

UNITED STATES DISTRICT COURT  
MIDDLE DISTRICT OF TENNESSEE  
(NASHVILLE DIVISION)

In re HCA INC. SECURITIES LITIGATION

Civil Action No. 3:05-CV-00960

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This Document Relates To:

ALL ACTIONS.

CLASS ACTION

Judge William J. Haynes, Jr.  
Magistrate Judge E. Clifton Knowles

DEMAND FOR JURY TRIAL

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CONSOLIDATED COMPLAINT FOR  
VIOLATIONS OF THE FEDERAL SECURITIES LAWS

## TABLE OF CONTENTS

	<u>Page</u>
I. NATURE OF THE ACTION .....	1
II. JURISDICTION AND VENUE .....	4
III. THE PARTIES .....	4
IV. OVERVIEW OF THE FRAUD .....	26
A. The Fraudulent Scheme .....	26
B. Defendants' Massive Insider Sales During The Six-Month Class Period .....	30
1. Jack O. Bovender, Jr. ....	32
2. Robert Milton Johnson.....	32
3. Richard M. Bracken.....	33
4. David G. Anderson .....	34
5. Charles R. Evans .....	35
6. James A. Fitzgerald, Jr. ....	35
7. Robert Samuel Hankins, Jr. ....	36
8. Samuel N. Hazen.....	36
9. Joseph N. Steakley .....	37
10. Beverly B. Wallace .....	38
11. Noel Brown Williams .....	39
V. CLASS PERIOD FALSE AND MISLEADING STATEMENTS .....	39
A. Fourth Quarter 2004.....	39
B. First Quarter 2005 .....	45
C. The Falsity Of Defendants' Statements Is Revealed .....	52
VI. DEFENDANTS' FALSE FINANCIAL REPORTING AND GAAP VIOLATIONS DURING THE CLASS PERIOD .....	57
VII. SCIENTER.....	60

A.	Defendants’ Knowledge Of The True Facts Regarding HCA’s Doubtful Accounts, Uninsured Patient Accounts Receivables, Accounting Manipulations And Operational Results .....	60
B.	Insider Trading At Suspicious Times And In Unusual Amounts .....	63
C.	Additional Insider Trading Allegations .....	64
D.	Defendants’ Self-Interested Motivation To Inflate Their Salaries And Bonuses .....	65
E.	Defendants’ Motivation To Meet HCA’s Debt Covenants And Maintain The Company’s Investment Grade Rating .....	66
F.	The Closeness In Time Between Defendants’ Fraudulent Statements And The Disclosure Of Inconsistent Information.....	67
G.	GAAP Violations And The Disclosure Of Accounting Information In Such A Way That Its Negative Implications Were Hidden From Investors.....	67
VIII.	LOSS CAUSATION/ECONOMIC HARM .....	67
IX.	LEAD PLAINTIFFS’ CLASS ACTION ALLEGATIONS .....	70
	COUNT I	
	For Violation of § 10(b) of the 1934 Act and Rule 10b-5 Against All Defendants .....	72
	COUNT II	
	For Violation of § 20(a) of the 1934 Act Against All Defendants .....	73
	COUNT III	
	For Violation of § 20A of the 1934 Act Against Defendants Bracken, Hazen, Johnson and Williams .....	74
X.	PRAYER FOR RELIEF .....	75
XI.	JURY DEMAND .....	76

## I. NATURE OF THE ACTION

1. Lead Plaintiffs, The State of Louisiana Firefighters' Retirement System and the City of Sterling Heights Police & Fire Retirement System, bring this action on their own behalf and on behalf of all persons who purchased or otherwise acquired the publicly traded securities of HCA, Inc. ("HCA" or the "Company") between January 12, 2005 and July 12, 2005 (the "Class Period"). This action is brought against HCA and the Company's senior officers for violations of the Securities Exchange Act of 1934 (the "1934 Act"). The facts alleged herein are currently the subject of ongoing investigations by the Securities and Exchange Commission ("SEC") and the United States Attorneys' Office.

2. This securities class action arises out of defendants' scheme to inflate the stock price of HCA – one of the largest owners and operators of hospitals in the United States. Defendants, who constituted the most senior executives of the Company, embarked upon this scheme for a six-month period, during which they collectively sold over \$109.6 million in HCA common stock – *the most insider trading in such a short period in the history of the Company*. Indeed, the shares sold by the individual defendants identified below were also, collectively, more than 30 times the number of shares sold in the six months before the Class Period and 22 times the number of shares sold in all of 2004.

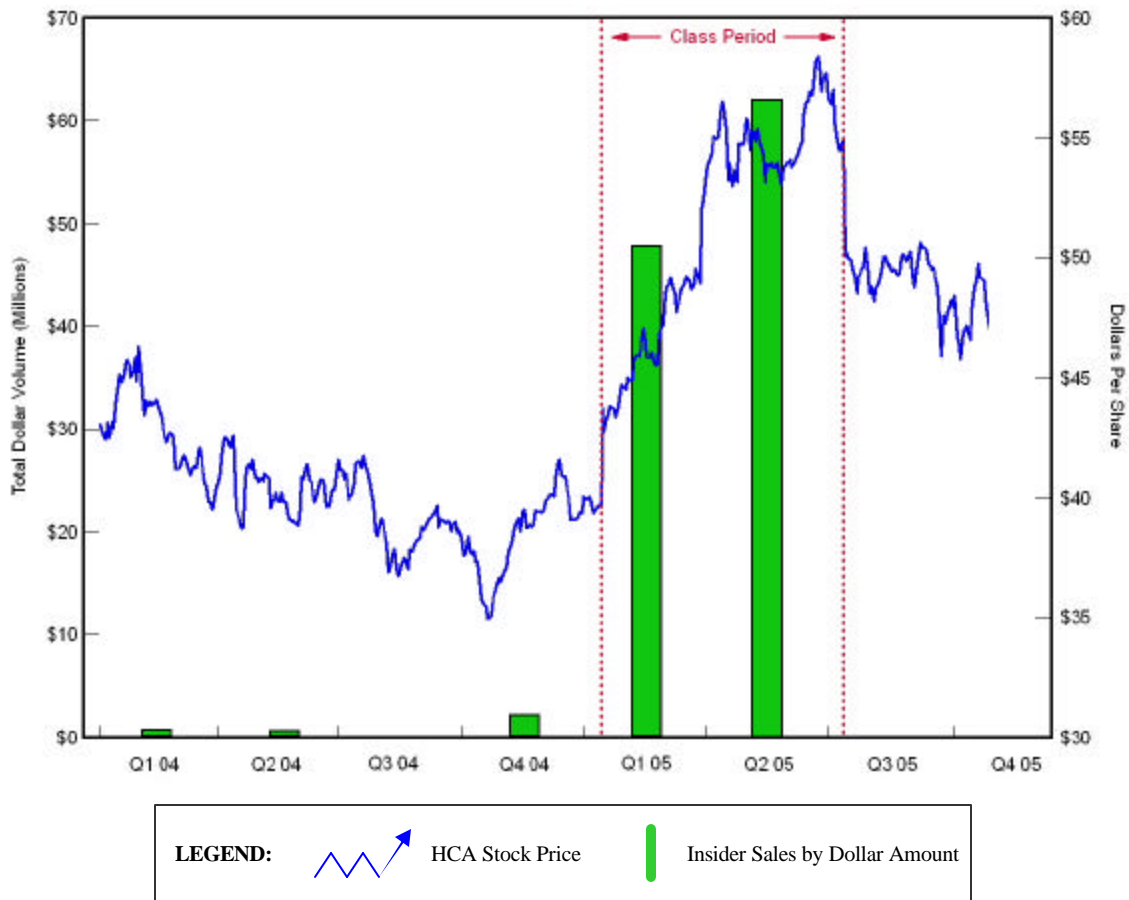
3. Defendants accomplished this scheme by misleading investors and the market about the true state of the Company's uninsured admission rates and escalating doubtful accounts – two fundamental financial metrics that determined HCA's profitability and financial health. HCA depends significantly upon proceeds of insurance policies carried by patients to collect billings for its services. Nevertheless, federal law requires hospitals to treat all patients requiring care, regardless of their creditworthiness or insurance coverage. Generally Accepted Accounting Principles ("GAAP") require hospitals to maintain reserves for these uninsured patients, because the

likelihood of collecting payment for services from them is significantly less than from insured patients. HCA maintained and reported the level of these reserves in its provision for doubtful accounts in press releases and filings with the SEC throughout the Class Period.

4. Beginning on January 12, 2005, the first day of the Class Period, defendants announced that HCA's estimated provision for doubtful accounts shrank 10% from the prior year, in a departure from prior trends, uninsured admissions rates, bad debt trends and a continuous growth in the number of people nationwide that were not covered by health insurance. In March 2005, defendants again represented that HCA's uninsured admission rates and bad debt expense were falling. These statements which were repeated in press releases, conference calls and SEC filings throughout the Class Period, drove HCA's stock price to record highs of \$58 per share, an improvement of 48% since the beginning of the Class Period.

5. During the same six-month period that HCA was reporting declines in the rate of its uninsured patient admissions, and consequential declines in its provision for doubtful accounts, the individual defendants, who constituted the top officers and directors of the Company, sold an unprecedented amount of their personal holdings of HCA common stock in the open market. The individual defendants – many of whom had been employed by HCA for years but never before sold a single share of stock – collectively sold **2,162,225 shares of HCA stock** at or near these new highs for **insider trading proceeds of over \$109.6 million in just six months**. As demonstrated in the chart below, defendants' massive insider trading was historically unprecedented and suspiciously well-timed:

### Aggregate HCA Defendants' Sales 2004 - 2005



6. On July 13, 2005 – less than one month after the last of these insider sales – HCA disclosed that the Company’s provision for doubtful accounts would have to be dramatically increased, back in line with the pre-Class Period trends, as a result of what were actually increasing rates of uninsured admissions. The Company further announced that, as a result, HCA’s earnings for the quarter and remainder of the year had fallen well below expectations. Following this disclosure, HCA’s stock price plummeted nearly 10% on July 13, 2005, falling from \$54.57 to \$49.74 on volume of over 15.1 million shares. As a result, investors suffered a single day market capitalization loss of more than \$2 billion. Shortly thereafter, the SEC and the United States Attorneys’ Office

announced that it had commenced investigations into insider trading at HCA as a result of the Company's July 13, 2005 announcement.

## II. JURISDICTION AND VENUE

7. The claims asserted herein arise under §§ 10(b), 20(a) and 20A of the 1934 Act (15 U.S.C. §§ 78j(b), 78t(a) and 78t-1) and SEC Rule 10b-5 promulgated thereunder (17 C.F.R. § 240.10b-5).

8. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. § 1331 and § 27 of the 1934 Act (15 U.S.C. § 78aa). Venue is proper in this District pursuant to § 27 of the 1934 Act and 28 U.S.C. § 1391(b). Defendant HCA and the individual defendants conduct business in and the wrongful conduct took place in this District. HCA's principal executive offices are in Nashville, Tennessee, where the day-to-day operations of the Company are directed and managed.

9. In connection with the acts, conduct and other wrongs complained of herein, the defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, the United States mail and the facilities of a national stock exchange.

## III. THE PARTIES

10. Lead Plaintiff The State of Louisiana Firefighters' Retirement System ("Louisiana Firefighters") is a public pension fund system which was formed for the benefit of the current and retired firefighters of the State of Louisiana. During the Class Period, Louisiana Firefighters purchased shares of HCA common stock in a series of open market transactions, as detailed in Louisiana Firefighters' certification filed with the Court on January 9, 2006, in support of its motion to be appointed Lead Plaintiff. As a result of the unlawful conduct alleged herein, Louisiana Firefighters suffered damages in connection with its purchases of HCA common stock.

11. Lead Plaintiff the City of Sterling Heights Police & Fire Retirement System (“Sterling Heights”) is a public pension fund system based in Sterling Heights, Michigan, which was formed for the benefit of the current and retired police and firefighters of the City of Sterling Heights. During the Class Period, Sterling Heights purchased shares of HCA common stock in a series of open market transactions, as detailed in Sterling Heights’s certification previously filed with the Court in support of its motion to be appointed Lead Plaintiff. As a result of the unlawful conduct alleged herein, Sterling Heights suffered damages in connection with its purchases of HCA common stock.

12. Collectively, Louisiana Firefighters and Sterling Heights are referred to herein as the “Lead Plaintiffs.”

13. Defendant HCA is a healthcare services company that owns, manages or operates hospitals and medical facilities in 23 states, England and Switzerland. HCA’s general, acute care hospitals typically provide a full range of services to accommodate medical specialties, as well as diagnostic and emergency services. The vast majority of HCA’s revenues are derived from patient care at the Company’s hospitals and facilities. The Company’s headquarters are located at One Park Plaza, Nashville, Tennessee. Throughout the Class Period, the Company traded in an efficient market on the New York Stock Exchange (“NYSE”) under the ticker symbol “HCA.” As of June 30, 2005, the Company had over 450 million shares issued and outstanding.

14. (a) Defendant Jack O. Bovender, Jr. (“Bovender”) is, and was at all times relevant hereto, Chairman of the Board and Chief Executive Officer (“CEO”) of HCA.

(b) Bovender signed HCA’s annual report filed with the SEC on March 11, 2005, on Form 10-K for fiscal year 2004.

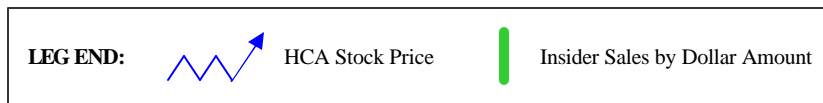
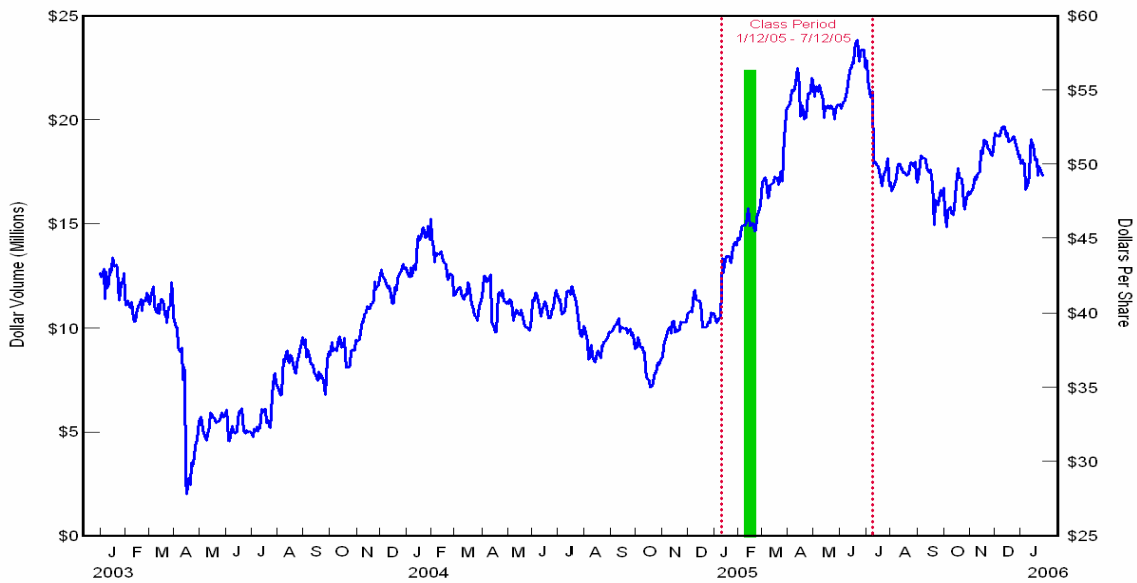
(c) In conjunction with each of HCA’s public financial statements filed with the SEC during the Class Period, Bovender signed a certification pursuant to §302 of the Sarbanes-



Oxley Act, attesting that he reviewed the contents of the filing to confirm the “report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading.” Bovender was required to and did further confirm that he, along with defendant Robert Milton Johnson, was responsible for establishing and maintaining HCA’s disclosure controls and procedures, had designed such controls to assure that material information relating to HCA’s operational and financial trends and results were promptly made known to Bovender and the Company’s Senior Financial Officers and had routinely evaluated the effectiveness of the Company’s policies with regard to assuring that he and other executives were made aware of material information.

(d) During the six-month Class Period, on February 2, 2005, Bovender sold 500,000 shares of HCA stock, collecting over \$22 million in insider trading proceeds. As evidenced in the chart below, Bovender’s sales were suspicious both in timing and volume, particularly due to the fact that he never sold any HCA stock in the two years prior to the Class Period, as set forth below:

**HCA, Inc.**  
**Jack O. Bovender, Jr. - Insider Sales Monthly Dollar Volume**  
**January 2003 to January 2006**



(e) As both CEO and Chairman, Bovender knew or, but for his recklessness, should have known the adverse, non-public information about HCA’s uninsured admissions rates, uninsured patient accounts receivables and reserves for bad debts. In accordance with HCA’s Code of Ethics for Senior Financial Officers and the Chief Executive Officer (“Code of Ethics”), as the CEO and Chairman of HCA and as a Senior Financial Officer, Bovender was “responsibl[e] for full, fair, accurate, timely and understandable disclosure in the periodic reports and submissions filed by the Company with the SEC as well as in other public communications made by the Company.” In addition, pursuant to the Code of Ethics, HCA’s internal controls were designed to assure that Bovender was provided with and had access to all operational and financial information, including HCA’s uninsured admissions rates, uninsured patient accounts receivables and reserves for doubtful accounts.

(f) Bovender also represented to Congress that he was familiar with uninsured patient admission rates and their material impact on HCA's financial results. On June 23, 2004, Bovender testified before the United States House of Representatives Subcommittee on Oversight and Investigations of the Committee on Energy and Commerce. Bovender testified that "the cost of providing healthcare services to the uninsured is the most significant issue currently facing hospitals" and that "the financial pressures facing hospitals today, including the *growing non-reimbursed costs of providing care for the uninsured*, are illustrated in declining hospital profit margins." Indeed, Bovender admitted to the House Subcommittee that, "[f]or HCA hospitals, medical treatment of the uninsured has represented *a substantial and growing segment* of the patient population." Finally, Bovender acknowledged the growing problem and effect on hospitals', including HCA's, bad debt: "The bottom line is this: hospitals cannot continue to absorb more bad debt as they strive to maintain a quality healthcare system for Americans. As more insurance plans shift a greater burden of the cost of care to individuals, through higher co-pays and deductibles, *the situation will only get worse.*"

(g) As HCA's CEO and Chairman, Bovender participated in and was responsible for the issuance of false and/or misleading statements, including the preparation of the false and misleading statements detailed in the Company's SEC filings and press releases and the dissemination of false statements during presentations at securities conferences and during conference calls with securities analysts and investors as detailed in ¶¶69-101.

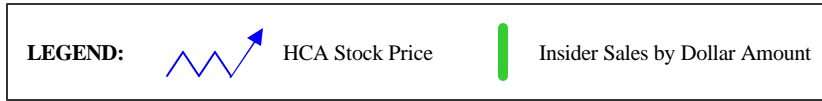
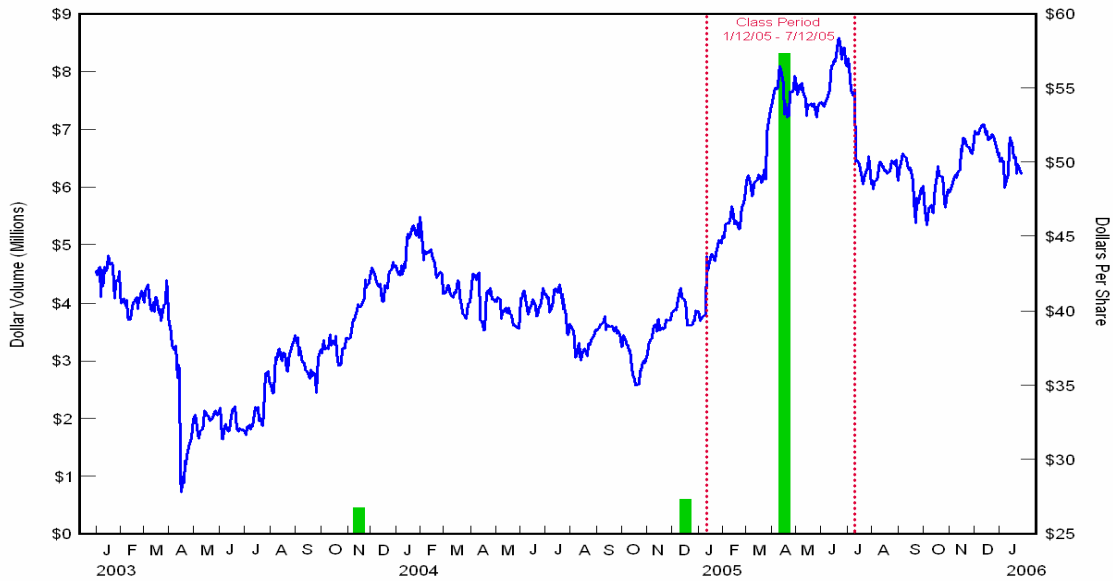
15. (a) Defendant Robert Milton Johnson ("Johnson") is, and was at all times relevant hereto, an Executive Vice President and Chief Financial Officer of HCA.

