the first two years after grant and then a third of the shares vesting in each of the third, fourth and fifth years. The restricted shares granted in 2006 vest in equal annual increments over a five-year period. During the quarters ended June 30, 2006 and 2005, we recognized \$13 million and \$7 million, respectively, and during the six months ended June 30, 2006 and 2005, we recognized \$25 million and \$13 million, respectively, of compensation costs related to restricted share grants. The number of options or shares authorized under the 2005 Plan is 34,000,000 (which includes 14,000,000 shares authorized under a former plan). In addition, options granted under certain former plans that are cancelled become available for subsequent grants. Exercise provisions vary, but options are generally exercisable, in whole or in part, beginning one to four years after the grant date and ending ten years after the grant date. As of June 30, 2006, there were 28,592,500 shares available for future grants under the 2005 Plan.

Options to purchase common stock have been granted to officers, employees and directors under the 2005 Plan and various predecessor plans. Options have been granted with exercise prices no less than the market price on the date of grant. Exercise provisions vary, but most options are exercisable, in whole or in part, beginning one to four years after the grant date and ending four to 15 years after the grant date. Dividends are not paid on unexercised stock options, but are generally paid on unvested restricted stock.

The fair value of each option award was estimated on the grant date, using the Black-Scholes option valuation model with the weighted average assumptions indicated in the following table. Generally, awards are subject to graded vesting. Each grant is valued as a single award with an expected term equal to the average expected term of the component vesting tranches. We use historical option exercise behavior data and other factors to estimate the expected term of the options. The expected term of the option is limited by the contractual term of the option, and employee post-vesting termination behavior is incorporated in the historical option exercise behavior data. Compensation cost is recognized on the straight-line attribution method. The straight-line attribution method requires that compensation expense is recognized at least equal to the portion of the grant-date fair value that is

HCA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 2 — SHARE-BASED COMPENSATION (continued)

HCA 2005 Equity Incentive Plan (continued)

vested at that date. The expected volatility is derived using weekly, historical data for periods preceding the date of grant. The risk-free interest rate is the approximate yield on United States Treasury Strips having a life equal to the expected option life on the date of grant. The expected life is an estimate of the number of years an option will be held before it is exercised. The valuation model was not adjusted for nontransferability, risk of forfeiture or the vesting restrictions of the options, all of which would reduce the value if factored into the calculation.

	Second Quarter		Six Months	
	2006	2005	2006	2005
Risk-free interest rate	4.99%	3.86%	4.72%	3.80%
Expected volatility	28%	33%	28%	33%
Expected life, in years	5	5	5	5
Expected dividend yield	1.43%	1.25%	1.39%	1.33%

Information regarding stock option activity for the first six months of 2006 is summarized below (share amounts in thousands):

	Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (dollars in millions)
Options outstanding, December 31, 2005	27,806	\$ 36.35		
Granted	1,329	47.36		
Exercised	(1,200)	33.45		
Cancelled	(67)	40.02		
Options outstanding, June 30, 2006	27,868	37.00	5.5	\$ 172
Options exercisable, June 30, 2006	24,456	35.47	5.0	\$ 188

The weighted average fair values of stock options granted during the quarters ended June 30, 2006 and 2005 were \$13.10 and \$17.27 per share, respectively. The weighed average fair values of stock options granted during the six months ended June 30, 2006 and 2005 were \$13.69 and \$15.66 per share, respectively. The total intrinsic value of stock options exercised in the six months ended June 30, 2006 was \$17 million.

A summary of the status of our unvested restricted shares as of June 30, 2006 and changes during the first six months of 2006 follows (share amounts in thousands):

	Number of Shares	Weighted Average Grant Date Fair Value
Restricted shares, December 31, 2005	3,748	\$ 43.42
Granted	2,889	49.56
Vested	(365)	43.78
Cancelled	(113)	45.33
Restricted shares, June 30, 2006	6,159	46.24

As of June 30, 2006, there was \$208 million in unrecognized compensation costs related to unvested restricted shares. This cost is expected to be recognized over a weighted average period of approximately 3.8 years. As of June 30, 2006, there was \$38 million of unrecognized compensation costs related to unvested stock options. These

HCA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 2 — SHARE-BASED COMPENSATION (continued)

HCA 2005 Equity Incentive Plan (continued)

costs are expected to be recognized over a weighted average period of approximately 2.7 years. During the quarter and six months ended June 30, 2006, 281,200 and 861,500, respectively, stock options vested. These stock options had aggregate fair values of \$3 million and \$12 million, respectively, for the quarter and six months ended June 30, 2006.

In December 2004, we accelerated the vesting of all unvested stock options awarded to employees and officers which had exercise prices greater than the closing price at December 14, 2004 of \$40.89 per share. Options to purchase approximately 19.1 million shares became exercisable immediately as a result of the vesting acceleration. The decision to accelerate vesting of the identified stock options will result in us not being required to recognize share-based compensation expense, net of taxes, of approximately \$36 million in 2006, \$19 million in 2007, and \$2 million in 2008. The elimination of the requirement to recognize compensation expense in future periods related to the unvested stock options was management's basis for the decision to accelerate the vesting.

Employee Stock Purchase Plan ("ESPP")

Our ESPP provides an opportunity to purchase shares of HCA common stock at a discount (through payroll deductions over six-month periods) to substantially all employees. During the quarter and six months ended June 30, 2006, ESPP purchases of 931,000 shares were made. At June 30, 2006, 3,969,200 shares of common stock were reserved for purchase under the ESPP provisions. The fair value of the right to purchase ESPP shares was estimated using a valuation model with the weighted average assumptions indicated in the following table.

	Six Months	
	2006	2005
Risk-free interest rate	4.37%	2.51%
Expected volatility	14%	25%
Expected life, in years	0.50	0.50
Expected dividend yield	1.46%	1.21%
Grant date fair value	\$ 10.02	\$ 8.81

Management Stock Purchase Plan ("MSPP")

The MSPP allows eligible employees to defer an elected percentage (not to exceed 25%) of their base salaries through the purchase of restricted stock at a 25% discount from the average market price. Purchases of restricted shares are made twice a year and the shares vest after three years. During the six months ended June 30, 2006, MSPP purchases of 66,700 shares were made at weighted average purchase date discounted (25% discount) fair value of \$37.41 per share. There are 1,716,300 shares available for future purchases under this plan.

NOTE 3 — INCOME TAXES

We are 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 through 2002 federal income tax returns, Columbia Healthcare Corporation's ("CHC") 1993 and 1994 federal income tax returns, HCA-Hospital Corporation of America's ("Hospital Corporation of America") 1991 through 1993 federal income tax returns and Healthtrust, Inc. — The Hospital Company's ("Healthtrust") 1990 through 1994 federal income tax returns.

HCA INC.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)****NOTE 3 — INCOME TAXES (continued)**

During the second quarter 2005, HCA recorded an income tax benefit of \$48 million, or \$0.11 per diluted share, related to a partial settlement reached with the IRS Appeals Division regarding the amount of gain or loss recognized on the divestiture of certain noncore business units.

During 2003, the United States Court of Appeals for the Sixth Circuit affirmed a Tax Court decision received in 1996 related to the IRS examination of Hospital Corporation of America's 1987 through 1988 federal income tax returns, in which the IRS contested the method that Hospital Corporation of America used to calculate its tax allowance for doubtful accounts. HCA filed a petition for review by the United States Supreme Court, which was denied in October 2004. Due to the volume and complexity of calculating the tax allowance for doubtful accounts, the IRS has not determined the amount of additional tax and interest that it may claim for taxable years after 1988. In December 2004, HCA made a deposit of \$109 million for additional tax and interest, based on its estimate of amounts due for taxable periods through 1996.

Other disputed items include the deductibility of a portion of the 2001 government settlement payment, the timing of recognition of certain patient service revenues in 2000 through 2002, the method for calculating the tax allowance for uncollectible accounts in 2002, and the amount of insurance expense deducted in 1999 through 2002. The IRS is seeking an additional \$592 million in income taxes, interest and penalties, through June 30, 2006, with respect to these issues. This amount is net of a refundable tax deposit of \$177 million, and related interest, made by HCA during the first quarter of 2006.

During the first quarter of 2006, the IRS began an examination of HCA's 2003 and 2004 federal income tax returns. The IRS has not determined the amount of any additional income tax, interest and penalties that it 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 HCA, CHC, Hospital Corporation of America and Healthtrust properly reported taxable income and paid taxes in accordance with applicable laws and agreements established with the IRS during previous examinations and that final resolution of these disputes will not have a material adverse effect on results of operations or financial position.

NOTE 4 — EARNINGS PER SHARE

We compute basic earnings per share using the weighted average number of common shares outstanding. We compute diluted earnings per share using the weighted average number of common shares outstanding, plus the dilutive effect of outstanding stock options and other stock awards, computed using the treasury stock method.

HCA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 4 — EARNINGS PER SHARE (continued)

The following table sets forth the computation of basic and diluted earnings per share for the quarters and six months ended June 30, 2006 and 2005 (dollars in millions, except per share amounts, and shares in thousands):

	Second Quarter		Six Months	
	2006	2005	2006	2005
Net income	\$ 295	\$ 405	\$ 674	\$ 819
Weighted average common shares outstanding	402,081	443,489	403,366	435,626
Effect of dilutive securities:				
Stock options	4,817	6,970	5,062	6,817
Other	1,304	1,272	1,303	1,296
Shares used for diluted earnings per share	408,202	451,731	409,731	443,739
Earnings per share:				
Basic earnings per share	\$ 0.73	\$ 0.91	\$ 1.67	\$ 1.88
Diluted earnings per share	\$ 0.72	\$ 0.90	\$ 1.64	\$ 1.84

NOTE 5 — INVESTMENTS OF INSURANCE SUBSIDIARY

A summary of the insurance subsidiary's investments at June 30, 2006 and December 31, 2005 follows (dollars in millions):

	Amortized Cost	June 30, 2006 Unrealized Amounts		Fair Value
		Gains	Losses	
Debt securities:				
United States Government	\$ 26	\$ —	\$ (1)	\$ 25
States and municipalities	1,120	13	(10)	1,123
Asset-backed securities	58	5	(1)	62
Corporate and other	10	—	—	10
Money market funds	239	—	—	239
	1,453	18	(12)	1,459
Equity securities:				
Preferred stocks	10	—	—	10
Common stocks	832	95	(12)	915
	842	95	(12)	925
	\$ 2,295	\$ 113	\$ (24)	2,384
Amount classified as current asset				(250)
Investment carrying value				\$ 2,134

HCA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 5 — INVESTMENTS OF INSURANCE SUBSIDIARY (continued)

	Amortized Cost	December 31, 2005 Unrealized Amounts		Fair Value
		Gains	Losses	
Debt securities:				
States and municipalities	\$ 1,199	\$ 27	\$ (5)	\$ 1,221
Asset-backed securities	41	4	—	45
Corporate and other	22	1	—	23
Money market funds	130	—	—	130
	<u>1,392</u>	<u>32</u>	<u>(5)</u>	<u>1,419</u>
Equity securities:				
Preferred stocks	10	—	—	10
Common stocks	798	161	(4)	955
	<u>808</u>	<u>161</u>	<u>(4)</u>	<u>965</u>
	<u>\$ 2,200</u>	<u>\$ 193</u>	<u>\$ (9)</u>	<u>2,384</u>
Amount classified as current asset				(250)
Investment carrying value				<u>\$ 2,134</u>

At June 30, 2006 and December 31, 2005, the investments of our insurance subsidiary were classified as “available-for-sale.” The fair value of investment securities is generally based on quoted market prices. Changes in temporary unrealized gains and losses are recorded as adjustments to other comprehensive income. The aggregate common stock investment is comprised of 510 equity positions at June 30, 2006, with 424 positions reflecting unrealized gains and 86 positions reflecting unrealized losses (none of the individual unrealized loss positions exceed \$2 million). None of the equity positions with unrealized losses at June 30, 2006 represent situations where there is a continuous decline of more than 20% from cost for more than one year. The equity positions (including those with unrealized losses) at June 30, 2006 are not concentrated in any particular industries.

NOTE 6 — LONG-TERM DEBT

Our revolving credit facility (the “Credit Facility”) is a \$1.75 billion agreement that expires November 2009. At June 30, 2006, we had \$273 million available under the Credit Facility. At June 30, 2006, interest was payable generally at either a spread to LIBOR, plus 0.4% to 1.0% (depending on HCA’s credit ratings), the prime lending rate or a competitive bid rate. The Credit Facility contains customary covenants which include (i) a limitation on debt levels, (ii) a limitation on sales of assets, mergers and changes of ownership and (iii) maintenance of minimum interest coverage ratios. As of June 30, 2006, we were in compliance with all such covenants.

In May 2006, we entered into a \$400 million credit agreement which matures in May 2007. Under this agreement, we have borrowed \$400 million (the “2006 Term Loan”). The proceeds from the 2006 Term Loan were used for general corporate purposes.

NOTE 7 — CONTINGENCIES

Significant Legal Proceedings

We operate in a highly regulated and litigious industry. As a result, various lawsuits, claims and legal and regulatory proceedings have been and can be expected to be instituted or asserted against us. The resolution of any

HCA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 7 — CONTINGENCIES (continued)

Significant Legal Proceedings (continued)

such lawsuits, claims or legal and regulatory proceedings could have a material, adverse effect on our results of operations and financial position in a given period.

In 2005, the Company and certain of its executive officers and directors were named in various federal securities law class actions and several shareholders filed derivative lawsuits purportedly on behalf of the Company. Additionally, a former employee filed a complaint against certain of our executive officers pursuant to the Employee Retirement Income Security Act and the Company has been served with a shareholder demand letter addressed to our Board of Directors. We cannot predict the results of these lawsuits, or the effect that findings in such lawsuits may have on us.

General Liability Claims

We are subject to claims and suits arising in the ordinary course of business, including claims for personal injury or wrongful restriction of, or interference with, physicians' staff privileges. In certain of these actions the claimants may seek punitive damages against us 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 our results of operations or financial position.

Government Investigation, Claims and Litigation

In January 2001, we entered into an eight-year Corporate Integrity Agreement ("CIA") with the Office of Inspector General of the Department of Health and Human Services. Violation or breach of the CIA, or violation of federal or state laws relating to Medicare, Medicaid or similar programs, could subject us to substantial monetary fines, civil and criminal penalties and/or exclusion from participation in the Medicare and Medicaid programs. Alleged violations may be pursued by the government or through private *qui tam* actions. Sanctions imposed against us as a result of such actions could have a material, adverse effect on our results of operations or financial position.

In September 2005, we received a subpoena from the Office of the United States Attorney for the Southern District of New York seeking the production of documents. Also in September 2005, we were informed that the SEC had issued a formal order of investigation. Both the subpoena and formal order of investigation relate to trading in our securities. We are cooperating fully with these investigations.

NOTE 8 — COMPREHENSIVE INCOME

The components of comprehensive income, net of related taxes, for the quarters and six months ended June 30, 2006 and 2005 are as follows (in millions):

	Second Quarter		Six Months	
	2006	2005	2006	2005
Net income	\$ 295	\$ 405	\$ 674	\$ 819
Change in unrealized net gains on available-for-sale securities	(32)	—	(61)	(37)
Currency translation adjustments	15	(18)	19	(25)
Comprehensive income	<u>\$ 278</u>	<u>\$ 387</u>	<u>\$ 632</u>	<u>\$ 757</u>

HCA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 8 — COMPREHENSIVE INCOME (continued)

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

	June 30, 2006	December 31, 2005
Net unrealized gains on available-for-sale securities	\$ 57	\$ 118
Currency translation adjustments	49	30
Defined benefit plans	(18)	(18)
Accumulated other comprehensive income	\$ 88	\$ 130

NOTE 9 — SEGMENT AND GEOGRAPHIC INFORMATION

We operate in one line of business, which is operating hospitals and related health care entities. During the quarters ended June 30, 2006 and 2005, approximately 26% and 28%, respectively, of our patient revenues related to patients participating in the Medicare program. During the six months ended June 30, 2006 and 2005, approximately 27% and 28%, respectively, of our patient revenues related to patients participating in the Medicare program.

Effective January 1, 2006, we reorganized our operations management to create a third operating group, the Central Group, and created smaller, more focused divisions and markets, along with market-based service line strategies. Our operations are structured into three geographically organized groups: the Eastern Group includes 57 consolidating hospitals located in the Eastern United States, the Central Group includes 57 consolidating hospitals located in the Central United States and the Western Group includes 54 consolidating hospitals located in the Western United States. We also operate eight consolidating hospitals in England and Switzerland and these facilities are included in the Corporate and other group.

Adjusted segment EBITDA is defined as income before depreciation and amortization, interest expense, gains on sales of facilities, minority interests and income taxes. We use adjusted segment EBITDA as an analytical indicator for purposes of allocating resources to geographic areas and assessing their performance. Adjusted segment 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. Adjusted segment EBITDA should not be considered as a measure of financial performance under generally accepted accounting principles, and the items excluded from adjusted segment EBITDA are significant components in understanding and assessing financial performance. Because adjusted segment EBITDA is not a measurement determined in accordance with generally accepted accounting principles and is thus susceptible to varying calculations, adjusted segment EBITDA, as presented, may not be comparable to other similarly titled measures of other companies. The geographic distributions of our revenues, equity in earnings of affiliates, adjusted segment EBITDA and depreciation and amortization, with prior

HCA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 9 — SEGMENT AND GEOGRAPHIC INFORMATION (continued)

year amounts reclassified to conform to the 2006 operational structure, are summarized in the following table (dollars in millions):

	Second Quarter		Six Months	
	2006	2005	2006	2005
Revenues:				
Central Group	\$ 1,410	\$ 1,375	\$ 2,836	\$ 2,790
Eastern Group	2,175	2,053	4,384	4,157
Western Group	2,566	2,379	5,139	4,779
Corporate and other	209	263	416	526
	<u>\$ 6,360</u>	<u>\$ 6,070</u>	<u>\$ 12,775</u>	<u>\$ 12,252</u>
Equity in earnings of affiliates:				
Central Group	\$ (1)	\$ (1)	\$ (3)	\$ (3)
Eastern Group	(1)	(1)	(2)	(2)
Western Group	(45)	(51)	(102)	(112)
Corporate and other	—	—	(1)	11
	<u>\$ (47)</u>	<u>\$ (53)</u>	<u>\$ (108)</u>	<u>\$ (106)</u>
Adjusted segment EBITDA:				
Central Group	\$ 217	\$ 232	\$ 461	\$ 502
Eastern Group	331	372	705	782
Western Group	465	481	1,008	1,013
Corporate and other	51	33	83	25
	<u>\$ 1,064</u>	<u>\$ 1,118</u>	<u>\$ 2,257</u>	<u>\$ 2,322</u>
Depreciation and amortization:				
Central Group	\$ 80	\$ 83	\$ 158	\$ 157
Eastern Group	107	111	214	208
Western Group	126	126	245	245
Corporate and other	39	44	80	91
	<u>\$ 352</u>	<u>\$ 364</u>	<u>\$ 697</u>	<u>\$ 701</u>
Adjusted segment EBITDA	\$ 1,064	\$ 1,118	\$ 2,257	\$ 2,322
Depreciation and amortization	352	364	697	701
Interest expense	196	165	382	329
Gains on sales of facilities	(5)	(29)	(5)	(29)
Income before minority interests and income taxes	<u>\$ 521</u>	<u>\$ 618</u>	<u>\$ 1,183</u>	<u>\$ 1,321</u>

NOTE 10 — ACQUISITIONS AND DIVESTITURES

Effective July 1, 2006, we sold four hospitals (three in West Virginia and one in Virginia) to LifePoint Hospitals, Inc. for \$256 million. If certain conditions are satisfied, we estimate a pretax gain of approximately \$93 million, or \$0.13 per diluted share, will be realized on the sale of the four hospitals. Certificates of Need (“CONs”) were required for the sale of the three West Virginia hospitals included in the transaction. Because filings

HCA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 10 — ACQUISITIONS AND DIVESTITURES (continued)

seeking the revocation of the CONs were pending at the time of the closing, we and LifePoint have agreed that under certain circumstances, LifePoint may require us to repurchase the three West Virginia hospitals. Generally, those circumstances require a final and nonappealable order revoking the CONs or an order requiring LifePoint to divest the hospitals or cease operations. In the event of such a repurchase, the repurchase price would be based upon the purchase price and adjusted for working capital changes, capital expenditures and other items. Due to the CON appeals and the repurchase provision, the recognition of the gain related to the three West Virginia hospitals of approximately \$61 million pretax will be deferred until the CON appeals are resolved. A gain of approximately \$32 million pretax on the sale of the hospital located in Virginia is expected to be recognized in the third quarter of 2006. The cash proceeds of \$256 million related to the sale of the hospitals was received on June 30, 2006 and is included in “disposition of hospitals and health care entities” on our condensed consolidated statement of cash flows for the six months ended June 30, 2006. The results of operations of the sold hospitals were not significant to our consolidated results of operations.

During 2006, we paid \$62 million to acquire three hospitals and \$43 million to acquire other health care entities. The following is a summary of hospitals and other health care entities acquired during 2006 (dollars in millions):

	<u>2006</u>
Number of hospitals	3
Number of licensed beds	433
Purchase price information:	
Hospitals	
Fair value of assets acquired	\$ 81
Liabilities assumed	(19)
Net assets acquired	62
Other healthcare entities	43
Net cash paid for acquisitions	<u>\$ 105</u>

During the six months ended June 30, 2005, we did not acquire any hospitals, but paid \$84 million for other health care entities and recognized a previously deferred gain on the sale of certain medical office buildings of \$29 million, or \$0.04 per diluted share.

NOTE 11 — SUBSEQUENT EVENT — MERGER AGREEMENT

On July 24, 2006, we entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Hercules Holding II, LLC, a Delaware limited liability company (“Parent”), and Hercules Acquisition Corporation, a Delaware corporation and a wholly-owned subsidiary of Parent (“Merger Sub”). Under the terms of the Merger Agreement, Merger Sub will be merged with and into HCA, with HCA continuing as the surviving corporation and a wholly-owned subsidiary of Parent (the “Merger”). Parent is owned by a consortium of private investment funds affiliated with Bain Capital Partners LLC, Kohlberg Kravis Roberts & Co. L.P., and Merrill Lynch Global Private Equity (collectively, the “Sponsors”).

Entities affiliated with Dr. Thomas F. Frist, Jr. have agreed and certain members of our senior management team have agreed in principle (collectively, the “Rollover Shareholders”), at the request of the Sponsors, to contribute a portion of their HCA equity to Parent, or an affiliate thereof. Our Board of Directors approved the Merger Agreement on the unanimous recommendation of a Special Committee comprised entirely of disinterested directors.

HCA INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 11 — SUBSEQUENT EVENT — MERGER AGREEMENT (continued)

At the effective time of the Merger, each outstanding share of our common stock, other than any shares contributed by the Rollover Shareholders or shares owned by HCA, Merger Sub or by any shareholders who are entitled to and who properly exercise appraisal rights under Delaware law, will be cancelled and converted into the right to receive \$51.00 in cash, without interest.

Consummation of the Merger is not subject to a financing condition, but is subject to various other conditions, including approval of the Merger by our shareholders, expiration or termination of applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, and other customary closing conditions. The parties expect to close the transaction during the fourth quarter of 2006.

It is anticipated that the funds necessary to consummate the Merger and related transactions will be funded by new credit facilities, private and/or public offerings of debt securities and equity financing. It is also anticipated that substantially all of our 8.850% Medium Term Notes due 2007, 7.000% Notes due 2007, 7.250% Notes due 2008, 5.250% Notes due 2008 and 5.500% Notes due 2009, in the aggregate principal amount of \$1.36 billion, will either be tendered for or repaid, and our remaining public debt, in the principal amount of \$7.49 billion, will remain outstanding.

We are aware of six asserted class action lawsuits related to the Merger filed against us, our Chairman and Chief Executive Officer, our President and Chief Operating Officer, each of our directors, and each of the Sponsors in the Chancery Court for Davidson County, Tennessee. The complaints are substantially similar and allege, among other things, that the Merger is the product of a flawed process, that the consideration to be paid to our shareholders in the Merger is unfair and inadequate, and breach of fiduciary duty. The complaints further allege that the Sponsors aided and abetted the actions of our officers and directors in breaching their fiduciary duties to our shareholders. The complaints seek, among other relief, an injunction preventing completion of the Merger. On August 3, 2006, the Chancery Court consolidated these actions and all later-filed actions as *In re HCA Inc. Shareholder Litigation*, case number 06-1816-III. A case making similar allegations and seeking similar relief on behalf of a purported class of shareholders has also been filed in Delaware. We believe these lawsuits are without merit and plan to defend them vigorously. Additional lawsuits pertaining to the Merger could be filed in the future.

