Above all else,

we are committed to the care and improvement of human life.

In recognition of this commitment, we strive to deliver high quality, cost effective healthcare in the communities we serve.

HCA

2000 Annual Report

In 1968, Dr. Thomas Frist, Sr. looked at the state of healthcare in America and knew that it could be better. He was sure that compassionate, quality care could be provided in a manner that was more affordable and convenient. That year, he and his son Dr. Thomas F. Frist, Jr., formed a partnership with Jack Massey, and together they founded Hospital Corporation of America. They began with one facility, Parkview Hospital, in Nashville, Tennessee. Their corporate office was a little house on 25th Avenue. Soon, they expanded, buying additional hospitals and merging with other companies until HCA was known in communities throughout the United States and abroad. Throughout it all, Dr. Frist, Sr. maintained his philosophy that "good people beget good people." Although we lost our friend and founder when he passed away in January of 1998 at the age of 87, his words, and his values, remain with us today. They are the cornerstone of who we are as a company and they form the basis of a common belief that binds us together as colleagues: "It's not brick and mortar and equipment that make a hospital. It's the warmth and compassion and attitude of good employees that leads to quality care." *This bronze statue is presented annually to the national award winners of the Frist Humanitarian Award. Begun in 1971 to honor Dr. Frist, Sr., the Frist Humanitarian Award recognizes employees and volunteers at HCA hospitals who daily perform their work with concern, in a spirit of love, and with humility and understanding.


*

Compassion

Kindness

Honesty

Integrity

Fairness

Loyalty

Respect

Dignity

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HCA Mission and Values Statement

Above all else, we are committed to the care and improvement of human life. In recognition of this commitment, we strive to deliver high quality, cost effective healthcare in the communities we serve. In pursuit of our mission, we believe the following value statements are essential and timeless.

- We recognize and affirm the unique and intrinsic worth of each individual.
- We treat all those we serve with compassion and kindness.
- We act with absolute honesty, integrity and fairness in the way we conduct our business and the way we live our lives.
- We trust our colleagues as valuable members of our healthcare team and pledge to treat one another with loyalty, respect, and dignity.

HCA Financial Highlights as of and for the Years Ended December 31, 2000 and 1999

(Dollars in millions, except per share amounts)

	2000	1999
Results of Operations		
Revenues	**$ 16,670**	$ 16,657
EBITDA (a)	**$ 3,177**	$ 2,888
Income, excluding settlement with the Federal government, gains on sales of facilities, impairment of long-lived assets and restructuring of operations and investigation related costs (b)	**$ 913**	$ 767
Net income	**$ 219**	$ 657
Diluted earnings per share:		
Income, excluding settlement with the Federal government, gains on sales of facilities, impairment of long-lived assets and restructuring of operations and investigation related costs (b)	**$ 1.61**	$ 1.30
Net income	**$ 0.39**	$ 1.11
Shares used in computing diluted earnings per share (in thousands)	**567,685**	591,029
Financial Position		
Assets	**$ 17,568**	$ 16,885
Working capital	**312**	480
Long-term debt, including amounts due within one year	**6,752**	6,444
Minority interests in equity of consolidated entities	**572**	763
Stockholders' equity	**4,405**	5,617
Ratio of debt to debt plus common, temporary and minority equity	**54.0%**	50.2%
Other Data (c)		
Number of hospitals at end of period	**187**	195
Licensed beds at end of period	**41,009**	42,484
Admissions	**1,553,500**	1,625,400
Outpatient revenues as a percentage of total patient revenues	**37.4%**	38.8%

(a) Earnings, excluding settlement with Federal government, gains on sales of facilities, impairment of long-lived assets, restructuring of operations and investigation related costs, minority interests, interest expense, income taxes, depreciation and amortization.

(b) During 2000 and 1999, the Company recorded net charges of $694 million and $110 million (net of tax benefits), respectively, related to settlement with Federal government, gains on sales of facilities, impairment of long-lived assets and restructuring of operations and investigation related costs.

(c) Excludes data for 9 hospitals at December 31, 2000 and 12 hospitals at December 31, 1999 which are accounted for using the equity method. HCA is generally a 50% owner in the entities which own and operate these hospitals.

The terms "HCA" or the "Company" as used in this Annual Report refer to HCA-The Healthcare Company and its affiliates, unless otherwise stated or indicated by context. The term "facilities" refers to entities owned or operated by subsidiaries or affiliates of HCA. References herein to "HCA employees" or to "our employees" refer to employees of affiliates of HCA.

"On January 8, 2001 Jack O. Bovender, Jr., with more than 20 years experience with HCA, was named CEO and President, recognizing his leadership as President and COO over the past three years."

- Thomas F. Frist, Jr. M.D., Chairman of the Board

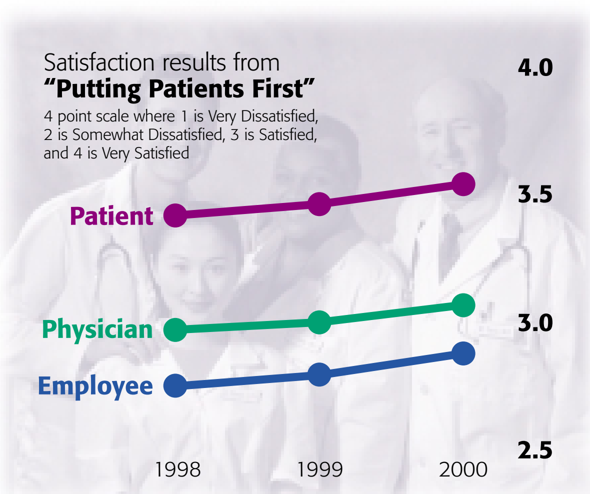
Dear Fellow Shareholders,

By any measure, the past year was a success. We achieved many things during 2000:

- Patient, physician and employee satisfaction levels rose to all time highs.
- Strong inpatient admission and outpatient visit growth, along with improved pricing, generated more than 6% same facility net revenue growth.
- Operating margins improved 180 basis points, as a result of both local hospital and corporate initiatives.
- Over $1.5 billion of capital was reinvested in existing hospitals and communities, including $350 million to acquire additional hospital interests, primarily in London.
- Approximately $874 million of the Company's common stock was repurchased at an average price of $28.77.
- Earnings per share rose 24%, excluding gains, impairments and investigation and settlement related costs.

Thomas F. Frist, Jr. M.D. / Chairman and Jack O. Bovender, Jr. / CEO and President

A major factor leading to this strong performance is the continued focus of the leadership teams at our local facilities. They are committed to adding needed services, attracting quality physicians and ensuring that our facilities are modern, up to date, and known as leaders in their communities. This commitment is reflected in our replacement facilities in Denton, Texas; Gulfport, Mississippi; and Nashville, Tennessee; in our recently added imaging and cardiac rehabilitation unit at Brandon Medical Center in Brandon, Florida; in our new surgery centers in Marietta, Georgia, and Oklahoma City; in our expanded operating room (OR) and intensive care unit (ICU) at Dauterive Hospital in New Iberia, Louisiana; and in numerous other clinical additions and expansions.



These improvements and increasing demand for health care services in many of the rapidly growing communities where the Company's hospitals are located resulted in same facility admissions increasing 2.8 percent. Same facility revenue per equivalent admission increased 3.6 percent, principally as a result of the Company's ability to negotiate improved prices with non-governmental payers.

At the annual shareholders' meeting on May 25, 2000, the Company announced a new name: HCA – The Healthcare Company. This new name reflects a return to the principles that formed the foundation of the Company. Returning the Company's name to HCA is an affirmation of the culture and values of our more than 164,000 employees. The restructuring we focused on throughout the last few years reflects that patients-first, local hospital orientation.

Our new name allows us to focus on the future while building on the strengths of the past. Health care is constantly changing, and HCA must continue to change in order to keep pace. The basic principles of quality patient care, however, are timeless – recognizing individual worth; treating patients with compassion and kindness; acting with honesty and integrity; and treating

"There are times when you feel like you are really there for the family.
You're with a family who's just lost a child, and you're standing there crying with them.
Or you've talked to someone in the emergency room who is a victim of domestic violence,
and you help them through the steps to get out of that situation.
You're working with people and helping people... and it's good."

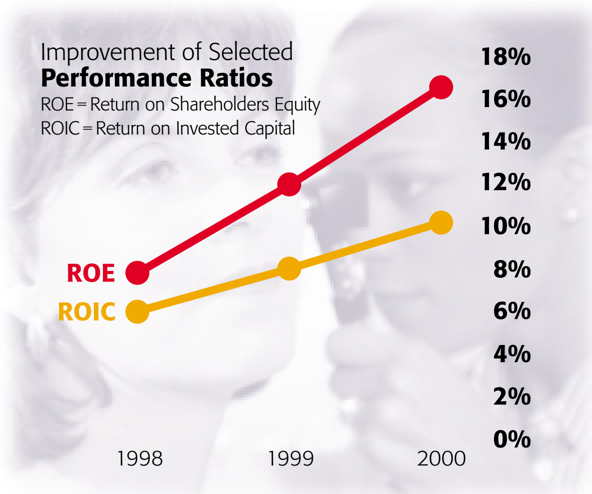
- HCA Hospital Case Manager

our colleagues with loyalty, respect and dignity.

The change was more than in name only. We're encouraged to report that we have achieved success in most of the strategic initiatives outlined in our 1998 strategy statement. Some objectives, including our company-wide restructuring, have been essentially completed. In other areas, we've made clear progress and continue to work toward completion. As we have committed ourselves to attaining these objectives, we have become a stronger, more focused company that is well positioned for future success.

Focus and positioning, aimed at standardizing processes while decentralizing decision-making, were key elements of the new strategy. Perhaps the best example of this is our shared services initiative, which we believe will set our hospitals apart from all others in the industry. This initiative will create company-wide supply improvement and distribution programs, consolidate back office functions such as billing and collections to regional revenue service centers, and upgrade financial and human resource systems with new software.

The shared services initiative was prompted by many factors, including reduced reimbursement from Medicare and Medicaid, increased managed care penetration, more accounts receivable from individuals, including the uninsured, increased supply and technology costs, regulatory requirements, and a commitment to maintain high quality clinical services. Reducing costs in these administrative areas will, we believe, give us more



flexibility to protect the clinical core of our facilities.

Because preserving our clinical areas is central to our mission, the prevention of medical errors is a very important issue in which we are taking a leadership role. Much like shared services, we believe that identifying solutions, primarily in the area of medication safety, is an example of the Company providing tools and best practices for implementation at the local level. We believe that advances in technology will enable the health care industry to make real progress in reducing medical errors. We have developed a company-wide plan to reduce medication errors and we continue to commit significant resources to address patient safety issues. Clearly, this initiative is critical to our mission, and it will be a key facet to our strategy in the months and years to come.

The magnitude of our hospitals' accomplishments over the past two years can only be appreciated fully in the context of the Balanced Budget Act of 1997 (BBA). This legislation dramatically reduced Medicare payments to hospitals and all health care providers. Since the BBA took effect on October 1, 1997, our Company has experienced payment reductions from Medicare in excess of $500 million. The government's original projections that BBA would reduce Federal health care spending by $100 billion over five years proved significantly understated. Recent projections calculate BBA's impact at more than $225 billion in reduced payments over its five-year life.

Our Company's local leaders, working directly with Federal legislators and indirectly through the Federation of American Hospitals, American Hospital Association and state hospital associations, helped members of Congress

"From homeless people to wealthy people. You see every type of individual out there. You have a chance to make their lives a little better for them. They're here because they are sick, and it's my job to help them. Anyone can go to nursing school. You can teach someone the skills, but you can't teach someone to care and have compassion."

- HCA Hospital Registered Nurse

understand that the Medicare cuts of the BBA went entirely too far. Thanks in large part to those efforts, Congress passed the Balanced Budget Restoration Act in late 1999 and the Medicare, Medicaid and SCHIP Benefit Improvement and Protection Act in December of last year. In 2001, as a result of these two acts, the Company's hospitals will receive their first increase in Medicare payment rates since October 1996.

Another area of significant improvement in the last two years is retention and development of senior management at our hospitals. In January 1998, only 40 percent of our hospital CEOs and CFOs had been with their facility for two years or more, but by year end 1999, that number had risen to 81 percent. In addition, we've begun to widen the management talent pipeline to attract up-and-coming health care leaders. We're now actively recruiting from 13 top U.S. universities where graduates include masters' prepared, health care executive candidates. Our controller development program continues to cultivate leaders who will help our hospitals remain financially strong. Diversity also remains a high priority in our executive recruitment and development. Toward that end, we have established relationships with the Institute for Diversity in Health Management, the National Association of Health Services Executives, and INROADS, a minority internship program.

We have continued in the last year to place a large emphasis on our corporate Ethics and Compliance Program. Consisting of our Code of Conduct, comprehensive policies and procedures, extensive training, our Ethics Line, auditing and monitoring performance, and various organizational structures, our program has been recognized by many in health care as a model for other hospitals. We have for some time made our compliance materials available on the Internet, both as a matter of public accountability for our business conduct and as a resource to other health care providers. As part of last year's settlement agreements, we entered into a corporate integrity agreement with the Office of Inspector General of the Department of Health and Human Services. This agreement, which will last for eight years, essentially requires that we continue the program that we voluntarily created.

In December 2000, the Company and its affiliates reached an agreement with the criminal division of the Department of Justice (DOJ) and various U.S. attorneys' offices to resolve all pending Federal criminal issues in the governmental investigation. The terms of this agreement resulted in the recording of an after-tax charge of $95 million in the fourth quarter of 2000. In the second quarter of 2000, the Company recorded an after-tax charge of $498 million in connection with its civil settlement of coding, homecare and lab billing issues. The Company paid the criminal settlement in the first quarter of 2001 and expects to pay the civil settlement in the second quarter of 2001. Cost reports and physician relation's issues remain unresolved with the civil division of DOJ.

From a financial perspective, revenues totaled $16.67 billion for the year ended December 31, 2000, compared with $16.66 billion for 1999. Income, excluding gains on sales of facilities, impairment of long-lived assets, restructuring costs, investigation and settlement related costs (non-recurring items), totaled $913 million or $1.61 per diluted share in 2000, compared to $767 million or $1.30 per diluted share for 1999. Net income, including all non-recurring items, totaled $219 million or $0.39 per diluted share for 2000, versus net income of $657 million or $1.11 per diluted share for 1999.

At December 31, 2000, the Company's balance sheet reflected total debt of approximately $6.8 billion, stockholders' equity (including temporary equity of $769 million, primarily forward purchase contracts) of $5.2 billion, and total assets of $17.6 billion. The Company's ratio of debt to debt plus common, temporary and minority equity was 54 percent at December 2000 and 50 percent at December 31, 1999. As of December 31, 2000, the Company had approximately 543 million common shares outstanding compared to 564 million

"It was Christmas Eve. I was working in the cardiac cath lab. A gentleman had come in with chest pains. I brought him upstairs. I'm standing in the hallway talking to him when he clutches his chest and codes right there. There was no one else around to help. I looked right up at the sky and said 'God, I'm going to save this man's life however long it takes me. I'm going to help this man.' I did CPR for 45 minutes, and we did open heart surgery on him. He survived, and I became lifelong friends with this gentleman."