(b) Johnson signed HCA's annual report filed with the SEC on March 11, 2005, on Form 10-K for fiscal year 2004 and HCA's Form 10-Q for the First Quarter of 2005, filed with the SEC on May 6, 2005.

(c) In conjunction with each of HCA's public financial statements filed with the SEC during the Class Period, Johnson signed a certification pursuant to § 302 of the Sarbanes-Oxley Act, attesting that he reviewed the contents of the filing to confirm the "report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading." Johnson was required to and did further confirm that he, along with defendant Bovender, was responsible for establishing and maintaining HCA's disclosure controls and procedures, had designed such controls to assure that material information relating to HCA's operational and financial trends and results were promptly made known to Johnson and the Company's Senior Financial Officers and had routinely evaluated the effectiveness of the Company's policies with regard to assuring that he and other executives were made aware of material information.

(d) During the six-month Class Period, on April 22, 2005, Johnson sold 155,000 shares of HCA stock, collecting approximately \$8.3 million in proceeds. As evidenced in the chart below, Johnson's sales were suspicious both in timing and volume, particularly in light of the fact that he had sold HCA stock only twice in the two years prior to the Class Period, and never approaching the volume he sold during the Class Period, as set forth below:

**HCA, Inc.**  
**Robert Milton Johnson - Insider Sales Monthly Dollar Volume**  
**January 2003 to January 2006**



(e) As Executive Vice President and Chief Financial Officer, Johnson knew or, but for his recklessness, should have known the adverse, non-public information about HCA’s uninsured admissions rates, uninsured patient accounts receivables and reserves for bad debts. In accordance with HCA’s Code of Ethics, as the Executive Vice President and Chief Financial Officer and as HCA’s Senior Financial Officer, Johnson was “responsibl[e] for full, fair, accurate, timely and understandable disclosure in the periodic reports and submissions filed by the Company with the SEC as well as in other public communications made by the Company.” In addition, pursuant to the Code of Ethics, HCA’s internal controls were designed to assure that Johnson was provided with and had access to all operational and financial information, including HCA’s uninsured admissions rates, uninsured patient accounts receivables and reserves for doubtful accounts.

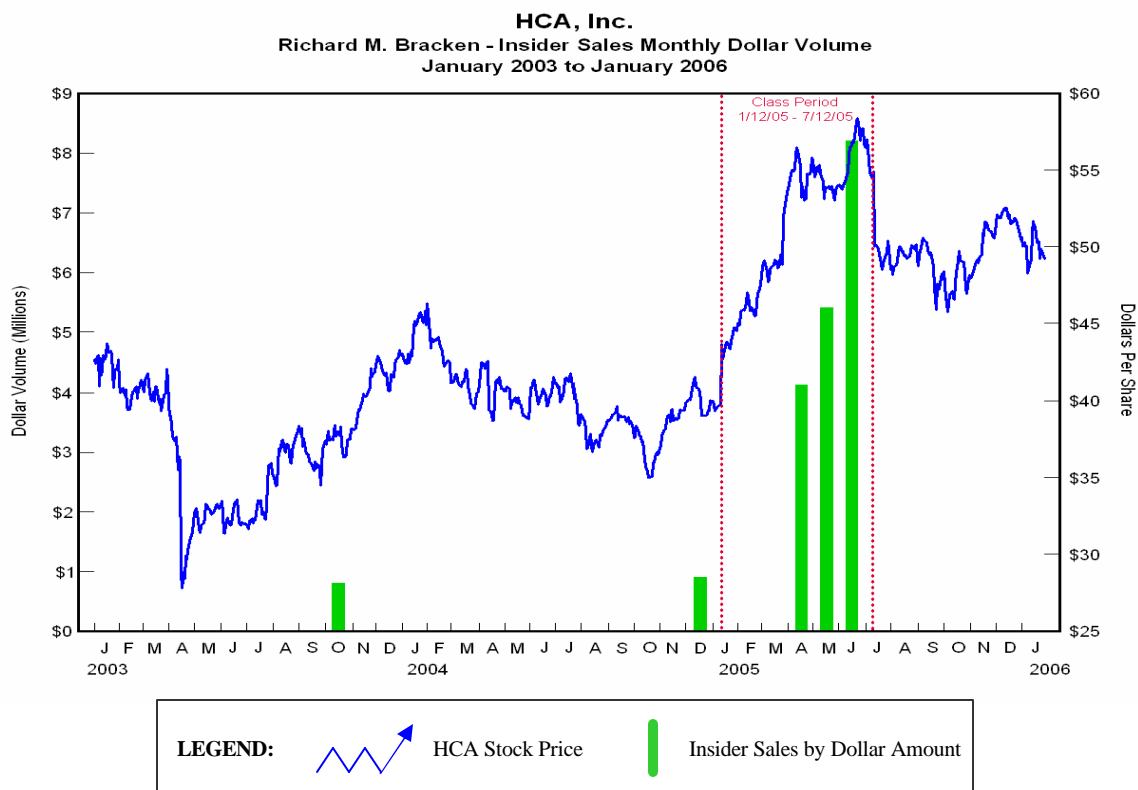
(f) As HCA’s Executive Vice President and Chief Financial Officer, Johnson participated in and was responsible for the issuance of false and/or misleading statements, including

the preparation of the false and misleading statements detailed in the Company’s SEC filings and press releases and the dissemination of false statements during presentations at securities conferences and during conference calls with securities analysts and investors as detailed in ¶¶69-101.

16. (a) Defendant Richard M. Bracken (“Bracken”) is, and was at all times relevant hereto, President, Chief Operating Officer and Director of HCA.

(b) Bracken signed HCA’s annual report filed with the SEC on March 11, 2005, on Form 10-K for fiscal year 2004.

(c) During the six-month Class Period, Bracken sold 327,000 shares of HCA stock, collecting over \$17.7 million in proceeds. As evidenced in the chart below, Bracken’s sales were suspicious both in timing and volume, particularly in light of the fact that he sold stock only twice in the two years prior to the Class Period, and never approaching the volume he sold during the Class Period, as set forth below:

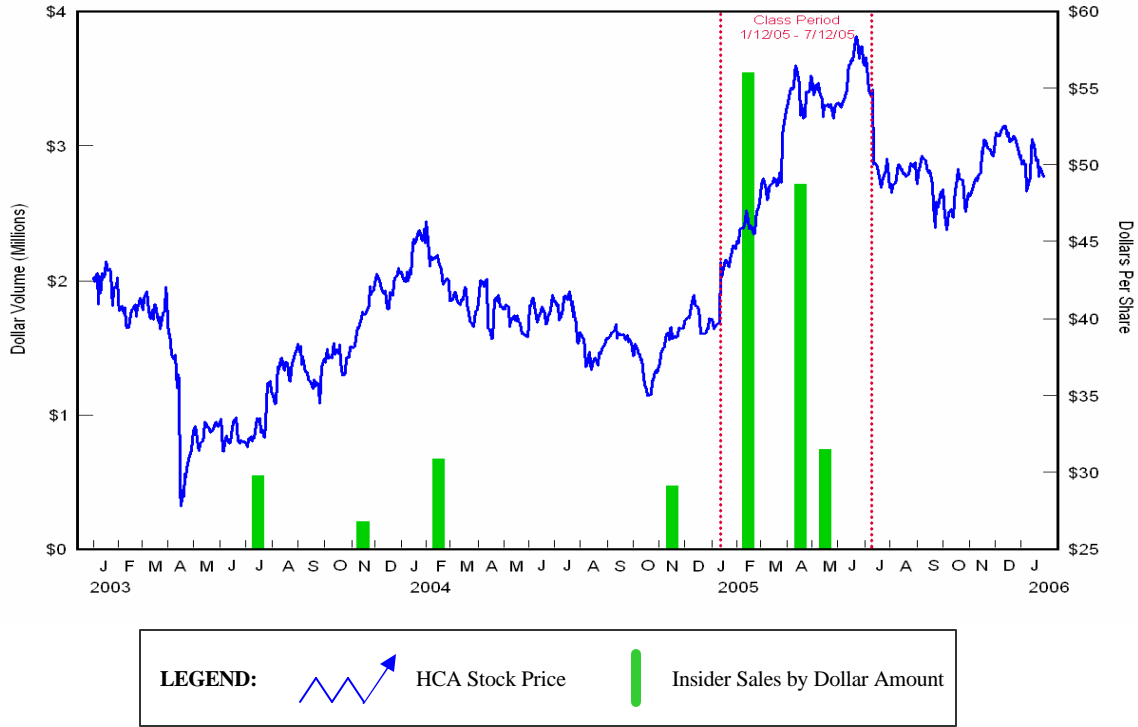


(d) Pursuant to HCA's Code of Ethics, Bracken was one of HCA's "Senior Financial Officers" throughout the Class Period. In accordance with the Code of Ethics, as HCA's President and Chief Operating Officer, as well as in his role as a management director and a Senior Financial Officer, Bracken was "responsibl[e] for full, fair, accurate, timely and understandable disclosure in the periodic reports and submissions filed by the Company with the SEC as well as in other public communications made by the Company." In addition, pursuant to the Code of Ethics, HCA's internal controls were designed to assure that Bracken was provided with and had access to all operational and financial information, including HCA's uninsured admissions rates, uninsured patient accounts receivables and reserves for doubtful accounts.

(e) As HCA's President and Chief Operating Officer, Bracken participated in and was responsible for the issuance of false and/or misleading statements, including the preparation of the false and misleading statements detailed in the Company's SEC filings and press releases and the dissemination of false statements during presentations at securities conferences and during conference calls with securities analysts and investors as detailed in ¶¶69-101.