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 our current plans and expectations and are subject to a number of known and unknown uncertainties and risks, many of which are beyond our control, that could significantly affect current plans and expectations and our future financial position and results of operations. These factors include, but are not limited to, (1) the occurrence of any event, change or other circumstances that could give rise to the termination of the Merger Agreement; (2) the outcome of any legal proceedings that have been or may be instituted against us and others relating to the Merger Agreement; (3) the inability to complete the Merger due to the failure to obtain shareholder approval or the failure to satisfy other conditions to completion of the Merger, including the expiration of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976; (4) the failure to obtain the necessary debt financing arrangements set forth in commitment letters received in connection with the Merger; (5) the failure of the Merger to close for any other reason; (6) risks that the proposed transaction disrupts current plans and operations and the potential difficulties in employee retention as a result of the Merger; (7) the effect of the announcement of the Merger on our customer relationships, operating results and business generally; (8) the ability to recognize the benefits of the Merger; (9) the amount of the costs, fees, expenses and charges related to the Merger and the actual terms of certain financings that will be obtained for the Merger; (10) the impact of the substantial indebtedness incurred to finance the consummation of the Merger; (11) increases in the amount and risk of collectability of uninsured accounts, and deductibles and copayment amounts for insured accounts, (12) the ability to achieve operating and financial targets, attain expected levels of patient volumes and control the costs of providing services, (13) possible changes in the Medicare, Medicaid and other state programs that may impact reimbursements to health care providers and insurers, (14) the highly competitive nature of the health care business, (15) changes in revenue mix and the ability to enter into and renew managed care provider agreements on acceptable terms, (16) the efforts of insurers, health care providers and others to contain health care costs, (17) the impact of our charity care and uninsured discounting policies, (18) the outcome of our continuing efforts to monitor, maintain and comply with appropriate laws, regulations, policies and procedures and our corporate integrity agreement with the government, (19) changes in federal, state or local regulations affecting the health care industry, (20) delays in receiving payments for services provided, (21) the ability to attract and retain qualified management and personnel, including affiliated physicians, nurses and medical support personnel, (22) the outcome of governmental investigations by the United States Attorney for the Southern District of New York and the Securities and Exchange Commission (the “SEC”), (23) the outcome of certain class action and derivative litigation filed with respect to us, (24) the possible enactment of federal or state health care reform, (25) the increased leverage resulting from the financing of our share repurchase program, (26) the availability and terms of capital to fund the expansion of our business, (27) the continuing impact of hurricanes on our facilities, the ability to obtain recoveries under our insurance policies and the ability to secure adequate insurance coverage in future periods, (28) the resolution of the CON appeal with respect to the three West Virginia hospitals sold to LifePoint, (29) fluctuations in the market value of our common stock, (30) changes in accounting practices, (31) changes in general economic conditions, (32) future divestitures which may result in charges, (33) changes in business strategy or development plans, (34) the outcome of pending and any future tax audits, appeals and litigation associated with our tax positions, (35) potential liabilities and other claims that may be asserted against us, (36) the ability to develop and implement the payroll and human resources information systems within the expected time and cost projections and, upon implementation, to realize the expected benefits and efficiencies, and (37) other risk factors described in our Annual Report on Form 10-K and other filings with 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 us or on our behalf. 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.”

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

Second Quarter 2006 Operations Summary

Net income totaled \$295 million, or \$0.72 per diluted share, for the quarter ended June 30, 2006, compared to \$405 million, or \$0.90 per diluted share, for the quarter ended June 30, 2005. Shares used for diluted earnings per share for the quarter ended June 30, 2006 were 408.2 million shares, compared to 451.7 million shares for the quarter ended June 30, 2005.

Results for the second quarter of 2006 reflect a reduction in our estimated professional liability reserves of \$85 million, or \$0.13 per diluted share, compared to a \$36 million reduction, or \$0.05 per diluted share, recorded in the second quarter of 2005. The second quarter 2006 results also include additional compensation costs of \$10 million, or \$0.02 per diluted share, due to the expensing of stock options and employee stock purchase plan shares associated with the January 1, 2006 adoption of FASB Statement 123(R), "Share-Based Payment" and gains on sales of facilities of \$5 million, or \$0.01 per diluted share. Results for the second quarter of 2005 include a favorable tax settlement of \$48 million, or \$0.11 per diluted share, recognition of a previously deferred gain on the sale of certain medical office buildings of \$29 million, or \$0.04 per diluted share, and additional depreciation expense of \$30 million, or \$0.04 per diluted share, to correct accumulated depreciation and assure a consistent application of our accounting policies relative to certain short-lived medical equipment.

During the second quarter of 2006, same facility admissions increased 0.5% compared to the second quarter of 2005. Same facility outpatient surgeries decreased 2.1% during the second quarter of 2006 compared to the second quarter of 2005. Same facility revenue per equivalent admission increased 5.8% in the second quarter of 2006 compared to the second quarter of 2005.

For the second quarters of 2006 and 2005, the provision for doubtful accounts was 10.6% and 8.9% of revenues, respectively. Adjusting for the effect of the uninsured discounts, the provision for doubtful accounts for the second quarter of 2006 was 14.1% of revenues compared to 11.6% of revenues in the second quarter of 2005. Our uninsured discount policy, which became effective January 1, 2005, resulted in the recording of discounts to the uninsured of \$258 million and \$184 million during the second quarters of 2006 and 2005, respectively. See "Supplemental Non-GAAP Disclosures, Operating Measures Adjusted for the Impact of Discounts for the Uninsured."

Update of Critical Accounting Policies and Estimates

Professional Liability Insurance Claims

A substantial portion of our professional liability risks is insured through a wholly-owned insurance subsidiary, which is funded annually. Reserves for professional liability risks were \$1.595 billion and \$1.621 billion at June 30, 2006 and December 31, 2005, respectively. The current portion of these reserves, \$280 million and \$285 million at June 30, 2006 and December 31, 2005, respectively, is included in "other accrued expenses." Provisions for losses related to professional liability risks were \$8 million and \$59 million for the quarters ended June 30, 2006 and 2005, respectively, and \$97 million and \$161 million for the six months ended June 30, 2006 and 2005, respectively, and are included in "other operating expenses" in our condensed consolidated income statements. We recognized a reduction in our estimated professional liability reserves of \$85 million, or \$0.13 per diluted share, during the second quarter of 2006 compared to a reduction of \$36 million or \$0.05 per diluted share, during the second quarter of 2005. The malpractice reserve reductions in the second quarters of 2006 and 2005 reflect the recognition by our external actuaries of improving frequency and severity claim trends at our facilities. This declining frequency and moderating severity can be primarily attributed to tort reform enacted in key states, particularly Texas, and our risk management and patient safety initiatives, particularly in the areas of obstetrics and emergency services.

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

Results of Operations

Revenue/Volume Trends

Our 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. Gross charges typically do not reflect what our facilities are actually paid. Our 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 the cost of providing services, predetermined rates per diagnosis, fixed per diem rates or discounts from gross charges. We do not pursue collection of amounts related to patients who meet our guidelines to qualify for charity care; therefore, they are not reported in revenues. On January 1, 2005, we modified our policies to provide discounts to uninsured patients who do not qualify for Medicaid or charity care. These discounts are similar to those provided to many local managed care plans.

Revenues increased 4.8% from \$6.1 billion in the second quarter of 2005 to \$6.4 billion for the second quarter of 2006. The increase in revenues can be attributed to the net impact of a 6.5% increase in revenue per equivalent admissions and a 1.6% decline in equivalent admissions for the second quarter of 2006 compared to the second quarter of 2005. Our uninsured discount policy, which became effective January 1, 2005, resulted in \$258 million and \$184 million in discounts to the uninsured being recorded during the second quarters of 2006 and 2005, respectively.

In the second quarter of 2006, consolidated admissions decreased 1.1% and same facility admissions increased 0.5% compared to the second quarter of 2005. Consolidated outpatient surgeries decreased 2.6% and same facility outpatient surgeries decreased 2.1% in the second quarter of 2006 compared to the second quarter of 2005.

Admissions related to Medicare, managed Medicare, Medicaid, managed Medicaid, managed care and other insurers and the uninsured for the quarters and six months ended June 30, 2006 and 2005 are set forth in the following table.

	Second Quarter		Six Months	
	2006	2005	2006	2005
Medicare	37%	38%	38%	39%
Managed Medicare	6	(a)	6	(a)
Medicaid	9	10	9	10
Managed Medicaid	6	5	6	5
Managed care and other insurers(a)	36	42	36	41
Uninsured	6	5	5	5
	100%	100%	100%	100%

(a) Prior to 2006, managed Medicare admissions were classified as managed care.

Same facility uninsured admissions increased by 2,109 admissions, or 10.5%, in the second quarter of 2006 compared to the second quarter of 2005. Same facility uninsured admissions increased by 2,438 admissions, or 13.1%, in the first quarter of 2006 compared to the first quarter of 2005. The trend of quarterly same facility uninsured admissions growth during 2005, compared to 2004, was 3.3% during the first quarter, 5.1% during the second quarter, 15.0% during the third quarter and 15.3% during the fourth quarter.

At June 30, 2006, we had 75 hospitals in the states of Texas and Florida. During the second quarter of 2006, 53.1% of our admissions and 50.2% of our revenues were generated by these hospitals. Uninsured admissions in Texas and Florida represented 57.7% of our uninsured admissions during the second quarter of 2006.

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

Results of Operations (continued)

Revenue/Volume Trends (continued)

Gross charges typically do not reflect what our facilities are actually paid. Our 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 the cost of providing services, predetermined rates per diagnosis, fixed per diem rates or discounts from gross charges. The recording of \$258 million and \$184 million in discounts to the uninsured during the second quarters of 2006 and 2005, respectively, lowered the rate of growth in revenue per equivalent admission for the second quarter of 2006, compared to the second quarter of 2005. Revenue per equivalent admission increased 6.5% in the second quarter of 2006 compared to the 2005 second quarter. Adjusting for the effect of the discount policy for the uninsured, revenue per equivalent admission increased 7.5% for the second quarter of 2006 compared to the second quarter of 2005. Charity care and discounts to the uninsured totaled \$608 million in the second quarter of 2006, compared to \$459 million in the second quarter of 2005.

The approximate percentages of our inpatient revenues related to Medicare, managed Medicare, Medicaid, managed Medicaid, managed care and other insurers and the uninsured for the quarters and six months ended June 30, 2006 and 2005 are set forth in the following table.

	Second Quarter		Six Months	
	2006	2005	2006	2005
Medicare	35%	36%	36%	37%
Managed Medicare	7	(a)	6	(a)
Medicaid	6	7	6	7
Managed Medicaid	3	3	3	3
Managed care and other insurers(a)	45	50	44	49
Uninsured	4	4	5	4
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

(a) Prior to 2006, managed Medicare revenues were classified as managed care.

We receive a significant portion of our revenues from government health programs, principally Medicare and Medicaid, which are highly regulated and subject to frequent and substantial changes. Legislative changes have resulted in limitations and even reductions in levels of payments to health care providers for certain services under these government programs.

**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 of operations for the quarters and six months ended June 30, 2006 and 2005 (dollars in millions, except per share amounts):

	Second Quarter			
	2006		2005	
	Amount	Ratio	Amount	Ratio
Revenues	\$ 6,360	100.0	\$ 6,070	100.0
Salaries and benefits	2,605	41.0	2,463	40.6
Supplies	1,091	17.2	1,042	17.2
Other operating expenses	995	15.6	981	16.2
Provision for doubtful accounts	677	10.6	541	8.9
Gains on investments	(25)	(0.4)	(22)	(0.4)
Equity in earnings of affiliates	(47)	(0.7)	(53)	(0.9)
Depreciation and amortization	352	5.5	364	6.0
Interest expense	196	3.1	165	2.7
Gains on sales of facilities	(5)	(0.1)	(29)	(0.5)
	5,839	91.8	5,452	89.8
Income before minority interests and income taxes	521	8.2	618	10.2
Minority interests in earnings of consolidated entities	46	0.7	49	0.8
Income before income taxes	475	7.5	569	9.4
Provision for income taxes	180	2.9	164	2.7
Net income	\$ 295	4.6	\$ 405	6.7
Basic earnings per share	\$ 0.73		\$ 0.91	
Diluted earnings per share	\$ 0.72		\$ 0.90	
% changes from prior year:				
Revenues	4.8%		4.1%	
Income before income taxes	(16.7)		0.9	
Net income	(27.1)		15.4	
Basic earnings per share	(19.8)		24.7	
Diluted earnings per share	(20.0)		25.0	
Admissions(a)	(1.1)		(0.7)	
Equivalent admissions(b)	(1.6)		1.5	
Revenue per equivalent admission	6.5		2.6	
Same facility % changes from prior year(c):				
Revenues	6.0		4.3	
Admissions(a)	0.5		(0.3)	
Equivalent admissions(b)	0.1		1.2	
Revenue per equivalent admission	5.8		3.1	

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

Results of Operations (continued)

Operating Results Summary (continued)

	Six Months			
	2006		2005	
	Amount	Ratio	Amount	Ratio
Revenues	\$ 12,775	100.0	\$ 12,252	100.0
Salaries and benefits	5,216	40.8	4,906	40.0
Supplies	2,205	17.3	2,093	17.1
Other operating expenses	2,032	15.8	1,953	15.9
Provision for doubtful accounts	1,273	10.0	1,115	9.1
Gains on investments	(100)	(0.8)	(31)	(0.2)
Equity in earnings of affiliates	(108)	(0.8)	(106)	(0.9)
Depreciation and amortization	697	5.4	701	5.7
Interest expense	382	3.0	329	2.7
Gains on sales of facilities	(5)	—	(29)	(0.2)
	11,592	90.7	10,931	89.2
Income before minority interests and income taxes	1,183	9.3	1,321	10.8
Minority interests in earnings of consolidated entities	101	0.8	89	0.7
Income before income taxes	1,082	8.5	1,232	10.1
Provision for income taxes	408	3.2	413	3.4
Net income	\$ 674	5.3	\$ 819	6.7
Basic earnings per share	\$ 1.67		\$ 1.88	
Diluted earnings per share	\$ 1.64		\$ 1.84	
% changes from prior year:				
Revenues	4.3%		4.1%	
Income before income taxes	(12.2)		9.7	
Net income	(17.7)		17.5	
Basic earnings per share	(11.2)		30.6	
Diluted earnings per share	(10.9)		30.5	
Admissions(a)	(1.9)		(0.1)	
Equivalent admissions(b)	(1.6)		1.6	
Revenue per equivalent admission	6.0		2.4	
Same facility % changes from prior year(c):				
Revenues	5.5		4.5	
Admissions(a)	(0.1)		0.3	
Equivalent admissions(b)	0.1		1.7	
Revenue per equivalent admission	5.4		2.7	

(a) Represents the total number of patients admitted to our hospitals and is used by management and certain investors as a general measure of inpatient volume.

(b) Equivalent admissions are used by management and certain investors as a general measure of combined inpatient and outpatient volume. Equivalent admissions are computed by multiplying admissions (inpatient volume) by the sum of gross inpatient revenue and gross outpatient revenue and then dividing the resulting amount by gross inpatient revenue. The equivalent admissions computation "equates" outpatient revenue to the volume measure (admissions) used to measure inpatient volume, resulting in a general measure of combined inpatient and outpatient volume.

(c) Same facility information excludes the operations of hospitals and their related facilities which were either acquired or divested during the current and prior period.

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

Results of Operations (continued)

Operating Results Summary (continued)

**Supplemental Non-GAAP Disclosures
Operating Measures Adjusted for the Impact of Discounts for the Uninsured
(Dollars in millions, except revenue per equivalent admission)**

The results of operations for the quarters and six months ended June 30, 2006 and June 30, 2005, respectively, adjusted for the impact of HCA's uninsured discount policy, are presented below:

	Quarter Ended June 30, 2006					
	GAAP Amounts	Uninsured Discounts Adjustment(a)	Non-GAAP Adjusted Amounts(b)	GAAP % of Revenues		Non-GAAP % of Adjusted Revenues
				2006	2005	
Revenues	\$ 6,360	\$ 258	\$ 6,618	100.0%	100.0%	100.0%
Salaries and benefits	2,605	—	2,605	41.0	40.6	39.4
Supplies	1,091	—	1,091	17.2	17.2	16.5
Other operating expenses	995	—	995	15.6	16.2	15.0
Provision for doubtful accounts	677	258	935	10.6	8.9	14.1
Admissions	402,900		402,900			
Equivalent admissions	609,900		609,900			
Revenue per equivalent admission	\$ 10,429		\$ 10,852			
% change from prior year	6.5%		7.5%			
Same Facility(c):						
Revenues	\$ 6,221	\$ 257	\$ 6,478			
Admissions	398,700		398,700			
Equivalent admissions	600,500		600,500			
Revenue per equivalent admission	\$ 10,360		\$ 10,788			
% change from prior year	5.8%		6.9%			

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

Results of Operations (continued)

Operating Results Summary (continued)

	Six Months Ended June 30, 2006							
	GAAP Amounts	Uninsured Discounts Adjustment(a)	Non-GAAP Adjusted Amounts(b)	GAAP % of Revenues		Non-GAAP% of Adjusted Revenues		
				2006	2005	2006	2005	
Revenues	\$ 12,775	\$ 514	\$ 13,289	100.0%	100.0%	100.0%	100.0%	
Salaries and benefits	5,216	—	5,216	40.8	40.0	39.3	39.1	
Supplies	2,205	—	2,205	17.3	17.1	16.6	16.7	
Other operating expenses	2,032	—	2,032	15.8	15.9	15.3	15.5	
Provision for doubtful accounts	1,273	514	1,787	10.0	9.1	13.4	11.2	
Admissions	823,900		823,900					
Equivalent admissions	1,235,900		1,235,900					
Revenue per equivalent admission	\$ 10,336		\$ 10,752					
% change from prior year	6.0%		7.7%					
Same Facility(c):								
Revenues	\$ 12,514	\$ 512	\$ 13,026					
Admissions	817,400		817,400					
Equivalent admissions	1,219,600		1,219,600					
Revenue per equivalent admission	\$ 10,261		\$ 10,680					
% change from prior year	5.4%		7.1%					

- (a) Represents the impact of the discounts for the uninsured for the period. On January 1, 2005, we modified our policies to provide discounts to uninsured patients who do not qualify for Medicaid or charity care. These discounts are similar to those provided to many local managed care plans. In implementing the discount policy, we first attempt to qualify uninsured patients for Medicaid, other federal or state assistance or charity care. If an uninsured patient does not qualify for these programs, the uninsured discount is applied. On a consolidated basis, we recorded \$258 million and \$184 million of uninsured discounts during the second quarters of 2006 and 2005, respectively. On a consolidated basis, we recorded \$514 million and \$293 million of uninsured discounts during the first six months of 2006 and 2005, respectively.
- (b) Revenues, the provision for doubtful accounts, certain operating expense categories as a percentage of revenues and revenue per equivalent admission have been adjusted to exclude the discounts under our uninsured discount policy (non-GAAP financial measures). We believe these non-GAAP financial measures are useful to investors to provide disclosures of our results of operations on the same basis as that used by management. Management uses this information to compare revenues, the provision for doubtful accounts, certain operating expense categories as a percentage of revenues and revenue per equivalent admission, adjusted for the impact of the uninsured discount policy. Management finds this information to be useful to enable the evaluation of revenue and certain expense category trends that are influenced by patient volumes and are generally analyzed as a percentage of net revenues. These non-GAAP financial measures should not be considered an alternative to GAAP financial measures. We believe this supplemental information provides management and the users of its financial statements with useful information for period-to-period comparisons. Investors are encouraged to use GAAP measures when evaluating our overall financial performance.
- (c) Same facility information excludes the operations of hospitals and their related facilities which were either acquired or divested during the current and prior period.

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

Results of Operations (continued)

Quarters Ended June 30, 2006 and 2005

Net income totaled \$295 million, or \$0.72 per diluted share, for the second quarter of 2006 compared to \$405 million, or \$0.90 per diluted share, for the second quarter of 2005. Shares used for diluted earnings per share for the quarter ended June 30, 2006 were 408.2 million shares, compared to 451.7 million shares for the quarter ended June 30, 2005.

For the second quarter of 2006, admissions decreased 1.1% and same facility admissions increased 0.5% compared to the second quarter of 2005. Outpatient surgical volumes decreased 2.6% on a consolidated basis and decreased 2.1% on a same facility basis during the second quarter of 2006, compared to the second quarter of 2005.

HCA's uninsured discount policy, which became effective January 1, 2005, resulted in \$258 million and \$184 million in discounts to the uninsured being recorded during the second quarters of 2006 and 2005, respectively. The discounts to the uninsured had the effect of reducing revenues and the provision for doubtful accounts by generally corresponding amounts. The reduction of revenues caused expense items, other than the provision for doubtful accounts, to increase, as a percentage of revenues, compared to what they would have been if the uninsured discount policy had not been implemented.

Salaries and benefits, as a percentage of revenues, were 41.0% in the second quarter of 2006 and 40.6% in the same quarter of 2005. Adjusting for the effect of the discount policy for the uninsured, salaries and benefits, as a percentage of revenues, were 39.4% in the second quarters of both 2006 and 2005.

Supplies as a percentage of revenues, remained flat at 17.2% in the second quarter of both 2006 and 2005. Adjusting for the effect of the discount policy for the uninsured, supplies, as a percentage of revenues, were 16.5% in the second quarter of 2006 and 16.7% in the second quarter of 2005. Supply cost per equivalent admission increased 6.4% in the second quarter of 2006 compared to the second quarter of 2005.

Other operating expenses, as a percentage of revenues, decreased to 15.6% in the second quarter of 2006 compared to 16.2% in the second quarter of 2005. Adjusting for the effect of the discount policy for the uninsured, other operating expenses, as a percentage of revenues, were 15.0% in the second quarter of 2006 compared to 15.5% in the second quarter of 2005. Other operating expenses is primarily comprised of contract services, professional fees, repairs and maintenance, rents and leases, utilities, insurance (including professional liability insurance) and nonincome taxes. Other operating expenses for the second quarter of 2006 reflect a reduction in our estimated professional liability reserves of \$85 million, or \$0.13 per diluted share, compared to a \$36 million reduction, or \$0.05 per diluted share, recorded in the second quarter of 2005.

Provision for doubtful accounts, as a percentage of revenues, increased to 10.6% in the second quarter of 2006 compared to 8.9% in the second quarter of 2005. Adjusting for the effect of the discount policy for the uninsured, the provision for doubtful accounts, as a percentage of revenues, was 14.1% in the second quarter of 2006 compared to 11.6% in the second quarter of 2005. The provision for doubtful accounts and the allowance for doubtful accounts relate primarily to uninsured amounts due directly from patients. At June 30, 2006, our allowance for doubtful accounts represented approximately 86% of the \$3.7 billion total patient due accounts receivable balance.

Gains on investments of \$25 million in the second quarter of 2006 and \$22 million in the second quarter of 2005 relate to sales of investment securities by our wholly-owned insurance subsidiary.

Equity in earnings of affiliates decreased from \$53 million in the second quarter of 2005 to \$47 million in the second quarter of 2006 due to a decrease in profits at joint ventures accounted for under the equity method of accounting.

Depreciation and amortization decreased by \$12 million, from \$364 million in the second quarter of 2005 to \$352 million in the second quarter of 2006. During the second quarter of 2005, we incurred additional depreciation

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

Results of Operations (continued)

Quarters Ended June 30, 2006 and 2005 (continued)

expense of approximately \$30 million to correct accumulated depreciation of certain facilities and assure a consistent application of our accounting policy relative to certain short-lived medical equipment.

Interest expense increased from \$165 million in the second quarter of 2005 to \$196 million in the second quarter of 2006. Interest expense increased due to both an increase in our average debt outstanding and an increase in interest rates. Our average debt balance was \$11.533 billion for the second quarter of 2006 compared to \$9.726 billion for the second quarter of 2005. The average interest rate for our long term debt increased from 6.87% at June 30, 2005 to 7.01% at June 30, 2006.

Minority interests in earnings of consolidated entities decreased from \$49 million for the second quarter of 2005 to \$46 million for the second quarter of 2006.

The effective tax rate was 37.8% in the second quarter of 2006 and 28.9% in the second quarter of 2005. The effective tax rate for the second quarter of 2005 was reduced due to a favorable tax settlement of \$48 million related to the divestiture of certain noncore business units. Excluding the effect of the \$48 million tax benefit, the effective tax rate for the second quarter of 2005 would have been 37.3%.

Six Months Ended June 30, 2006 and 2005

Net income totaled \$674 million, or \$1.64 per diluted share, in the six months ended June 30, 2006 compared to \$819 million, or \$1.84 per diluted share, in the six months ended June 30, 2005. Shares used for diluted earnings per share for the six months ended June 30, 2006 were 409.7 million shares, compared to 443.7 million shares for the six months ended June 30, 2005.

For the first six months of 2006, admissions decreased 1.9% and same facility admissions decreased 0.1% compared to the first six months of 2005. Outpatient surgical volumes decreased 0.9% on a consolidated basis and decreased 0.6% on a same facility basis compared to the first six months of 2005.

HCA's uninsured discount policy, which became effective January 1, 2005, resulted in \$514 million and \$293 million in discounts to the uninsured being recorded during the first six months of 2006 and 2005, respectively. The discounts to the uninsured had the effect of reducing revenues and the provision for doubtful accounts by generally corresponding amounts. The reduction of revenues caused expense items, other than the provision for doubtful accounts, to increase, as a percentage of revenues, compared to what they would have been if the uninsured discount policy had not been implemented.