- HCA Hospital Cardiovascular Technologist

shares at December 31, 1999.

During 2000, the Company settled repurchases of approximately 30.4 million shares of its common stock at a total cost of approximately $874 million. At December 31, 2000, forward purchase contracts for approximately 23.4 million shares were outstanding. These shares were purchased by certain financial organizations through a series of forward purchase contracts. In accordance with the terms of the forward purchase contracts, the shares purchased remain outstanding until the forward purchase contracts are settled by the Company.

HCA's success in 2000 and over the past three years is the result of putting in place solid operational strategies and focusing on our local hospitals. We are now realizing and benefiting from our shared culture, a common vision of caring, compassion and quality care. Today, HCA and its hospitals stand alone as leaders in their communities and are very well positioned for the future.

Sincerely,

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

Jack O. Bovender, Jr.
CEO and President

HCA Selected Financial Data as of and for the Years Ended December 31

(Dollars in millions, except per share amounts)

	2000	1999	1998	1997	1996
Summary of Operations:					
Revenues	$ 16,670	$ 16,657	$ 18,681	$ 18,819	$ 18,786
Salaries and benefits	6,639	6,694	7,766	7,631	7,205
Supplies	2,640	2,645	2,901	2,722	2,655
Other operating expenses	3,085	3,251	3,816	4,263	3,689
Provision for doubtful accounts	1,255	1,269	1,442	1,420	1,196
Depreciation and amortization	1,033	1,094	1,247	1,238	1,143
Interest expense	559	471	561	493	488
Equity in earnings of affiliates	(126)	(90)	(112)	(68)	(173)
Settlement with Federal government	840	–	–	–	–
Gains on sales of facilities	(34)	(297)	(744)	–	–
Impairment of long-lived assets	117	220	542	442	–
Restructuring of operations and investigation related costs	62	116	111	140	–
	16,070	15,373	17,530	18,281	16,203
Income from continuing operations before minority interests and income taxes	600	1,284	1,151	538	2,583
Minority interests in earnings of consolidated entities	84	57	70	150	141
Income from continuing operations before income taxes	516	1,227	1,081	388	2,442
Provision for income taxes	297	570	549	206	981
Income from continuing operations	219	657	532	182	1,461
Income (loss) from discontinued operations, net of taxes	–	–	(153)	(431)	44
Cumulative effect of accounting change, net of taxes	–	–	–	(56)	–
Net income (loss)	$ 219	$ 657	$ 379	$ (305)	$ 1,505
Basic earnings (loss) per share:					
Income from continuing operations	$ .39	$ 1.12	$ .82	$ .28	$ 2.17
Income (loss) from discontinued operations, net of taxes	–	–	(.23)	(.65)	.07
Cumulative effect of accounting change, net of taxes	–	–	–	(.09)	–
Net income (loss)	$ .39	$ 1.12	$ .59	$ (.46)	$ 2.24
Shares used in computing basic earnings (loss) per share (in thousands)	555,553	585,216	643,719	657,931	670,774
Diluted earnings (loss) per share:					
Income from continuing operations	$ .39	$ 1.11	$ .82	$ .27	$ 2.15
Income (loss) from discontinued operations, net of taxes	–	–	(.23)	(.65)	.07
Cumulative effect of accounting change, net of taxes	–	–	–	(.08)	–
Net income (loss)	$ .39	$ 1.11	$ .59	$ (.46)	$ 2.22
Shares used in computing diluted earnings (loss) per share (in thousands)	567,685	591,029	646,649	663,090	677,886
Cash dividends per common share	$ .08	$ .08	$ .08	$ .07	$ .08
Redemption of preferred stock purchase rights	–	–	–	$ .01	–

(Dollars in millions, except per share amounts)

	2000	1999	1998	1997	1996
Financial Position:					
Assets	$ 17,568	$ 16,885	$ 19,429	$ 22,002	$ 21,116
Working capital	312	480	446	1,818	1,551
Net assets of discontinued operations	—	—	—	841	212
Long-term debt, including amounts due within one year	6,752	6,444	6,753	9,408	6,982
Minority interests in equity of consolidated entities	572	763	765	836	836
Forward purchase contracts and put options	769	—	—	—	—
Stockholders' equity	4,405	5,617	7,581	7,250	8,609
Cash Flow Data:					
Cash provided by operating activities	$ 1,547	$ 1,223	$ 1,916	$ 1,483	$ 2,589
Cash provided by (used in) investing activities	(1,087)	925	970	(2,746)	(2,219)
Cash provided by (used in) financing activities	(336)	(2,255)	(2,699)	1,260	(489)
Operating Data:					
Number of hospitals at end of period(a)	187	195	281	309	319
Number of licensed beds at end of period(b)	41,009	42,484	53,693	60,643	61,931
Weighted average licensed beds(c)	41,659	46,291	59,104	61,096	62,708
Admissions(d)	1,553,500	1,625,400	1,891,800	1,915,100	1,895,400
Equivalent admissions(e)	2,300,800	2,425,100	2,875,600	2,901,400	2,826,000
Average length of stay (days)(f)	4.9	4.9	5.0	5.0	5.1
Average daily census(g)	20,952	22,002	25,719	26,006	26,538
Occupancy(h)	50%	48%	44%	43%	42%

(a) Excludes 9 facilities in 2000, 12 facilities in 1999, 24 facilities in 1998, 27 facilities in 1997 and 22 facilities in 1996 that are not consolidated (accounted for using the equity method) for financial reporting purposes.

(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 total number of patients admitted (in the facility for a period in excess of 23 hours) to HCA's hospitals and is used by management and certain investors as a general measure of inpatient volume.

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

(f) Represents the average number of days admitted patients stay in HCA's hospitals. Average length of stay has declined due to the continuing pressures from managed care and other payers to restrict admissions and reduce the number of days that are covered by the payers for certain procedures, and by technological and pharmaceutical improvements.

(g) Represents the average number of patients in HCA's hospital beds each day.

(h) Represents the percentage of hospital licensed beds occupied by patients. Both average daily census and occupancy rate provide measures of the utilization of inpatient rooms.

The Selected Financial Data and the accompanying consolidated financial statements present certain information with respect to the financial position, results of operations and cash flows of HCA-The Healthcare Company which should be read in conjunction with the following discussion and analysis. The terms "HCA" or the "Company" as used herein refer to HCA-The Healthcare Company and its affiliates unless otherwise stated or indicated by context. The term "affiliates" means direct and indirect subsidiaries of HCA-The Healthcare Company and partnerships and joint ventures in which such subsidiaries are partners.

Forward-Looking Statements

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

Investigations and Agreements to Settle Certain Government Claims

The Company continues to be the subject of governmental investigations into and litigation relating to its business practices. Additionally, the Company is a defendant in several *qui tam* actions brought by private parties on behalf of the United States of America, some of which have been unsealed and served on the Company. The Company is aware of additional *qui tam* actions that remain under seal. There could also be other sealed *qui tam* cases of which it is unaware.

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

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

The Civil Agreement covers the following issues: DRG coding for calendar years 1990-1997; outpatient laboratory billings for calendar years 1989-1997; home health community education for Medicare cost report years 1994-1997; home health billing for calendar years 1995-1998; and certain home health management transactions for Medicare cost report years 1993-1998. The Civil Agreement provides that in return for releases on these issues, the Company will pay the government $745 million, with interest accruing from May 18, 2000 to the payment date at a rate of 6.5%. The civil payment will be made upon receipt of court approval of the Civil Agreement, which is expected to occur during the second quarter of 2001. The civil issues that are not covered by the Civil Agreement include claims related to cost reports and physician relations issues.

Under the Civil Agreement, the Company's existing Letter of Credit Agreement with the Department of Justice will be reduced from $1 billion to $250 million at the time of the settlement payment, which is expected to occur during the second quarter of 2001. Any future civil settlement or court ordered payments related to cost report or physician relations issues will reduce the remaining amount of the letter of credit dollar for dollar. The amount of any such future settlement or court ordered payments is not related to the remaining amount of the letter of credit.

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

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

The Company continues to cooperate in the governmental investigations. Given the scope of the ongoing investigations and litigation, the Company expects other investigative and prosecutorial activity to occur in these and other jurisdictions in the future.

While management is unable to predict the outcome of any of the ongoing investigations and litigation or the initiation of any additional investigations or litigation, were the Company to be found in violation of Federal or state laws relating to Medicare, Medicaid or similar programs or breach of the CIA, the Company could be subject to substantial monetary fines, civil and criminal penalties and/or exclusion from participation in the Medicare and Medicaid programs. Any such sanctions or losses could have a material adverse effect on the Company's financial position, results of operations and liquidity. (See Note 2—Investigations and Agreements to Settle Certain Government Claims and Note 11—Contingencies in the Notes to Consolidated Financial Statements.)

Business Strategy

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

- *Emphasize* a *"patients first" philosophy and a commitment to ethics and compliance:* HCA is committed to a values-based corporate culture that prioritizes the care and improvement of human life above all else. The values highlighted by the Company's corporate culture—compassion, honesty, integrity, fairness, loyalty, respect and kindness—are the cornerstone of HCA. To reinforce the Company's dedication to these values and to ensure integrity in all that HCA does, the Company has developed and implemented a comprehensive ethics and compliance program that articulates a high set of values and behavioral standards. HCA believes that this program has reinforced the Company's dedication to excellent patient care.
- *Focus on strong assets in select, core communities:* HCA focuses on communities where the Company is or can be the number one or number two health care provider. To achieve this goal, management initiated a comprehensive restructuring process in 1997 that has transformed HCA into a smaller, more focused company. This restructuring allows HCA to focus its efforts on core communities, which are typically located in urban areas characterized by highly integrated health care facility networks. This restructuring included the divestiture of home health operations and the Value Health business units, the spin-offs of LifePoint and Triad to HCA's stockholders, and the sales of various other hospitals and surgery centers outside HCA's strategic locations. HCA intends to continue to optimize core assets through selected divestitures, acquisitions and capital expenditures.
- *Develop comprehensive local health care networks with a broad range of health care services:* HCA seeks to operate each of the Company's facilities as part of a network with other health care facilities that HCA's affiliates own or operate within a common region. Being a comprehensive provider of quality health care services in selected communities should enable the Company to attract and serve patients and physicians.
- *Grow through increased patient volume, expansion of specialty and outpatient services and selective acquisitions:* HCA intends to identify opportunities in areas where demand for comprehensive health services is not adequately met. Expansion of specialty services should strengthen the Company's health care delivery networks and attract new patients. To support this expansion, HCA plans to actively recruit additional specialists. Recognizing that within the health care industry, the shift from inpatient to outpatient care is likely to continue, HCA intends to enhance the access to and the capabilities of the Company's outpatient services by devoting additional capital resources to outpatient facilities.
- *Improve operating efficiencies through enhanced cost management and resource utilization, and the implementation of shared services initiatives:* HCA has initiated several measures to improve the financial performance of the Company's facilities. To address labor costs, HCA implemented in many communities a flexible staffing model. To curtail supply cost, HCA formed a group purchasing organization that allows the Company to achieve better pricing in negotiating purchasing and supply contracts. In addition, as HCA grows in select core markets, the Company should continue to benefit from economies of scale, including supply chain efficiencies and volume discount cost savings. The Company expects to be able to reduce operating costs and to be better positioned to work with health maintenance organizations, preferred provider organizations and employers, by sharing certain services among several facilities in the same market.
- *Recruit, develop and maintain relationships with physicians:* HCA plans to actively recruit physicians to enhance patient care and fulfill the needs of the communities the Company serves. HCA believes that recruiting and retaining quality physicians is essential to being a premier provider of health care services.
- *Streamline and decentralize management, consistent with our local focus:* HCA's strategy to streamline and decentralize the Company's management structure affords management of the Company's facilities greater flexibility to make decisions that are specific to the respective local communities. This operating structure creates a more nimble, responsive organization.
- *Effectively allocate capital to maximize return on investments:* Management carefully evaluates investment opportunities and invests in projects that add to the primary objective of providing comprehensive, high-quality health care services in the most cost-effective manner. HCA maintains and replaces equipment, renovates and constructs replacement facilities and adds new services to increase the attractiveness of the Company's hospitals and other facilities to patients and physicians. In addition, HCA evaluates acquisitions that complement the Company's strategies and assesses opportunities to enhance stockholder value, including repayment of indebtedness and stock repurchases.

Results of Operations

Revenue/Volume Trends

HCA's revenues are affected by pressure on payment rates by the government, managed care providers and other payers. Under the Balanced Budget Act of 1997 ("BBA-97"), the Company's reimbursement from the Medicare and Medicaid programs was reduced. Subsequent to BBA-97, two relief bills were passed by Congress. The Medicare, Medicaid and SCHIP Balanced Budget Refinement Act of 1999 ("BBRA") was passed in November 1999 and was primarily directed at reducing potential future Medicare cuts that would have occurred as a result of BBA-97. The Medicare, Medicaid and SCHIP Benefit Improvement and Protection Act of 2000 ("BIPA") was enacted in December 2000. Under BIPA, HCA believes it may realize Medicare rate increases over the next five years. BBA-97 contained a requirement that the Health Care Financing Administration adopt a prospective payment system ("PPS") for outpatient hospital services, which was implemented during August 2000. The outpatient PPS has not had a measurable effect on the Company's financial results. The Company and the health care industry continue to experience a shift in business from Medicare and indemnity insurance to managed care. HCA generally receives lower payments per patient under managed care plans thereby reducing revenues, earnings and cash flows. Payer pressure to utilize outpatient and alternative health care delivery services also presents a challenge to the Company and the health care industry in general. Admissions related to Medicare, Medicaid and managed care plans and other discounted arrangements for the years ended December 31, 2000, 1999 and 1998 are set forth below.

	Years Ended December 31,		
	2000	**1999**	**1998**
Medicare	37%	38%	39%
Medicaid	11%	11%	11%
Managed care and other discounted	42%	41%	39%
Other	10%	10%	11%
	100%	100%	100%

The approximate percentages of inpatient revenues from continuing operations of the Company's facilities related to Medicare, Medicaid and managed care plans and other discounted arrangements for the years ended December 31, 2000, 1999 and 1998 are set forth below.