17. (a) Defendant David G. Anderson ("Anderson") is, and was at all times relevant hereto, Senior Vice President of Finance and Treasurer of HCA. During the six-month Class Period, Anderson sold 140,000 shares of HCA stock, collecting over \$7 million in insider trading proceeds. As evidenced in the chart below, Anderson's sales were suspicious both in timing and volume, particularly in light of the fact that he sold stock only four times in the two years prior to the Class Period, and never approaching the volume he sold during the Class Period, as set forth below:

**HCA, Inc.**  
**David Gwin Anderson - Insider Sales Monthly Dollar Volume**  
**January 2003 to January 2006**



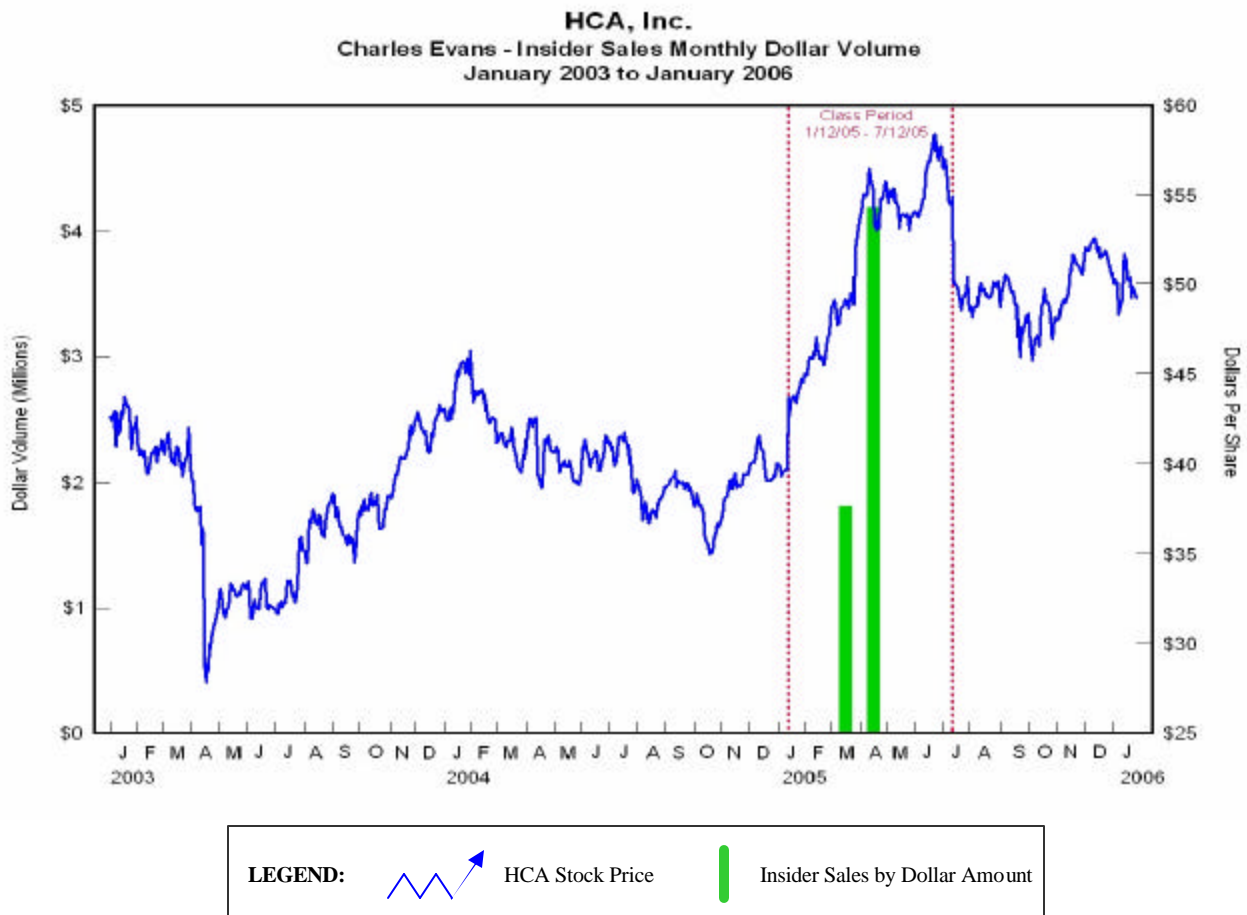
(b) Pursuant to HCA’s Code of Ethics, Anderson was one of HCA’s “Senior Financial Officers” throughout the Class Period. In accordance with the Code of Ethics, as the Senior Vice President of Finance and Treasurer of HCA and as a Senior Financial Officer, Anderson was “responsibl[e] for full, fair, accurate, timely and understandable disclosure in the periodic reports and submissions filed by the Company with the SEC as well as in other public communications made by the Company.” In addition, pursuant to the Code of Ethics, HCA’s internal controls were designed to assure that Anderson was provided with and had access to all operational and financial information, including HCA’s uninsured admissions rates, uninsured patient accounts receivables and reserves for doubtful accounts.

(c) As HCA’s Senior Vice President of Finance and Treasurer, and as a Senior Financial Officer, Anderson participated in and was responsible for the issuance of false and/or misleading statements, including the preparation of the false and misleading statements detailed in



the Company’s SEC filings and press releases and the dissemination of false statements during presentations at securities conferences and during conference calls with securities analysts and investors as detailed in ¶¶69-101.

18. (a) Defendant Charles Evans (“Evans”) is, and was at all times relevant hereto, the President of HCA’s Eastern Group. During the six-month Class Period, Evans sold 116,000 shares of HCA stock, collecting approximately \$6 million in insider trading proceeds. As evidenced in the chart below, Evans’ sales were suspicious both in timing and volume, particularly in light of the fact that he never sold stock in the two years prior to the Class Period, as set forth below:

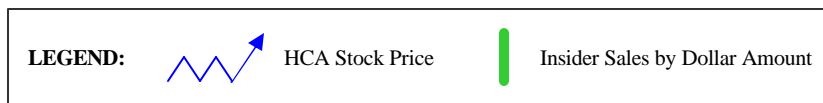
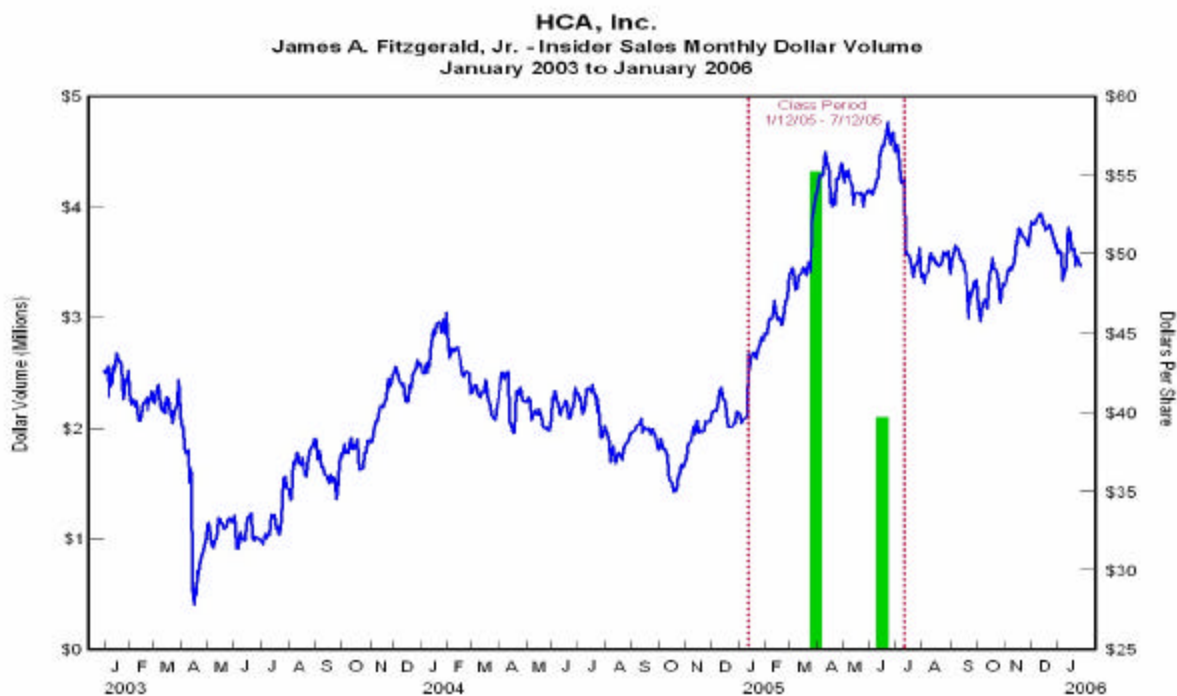


(b) Pursuant to HCA’s Code of Ethics, Evans was one of HCA’s “Senior Financial Officers” throughout the Class Period. In accordance with the Code of Ethics, as the President of HCA’s Eastern Group and as a Senior Financial Officer, Evans was “responsibl[e] for

full, fair, accurate, timely and understandable disclosure in the periodic reports and submissions filed by the Company with the SEC as well as in other public communications made by the Company.” In addition, pursuant to the Code of Ethics, HCA’s internal controls were designed to assure that Evans was provided with and had access to all operational and financial information, including HCA’s uninsured admissions rates, uninsured patient accounts receivables and reserves for doubtful accounts.

(c) As the President of HCA’s Eastern Group, and as a Senior Financial Officer, Evans participated in and was responsible for the issuance of false and/or misleading statements, including the preparation of the false and misleading statements detailed in the Company’s SEC filings and press releases and the dissemination of false statements during presentations at securities conferences and during conference calls with securities analysts and investors as detailed in ¶¶69-101.

19. (a) Defendant James A. Fitzgerald, Jr. (“Fitzgerald”) is, and was at all times relevant hereto, the Senior Vice President – Supply Chains Operations of HCA. During the six-month Class Period, Fitzgerald sold 123,239 shares of HCA stock, collecting over \$6.4 million in insider trading proceeds. As evidenced in the chart below, Fitzgerald’s sales were suspicious both in timing and volume, especially in light of the fact that he never sold stock in the two years prior to the Class Period, as set forth below:

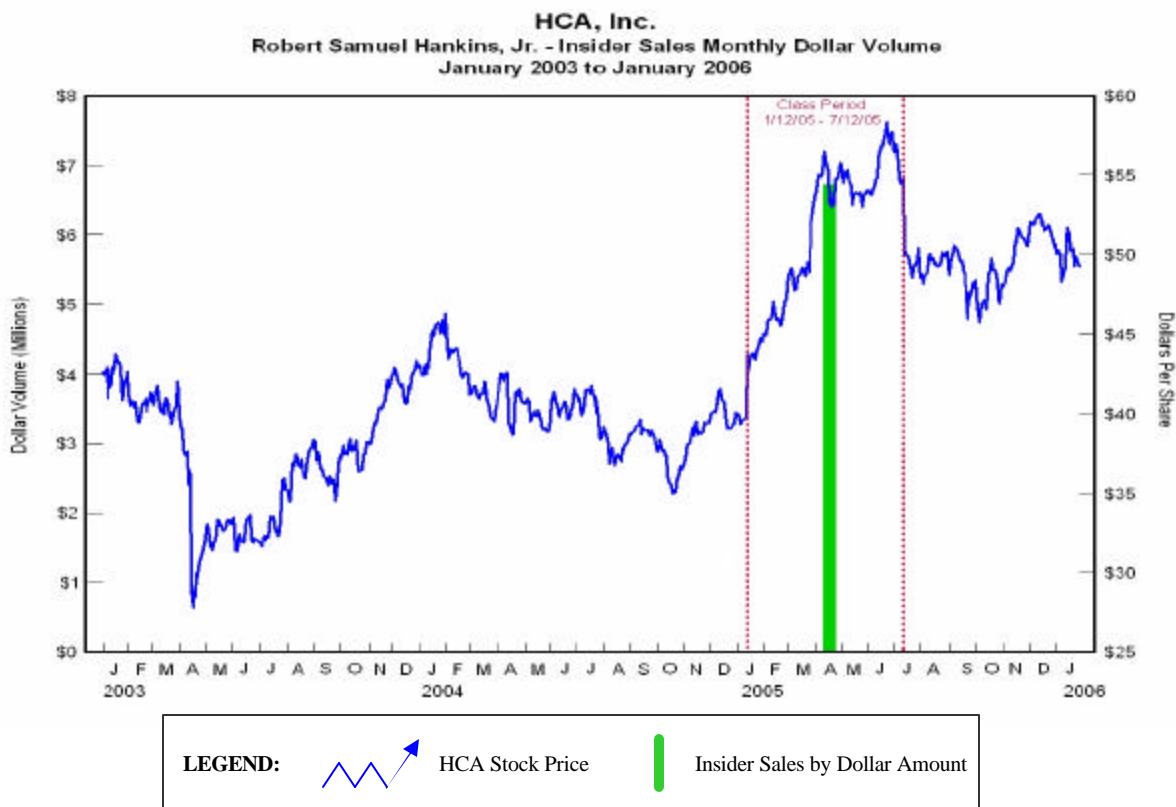


(b) Pursuant to HCA’s Code of Ethics, Fitzgerald was one of HCA’s “Senior Financial Officers” throughout the Class Period. In accordance with the Code of Ethics, as one of HCA’s Senior Vice Presidents and as a Senior Financial Officer, Fitzgerald was “responsibl[e] for full, fair, accurate, timely and understandable disclosure in the periodic reports and submissions filed by the Company with the SEC as well as in other public communications made by the Company.” In addition, pursuant to the Code of Ethics, HCA’s internal controls were designed to assure that Fitzgerald was provided with and had access to all operational and financial information, including HCA’s uninsured admissions rates, uninsured patient accounts receivables and reserves for doubtful accounts.

(c) As one of HCA’s Senior Vice Presidents, and as a Senior Financial Officer, Fitzgerald participated in and was responsible for the issuance of false and/or misleading statements, including the preparation of the false and misleading statements detailed in the Company’s SEC

filings and press releases and the dissemination of false statements during presentations at securities conferences and during conference calls with securities analysts and investors as detailed in ¶¶69-101.

20. (a) Defendant Robert Samuel Hankins, Jr. (“Hankins”) is, and was at all times relevant hereto, the Chief Financial Officer – Outpatient Services Group of HCA. During the six-month Class Period, on April 29, 2005, Hankins sold 122,185 shares of HCA stock, collecting over \$6.7 million in insider trading proceeds. As evidenced in the chart below, Hankins’ sales were suspicious both in timing and volume, in light of the fact that he never sold stock in the two years prior to the Class Period, as set forth below:



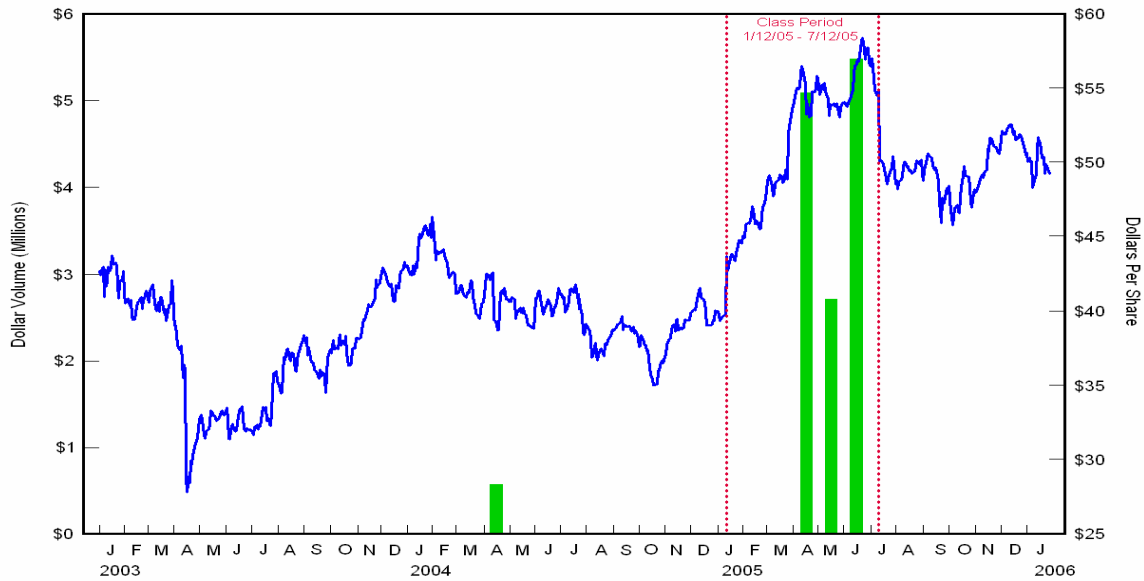
(b) Pursuant to HCA’s Code of Ethics, Hankins was one of HCA’s “Senior Financial Officers” throughout the Class Period. In accordance with the Code of Ethics, as HCA’s Chief Financial Officer – Outpatient Services Group and as a Senior Financial Officer, Hankins was

“responsibl[e] for full, fair, accurate, timely and understandable disclosure in the periodic reports and submissions filed by the Company with the SEC as well as in other public communications made by the Company.” In addition, pursuant to the Code of Ethics, HCA’s internal controls were designed to assure that Hankins was provided with and had access to all operational and financial information, including HCA’s uninsured admissions rates, uninsured patient accounts receivables and reserves for doubtful accounts.

(c) As HCA’s Chief Financial Officer – Outpatient Services Group, and as a Senior Financial Officer, Hankins participated in and was responsible for the issuance of false and/or misleading statements, including the preparation of the false and misleading statements detailed in the Company’s SEC filings and press releases and the dissemination of false statements during presentations at securities conferences and during conference calls with securities analysts and investors as detailed in ¶¶69-101.

21. (a) Defendant Samuel N. Hazen (“Hazen”) is, and was at all times relevant hereto, the President of HCA’s Western Group. During the six-month Class Period, Hazen sold 217,500 shares of HCA stock, collecting over \$11.8 million in insider trading proceeds. As evidenced in the chart below, Hazen’s sales were suspicious both in timing and volume, especially in light of the fact that he sold stock only once in the two years prior to the Class Period, and never approaching the volume he sold during the Class Period, as set forth below:

**HCA, Inc.**  
**Samuel N. Hazen - Insider Sales Monthly Dollar Volume**  
**January 2003 to January 2006**

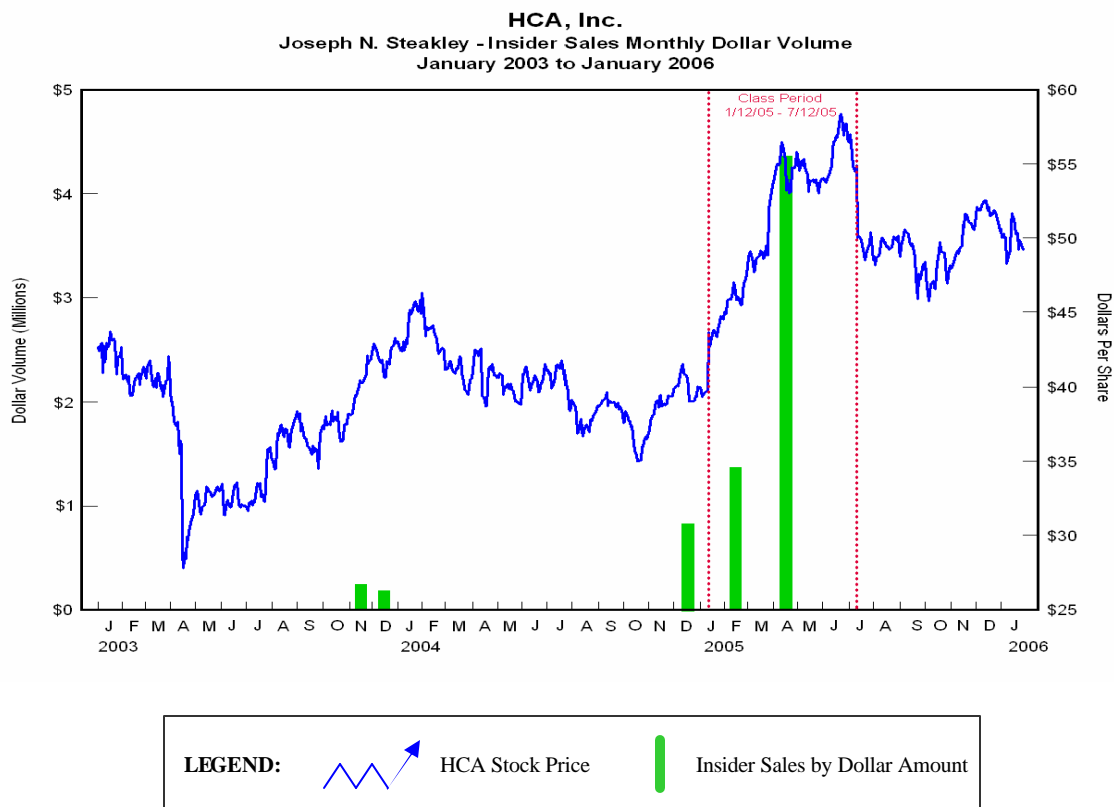


(b) Pursuant to HCA’s Code of Ethics, Hazen was one of HCA’s “Senior Financial Officers” throughout the Class Period. In accordance with the Code of Ethics, as President of HCA’s Western Group and as a Senior Financial Officer, Hazen was “responsibl[e] for full, fair, accurate, timely and understandable disclosure in the periodic reports and submissions filed by the Company with the SEC as well as in other public communications made by the Company.” In addition, pursuant to the Code of Ethics, HCA’s internal controls were designed to assure that Hazen was provided with and had access to all operational and financial information, including HCA’s uninsured admissions rates, uninsured patient accounts receivables and reserves for doubtful accounts.

(c) As President of HCA’s Western Group, and as a Senior Financial Officer, Hazen participated in and was responsible for the issuance of false and/or misleading statements, including the preparation of the false and misleading statements detailed in the Company’s SEC

filings and press releases and the dissemination of false statements during presentations at securities conferences and during conference calls with securities analysts and investors as detailed in ¶¶69-101.