Salaries and benefits, as a percentage of revenues, were 40.8% in the first six months of 2006 and 40.0% in the first six months of 2005. Adjusting for the effect of the discount policy for the uninsured, salaries and benefits, as a percentage of revenues, increased slightly to 39.3% in the first six months of 2006 from 39.1% in the first six months of 2005.

Supplies, as a percentage of revenues, were 17.3% in the first six months of 2006 compared to 17.1% in the first six months of 2005. Adjusting for the effect of the discount policy for the uninsured, supplies, as a percentage of revenues, were 16.6% in the first six months of 2006 and 16.7% in the first six months of 2005. Supply cost per equivalent admission increased 7.1% in the first six months of 2006.

Other operating expenses, as a percentage of revenues, were 15.8% in the first six months of 2006 compared to 15.9% in the first six months of 2005. Adjusting for the effect of the discount policy for the uninsured, other operating expenses, as a percentage of revenues, were 15.3% in the first six months of 2006 compared to 15.5% in the first six months of 2005. Other operating expenses for the first six months of 2006 reflect a reduction in our estimated professional liability reserves of \$85 million, or \$0.13 per diluted share, compared to a \$36 million reduction, or \$0.05 per diluted share, recorded in the first six months of 2005. Other operating expenses is primarily

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

Results of Operations (continued)

Six Months Ended June 30, 2006 and 2005 (continued)

comprised of contract services, professional fees, repairs and maintenance, rents and leases, utilities, insurance (including professional liability insurance) and nonincome taxes.

Provision for doubtful accounts, as a percentage of revenues, was 10.0% in the first six months of 2006 compared to 9.1% in the first six months of 2005. Adjusting for the effect of the discount policy for the uninsured, the provision for doubtful accounts, as a percentage of revenues, was 13.4% in the first six months of 2006 compared to 11.2% in the first six months of 2005. The provision for doubtful accounts and the allowance for doubtful accounts relate primarily to uninsured amounts due directly from patients. At June 30, 2006, our allowance for doubtful accounts represented approximately 86% of the \$3.7 billion total patient due accounts receivable balance.

Gains on investments of \$100 million in the first six months of 2006 and \$31 million in the first six months of 2005 relate to sales of investment securities by our wholly-owned insurance subsidiary.

Equity in earnings of affiliates increased from \$106 million in the first six months of 2005 to \$108 million in the first six months of 2006 due to an increase in profits at joint ventures accounted for under the equity method of accounting.

Depreciation and amortization decreased by \$4 million, from \$701 million in the first six months of 2005 to \$697 million in the first six months of 2006. During the six months ended June 30, 2005, we incurred additional depreciation expense of approximately \$44 million to correct accumulated depreciation of certain facilities and assure a consistent application of our accounting policy relative to certain short-lived medical equipment.

Interest expense increased from \$329 million in the first six months of 2005 to \$382 million in the first six months of 2006. Our average debt balance was \$11.213 billion for first six months of 2006 compared to \$10.004 billion for the first six months of 2005. The average interest rate for our long term debt increased from 6.87% at June 30, 2005 to 7.01% at June 30, 2006.

The effective tax rate was 37.7% in the first six months of 2006 and 33.6% in the first six months of 2005. The effective tax rate for the six months ended June 30, 2005 was reduced due to a favorable tax settlement of \$48 million related to the divestiture of certain noncore business units. Excluding the effect of the \$48 million tax benefit, the effective tax rate for the first six months of 2005 would have been 37.4%.

Liquidity and Capital Resources

Cash provided by operating activities totaled \$771 million in the first six months of 2006 compared to \$1.691 billion in the first six months of 2005. Net income was \$145 million lower in the first six months of 2006 compared to the first six months of 2005. In the first six months of 2006, we made \$810 million in tax payments, net of refunds, and in the first six months of 2005, we made tax payments, net of refunds, of \$191 million. Working capital totaled \$1.874 billion at June 30, 2006 and \$1.320 billion at December 31, 2005.

Cash used in investing activities was \$795 million in the first six months of 2006 compared to \$758 million in the first six months of 2005. Excluding acquisitions, capital expenditures were \$820 million in the first six months of 2006 and \$625 million in the first six months of 2005. Capital expenditures are expected to approximate \$1.9 billion in 2006. At June 30, 2006, there were projects under construction which had estimated additional costs to complete and equip over the next five years of approximately \$2.9 billion. We expect to finance capital expenditures with internally generated and borrowed funds.

Effective July 1, 2006, we sold four hospitals (three in West Virginia and one in Virginia) to LifePoint Hospitals, Inc. for \$256 million. If certain conditions are satisfied, we estimate a pretax gain of approximately \$93 million, or \$0.13 per diluted share, will be realized on the sale of the four hospitals. Certificates of Need

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

Liquidity and Capital Resources (continued)

("CONs") were required for the sale of the three West Virginia hospitals included in the transaction. Because filings seeking the revocation of the CONs were pending at the time of closing, we and LifePoint have agreed that, under certain circumstances LifePoint may require us to repurchase the three West Virginia hospitals. Generally, those circumstances require a final and nonappealable order revoking the CONs or an order requiring LifePoint to divest the hospitals or cease operations. In the event of such a repurchase, the repurchase price would be based upon the purchase price and adjusted for working capital changes, capital expenditures and other items. The cash proceeds of \$256 million related to the sale of the hospitals was received on June 30, 2006 and is included in "disposition of hospitals and health care entities" on our condensed consolidated statement of cash flows for the six months ended June 30, 2006.

Cash provided by financing activities totaled \$424 million during the first six months of 2006 compared to cash used of \$494 million during the first six months of 2005. During the first six months of 2006, we increased net borrowings by \$1.183 billion and repurchased 13.0 million shares of common stock for \$653 million.

In addition to cash flows from operations, available sources of capital include amounts available under the Credit Facility (\$643 million available as of July 31, 2006) and anticipated access to public and private debt markets. Management believes that its available sources of capital are adequate to expand, improve and equip its existing health care facilities and to complete selective acquisitions. It is anticipated that the funds necessary to consummate the Merger and related transactions will be funded by new credit facilities, private and/or public offerings of debt securities and equity financing.

Investments of our professional liability insurance subsidiary are held to maintain statutory equity and provide the funding source to pay claims, and totaled \$2.384 billion at both June 30, 2006 and December 31, 2005, respectively. Claims payments, net of reinsurance recoveries, during the next twelve months are expected to approximate \$250 million. The estimation of the timing of claims payments beyond a year can vary significantly. Our wholly-owned insurance subsidiary has entered into certain reinsurance contracts, and the obligations covered by the reinsurance contracts are included in the reserves for professional liability risks, as the subsidiary remains liable to the extent that the reinsurers do not meet their obligations under the reinsurance contracts. To minimize our exposure to losses from reinsurer insolvencies, we routinely monitor the financial condition of our reinsurers. The amounts receivable related to the reinsurance contracts of \$44 million at June 30, 2006 and \$43 million at December 31, 2005 are included in other assets.

Share Repurchase Activities

On October 14, 2005, we commenced a modified "Dutch" auction tender offer to purchase up to \$2.5 billion of our common stock. In November 2005, we closed the tender offer and repurchased 28.7 million shares of our common stock for an aggregate price of \$1.437 billion (\$50.00 per share). We also repurchased 8.0 million shares of our common stock for \$412 million, through open market purchases, during the fourth quarter of 2005. During the first six months of 2006, we repurchased 13.0 million shares of our common stock for \$651 million, through open market purchases, which completed this authorization.

Financing Activities

HCA's \$2.5 billion credit agreement (the "2004 Credit Agreement") consists of a \$750 million amortizing term loan which matures in 2009 (the "2004 Term Loan") and a \$1.750 billion revolving credit facility that expires in November 2009 (the "Credit Facility"). Interest under the 2004 Credit Agreement is payable at a spread to LIBOR, a spread to the prime lending rate or a competitive bid rate. The spread is dependent on our credit ratings. The 2004 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. As of June 30, 2006, we were in compliance with all such covenants.

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

Liquidity and Capital Resources (continued)

Financing Activities (continued)

In February 2006, we issued \$1.0 billion of 6.5% notes due February 2016. Proceeds from the notes were used to repay all amounts outstanding under a bank term loan entered into in November 2005 and to pay down amounts advanced under the Credit Facility.

In May 2006, we entered into a \$400 million credit agreement which matures in May 2007. Under this agreement, we borrowed \$400 million (the "2006 Term Loan"). The proceeds from the 2006 Term Loan were used for general corporate purposes.

Merger Agreement

On July 24, 2006, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with Hercules Holding II, LLC, a Delaware limited liability company ("Parent"), and Hercules Acquisition Corporation, a Delaware corporation and a wholly-owned subsidiary of Parent ("Merger Sub"). Under the terms of the Merger Agreement, Merger Sub will be merged with and into HCA, with HCA continuing as the surviving corporation and a wholly-owned subsidiary of Parent (the "Merger"). Parent is owned by a consortium of private investment funds affiliated with Bain Capital Partners LLC, Kohlberg Kravis Roberts & Co. L.P., and Merrill Lynch Global Private Equity (collectively, the "Sponsors").

It is anticipated that the funds necessary to consummate the Merger and related transactions will be funded by new credit facilities, private and/or public offerings of debt securities and equity financing. It is also anticipated that substantially all of our 8.850% Medium Term Notes due 2007, 7.000% Notes due 2007, 7.250% Notes due 2008, 5.250% Notes due 2008 and 5.500% Notes due 2009, in the aggregate principal amount of \$1.36 billion, will either be tendered for or repaid, and our remaining public debt, in the principal amount of \$7.49 billion, will remain outstanding.

Market Risk

HCA is exposed to market risk related to changes in market values of securities. The investments in debt and equity securities of our wholly-owned insurance subsidiary were \$1.459 billion and \$925 million, respectively, at June 30, 2006. These investments are carried at fair value, with changes in unrealized gains and losses being recorded as adjustments to other comprehensive income. The fair value of investments is generally based on quoted market prices. If the insurance subsidiary were to experience significant declines in the fair value of its investments, this could require us to make additional investments to enable the insurance subsidiary to satisfy its minimum capital requirements.

Management 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 is less than amortized cost and our 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 June 30, 2006, we had a net unrealized gain of \$89 million on the insurance subsidiary's investment securities.

We are also exposed to market risk related to changes in interest rates, and we periodically enter into interest rate swap agreements to manage our exposure to these fluctuations. Our 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 our assets or liabilities. Any market risk or opportunity associated with these

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

Liquidity and Capital Resources (continued)

Market Risk (continued)

swap agreements is offset by the opposite market impact on the related debt. Our 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. These derivatives and the related hedged debt amounts have been recognized in the financial statements at their respective fair values.

With respect to our interest-bearing liabilities, approximately \$3.406 billion of long-term debt at June 30, 2006 is subject to variable rates of interest, while the remaining balance in long-term debt of \$8.258 billion at June 30, 2006 is subject to fixed rates of interest. Both the general level of U.S. interest rates and, for the 2004 Credit Agreement, our credit rating affect our variable interest rates. Our variable rate debt is primarily comprised of amounts outstanding under the 2004 Credit Agreement, the 2006 Term Loan and fixed rate notes on which interest rate swaps have been employed. The 2004 Credit Agreement consists of the Credit Facility, on which interest is payable generally at LIBOR plus 0.4% to 1.0% and the 2004 Term Loan, on which interest is payable generally at LIBOR plus 0.5% to 1.25%. The 2006 Term Loan is subject to the same interest rates and conditions as the 2004 Term Loan. The fixed rate notes on which interest rate swaps have been employed have interest that is payable at LIBOR plus 1.39% to 1.59%. Due to increases in LIBOR, the average rate for our long-term debt increased from 6.87% at June 30, 2005 to 7.01% at June 30, 2006. The estimated fair value of our total long-term debt was \$11.279 billion at June 30, 2006. 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 \$34 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 our borrowing cost and long-term debt balances. To mitigate the impact of fluctuations in interest rates, we generally target a portion of our debt portfolio to be maintained at fixed rates.

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

Pending IRS Disputes

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 through 2002 federal income tax returns, Columbia Healthcare Corporation's ("CHC") 1993 and 1994 federal income tax returns, HCA-Hospital Corporation of America's ("Hospital Corporation of America") 1991 through 1993 federal income tax returns and Healthtrust, Inc. — The Hospital Company's ("Healthtrust") 1990 through 1994 federal income tax returns.

During the second quarter 2005, HCA recorded an income tax benefit of \$48 million, or \$0.11 per diluted share, related to a partial settlement reached with the IRS Appeals Division regarding the amount of gain or loss recognized on the divestiture of certain noncore business units.

During 2003, the United States Court of Appeals for the Sixth Circuit affirmed a Tax Court decision received in 1996 related to the IRS examination of Hospital Corporation of America's 1987 through 1988 federal income tax returns, in which the IRS contested the method that Hospital Corporation of America used to calculate its tax allowance for doubtful accounts. HCA filed a petition for review by the United States Supreme Court, which was denied in October 2004. Due to the volume and complexity of calculating the tax allowance for doubtful accounts, the IRS has not determined the amount of additional tax and interest that it may claim for taxable years after 1988. In December 2004, HCA made a deposit of \$109 million for additional tax and interest, based on its estimate of amounts due for taxable periods through 1996.

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

Pending IRS Disputes (continued)

Other disputed items include the deductibility of a portion of the 2001 government settlement payment, the timing of recognition of certain patient service revenues in 2000 through 2002, the method for calculating the tax allowance for uncollectible accounts in 2002, and the amount of insurance expense deducted in 1999 through 2002. The IRS is seeking an additional \$592 million in income taxes, interest and penalties, through June 30, 2006, with respect to these issues. This amount is net of a refundable tax deposit of \$177 million, and related interest, made by HCA during the first quarter of 2006.

During the first quarter of 2006, the IRS began an examination of HCA's 2003 and 2004 federal income tax returns. The IRS has not determined the amount of any additional income tax, interest and penalties that it 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 HCA, CHC, Hospital Corporation of America and Healthtrust properly reported taxable income and paid taxes in accordance with applicable laws and agreements established with the IRS during previous examinations and that final resolution of these disputes will not have a material adverse effect on results of operations or financial position.

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

Operating Data

	2006	2005
CONSOLIDATING		
Number of hospitals in operation at(a):		
March 31	176	183
June 30	176	183
September 30		180
December 31		175
Number of freestanding outpatient surgical centers in operation at:		
March 31	91	84
June 30	92	84
September 30		86
December 31		87
Licensed hospital beds at(b):		
March 31	41,539	41,892
June 30	41,300	42,013
September 30		42,119
December 31		41,265
Weighted average licensed beds(c):		
Quarter:		
First	41,255	41,856
Second	41,263	41,948
Third		42,089
Fourth		41,713
Year		41,902
Average daily census(d):		
Quarter:		
First	23,228	23,991
Second	21,682	22,078
Third		21,343
Fourth		21,525
Year		22,225
Admissions(e):		
Quarter:		
First	421,000	432,600
Second	402,900	407,600
Third		405,100
Fourth		402,500
Year		1,647,800

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

Operating Data (continued)

	2006	2005
Equivalent admissions(f):		
Quarter:		
First	626,000	636,400
Second	609,900	619,700
Third		615,500
Fourth		605,000
Year		2,476,600
Average length of stay (days)(g):		
Quarter:		
First	5.0	5.0
Second	4.9	4.9
Third		4.8
Fourth		4.9
Year		4.9
Emergency room visits(h):		
Quarter:		
First	1,332,500	1,391,800
Second	1,325,600	1,345,600
Third		1,357,700
Fourth		1,320,100
Year		5,415,200
Outpatient surgeries(i):		
Quarter:		
First	212,900	211,000
Second	210,700	216,200
Third		206,300
Fourth		203,100
Year		836,600
Inpatient surgeries(j):		
Quarter:		
First	135,300	135,500
Second	134,000	136,400
Third		136,300
Fourth		133,200
Year		541,400

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

Operating Data (continued)

	2006	2005
Days in accounts receivable(k):		
Quarter:		
First	49	47
Second	49	48
Third		48
Fourth		50
Year		50
Gross patient revenues(l) (dollars in millions):		
Quarter:		
First	\$ 21,530	\$ 19,988
Second	20,908	19,453
Third		19,042
Fourth		20,179
Year		78,662
Outpatient revenues as a % of patient revenues(m)		
Quarter:		
First	36%	36%
Second	37%	38%
Third		36%
Fourth		36%
Year		36%
NONCONSOLIDATING(n)		
Number of hospitals in operation at:		
March 31	7	7
June 30	7	7
September 30		7
December 31		7
Number of freestanding outpatient surgical centers in operation at:		
March 31	7	8
June 30	9	8
September 30		8
December 31		7
Licensed hospital beds at:		
March 31	2,249	2,231
June 30	2,249	2,231
September 30		2,231
December 31		2,249

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

Operating Data (continued)

BALANCE SHEET DATA

	% of Accounts Receivable		
	Under 91 Days	91 - 180 Days	Over 180 Days
Accounts receivable aging at June 30, 2006:			
Medicare and Medicaid	12%	1%	2%
Managed care and other discounted	21	4	4
Uninsured	21	11	24
Total	54%	16%	30%

- (a) Three hospitals located on the same campus have been consolidated and, as of September 30, 2005, counted as one hospital.
- (b) Licensed beds are those beds for which a facility has been granted approval to operate from the applicable state licensing agency.
- (c) Weighted average licensed beds represents the average number of licensed beds, weighted based on periods owned.
- (d) Represents the average number of patients in our hospital beds each day.
- (e) Represents the total number of patients admitted to our hospitals and is used by management and certain investors as a general measure of inpatient volume.
- (f) 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.
- (g) Represents the average number of days admitted patients stay in our hospitals.
- (h) Represents the number of patients treated in our emergency rooms.
- (i) Represents the number of surgeries performed on patients who were not admitted to our hospitals. Pain management and endoscopy procedures are not included in outpatient surgeries.
- (j) Represents the number of surgeries performed on patients who have been admitted to our hospitals. Pain management and endoscopy procedures are not included in inpatient surgeries.
- (k) Days in accounts receivable are calculated by dividing the revenues for the period by the days in the period (revenues per day). Accounts receivable, net of allowance for doubtful accounts, at the end of the period is then divided by the revenues per day.
- (l) Gross patient revenues are based upon our standard charge listing. Gross charges/revenues typically do not reflect what our hospital facilities are paid. Gross charges/revenues are reduced by contractual adjustments, discounts and charity care to determine reported revenues.
- (m) Represents the percentage of patient revenues related to patients who are not admitted to our hospitals.
- (n) The nonconsolidating facilities include facilities operated through 50/50 joint ventures which we do not control and are accounted for using the equity method of accounting.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT 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 financial officer have reviewed and evaluated the effectiveness of HCA’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934 (the “Exchange Act”)) as of the end of the period covered by this quarterly report. Based on that evaluation, the chief executive officer and chief financial officer have concluded that HCA’s disclosure controls and procedures effectively and timely provide them 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 Control Over Financial Reporting

During the period covered by this report, there have been no changes in the Company’s internal control over financial reporting that have materially affected or are reasonably likely to materially affect the Company’s internal control over financial reporting.

Part II: Other Information

Item 1: Legal Proceedings

General Liability

We operate in a highly regulated and litigious industry. As a result, various lawsuits, claims and legal and regulatory proceedings have been and can be expected to be instituted or asserted against us. The resolution of any such lawsuits, claims or legal and regulatory proceedings could have a material, adverse effect on our results of operations and financial position in a given period.

Government Investigations, Claims and Litigation

In January 2001, we entered into an eight-year Corporate Integrity Agreement (“CIA”) with the Office of Inspector General of the Department of Health and Human Services. Violation or breach of the CIA, or other violation of federal or state laws relating to Medicare, Medicaid or similar programs, could subject us to substantial monetary fines, civil and criminal penalties and/or exclusion from participation in the Medicare and Medicaid programs. Alleged violations may be pursued by the government or through private *qui tam* actions. Sanctions imposed against us as a result of such actions could have a material, adverse effect on our results of operations and financial position.

Governmental Investigations

In September 2005, we received a subpoena from the Office of the United States Attorney for the Southern District of New York seeking the production of documents. Also in September 2005, we were informed that the SEC had issued a formal order of investigation. Both the subpoena and the formal order of investigation relate to trading in our securities. We are cooperating fully with these investigations.

Securities Class Action Litigation

In November 2005, two putative federal securities law class actions were filed in the United States District Court for the Middle District of Tennessee on behalf of persons who purchased our stock between January 12, 2005 and July 12, 2005. These substantially similar lawsuits asserted claims pursuant to Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and Rule 10b-5 promulgated thereunder, against us, our Chairman and Chief Executive Officer, President and Chief Operating Officer, Executive Vice President and Chief Financial Officer, and

other officers related to our July 13, 2005, announcement of preliminary results of operations for the second quarter ended June 30, 2005.

On January 5, 2006, the court consolidated these actions and all later-filed related securities actions under the caption *In re HCA Inc. Securities Litigation*, case number 3:05-CV-00960. Pursuant to federal statute, on January 25, 2006, the court appointed co-lead plaintiffs to represent the interests of the asserted class members in this litigation. Co-lead plaintiffs filed a consolidated amended complaint on April 21, 2006. We believe that the allegations contained within these class action lawsuits are without merit and intend to vigorously defend the litigation.

On June 27, 2006, the Company and each of the defendants moved to dismiss the consolidated amended complaint. We expect that the plaintiffs will file a brief in opposition to those motions on or before September 8, 2006, and oral argument is expected to occur on December 8, 2006.

Shareholder Derivative Lawsuits in Federal Court

In November 2005, two current shareholders each filed a derivative lawsuit, purportedly on behalf of the Company, in the United States District Court for the Middle District of Tennessee against our Chairman and Chief Executive Officer, President and Chief Operating Officer, Executive Vice President and Chief Financial Officer, other executives, and certain members of our Board of Directors. Each of these lawsuits asserts claims for breaches of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets, and unjust enrichment in connection with our July 13, 2005 announcement of preliminary results of operations for the quarter ended June 30, 2005.

On January 23, 2006, the court consolidated these actions as *In re HCA Inc. Derivative Litigation*, lead case number 3:05-CV-0968. The court stayed this action on February 27, 2006, pending resolution of a motion to dismiss the consolidated amended complaint in the related federal securities class action against us. On March 24, 2006, a consolidated derivative complaint was filed pursuant to a prior court order.

On July 25, 2006 the derivative plaintiffs moved the District Court to grant them leave to file an amended, consolidated derivative complaint that would assert, in addition to their previous derivative claims, claims purportedly on behalf of all of our shareholders against our Board of Directors for breach of fiduciary duties in connection with the Merger. The proposed amended complaint also asserts claims of aiding and abetting the breach of fiduciary duties against Bain Capital, Kohlberg Kravis Roberts & Co., Merrill Lynch Global Private Equity and the financial institutions that are providing financing in connection with the Merger. The amended complaint seeks to be certified as a class action as to its new claims relating to the Merger. Such claims are substantially similar to the claims asserted in the state court litigation related to the Merger described below. In their motion, plaintiffs also move the Court to lift the stay of discovery in the case.

Shareholder Derivative Lawsuit in State Court

On January 18, 2006, a current shareholder filed a derivative lawsuit, purportedly on behalf of the Company, in the Circuit Court for the State of Tennessee (Nashville District), against our Chairman and Chief Executive Officer, President and Chief Operating Officer, Executive Vice President and Chief Financial Officer, other executives, and certain members of our Board of Directors. This lawsuit is substantially identical to the consolidated federal derivative litigation described above in all material respects. The court stayed this action on April 3, 2006, pending resolution of a motion to dismiss the consolidated amended complaint in the related federal securities class action against us.

ERISA Litigation

On November 22, 2005, Brenda Thurman, a former employee of an HCA affiliate, filed a complaint in the United States District Court for the Middle District of Tennessee on behalf of herself, the HCA Savings and Retirement Program (the "Plan"), and a class of Participants in the Plan who held an interest in our common stock, against our Chairman and Chief Executive Officer, President and Chief Operating Officer, Executive Vice President and Chief Financial Officer, and other unnamed individuals. The lawsuit, filed under sections 502(a)(2) and 502(a)(3) of the Employee Retirement Income Security Act ("ERISA"), 29 U.S.C. §§ 1132(a)(2) and (3), alleges that defendants breached their fiduciary duties owed to the Plan and to Plan Participants.

On January 13, 2006, the court stayed all proceedings and discovery in this matter, pending resolution of a motion to dismiss the consolidated amended complaint in the related federal securities class action against us. On January 17, 2006, the magistrate judge (i) consolidated Thurman's cause of action with all other future actions making the same claims and arising out of the same operative facts, (ii) appointed Thurman as lead plaintiff, and (iii) appointed Thurman's attorneys as lead counsel and liaison counsel. On January 26, 2006, the court reassigned the case to United States District Court Judge William J. Haynes, Jr., who has been presiding over the federal securities class action and federal derivative lawsuits.