	Years Ended December 31,		
	2000	**1999**	**1998**
Medicare	40%	42%	44%
Medicaid	8%	8%	7%
Managed care and other discounted	38%	33%	28%
Other	14%	17%	21%
	100%	100%	100%

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

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

The following are comparative summaries of results from continuing operations for the years ended December 31, 2000, 1999 and 1998 (dollars in millions, except per share amounts):

	2000		1999		1998	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Revenues	$ 16,670	100.0	$ 16,657	100.0	$ 18,681	100.0
Salaries and benefits	6,639	39.8	6,694	40.2	7,766	41.6
Supplies	2,640	15.8	2,645	15.9	2,901	15.5
Other operating expenses	3,085	18.6	3,251	19.5	3,816	20.4
Provision for doubtful accounts	1,255	7.5	1,269	7.6	1,442	7.7
Depreciation and amortization	1,033	6.2	1,094	6.6	1,247	6.7
Interest expense	559	3.4	471	2.8	561	3.0
Equity in earnings of affiliates	(126)	(0.8)	(90)	(0.5)	(112)	(0.6)
Settlement with Federal government	840	5.0	—	—	—	—
Gains on sales of facilities	(34)	(0.2)	(297)	(1.8)	(744)	(4.0)
Impairment of long-lived assets	117	0.7	220	1.3	542	2.9
Restructuring of operations and investigation related costs	62	0.4	116	0.7	111	0.6
	16,070	96.4	15,373	92.3	17,530	93.8
Income before minority interests and income taxes	600	3.6	1,284	7.7	1,151	6.2
Minority interests in earnings of consolidated entities	84	0.5	57	0.3	70	0.4
Income before income taxes	516	3.1	1,227	7.4	1,081	5.8
Provision for income taxes	297	1.8	570	3.5	549	3.0
Net income	$ 219	1.3	$ 657	3.9	$ 532	2.8
Basic earnings per share	$ .39		$ 1.12		$ .82	
Diluted earnings per share	$ .39		$ 1.11		$ .82	
% changes from prior year:						
Revenues	0.1%		(10.8)%		(0.7)%	
Income before income taxes	(58.0)		13.5		178.8	
Net income	(66.7)		23.6		191.2	
Basic earnings per share	(65.2)		36.6		192.9	
Diluted earnings per share	(64.9)		35.4		203.7	
Admissions(a)	(4.4)		(14.1)		(1.4)	
Equivalent admissions(b)	(5.1)		(15.7)		(1.1)	
Revenue per equivalent admission	5.5		5.7		0.3	
Same facility % changes from prior year(c):						
Revenues	6.2		5.3		(0.2)	
Admissions(a)	2.8		2.7		0.4	
Equivalent admissions(b)	2.6		2.5		1.4	
Revenue per equivalent admission	3.6		2.7		(1.5)	

(a) Represents the total number of patients admitted (in the facility for a period in excess of 23 hours) to HCA's hospitals and is used by management and certain investors as a general measure of inpatient volume.

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

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

Years Ended December 31, 2000 and 1999

Income before income taxes decreased 58% to $516 million in 2000 from $1.2 billion in 1999 and pretax margins decreased to 3.1% in 2000 from 7.4% in 1999. The decrease was due primarily to the settlement with the Federal government related to civil and criminal issues that resulted in a pretax charge of $840 million in 2000. See Note 2—Investigations and Agreements to Settle Certain Government Claims in the Notes to Consolidated Financial Statements.

Revenues increased 0.1%, though the number of hospitals operated was reduced to 187 hospitals at December 31, 2000 from 195 hospitals at the end of 1999. On a same facility basis, admissions and revenues increased 2.8% and 6.2%, resulting in a 3.6% increase in revenue per equivalent admission. The increases in revenue per equivalent admission of 5.5% on a consolidated basis and 3.6% on a same facility basis from 1999 to 2000, were primarily the result of successes achieved during 2000 in renegotiating and renewing certain managed care contracts on more favorable terms to the Company.

Salaries and benefits, as a percentage of revenues, decreased from 40.2% in 1999 to 39.8% in 2000. The 5.5% increase in revenue per equivalent admission, while salaries and benefits per equivalent admission increased 4.5%, was a primary factor for the decrease. HCA continues to experience cost pressures in this area due to a tight labor market for health care professionals.

Supply costs decreased as a percentage of revenues to 15.8% in 2000 from 15.9% in 1999. HCA's shared services initiatives, orthopedic and cardiovascular contracting initiatives and improved pricing through HCA's group purchasing organization have all played roles in the Company's ability to improve in this area.

Other operating expenses (primarily consisting of contract services, professional fees, repairs and maintenance, rents and leases, utilities, insurance and non-income taxes), as a percentage of revenues, decreased to 18.6% in 2000 from 19.5% in 1999 due primarily to the restructuring of operations discussed in Note 3—Restructuring of Operations in the Notes to Consolidated Financial Statements. The other operating expenses, as a percentage of revenues, for the facilities included in the spin-offs of Triad and LifePoint were 22.4% for 1999, and the other operating expenses, as a percentage of revenues, for the facilities included in the Company's National Group were 27.8% for 1999. Another factor in the improvement in other operating expenses related to certain insurance subsidiary funds being reallocated among investment managers, resulting in the recognition of previously unrealized gains that decreased other operating expenses by approximately $27 million during 2000.

Provision for doubtful accounts, as a percentage of revenues, decreased to 7.5% in 2000 from 7.6% in 1999; however, the Company continues to experience trends that make it difficult to maintain or reduce the provision for doubtful accounts as a percentage of revenues. These trends include payer mix shifts to managed care plans (resulting in increased amounts of patient co-payments and deductibles), increased pricing, delays in payments and the denial of claims by managed care payers and increases in the volume of health care services provided to uninsured patients in certain of HCA's facilities.

Equity in earnings of affiliates increased as a percentage of revenues to 0.8% in 2000 from 0.5% in 1999 due to improved operations during 2000 at certain of HCA's joint ventures accounted for using the equity method and an impairment charge related to one of our equity investment entities in the third quarter of 1999 (resulting in an $11 million expense).

Depreciation and amortization decreased as a percentage of revenues to 6.2% in 2000 from 6.6% in 1999, primarily due to depreciation expense remaining relatively flat while revenues increased.

Interest expense increased to $559 million in 2000 compared to $471 million in 1999, primarily as a result of an increase in the average outstanding debt in 2000 compared to 1999, an increase in the general level of interest rates during 2000 compared to 1999 and the additional interest expense of approximately $30 million recognized during 2000 related to the settlement with the Federal government. The average interest rates for the Company's borrowings increased from 7.8% at December 31, 1999 to 8.1% at December 31, 2000.

During 2000 and 1999, respectively, the Company incurred $62 million and $116 million of restructuring of operations and investigation related costs. In 2000, these costs included $51 million of professional fees (legal and accounting) related to the governmental investigations and $11 million of other costs. In 1999, restructuring of operations and investigation related costs included $77 million of professional fees (legal and accounting) related to the governmental investigations, $5 million of severance and $34 million of other costs (including certain costs related to completing the spin-offs of LifePoint and Triad). See Note 4—Restructuring of Operations and Investigation Related Costs in the Notes to Consolidated Financial Statements.

During 2000, the Company recognized a pretax gain of $34 million ($16 million after-tax) on the sales of three hospitals. During 1999, the Company recognized a pretax gain of $297 million ($164 million after-tax) on the sale of three hospitals and certain related health care facilities. Proceeds from the sales were used to repay bank borrowings. See Note 3—Restructuring of Operations in the Notes to Consolidated Financial Statements.

During 2000, the Company identified and initiated plans to sell or replace during 2001, 4 consolidating hospitals and certain other assets. The carrying value for the hospitals and other assets to be divested was reduced to fair value based upon estimates of sales values, for a total non-cash, pretax charge of $117 million. See Note 3—Restructuring of Operations in the Notes to Consolidated Financial Statements.

During 1999, the Company identified and initiated, or revised, plans to divest or close 23 consolidating hospitals and four non-consolidating hospitals. The carrying value for the hospitals and other assets to be divested was reduced to fair value based upon estimates of sales values, for a total non-cash, pretax charge of $220 million. See Note 3—Restructuring of Operations in the Notes to Consolidated Financial Statements.

Minority interests increased as a percentage of revenues to 0.5% in 2000 from 0.3% in 1999 due to improved operations at certain joint ventures.

The effective income tax rate was 57.6% in 2000 and 46.5% in 1999. The increase was due primarily to the settlement with the Federal government and a valuation allowance in 2000, and nondeductible intangible assets related to gains on sales of facilities and impairment of long-lived assets during both periods. If the effect of the settlement with the Federal government, the valuation allowance, the nondeductible intangible assets and the related amortization were excluded, the effective income tax rate would have been approximately 39% for both 2000 and 1999.

Years Ended December 31, 1999 and 1998

Income before income taxes increased 13.5% to $1.2 billion in 1999 from $1.1 billion in 1998 and pretax margins increased to 7.4% in 1999 from 5.8% in 1998. The increase in pretax income was primarily the result of reductions from 1998 to 1999 in salaries and benefits and other operating expenses, as a percentage of revenues.

Revenues decreased 10.8% to $16.7 billion in 1999 from $18.7 billion in 1998 due to the reduction from 281 hospitals at December 31, 1998 to 195 hospitals at December 31, 1999. During 1999, HCA substantially completed a restructuring of its operations by completing the spin-offs of LifePoint and Triad and the sales of 24 hospital facilities. On a same facility basis, both admissions and revenue per equivalent admission increased 2.7% from 1998 to 1999, resulting in a 5.3% increase in revenues. The increases in revenue per equivalent admission of 5.7% on a consolidated basis and 2.7% on a same facility basis from 1998 to 1999, were primarily the result of successes achieved during 1999 in renegotiating and renewing certain managed care contracts on more favorable terms.

Salaries and benefits, as a percentage of revenues, decreased from 41.6% in 1998 to 40.2% in 1999. The 5.7% increase in revenue per equivalent admission was a primary factor for the decrease. In addition, HCA was more successful in adjusting staffing levels to correspond with the equivalent admission growth rates (man hours per equivalent admission decreased approximately 3% compared to 1998).

Supply costs increased as a percentage of revenues to 15.9% in 1999 from 15.5% in 1998 due to an increase in the cost of supplies per equivalent admission related to the increasing costs of new technology and pharmaceuticals.

Other operating expenses (primarily consisting of contract services, professional fees, repairs and maintenance, rents and leases, utilities, insurance and non-income taxes) decreased as a percentage of revenues from 20.4% in

1998 to 19.5% in 1999 due to certain fixed costs such as contract services, rents, leases, and utilities remaining relatively flat while revenue per equivalent admission was increasing. A decline in professional fees, due to the sales of certain teaching facilities which had costs for medical directorships, also contributed to the decrease.

Provision for doubtful accounts, as a percentage of revenues, decreased slightly to 7.6% in 1999 from 7.7% in 1998. HCA continues to experience trends that make it difficult to maintain or reduce the provision for doubtful accounts as a percentage of revenues. These trends include payer mix shifts to managed care plans (resulting in increased amounts of patient co-payments and deductibles), delays in payments and the denial of claims by managed care payers and increases in the volume of health care services provided to uninsured patients in certain of the Company's facilities.

Depreciation and amortization remained relatively flat as a percentage of revenues at 6.6% in 1999 versus 6.7% in 1998.

Interest expense decreased to $471 million in 1999 compared to $561 million in 1998 primarily as a result of a decrease in average outstanding debt during 1999 compared to 1998. The spin-offs and facility sales resulted in the receipt of cash proceeds in 1999 and in the third and fourth quarters of 1998 which were used to pay down borrowings.

Equity in earnings of affiliates remained relatively flat as a percentage of revenues at 0.5% in 1999 and 0.6% in 1998.

During 1999, the Company recognized a pretax gain of $297 million ($164 million after-tax) on the sale of three hospitals and certain related health care facilities. Proceeds from the sales were used to repay bank borrowings.

During 1998, the Company recognized a pretax gain of $744 million ($365 million after-tax) on the sale of certain hospitals and surgery centers. The net gain includes a pretax gain of $570 million ($335 million after-tax) on the sale of 21 hospitals to a consortium of not-for-profit entities, a pretax gain of $203 million ($50 million after-tax) on the sale of 34 surgery centers, and a pretax loss of $29 million ($20 million after-tax) on the sale of 6 hospitals and other facilities. See Note 3—Restructuring of Operations in the Notes to Consolidated Financial Statements.

During 1999, the Company also identified and initiated, or revised, plans to divest or close during 1999 and 2000, 23 consolidating hospitals and 4 non-consolidating hospitals. The carrying value for the hospitals and other assets expected to be sold was reduced to fair value based upon estimates of sales values, for a total non-cash, pretax charge of $220 million. See Note 3—Restructuring of Operations in the Notes to Consolidated Financial Statements.

During 1998, management identified and initiated plans to sell or close 23 consolidating hospitals, 1 non-consolidating hospital and a group of the Company's medical office buildings. The carrying value for the hospitals and other facilities was reduced to fair value, based upon estimates of sales values resulting in a non-cash, pretax impairment charge of $542 million ($175 million of the total impairment charge was related to the medical office buildings). See Note 3—Restructuring of Operations in the Notes to Consolidated Financial Statements.

During 1999 and 1998, respectively, the Company incurred $116 million and $111 million of restructuring of operations and investigation related costs. In 1999, these costs included $77 million of professional fees (legal and accounting) related to the governmental investigations, $5 million of severance costs and $34 million of other costs. In 1998, restructuring of operations and investigation related costs included $96 million of professional fees (legal and accounting) related to the governmental investigations, $5 million of severance costs and $10 million of other costs. See Note 4—Restructuring of Operations and Investigation Related Costs in the Notes to Consolidated Financial Statements.

Minority interests decreased slightly as a percentage of revenues to 0.3% in 1999 from 0.4% in 1998.

The effective income tax rates were 46.5% in 1999 and 50.8% in 1998 due to non-deductible intangible assets related to gains on sales of facilities and impairments of long-lived assets. If the effect of the non-deductible intangible assets and the related amortization were excluded, the effective income tax rate would have been approximately 39% for both 1999 and 1998.

Liquidity and Capital Resources

Cash provided by continuing operating activities totaled $1.5 billion in 2000 compared to $1.2 billion in 1999 and $1.9 billion in 1998. The increase in cash provided by continuing operating activities during 2000 was primarily due to an increase in net income, excluding settlement with Federal government, gains on sales of facilities and impairment of long-lived assets. The decrease from 1998 to 1999 was primarily due to an increase in tax payments and an increase in accounts receivable and other current assets. During 1998, HCA applied for and received a refund of approximately $350 million resulting from excess estimated tax payments made in 1997, which were based upon more profitable prior periods.

Working capital totaled $312 million at December 31, 2000 and $480 million at December 31, 1999. At December 31, 2000 current liabilities included an $840 million accrual for the settlement with the Federal government. See Note 2—Investigations and Agreements to Settle Certain Government Claims in the Notes to Consolidated Financial Statements.

Cash used in investing activities was approximately $1.1 billion in 2000 compared to cash provided by investing activities of approximately $0.9 billion and $1.0 billion in 1999 and 1998, respectively. Excluding acquisitions, capital expenditures were $1.2 billion in 2000 and $1.3 billion in 1999 and 1998, respectively. Planned capital expenditures in 2001 are expected to approximate $1.3 billion. At December 31, 2000, there were projects under construction, which had an estimated additional cost to complete and equip over the next five years of approximately $1.6 billion. HCA expects to finance capital expenditures with internally generated and borrowed funds. Available sources of capital include amounts available under HCA's revolving credit facility (the "Credit Facility") (approximately $888 million and $789 million as of December 31, 2000 and February 28, 2001, respectively) and anticipated access to public and private debt markets. Management believes that its capital expenditure program is adequate to expand, improve and equip its existing health care facilities. HCA's restructuring of operations (spin-offs and asset sales) resulted in the receipt of cash proceeds of approximately $1.8 billion in 1999 and $2.8 billion in 1998.