22. (a) Defendant Joseph N. Steakley (“Steakley”) is, and was at all times relevant hereto, Senior Vice President – Internal Audit Services of HCA. During the six-month Class Period, Steakley sold 110,000 shares of HCA stock, collecting over \$5.7 million in insider trading proceeds. As evidenced in the chart below, Steakley’s sales were suspicious both in timing and volume, especially in light of the fact that he sold stock only three times in the two years prior to the Class Period, and never approaching the volume he sold during the Class Period, as set forth below:



(b) Pursuant to HCA’s Code of Ethics, Steakley was one of HCA’s “Senior Financial Officers” throughout the Class Period. In accordance with the Code of Ethics, as Senior Vice President – Internal Audit Services of HCA and as a Senior Financial Officer, Steakley was

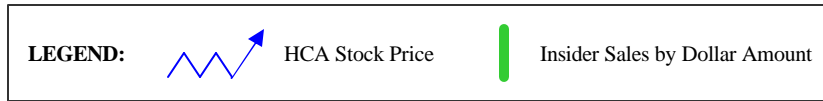
“responsibl[e] for full, fair, accurate, timely and understandable disclosure in the periodic reports and submissions filed by the Company with the SEC as well as in other public communications made by the Company.” In addition, pursuant to the Code of Ethics, HCA’s internal controls were designed to assure that Steakley was provided with and had access to all operational and financial information, including HCA’s uninsured admissions rates, uninsured patient accounts receivables and reserves for doubtful accounts.

(c) As Senior Vice President – Internal Audit Services of HCA, and as a Senior Financial Officer, Steakley participated in and was responsible for the issuance of false and/or misleading statements, including the preparation of the false and misleading statements detailed in the Company’s SEC filings and press releases and the dissemination of false statements during presentations at securities conferences and during conference calls with securities analysts and investors as detailed in ¶¶69-101.

23. (a) Defendant Beverly B. Wallace (“Wallace”) is, and was at all times relevant hereto, President – Financial Services Group of HCA. During the six-month Class Period, Wallace sold 106,760 shares of HCA stock, collecting over \$5 million in insider trading proceeds. As evidenced in the chart below, Wallace’s sales were suspicious both in timing and volume, particularly in light of the fact that she sold stock only twice in the two years prior to the Class Period, and never approaching the volume she sold during the Class Period, as set forth below:



**HCA, Inc.**  
**Beverly B. Wallace - Insider Sales Monthly Dollar Volume**  
**January 2003 to January 2006**

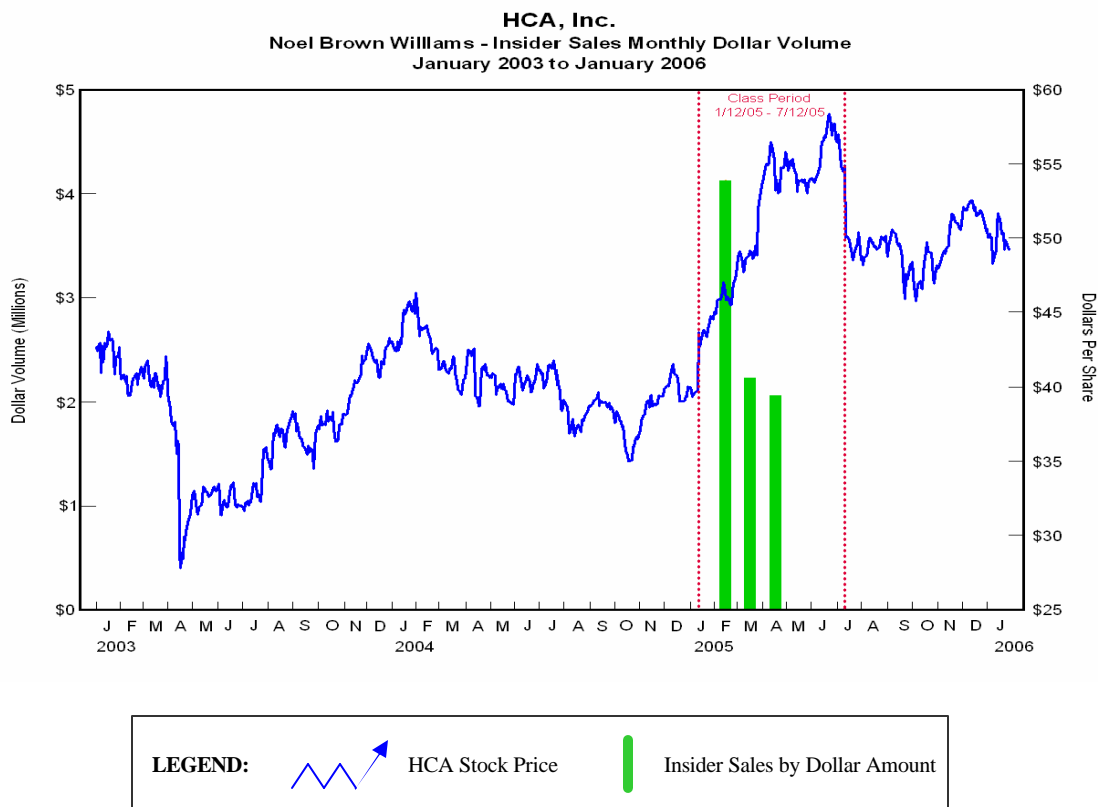


(b) Pursuant to HCA’s Code of Ethics, Wallace was one of HCA’s “Senior Financial Officers” throughout the Class Period. In accordance with the Code of Ethics, as President – Financial Services Group of HCA and as a Senior Financial Officer, Wallace was “responsibl[e] for full, fair, accurate, timely and understandable disclosure in the periodic reports and submissions filed by the Company with the SEC as well as in other public communications made by the Company.” In addition, pursuant to the Code of Ethics, HCA’s internal controls were designed to assure that Wallace was provided with and had access to all operational and financial information, including HCA’s uninsured admissions rates, uninsured patient accounts receivables and reserves for doubtful accounts.

(c) As President – Financial Services Group of HCA, and as a Senior Financial Officer, Wallace participated in and was responsible for the issuance of false and/or misleading statements, including the preparation of the false and misleading statements detailed in the

Company’s SEC filings and press releases and the dissemination of false statements during presentations at securities conferences and during conference calls with securities analysts and investors as detailed in ¶¶69-101.

24. (a) Defendant Noel Brown Williams (“Williams”) is, and was at all times relevant hereto, Senior Vice President and Chief Information Officer of HCA. During the six-month Class Period, Williams sold 244,541 shares of HCA stock, collecting over \$12 million in insider trading proceeds. As evidenced in the chart below, Williams’ sales were suspicious both in timing and volume, particularly in light of the fact that she never sold stock in the two years prior to the Class Period, as set forth below:



(b) As the Chief Informational Officer throughout the Class Period, Williams was responsible for and had access to all operational and financial information, including HCA’s uninsured admissions rates, uninsured patient accounts receivables and reserves for bad debts.

(c) As one of HCA's Senior Vice Presidents and the Company's Chief Information Officer, Williams participated in and was responsible for the issuance of false and/or misleading statements, including the preparation of the false and misleading statements detailed in the Company's SEC filings and press releases and the dissemination of false statements during presentations at securities conferences and during conference calls with securities analysts and investors as detailed in ¶¶69-101.

25. The individuals named as defendants in ¶¶14-24 are collectively referred to herein as the "Individual Defendants."

26. It is appropriate to treat the Individual Defendants as a group for pleading purposes and to presume that the false, misleading and incomplete information conveyed in the Company's public filings, press releases and other communications as alleged herein are the collective actions of the defendants identified above. The Individual Defendants, by virtue of their high-level positions with HCA and as described in the Company's Code of Ethics and SEC filings, managed the Company, were directly involved in the day-to-day operations of the Company at the highest levels and directed the Company's internal financial controls and financial reporting, as alleged and specified herein. Each of the Individual Defendants was personally involved in the alleged fraudulent activity and drafting, producing, reviewing and disseminating the false and misleading statements alleged herein. The Individual Defendants were aware or recklessly disregarded that the false and misleading statements were being issued regarding the Company, and approved or ratified those statements in violation of federal securities laws.

27. As officers and controlling persons of a publicly-held company whose common stock was, and is, registered with the SEC pursuant to the 1934 Act, traded on the NYSE during the Class Period, and governed by the provisions of the federal securities laws, the Individual Defendants each had a duty to disseminate promptly, accurate and truthful information with respect to HCA's

financial condition and performance, operations and present and future financial and business prospects and to correct any previously issued statements that had become materially misleading or untrue, so that the market price of the Company's publicly-traded securities would be based upon truthful and accurate information. The Individual Defendants' misrepresentations and omissions during the Class Period violated these specific requirements and obligations.

28. The Individual Defendants participated in the drafting, preparation and approval of the various public reports and other communications complained of herein and were aware of, or recklessly disregarded, the misstatements contained therein and omission therefrom, and were aware of their materially false and misleading nature. Because of their positions as senior officers and Senior Financial Officers, the Individual Defendants had access to the adverse undisclosed information about HCA's operations and financial condition and improper accounting as particularized herein and knew, or recklessly disregarded, that these adverse facts rendered the representations made by or about HCA and its financial results materially false and misleading.

29. The Individual Defendants, because of their positions of control and authority as the senior officers and directors of the Company, were able to and did control the content of various SEC filings, press releases and other public statements pertaining to HCA during the Class Period. Each of the Individual Defendants were provided with copies of the documents alleged herein to be misleading prior to or shortly after their issuance and had the ability and opportunity to prevent their issuance or cause them to be corrected. Accordingly, each of the Individual Defendants is responsible for the accuracy of the public reports and releases detailed herein, and is, therefore, primarily liable for the representations contained therein.

30. With regard to financial reporting, the Individual Defendants were responsible for the preparation and integrity of HCA's financial reporting principles and internal control procedures designed to assure compliance with accounting standards and applicable laws and regulations.

#### IV. OVERVIEW OF THE FRAUD

##### A. The Fraudulent Scheme

31. Hospitals and other medical care facilities, such as HCA, receive payments for their services from three main sources or payor classes: (i) Medicaid and other similar governmental payment programs; (ii) managed care plans such as Blue Cross, other private insurance companies, employers, HMO's and PPO's; and (iii) self-pay accounts. Self-pay accounts primarily involve uninsured patients, as well as insured patients with balances such as deductibles or co-payments (*i.e.*, the relatively minor outstanding amounts due that are not covered by a patient's insurance).

32. In the hospital industry, the provision for doubtful accounts represents a significant portion of net revenues and hence is critical to a company's bottom line. The provision for doubtful accounts represents a significant cost for hospitals with the vast majority of the cost of collection risk being derived from the uninsured patients included in the self-pay accounts. Under state and federal laws, hospitals are required to treat uninsured patients or face penalties. Accordingly, hospitals must accept the risk of non-payment from self-pay accounts as a cost of doing business. As self-pay accounts often represent a material part of a hospital's business, the cost associated with provisions for doubtful accounts is a key driver in a hospital's profitability. Indeed, this was defendant Bovender's precise testimony before a United States House of Representatives Subcommittee in June 2004: "The bottom line is this: hospitals cannot continue to absorb more bad debt as they strive to maintain a quality healthcare system for Americans. As more insurance plans shift a greater burden of the cost of care to individuals, through higher co-pays and deductibles, the situation will only get worse."