Merger Litigation in State Court

We are aware of six asserted class action lawsuits related to the Merger filed against us, our Chairman and Chief Executive Officer, our President and Chief Operating Officer, and each of the Sponsors in the Chancery Court for Davidson County, Tennessee. The complaints are substantially similar and allege, among other things, that the Merger is the product of a flawed process, that the consideration to be paid to our shareholders in the Merger is unfair and inadequate, and breach of fiduciary duty. The complaints further allege that the Sponsors abetted the actions of our officers and directors in breaching their fiduciary duties to our shareholders. The complaints seek, among other relief, an injunction preventing completion of the Merger. On August 3, 2006, the Chancery Court consolidated these actions and all later-filed actions as *In re HCA Inc. Shareholder Litigation*, case number 06-1816-III. A case making similar allegations and seeking similar relief on behalf of a purported class of shareholders has also been filed in Delaware. We believe these lawsuits are without merit and plan to defend them vigorously. Additional lawsuits pertaining to the Merger could be filed in the future.

General Liability and Other Claims

We are a party to certain proceedings relating to claims for income taxes and related interest in the United States Tax Court, and the United States Court of Federal Claims. For a description of those proceedings, see Note 3 — Income Taxes in the notes to condensed consolidated financial statements.

We are 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 us, 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 our results of operations or financial position.

Item 1A: Risk Factors

Reference is made to the factors set forth under the caption "Forward-Looking Statements" in Part I, Item 2 of this Form 10-Q and other risk factors described in our Annual Report on Form 10-K, which are incorporated herein by reference. There have not been any material changes to the risk factors previously disclosed in our Annual Report on Form 10-K other than as set forth below.

Failure To Complete The Proposed Merger Could Negatively Affect Us.

On July 24, 2006, we entered into the Merger Agreement. There is no assurance that the Merger Agreement and the Merger will be approved by our stockholders, and there is no assurance that the other conditions to the completion of the Merger will be satisfied. In connection with the Merger, we will be subject to several risks, including the following:

- the current market price of our common stock may reflect a market assumption that the Merger will occur, and a failure to complete the Merger could result in a decline in the market price of our common stock;
- certain costs relating to the Merger, such as legal, accounting and financial advisory fees, are payable by us whether or not the Merger is completed;
- under certain circumstances, if the Merger is not completed, we may be required to pay the buyer a termination fee of up to \$500 million or reimburse the buyer for its out-of-pocket expenses in connection with the Merger, up to \$50 million (although any termination fee payable would be net of reimbursed expenses);

- there may be substantial disruption to our business and a distraction of our management and employees from day-to-day operations, because matters related to the Merger may require substantial commitments of their time and resources;
- uncertainty about the effect of the Merger may adversely affect our relationships with our employees, physicians, suppliers and other persons with whom we have business relationships; and
- we are aware of numerous lawsuits that have been filed against us as a result of the announcement of the Merger and there may be additional lawsuits filed against us relating to the Merger.

We Have Been The Subject Of Governmental Investigations, Claims And Litigation.

Commencing in 1997, HCA became aware that we were the subject of governmental investigations and litigation relating to our business practices. The investigations were concluded through a series of agreements executed in 2000 and 2003. In January 2001, we entered into an eight-year CIA with the OIG. If we were found to be in violation of the CIA, we 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 our financial position, results of operations and liquidity.

In September 2005, we received a subpoena from the Office of the United States Attorney for the Southern District of New York seeking the production of documents. Also in September 2005, we were informed that the SEC had issued a formal order of investigation. Both the subpoena and the formal order of investigation relate to trading in our securities. We are cooperating fully with these investigations.

Subsequently, HCA and certain of our executive officers and directors were named in various federal securities law class actions and several shareholders have filed derivative lawsuits purportedly on behalf of the Company. Additionally, a former employee of HCA filed a complaint against certain of our executive officers pursuant to the Employee Retirement Income Security Act, and we have been served with a shareholder demand letter addressed to our Board of Directors. We cannot predict the results of the investigations or any related lawsuits or the effect that findings in such investigations or lawsuits adverse to us may have on us.

On July 24, 2006, we announced that we had entered into the Merger Agreement. In connection with the Merger, we are aware of seven asserted class action lawsuits related to the Merger filed against us, certain of our executive officers, our directors, and the Sponsors, as well as a motion by the federal derivative plaintiffs seeking leave to amend their complaint to add claims related to the Merger. Additional lawsuits pertaining to the Merger could be filed in the future. While we believe these lawsuits are without merit and plan to defend them vigorously, adverse findings in these lawsuits may have an adverse effect on our ability to consummate the merger. These proceedings are described in greater detail in Part II, Item 1, "Legal Proceedings."

Our Facilities Are Heavily Concentrated In Florida And Texas, Which Makes Us Sensitive To Regulatory, Economic, Environmental And Competitive Changes In Those States.

As of June 30, 2006, we operated 183 hospitals, and 75 of those hospitals are located in Florida and Texas. This situation makes us particularly sensitive to regulatory, economic, environmental and competition changes in those states. Any material change in the current payment programs or regulatory, economic, environmental or competitive conditions in those states could have a disproportionate effect on our overall business results.

In addition, our hospitals in Florida and Texas and other areas across the Gulf Coast are located in hurricane-prone areas. In the recent past, hurricanes have had a disruptive effect on the operations of our hospitals in Florida, Texas, and other coastal states, and the patient populations in those states. Our business activities could be harmed by a particularly active hurricane season or even a single storm. In addition, the premiums to renew our property insurance policy for 2006 increased significantly over premiums incurred in 2005. Our new policy also includes an increase in the stated deductible and we were not able to obtain coverage in the amounts we have had under our previous policies. As a result of such increases in premiums and deductibles, we expect that our cash flows and profitability will be adversely affected. In addition, we can make no assurances that the property insurance we obtain will be adequate to cover losses from future hurricanes or other natural disasters.

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

Our annual meeting of stockholders was held on May 25, 2006. The following matters were voted upon at the meeting:

	<u>Votes in Favor</u>	<u>Votes Withheld</u>
1. Election of Directors:		
C. Michael Armstrong	338,222,962	5,351,754
Magdalena H. Averhoff, M.D.	334,064,791	9,509,925
Jack O. Bovender, Jr.	333,215,406	10,359,310
Richard M. Bracken	333,437,749	10,136,967
Martin Feldstein	334,800,655	8,774,061
Thomas F. Frist, Jr., M.D.	326,949,428	16,625,288
Frederick W. Gluck	334,813,730	8,760,986
Glenda A. Hatchett	338,252,751	5,321,965
Charles O. Holliday, Jr.	334,811,478	8,763,238
T. Michael Long	334,046,374	9,528,342
John H. McArthur	337,447,736	6,126,980
Kent C. Nelson	338,306,539	5,268,177
Frank S. Royal, M.D.	257,465,259	86,109,457
Harold T. Shapiro	337,702,652	5,872,064

	<u>Votes in Favor</u>	<u>Votes Against</u>	<u>Abstentions</u>	<u>Broker Non-Votes</u>
2. Ratification of the appointment of Ernst & Young LLP as HCA's independent registered public accounting firm	334,406,733	7,145,965	2,022,021	—
3. Shareholder Proposal on adoption of a policy that a significant portion of future stock option grants to senior executives be performance-based	119,483,192	196,124,385	2,366,646	25,600,496
4. Shareholder Proposal on adoption of a policy under which senior executives and directors commit to hold at least 75 percent of all HCA shares they obtain or receive through equity-based compensation programs	65,191,774	247,086,789	5,695,654	25,600,502

Item 6: Exhibits

(a) List of Exhibits:

Exhibit 10 — \$400 million Credit Agreement, dated May 26, 2006, by and among HCA Inc., Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Sole Lead Arranger and Sole Bookrunner, and Merrill Lynch Capital Corporation, as Administrative Agent.

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

Exhibit 31.1 — Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 31.2 — Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32 — Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of Sarbanes-Oxley Act of 2002.

SIGNATURES

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

HCA INC.

By: /s/ R. MILTON JOHNSON

R. MILTON JOHNSON
*Executive Vice President and
Chief Financial Officer*

Date: August 4, 2006

\$400,000,000

CREDIT AGREEMENT

among

HCA INC.,

THE SEVERAL BANKS AND OTHER FINANCIAL INSTITUTIONS FROM TIME TO
TIME PARTIES HERETO,

MERRILL LYNCH & CO.,
MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED
as Sole Lead Arranger and Sole Bookrunner

and

MERRILL LYNCH CAPITAL CORPORATION
as Administrative Agent

Dated as of May 25, 2006

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SCHEDULES:

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EXHIBITS:

Exhibit A.	Form of Term Note
Exhibit B.	Form of Commitment Transfer Supplement
Exhibit C.	Form of Exemption Certificate

CREDIT AGREEMENT (this “Agreement”), dated as of May 25, 2006 among HCA INC., a Delaware corporation (the “Company”), the several banks and other financial institutions from time to time parties hereto (the “Banks”), MERRILL LYNCH & CO., MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED, as Sole Lead Arranger and Sole Bookrunner, MERRILL LYNCH CAPITAL CORPORATION, as administrative agent (in such capacity, the “Agent”).

In consideration of the promises and mutual agreements herein contained and for good and valuable consideration the parties hereto agree as follows:

SECTION 1. DEFINITIONS

1.1 Defined Terms. As used in this Agreement, the following terms have the meanings specified below:

“Administrative Questionnaire”: an Administrative Questionnaire in a form supplied by the Agent.

“Affiliate”: (a) any director or officer of any corporation or partner or joint venturer or Person holding a similar position in another Person or members of their families, whether or not living under the same roof, or any Person owning beneficially more than 5% of the outstanding common stock or other evidences of beneficial interest of the Person in question, (b) any Person of which any one or more of the Persons described in clause (a) above is an officer, director or beneficial owner of more than 5% of the shares or other beneficial interest and (c) any Person controlled by, controlling or under common control with the Person in question.

“Agent”: Merrill Lynch Capital Corporation, in its capacity as administrative agent for the Banks hereunder.

“Aggregate Exposure”: with respect to any Bank at any time, an amount equal to (a) until the Closing Date, the aggregate amount of such Bank’s Commitment at such time and (b) thereafter, the aggregate then unpaid principal amount of such Bank’s Term Loans.

“Aggregate Exposure Percentage”: with respect to any Bank at any time, the ratio (expressed as a percentage) of such Bank’s Aggregate Exposure at such time to the Aggregate Exposure of all Banks at such time.

“Agreement”: as defined in the preamble hereto.

“Alternate Base Rate”: for any day, a rate per annum (rounded upwards, if necessary, to the next 1/100 of 1%) equal to the greatest of (a) the Prime Rate in effect on such day, (b) the Base CD Rate in effect on such day plus 1% and (c) the Federal Funds Effective Rate in effect on such day plus 1/2 of 1%. For purposes hereof: “Prime Rate” shall mean the rate of interest per annum publicly announced from time to time by the Agent as its prime rate in effect at its principal office in New York City (each change in the Prime Rate to be effective on the date such change is publicly announced); “Base CD Rate” shall mean the sum of (a) the

product of (i) the Three-Month Secondary CD Rate and (ii) a fraction, the numerator of which is one and the denominator of which is one minus the C/D Reserve Percentage and (b) the C/D Assessment Rate; “Three-Month Secondary CD Rate” shall mean, for any day, the secondary market rate for three-month certificates of deposit reported as being in effect on such day (or, if such day shall not be a Business Day, the next preceding Business Day) by the Board of Governors of the Federal Reserve System (the “Board”) through the public information telephone line of the Federal Reserve Bank of New York (which rate will, under the current practices of the Board, be published in Federal Reserve Statistical Release H.15(519) during the week following such day), or, if such rate shall not be so reported on such day or such next preceding Business Day, the average of the secondary market quotations for three-month certificates of deposit of major money center banks in New York City received at approximately 10:00 A.M., New York City time, on such day (or, if such day shall not be a Business Day, on the next preceding Business Day) by the Agent from three New York City negotiable certificate of deposit dealers of recognized standing selected by it; “C/D Reserve Percentage” shall mean, for any day, that percentage (expressed as a decimal) which is in effect on such day, as prescribed by the Board (or any successor), for determining the maximum reserve requirement for a member bank of the Federal Reserve System in New York City with deposits exceeding one billion Dollars in respect of new non-personal three-month certificates of deposit in the secondary market in Dollars in New York City and in an amount of \$100,000 or more; “C/D Assessment Rate” shall mean, for any day, the net annual assessment rate (rounded upward to the nearest 1/100 of 1%) determined by Merrill to be payable on such day to the Federal Deposit Insurance Corporation or any successor (the “FDIC”) for FDIC’s insuring time deposits made in Dollars at offices of Merrill in the United States; and “Federal Funds Effective Rate” shall mean, for any day, the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for the day of such transactions received by the Agent from three federal funds brokers of recognized standing selected by it. If for any reason the Agent shall have determined (which determination shall be conclusive absent manifest error) that it is unable to ascertain the Base CD Rate or the Federal Funds Effective Rate, or both, for any reason, including the inability or failure of the Agent to obtain sufficient quotations in accordance with the terms thereof, the Alternate Base Rate shall be determined without regard to clause (b) or (c), or both, of the first sentence of this definition, as appropriate, until the circumstances giving rise to such inability no longer exist. Any change in the Alternate Base Rate due to a change in the Prime Rate, the Three-Month Secondary CD Rate or the Federal Funds Effective Rate shall be effective on the effective day of such change in the Prime Rate, the Three-Month Secondary CD Rate or the Federal Funds Effective Rate, respectively.

“Alternate Base Rate Loans”: Loans hereunder at such time as they are made and/or being maintained at a rate of interest based upon the Alternate Base Rate.

“Applicable Margin”: for each Type of Loan during a Level I Period, Level II Period, Level III Period, Level IV Period or Level V Period the rate per annum set forth under the relevant column heading in Schedule IV. The Applicable Margin shall not be less than that for Level IV for the period beginning on the Closing Date and ending on the date that is six months after the Closing Date. Increases or decreases in the Applicable Margin shall become

effective on the first day of the Level I Period, Level II Period, Level III Period, Level IV Period or Level V Period as the case may be, to which such Applicable Margin relates.

“Approved Fund”: with respect to any Bank that is a fund that invests in commercial loans, any other fund that invests in commercial loans and is managed or advised by the same investment advisor as such Bank or by an Affiliate of such investment advisor.

“Asset Sale”: shall mean any sale or series of related sales of any assets of the Company or any of its Subsidiaries; *provided, however*, that “Asset Sale” shall not include (a) sales of personal property assets in the ordinary course of business of the Company and its Subsidiaries, (b) the sale or other disposition of obsolete or worn-out equipment or other property no longer required by or useful to the Company or any of its Subsidiaries in connection with the operation of their businesses, (c) the sale or transfer to the Company or any of its Subsidiaries of any asset owned by the Company or any of its Subsidiaries, (d) involuntary dispositions resulting from casualty or the exercise of the power of eminent domain (or a transfer in lieu thereof), or (e) any transaction permitted by subsection 5.9, subsection 5.10(b) or subsection 5.13.

“Attributable Debt”: (i) as to any capitalized lease obligations, the Indebtedness carried on the balance sheet in respect thereof in accordance with GAAP and (ii) as to any operating leases, the total net amount of rent required to be paid under such leases during the remaining term thereof.

“Auditor”: any independent certified public accountant of nationally recognized standing and reputation selected by the Company.

“Bank Obligations”: as defined in subsection 6.1.

“Banks”: as defined in the preamble hereto.

“Benefited Bank”: as defined in subsection 8.7.

“Borrowing Date”: any Business Day within 14 days after the Closing Date specified by the Borrower as a date on which the Borrower requests the relevant Banks to make Loans hereunder.

“Business Day”: any day that is not a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to remain closed; provided that, when used in connection with a Eurodollar Loan, the term “Business Day” shall also exclude any day on which banks are not open for dealings in dollar deposits in the London interbank market.

“Capital Stock”: any and all shares, interests, participations or other equivalents (however designated) of capital stock of a corporation, any and all equivalent ownership interests in a Person (other than a corporation) and any and all warrants, rights or options to purchase any of the foregoing.

“Change in Control”: of any corporation, (a) any Person or “group” (as defined in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended), other than the Company, that shall acquire more than 50% of the Voting Stock of such corporation or (b) any Person or group (as defined in preceding clause (a)), other than the Company, that shall acquire more than 20% of the Voting Stock of such corporation and, at any time following an acquisition described in this clause (b), the Continuing Directors shall not constitute a majority of the board of directors of such corporation.

“Closing Date”: the date on which the conditions precedent set forth in Section 4 shall have been satisfied which date shall be no later than June 15, 2006.

“Code”: the Internal Revenue Code of 1986, as amended from time to time.

“Commitment”: as to any Bank, the Term Commitment of such Bank.

“Commitment Transfer Supplement”: a Commitment Transfer Supplement, substantially in the form of Exhibit B.

“Company”: HCA Inc., a Delaware corporation.

“Consolidated Assets”: as of any date of determination, the consolidated assets of the Company and its Subsidiaries at such date, determined in accordance with GAAP.

“Consolidated Earnings Before Interest and Taxes”: for any period for which the amount thereof is to be determined, Consolidated Net Income for such period plus all amounts deducted in computing such Consolidated Net Income in respect of interest expense on Indebtedness and income taxes.

“Consolidated Interest Expense”: for any period for which the amount thereof is to be determined, all amounts deducted in computing Consolidated Net Income for such period in respect of interest expense on Indebtedness determined in accordance with GAAP.

“Consolidated Net Income”: for any period, the consolidated net income, if any, after taxes, of the Company and its Subsidiaries for such period determined in accordance with GAAP; provided, however, that Consolidated Net Income shall not include any gain or loss attributable to extraordinary items, any sale of assets not in the ordinary course of business or any taxes or tax savings as a result thereof.

“Consolidated Net Tangible Assets”: as of any date of determination, the total amount of assets (less applicable reserves and other properly deductible items) after deducting therefrom (i) all current liabilities as disclosed on the consolidated balance sheet of the Company (excluding any thereof which are by their terms extendable or renewable at the option of the obligor thereon to a time more than 12 months after such date and excluding any deferred income taxes that are included in current liabilities), and (ii) all goodwill, trade names, trademarks, patents, unamortized debt discount and expense and other like intangible assets, all as set forth on the most recent consolidated balance sheet of the Company and computed in accordance with GAAP.

“Consolidated Net Worth”: as of any date of determination, all items which in conformity with GAAP would be included under shareholders’ equity and Temporary Equity on a consolidated balance sheet of the Company and its Subsidiaries at such date.

“Consolidated Total Capitalization”: as of any date of determination, the sum of Consolidated Net Worth at such date and Consolidated Total Debt at such date.

“Consolidated Total Debt”: as of any date of determination, the aggregate of all Indebtedness (including the current portion thereof) of the Company and its Subsidiaries at such date determined in conformity with GAAP on a consolidated basis.

“Continuing Director”: any member of the Board of Directors of the Company who is a member of such Board on the date of this Agreement, and any Person who is a member of such Board and whose nomination as a director was approved by a majority of the Continuing Directors then on such Board.

“Contractual Obligation”: as to any Person, any provision of any security issued by such Person or of any agreement, instrument or undertaking to which such Person is a party or by which it or any of its property is bound.

“Control Group Person”: any Person which is a member of the controlled group or is under common control with the Company within the meaning of Section 414(b) or 414(c) of the Code or Section 4001(b)(1) of ERISA.

“Default”: any event or condition which constitutes an Event of Default or which upon notice, lapse of time or both would, unless cured or waived, become an Event of Default.

“Distribution”: (a) the declaration or payment of any dividend on or in respect of any shares of any class of capital stock of the Company other than dividends payable solely in shares of common stock of the Company; (b) the purchase, redemption or other acquisition of any shares of any class of capital stock of the Company directly or indirectly through a Subsidiary or otherwise; and (c) any other distribution on or in respect of any shares of any class of capital stock of the Company.

“Dollars” or “\$”: dollars in lawful currency of the United States of America.

“Domestic Lending Office”: the office of each Bank designated as such in Schedule I.

“EDGAR”: the Electronic Data Gathering, Analysis and Retrieval computer system for the receipt, acceptance, review and dissemination of documents submitted to the Securities and Exchange Commission in electronic format.

“ERISA”: the Employee Retirement Income Security Act of 1974, as amended from time to time.

“Eurocurrency Reserve Requirements”: for any day as applied to a Eurodollar Loan, the aggregate (without duplication) of the rates (expressed as a decimal fraction) of reserve

requirements in effect on such day (including, without limitation, basic, supplemental, marginal and emergency reserves under any regulations of the Board of Governors of the Federal Reserve System or other Governmental Authority having jurisdiction with respect thereto), dealing with reserve requirements prescribed for Eurocurrency funding (currently referred to as “Eurocurrency Liabilities” in Regulation D of such Board) maintained by a member bank of such System.

“Eurodollar Base Rate”: with respect to each day during each Interest Period pertaining to a Eurodollar Loan, the rate per annum determined on the basis of the rate for deposits in Dollars for a period equal to such Interest Period commencing on the first day of such Interest Period appearing on Page 3750 of the Telerate screen as of 11:00 A.M., London time, two Business Days prior to the beginning of such Interest Period. In the event that such rate does not appear on Page 3750 of the Telerate screen (or otherwise on such screen), the “Eurodollar Base Rate” shall be determined by reference to such other comparable publicly available service for displaying eurodollar rates as may be selected by the Agent or, in the absence of such availability, by reference to the rate at which the Agent is offered Dollar deposits at or about 11:00 A.M., New York City time, two Business Days prior to the beginning of such Interest Period in the interbank eurodollar market where its eurodollar and foreign currency and exchange operations are then being conducted for delivery on the first day of such Interest Period for the number of days comprised therein.

“Eurodollar Lending Office”: the office of each Bank designated as such in Schedule I.

“Eurodollar Loans”: Loans the rate of interest applicable to which is based upon the Eurodollar Rate.

“Eurodollar Rate”: with respect to each day during each Interest Period pertaining to a Eurodollar Loan, a rate per annum determined for such day in accordance with the following formula (rounded upward to the nearest 1/100th of 1%):

Eurodollar Base Rate
1.00 — Eurocurrency Reserve Requirements

“Eurodollar Tranche”: the collective reference to Eurodollar Loans under the Facility, the then current Interest Periods with respect to all of which begin on the same date and end on the same later date (whether or not such Loans shall originally have been made on the same day).

“Event of Default”: any of the events specified in subsection 6.1, provided that any requirement for the giving of notice, the lapse of time, or both, or any other condition, event or act has been satisfied.

“Facility”: each of the Term Commitments and the Term Loans made thereunder.

“Financing Lease”: any lease of property, real or personal, if the then present value of the minimum rental commitment thereunder should, in accordance with GAAP, be capitalized on a balance sheet of the lessee.

“Funding Office”: the office of the Administrative Agent specified in subsection 8.2 or such other office as may be specified from time to time by the Administrative Agent as its funding office by written notice to the Company and the Banks.

“GAAP”: (a) with respect to determining compliance by the Company with the provisions of subsections 5.1, 5.6, 5.7, 5.10 and 5.12, generally accepted accounting principles in the United States of America consistent with those utilized in preparing the audited financial statements referred to in subsection 3.3 and (b) with respect to the financial statements referred to in subsection 3.3 or the furnishing of financial statements pursuant to subsection 5.5 and otherwise, generally accepted accounting principles in the United States of America from time to time in effect.

“Governmental Authority”: any nation or government, any state or other political subdivision thereof and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

“Granting Bank”: as defined in subsection 8.6(h).

“Guarantee Obligation”: any arrangement whereby credit is extended to one party on the basis of any promise of another, whether that promise is expressed in terms of an obligation to pay the Indebtedness of another, or to purchase an obligation owed by that other, to purchase assets or to provide funds in the form of lease or other types of payments under circumstances that would enable that other to discharge one or more of its obligations, whether or not such arrangement is listed in the balance sheet of the obligor or referred to in a footnote thereto, but shall not include endorsements of items for collection in the ordinary course of business.

“Indebtedness”: of a Person, at a particular date, the sum (without duplication) at such date of (a) all indebtedness of such Person for borrowed money or for the deferred purchase price of property or services or which is evidenced by a note, bond, debenture or similar instrument, (b) all obligations of such Person under Financing Leases, (c) all obligations of such Person in respect of letters of credit, acceptances, or similar obligations issued or created for the account of such Person in excess of \$1,000,000, (d) all liabilities secured by any Lien on any property owned by the Company or any Subsidiary even though such Person has not assumed or otherwise become liable for the payment thereof and (e) without duplication, all Guarantee Obligations relating to any of the foregoing in excess of \$1,000,000.

“Insolvency” or “Insolvent”: at any particular time, a Multiemployer Plan which is insolvent within the meaning of Section 4245 of ERISA.