HCA expended $350 million and $215 million for acquisitions and investments in and advances to affiliates (generally interests in joint ventures that are accounted for using the equity method) during 2000 and 1998, respectively.

HCA has various agreements with joint venture partners whereby the partners have an option to sell or "put" their interests in the joint venture back to HCA, within specific periods at fixed prices or prices based on certain formulas. The combined put price under all such agreements was approximately $386 million at December 31, 2000. During 2000, two of HCA's joint venture partners exercised their put options whereby HCA purchased the partners' interests in the joint ventures for approximately $95 million. During 1999, no put options were exercised; however, HCA did sell or spin-off the Company's interest in four joint ventures. One additional joint venture was dissolved during 1999, with each partner resuming the operation of the facilities they had previously contributed to the joint venture. During April 1998, one of HCA's joint venture partners exercised its put option whereby HCA purchased the partner's interest in the joint venture for approximately $40 million. HCA cannot predict if, or when, other joint venture partners will exercise such options.

During the first quarter of 1998, the Internal Revenue Service ("IRS") issued guidance regarding certain tax consequences of joint ventures between for-profit and not-for-profit hospitals. As a result of the tax ruling, the IRS has proposed and may in the future propose to revoke the tax-exempt or public charity status of certain not-for-profit entities, which participate in such joint ventures, or to treat joint venture income as unrelated business taxable income. HCA is continuing to review the impact of the tax ruling on its existing joint ventures, or the development of future ventures, and is consulting with its joint venture partners and tax advisers to develop appropriate courses of action. In January 2001, a not-for-profit entity which participates in a joint venture with HCA filed a refund suit in Federal District Court seeking to recover taxes, interest and penalties assessed by the IRS in connection with the IRS' proposed revocation of the not-for-profit entity's tax-exempt status. In the event that the not-for-profit entity's tax-exempt status is upheld, the IRS has proposed to treat the not-for-profit entity's share of joint venture income as unrelated business taxable income. HCA is not a party to this lawsuit. The tax ruling or any adverse determination by the IRS or the courts regarding the tax-exempt or public charity status of a not-for-profit partner or the characterization of joint venture income as unrelated business taxable income could limit joint venture development with not-for-profit hospitals, require the restructuring of certain existing joint ventures with not-for-profits and influence the exercise of the put agreements by certain existing joint venture partners.

Investments of the Company's professional liability insurance subsidiary to maintain statutory equity and pay claims totaled $1.7 billion at December 31, 2000 and 1999.

Cash flows used in financing activities totaled approximately $336 million during 2000, $2.3 billion during 1999 and $2.7 billion during 1998. The cash flows provided by continuing operating activities and investing activities were primarily used to repurchase HCA's common stock in 2000 and 1999, and to pay down debt during 1999 and 1998.

In March 2000, HCA announced that its Board of Directors authorized the repurchase of up to $1 billion of the Company's common stock. Certain financial organizations purchased approximately 19.4 million shares of the Company's common stock for $535 million during 2000, utilizing forward purchase contracts. During 2000, HCA settled forward purchase contracts representing approximately 11.7 million shares at a cost of $300 million. In accordance with the terms of the contracts, approximately 7.7 million shares at a cost of $235 million remain outstanding until settled by the Company. As part of this stock repurchase program, HCA sold 3.8 million put options which remain outstanding at December 31, 2000, each of which entitles the holder to sell HCA's stock to HCA at a specified price on a specified date. These put options expire on various dates through March 27, 2001 and have exercise prices ranging from $34.17 to $37.00 per share, with an average exercise price of $35.66 per share. HCA expects to repurchase the remaining stock associated with the March 2000 repurchase authorization through open market purchases, privately negotiated transactions, forward purchase contracts or by utilizing the sale of additional put options.

At the November 2000 meeting of the Emerging Issues Task Force ("EITF"), the SEC provided guidance that in situations where public companies having outstanding equity derivative contracts that are not compliant with the EITF guidance in Issue 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock" ("Issue 00-19") are required to reclassify the maximum amount of the potential cash obligation (the forward price in a forward stock purchase contract or the strike price for a written put option) to temporary equity. Pursuant to this guidance, HCA reclassified $769 million ($752 million related to outstanding forward purchase contracts under the March 2000 and November 1999 repurchase authorizations and $17 million related to written put options) from common equity to temporary equity at December 31, 2000 (prior year amounts were not restated).

In November 1999, HCA announced that its Board of Directors had authorized the repurchase of up to $1 billion of its common stock. During 2000, HCA settled forward purchase contracts representing approximately 18.7 million shares at a cost of $539 million. In accordance with the terms of the forward purchase contracts, the shares purchased remain outstanding until the Company settles the forward purchase contracts. Approximately 15.7 million shares at a cost of $460 million remain outstanding until the forward purchase contracts are settled by HCA.

In 1999, HCA expended approximately $1.9 billion to complete the repurchase of approximately 81.9 million of its shares through open market purchases and the settlement of accelerated and forward purchase contracts.

In connection with the Company's share repurchase programs, the Company entered into a Letter of Credit Agreement with the United States Department of Justice. As part of the agreement, the Company provided the government with letters of credit totaling $1 billion. The settlement reached with the government in December 2000, as discussed in Note 2—Investigations and Agreements to Settle Certain Government Claims in the Notes to Consolidated Financial Statements, provides that the letters of credit will be reduced from $1 billion to $250 million at the time of the civil settlement payment. The civil settlement payment is anticipated during the first six months of 2001. In addition, the settlement provides that any future civil payments on cost reports or physician relations will reduce, but are not related to, the remaining amount of the letter of credit dollar for dollar.

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

During March 1999, HCA entered into a $1.0 billion term loan (the "1999 Term Loan"). Borrowings under this loan were used to fund the $1.0 billion share repurchase program approved in February 1999. See Note 12—Capital Stock and Stock Repurchases in the Notes to Consolidated Financial Statements. During 1998, HCA entered into a $1.0 billion term loan agreement (the "1998 Term Loan") with several banks which matures February 2002.

In March 2000, HCA entered into the $1.2 billion term loan (the "2000 Term Loan"). Proceeds from the 2000 Term Loan were used in the first quarter of 2000 to retire the outstanding balance under the 1999 Term Loan and to reduce outstanding loans under the Credit Facility. The 2000 Term Loan was repaid in January 2001.

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

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

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

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

In December 2000, HCA filed a "shelf" registration statement and prospectus with the SEC relating to $1.5 billion in debt securities.

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

The Credit Facility and the 1998 Term Loan contain customary covenants which include (i) limitations on additional debt, (ii) limitations on sales of assets, mergers and changes of ownership, and (iii) maintenance of certain interest coverage ratios. HCA is currently in compliance with all such covenants.

In February 1998, Moody's Investors Service downgraded the Company's senior debt rating to Ba2. At the same time, Fitch IBCA downgraded the Company's senior debt rating to BBB-. In February 1999, Standard & Poor's downgraded the Company's senior debt rating to BB+.

Management believes that cash flows from operations, amounts available under the Credit Facility and the Company's access to debt markets are sufficient to meet expected liquidity needs during 2001.

Market Risk

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

The investments in debt and equity securities of HCA's wholly-owned insurance subsidiary were $1.2 billion and $423 million, respectively, at December 31, 2000. These investments are carried at fair value with changes in unrealized gains and losses being recorded as adjustments to stockholders' equity. The fair value of investments is generally based on quoted market prices. Changes in interest rates and market values of securities are not expected to be material in relation to the financial position and operating results of HCA.

With respect to HCA's interest-bearing liabilities, approximately $1.9 billion of long-term debt at December 31, 2000 is subject to variable rates of interest, while the remaining balance in long-term debt of $4.9 billion at December 31, 2000 is subject to fixed rates of interest. HCA's variable interest rate is affected by both the general level of U.S. interest rates and the Company's credit rating. HCA's variable rate debt is comprised of the Company's Credit Facility of which interest is payable generally at LIBOR plus 0.45% to 1.5% (depending on HCA's credit ratings), bank term loans of which interest is payable generally at LIBOR plus 0.75% to 2.5%, and floating rate notes of which interest is payable at LIBOR plus 1.5%. Due to increases in LIBOR, the average rate for the Company's Credit Facility increased from 6.1% for the year ended December 31, 1999 to 7.2% for the year ended December 31, 2000, and the average rate for the Company's term loans increased from 6.7% for the year ended December 31, 1999 to 7.9% for the year ended December 31, 2000. The estimated fair value of HCA's total long-term debt was $6.6 billion at December 31, 2000. The estimates of fair value are based upon the quoted market prices for the same or similar issues of long-term debt with the same maturities. Based on a hypothetical 1% increase in interest rates, the potential annualized losses in future pretax earnings would be approximately $19 million. The impact of such a change in interest rates on the carrying value of long-term debt would not be significant. The estimated changes to interest expense and the fair value of long-term debt are determined considering the impact of hypothetical interest rates on HCA's borrowing cost and long-term debt balances. To mitigate the impact of fluctuations in interest rates, HCA generally targets a portion of its debt portfolio at a fixed rate. HCA has not, during 2000, 1999 or 1998, participated in any interest rate swap agreements.

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

Effects of Inflation and Changing Prices

Various Federal, state and local laws have been enacted that, in certain cases, limit HCA's ability to increase prices. Revenues for acute care hospital services rendered to Medicare patients are established under the Federal government's prospective payment system. Total Medicare revenues approximated 28% in 2000, 29% in 1999 and 30% in 1998 of HCA's total revenues.

Management believes that hospital industry operating margins have been, and may continue to be, under significant pressure because of changes in payer mix and growth in operating expenses in excess of the increase in prospective payments under the Medicare program. In addition, as a result of increasing regulatory and competitive pressures, HCA's ability to maintain operating margins through price increases to non-Medicare patients is limited.

IRS Disputes

HCA is contesting income taxes and related interest proposed by the IRS for prior years aggregating approximately $202 million as of December 31, 2000. Management believes that final resolution of these disputes will not have a material adverse effect on the results of operations or liquidity of HCA. See Note 7—Income Taxes in the Notes to Consolidated Financial Statements for a description of the pending IRS disputes.

During 2000, HCA and the IRS filed a Stipulated Settlement with the Tax Court regarding the IRS' proposed disallowance of certain acquisition-related costs, executive compensation and systems conversion costs which were deducted in calculating taxable income and the methods of accounting used by certain subsidiaries for calculating taxable income related to vendor rebates and governmental receivables. The settlement resulted in the payment of tax and interest of $156 million and had no impact on HCA's results of operations.

(Dollars in millions, except per share amounts)

	2000	1999	1998
Revenues	**$ 16,670**	$ 16,657	$ 18,681
Salaries and benefits	**6,639**	6,694	7,766
Supplies	**2,640**	2,645	2,901
Other operating expenses	**3,085**	3,251	3,816
Provision for doubtful accounts	**1,255**	1,269	1,442
Depreciation and amortization	**1,033**	1,094	1,247
Interest expense	**559**	471	561
Equity in earnings of affiliates	**(126)**	(90)	(112)
Settlement with Federal government	**840**	–	–
Gains on sales of facilities	**(34)**	(297)	(744)
Impairment of long-lived assets	**117**	220	542
Restructuring of operations and investigation related costs	**62**	116	111
	16,070	15,373	17,530
Income from continuing operations before minority interests and income taxes	**600**	1,284	1,151
Minority interests in earnings of consolidated entities	**84**	57	70
Income from continuing operations before income taxes	**516**	1,227	1,081
Provision for income taxes	**297**	570	549
Income from continuing operations	**219**	657	532
Discontinued operations:			
Loss from operations of discontinued businesses, net of income tax benefit of $26	**–**	–	(80)
Loss on disposals of discontinued businesses	**–**	–	(73)
Net income	**$ 219**	$ 657	$ 379
Basic earnings per share:			
Income from continuing operations	**$ 0.39**	$ 1.12	$ .82
Discontinued operations:			
Loss from operations of discontinued businesses	–	–	(.12)
Loss on disposals of discontinued businesses	–	–	(.11)
Net income	**$ 0.39**	$ 1.12	$ .59
Diluted earnings per share:			
Income from continuing operations	**$ 0.39**	$ 1.11	$ .82
Discontinued operations:			
Loss from operations of discontinued businesses	**–**	–	(.12)
Loss on disposals of discontinued businesses	**–**	–	(.11)
Net income	**$ 0.39**	$ 1.11	$ .59

The accompanying notes are an integral part of the consolidated financial statements.

HCA Consolidated Balance Sheets, December 31, 2000 and 1999
(Dollars in millions, except per share amounts)

	2000	1999
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 314**	$ 190
Accounts receivable, less allowance for doubtful accounts of $1,583 and $1,567	**2,211**	1,873
Inventories	**396**	383
Income taxes receivable	**197**	178
Other	**1,335**	973
	4,453	3,597
Property and equipment, at cost:		
Land	**793**	813
Buildings	**6,021**	6,108
Equipment	**7,045**	6,721
Construction in progress	**431**	442
	14,290	14,084
Accumulated depreciation	**(5,810)**	(5,594)
	8,480	8,490
Investments of insurance subsidiary	**1,371**	1,457
Investments in and advances to affiliates	**779**	654
Intangible assets, net of accumulated amortization of $785 and $644	**2,155**	2,319
Other	**330**	368
	$ 17,568	$ 16,885
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	**$ 693**	$ 657
Accrued salaries	**352**	403
Other accrued expenses	**1,135**	897
Government settlement accrual	**840**	—
Long-term debt due within one year	**1,121**	1,160
	4,141	3,117
Long-term debt	**5,631**	5,284
Professional liability risks, deferred taxes and other liabilities	**2,050**	2,104
Minority interests in equity of consolidated entities	**572**	763
Forward purchase contracts and put options	**769**	—
Stockholders' equity:		
Common stock $.01 par; authorized 1,600,000,000 voting shares and 50,000,000 nonvoting shares; outstanding 521,991,700 voting shares and 21,000,000 nonvoting shares—2000 and 543,272,900 voting shares and 21,000,000 nonvoting shares—1999	**5**	6
Capital in excess of par value	**—**	951
Other	**9**	8
Accumulated other comprehensive income	**52**	53
Retained earnings	**4,339**	4,599
	4,405	5,617
	$ 17,568	$ 16,885

The accompanying notes are an integral part of the consolidated financial statements.