33. In light of the varying level of collection risk associated with the different payor classes, GAAP requires hospitals to set provisions for doubtful accounts based both upon contractual provisions and based upon the source of the revenue. As with many others in the hospital industry,

virtually all of HCA's provision for doubtful accounts is devoted to the uninsured patient receivables in its self-pay accounts, with HCA historically reserving 89% of its outstanding self-pay account receivables as doubtful accounts (*i.e.*, probable impairment).

34. Given the significance of the provision for doubtful accounts, the Company and investment analysts typically considered HCA's provision for doubtful accounts for the period as a percentage of its total revenue for the same period as an important metric in assessing HCA's performance. From 4Q 2003 through 3Q 2004, HCA reported its provision as a percentage of revenue in the range of 11.3% - 11.7%.

35. At the beginning of the Class Period, HCA improperly began under-accruing for its provision for doubtful accounts in order to inflate its assets and earnings. Indeed, HCA's provision for doubtful accounts for the 4Q 2004 included a special favorable change totaling \$46 million due to "refinements to the provision for doubtful accounts estimation process." HCA's plan succeeded as its reported provision as a percentage of revenue dropped below the 11% level for 4Q 2004 and 1Q 2005 (10.5% and 10.9% for 4Q 2004 and 1Q 2005, respectively) – the first time the percentage was below 11% since 3Q 2003. HCA decreased its provision despite the fact that the Company's uninsured admissions and emergency room visits (and hence its self-pay receivables) were still increasing in 4Q 2004 and 1Q 2005.

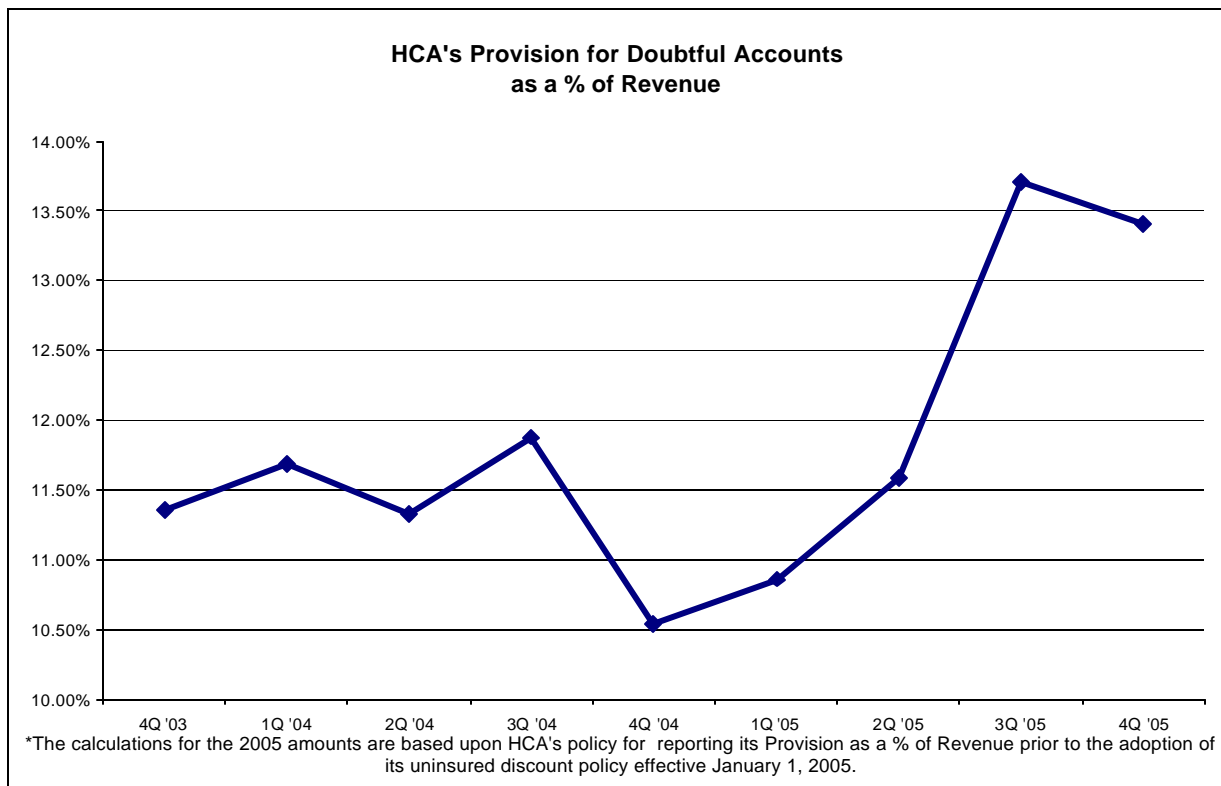
36. Ultimately, in its 2Q 2005 results, HCA was forced to increase the provision for doubtful accounts to 11.6% of its total revenue – back to the pre-Class Period level. In addition, by 3Q 2005 and 4Q 2005, HCA was further forced to make up for its under-reserving by increasing its provision to an astounding 13.7% and 13.4% of its revenue, respectively.

37. During the same time period, 3Q 2005, HCA's competitors reported provisions for doubtful accounts in line with those companies' prior trends. Indeed, while HCA was forced to increase its provision to an astounding 13.7%, three of the Company's competitors, Tenet, Triad and

Community, reported provisions for doubtful accounts for 3Q 2005 of 11.2%, 11.2% and 10.0%, respectively.

38. The amount of HCA's provision for 2Q 2005, 3Q 2005 and 4Q 2005 also hit record highs of \$725 million, \$859 million and \$860 million, respectively. Previously, HCA's highest provision was in 1Q 2004 when it reserved \$694 million.

39. The chart below tracks HCA's provision for doubtful accounts as a percentage of revenue prior to, during and after the Class Period.



40. A provision for doubtful accounts is an amount set aside or reserved for bad debts expected to incur in the current period. (FASB Statement of Financial Accounting Standard (SFAS) No. 5 at ¶8.) Pursuant to GAAP, once it appears that a specific receivable or some portion of a group of receivables will be uncollected, a loss must be recorded. Bad debt expense should be recorded on the company's income statement in the period the receivables become uncollectible, thus, reducing net income. Basically, the provision for doubtful accounts represents the estimate of

current revenue which may not be collected in future periods or changes in estimates of revenue which may not be collected in future periods while write-offs represent past revenue that has been deemed uncollectible. Both provision increases and write-offs negatively affect earnings. The amount of time that a specific account has been outstanding is important in assessing the likelihood of its collectibility. Generally, the longer the time an account has been outstanding, the less likely it is that a company will be paid.

41. Defendants improperly manipulated HCA's provision for doubtful accounts through the adoption of two new "aging policies" in 2004. First, in 2Q 2004, certain of the Company's hospitals began to extend the payment plans for some uninsured patients from two to three years to as long as five years. Second, in 3Q 2004, HCA changed its policy of automatically writing off or fully reserving for any account that was delinquent for more than 150 days to only writing off an account when "all reasonable internal and external collection efforts have been performed" and the account has been returned from "the primary external collection agency." As both of these policies affect the timing in which HCA will write off an account as being uncollectible, they both give HCA wider discretion in manipulating its accounts receivable reserve balance such that it could hold bad debts on its balance sheet longer and avoid taking large write-offs that would negatively affect its earnings until a later date. The changes, however, should not have affected the receivables that HCA included in the provision for doubtful accounts, as they did not make the debts any more likely to be paid.

42. In addition, the United States Census Bureau's study entitled, "Income, Poverty, and Health Insurance Coverage in the United States: 2004," issued in August 2005, reported that the total number of uninsured individuals in the United States had increased by more than 850,000 individuals from 2003 to 2004. This U.S. Census Bureau report is consistent with defendant Bovender's June 2004 testimony to Congress regarding the "growing non-reimbursed costs of



providing care for the uninsured” and that the “treatment of the uninsured has represented a substantial and growing segment of the patient population” and contrary to defendants Class Period statements.

B. Defendants’ Massive Insider Sales During The Six-Month Class Period

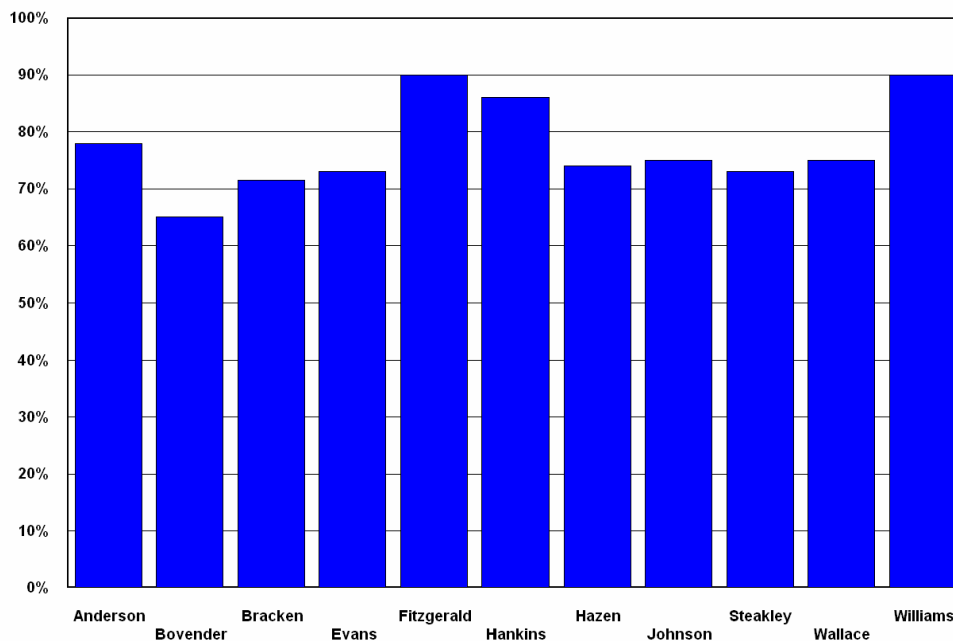
43. At the same time that HCA improperly lowered its provision for doubtful accounts, the Individual Defendants were selling in excess of 2.1 million shares of HCA stock for insider trading proceeds of \$109.6 million *in just six months*. Notwithstanding the Individual Defendants’ knowledge of the ongoing fraud and their duties as officers and directors of the Company to disclose adverse material facts before trading in HCA stock, the Individual Defendants personally profited from the artificial inflation in HCA’s stock which their fraudulent scheme created. In doing so, each defendant was individually in violation of his duty to “abstain or disclose” the adverse, material non-public information they each possessed when they traded in HCA stock.