“Interest Payment Date”: (a) as to any Alternate Base Rate Loan, the last day of each March, June, September and December, commencing on the first of such days to occur after Alternate Base Rate Loans are made or Eurodollar Loans are converted to Alternate Base Rate Loans, (b) as to any Eurodollar Loan in respect of which the Company has selected an Interest Period of one, two or three months, the last day of such Interest Period and (c) as to any Eurodollar Loan in respect of which the Company has selected a longer Interest Period than the

periods described in clause (b), each day that is three months, or a whole multiple thereof, after the first day of such Interest Period and the last day of such Interest Period.

“**Interest Period**”: with respect to any Eurodollar Loans:

(i) initially, the period commencing on the borrowing or conversion date, as the case may be, with respect to such Eurodollar Loans and ending one, two, three or six months thereafter (or, with the consent of all the Banks, nine or twelve months thereafter), as selected by the Company in its notice of borrowing or its notice of conversion, as the case may be; and

(ii) thereafter, each period commencing on the last day of the next preceding Interest Period applicable to such Eurodollar Loans and ending one, two, three or six months thereafter (or, with the consent of all the Banks, nine or twelve months thereafter), as selected by the Company by irrevocable notice to the Agent not less than three Business Days prior to the last day of the then current Interest Period with respect to such Eurodollar Loans;

provided that, all of the foregoing provisions relating to Interest Periods are subject to the following:

(1) if any Interest Period pertaining to a Eurodollar Loan would otherwise end on a day which is not a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless the result of such extension would be to carry such Interest Period into another calendar month, in which event such Interest Period shall end on the immediately preceding Business Day;

(2) if the Company shall fail to give notice as provided above, the Company shall be deemed to have selected an Alternate Base Rate Loan to replace the affected Eurodollar Loan;

(3) any Interest Period pertaining to a Eurodollar Loan that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of a calendar month;

(4) any Interest Period pertaining to a Eurodollar Loan that would otherwise end after the Term Maturity Date shall end on the Term Maturity Date; and

(5) the Company shall select Interest Periods so as not to require a payment or prepayment of any Eurodollar Loan during an Interest Period for such Loan.

“**Level 1 Period**”: any period during which the publicly announced ratings by S&P and Moody’s of the then current senior unsecured, non-credit enhanced, long-term Indebtedness of the Company that has been publicly issued are BBB+ or better and Baa1 or better, respectively.

“Level II Period”: any period during which the publicly announced ratings by S&P and Moody’s of the then current senior unsecured, non-credit enhanced, long-term Indebtedness of the Company that has been publicly issued are BBB and Baa2, respectively.

“Level III Period”: any period which the publicly announced ratings by S&P and Moody’s of the then current senior unsecured, non-credit enhanced, long-term Indebtedness of the Company that has been publicly issued are BBB- and Baa3, respectively.

“Level IV Period”: any period which the publicly announced ratings by S&P or Moody’s of the then current senior unsecured, non-credit enhanced, long-term Indebtedness of the Company that has been publicly issued are BB+ and Ba1, respectively.

“Level V Period”: any period during which the publicly announced ratings by S&P or Moody’s of the then current senior unsecured, non-credit enhanced, long-term Indebtedness of the Company that has been publicly issued are equal to or below BB or unrated and equal to or below Ba2 or unrated, as the case may be.

provided, that if on any day the ratings by S&P and Moody’s do not coincide for any rating category and the Level differential is (x) one level, then the higher rating will be the applicable Level; (y) two levels, the Level at the midpoint will be the applicable Level; and (z) more than two levels, the lower of the intermediate Levels will be the applicable Level.

“Lien”: any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), or preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including, without limitation, any conditional sale or other title retention agreement, any financing lease having substantially the same economic effect as any of the foregoing).

“Loan Documents”: this Agreement and the Notes.

“Loans”: the loans made by the Banks to the Company pursuant to this Agreement.

“Merrill”: Merrill Lynch Capital Corporation.

“Moody’s”: Moody’s Investors Service, Inc., or any successor thereto.

“Multiemployer Plan”: a Plan which is a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

“Net Cash Proceeds”: shall mean (a) in connection with any Asset Sale, the proceeds thereof in the form of cash and cash equivalents (including any such proceeds received by way of deferred payment of principal pursuant to a note or installment receivable or otherwise, but only as and when received) of such Asset Sale, net of attorneys’ fees, accountant’s fees, investment banking fees, amounts required to be applied to the repayment of Indebtedness secured by a Lien on any asset that is the subject of such Asset Sale and other fees and expenses, and net of taxes paid or reasonably estimated to be payable as a result thereof (after taking into account any available tax credits or deductions and any tax sharing arrangements), and (b) in

connection with any issuance or sale of equity securities or debt securities or instruments, the cash proceeds and any non-cash consideration received from such issuance or incurrence, net of attorneys' fees, accountant's fees, investment banking fees, underwriting discounts and commissions and other related fees and expenses.

"Non-Excluded Taxes": as defined in subsection 2.13(a).

"Non-U.S. Banks": as defined in subsection 2.13(d).

"Notes": the collective reference to any promissory note evidencing Loans.

"Other Taxes": any and all present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made hereunder or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement or any other Loan Document.

"Participants": as defined in subsection 8.6(b).

"PBGC": the Pension Benefit Guaranty Corporation referred to and defined in ERISA and any successor entity performing similar functions.

"Person": an individual, partnership, corporation, business trust, joint stock company, trust, unincorporated association, joint venture, Governmental Authority or other entity of whatever nature.

"Plan": at a particular time, any employee benefit plan which is covered by ERISA and in respect of which the Company or a Control Group Person is (or, if such plan were terminated at such time, would under Section 4069 of ERISA be deemed to be) an "employer" as defined in Section 3(5) of ERISA.

"Principal Property": means each acute care hospital providing general medical and surgical services (including real property but excluding equipment, personal property and hospitals which primarily provide specialty medical services, such as psychiatric and obstetrical and gynecological services) at least 50% of which is owned by the Company and its Subsidiaries on a consolidated basis and located in the United States of America.

"Purchasing Banks": as defined in subsection 8.6(c).

"Register": as defined in subsection 8.6(d).

"Regulation U": Regulation U of the Board of Governors of the Federal Reserve System.

"Regulation X": Regulation X of the Board of Governors of the Federal Reserve System.

"Reorganization": with respect to any Multiemployer Plan, the condition that such plan is in reorganization within the meaning of such term as used in Section 4241 of ERISA.

“**Reportable Event**”: any of the events set forth in Section 4043(c) of ERISA for which reporting is required under such Section, other than those events as to which the thirty day notice period is waived under subsections .27, .28, .29, .30, .31, .32, .34 or .35 of PBGC Reg. § 4043.

“**Required Banks**”: at any time, the holders of more than 50% of (a) until the Closing Date, the Commitments then in effect and (b) thereafter, the aggregate unpaid principal amount of the Term Loans then outstanding.

“**Requirement of Law**”: as to any Person, the Certificate of Incorporation and By-Laws or other organizational or governing documents of such Person, and any law, treaty, rule or regulation or determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

“**Responsible Officer**”: the chief executive officer, the president, any executive or senior vice president or vice president of the Company, the chief financial officer, treasurer or controller of the Company.

“**S&P**”: Standard & Poor's Ratings Service, or any successor thereto.

“**Sale-and-Leaseback Transaction**”: any arrangement entered into by the Company or any Significant Subsidiary with any person (other than the Company or a Significant Subsidiary), or to which any such person is a party, providing for the leasing to the Company or any Significant Subsidiary for a period of more than three years of any Principal Property which has been or is to be held or transferred by the Company or such Significant Subsidiary to such Person or to any other Person (other than the Company or a Significant Subsidiary), to which funds have been or are to be advanced by such Person on the security of the leased property.

“**Significant Subsidiary**”: at any particular time, any Subsidiary of the Company having total assets of \$50,000,000 or more at that time.

“**Single Employer Plan**”: any Plan which is covered by Title IV of ERISA, but which is not a Multiemployer Plan.

“**SPC**”: as defined in subsection 8.6(h).

“**Subsidiary**”: as to any Person, a corporation, partnership or other entity (i) of which shares of stock or other ownership interests having ordinary voting power (other than stock or such other ownership interests having such power only by reason of the happening of a contingency) to elect a majority of the board of directors or other managers of such corporation, partnership or other entity are at the time owned directly or indirectly through one or more intermediaries, by such Person or (ii) which otherwise is consolidated with the Company for financial statement purposes as determined in accordance with GAAP. Unless otherwise qualified, all references to a “Subsidiary” or to “Subsidiaries” in this Agreement shall refer to a Subsidiary or Subsidiaries of the Company.

“Taxes”: any and all present or future taxes, levies, imposts, duties, deductions, charges or withholdings imposed by any Governmental Authority.

“Temporary Equity”: any amount included on the consolidated balance sheet of the Company and its Subsidiaries at such date as it pertains to (i) the repurchase of the Company’s common stock using derivative financial instruments indexed to, and potentially settled in, the Company’s own stock and (ii) amounts attributed to the consolidation of special purpose vehicle(s) that are created for the sole purpose of engaging in transactions to effect the Company’s repurchase of its own stock.

“Term Commitment”: as to any Bank, the obligation of such Bank, if any, to make a Term Loan to the Company in a principal amount not to exceed the amount set forth under the heading “Term Commitment” opposite such Bank’s name on Schedule I. The original aggregate amount of the Term Commitments is \$400,000,000.

“Term Loan”: as defined in subsection 2.1.

“Term Maturity Date”: the Business Day immediately preceding the first anniversary of the Closing Date.

“Term Percentage”: as to any Bank at any time, the percentage which such Bank’s Term Commitment then constitutes of the aggregate Term Commitments (or, at any time after the Closing Date, the percentage which the aggregate principal amount of such Bank’s Term Loans then outstanding constitutes of the aggregate principal amount of the Term Loans then outstanding).

“Transfer Effective Date”: as defined in each Commitment Transfer Supplement.

“Transferee”: as defined in subsection 8.6(f).

“Type”: as to any Loan, its nature as an Alternate Base Rate Loan or a Eurodollar Loan.

“United States”: the United States of America.

“Voting Stock”: of any corporation, shares of capital stock or other securities of such corporation entitled to vote generally in the election of directors of such corporation.

1.2 Other Definitional Provisions. (a) Unless otherwise specified therein, all terms defined in this Agreement shall have the defined meanings when used in the Notes or any certificate or other document made or delivered pursuant hereto.

(b) As used herein and in the other Loan Documents, and any certificate or other document made or delivered pursuant hereto or thereto, accounting terms relating to the Company and its Subsidiaries not defined in subsection 1.1 and accounting terms partly defined in subsection 1.1, to the extent not defined, shall have the respective meanings given to them under GAAP.

(c) The words “hereof”, “herein” and “hereunder” and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and Section, subsection, Schedule and Exhibit references are to this Agreement unless otherwise specified.

(d) The meanings given to terms defined herein shall be equally applicable to both the singular and plural forms of such terms.

SECTION 2. AMOUNT AND TERMS OF COMMITMENTS

2.1 Term Commitments. Subject to the terms and conditions hereof, (a) each Bank severally agrees to make a term loan (a “Term Loan”) to the Company upon the Borrowing Date in an amount not to exceed the amount of the Term Commitment of such Bank. The Term Loans may from time to time be Eurodollar Loans and/or Alternate Base Rate Loans, as determined by the Company and notified to the Agent in accordance with subsections 2.2 and 2.6.

2.2 Procedure for Term Loan Borrowing. At such time as the Company determines to borrow under this Agreement, the Company shall give the Agent irrevocable notice (which notice must be received by the Agent (i) prior to 12:00 Noon, New York City time, three Business Days prior to the anticipated Borrowing Date, in the case of Eurodollar Loans and (ii) prior to 12:00 Noon, New York City time, on the anticipated Borrowing Date, in the case of Alternate Base Rate Loans) requesting that the Banks make the Term Loans on the Borrowing Date and specifying the amount and Type(s) to be borrowed. Upon receipt of such notice the Agent shall promptly notify each Bank thereof. Not later than 12:00 Noon, New York City time, on the Borrowing Date each Bank shall make available to the Agent at the Funding Office an amount in immediately available funds equal to the Term Loan to be made by such Bank. The Agent shall credit the account of the Company on the books of such office of the Agent with the aggregate of the amounts made available to the Agent by the Banks in immediately available funds.

2.3 Repayment of Term Loans. The Term Loan of each Bank shall mature and be payable in full on the Term Maturity Date.

2.4 Optional Prepayments. The Company may at any time and from time to time prepay the Loans, in whole or in part, without premium or penalty, upon irrevocable notice delivered to the Agent at least three Business Days prior thereto in the case of Eurodollar Loans and at least one Business Day prior thereto in the case of Alternate Base Rate Loans, which notice shall specify the date and amount of prepayment and whether the prepayment is of Eurodollar Loans or Alternate Base Rate Loans or a combination thereof; provided, that if a Eurodollar Loan is prepaid on any day other than the last day of the Interest Period applicable thereto, the Company shall also pay any amounts owing pursuant to subsection 2.14. Upon receipt of any such notice the Agent shall promptly notify each relevant Bank thereof. If any such notice is given, the amount specified in such notice shall be due and payable on the date specified therein, together with accrued interest to such date on the amount prepaid. Partial

prepayments of Term Loans shall be in an aggregate principal amount of \$5,000,000 or a whole multiple of \$1,000,000 in excess thereof.

2.5 Mandatory Prepayments. (a) Not later than 10 Business Days after the Company shall receive Net Cash Proceeds from any issuance of debt or equity securities in a financing transaction in the capital markets in an amount of not less than \$100,000,000, the Company shall apply 100% of the Net Cash Proceeds received with respect thereto to prepay outstanding Term Loans in accordance with subsection 2.5(c).

(b) Not later than 20 Business Days following the consummation, by the Company or any of its Subsidiaries, of any Asset Sale yielding Net Cash Proceeds to the Company or any such Subsidiary in an aggregate amount of not less than \$50,000,000, the Company shall apply 100% of the Net Cash Proceeds received with respect thereto to prepay outstanding Term Loans in accordance with subsection 2.5(c).

(c) The Company shall give the Agent (which shall promptly notify each Bank) at least three Business Days' prior notice in the case of Eurodollar Loans and at least one Business Day prior notice in the case of Alternate Base Rate Loans or, telephone notice promptly confirmed in writing of each prepayment in whole or in part pursuant to this subsection 2.5 setting forth the date and amount thereof; provided, that if a Eurodollar Loan is prepaid on any day other than the last day of the Interest Period applicable thereto, the Company shall also pay any amounts owing pursuant to subsection 2.14. Accrued and unpaid interest on the amount of any principal of the Term Loans prepaid under this subsection 2.5 shall be paid to and on the date of such prepayment.

2.6 Conversion and Continuation Options. (a) The Company may elect from time to time to convert all or any part of outstanding Eurodollar Loans to Alternate Base Rate Loans by giving the Agent at least two Business Days' prior irrevocable notice of such election, provided that any such conversion of Eurodollar Loans may only be made on the last day of an Interest Period with respect thereto. The Company may elect from time to time to convert all or any part of outstanding Alternate Base Rate Loans to Eurodollar Loans by giving the Agent at least three Business Days' prior irrevocable notice of such election (which notice shall specify the length of the initial Interest Period therefor), provided that no Alternate Base Rate Loan may be converted into a Eurodollar Loan when any Event of Default has occurred and is continuing and the Agent or the Required Banks have determined in its or their sole discretion not to permit such conversions. Upon receipt of any such notice the Agent shall promptly notify each relevant Bank thereof.

(b) All or any portion of any Eurodollar Loan may be continued as such upon the expiration of the then current Interest Period with respect thereto by the Company giving irrevocable notice to the Agent, in accordance with the applicable provisions of the term "Interest Period" set forth in subsection 1.1, of the length of the next Interest Period to be applicable to such Loans, provided that no Eurodollar Loan may be continued as such when any Event of Default has occurred and is continuing and the Agent has or the Required Banks have determined in its or their sole discretion not to permit such continuations, and provided, further, that if the Company shall fail to give any required notice as described above in this paragraph or if such continuation is not permitted pursuant to the preceding proviso such Loans shall be

automatically converted to Alternate Base Rate Loans on the last day of such then expiring Interest Period. Upon receipt of any such notice the Agent shall promptly notify each relevant Bank thereof.

2.7 Limitations on Eurodollar Tranches. Notwithstanding anything to the contrary in this Agreement, all borrowings, conversions and continuations of Eurodollar Loans under the Facility and all selections of Interest Periods shall be in such amounts and be made pursuant to such elections so that, (a) after giving effect thereto, the aggregate principal amount of the Eurodollar Loans comprising each Eurodollar Tranche shall be equal to \$10,000,000 or a whole multiple of \$1,000,000 in excess thereof and (b) no more than 5 Eurodollar Tranches shall be outstanding at any one time.

2.8 Interest Rates and Payment Dates. (a) Each Eurodollar Loan shall bear interest for each day during each Interest Period with respect thereto at a rate per annum equal to the Eurodollar Rate determined for such day plus the Applicable Margin.

(b) Each Alternate Base Rate Loan shall bear interest at a rate per annum equal to the Alternate Base Rate plus the Applicable Margin.

(c) (i) If all or a portion of the principal amount of any Loan shall not be paid when due (whether at the stated maturity, by acceleration or otherwise), such overdue amount shall bear interest at a rate per annum equal to the rate that would otherwise be applicable thereto pursuant to the foregoing provisions of this subsection plus 2%, and (ii) if all or a portion of any interest payable on any Loan or other amount payable hereunder shall not be paid when due (whether at the stated maturity, by acceleration or otherwise), such overdue amount shall bear interest at a rate per annum equal to the rate then applicable to Alternate Base Rate Loans plus 2%, in each case, with respect to clauses (i) and (ii) above, from the date of such non-payment until such amount is paid in full (as well after as before judgment).

(d) Interest shall be payable in arrears on each Interest Payment Date, provided that interest accruing pursuant to paragraph (c) of this subsection shall be payable from time to time on demand.

2.9 Computation of Interest and Fees. (a) Interest and fees payable pursuant hereto shall be calculated on the basis of a 360-day year for the actual days elapsed, except that, with respect to Alternate Base Rate Loans the rate of interest on which is calculated on the basis of the Prime Rate, the interest thereon shall be calculated on the basis of a 365- (or 366-, as the case may be) day year for the actual days elapsed. The Agent shall as soon as practicable notify the Company and the relevant Banks of each determination of a Eurodollar Rate. Any change in the interest rate on a Loan resulting from a change in the Alternate Base Rate or the Eurocurrency Reserve Requirements shall become effective as of the opening of business on the day on which such change becomes effective. The Agent shall as soon as practicable notify the Company and the relevant Banks of the effective date and the amount of each such change in interest rate.

(b) Each determination of an interest rate by the Agent pursuant to any provision of this Agreement shall be conclusive and binding on the Company and the Banks in the absence

of manifest error. The Agent shall, at the request of the Company, deliver to the Company a statement showing the quotations used by the Agent in determining any interest rate pursuant to subsection 2.8(a).

2.10 Inability to Determine Interest Rate. If prior to the first day of any Interest Period:

(a) the Agent shall have determined (which determination shall be conclusive and binding upon the Company) that, by reason of circumstances affecting the relevant market, adequate and reasonable means do not exist for ascertaining the Eurodollar Rate for such Interest Period, or

(b) the Agent shall have received notice from the Required Banks that the Eurodollar Rate determined or to be determined for such Interest Period will not adequately and fairly reflect the cost to such Banks (as conclusively certified by such Banks) of making or maintaining their affected Loans during such Interest Period,

the Agent shall give telecopy or telephonic notice thereof to the Company and the relevant Banks as soon as practicable thereafter. If such notice is given (x) any Eurodollar Loans under the Facility requested to be made on the first day of such Interest Period shall be made as Alternate Base Rate Loans, (y) any Loans that were to have been converted on the first day of such Interest Period to Eurodollar Loans shall be continued as Alternate Base Rate Loans and (z) any outstanding Eurodollar Loans shall be converted, on the last day of the corresponding Interest Period(s), to Alternate Base Rate Loans. Until such notice has been withdrawn by the Agent, no further Eurodollar Loans shall be made or continued as such, nor shall the Company have the right to convert Loans to Eurodollar Loans.

2.11 Pro Rata Treatment and Payments. (a) Each borrowing by the Company from the Banks hereunder, each payment by the Company on account of any commitment fee and any reduction of the Commitments of the Banks shall be made pro rata according to the respective Term Percentages of the relevant Banks.

(b) Each payment (including each prepayment) by the Company on account of principal of and interest on the Term Loans shall be made pro rata according to the respective outstanding principal amounts of the Term Loans then held by the Banks. Amounts prepaid on account of the Term Loans may not be reborrowed.

(c) All payments (including prepayments) to be made by the Company hereunder, whether on account of principal, interest, fees or otherwise, shall be made without setoff or counterclaim and shall be made prior to 1:00 P.M., New York City time, on the due date thereof to the Agent, for the account of the Banks, at the Agent's office set forth in subsection 8.2, in Dollars and in immediately available funds. The Agent shall distribute such payments to the Banks promptly upon receipt in like funds as received. If any payment hereunder (other than payments on the Eurodollar Loans) becomes due and payable on a day other than a Business Day, such payment shall be extended to the next succeeding Business Day. If any payment on a Eurodollar Loan becomes due and payable on a day other than a Business Day, the maturity thereof shall be extended to the next succeeding Business Day unless the result of such extension

would be to extend such payment into another calendar month, in which event such payment shall be made on the immediately preceding Business Day. In the case of any extension of any payment of principal pursuant to the preceding two sentences, interest thereon shall be payable at the then applicable rate during such extension.

(d) Unless the Agent shall have been notified in writing by any Bank prior to a borrowing that such Bank will not make the amount that would constitute its share of such borrowing available to the Agent, the Agent may assume that such Bank is making such amount available to the Agent, and the Agent may, in reliance upon such assumption, make available to the Company a corresponding amount. If such amount is not made available to the Agent by the required time on the Borrowing Date therefor, such Bank shall pay to the Agent, on demand, such amount with interest thereon at a rate equal to the daily average Federal Funds Effective Rate for the period until such Bank makes such amount immediately available to the Agent. A certificate of the Agent submitted to any Bank with respect to any amounts owing under this paragraph shall be conclusive in the absence of manifest error. If such Bank's share of such borrowing is not made available to the Agent by such Bank within three Business Days after such Borrowing Date, the Agent shall also be entitled to recover such amount with interest thereon at the rate per annum applicable to Alternate Base Rate Loans under the Facility, on demand, from the Company.

(e) Unless the Agent shall have been notified in writing by the Company prior to the date of any payment due to be made by the Company hereunder that the Company will not make such payment to the Agent, the Agent may assume that the Company is making such payment, and the Agent may, but shall not be required to, in reliance upon such assumption, make available to the Banks their respective pro rata shares of a corresponding amount. If such payment is not made to the Agent by the Company within three Business Days after such due date, the Agent shall be entitled to recover, on demand, from each Bank to which any amount which was made available pursuant to the preceding sentence, such amount with interest thereon at the rate per annum equal to the daily average Federal Funds Effective Rate. Nothing herein shall be deemed to limit the rights of the Agent or any Bank against the Company.

2.12 Requirements of Law. (a) If the adoption of or any change in any Requirement of Law or in the interpretation or application thereof after the date hereof or compliance by any Bank with any request or directive (whether or not having the force of law) from any central bank or other Governmental Authority made subsequent to the date hereof:

(i) shall subject any Bank to any tax of any kind whatsoever with respect to this Agreement or any Eurodollar Loan made by it, or change the basis of taxation of payments to such Bank in respect thereof (except for Non-Excluded Taxes covered by subsection 2.13 and changes in the rate of tax on the overall net income of such Bank);

(ii) shall impose, modify or hold applicable any reserve, special deposit, compulsory loan or similar requirement against assets held by, deposits or other liabilities in or for the account of, advances, loans or other extensions of credit by, or any other acquisition of funds by, any office of such Bank that is not otherwise included in the determination of the Eurodollar Rate; or

(iii) shall impose on such Bank any other condition;

and the result of any of the foregoing is to increase the cost to such Bank, by an amount that such Bank deems to be material, of making, converting into, continuing or maintaining Eurodollar Loans or to reduce any amount receivable hereunder in respect thereof, then, in any such case, the Company shall promptly pay such Bank, upon its demand, any additional amounts necessary to compensate such Bank for such increased cost or reduced amount receivable. If any Bank becomes entitled to claim any additional amounts pursuant to this paragraph, it shall, within 90 days after it becomes aware of such fact, notify the Company (with a copy to the Agent) of the event by reason of which it has become so entitled.