HCA Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2000, 1999 and 1998

(Dollars in millions)

	Common Stock		Capital in Excess of Par Value	Other	Accumulated Other Comprehensive Income	Retained Earnings	Total
	Shares (000)	Par Value					
Balances, December 31, 1997	641,452	$6	$3,480	$13	$92	$3,659	$7,250
Comprehensive income:							
Net income						379	379
Other comprehensive income (loss):							
Net unrealized losses on investment securities					(13)		(13)
Foreign currency translation adjustments					1		1
Total comprehensive income					(12)	379	367
Cash dividends						(52)	(52)
Stock repurchases	(4,076)		(98)				(98)
Stock options exercised, net	1,623		37				37
Employee benefit plan issuances	2,983		71				71
Other	596		8	(2)			6
Balances, December 31, 1998	642,578	6	3,498	11	80	3,986	7,581
Comprehensive income:							
Net income						657	657
Other comprehensive loss:							
Net unrealized losses on investment securities					(18)		(18)
Foreign currency translation adjustments					(9)		(9)
Total comprehensive income					(27)	657	630
Cash dividends						(44)	(44)
Stock repurchases	(81,855)		(1,930)				(1,930)
Stock options exercised, net	719		15	(1)			14
Employee benefit plan issuances	2,840		56				56
Spin-offs of LifePoint and Triad			(687)				(687)
Other	(9)		(1)	(2)			(3)
Balances, December 31, 1999	564,273	6	951	8	53	4,599	5,617
Comprehensive income:							
Net income						219	219
Other comprehensive income (loss):							
Net unrealized losses on investment securities					(6)		(6)
Foreign currency translation adjustments					5		5
Total comprehensive income					(1)	219	218
Cash dividends						(44)	(44)
Stock repurchases	(30,363)	(1)	(873)				(874)
Stock options exercised, net	6,564		191				191
Employee benefit plan issuances	2,431		52				52
Reclassification of forward purchase contracts and put options to temporary equity			(334)			(435)	(769)
Other	87		13	1			14
Balances, December 31, 2000	542,992	$5	$ —	$ 9	$52	$4,339	$4,405

The accompanying notes are an integral part of the consolidated financial statements.

HCA Consolidated Statements of Cash Flows for the Years Ended December 31, 2000, 1999 and 1998
(Dollars in millions)

	2000	1999	1998
Cash flows from continuing operating activities:			
Net income	**$ 219**	$ 657	$ 379
Adjustments to reconcile net income to net cash provided by continuing operating activities:			
Provision for doubtful accounts	**1,255**	1,269	1,442
Depreciation and amortization	**1,033**	1,094	1,247
Income taxes	**(219)**	(66)	351
Settlement with Federal government	**840**	—	—
Gains on sales of facilities	**(34)**	(297)	(744)
Impairment of long-lived assets	**117**	220	542
Loss from discontinued operations	**—**	—	153
Increase (decrease) in cash from operating assets and liabilities:			
Accounts receivable	**(1,678)**	(1,463)	(1,229)
Inventories and other assets	**90**	(119)	(39)
Accounts payable and accrued expenses	**(147)**	(110)	(177)
Other	**71**	38	(9)
Net cash provided by continuing operating activities	**1,547**	1,223	1,916
Cash flows from investing activities:			
Purchase of property and equipment	**(1,155)**	(1,287)	(1,255)
Acquisition of hospitals and health care entities	**(350)**	—	(215)
Spin-off of facilities to stockholders	**—**	886	—
Disposal of hospitals and health care entities	**327**	805	2,060
Change in investments	**106**	565	(294)
Investment in discontinued operations, net	**—**	—	677
Other	**(15)**	(44)	(3)
Net cash provided by (used in) investing activities	**(1,087)**	925	970
Cash flows from financing activities:			
Issuance of long-term debt	**2,980**	1,037	3
Net change in bank borrowings	**(500)**	200	(2,514)
Repayment of long-term debt	**(2,058)**	(1,572)	(147)
Issuances (repurchases) of common stock, net	**(677)**	(1,884)	8
Payment of cash dividends	**(44)**	(44)	(52)
Other	**(37)**	8	3
Net cash used in financing activities	**(336)**	(2,255)	(2,699)
Change in cash and cash equivalents	**124**	(107)	187
Cash and cash equivalents at beginning of period	**190**	297	110
Cash and cash equivalents at end of period	**$ 314**	$ 190	$ 297
Interest payments	**$ 489**	$ 475	$ 566
Income tax payments, net of refunds	**$ 516**	$ 634	$ (139)

The accompanying notes are an integral part of the consolidated financial statements.

NOTE 1—ACCOUNTING POLICIES

Reporting Entity

HCA-The Healthcare Company is a holding company whose affiliates own and operate hospitals and related health care entities. The term "affiliates" includes direct and indirect subsidiaries of HCA-The Healthcare Company and partnerships and joint ventures in which such subsidiaries are partners. At December 31, 2000, these affiliates owned and operated 187 hospitals, 75 freestanding surgery centers and provided extensive outpatient and ancillary services. Affiliates of HCA are also partners in joint ventures that own and operate 9 hospitals and 3 freestanding surgery centers which are accounted for using the equity method. The Company's facilities are located in 24 states, England and Switzerland. The terms "HCA" or the "Company" as used in this annual report refer to HCA-The Healthcare Company and its affiliates unless otherwise stated or indicated by context.

Basis of Presentation

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

The consolidated financial statements include all subsidiaries and entities controlled by HCA. "Control" is generally defined by HCA as ownership of a majority of the voting interest of an entity. Significant intercompany transactions have been eliminated. Investments in entities which HCA does not control, but in which it has a substantial ownership interest and can exercise significant influence, are accounted for using the equity method.

HCA has completed various acquisitions and joint venture transactions that have been recorded under the purchase method of accounting. Accordingly, the accounts of these entities have been consolidated with those of HCA for periods subsequent to the acquisition of controlling interests.

Revenues

HCA's health care facilities have entered into agreements with third-party payers, including government programs and managed care health plans, under which the facilities are paid based upon established charges, the cost of providing services, predetermined rates per diagnosis, fixed per diem rates or discounts from established charges.

Revenues are recorded at estimated amounts due from patients and third-party payers for the health care services provided. Settlements under reimbursement agreements with third-party payers are estimated and recorded in the period the related services are rendered. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount. The estimated reimbursement amounts are adjusted in subsequent periods as cost reports are prepared and filed and as final settlements are determined (in relation to certain government programs, primarily Medicare, this is generally referred to as the "cost report" filing and settlement process). The adjustments to estimated reimbursement amounts resulted in increases to revenues of $168 million, $94 million and $37 million in 2000, 1999 and 1998, respectively. In association with the ongoing Federal investigations into certain of the Company's business practices, the applicable governmental agencies had substantially ceased the processing of final settlements of the Company's cost reports. Since the cost reports were not being settled, the Company has not been receiving the updated information, which prior to 1998, was the basis used by the Company to adjust estimated settlement amounts. During 2000, the governmental agencies and their fiscal intermediaries resumed the cost report audit process and the audits that have been or will be conducted are anticipated to be more intensive than in years prior to the inception of the ongoing Federal investigation. Management believes that adequate provisions have been made for adjustments that may result from final determination of amounts earned under these programs.

HCA provides care without charge to patients who are financially unable to pay for the health care services they receive. Because HCA does not pursue collection of amounts determined to qualify as charity care, they are not reported in revenues.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with a maturity of three months or less when purchased. Carrying values of cash and cash equivalents approximate fair value due to the short-term nature of these instruments.

Accounts Receivable

HCA receives payments for services rendered from Federal and state agencies (under the Medicare, Medicaid and Tricare programs), managed care health plans, commercial insurance companies, employers and patients. During the years ended December 31, 2000 and 1999, approximately 28% and 29%, respectively, of HCA's revenues related to patients participating in the Medicare program. HCA recognizes that revenues and receivables from government agencies are significant to its operations, but does not believe that there are significant credit risks associated with these government agencies. The Company does not believe that there are any other significant concentrations of revenues from any particular payer that would subject it to any significant credit risks in the collection of its accounts receivable.

Additions to the allowance for doubtful accounts are made by means of the provision for doubtful accounts. Accounts written off as uncollectible are deducted from the allowance and subsequent recoveries are added.

The amount of the provision for doubtful accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Federal and state governmental health care coverage and other collection indicators. The primary tool used in management's assessment is an annual, detailed review of historical collections and write-offs at facilities that represent a majority of the Company's revenues and accounts receivable. The results of the detailed review of collections experience are compared to the allowance amount at the beginning of the review period and the allowance amount for the current period is evaluated based upon the historical experience, adjusted for changes in trends and conditions.

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market.

Long-lived Assets

Depreciation expense, computed using the straight-line method, was $931 million in 2000, $976 million in 1999 and $1.122 billion in 1998. Buildings and improvements are depreciated over estimated useful lives ranging generally from 10 to 40 years. Estimated useful lives of equipment vary generally from 4 to 10 years.

Intangible assets consist primarily of costs in excess of the fair value of identifiable net assets of acquired entities and are amortized using the straight-line method, generally over periods ranging from 30 to 40 years for hospital acquisitions and periods ranging from 5 to 20 years for physician practice, clinic and other acquisitions. Noncompete agreements and debt issuance costs are amortized based upon the lives of the respective contracts or loans.

When events, circumstances and operating results indicate that the carrying values of certain long-lived assets and the related identifiable intangible assets might be impaired, HCA prepares projections of the undiscounted future cash flows expected to result from the use of the assets and their eventual disposition. If the projections indicate that the recorded amounts are not expected to be recoverable, such amounts are reduced to estimated fair value. Fair value is estimated based upon internal evaluations of each market that include quantitative analyses of net revenue and cash flows, reviews of recent sales of similar facilities and market responses based upon discussions with and offers received from potential buyers. The market responses are usually considered to provide the most reliable estimates of fair value.

Professional Liability Insurance Claims

A substantial portion of HCA's professional liability risks is insured through a wholly-owned insurance subsidiary of HCA, which is funded annually. Allowances for professional liability risks were $1.4 billion and $1.5 billion at December 31, 2000 and 1999, respectively. Provisions for losses related to professional liability risks are based upon actuarially determined estimates. Loss and loss expense allowances represent the estimated ultimate net cost of all reported and unreported losses incurred through the respective balance sheet dates. The allowances for unpaid losses and loss expenses are estimated using individual case-basis valuations and statistical analyses. Those estimates are subject to the effects of trends in loss severity and frequency. The estimates are continually reviewed and adjustments are recorded as experience develops or new information becomes known. The changes to the estimated allowances are included in current operating results. Although considerable variability is inherent in such estimates, management believes that the allowances for losses and loss expenses are adequate.

HCA's wholly-owned insurance subsidiary has entered into certain reinsurance contracts. The obligations covered by the reinsurance contracts remain on the balance sheet as HCA remains liable to the extent that the reinsurers do not meet their obligations under the reinsurance contracts. The unamortized balance of the amounts receivable for the reinsurance contracts of $230 million and $215 million at December 31, 2000, and 1999, respectively, are included in other assets. A deferred reinsurance gain of $21 million is included in other liabilities at December 31, 2000 and will be recognized over the estimated recovery period using the interest method.

Investments of Insurance Subsidiary

At December 31, 2000 and 1999, all of the investments of HCA's wholly-owned insurance subsidiary were classified as "available-for-sale" as defined in Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities".

Minority Interests in Consolidated Entities

The consolidated financial statements include all assets, liabilities, revenues and expenses of less than 100% owned entities controlled by HCA. Accordingly, management has recorded minority interests in the earnings and equity of such entities.

HCA is a party to several partnership agreements which include provisions for the redemption of minority interests using specified valuation techniques.

Related Party Transactions

In December 2000, HCA completed the sale of 116 medical office buildings to MedCap Properties, LLC. ("MedCap"). HCA received approximately $250 million and a minority interest in MedCap in the transaction. MedCap is a private company which was formed by HCA and other investors to acquire the buildings. HCA did not recognize a gain or loss on the transaction. The Chief Manager of MedCap, who is also a member of the MedCap board of governors, is a relative of a Director and Executive Officer of the Company. HCA leases certain office space from MedCap and guarantees a certain level of rental revenue to MedCap.

Stock Based Compensation

HCA applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations in accounting for its employee stock benefit plans. Accordingly, no compensation cost has been recognized for HCA's employee stock benefit plans.

Disclosures about Segments of an Enterprise

During 1998, HCA adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"). SFAS 131 establishes standards for the way public business enterprises report information about operating segments in annual financial statements and requires those enterprises to report selected information about operating segments in interim financial reports. It also establishes standards for related disclosures about products and services, geographic areas and major customers.

Derivatives

During June 2000, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities—an amendment of FASB Statement 133". SFAS 138 addressed a limited number of SFAS 133 implementation issues. During June 1999, the FASB issued SFAS 137. SFAS 137 defers the effective date of SFAS 133 to years beginning after June 15, 2000. SFAS 133 will require HCA to recognize all derivatives on the balance sheet at fair value. Management has evaluated SFAS 133 and, due to the Company's minimal use of derivatives, does not believe that the adoption of SFAS 133 will have a material impact on its financial statements.

Reclassifications

Certain prior year amounts have been reclassified to conform to the 2000 presentation.

NOTE 2—INVESTIGATIONS AND AGREEMENTS TO SETTLE CERTAIN GOVERNMENT CLAIMS

The Company continues to be the subject of governmental investigations into and litigation relating to its business practices. Additionally, the Company is a defendant in several *qui tam* actions brought by private parties on behalf of the United States of America, some of which have been unsealed and served on the Company. The Company is aware of additional *qui tam* actions that remain under seal. There could also be other sealed *qui tam* cases of which it is unaware.

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

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

The Civil Agreement covers the following issues: DRG coding for calendar years 1990-1997; outpatient laboratory billings for calendar years 1989-1997; home health community education for Medicare cost report years 1994-1997; home health billing for calendar years 1995-1998; and certain home health management transactions for Medicare cost report years 1993-1998. The Civil Agreement provides that in return for releases on these issues, the Company will pay the government $745 million, with interest accruing from May 18, 2000 to the payment date at a rate of 6.5%. The civil payment will be made upon receipt of court approval of the Civil Agreement, which is expected to occur during the second quarter of 2001. The major civil issues that are not covered by the Civil Agreement include claims related to cost reports and physician relations issues.

Under the Civil Agreement, the Company's existing Letter of Credit Agreement with the Department of Justice will be reduced from $1 billion to $250 million at the time of the settlement payment, which is expected to occur during the second quarter of 2001. Any future civil settlement or court ordered payments related to cost report or physician relations issues will reduce the remaining amount of the letter of credit dollar for dollar. The amount of any such future settlement or court ordered payments is not related to the remaining amount of the letter of credit.

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

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

The Company continues to cooperate in the governmental investigations. Given the scope of the ongoing investigations and litigation, the Company expects other investigative and prosecutorial activity to occur in these and other jurisdictions in the future.

While management remains unable to predict the outcome of any of the ongoing investigations and litigation or the initiation of any additional investigations or litigation, were the Company to be found in violation of Federal or state laws relating to Medicare, Medicaid or similar programs or breach of the CIA, the Company could be subject to substantial monetary fines, civil and criminal penalties and/or exclusion from participation in the Medicare and Medicaid programs. Any such sanctions or losses could have a material adverse effect on the Company's financial position, results of operations and liquidity. (See Note 11–Contingencies.)