(b) If any Bank shall have determined that the adoption of or any change in any Requirement of Law regarding capital adequacy or in the interpretation or application thereof after the date hereof or compliance by such Bank or any corporation controlling such Bank with any request or directive regarding capital adequacy (whether or not having the force of law) from any Governmental Authority made subsequent to the date hereof shall have the effect of reducing the rate of return on such Bank's or such corporation's capital as a consequence of its obligations hereunder to a level below that which such Bank or such corporation could have achieved but for such adoption, change or compliance (taking into consideration such Bank's or such corporation's policies with respect to capital adequacy) by an amount deemed by such Bank to be material, then from time to time, after submission by such Bank to the Company (with a copy to the Agent) of a written request therefor (such request shall include details reasonably sufficient to establish the basis for such additional costs and shall be submitted to the Company within 30 Business Days after it becomes aware of such fact), the Company shall pay to such Bank such additional amount or amounts as will compensate such Bank or such corporation for such reduction; provided that the Company shall not be required to compensate a Bank pursuant to this paragraph for any amounts incurred more than 90 days prior to the date that such Bank notifies the Company of such Bank's intention to claim compensation therefor; and provided further that, if the circumstances giving rise to such claim have a retroactive effect, then such 90 day period shall be extended to include the period of such retroactive effect.

(c) A certificate as to any additional amounts payable pursuant to this subsection submitted by any Bank to the Company (with a copy to the Agent) shall be conclusive in the absence of manifest error. The obligations of the Company pursuant to this subsection shall survive the termination of this Agreement and the payment of the Loans and all other amounts payable hereunder.

2.13 Taxes. (a) All payments made by the Company under this Agreement shall be made free and clear of, and without deduction or withholding for or on account of, any present or future income, stamp or other taxes, levies, imposts, duties, charges, fees, deductions or withholdings, now or hereafter imposed, levied, collected, withheld or assessed by any Governmental Authority, excluding net income taxes, franchise taxes and excise taxes (imposed in lieu of net income taxes) imposed on the Agent or any Bank as a result of a present or former connection between the Agent or such Bank and the jurisdiction of the Governmental Authority imposing such tax or any political subdivision or taxing authority thereof or therein (other than any such connection arising solely from the Agent or such Bank having executed, delivered or performed its obligations or received a payment under, or enforced, this Agreement or any other

Loan Document). If any such non-excluded taxes, levies, imposts, duties, charges, fees, deductions or withholdings (“Non-Excluded Taxes”) or Other Taxes are required to be withheld from any amounts payable to the Agent or any Bank hereunder, the amounts so payable to the Agent or such Bank shall be increased to the extent necessary to yield to the Agent or such Bank (after payment of all Non-Excluded Taxes and Other Taxes) interest or any such other amounts payable hereunder at the rates or in the amounts specified in this Agreement, provided, however, that the Company shall not be required to increase any such amounts payable to any Bank with respect to any Non-Excluded Taxes (i) that are attributable to such Bank’s failure to comply with the requirements of paragraph (d) or (e) of this subsection or (ii) that are United States withholding taxes imposed on amounts payable to such Bank at the time such Bank becomes a party to this Agreement, except to the extent that such Bank’s assignor (if any) was entitled, at the time of assignment, to receive additional amounts from the Company with respect to such Non-Excluded Taxes pursuant to this paragraph.

(b) In addition, the Company shall pay any Other Taxes to the relevant Governmental Authority in accordance with applicable law.

(c) Whenever any Non-Excluded Taxes or Other Taxes are payable by the Company, as promptly as possible thereafter the Company shall send to the Agent for its own account or for the account of the relevant Bank, as the case may be, a certified copy of an original official receipt received by the Company showing payment thereof. If the Company fails to pay any Non-Excluded Taxes or Other Taxes when due to the appropriate taxing authority or fails to remit to the Agent the required receipts or other required documentary evidence, the Company shall indemnify the Agent and the Banks for any incremental taxes, interest or penalties that may become payable by the Agent or any Bank as a result of any such failure.

(d) Each Bank (or Transferee) that is not a “U.S. Person” as defined in Section 7701(a)(30) of the Code (a “Non-U.S. Bank”) shall deliver to the Company and the Agent (or, in the case of a Participant, to the Bank from which the related participation shall have been purchased) two copies of either U.S. Internal Revenue Service Form W-8BEN or Form W-8ECI, or, in the case of a Non-U.S. Bank claiming exemption from U.S. federal withholding tax under Section 871(h) or 881(c) of the Code with respect to payments of “portfolio interest”, a statement substantially in the form of Exhibit C and a Form W-8BEN, or any subsequent versions thereof or successors thereto, properly completed and duly executed by such Non-U.S. Bank claiming complete exemption from, or a reduced rate of, U.S. federal withholding tax on all payments by the Company under this Agreement and the other Loan Documents. Such forms shall be delivered by each Non-U.S. Bank on or before the date it becomes a party to this Agreement (or, in the case of any Participant, on or before the date such Participant purchases the related participation). In addition, each Non-U.S. Bank shall deliver such forms promptly upon the obsolescence or invalidity of any form previously delivered by such Non-U.S. Bank. Each Non-U.S. Bank shall promptly notify the Company at any time it determines that it is no longer in a position to provide any previously delivered certificate to the Company (or any other form of certification adopted by the U.S. taxing authorities for such purpose). Notwithstanding any other provision of this paragraph, a Non-U.S. Bank shall not be required to deliver any form pursuant to this paragraph that such Non-U.S. Bank is not legally able to deliver.

(e) A Bank that is entitled to an exemption from or reduction of non-U.S. withholding tax under the law of the jurisdiction in which the Company is located, or any treaty to which such jurisdiction is a party, with respect to payments under this Agreement shall deliver to the Company (with a copy to the Agent), at the time or times prescribed by applicable law or reasonably requested by the Company, such properly completed and executed documentation prescribed by applicable law as will permit such payments to be made without withholding or at a reduced rate, provided that such Bank is legally entitled to complete, execute and deliver such documentation and in such Bank's judgment such completion, execution or submission would not materially prejudice the legal position of such Bank.

(f) The agreements in this subsection shall survive the termination of this Agreement and the payment of the Loans and all other amounts payable hereunder.

2.14 Indemnity. The Company agrees to indemnify each Bank for, and to hold each Bank harmless from, any loss (excluding the Applicable Margin, if included therein) or expense that such Bank may sustain or incur as a consequence of (a) default by the Company in making a borrowing of, conversion into or continuation of Eurodollar Loans after the Company has given a notice requesting the same in accordance with the provisions of this Agreement, (b) default by the Company in making any prepayment of or conversion from Eurodollar Loans after the Company has given a notice thereof in accordance with the provisions of this Agreement or (c) the making of a prepayment of Eurodollar Loans on a day that is not the last day of an Interest Period with respect thereto. Such indemnification may include an amount equal to the excess, if any, of (i) the amount of interest that would have accrued on the amount so prepaid, or not so borrowed, converted or continued, for the period from the date of such prepayment or of such failure to borrow, convert or continue to the last day of such Interest Period (or, in the case of a failure to borrow, convert or continue, the Interest Period that would have commenced on the date of such failure) in each case at the applicable rate of interest for such Loans provided for herein (excluding, however, the Applicable Margin included therein, if any) over (ii) the amount of interest (as reasonably determined by such Bank) that would have accrued to such Bank on such amount by placing such amount on deposit for a comparable period with leading banks in the interbank eurodollar market. A certificate as to any amounts payable pursuant to this subsection 2.14, together with calculations in reasonable detail, submitted to the Company by any Bank shall be conclusive in the absence of manifest error. This covenant shall survive the termination of this Agreement and the payment of the Loans and all other amounts payable hereunder.

2.15 Change of Lending Office. Each Bank agrees that, upon the occurrence of any event giving rise to the operation of subsection 2.12 or 2.13(a) with respect to such Bank, it will, if requested by the Company, use reasonable efforts (subject to overall policy considerations of such Bank) to designate another lending office for any Loans affected by such event with the object of avoiding the consequences of such event; provided, that such designation is made on terms that, in the sole judgment of such Bank, cause such Bank and its lending office(s) to suffer no economic, legal or regulatory disadvantage, and provided, further, that nothing in this subsection shall affect or postpone any of the obligations of the Company or the rights of any Bank pursuant to subsection 2.12 or 2.13(a).

2.16 Replacement of Banks. The Company shall be permitted to replace any Bank that (a) requests reimbursement for amounts owing pursuant to subsection 2.12 or 2.13(a) or (b) defaults in its obligation to make Loans hereunder, with a replacement financial institution; provided that (i) such replacement does not conflict with any Requirement of Law, (ii) prior to any such replacement, such Bank shall have taken no action under subsection 2.15 so as to eliminate the continued need for payment of amounts owing pursuant to subsection 2.12 or 2.13(a), (iii) the replacement financial institution shall purchase, at par, all Loans (and any Notes evidencing such Loans) and other amounts owing to such replaced Bank on or prior to the date of replacement (which amounts shall include such replaced Bank's share of accrued fees and accrued interest), (iv) the Company shall be liable to such replaced Bank under subsection 2.14 if any Eurodollar Loan owing to such replaced Bank shall be purchased other than on the last day of the Interest Period relating thereto, (v) the replacement financial institution, if not already a Bank, shall be reasonably satisfactory to the Agent, (vi) the replaced Bank shall be obligated to make such replacement in accordance with the provisions of subsection 8.6 (provided that the Company shall be obligated to pay the registration and processing fee referred to therein), (vii) until such time as such replacement shall be consummated, the Company shall pay all additional amounts (if any) required pursuant to subsection 2.12 or 2.13(a), as the case may be, and (viii) any such replacement shall not be deemed to be a waiver of any rights that the Company, the Agent or any other Bank shall have against the replaced Bank.

SECTION 3. REPRESENTATIONS AND WARRANTIES

The Company represents and warrants to the Banks that:

3.1 Corporate Organization and Existence. Each of the Company and each Significant Subsidiary is a corporation, partnership or other entity duly organized and validly existing and in good standing under the laws of the jurisdiction in which it is organized (except, in the case of Subsidiaries, where the failure to be in good standing would not be material to the Company and its Subsidiaries on a consolidated basis) and has all necessary power to carry on the business now conducted by it. The Company has all necessary corporate power and has taken all corporate action required to make all the provisions of this Agreement and the Notes and all other agreements and instruments executed in connection herewith and therewith, the valid and enforceable obligations they purport to be. Each of the Company and each Subsidiary is duly qualified and in good standing in all jurisdictions other than that of its organization in which the physical properties owned, leased or operated by it are located (except, in the case of Subsidiaries, where the failure to be in good standing would not be material to the Company and its Subsidiaries on a consolidated basis), and is duly authorized, qualified and licensed under all laws, regulations, ordinances or orders of Governmental Authorities, or otherwise, to carry on its business in the places and in the manner presently conducted (except where such failure would not be material to the Company and its Subsidiaries on a consolidated basis).

3.2 Subsidiaries. As of the date hereof, the Company has only the Subsidiaries set forth in Schedule II. The capital stock and securities owned by the Company and its Subsidiaries in each of the Company's Subsidiaries are owned free and clear of any mortgage, pledge, lien, encumbrance, charge or restriction on

the transfer thereof other than restrictions on transfer imposed by applicable securities laws and restrictions, liens and encumbrances outstanding on the date hereof and listed in said Schedule II.

3.3 Financial Information. The Company has furnished to the Agent and made available to each Bank copies of the following (the “SEC Reports”):

- (a) the Annual Report to Stockholders of the Company for the fiscal year ended December 31, 2005, containing the consolidated balance sheet of the Company and its Subsidiaries as at said date and the related consolidated statements of income, stockholders’ equity and cash flows for the fiscal year then ended, accompanied by the report of Ernst & Young LLP;
- (b) the Annual Report of the Company on Form 10-K for the fiscal year ended December 31, 2005;
- (c) the Quarterly Report of the Company on Form 10-Q for the fiscal quarter ended March 31, 2006; and
- (d) Current Reports on Form 8-K filed with the Securities and Exchange Commission dated January 13, 2006, February 1, 2006, February 7, 2006, February 8, 2006, April 17, 2006 and April 25, 2006, respectively.

The financial statements included in the reports identified in the preceding paragraphs (a) through (c) (including any notes thereto) were prepared in accordance with GAAP (except that financial statements for interim periods were prepared in accordance with GAAP for interim financial information) and fairly present the financial condition of the corporations covered thereby at the dates thereof and the results of their operations for the periods covered thereby. As of the date hereof and except as disclosed in the above-referenced reports, neither the Company nor any of its Subsidiaries has any known contingent liabilities of any significant amount which are not referred to in said financial statements or in the notes thereto which could reasonably be expected to have a material adverse effect on the business or assets or on the condition, financial or otherwise, of the Company and its Subsidiaries, on a consolidated basis.

3.4 Changes in Condition. Since December 31, 2005 there has been no material adverse change in the business or assets or in the condition, financial or otherwise, of the Company and its Subsidiaries, on a consolidated basis.

3.5 Assets. The Company and each Subsidiary have good and marketable title to all material assets carried on their books and reflected in the most recent balance sheet referred to in subsection 3.3 or furnished pursuant to subsection 5.5, except for assets held on Financing Leases or purchased subject to security devices providing for retention of title in the vendor, and except for assets disposed of as permitted by this Agreement.

3.6 Litigation. Except as disclosed in the Company’s SEC Reports, and except as set forth on Schedule V hereto, there is no litigation, at law or in equity, or any proceeding before any federal, state, provincial or municipal board or other governmental or administrative agency pending or to the knowledge of the Company threatened which, after giving effect to any applicable insurance, could reasonably be expected to have a material adverse effect on the

business or assets or on the condition, financial or otherwise, of the Company and its Subsidiaries on a consolidated basis or which seeks to enjoin the consummation of any of the transactions contemplated by this Agreement or any other Loan Document and involves any material risk that any such injunction will be issued, and no judgment, decree, or order of any federal, state, provincial or municipal court, board or other governmental or administrative agency has been issued against the Company or any Subsidiary which could reasonably be expected to have a material adverse effect on the business or assets or on the condition, financial or otherwise, of the Company and its Subsidiaries on a consolidated basis. With respect to the matters disclosed in the Company's SEC Reports, and the matters set forth on Schedule V hereto, since the date of such disclosures there has been no development which is material and adverse to the business or assets or to the condition, financial or otherwise, of the Company and its Subsidiaries on a consolidated basis.

3.7 Tax Returns. The Company and each of its Subsidiaries have filed all material tax returns which are required to be filed and have paid, or made adequate provision for the payment of, all material taxes which have or may become due pursuant to said returns or to assessments received. The Company knows of no material additional assessments for which adequate reserves have not been established.

3.8 Contracts, etc. Attached hereto as Schedule III is a statement of outstanding Indebtedness of the Company and its Subsidiaries for borrowed money as of the date set forth therein and a complete and correct list of all agreements, contracts, indentures, instruments, documents and amendments thereto to which the Company or any Subsidiary is a party or by which it is bound pursuant to which any such Indebtedness of the Company and its Subsidiaries in excess of \$25,000,000 is outstanding on the date hereof. Said Schedule III also includes a complete and correct list of all such Indebtedness of the Company and its Subsidiaries outstanding on the date indicated in respect of Guarantee Obligations in excess of \$1,000,000 and letters of credit in excess of \$1,000,000, and there have been no increases in such Indebtedness since said date other than as permitted by this Agreement.

3.9 No Legal Obstacle to Agreement. Neither the execution and delivery of this Agreement or of any Notes, nor the making by the Company of any borrowings hereunder, nor the consummation of any transaction herein or therein referred to or contemplated hereby or thereby nor the fulfillment of the terms hereof or thereof or of any agreement or instrument referred to in this Agreement, has constituted or resulted in or will constitute or result in a breach of the provisions of any contract to which the Company or any of its Subsidiaries is a party or by which it is bound or of the certificate of incorporation or by-laws of the Company, or the violation of any law, judgment, decree or governmental order, rule or regulation applicable to the Company or any of its Subsidiaries, or result in the creation under any agreement or instrument of any security interest, lien, charge or encumbrance upon any of the assets of the Company or any of its Subsidiaries. Other than those which have already been obtained, no approval, authorization or other action by any governmental authority or any other Person is required to be obtained by the Company or any of its Subsidiaries in connection with the execution, delivery and performance of this Agreement or the transactions contemplated hereby, or the making of any borrowing by the Company hereunder.

3.10 Defaults. Neither the Company nor any Significant Subsidiary is in default under any provision of its certificate of incorporation, articles of incorporation, charter or by-laws or, so as to affect adversely in any material manner the business or assets or the condition, financial or otherwise, of the Company and its Subsidiaries on a consolidated basis, under any provision of any agreement, lease or other instrument to which it is a party or by which it is bound or of any Requirement of Law.

3.11 Burdensome Obligations. Neither the Company nor any Subsidiary is a party to or bound by any agreement, deed, lease or other instrument, or subject to any charter, by-law or other corporate restriction which, in the opinion of the management thereof, is so unusual or burdensome as to in the foreseeable future have a material adverse effect on the business or assets or condition, financial or otherwise, of the Company and its Subsidiaries on a consolidated basis. The Company does not presently anticipate that future expenditures of the Company and its Subsidiaries needed to meet the provisions of any federal or state statutes, orders, rules or regulations will be so burdensome as to have a material adverse effect on the business or assets or condition, financial or otherwise, of the Company and its Subsidiaries on a consolidated basis.

3.12 Pension Plans. Each Plan maintained by the Company, any Subsidiary or any Control Group Person or to which any of them makes or will make contributions is in material compliance with the applicable provisions of ERISA and the Code. The Company and its Subsidiaries have met all of the funding standards applicable to all Plans, and there exists no event or condition which would permit the institution of proceedings to terminate any Plan that is not a Multiemployer Plan. The aggregate vested liabilities (using Plan funding assumptions) under the Plans that are subject to Title IV of ERISA and that are not Multiemployer Plans do not exceed the aggregate value of such Plans' assets by more than \$50,000,000.

3.13 Disclosure. No statement or information contained in this Agreement, any other Loan Document, the Confidential Information Memorandum or any other document, certificate or written statement furnished by or on behalf of the Company to the Agent or the Banks, or any of them, for use in connection with the transactions contemplated by this Agreement or the other Loan Documents, contained as of the date such statement, information, document or certificate was so furnished (or, in the case of the Confidential Information Memorandum, as of the date of this Agreement), any untrue statement of a material fact or omitted to state a material fact necessary to make the statements contained herein or therein not misleading. The projections and pro forma financial information contained in the materials referenced above are based upon good faith estimates and assumptions believed by management of the Company to be reasonable at the time made, it being recognized by the Banks that such financial information as it relates to future events is not to be viewed as fact and that actual results during the period or periods covered by such financial information may differ from the projected results set forth therein by a material amount.

3.14 Environmental and Public and Employee Health and Safety Matters. The Company and each Subsidiary has complied with all applicable Federal, state, and other laws, rules and regulations relating to environmental pollution or to environmental regulation or control or to public or employee health or safety, except to the extent that the failure to so comply would not be reasonably likely to result in a material adverse effect on the business or

assets or on the condition, financial or otherwise, of the Company and its Subsidiaries on a consolidated basis. The Company's and the Subsidiaries' facilities do not contain, and have not previously contained, any hazardous wastes, hazardous substances, hazardous materials, toxic substances or toxic pollutants regulated under the Resource Conservation and Recovery Act, the Comprehensive Environmental Response Compensation and Liability Act, the Hazardous Materials Transportation Act, the Toxic Substance Control Act, the Clean Air Act, the Clean Water Act or any other applicable law relating to environmental pollution or public or employee health and safety, in violation of any such law, or any rules or regulations promulgated pursuant thereto, except for violations that would not be reasonably likely to result in a material adverse effect on the business or assets or on the condition, financial or otherwise, of the Company and its Subsidiaries on a consolidated basis. The Company is aware of no events, conditions or circumstances involving environmental pollution or contamination or public or employee health or safety, in each case applicable to it or its Subsidiaries, that would be reasonably likely to result in a material adverse effect on the business or assets or on the condition, financial or otherwise, of the Company and its Subsidiaries on a consolidated basis.

3.15 Federal Regulations. No part of the proceeds of any Loans will be used for "purchasing" or "carrying" any "margin stock" within the respective meanings of each of the quoted terms under Regulation U as now and from time to time hereafter in effect (except in a manner which is not in violation of Regulation U or X) or for any purpose which violates the provisions of the Regulations of the Board of Governors of the Federal Reserve System. If requested by any Bank or the Agent, the Company will furnish to the Agent and each Bank a statement to the foregoing effect in conformity with the requirements of FR Form U-1 referred to in said Regulation U.

3.16 Investment Company Act; Other Regulations. The Company is not an "investment company", or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended. The Company is not subject to regulation under any Federal or State statute or regulation which limits its ability to incur Indebtedness.

SECTION 4. CONDITIONS

The obligations of each Bank to make any Loan contemplated hereunder shall be subject to the compliance by the Company with its agreements herein contained and to the satisfaction on or before the Closing Date and each Borrowing Date of such of the following further conditions as are applicable on the Closing Date or such Borrowing Date, as the case may be:

4.1 Loan Documents. The Agent shall have received (i) this Agreement, executed and delivered by a duly authorized officer of the Company, with a counterpart for each Bank, and (ii) for the account of each Bank, if requested by such Bank, a Note conforming to the requirements hereof and executed by a duly authorized officer of the Company.

4.2 Legal Opinions. On the Closing Date, each Bank shall have received from any general, associate, or assistant general counsel or Vice President-Legal to the Company, such

opinions as the Agent shall have reasonably requested with respect to the transactions contemplated by this Agreement.

4.3 Company Officers' Certificate. The representations and warranties contained in Section 3 (as qualified by the disclosures in (i) the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 2005, (ii) the Company's Quarterly Report on Form 10-Q for its fiscal quarter ended March 31, 2006, (iii) the Company's Reports on Form 8-K dated January 13, 2006, February 1, 2006, February 7, 2006, February 8, 2006, April 17, 2006 and April 25, 2006, respectively, in the case of each of the items referred to in clauses (i), (ii) and (iii), as filed with the Securities and Exchange Commission and previously distributed to the Agent and made available to each Bank and (iv) Schedule V attached hereto) shall be true and correct in all material respects on the Closing Date and on and as of each Borrowing Date with the same force and effect as though made on and as of such date (except for representations and warranties made as of a specified date, which shall be true and correct as of such dates); no Default shall have occurred (except a Default which shall have been waived in writing or which shall have been cured) and no Default shall exist after giving effect to the Loan to be made, and the Agent shall have received a certificate containing a representation to these effects dated such Borrowing Date and signed by a Responsible Officer.

4.4 Legality, etc. The making of the Loan to be made by such Bank on each Borrowing Date shall not subject such Bank to any penalty or special tax, shall not be prohibited by any Requirement of Law applicable to such Bank or the Company, and all necessary consents, approvals and authorizations of any Governmental Authority or any Person to or of any such Loan shall have been obtained and shall be in full force and effect.

4.5 General. On the Closing Date, all instruments and legal and corporate proceedings in connection with the Loans contemplated by this Agreement shall be satisfactory in form and substance to the Agent, and the Agent shall have received copies of all documents, and favorable legal opinions and records of corporate proceedings, which the Agent may have reasonably requested in connection with the Loans and other transactions contemplated by this Agreement.

4.6 Fees. On or prior to the Borrowing Date, the Agent shall have received the fees required to be paid pursuant to the Fee Letter, dated May 25, 2006.

4.7 Rating. On the Closing Date, the Company shall have long-term unsecured debt ratings from S&P and Moody's of at least BB+ and Ba2, respectively (in each case, with a stable outlook).

SECTION 5. GENERAL COVENANTS

On and after the date hereof, until all of the Loans and all other amounts payable pursuant hereto shall have been paid in full and so long as the Commitments shall remain in effect, the Company covenants that the Company will comply, and will cause each of its Subsidiaries to comply, with such of the provisions of this Section 5 and such other provisions of this Agreement as are applicable to the Person in question.

5.1 Taxes, Indebtedness, etc. (a) Each of the Company and its Subsidiaries will duly pay and discharge, or cause to be paid and discharged, before the same shall become in arrears, all material taxes, assessments, levies and other governmental charges imposed upon such corporation and its properties, sales and activities, or any part thereof, or upon the income or profits therefrom; provided, however, that any such tax, assessment, charge or levy need not be paid if the validity or amount thereof shall currently be contested in good faith by appropriate proceedings and if the Company or the Subsidiary in question shall have set aside on its books adequate reserves with respect thereto.

(b) Each of the Company and its Subsidiaries will promptly pay when due, or in conformance with customary trade terms, all other Indebtedness and liabilities incident to its operations; provided, however, that any such Indebtedness or liability need not be paid if the validity or amount thereof shall currently be contested in good faith and if the Company or the Subsidiary in question shall have set aside on its books appropriate reserves with respect thereto.

(c) The Subsidiaries will not create, incur, assume or suffer to exist any Indebtedness, except: (i) Indebtedness outstanding on the date hereof and listed on Schedule III; (ii) Indebtedness that is owing to the Company or any other Subsidiary; (iii) Indebtedness incurred pursuant to an accounts receivable program; and (iv) additional Indebtedness at any time outstanding in an aggregate principal amount not to exceed 10% of Consolidated Assets.

5.2 Maintenance of Properties; Compliance with Law. Each of the Company and its Subsidiaries (a) will keep its material properties in good repair, working order and condition and will from time to time make all necessary and proper repairs, renewals, replacements, additions and improvements thereto and will comply at all times with the provisions of all material leases and other material agreements to which it is a party so as to prevent any loss or forfeiture thereof or thereunder unless compliance therewith is being currently contested in good faith by appropriate proceedings and (b) in the case of the Company or any Subsidiary of the Company while such Person remains a Subsidiary, will do all things necessary to preserve, renew and keep in full force and effect and in good standing its corporate existence and franchises necessary to continue such businesses. The Company and its Subsidiaries will comply in all material respects with all valid and applicable Requirements of Law (including any such laws, rules, regulations or governmental orders relating to the protection of environmental or public or employee health or safety) of the United States, of the States thereof and their counties, municipalities and other subdivisions and of any other jurisdiction, applicable to the Company and its Subsidiaries, except where compliance therewith shall be contested in good faith by appropriate proceedings, the Company or the Subsidiary in question shall have set aside on its books appropriate reserves in conformity with GAAP with respect thereto, and the failure to comply therewith could not reasonably be expected to, in the aggregate, have a material adverse effect on the business or assets or on the condition, financial or otherwise, of the Company and its Subsidiaries on a consolidated basis.

5.3 Transactions with Affiliates. Neither the Company nor any of its Subsidiaries will enter into any transactions, including, without limitation, the purchase, sale or exchange of property or the rendering of any service, with any of their Affiliates (other than the Company and its Subsidiaries) unless such transaction is not material to the Company and its Subsidiaries on a consolidated basis or such transaction is otherwise permitted under this Agreement, is in the

ordinary course of the Company's or such Subsidiary's business and is upon fair and reasonable terms no less favorable to the Company or such Subsidiary, as the case may be, than it would obtain in an arm's-length transaction.

5.4 Insurance. The Company will, and will cause each of its Subsidiaries to, maintain or cause to be maintained, with financially sound and reputable insurers, including any Subsidiary which is engaged in the business of providing insurance protection, insurance (including, without limitation, professional liability insurance against claims for malpractice) with respect to its properties and business and the properties and business of its Subsidiaries against loss or damage of the kinds customarily insured against of such types and such amounts as are customarily carried under similar circumstances by other corporations. Such insurance may be subject to co-insurance, deductibility or similar clauses which, in effect, result in self-insurance of certain losses, and the Company may self-insure against such loss or damage, provided that adequate insurance reserves are maintained in connection with such self-insurance.

5.5 Financial Statements. The Company will and will cause each of its Subsidiaries to maintain a standard system of accounting in which full, true and correct entries will be made of all dealings or transactions in relation to its business and affairs in accordance with GAAP consistently applied, and will furnish the following to each Bank (in duplicate if so requested):

(a) Annual Statements. As soon as available, and in any event within 90 days after the end of each fiscal year, the consolidated balance sheet as at the end of each fiscal year and consolidated statements of operations and cash flows and of stockholders' equity for such fiscal year of the Company and its Subsidiaries, together with comparative consolidated figures for the next preceding fiscal year, accompanied by reports or certificates of an Auditor, to the effect that such balance sheet and statements were prepared in accordance with GAAP consistently applied and fairly present the financial position of the Company and its Subsidiaries as at the end of such fiscal year and the results of their operations and cash flows for the year then ended and the statement of such Auditor and of a Responsible Officer of the Company that such Auditor and Responsible Officer have caused the provisions of this Agreement to be reviewed and that nothing has come to their attention to lead them to believe that any Default exists hereunder or, if such is not the case, specifying such Default or possible Default and the nature thereof. In addition, such financial statements shall be accompanied by a certificate of a Responsible Officer of the Company containing computations showing compliance with subsections 5.6, 5.7, 5.10 and 5.12.

(b) Quarterly Statements. As soon as available, and in any event within 45 days after the close of each of the first three fiscal quarters of the Company and its Subsidiaries in each year, condensed consolidated balance sheets as at the end of such fiscal quarter and condensed consolidated statements of operations and cash flows for the portion of the fiscal year then ended, of the Company and its Subsidiaries, together with computations showing compliance with subsections 5.6, 5.7, 5.10 and 5.12, accompanied by a certificate of a Responsible Officer of the Company that such statements and computations have been properly prepared in accordance with GAAP for interim financial information, consistently applied, and fairly present the financial position of the

Company and its Subsidiaries as at the end of such fiscal quarter and the results of their operations and cash flows for such quarter and for the portion of the fiscal year then ended (subject to customary year-end adjustments not expected to be material), and to the further effect that such Responsible Officer has caused the provisions of this Agreement and all other agreements to which the Company or any of its Subsidiaries is a party and which relate to Indebtedness to be reviewed, and has no knowledge that any Default has occurred under this Agreement or under any such other agreement, or, if said Responsible Officer has such knowledge, specifying such Default and the nature thereof.

(c) Notice of Material Litigation, Defaults, Rating Changes. The Company will promptly notify each Bank in writing, by delivery of the Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K filed with the Securities and Exchange Commission or otherwise, as to any litigation or administrative proceeding to which it or any of its Subsidiaries may hereafter be a party which, after giving effect to any applicable insurance, has resulted or reasonably may be expected to result in any material judgment or liability or has resulted or reasonably may be expected to result in any material adverse change in the business or assets or in the condition, financial or otherwise, of the Company and its Subsidiaries on a consolidated basis and which litigation or proceeding is otherwise required to be disclosed in such reports. Promptly upon acquiring knowledge thereof, the Company will notify each Bank of the existence of any Default, including, without limitation, any default in the payment of any Indebtedness for money borrowed of the Company or any Subsidiary or under the terms of any agreement relating to such Indebtedness, specifying the nature of such Default and what action the Company has taken or is taking or proposes to take with respect thereto. Promptly upon acquiring knowledge thereof, the Company will notify each Bank of a change in the publicly announced ratings by S&P and Moody's of the then current senior unsecured, non-credit enhanced, long-term Indebtedness of the Company.

(d) ERISA Reports. The Company will furnish the Agent with copies of any request for waiver of the funding standards or extension of the amortization periods required by Sections 303 and 304 of ERISA or Section 412 of the Code promptly after any such request is submitted by the Company to the Department of Labor or the Internal Revenue Service, as the case may be. Promptly after a Reportable Event occurs, or the Company or any of its Subsidiaries receives notice that the PBGC or any Control Group Person has instituted or intends to institute proceedings to terminate any pension or other Plan that is a "defined benefit plan" as defined in ERISA, or prior to the Plan administrator's terminating such Plan pursuant to Section 4041 of ERISA, the Company will notify the Agent and will furnish to the Agent a copy of any notice of such Reportable Event which is required to be filed with the PBGC, or any notice delivered by the PBGC evidencing its institution of such proceedings or its intent to institute such proceedings, or any notice to the PBGC that a Plan is to be terminated, as the case may be. The Company will promptly notify each Bank upon learning of the occurrence of any of the following events with respect to any Plan which is a Multiemployer Plan: a partial or complete withdrawal from any Plan which may result in the incurrence by the Company or any of its Subsidiaries of withdrawal liability in excess of \$1,000,000 under Subtitle E of Title IV of ERISA, or of the termination, insolvency or reorganization status

of any Plan under such Subtitle E which may result in liability to the Company or any of its Subsidiaries in excess of \$1,000,000. In the event of such a withdrawal, upon the request of the Agent or any Bank, the Company will promptly provide information with respect to the scope and extent of such liability, to the best of the Company's knowledge.

(e) Reports to Stockholders, etc. Promptly after the sending, making available or filing of the same, the Company will furnish the Agent with copies of all reports and financial statements which the Company shall send or make available to its stockholders including, without limitation, all reports on Form 8-K, 10-Q or 10-K or any similar form hereafter in use which the Company shall file with the Securities and Exchange Commission.

(f) Other Information. From time to time upon request of the Agent or any Bank, the Company will furnish information regarding the business affairs and condition, financial or otherwise, of the Company and its Subsidiaries. The Company agrees that any authorized officers and representatives of the Agent shall have the right during reasonable business hours after reasonable notice to examine the books and records of the Company and its Subsidiaries, and to make notes and abstracts therefrom, to make an independent examination of its books and records for the purpose of verifying the accuracy of the reports delivered by the Company and its Subsidiaries pursuant to this Agreement or otherwise, and ascertaining compliance with this Agreement. Representatives of any Bank (at such Bank's expense) may accompany the Agent during any examination referred to in the preceding sentence.

(g) Confidentiality of Information. Each Bank acknowledges that some of the information furnished to such Bank pursuant to this subsection 5.5 may be received by such Bank prior to the time it shall have been made public, and each Bank agrees that it will keep all information so furnished confidential and shall make no use of such information until it shall have become public, except (i) in connection with matters involving operations under or enforcement of this Agreement or the Notes, (ii) in accordance with each Bank's obligations under law or pursuant to subpoenas or other process to make information available to governmental or regulatory agencies and examiners or to others, (iii) to each Bank's corporate Affiliates and Transferees and prospective Transferees so long as such Persons agree to be bound by this subsection 5.5(g) or (iv) with the prior consent of the Company.

Financial statements and other documents required to be delivered pursuant to this Section 5.5 may be delivered electronically and if so delivered, shall be deemed to have been delivered upon delivery of notice to the Agent that such statements or reports are available via the EDGAR system of the Securities and Exchange Commission on the Internet.

5.6 Ratio of Consolidated Total Debt to Consolidated Total Capitalization. The Company and its Subsidiaries will not at any time have outstanding Consolidated Total Debt in an amount in excess of (i) 80% of Consolidated Total Capitalization from the Closing Date through December 31, 2006 and (ii) 75% of Consolidated Total Capitalization from December 31, 2006 until the Term Maturity Date.

5.7 Interest Coverage Ratio. On the last day of each fiscal quarter of the Company, the Consolidated Earnings Before Interest and Taxes of the Company and its Subsidiaries for the four consecutive fiscal quarters of the Company then ending will be an amount which equals or exceeds 200% of the Consolidated Interest Expense of the Company and its Subsidiaries for the same four consecutive fiscal quarters.

5.8 Distributions. The Company will not make any Distribution except that, so long as no Event of Default exists or would exist after giving effect thereto, the Company may make Distributions.

5.9 Merger or Consolidation. The Company will not become a constituent corporation in any merger or consolidation unless the Company shall be the surviving or resulting corporation and immediately before and after giving effect to such merger or consolidation there shall exist no Default; provided that the Company may merge into another Subsidiary owned by the Company for the purposes of causing the Company to be incorporated in a different jurisdiction in the United States or causing the Company to change its name.

5.10 Sales of Assets. The Company and its Subsidiaries may from time to time sell or otherwise dispose of all or any part of their respective assets; provided, however, that in any fiscal year, the Company and its Subsidiaries will not (a) sell or dispose of (including, without limitation, any disposition resulting from any merger or consolidation involving a Subsidiary of the Company, and any Sale-and-Leaseback Transaction), outside of the ordinary course of business, to Persons other than the Company and its Subsidiaries, assets constituting in the aggregate more than 12% of Consolidated Assets of the Company and its Subsidiaries as at the end of the immediately preceding fiscal year and (b) exchange with any Persons other than the Company and its Subsidiaries any asset or group of assets for another asset or group of assets unless (i) such asset or group of assets are exchanged for an asset or group of assets of a substantially similar type or nature, (ii) on a pro forma basis both before and after giving effect to such exchange, no Default or Event of Default shall have occurred and be continuing, (iii) the aggregate fair market value (in the case of any exchange of any material asset or group of assets, as determined in good faith by the Board of Directors of the Company) of the asset or group of assets being transferred by the Company or such Subsidiary and the asset or group of assets being acquired by the Company or such Subsidiary are substantially equal and (iv) the aggregate of (x) all assets of the Company and its Subsidiaries sold pursuant to subsection 5.10(a) (including, without limitation, any disposition resulting from any merger or consolidation involving a Subsidiary of the Company, and any Sale-and-Leaseback Transaction) and (y) the aggregate fair market value (as determined in good faith by the Board of Directors of the Company) of all assets of the Company and its Subsidiaries exchanged pursuant to this subsection 5.10(b) does not exceed 20% of Consolidated Assets of the Company and its Subsidiaries as at the end of the immediately preceding fiscal year.

5.11 Compliance with ERISA. Each of the Company and its Subsidiaries will meet, and will cause all Control Group Persons to meet, all minimum funding requirements applicable to any Plan imposed by ERISA or the Code (without giving effect to any waivers of such requirements or extensions of the related amortization periods which may be granted), and will at all times comply, and will cause all Control Group Persons to comply, in all material respects with the provisions of ERISA and the Code which are applicable to the Plans, except

where the failure to do so could not reasonably be expected to have a material adverse effect. At no time shall the aggregate actual liabilities of the Company under Sections 4062, 4063, 4064 and other provisions of ERISA with respect to all Plans (and all other pension plans to which the Company, any Subsidiary, or any Control Group Person made contributions prior to such time) exceed, on an aggregate basis, \$75,000,000. Neither the Company nor its Subsidiaries will permit any event or condition to exist which could permit any Plan which is not a Multiemployer Plan to be terminated under circumstances which would cause the lien provided for in Section 4068 of ERISA to attach to the assets of the Company or any of its Subsidiaries.

5.12 **Negative Pledge.** The Company will not and will ensure that no Subsidiary will create or have outstanding any lien or security interest on or over any Principal Property in respect of any Indebtedness and the Company will not create or have outstanding any lien or security interest on or over the capital stock of any of its Subsidiaries that own a Principal Property and will ensure that no Subsidiary will create or have outstanding any lien or security interest on or over the capital stock of any of its respective Subsidiaries that own a Principal Property except in either case for:

- (a) any security for the purchase price or cost of construction of real property acquired by the Company or any of its Subsidiaries (or additions, substantial repairs, alterations or substantial improvements thereto) or equipment, provided that such Indebtedness and such security are incurred within 18 months of the acquisition or completion of construction (or alteration or repair) and full operation;
 - (b) any security existing on property or on capital stock, as the case may be, at the time of acquisition of such property or capital stock, as the case may be, by the Company or a Subsidiary or on the property or capital stock, as the case may be, of a corporation at the time of the acquisition of such corporation by the Company or a Subsidiary (including acquisitions through merger or consolidation);
 - (c) any security created in favor of the Company or a Subsidiary;
 - (d) any security created by operation of law in favor of government agencies of the United States of America or any State thereof;
 - (e) any security created in connection with the borrowing of funds if within 120 days such funds are used to repay Indebtedness in at least the same principal amount as secured by other security of Principal Property or capital stock of a Subsidiary that owns a Principal Property, as the case may be, with an independent appraised fair market value at least equal to the appraised fair market value of the Principal Property or capital stock of a Subsidiary that owns a Principal Property, as the case may be, secured by the new security; and
 - (f) any extension, renewal or replacement of any security referred to in the foregoing clauses (a) through (e) provided that the amount thereby secured is not increased and such security is not extended to other property of the Company or its Subsidiaries;
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unless any Loans made and/or to be made to and all other sums payable by the Company under this Agreement shall be secured equally and ratably with (or prior to) such Indebtedness so long as such Indebtedness shall be so secured. Notwithstanding the foregoing, the Company and any one or more Subsidiaries may, without securing the Loans made and/or to be made to and all other sums payable by the Company under this Agreement, create, issue or assume Indebtedness which would otherwise be subject to the foregoing restrictions in an aggregate principal amount which, together with all other such Indebtedness of the Company and its Subsidiaries (not including Indebtedness permitted to be secured pursuant to the foregoing clauses (a) through (f) and the aggregate Attributable Debt), including Indebtedness in respect of Sale-and-Leaseback Transactions (other than those permitted by subsection 5.13(b)), does not exceed 10% of Consolidated Net Tangible Assets of the Company and its Subsidiaries.

5.13 Sale-and-Leaseback Transactions. Neither the Company nor any Significant Subsidiary will enter into any Sale-and-Leaseback Transaction with respect to any Principal Property with any Person (other than the Company or a Subsidiary) unless either (a) the Company or such Significant Subsidiary would be entitled, pursuant to the provisions described in subsection 5.12(a) through (f) to incur Indebtedness secured by a security on the property to be leased without equally and ratably securing the Loans made and/or to be made to and all other sums payable by the Company under this Agreement, or (b) the Company during or immediately after the expiration of 120 days after the effective date of such transaction applies to the voluntary retirement of its Indebtedness and/or the acquisition or construction of Principal Property an amount equal to the greater of the net proceeds of the sale of the property leased in such transaction or the fair value in the opinion of a Responsible Officer of the Company of the leased property at the time such transaction was entered into.

5.14 Use of Proceeds. The Company shall use the proceeds of the Loans to repay outstanding indebtedness of the Company and for working capital and general corporate purposes, and to pay related fees, costs and expenses.

SECTION 6. DEFAULTS

6.1 Events of Default. Upon the occurrence of any of the following events:

- (a) any default shall be made by the Company in any payment in respect of: (i) interest or fees payable hereunder as the same shall become due and such default shall continue for a period of five days; or
 - (ii) principal of any of the Indebtedness hereunder or evidenced by the Notes as the same shall become due, whether at maturity, by prepayment, by acceleration or otherwise; or
 - (b) any default shall be made by either the Company or any Subsidiary of the Company in the performance or observance of any of the provisions of subsections 5.5(c), 5.6 through 5.10, 5.12, 5.13 and 5.14; or
 - (c) any default shall be made in the due performance or observance of any other covenant, agreement or provision to be performed or observed by either the Company or any Subsidiary under this Agreement, and such default shall not be rectified
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or cured to the satisfaction of the Required Banks within a period expiring 30 days after written notice thereof by the Agent to the Company; or

(d) any representation or warranty of or with respect to the Company or any Subsidiary of the Company to the Banks in connection with this Agreement shall have been untrue in any material respect on or as of the date made and the facts or circumstances to which such representation or warranty relates shall not have been subsequently corrected to make such representation or warranty no longer incorrect; or

(e) any default shall be made in the payment of any item of Indebtedness of the Company or any Subsidiary or under the terms of any agreement relating to such Indebtedness and such default shall continue without having been duly cured, waived or consented to, beyond the period of grace, if any, therein specified; provided, however, that such default shall not constitute an Event of Default unless (i) the outstanding principal amount of such item of Indebtedness exceeds \$10,000,000, or (ii) the aggregate outstanding principal amount of such item of Indebtedness and all other items of Indebtedness of the Company and its Subsidiaries as to which such defaults exist and have continued without being duly cured, waived or consented to beyond the respective periods of grace, if any, therein specified exceeds \$25,000,000, or (iii) such default shall have continued without being rectified or cured to the satisfaction of the Required Banks for a period of 30 days after written notice thereof by the Agent to the Company; or

(f) either the Company or any Significant Subsidiary shall be involved in financial difficulties as evidenced:

(i) by its commencement of a voluntary case under Title 11 of the United States Code as from time to time in effect, or by its authorizing, by appropriate proceedings of its board of directors or other governing body, the commencement of such a voluntary case;

(ii) by the filing against it of a petition commencing an involuntary case under said Title 11 which shall not have been dismissed within 60 days after the date on which said petition is filed or by its filing an answer or other pleading within said 60-day period admitting or failing to deny the material allegations of such a petition or seeking, consenting or acquiescing in the relief therein provided;

(iii) by the entry of an order for relief in any involuntary case commenced under said Title 11;

(iv) by its seeking relief as a debtor under any applicable law, other than said Title 11, of any jurisdiction relating to the liquidation or reorganization of debtors or to the modification or alteration of the rights of creditors, or by its consenting to or acquiescing in such relief;

(v) by the entry of an order by a court of competent jurisdiction (i) finding it to be bankrupt or insolvent, (ii) ordering or approving its liquidation, reorganization or any modification or alteration of the rights of its creditors, or

(iii) assuming custody of, or appointing a receiver or other custodian for, all or a substantial part of its property;

(vi) by its making an assignment for the benefit of, or entering into a composition with, its creditors, or appointing or consenting to the appointment of a receiver or other custodian for all or a substantial part of its property; or

(g) a Change in Control of the Company shall occur;

then and in each and every such case, (x) the Agent may, with the consent of the Required Banks, or shall, at the direction of the Required Banks, proceed to protect and enforce the rights of the Banks by suit in equity, action at law and/or other appropriate proceeding either for specific performance of any covenant or condition contained in this Agreement or any Note or in any instrument delivered to each Bank pursuant to this Agreement, or in aid of the exercise of any power granted in this Agreement or any Note or any such instrument or assignment, and (y) the Agent may, with the consent of the Required Banks, or shall, at the direction of the Required Banks, by notice in writing to the Company terminate the obligations of the Banks to make the Loans hereunder, and thereupon such obligations shall terminate forthwith and (z) (unless there shall have occurred an Event of Default under subsection 6.1(f), in which case the obligations of the Banks to make the Loans hereunder shall automatically terminate and the unpaid balance of the Indebtedness hereunder and accrued interest thereon and all other amounts payable hereunder (the "Bank Obligations") shall automatically become due and payable) the Agent may, with the consent of the Required Banks, or shall, at the direction of the Required Banks, by notice in writing to the Company declare all or any part of the unpaid balance of the Bank Obligations then outstanding to be forthwith due and payable, and thereupon such unpaid balance or part thereof shall become so due and payable without presentment, protest or further demand or notice of any kind, all of which are hereby expressly waived, the obligations of the Banks to make further Loans hereunder shall terminate forthwith, and the Agent may, with the consent of the Required Banks, or shall, at the direction of the Required Banks, proceed to enforce payment of such balance or part thereof in such manner as the Agent may elect, and each Bank may offset and apply toward the payment of such balance or part thereof, and to the curing of any such Event of Default, any Indebtedness from such Bank to the Company, including any Indebtedness represented by deposits in any general or special account maintained with such Bank, whether or not such Bank is fully secured.

6.2 Annulment of Defaults. An Event of Default shall not be deemed to be in existence for any purpose of this Agreement if the Agent, with the consent of or at the direction of the Required Banks, subject to subsections 6.1 and 8.1, shall have waived such event in writing or stated in writing that the same has been cured to its reasonable satisfaction, but no such waiver shall extend to or affect any subsequent Event of Default or impair any rights of the Agent or the Banks upon the occurrence thereof.

6.3 Waivers. The Company hereby waives to the extent permitted by applicable law (a) all presentments, demands for performance, notices of nonperformance (except to the extent required by the provisions hereof), protests, notices of protest and notices of dishonor in connection with any of the Indebtedness hereunder or evidenced by the Notes, (b) any requirement of diligence or promptness on the part of any Bank in the enforcement of its rights

under the provisions of this Agreement or any Note, and (c) any and all notices of every kind and description which may be required to be given by any statute or rule of law and any defense of any kind which the Company may now or hereafter have with respect to its liability under this Agreement or any Note.

6.4 Course of Dealing. No course of dealing between the Company and any Bank shall operate as a waiver of any of the Banks' rights under this Agreement or any Note. No delay or omission on the part of any Bank in exercising any right under this Agreement or any Note or with respect to any of the Bank Obligations shall operate as a waiver of such right or any other right hereunder. A waiver on any one occasion shall not be construed as a bar to or waiver of any right or remedy on any future occasion. No waiver or consent shall be binding upon any Bank unless it is in writing and signed by the Agent or such of the Banks as may be required by the provisions of this Agreement. The making of a Loan hereunder during the existence of a Default shall not constitute a waiver thereof.

SECTION 7. THE AGENT

7.1 Appointment. Each Bank hereby irrevocably designates and appoints Merrill as the Agent of such Bank under this Agreement, and each such Bank irrevocably authorizes Merrill, as the Agent for such Bank, to take such action on its behalf under the provisions of this Agreement and to exercise such powers and perform such duties as are expressly delegated to the Agent, by the terms of this Agreement, together with such other powers as are reasonably incidental thereto. Notwithstanding any provision to the contrary elsewhere in this Agreement, the Agent shall not have any duties or responsibilities, except those expressly set forth herein, or any fiduciary relationship with any Bank, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or otherwise exist against the Agent.

7.2 Delegation of Duties. The Agent may execute any of its duties under this Agreement by or through agents or attorneys-in-fact and shall be entitled to advice of counsel concerning all matters pertaining to such duties. The Agent shall not be responsible for the negligence or misconduct of any agents or attorneys-in-fact selected by it with reasonable care.

7.3 Exculpatory Provisions. Neither the Agent nor any of its officers, directors, employees, agents, attorneys-in-fact or Affiliates shall be (a) liable for any action lawfully taken or omitted to be taken by it or such Person under or in connection with this Agreement (except for its or such Person's own gross negligence or willful misconduct), or (b) responsible in any manner to any of the Banks for any recitals, statements, representations or warranties made by the Company or any officer thereof contained in this Agreement or in any certificate, report, statement or other document referred to or provided for in, or received by the Agent under or in connection with, this Agreement or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or the Notes or for any failure of the Company to perform its obligations hereunder. The Agent shall not be under any obligation to any Bank to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement, or to inspect the properties, books or records of the Company.