NOTE 3—RESTRUCTURING OF OPERATIONS

HCA has completed a restructuring of its operations to create a smaller and more focused company. The restructuring included the divestitures of certain hospitals, surgery centers and related facilities, the spin-offs of LifePoint Hospitals, Inc. ("LifePoint") and Triad Hospitals, Inc. ("Triad") and the divestitures of the Company's home health and certain other businesses, as described in Note 5—Discontinued Operations.

Divestiture of Certain Hospitals and Surgery Centers

During 2000, HCA recognized a pretax gain of $34 million ($16 million after-tax) on the sales of three consolidating hospitals. Proceeds from the sales were used to repay bank borrowings.

During 2000, management identified and initiated plans to sell or replace during 2001, 4 consolidating hospitals and certain other assets. The carrying value for the hospitals and other assets expected to be sold was reduced to fair value of $40 million, based upon estimates of sales values, for a total non-cash, pretax charge of approximately $117 million. The consolidating hospitals for which the impairment charge was recorded had revenues of $198 million, $190 million and $192 million for the years ended December 31, 2000, 1999, and 1998, respectively. These facilities incurred net income (loss) from continuing operations before the pretax impairment charge and income taxes of $5 million, $6 million, and ($8) million for the years ended December 31, 2000, 1999, and 1998, respectively.

During 1999, HCA recognized a net pretax gain of $297 million ($164 million after-tax) on the sale of three hospitals and certain related health care facilities. Proceeds from the sales were used to repay bank borrowings.

During 1999, HCA identified and initiated, or revised, plans to divest or close, 23 consolidating hospitals and 4 non-consolidating hospitals. The carrying value for the hospitals and other assets expected to be sold was reduced to fair value of $217 million, based upon estimates of sales values, for a total non-cash, pretax charge of $220 million. The hospitals and other assets for which the impairment charge was recorded had revenues (through the date of sale or closure) of $189 million, $580 million and $795 million for the years ended December 31, 2000, 1999 and 1998, respectively. These facilities incurred losses from continuing operations before the pretax impairment charge and income tax benefits (through the date of sale or closure) of $15 million, $57 million and $86 million for the years ended December 31, 2000, 1999 and 1998, respectively. During 1999 and 2000, HCA sold or closed 15 consolidating hospitals and the 4 non-consolidating hospitals that had been identified for divestiture. The facilities spun-off to Triad in 1999 included 4 of the consolidating hospitals on which impairment charges had been recorded. HCA completed the sale of one additional hospital in January of 2001. The proceeds from the sales approximated the carrying values and were used to repay bank borrowings.

During 1998, HCA recognized a net pretax gain of $744 million ($365 million after-tax) on the sale of certain hospitals and surgery centers. The gain includes the sale of 20 consolidating hospitals and one non-consolidating hospital to a consortium of not-for-profit entities for gross proceeds of approximately $1.2 billion, resulting in a pretax gain of $570 million ($335 million after-tax). The $744 million net gain also includes the sale of 34 ambulatory surgery centers for proceeds of approximately $550 million, resulting in a pretax gain of $203 million ($50 million after-tax). The high effective tax rate of 73% on the gain was due to significant amounts of non-deductible goodwill related to the surgery centers sold. Also included in the $744 million net gain was a pretax loss of $29 million ($20 million after-tax) on the sales of 6 consolidating hospitals for gross proceeds of $108 million. Proceeds from these sales were used to repay bank borrowings.

During September 1998, management approved a plan to divest a group of the Company's medical office buildings. The carrying value for the medical office buildings was reduced to fair value of $294 million, based on estimates of sales values, resulting in a non-cash, pretax charge of $175 million. The revenues and results of operations of the medical office buildings to be divested are not significant to the Company's consolidated revenues and results of operations. In December 2000, HCA completed the sale of the medical office buildings to MedCap for $250 million and a minority interest in MedCap. The proceeds from the sale were used to repay bank borrowings.

During 1998, management identified and initiated plans to sell or close, 23 consolidating hospitals and one non-consolidating hospital. The carrying value for the hospitals and other assets expected to be sold was reduced to fair value of $422 million based on estimates of sales values, resulting in a non-cash, pretax charge of $367 million. For the years ended December 31, 2000, 1999 and 1998, respectively, the hospitals and other assets for which the impairment charge was recorded had revenues (through the date of sale or closure) of $406 million, $566 million and $896 million and incurred losses from continuing operations before the pretax impairment charge and income tax benefits (through the date of sale or closure) of $21 million, $64 million and $77 million. During 1998, the sales of 8 consolidating hospitals of the 23 hospitals mentioned above were completed for gross proceeds of $185 million. During 1999, the sales of 9 consolidating hospitals and one non-consolidating hospital that had been identified for divestiture were completed for gross proceeds of $580 million. The facilities spun-off to Triad in 1999 included 3 of the consolidating hospitals on which the impairment charge had been recorded. During 1999, it was determined that one consolidating hospital on which the 1998 impairment charge was taken would not be sold. One hospital, of the 23 hospitals mentioned above, was sold in 2000 for gross proceeds of $4 million. Proceeds from the completed divestitures approximated the carrying values and were used to repay bank borrowings.

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

The asset impairment charges did not have a significant impact on the Company's cash flows and are not expected to significantly impact cash flows for future periods. The impaired facilities are classified as "held for use" because economic and operational considerations justify operating the facilities and marketing them as operating enterprises, therefore depreciation has not been suspended. As a result of the write-downs, depreciation and amortization expense related to these assets will decrease in future periods. In the aggregate, the net effect of the change in depreciation and amortization expense is not expected to have a material effect on operating results for future periods.

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

	2000	1999	1998
Property and equipment	$ 73	$ 122	$ 401
Intangible assets	21	82	90
Investments in and advances to affiliates	23	16	51
	$ 117	$ 220	$ 542

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

	2000	1999	1998
Eastern Group	$ 85	$ 14	$ 91
Western Group	11	7	43
Corporate and other	13	14	188
Spin-offs	—	34	81
National Group	8	151	139
	$ 117	$ 220	$ 542

Spin-Offs

On May 11, 1999, the Company completed the spin-offs of LifePoint and Triad through a distribution of one share of LifePoint common stock and one share of Triad common stock for every 19 shares of the Company's common stock outstanding on April 30, 1999. Triad was comprised of 34 consolidating hospitals and LifePoint was comprised of 23 consolidating hospitals. The Company's capital in excess of par value was reduced by $687 million related to the spin-offs of LifePoint and Triad.

For the years ended December 31, 1999 (through May 11, 1999), and 1998, respectively, the LifePoint and Triad facilities had $666 million and $2.1 billion in revenues. Losses from continuing operations for the LifePoint and Triad facilities were $26 million and $67 million for the years ended December 31, 1999 (through May 11, 1999), and 1998, respectively.

NOTE 4—RESTRUCTURING OF OPERATIONS AND INVESTIGATION RELATED COSTS

During 2000, 1999 and 1998, the Company recorded the following pretax charges in connection with the restructuring of operations and investigation related costs as discussed in Note 2—Investigations and Agreements to Settle Certain Government Claims and Note 3—Restructuring of Operations (in millions):

	2000	1999	1998
Professional fees related to investigations	$ 51	$ 77	$ 96
Severance costs	—	5	5
Other	11	34	10
Total	$ 62	$ 116	$ 111

The professional fees related to investigations represent incremental legal and accounting expenses that are being recognized on the basis of when the costs are incurred. The severance amounts in 1999 and 1998 related primarily to a small group of executives associated with operations or functions that were ceased or divested during these periods. In 1999, the Company accrued $6 million for lease commitments related to the closure of a leased hospital in the Company's Eastern Group. The liability balance for accrued severance and lease commitments was $8 million at December 31, 2000.

NOTE 5—DISCONTINUED OPERATIONS

Discontinued operations included three of the four business units acquired in the August 1997 merger with Value Health, Inc. ("Value Health") and the Company's home health care businesses. During 1997, the Company implemented plans to dispose of these businesses. During the second and third quarters of 1998, the Company completed sales of the three Value Health units for proceeds totaling $662 million. The proceeds from the sales were used to repay bank borrowings. The Company recorded a $73 million loss upon completion of these sales in 1998, representing an adjustment to the estimated tax benefit related to the after-tax loss on disposal of discontinued operations recorded in the fourth quarter of 1997.

During the third and fourth quarters of 1998, the Company completed five separate sales transactions that included substantially all of the Company's home health care operations and received $90 million in proceeds. The proceeds from the sales were used to repay bank borrowings.

Revenues of the discontinued businesses totaled $1.0 billion for the year ended December 31, 1998.

NOTE 6—ACQUISITIONS

During 2000 and 1998, the Company acquired various hospitals and related health care entities (or controlling interests in such entities), all of which were recorded using the purchase method. The aggregate purchase price of these transactions was allocated to the assets acquired and liabilities assumed based upon their respective fair values. The consolidated financial statements include the accounts and operations of acquired entities for periods subsequent to the respective acquisition dates.

The following is a summary of hospitals and other health care entities acquired during 2000 and 1998 (dollars in millions):

	2000	1998
Number of hospitals	7	6
Number of licensed beds	760	852
Purchase price information:		
Hospitals:		
Fair value of assets acquired	$ 325	$ 205
Liabilities assumed	(95)	(39)
Net assets acquired	230	166
Contributions from minority partners	—	(54)
	230	112
Other health care entities acquired	120	103
Net cash paid	$ 350	$ 215

The purchase price paid in excess of the fair value of identifiable net assets of acquired entities aggregated $110 million in 2000 and $86 million in 1998.

The pro forma effect of these acquisitions on the Company's results of operations for the periods prior to the respective acquisition dates was not significant.

NOTE 7—INCOME TAXES

The provision for income taxes on income from continuing operations consists of the following (dollars in millions):

	2000	1999	1998
Current:			
Federal	$ 442	$ 517	$ 637
State	77	90	116
Foreign	14	3	—
Deferred:			
Federal	(231)	(37)	(169)
State	(43)	(6)	(35)
Foreign	(5)	3	—
Change in valuation allowance	43	—	—
	$ 297	$ 570	$ 549

A reconciliation of the Federal statutory rate to the effective income tax rate follows:

	2000	1999	1998
Federal statutory rate	35.0%	35.0%	35.0%
State income taxes, net of Federal income tax benefit	5.0	4.5	4.9
Non-deductible intangible assets	5.7	7.5	11.4
Valuation allowance	7.5	—	—
Settlement with Federal government	6.5	—	—
Other items, net	(2.1)	(0.5)	(0.5)
Effective income tax rate	57.6%	46.5%	50.8%

The tax benefits associated with nonqualified stock options increased the current tax receivable by $40 million, $3 million, and $6 million in 2000, 1999, and 1998, respectively. Such benefits were recorded as increases to additional paid-in capital.

A summary of the items comprising the deferred tax assets and liabilities at December 31 follows (dollars in millions):

	2000		1999	
	Assets	Liabilities	Assets	Liabilities
Depreciation and fixed asset basis differences	$ —	$ 405	$ —	$ 342
Allowances for professional and general liability and other risks	249	—	296	—
Doubtful accounts	511	—	359	—
Compensation	125	—	160	—
Settlement with Federal government	290	—	—	—
Other	205	368	140	285
	1,380	773	955	627
Valuation allowance	(43)	—	—	—
	$ 1,337	$ 773	$ 955	$ 627

Deferred income taxes of $1.007 billion and $571 million at December 31, 2000 and 1999, respectively, are included in other current assets. Noncurrent deferred income tax liabilities totaled $443 million and $243 million at December 31, 2000 and 1999, respectively.

At December 31, 2000, state net operating loss carryforwards (expiring in years 2001 through 2020) available to offset future taxable income approximated $931 million. Utilization of net operating loss carryforwards in any one year may be limited and, in certain cases, result in an adjustment to intangible assets. Net deferred tax assets related to such carryforwards are not significant.

IRS Disputes

The Company is currently contesting before the United States Tax Court (the "Tax Court") and the United States Court of Federal Claims certain claimed deficiencies and adjustments proposed by the IRS in conjunction with its examinations of the Company's 1994-1996 Federal income tax returns, Columbia Healthcare Corporation's ("CHC") 1993 and 1994 Federal income tax returns, HCA-Hospital Corporation of America, Inc.'s ("Hospital Corporation of America") 1981 through 1988 and 1991 through 1993 Federal income tax returns and Healthtrust, Inc.-The Hospital Company's ("Healthtrust") 1990 through 1994 Federal income tax returns. The disputed items include the disallowance of certain financing costs, system conversion costs and insurance premiums which were deducted in calculating taxable income, and the allocation of costs to fixed assets and goodwill in connection with hospitals acquired by the Company in 1995 and 1996. The IRS is claiming an additional $202 million in income taxes and interest through December 31, 2000.

During the first quarter of 2000, the Company and the IRS filed a Stipulated Settlement with the Tax Court regarding the IRS' proposed disallowance of certain acquisition-related costs, executive compensation and systems conversion costs which were deducted in calculating taxable income and the methods of accounting used by certain subsidiaries for calculating taxable income related to vendor rebates and governmental receivables. The settlement resulted in the payment of tax and interest of $156 million and had no impact on the Company's results of operations.

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

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

Management believes that adequate provisions have been recorded to satisfy final resolution of the disputed issues. Management believes that the Company, CHC, 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 the results of operations or financial position of the Company.

NOTE 8—EARNINGS PER SHARE

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

The following table sets forth the computation of basic and diluted earnings per share from continuing operations (dollars in millions, except per share amounts and shares in thousands):

	2000	1999	1998
Income from continuing operations	$ 219	$ 657	$ 532
Weighted average common shares outstanding	555,553	585,216	643,719
Effect of dilutive securities:			
Stock options	9,390	3,865	2,310
Other	2,742	1,948	620
Shares used for diluted earnings per share	567,685	591,029	646,649
Earnings per share:			
Basic earnings per share from continuing operations	$ 0.39	$ 1.12	$ 0.82
Diluted earnings per share from continuing operations	$ 0.39	$ 1.11	$ 0.82

NOTE 9—INVESTMENTS OF INSURANCE SUBSIDIARY

A summary of the insurance subsidiary's investments at December 31 follows (dollars in millions):

	2000			
	Amortized Cost	Unrealized Amounts Gains	Unrealized Amounts Losses	Fair Value
Debt securities:				
United States Government	$ 4	$ —	$ —	$ 4
States and municipalities	761	23	(1)	783
Mortgage-backed securities	108	2	—	110
Corporate and other	157	1	—	158
Money market funds	160	—	—	160
Redeemable preferred stocks	33	1	(1)	33
	1,223	27	(2)	1,248
Equity securities:				
Perpetual preferred stocks	24	—	(1)	23
Common stocks	341	88	(29)	400
	365	88	(30)	423
	$ 1,588	$ 115	$ (32)	$ 1,671
Amounts classified as current assets				(300)
Investment carrying value				$ 1,371

	1999			
	Amortized Cost	Unrealized Amounts Gains	Unrealized Amounts Losses	Fair Value
Debt securities:				
United States Government	$ 4	$ —	$ —	$ 4
States and municipalities	873	5	(15)	863
Mortgage-backed securities	74	1	(1)	74
Corporate and other	107	—	(3)	104
Money market funds	59	—	—	59
Redeemable preferred stocks	47	—	—	47
	1,164	6	(19)	1,151
Equity securities:				
Perpetual preferred stocks	13	—	(1)	12
Common stocks	388	138	(32)	494
	401	138	(33)	506
	$ 1,565	$ 144	$ (52)	1,657
Amounts classified as current assets				(200)
Investment carrying value				$ 1,457

The fair value of investment securities is generally based on quoted market prices.

Scheduled maturities of investments in debt securities at December 31, 2000 were as follows (dollars in millions):

	Amortized Cost	Fair Value
Due in one year or less	$ 251	$ 251
Due after one year through five years	240	245
Due after five years through ten years	337	347
Due after ten years	287	295
	1,115	1,138
Mortgage-backed securities	108	110
	$ 1,223	$ 1,248

The average expected maturity of the investments in debt securities listed above approximated 3.9 years at December 31, 2000. Expected and scheduled maturities may differ because the issuers of certain securities may have the right to call, prepay or otherwise redeem such obligations.

The tax equivalent yield on investments (including common stocks) averaged 14% for 2000, 9% for 1999 and 10% for 1998. Tax equivalent yield is the rate earned on invested assets, excluding unrealized gains and losses, adjusted for the benefit of certain investment income not being subject to taxation.

The cost of securities sold is based on the specific identification method. Sales of securities for the years ended December 31 are summarized below (dollars in millions):

	2000	1999	1998
Debt securities:			
Cash proceeds	$ 395	$ 514	$ 341
Gross realized gains	4	2	3
Gross realized losses	7	5	1
Equity securities:			
Cash proceeds	$ 425	$ 200	$ 308
Gross realized gains	160	109	77
Gross realized losses	34	51	30

NOTE 10—LONG-TERM DEBT

A summary of long-term debt at December 31 (including related interest rates at December 31, 2000) follows (dollars in millions):

	2000	1999
Senior collateralized debt (rates generally fixed, averaging 9.1%) payable in periodic installments through 2034	$ 187	$ 211
Senior debt (rates fixed, averaging 8.0%) payable in periodic installments through 2095	4,591	4,009
Senior debt (floating rates, averaging 8.1%) due 2002	500	—
Bank term loans (floating rates, averaging 8.3%)	1,150	1,400
Bank credit agreement (floating rates, averaging 7.5%)	200	700
Subordinated debt (rates generally fixed, averaging 6.9%) payable in periodic installments through 2015	124	124
Total debt, average life of ten years (rates averaging 8.1%)	6,752	6,444
Less amounts due within one year	1,121	1,160
	$ 5,631	$ 5,284

Credit Facility

HCA's revolving credit facility (the "Credit Facility") is a $2.0 billion, five-year revolving credit agreement expiring February 2002. As of December 31, 2000, HCA had $200 million outstanding under the Credit Facility.

As of February 2001, interest is payable generally at either LIBOR plus 0.45% to 1.50% (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. HCA is currently in compliance with all such covenants.

Significant Financing Activities

2000

In March 2000, HCA entered into a $1.2 billion term loan agreement (the "2000 Term Loan") with several banks. Proceeds from the 2000 Term Loan were used in the first quarter of 2000 to retire the outstanding balance under the $1.0 billion interim term loan agreement entered into in March 1999 (the "1999 Term Loan") and to reduce outstanding loans under the Credit Facility. At December 31, 2000, the balance outstanding under the 2000 Term Loan was $500 million. The 2000 Term Loan was repaid in January 2001.

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

In August 2000, HCA issued $750 million of 8.75% notes due September 1, 2010. Proceeds from the notes were used to reduce outstanding loans under the Credit Facility by $350 million, reduce the outstanding balance under the 2000 Term Loan by $200 million and to settle $200 million of forward purchase contracts.

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

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

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

1999

In March 1999, HCA entered into the 1999 Term Loan with several banks. Proceeds from the $1.0 billion 1999 Term Loan were used during the second quarter to fund the $1.0 billion share repurchase program approved in February 1999. HCA repaid $500 million of the 1999 Term Loan in September 1999.

In February 1999, Standard & Poor's ("S&P") downgraded the Company's senior debt rating from BBB to BB+.

1998

During June 1998, HCA's 364-day credit facility was converted into a one-year term loan maturing in June 1999. The one year term loan, which had a balance of $741 million at December 31, 1998, was paid off in its entirety in February 1999.

In July 1998, the Company entered into a $1.0 billion term loan agreement (the "1998 Term Loan") with several banks which matures in February 2002. Proceeds from the 1998 Term Loan were used to reduce other borrowings. The balance outstanding under the 1998 Term Loan at December 31, 2000 was $650 million.

In February 1998, the Company's senior debt rating was downgraded from Baa2 to Ba2 and from BBB+ to BBB- by Moody's Investors Service ("Moody's") and Fitch IBCA, respectively.

General Information

Maturities of long-term debt in years 2002 through 2005 (excluding borrowings under the Credit Facility) are $1.015 billion, $341 million, $313 million and $478 million, respectively.

The estimated fair value of the Company's long-term debt was $6.6 billion and $6.1 billion at December 31, 2000 and 1999, respectively, compared to carrying amounts aggregating $6.8 billion and $6.4 billion, respectively. 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.

NOTE 11—CONTINGENCIES

Significant Legal Proceedings

Various lawsuits, claims and legal proceedings (see Note 2—Investigations and Agreements to Settle Certain Government Claims, for descriptions of the ongoing government investigations and other legal proceedings) have been and are expected to be instituted or asserted against the Company, including those relating to shareholder derivative and class action complaints; purported class action lawsuits filed by patients and payers alleging, in general, improper and fraudulent billing, coding, claims and overcharging, as well as other violations of law; certain *qui tam* or "whistleblower" actions alleging, in general, unlawful claims for reimbursement or unlawful payments to physicians for the referral of patients and other violations of law. While the amounts claimed may be substantial, the ultimate liability cannot be determined or reasonably estimated at this time due to the considerable uncertainties that exist. Therefore, it is possible that results of operations, financial position and liquidity in a particular period could be materially, adversely affected upon the resolution of certain of these contingencies.

General Liability Claims

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

NOTE 12—CAPITAL STOCK AND STOCK REPURCHASES

Capital Stock

The terms and conditions associated with each class of HCA's common stock are substantially identical except for voting rights. All nonvoting common stockholders may convert their shares on a one-for-one basis into voting common stock, subject to certain limitations.

Stock Repurchase Program

In March 2000, HCA announced that its Board of Directors authorized the repurchase of up to $1 billion of its common stock. Certain financial organizations purchased approximately 19.4 million shares of the Company's common stock for $535 million during 2000, utilizing forward purchase contracts. During 2000, HCA settled forward purchase contracts representing approximately 11.7 million shares at a cost of $300 million. In accordance with the terms of the contracts, approximately 7.7 million shares at a cost of $235 million remain outstanding until settled by the Company. As part of this stock repurchase program, HCA sold 3.8 million put options which remain outstanding at December 31, 2000, each of which entitles the holder to sell HCA's stock to HCA at a specified price on a specified date. These put options expire on various dates through March 27, 2001 and have exercise prices ranging from $34.17 to $37.00 per share, with an average exercise price of $35.66 per share. HCA expects to repurchase the remaining stock associated with the March 2000 repurchase authorization through open market purchases, privately negotiated transactions, forward purchase contracts or by utilizing the sale of additional put options.

In November 1999, HCA announced that its Board of Directors authorized the repurchase of up to $1 billion of its common stock. During 2000, HCA settled forward purchase contracts representing approximately 18.7 million shares at a cost of $539 million. In accordance with the terms of the forward purchase contracts, the shares purchased remain outstanding until the forward purchase contracts are settled by the Company. Approximately 15.7 million shares at a cost of $460 million remain outstanding (at December 31, 2000) until the forward purchase contracts are settled by HCA.

In February 1999, HCA's Board of Directors authorized the repurchase of up to $1 billion of HCA's common stock, which the Company completed through open market purchases and accelerated purchase contracts. During

1999, through open market purchases, HCA repurchased 13.7 million shares of its common stock for $300 million. Also during 1999, HCA, through accelerated purchase agreements, repurchased 28.1 million shares of its common stock for $700 million.

In July 1998, HCA announced a stock repurchase program under which $1 billion of HCA's common stock was repurchased. The majority of these shares were purchased by certain financial organizations utilizing forward purchase contracts. During 1999, HCA settled forward purchase contracts representing 39.5 million shares at a cost of $888 million. HCA, through open market purchases, repurchased 4.1 million shares for $98 million during the fourth quarter of 1998 and 0.6 million shares for $14 million during 1999.

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

At the November 2000 meeting of the Emerging Issues Task Force ("EITF"), the SEC provided guidance that in situations where public companies have outstanding equity derivative contracts that are not compliant with the EITF guidance in Issue 00-19, "Accounting for Derivative Financial Instruments Indexed to, the Potentially Settled in, a Company's Own Stock" ("Issue 00-19"), they are required to reclassify the maximum amount of the potential cash obligation (the forward price in a forward stock purchase contract or the strike price for a written put option) to temporary equity. Pursuant to this guidance, HCA reclassified $769 million ($752 million related to outstanding forward purchase contracts under the March 2000 and November 1999 repurchase authorizations and $17 million related to written put options) from common equity to temporary equity at December 31, 2000 (prior year amounts were not restated). This reclassification was made at December 31, 2000, though the transition provisions in Issue 00-19 do not require overall compliance until June 30, 2001. The Company believes that the equity derivative contracts that may remain unsettled at June 30, 2001, if any, will be in compliance with the requirements of Issue 00-19 and does not expect the adoption of Issue 00-19 to have a material impact on our consolidated financial statements or results of operations.

During 2000 and 1999, the settled share repurchase transactions reduced capital in excess of par value by approximately $0.9 billion and $1.9 billion, respectively.

In connection with the Company's share repurchase programs, the Company entered into a Letter of Credit Agreement with the United States Department of Justice. As part of the agreement, the Company provided the government with letters of credit totaling $1 billion. The Civil Agreement with the government as discussed in Note 2—Investigations and Agreements to Settle Certain Government Claims, provides that the letters of credit will be reduced from $1 billion to $250 million at the time of the civil settlement payment, which is anticipated in the first six months of 2001.

NOTE 13—STOCK BENEFIT PLANS

In May 2000, the stockholders of HCA approved the Columbia/HCA Healthcare Corporation 2000 Equity Incentive Plan (the "2000 Plan"). This plan replaces the Amended and Restated Columbia/HCA Healthcare Corporation 1992 Stock and Incentive Plan (the "1992 Plan"). The 2000 Plan is the primary plan under which options to purchase common stock and restricted stock may be granted to officers, employees and directors. The number of options or shares authorized under the 2000 Plan is 50,500,000 (which includes 500,000 shares authorized under the 1992 Plan). In addition, options previously granted under the 1992 Plan that are cancelled become available for subsequent grants. Options are exercisable in whole or in part beginning one to five years after the grant and ending ten years after the grant.

Options to purchase common stock have been granted to officers, employees and directors under various predecessor plans. Generally, 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 two to four years after the grant date and ending four to fifteen years after the grant date.

On May 11, 1999, HCA completed the spin-offs of LifePoint and Triad. Accordingly, adjustments were made to the HCA stock options outstanding. Nonvested HCA stock options held by individuals who became employees of LifePoint or Triad were cancelled and those employees were granted options by LifePoint or Triad. The number of HCA options was increased, HCA exercise prices were decreased and/or new options were granted by LifePoint and Triad to preserve the intrinsic value that existed just prior to the spin-offs for the holders of nonvested options by those HCA employees who remained HCA employees and for all holders of vested HCA stock options.

Information regarding these option plans for 2000, 1999 and 1998 is summarized below (share amounts in thousands):

	Stock Options	Option Price Per Share	Weighted Average Exercise Price
Balances, December 31, 1997	45,015	$ 0.14 to $59.64	$ 28.70
Granted	7,092	21.16 to 32.27	25.27
Exercised	(1,629)	0.38 to 30.90	17.68
Cancelled	(9,819)	0.14 to 59.64	31.26
Balances, December 31, 1998	40,659	0.14 to 41.13	27.92
Granted	18,847	17.12 to 25.75	17.29
Adjustment due to spin-offs	406	0.38 to 41.13	27.19
Exercised	(726)	0.14 to 26.62	14.17
Cancelled	(7,279)	0.14 to 37.92	29.27
Balances, December 31, 1999	51,907	0.14 to 41.13	24.05
Granted	7,609	18.25 to 39.25	20.81
Exercised	(6,650)	0.38 to 37.92	22.59
Cancelled	(1,633)	0.14 to 37.92	28.71
Balances, December 31, 2000	51,233	0.14 to 41.13	23.58

	2000	1999	1998
Weighted average fair value for options granted during the year	$ 9.33	$ 8.01	$ 8.81
Options exercisable	21,829	18,304	10,757
Options available for grant	51,378	8,478	19,323

The following table summarizes information regarding the options outstanding at December 31, 2000 (share amounts in thousands):

			Options Outstanding		Options Exercisable	
Range of Exercise Prices		**Number Outstanding at 12/31/00**	**Weighted Average Remaining Contractual Life**	**Weighted Average Exercise Price**	**Number Exercisable at 12/31/00**	**Weighted Average Exercise Price**
$ 11.99		17	Less than 1 year	$ 11.99	17	$ 11.99
33.52		5	Less than 1 year	33.52	5	33.52
18.07		4	1 years	18.07	4	18.07
35.30		8	1 years	35.30	8	35.30
7.35	to 10.99	125	2 years	10.71	125	10.71
11.26	to 13.24	622	2 years	11.77	622	11.77
23.85		5	2 years	23.85	5	23.85
11.47	to 17.11	224	2 years	13.91	224	13.91
0.38		330	3 years	0.38	330	0.38
21.16	to 27.50	1,461	3 years	24.16	1,461	24.16
25.21	to 30.90	2,357	4 years	26.17	2,355	26.16
29.22	to 36.58	4,821	5 years	34.48	3,793	34.27
41.13		3	6 years	41.13	2	41.13
26.74	to 37.92	12,759	7 years	30.70	6,626	30.60
21.16	to 30.93	4,115	7 years	24.90	846	24.98
32.27		147	7 years	32.27	88	32.27
17.12	to 24.49	16,322	8 years	17.22	4,698	17.32
20.00	to 29.94	7,286	9 years	20.74	27	20.06
31.63	to 39.25	29	10 years	33.99	—	—
0.14		101	13 years	0.14	101	0.14
0.14		357	15 years	0.14	357	0.14
0.38		86	16 years	0.38	86	0.38
0.38		49	18 years	0.38	49	0.38
		51,233			21,829	

HCA has an Employee Stock Purchase Plan ("ESPP") which provides an opportunity to purchase shares of its common stock at a discount (through payroll deductions over six month intervals) to substantially all employees. At December 31, 2000, 2,697,500 shares of common stock were reserved for the Company's employee stock purchase plan.