7.4 Reliance by Agent. The Agent shall be entitled to rely, and shall be fully protected in relying, upon any Note, writing, resolution, notice, consent, certificate, affidavit, letter, cablegram, telegram, telecopy, telex or teletype message, statement, order or other document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel (including, without limitation, counsel to the Company), independent accountants and other experts selected by the Agent. The Agent may deem and treat the payee of any Note as the owner thereof for all purposes unless a written notice of assignment, negotiation or transfer thereof shall have been filed with the Agent. The Agent shall be fully justified in failing or refusing to take any action under this Agreement unless it shall first receive such advice or concurrence of the Required Banks as it deems appropriate or it shall first be indemnified to its satisfaction by the Banks against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. The Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement and the Notes in accordance with a request of the Required Banks, and such request and any action taken or failure to act pursuant thereto shall be binding upon all the Banks and all future holders of the Notes.

7.5 Notice of Default. The Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default hereunder unless the Agent has received notice from a Bank or the Company referring to this Agreement, describing such Default or Event of Default and stating that such notice is a "notice of default". In the event that the Agent receives such a notice, the Agent shall promptly give notice thereof to the Banks. The Agent shall take such action with respect to such Default or Event of Default as shall be reasonably directed by the Required Banks; provided that, unless and until the Agent shall have received such directions, the Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable in the best interests of the Banks.

7.6 Non-Reliance on Agent and Other Banks. Each Bank expressly acknowledges that neither the Agent nor any of its officers, directors, employees, agents, attorneys-in-fact or Affiliates has made any representations or warranties to it and that no act by the Agent hereinafter taken, including any review of the affairs of the Company, shall be deemed to constitute any representation or warranty by the Agent to any Bank. Each Bank represents to the Agent that it has, independently and without reliance upon the Agent or any other Bank, and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, operations, property, financial and other condition and creditworthiness of the Company and made its own decision to make its Loans hereunder and enter into this Agreement. Each Bank also represents that it will, independently and without reliance upon the Agent or any other Bank, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement, and to make such investigation as it deems necessary to inform itself as to the business, operations, property, financial and other condition and creditworthiness of the Company. Except for notices, reports and other documents expressly required to be furnished to the Banks by the Agent hereunder, the Agent shall not have any duty or responsibility to provide any Bank with any credit or other information concerning the business, operations, property, financial and other condition or creditworthiness of the

Company which may come into the possession of the Agent or any of its officers, directors, employees, agents, attorneys-in-fact or Affiliates.

7.7 Indemnification. The Banks agree to indemnify the Agent in its capacity as such (to the extent not reimbursed by the Company and without limiting the obligation of the Company to do so), ratably according to the respective amounts of their then respective Aggregate Exposure Percentages, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind whatsoever which may at any time (including without limitation at any time following the payment of the Indebtedness hereunder or pursuant to the Notes) be imposed on, incurred by or asserted against the Agent in any way relating to or arising out of this Agreement, or any documents contemplated by or referred to herein or the transactions contemplated hereby or any action taken or omitted by the Agent under or in connection with any of the foregoing; provided that no Bank shall be liable for the payment of any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting solely from the Agent's gross negligence or willful misconduct. The agreements in this subsection shall survive the payment of the Notes and all other amounts payable hereunder.

7.8 Agent in Its Individual Capacity. The Agent and its Affiliates may make loans to, accept deposits from and generally engage in any kind of business with the Company as though the Agent was not the Agent hereunder. With respect to its Loans made or renewed by it and any Note issued to it, the Agent shall have the same rights and powers under this Agreement as any Bank and may exercise the same as though it were not the Agent, and the terms "Bank" and "Banks" shall include the Agent in its individual capacity.

7.9 Successor Agent. The Agent may resign as Agent, as the case may be, upon 10 days' notice to the Banks. If the Agent shall resign as Agent, under this Agreement, then the Required Banks shall appoint from among the Banks a successor agent for the Banks which successor agent shall be approved by the Company, whereupon such successor agent shall succeed to the rights, powers and duties of the Agent, and the term "Agent" shall mean such successor agent effective upon its appointment, and the former Agent's rights, powers and duties as Agent shall be terminated, without any other or further act or deed on the part of such former Agent or any of the parties to this Agreement or any holders of the Notes. After any retiring Agent's resignation hereunder as Agent, the provisions of this subsection 7.9 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement.

7.10 Agents Generally. Anything herein to the contrary notwithstanding, the Sole Lead Arranger and Sole Bookrunner listed on the cover page hereof shall not have any powers, duties or responsibilities under this Agreement or any of the other Loan Documents, except in its capacity, as applicable, as the Administrative Agent or a Bank hereunder.

SECTION 8. MISCELLANEOUS

8.1 Amendments and Waivers. Neither this Agreement, any Note, nor any terms hereof or thereof may be amended, supplemented or modified except in accordance with the

provisions of this subsection. With the written consent of the Required Banks, the Agent and the Company may, from time to time, enter into written amendments, supplements or modifications hereto for the purpose of adding any provisions to this Agreement or the Notes or changing in any manner the rights of the Banks or of the Company hereunder or thereunder or waiving, on such terms and conditions as the Agent and the Required Banks may specify in such instrument, any of the requirements of this Agreement or the Notes or any Default or Event of Default and its consequences; provided, however, that no such waiver and no such amendment, supplement or modification shall (i) forgive any principal amount or extend the final scheduled date of maturity of any Loan, reduce the principal of any Loan or the stated rate of any interest or fee payable hereunder or any other Loan Document, or extend the scheduled date of any payment thereof, in each case without the written consent of each Bank directly affected thereby; (ii) eliminate or reduce the voting rights of any Bank under this subsection 8.1 without the written consent of such Bank; (iii) reduce any percentage specified in the definition of Required Banks, consent to the assignment or transfer by the Company of any of its rights and obligations under this Agreement and the other Loan Documents, without the written consent of all Banks; (iv) amend, modify or waive any provision of Section 7 without the written consent of the Agent or (v) modify a Bank's right to receive pro-rata distribution of payments and proceeds without the written consent of such Bank. Any such waiver and any such amendment, supplement or modification shall apply equally to each of the Banks and shall be binding upon the Company, the Banks, the Agent and all future holders of the Notes. In the case of any waiver, the Company, the Banks and the Agent shall be restored to their former position and rights hereunder and under the outstanding Notes, and any Default or Event of Default waived shall be deemed to be cured and not continuing; but no such waiver shall extend to any subsequent or other Default or Event of Default, or impair any right consequent thereon.

8.2 Notices. All notices, requests and demands to or upon the respective parties hereto to be effective shall be in writing (including by telecopy), and, unless otherwise expressly provided herein, shall be deemed to have been duly given or made when delivered by hand, or three days after being deposited in the mail, postage prepaid, or, in the case of telecopy notice, when sent, confirmation of receipt received, addressed as follows in the case of the Company and the Agent and as set forth in Schedule I in the case of the other parties hereto, or to such other address as may be hereafter notified by the respective parties hereto and any future holders of the Notes:

The Company: HCA Inc.
One Park Plaza
Nashville, Tennessee 37203
Attention: Keith Giger
Telecopy: (615) 344-5720

The Agent: Merrill Lynch Capital Corporation
4 World Financial Center
250 Vesey Street
New York, New York 10080
Attention: Paley Chen
Telecopy: (212) 738-1186

provided that any notice, request or demand to or upon the Agent or the Banks pursuant to Section 2 shall not be effective until received.

8.3 No Waiver; Cumulative Remedies. No failure to exercise and no delay in exercising, on the part of the Agent or any Bank, any right, remedy, power or privilege hereunder, shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law.

8.4 Survival of Representations and Warranties. All representations and warranties made hereunder and in any document, certificate or statement delivered pursuant hereto or in connection herewith shall survive the execution and delivery of this Agreement and the Notes.

8.5 Payment of Expenses and Taxes; Indemnity. (a) The Company agrees (i) to pay or reimburse the Agent for all its reasonable out-of-pocket costs and expenses incurred in connection with the development, preparation and execution of, and any amendment, supplement or modification to, this Agreement and the Notes and any other documents prepared in connection herewith, and the consummation of the transactions contemplated hereby and thereby, including, without limitation, the reasonable fees and disbursements of counsel to the Agent, (ii) to pay or reimburse each Bank and the Agent for all their reasonable costs and expenses incurred in connection with the enforcement, attempted enforcement or preservation of any rights or remedies under this Agreement, the Notes and any such other documents, including, without limitation, reasonable fees and disbursements of counsel to the Agent and to each of the Banks and (iii) to pay, indemnify, and hold each Bank and the Agent harmless from, any and all recording and filing fees and any and all liabilities with respect to, or resulting from any delay in paying, stamp, excise and other taxes, if any, which may be payable or determined to be payable in connection with the execution and delivery of, or consummation of any of the transactions contemplated by, or any amendment, supplement or modification of, or any waiver or consent under or in respect of, this Agreement, the Notes and any such other documents.

(b) The Company will indemnify each of the Agent and the Banks and the directors, officers and employees thereof and each Person, if any, who controls each one of the Agent and the Banks (any of the foregoing, an “Indemnified Person”) and hold each Indemnified Person harmless from and against any and all claims, damages, liabilities and reasonable expenses (including without limitation all reasonable fees and disbursements of counsel with whom an Indemnified Person may consult in connection therewith and all reasonable expenses of litigation or preparation therefor) which an Indemnified Person may incur or which may be asserted against it in connection with any litigation or investigation involving this Agreement, the use of any proceeds of any Loans under this Agreement by the Company or any Subsidiary, any officer, director or employee thereof excluding (a) claims, damages, liabilities and expenses resulting from the gross negligence or willful misconduct of such Indemnified Person and its directors, officers, employees and controlling persons and (b) litigation commenced by the Company against any of the Agent or the Banks which (i) seeks enforcement of any of the Company’s rights hereunder and (ii) is determined adversely to any of the Agent or the Banks.

(c) The agreements in this subsection 8.5 shall survive repayment of the Notes and all other amounts payable hereunder.

8.6 Successors and Assigns; Participations; Purchasing Banks. (a) This Agreement shall be binding upon and inure to the benefit of the Company, the Banks, the Agent, all future holders of the Notes and their respective successors and assigns, except that the Company may not assign or transfer any of its rights or obligations under this Agreement without the prior written consent of each Bank.

(b) Any Bank may, in the ordinary course of its business and in accordance with applicable law, at any time sell to one or more banks or other entities (“Participants”) participating interests in any Loans owing to such Bank, any Notes held by such Bank, any Commitments of such Bank or any other interests of such Bank hereunder. In the event of any such sale by a Bank of a participating interest to a Participant, such Bank’s obligations under this Agreement to the other parties under this Agreement shall remain unchanged, such Bank shall remain solely responsible for the performance thereof, such Bank shall remain the holder of any such Notes for all purposes under this Agreement, and the Company and the Agent shall continue to deal solely and directly with such Bank in connection with such Bank’s rights and obligations under this Agreement. The Company agrees that if amounts outstanding under this Agreement and the Notes shall have been declared or shall have become due and payable upon the occurrence of an Event of Default, each Participant shall be deemed to have the right of offset in respect of its participating interest in amounts owing under this Agreement and any Notes to the same extent as if the amount of its participating interest were owing directly to it as a Bank under this Agreement or any Notes, provided that such right of offset shall be subject to the obligation of such Participant to share with the Banks, and the Banks agree to share with such Participant, as provided in subsection 8.7. The Company also agrees that each Participant shall be entitled to the benefits of subsections 2.12, 2.13 and 2.14 with respect to its participation in the Commitments and the Eurodollar Loans outstanding from time to time; provided that no Participant shall be entitled to receive any greater amount pursuant to such subsections than the transferor Bank would have been entitled to receive in respect of the amount of the participation transferred by such transferor Bank to such Participant had no such transfer occurred. No Participant shall be entitled to consent to any amendment, supplement, modification or waiver of

or to this Agreement or any Note, unless the same is subject to clause (i) of the proviso to subsection 8.1.

(c) Any Bank may, in the ordinary course of its business and in accordance with applicable law, at any time sell to any Bank, any affiliate of any Bank or any Approved Fund, and, with the consent of the Company (unless an Event of Default has occurred and is continuing) and the Agent (which consent in each case shall not be unreasonably withheld or delayed) to one or more additional banks or financial institutions (“Purchasing Banks”) all or any part of its rights and/or obligations under this Agreement and the Notes pursuant to a Commitment Transfer Supplement, if any, executed by such Purchasing Bank, such transferor Bank and the Agent (and, in the case of a Purchasing Bank that is not then a Bank or an affiliate thereof, by the Company); provided, however, that (i) the Commitments purchased by such Purchasing Bank that is not then a Bank, an affiliate of any Bank or any Approved Fund shall be equal to or greater than \$2,500,000 or such lesser amount as may be agreed to by the Company and the Agent and (ii) the transferor Bank which has transferred part of its Loans and Commitments to any such Purchasing Bank shall retain a minimum Commitment, after giving effect to such sale, equal to or greater than \$5,000,000 or such lesser amount as may be agreed to by the Company and the Agent. For purposes of the proviso contained in the preceding sentence, the amount described therein shall be aggregated in respect of each Bank, its affiliates and its related Approved Funds, if any. Upon (i) such execution of such Commitment Transfer Supplement, (ii) delivery of an executed copy thereof to the Company and (iii) payment by such Purchasing Bank, such Purchasing Bank shall for all purposes be a Bank party to this Agreement and shall have all the rights and obligations of a Bank under this Agreement, to the same extent as if it were an original party hereto with the Commitment Percentage of the Commitments set forth in such Commitment Transfer Supplement. Such Commitment Transfer Supplement shall be deemed to amend this Agreement to the extent, and only to the extent, necessary to reflect the addition of such Purchasing Bank and the resulting adjustment of Commitment Percentages arising from the purchase by such Purchasing Bank of all or a portion of the rights and obligations of such transferor Bank under this Agreement and the Notes. Upon the consummation of any transfer to a Purchasing Bank, pursuant to this subsection 8.6(c), the transferor Bank, the Agent and the Company shall make appropriate arrangements so that, if required, replacement Notes are issued to such transferor Bank and new Notes or, as appropriate, replacement Notes, are issued to such Purchasing Bank, in each case in principal amounts reflecting their Commitment Percentages or, as appropriate, their outstanding Loans as adjusted pursuant to such Commitment Transfer Supplement.

(d) The Agent shall maintain at its address referred to in subsection 8.2 a copy of each Commitment Transfer Supplement delivered to it and a register (the “Register”) for the recordation of the names and addresses of the Banks and the Commitment of, and principal amount of the Loans owing to, each Bank from time to time. The entries in the Register shall be conclusive, in the absence of manifest error, and the Company, the Agent and the Banks may treat each Person whose name is recorded in the Register as the owner of the Loan recorded therein for all purposes of this Agreement. The Register shall be available for inspection by the Company or any Bank at any reasonable time and from time to time upon reasonable prior notice.

(e) Upon its receipt of a Commitment Transfer Supplement executed by a transferor Bank and a Purchasing Bank (and, in the case of a Purchasing Bank that is not then a Bank or an affiliate thereof, by the Company and the Agent) together with payment to the Agent of a registration and processing fee of \$3,500, the Agent shall (i) promptly accept such Commitment Transfer Supplement (ii) on the Transfer Effective Date determined pursuant thereto record the information contained therein in the Register and give notice of such acceptance and recordation to the Banks and the Company.

(f) Subject to subsection 5.5(g), the Company authorizes each Bank to disclose to any Participant or Purchasing Bank (each, a “Transferee”) and any prospective Transferee any and all financial information in such Bank’s possession concerning the Company which has been delivered to such Bank by the Company pursuant to this Agreement or which has been delivered to such Bank by the Company in connection with such Bank’s credit evaluation of the Company prior to entering into this Agreement.

(g) If, pursuant to this subsection 8.6, any interest in this Agreement or any Note is transferred to any Transferee which is organized under the laws of any jurisdiction other than the United States or any State thereof, the transferor Bank shall cause such Transferee, concurrently with the effectiveness of such transfer (i) to represent to the transferor Bank (for the benefit of the transferor Bank, the Agent and the Company) that under applicable law and treaties no taxes will be required to be withheld by the Agent, the Company or the transferor Bank with respect to any payments to be made to such Transferee in respect of the Loans, (ii) to furnish to the transferor Bank (and, in the case of any Purchasing Bank registered in the Register, the Agent and the Company) either U.S. Internal Revenue Service Form W-8BEN or U.S. Internal Revenue Service Form W-8ECI (wherein such Transferee claims entitlement to complete exemption from U.S. federal withholding tax on all interest payments hereunder) and (iii) to agree (for the benefit of the transferor Bank) to provide the transferor Bank (and, in the case of any Purchasing Bank registered in the Register, the Agent and the Company) a new Form W-8BEN or Form W-8ECI upon the obsolescence of any previously delivered form and comparable statements in accordance with applicable U.S. laws and regulations and amendments duly executed and completed by such Transferee, and to comply from time to time with all applicable U.S. laws and regulations with regard to such withholding tax exemption.

(h) Notwithstanding anything to the contrary contained herein, any Bank (a “Granting Bank”) may grant to a special purpose funding vehicle that is an Affiliate of such Bank (an “SPC”), identified as such in writing from time to time by the Granting Bank to the Agent and the Company, the option to provide to the Company all or any part of any Loan that such Granting Bank would otherwise be obligated to make to the Company pursuant to this Agreement; provided that (i) nothing herein shall constitute a commitment by any SPC to make any Loan and (ii) if an SPC elects not to exercise such option or otherwise fails to provide all or any part of such Loan, the Granting Bank shall be obligated to make such Loan pursuant to the terms of this Agreement. The making of a Loan by an SPC hereunder shall utilize the Commitment of the Granting Bank to the same extent and as if, such Loan were made by such Granting Bank. The liability for any indemnity of similar payment obligations under this Agreement shall at all times remain with the Granting Bank. In furtherance of the foregoing, each party hereto hereby agrees (which agreement shall survive the termination of this Agreement) that, prior to the date that is one year and one day after the payment in full of all

outstanding commercial paper or other senior indebtedness of any SPC, it will not institute against, or join any other Person in instituting against, such SPC any bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings under the laws of the United States or any State thereof. In addition, notwithstanding anything to the contrary contained in this subsection 8.6, any SPC may (i) with notice to, but without the prior written consent of, the Company and the Agent and without paying any processing fee thereof, assign all or a portion of its interests in any Loans to its Granting Bank or to any other financial institutions (consented to by the Company and the Agent) providing liquidity and/or credit support to or for the account of such SPC to support the funding or maintenance of Loans and (ii) disclose on a confidential basis any non-public information relating to its Loans to any rating agency, commercial paper dealer or provider of any surety, guarantee or credit or liquidity enhancement to such SPC.

(i) For avoidance of doubt, the parties to this Agreement acknowledge that the provisions of this subsection 8.6 concerning assignments of Loans and Notes relate only to absolute assignments and that such provisions do not prohibit assignments creating security interests, including any pledge or assignment by a Bank of any Loan or Note to any Federal Reserve Bank in accordance with applicable law.

8.7 Adjustments; Set-off. If any Bank (a “Benefited Bank”) shall at any time receive any payment of all or part of its Loans, or interest thereon, or receive any collateral in respect thereof (whether voluntarily or involuntarily, by offset, pursuant to events or proceedings of the nature referred to in subsection 6.1(f), or otherwise) in a greater proportion than any such payment to and collateral received by any other Bank, if any, in respect of such other Bank’s Loans, or interest thereon, such Benefited Bank shall purchase for cash from the other Banks such portion of each such other Bank’s Loans, or shall provide such other Banks with the benefits of any such collateral, or the proceeds thereof, as shall be necessary to cause such Benefited Bank to share the excess payment or benefits of such collateral or proceeds ratably with each of the Banks; provided, however, that if all or any portion of such excess payment or benefits is thereafter recovered from such Benefited Bank, such purchase shall be rescinded, and the purchase price and benefits returned, to the extent of such recovery, but without interest. The Company agrees that each Bank so purchasing a portion of another Bank’s Loan may exercise all rights of a payment (including, without limitation, rights of offset) with respect to such portion as fully as if such Bank were the direct holder of such portion.

8.8 USA PATRIOT Act. Each Bank which is subject to Section 326 of the USA PATRIOT Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the “Act”), hereby notifies the Company that, pursuant to the requirements of the Act, it is required to obtain, verify and record information that identifies the Company, which information includes the name and address of the Company and other information that will allow such Bank to identify the Company in accordance with the Act.

8.9 Counterparts. This Agreement may be executed by one or more of the parties to this Agreement on any number of separate counterparts and all of said counterparts taken together shall be deemed to constitute one and the same instrument. A set of the copies of this Agreement signed by all the parties shall be lodged with the Company and the Agent.

8.10 **GOVERNING LAW.** THIS AGREEMENT AND THE NOTES AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES UNDER THIS AGREEMENT AND THE NOTES SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

8.11 **WAIVERS OF JURY TRIAL.** THE COMPANY, THE AGENT AND THE BANKS EACH HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVE TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT, THE NOTES OR ANY OTHER DOCUMENT AND FOR ANY COUNTERCLAIM THEREIN.

8.12 Submission To Jurisdiction; Waivers. The Company hereby irrevocably and unconditionally:

(a) submits for itself and its property in any legal action or proceeding relating to this Agreement, or for recognition and enforcement of any judgment in respect thereof, to the non-exclusive general jurisdiction of the Courts of the State of New York, the courts of the United States of America for the Southern District of New York, and appellate courts from any thereof; and

(b) consents that any such action or proceeding may be brought in such courts, and waives any objection that it may now or hereafter have to the venue of any such action or proceeding in any such court or that such action or proceeding was brought in an inconvenient court and agrees not to plead or claim the same.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered by their proper and duly authorized officers as of the day and year first above written.

HCA INC.

By: /s/ David G. Anderson
Name: David G. Anderson
Title: Senior VP-Finance and Treasurer

MERRILL LYNCH CAPITAL
CORPORATION, Agent and as a Bank

By: /s/ Sarang Gadkari
Name: Sarang Gadkari
Title: Vice President

MERRILL LYNCH & CO.,
MERRILL LYNCH, PIERCE, FENNER &
SMITH INCORPORATED, as Sole Lead
Arranger and Sole Bookrunner

By: /s/ Sarang Gadkari
Name: Sarang Gadkari
Title: Managing Director

COMMITMENT AMOUNTS;
LENDING OFFICES; ADDRESSES FOR NOTICE

A. Commitment Amounts.

Name of Bank	Term Commitment
Merrill Lynch Capital Corporation	400,000,000
TOTAL	\$400,000,000

B. Lending Offices; Addresses for Notice.

MERRILL LYNCH CAPITAL CORPORATION

Domestic Lending Office:	Merrill Lynch Capital Corporation 4 World Financial Center 250 Vesey Street New York, NY 10080
Eurodollar Lending Office:	Merrill Lynch Capital Corporation 4 World Financial Center 250 Vesey Street New York, NY 10080
Address for Notices:	Merrill Lynch Capital Corporation 4 World Financial Center 250 Vesey Street New York, NY 10080 Attention: Paley Chen
Telephone:	(212) 449-3541
Fax:	(212) 738-1186

APPLICABLE MARGIN

Term Loan Facility

	Level I	Level II	Level III	Level IV	Level V
Applicable Margin:					
ABR Loans	0.000%	0.000%	0.000%	0.000%	0.250%
Eurodollar Loans	0.500%	0.625%	0.750%	1.000%	1.250%

HCA INC.
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
FOR THE QUARTERS AND SIX MONTHS ENDED JUNE 30, 2006 AND 2005
(Dollars in millions)

	Second Quarter		Six Months	
	2006	2005	2006	2005
EARNINGS:				
Income before minority interests and income taxes	\$ 521	\$ 618	\$ 1,183	\$ 1,321
Fixed charges, exclusive of capitalized interest	229	198	449	394
	<u>\$ 750</u>	<u>\$ 816</u>	<u>\$ 1,632</u>	<u>\$ 1,715</u>
FIXED CHARGES:				
Interest charged to expense	\$ 196	\$ 165	\$ 382	\$ 329
Interest portion of rental expense	33	33	67	65
Fixed charges, exclusive of capitalized interest	229	198	449	394
Capitalized interest	11	6	19	12
	<u>\$ 240</u>	<u>\$ 204</u>	<u>\$ 468</u>	<u>\$ 406</u>
Ratio of earnings to fixed charges	3.13	4.00	3.49	4.22

CERTIFICATION

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 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ JACK O. BOVENDER, JR.

JACK O. BOVENDER, JR.
*Chairman of the Board and
 Chief Executive Officer*

Date: August 4, 2006

CERTIFICATION

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 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: _____
/s/ R. MILTON JOHNSON
R. MILTON JOHNSON
Executive Vice President and
Chief Financial Officer

Date: August 4, 2006

**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 quarter ended June 30, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 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.

By: /s/ JACK O. BOVENDER, JR.

JACK O. BOVENDER, JR.
*Chairman of the Board and
Chief Executive Officer*

August 4, 2006

By: /s/ R. MILTON JOHNSON

R. MILTON JOHNSON
*Executive Vice President and
Chief Financial Officer*

August 4, 2006