HCA applies the provisions of APB 25 in accounting for its stock options and stock purchase plans, and accordingly, compensation cost is not recognized in the consolidated income statements. As required by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), HCA has determined the pro forma net income and earnings per share as if compensation cost for the Company's employee stock option and stock purchase plans had been determined based upon their fair value at the grant date. These pro forma amounts are as follows (dollars in millions, except per share amounts):

	2000	1999	1998
Net income:			
As reported	$ 219	$ 657	$ 379
Pro forma	164	609	346
Basic earnings per share:			
As reported	$ 0.39	$ 1.12	$ .59
Pro forma	0.30	1.04	.54
Diluted earnings per share:			
As reported	$ 0.39	$ 1.11	$ .59
Pro forma	0.29	1.03	.54

For SFAS 123 purposes, the weighted average fair values of HCA's stock options granted in 2000, 1999 and 1998 were $9.33, $8.01 and $8.81 per share, respectively. The fair values were estimated using the Black-Scholes option valuation model with the following weighted average assumptions:

	2000	1999	1998
Risk-free interest rate	4.90%	6.53%	4.75%
Expected volatility	.39	.38	.24
Expected life, in years	6	6	6
Expected dividend yield	.25%	.35%	.30%

The pro forma compensation cost related to the shares of common stock issued under the ESPP was $14 million, $9 million and $13 million for the years 2000, 1999 and 1998, respectively. These pro forma costs were estimated based on the difference between the price paid and the fair market value of the stock on the last day of each subscription period.

Under the 1992 Plan, the 2000 Plan and the Management Stock Purchase Plan, the Company has made grants of restricted shares or units of the Company's common stock to provide incentive compensation to key employees. Under the performance equity plan, grants are made annually and are earned based on the achievement of specified performance goals. These shares have a two-year vesting period with half the shares vesting at the end of the first year and the remainder vesting at the end of the second year. The Management Stock Purchase Plan allows key 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.

At December 31, 2000, 2,095,200 shares were subject to restrictions, which lapse between 2001 and 2003. During 2000, 1999 and 1998 grants and purchases of 1,490,700, 1,137,100 and 109,000 shares, respectively were made at a weighted-average grant or purchase date fair value of $21.05, $17.88 and $28.89 per share, respectively.

NOTE 14—EMPLOYEE BENEFIT PLANS

HCA maintains noncontributory, defined contribution retirement plans covering substantially all employees. Benefits are determined as a percentage of a participant's salary and are vested over specified periods of employee service. Retirement plan expense was $121 million for 2000, $151 million for 1999 and $170 million for 1998. Amounts approximately equal to retirement plan expense are funded annually.

HCA maintains various contributory benefit plans which are available to employees who meet certain minimum requirements. Certain of the plans require that HCA match an amount ranging from 25% to 100% of a participant's contribution up to certain maximum levels. The cost of these plans totaled $17 million for 2000 and 1999 and $21 million for 1998. HCA's contributions are funded periodically during each year.

NOTE 15—SEGMENT AND GEOGRAPHIC INFORMATION

HCA operates in one line of business which is operating hospitals and related health care entities. During the years ended December 31, 2000, 1999 and 1998, approximately 28%, 29% and 30%, respectively, of HCA's revenues related to patients participating in the Medicare program.

HCA's operations are structured in two geographically organized groups: the Eastern Group comprised of 95 consolidating hospitals located in the Eastern United States and the Western Group comprised of 78 consolidating hospitals located in the Western United States. These two groups represent HCA's core operations and are typically located in urban areas that are characterized by highly integrated facility networks. An additional group, the National Group, includes 6 consolidating hospitals which are located in the United States, but are not located in the Company's core markets and are currently held for sale. The Company also operates 8 consolidating hospitals in England and Switzerland.

HCA completed the spin-offs of LifePoint and Triad (the "Spin-offs") during the second quarter of 1999. At April 30, 1999, LifePoint included 23 consolidating hospitals located in non-urban areas and Triad included 34 consolidating hospitals, located in small cities, generally in the Southern, Western and Southwestern United States. See Note 3—Restructuring of Operations.

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

	2000	1999	1998
Revenues:			
Eastern Group	$ 8,193	$ 7,749	$ 7,369
Western Group	7,550	7,012	6,491
Corporate and other(a)	511	303	291
National Group	416	927	2,443
Spin-offs	—	666	2,087
	$ 16,670	$ 16,657	$ 18,681
EBITDA:			
Eastern Group	$ 1,803	$ 1,717	$ 1,566
Western Group	1,403	1,173	984
Corporate and other(a)	(36)	(67)	8
National Group	7	(18)	104
Spin-offs	—	83	206
	$ 3,177	$ 2,888	$ 2,868

	2000	1999	1998
Depreciation and amortization:			
Eastern Group	$ 450	$ 454	$ 443
Western Group	431	435	405
Corporate and other(a)	125	95	92
National Group	27	63	169
Spin-offs	—	47	138
	$ 1,033	$ 1,094	$ 1,247
Assets:			
Eastern Group	$ 6,558	$ 6,692	$ 6,689
Western Group	6,484	6,591	6,811
Corporate and other(a)	4,290	3,143	2,884
National Group	236	459	1,319
Spin-offs	—	—	1,726
	$ 17,568	$ 16,885	$ 19,429

(a) Includes the Company's 8 consolidating hospitals located in England and Switzerland.

NOTE 16—OTHER COMPREHENSIVE INCOME

The components of accumulated other comprehensive income are as follows (dollars in millions):

	Unrealized Gains on Available-for-Sale Securities	Currency Translation Adjustments	Total
Balance at December 31, 1997	$ 90	$ 2	$ 92
Unrealized gains on available-for-sale securities, net of $17 of taxes	28	—	28
Gains reclassified into earnings from other comprehensive income, net of $23 of taxes	(41)	—	(41)
Currency translation adjustment, net of taxes	—	1	1
Balance at December 31, 1998	77	3	80
Unrealized gains on available-for-sale securities, net of $9 of taxes	17	—	17
Gains reclassified into earnings from other comprehensive income, net of $20 of taxes	(35)	—	(35)
Currency translation adjustment, net of $4 of tax benefit	—	(9)	(9)
Balance at December 31, 1999	59	(6)	53
Unrealized gains on available-for-sale securities, net of $41 of taxes	73	—	73
Gains reclassified into earnings from other comprehensive income, net of $44 of taxes	(79)	—	(79)
Currency translation adjustment, net of $5 of taxes	—	5	5
Balance at December 31, 2000	$ 53	$ (1)	$ 52

NOTE 17—ACCRUED EXPENSES AND ALLOWANCES FOR DOUBTFUL ACCOUNTS

A summary of other accrued expenses at December 31 follows (in millions):

	2000	1999
Employee benefit plans	$ 166	$ 176
Workers compensation	94	55
Taxes other than income	163	164
Professional liability risks	356	210
Interest	114	64
Other	242	228
	$ 1,135	$ 897

A summary of activity in the Company's allowance for doubtful accounts follows (in millions):

	Balance at Beginning of Year	Provision for Doubtful Accounts	Accounts Written off, Net of Recoveries	Balance at End of Year
Allowance for doubtful accounts:				
Year-ended December 31, 1998	$ 1,661	$ 1,442	$(1,458)	$ 1,645
Year-ended December 31, 1999	1,645	1,269	(1,347)	1,567
Year-ended December 31, 2000	1,567	1,255	(1,239)	1,583

(Dollars in millions, except per share amounts)

	2000			
	First	**Second**	**Third**	**Fourth**
Revenues	$ 4,271	$ 4,133	$ 4,093	$ 4,173
Net income (loss)	$ 296	$ (272)(a)	$ 174(b)	$ 21(c)
Basic earnings (loss) per share	$ .53	$ (.49)	$ .31	$ .04
Diluted earnings (loss) per share	$ .52	$ (.49)	$ .31	$ .04
Cash dividends	$ .02	$ .02	$ .02	$ .02
Market prices(g):				
High	$ 32.44	$ 32.44	$ 39.06	$ 45.25
Low	18.75	23.69	29.75	37.25

	1999			
	First	**Second**	**Third**	**Fourth**
Revenues	$ 4,655	$ 4,161	$ 3,899	$ 3,942
Net income	$ 322(d)	$ 106(e)	$ 138	$ 91(f)
Basic earnings per share	$ .50	$ .18	$ .25	$ .16
Diluted earnings per share	$ .50	$ .18	$ .24	$ .16
Cash dividends	$ .02	$ .02	$ .02	$ .02
Market prices(g):				
High	$ 23.67	$ 27.47	$ 25.63	$ 29.44
Low	16.38	17.44	20.19	20.25

(a) Second quarter results include $498 million ($.90 per basic and diluted share) charge related to the settlement with the Federal government and $9 million ($.02 per basic and diluted share) of gains on sales of facilities (see NOTES 2 and 3 of the Notes to Consolidated Financial Statements).

(b) Third quarter results include $9 million ($.02 per basic and diluted share) of gains on sales of facilities and $12 million ($.02 per basic and diluted share) of charges related to the impairment of long-lived assets (see NOTE 3 of the Notes to Consolidated Financial Statements).

(c) Fourth quarter results include $68 million ($.12 per basic and diluted share) of charges related to the impairment of long-lived assets, $2 million of losses on sales of assets, and $95 million ($.17 per basic and diluted share) related to the settlement with the Federal government (see NOTES 2 and 3 of the Notes to Consolidated Financial Statements).

(d) First quarter results include $151 million ($.24 per basic and diluted share) of gains on sales of facilities and $80 million ($.13 per basic and diluted share) of charges related to the impairment of long-lived assets (see NOTE 3 of the Notes to Consolidated Financial Statements).

(e) Second quarter results include $51 million ($.09 per basic and diluted share) of charges related to the impairment of long-lived assets (see NOTE 3 of the Notes to Consolidated Financial Statements).

(f) Fourth quarter results include $13 million ($.02 per basic and diluted share) of gains on sales of facilities and $63 million ($.11 per basic and diluted share) of charges related to the impairment of long-lived assets (see NOTE 3 of the Notes to Consolidated Financial Statements).

(g) Represents high and low sales prices of the Company's common stock which is traded on the New York Stock Exchange (ticker symbol HCA). The historical sales prices for periods prior to May 11, 1999 have been restated to reflect the effect of the spin-offs of LifePoint and Triad.

HCA Report of Management

To Our Stockholders:

Management is responsible for preparing the Company's financial statements and related information that appears in this annual report. Management believes that the financial statements fairly reflect the form and substance of transactions and reasonably present the Company's financial condition, results of operations and cash flows in conformity with accounting principles generally accepted in the United States. The Company's financial statements include amounts that are based on estimates and judgments, which management believes are reasonable under the circumstances.

The Company maintains a system of internal accounting policies, procedures, and controls intended to provide reasonable assurance, at appropriate cost, that transactions are executed in accordance with Company authorization and are properly recorded and reported in the financial statements, and that assets are adequately safeguarded.

Ernst & Young LLP audits the Company's financial statements in accordance with generally accepted auditing standards and provides an objective, independent review of the Company's internal controls and the fairness of its reported financial condition, results of operations and cash flows.

The HCA Board of Directors has an Audit Committee composed of nonmanagement Directors all of whom are "independent" within the meaning of the New York Stock Exchange's new rules. The Committee meets with financial management, internal auditors and the independent auditors to review internal accounting controls and accounting, auditing, and financial reporting matters.

R. Milton Johnson

R. Milton Johnson
Senior Vice President and Controller

Report of Independent Auditors

To the Board of Directors and Stockholders
HCA – The Healthcare Company

We have audited the accompanying consolidated balance sheets of HCA - The Healthcare Company as of December 31, 2000 and 1999 and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of HCA - The Healthcare Company at December 31, 2000 and 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States.

ERNST & YOUNG LLP

Ernst & Young LLP

Nashville, Tennessee
February 5, 2001

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Chief Executive Officer and President

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Senior Vice President –
Finance and Treasurer

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Western Group

Victor L. Campbell
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Rosalyn S. Elton
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Operations Finance

James A. Fitzgerald, Jr.
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Eastern Group

Samuel N. Hazen
Chief Financial Officer –
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R. Milton Johnson
Senior Vice President and Controller

Patricia T. Lindler
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Chief Financial Officer –
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Internal Audit & Consulting Services

Beverly B. Wallace
Senior Vice President –
Revenue Cycle Operations
Management

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General Counsel

Noel Brown Williams
Senior Vice President and
Chief Information Officer

Alan R. Yuspeh
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Ethics, Compliance and
Corporate Responsibility

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   and President

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    Retired Chairman and
    Chief Executive Officer,
    Wells Fargo & Company

13. **Frank S. Royal, M.D.**
    Practicing Physician

14. **Harold T. Shapiro**
    President, Princeton University

STOCK INFORMATION AND DIVIDENDS

The Company's common stock is traded on the New York Stock Exchange (symbol "HCA"). At the close of business on March 30, 2001, there were approximately 16,600 holders of record of the Company's common stock and one holder of the Company's nonvoting common stock.

The Company currently pays a regular quarterly dividend of $0.02 per share of Company common stock. While it is the present intention of the Company's Board of Directors to continue paying a quarterly dividend of $0.02 per share, the declaration and payment of future dividends by the Company will depend upon many factors, including the Company's earnings, financial condition, business needs, capital and surplus and regulatory considerations.

STOCKHOLDER INFORMATION

Investor Relations Department
HCA
One Park Plaza
Nashville, Tennessee 37203
(615) 344-9551

ANNUAL MEETING

The Annual Meeting of Stockholders of HCA will be held on May 24, 2001 at 1:30 p.m. Central Daylight Time, at the HCA Corporate Office, located at One Park Plaza, Nashville, Tennessee.

STOCKHOLDER SERVICES

Questions concerning stock certificates and dividends should be addressed to HCA's transfer agent, National City Bank, Shareholder Services Group, P.O. Box 92301, Cleveland, OH 44193-0900; or call (800) 622-7809 or (216) 476-8663; or send an e-mail message to shareholder.inquiries@NationalCity.com

ADDITIONAL INVESTOR INFORMATION

Questions and requests for additional information from stockholders, security analysts, brokers and other investors should be addressed to the Investor Relations Department at the Corporate Office. Investor information may also be obtained by visiting the HCA website at www.hcahealthcare.com.

EARNINGS WEBCAST

HCA invites its stockholders to participate in the Company's quarterly earnings webcast. Information concerning date, time and internet address may be obtained by clicking on the Investor Relations page at www.hcahealthcare.com.

INVESTOR CONTACT

W. Mark Kimbrough
Vice President, Investor Relations
(615) 344-1199
(615) 344-2266 (FAX)

FORM 10-K

A copy of HCA's 2000 Annual Report on Form 10-K filed with the Securities and Exchange Commission can be obtained free of charge from the Investor Relations Department at the Corporate Office.