44. All but 1% of the shares collectively sold by HCA insiders during the Class Period were acquired through the exercise of stock options. HCA awards stock options to its executives and officers based on the Company’s performance, including financial performance. In 2004 alone, HCA granted more than 910,000 options to defendants Bovender, Bracken, Hazen and Johnson. The Company’s prior practice had been to issue options to its officers and executives which vested ratably over four years. However, in 2004, immediately before the Class Period and defendants’ insider selling, all HCA outstanding options with exercise prices greater than \$40.89 vested immediately. Thus, not only were the defendants with qualifying options able to immediately exercise their options, but they were incentivized to inflate HCA’s stock price above \$40.89 per share. Following the Class Period, and consistent with HCA’s pre-2004 practice, options awarded to defendants once again vested ratably in increments of 25% over the four-year period after the date of issuance, and were not available for immediate sale.

45. Notably, nearly all of the stock sold by insiders during the Class Period was generated by the exercise of options that were not expiring and, therefore, possessed remaining life and, presumably, value. Nevertheless, defendants exercised the options in full and, immediately after exercising the options, sold their shares in the open market.

46. As discussed on an individual basis below, the defendants were remarkably successful in timing their trades, capturing high prices – as high as \$55.85 per share – during the Class Period run-up of HCA’s share price, which peaked just as defendants completed their selling. The shares sold by the Individual Defendants were also, collectively, more than 30 times the number of shares sold in the six months before the Class Period and 22 times the number of shares sold in all of 2004. As evidenced in the chart below, defendants’ Class Period stock sell-off was the biggest insider stock liquidation ever at HCA.

**Percentage of Shares Sold During Class Period**



1. Jack O. Bovender, Jr.

47. Defendant Bovender, the Chairman and CEO of HCA, personally sold 500,000 shares of HCA stock for insider trading proceeds of \$22,348,431, thereby profiting from the artificial inflation in HCA's stock price that defendants' fraudulent scheme had created. Based on Bovender's Form 4s filed with the SEC, as of his final Class Period sale, he had sold 65% of his stock holdings during the Class Period. During the 12 months before the Class Period, Bovender did not make a single sale of HCA stock. Notably, Bovender's insider trading proceeds during the Class Period were more than 16 times his 2004 salary.

48. Bovender's insider trading was not part of any general or specific pre-planned pattern of stock sales, but was timed to profit from the artificial inflation in HCA's stock price. There is no statement in HCA's 10-K, annual proxy, or any of its public filings that Bovender informed HCA's outside directors of his intention to sell large numbers of shares before exercising his options and making stock sales, or that he received consent to do so. In fact, all of Bovender's sales occurred *the day after* defendants announced the false and misleading 4Q 2004 results. Thus, his sales were not merely unusual in amount, but were also timed to take advantage of the increase in the price of HCA's stock that immediately followed defendants' false statements.

2. Robert Milton Johnson

49. Defendant Johnson, an Executive Vice President and Chief Financial Officer of HCA, sold 155,000 shares of HCA stock for insider trading proceeds of \$8,295,109. Based on Johnson's Form 4s filed with the SEC, as of Johnson's final Class Period trade, he had sold approximately 75% of his HCA stock holdings during the Class Period. In comparison, during all of 2004, Johnson sold just 15,000 shares, less than 10% of his Class Period sales. Notably, Johnson's insider trading proceeds during the Class Period were approximately 18 times his 2004 salary.

50. Johnson's trading was not part of any general or specific pre-planned pattern of stock sales, but was designed to profit from the artificial inflation in HCA's stock price. There is no statement in HCA's 10-K, annual proxy, or any of its public filings that Johnson informed HCA's outside directors of his intention to sell large numbers of shares before exercising his options and making stock sales, or that he received consent to do so. In fact, Johnson's Class Period sales occurred the day after HCA released its 1Q 2005 financial results and defendants increased the Company's earning guidance for 2005 on the strength of decreasing bad debt expenses and purportedly improving operational trends. Thus, his sales were not merely unusual in amount, but were also timed to take advantage of the increase in the price of HCA's stock that immediately followed defendants' false and misleading statements.

3. Richard M. Bracken

51. Defendant Bracken, President, Chief Operating Officer and Director of HCA, sold 327,000 shares of HCA stock for insider trading proceeds of \$17,715,585, thereby profiting from the artificial inflation in HCA's stock price created by defendants' fraud. Based on defendant Bracken's Form 4s filed with the SEC, as of Bracken's final Class Period trade, he had sold 71.5% of his HCA holdings. In comparison, during all of 2004 Bracken sold just 22,790 shares, only 7% of his Class Period sales. Notably, Bracken's insider trading proceeds during the Class Period were 24 times his salary.

52. Bracken's insider trading was not part of any general or specific pre-planned pattern of stock sales, but was timed to profit from the artificial inflation of HCA's stock price. There is no statement in HCA's 10-K, annual proxy, or any of its public filings that Bracken informed HCA's outside directors of his intention to sell large numbers of shares before exercising his options and making stock sales, or that he received consent to do so. In fact, Bracken sold 77,000 shares for proceeds exceeding \$4 million the day following the release of HCA's 1Q 2005 financial results

highlighting declining bad debt expenses. Bracken sold another 150,000 shares for proceeds of more than \$8 million between June 3 and June 10, 2005, after defendants' false statements about HCA's 1Q 2005 results and immediately before HCA's blackout period which prevented defendants from selling shares after June 10, 2005. Thus, Bracken's sales were not merely unusual in amount, but were also timed to take advantage of the increase in the price of HCA's stock that immediately followed defendants' false and misleading statements.

4. David G. Anderson

53. Defendant Anderson, Senior Vice President of Finance and Treasurer of HCA, sold 140,000 shares of HCA stock during the Class Period for illegal insider trading proceeds of \$7,009,111. Based on Anderson's Form 4s filed with the SEC, as of Anderson's final Class Period trade, he had sold 78% of his HCA stock holdings during the Class Period. In comparison, during all of 2004, Anderson sold only 27,000 shares, less than 20% of his Class Period sales.

54. Anderson's trading was not part of any general or specific pre-planned pattern of stock sales, but was designed to profit from the artificial inflation in HCA's stock price. There is no statement in HCA's 10-K, annual proxy, or any of its public filings that Anderson informed HCA's outside directors of his intention to sell large numbers of shares before exercising his options and making stock sales, or that he received consent to do so. More than 90% of Anderson's Class Period sales occurred within days of HCA's release of its 4Q 2004 financial results highlighting the Company's declining bad debt expenses and HCA's release of its 1Q 2005 financial results and increased earnings guidance for 2005. Thus, his sales were not merely unusual in amount, but were also timed to take advantage of the increase in the price of HCA's stock that immediately followed defendants' false and misleading statements.

5. Charles R. Evans

55. Defendant Evans, President of HCA's Eastern Group, sold 116,000 shares of HCA stock for \$5,994,699 in illegal insider trading proceeds. Based on Evans' Form 4s filed with the SEC, as of Evans' final Class Period trade, he sold 73% of his HCA stock holdings during the Class Period. During 2004, Evans did not make a single sale of HCA stock.

56. Evans' trading was not part of any general or specific pre-planned pattern of stock sales, but was designed to profit from the artificial inflation in HCA's stock price. There is no statement in HCA's 10-K, annual proxy, or any of its public filings that Evans informed HCA's outside directors of his intention to sell large numbers of shares before exercising his options and making stock sales, or that he received consent to do so. Evans made the majority of his Class Period sales just after HCA released its 1Q 2005 results and increased its earnings guidance for 2005. Thus, his sales were not merely unusual in amount, but were also timed to take advantage of the increase in the price of HCA's stock that immediately followed defendants' false and misleading statements.

6. James A. Fitzgerald, Jr.

57. Defendant Fitzgerald, Senior Vice President – Supply Chains Operations of HCA, sold 123,239 shares of HCA stock during the Class Period for \$6,408,213 in illegal insider trading proceeds. Based on Fitzgerald's Form 4s filed with the SEC, as of Fitzgerald's final Class Period trade, he had sold 90% of his HCA stock holdings during the Class Period. During the full year before the Class Period, Fitzgerald had not made a single sale of HCA stock.

58. Fitzgerald's trading was not part of any general or specific pre-planned pattern of stock sales, but was designed to profit from the artificial inflation in HCA's stock price. There is no statement in HCA's 10-K, annual proxy, or any of its public filings that Fitzgerald informed HCA's outside directors of his intention to sell large numbers of shares before exercising his options and

making stock sales, or that he received consent to do so. Fitzgerald sold shares for millions of dollars in proceeds days before the HCA insider blackout period began on June 10, 2005 and just prior to HCA reaching its Class Period high share price on June 22, 2005. Thus, his sales were not merely unusual in amount, but were also timed to take advantage of the increase in the price of HCA's stock that immediately followed defendants' false and misleading statements.

7. Robert Samuel Hankins, Jr.

59. Defendant Hankins, the Chief Financial Officer – Outpatient Services Group of HCA, sold 122,185 shares of HCA stock for \$6,720,211 in illegal insider trading proceeds during the Class Period. Based on defendant Hankins' Form 4s filed with the SEC, as of Hankins' final Class Period trade, he had sold 86% of his stock holdings during the Class Period. During 2004, Hankins did not make a single sale of HCA stock.

60. Hankins' trading was not part of any general or specific pre-planned pattern of stock sales, but was designed to profit from the artificial inflation in HCA's stock price. There is no statement in HCA's 10-K, annual proxy, or any of its public filings that Hankins informed HCA's outside directors of his intention to sell large numbers of shares before exercising his options and making stock sales, or that he received consent to do so. Hankins made all of his Class Period sales just days after HCA released its 1Q 2005 financial results and increased its earnings guidance for 2005. Thus, his sales were not merely unusual in amount, but were also timed to take advantage of the increase in the price of HCA's stock that immediately followed defendants' false and misleading statements.

8. Samuel N. Hazen

61. Defendant Hazen, President of HCA's Western Group, sold 217,500 shares during the Class Period for insider trading proceeds of \$11,846,829. Based on defendant Hazen's Form 4s filed with the SEC, as of Hazen's final Class Period trade, he had sold 74% of his HCA stock holdings

during the Class Period. In comparison, during all of 2004 Hazen sold just 13,674 shares, only 6% of his Class Period sales. Notably, Hazen's insider trading proceeds during the Class Period were more than 21 times his 2004 salary.

62. Hazen did not trade pursuant to a general or specific pre-planned pattern of stock sales, but timed his sales to profit from the artificial inflation in HCA's stock price. There is no statement in HCA's 10-K, annual proxy, or any of its public filings that Hazen informed HCA's outside directors of his intention to sell large numbers of shares before exercising his options and making stock sales, or that he received consent to do so. Hazen began trading just days after HCA increased its 2005 earning guidance and released the Company's 1Q 2005 financial results and he continued to trade in late May and early June as HCA stock neared its Class Period high share price. Indeed, Hazen sold 35,000 shares for \$1.9 million in illegal insider trading proceeds on June 10, 2005 as HCA's stock price hit Class Period highs as a result of defendants' false statements and just one day before a blackout period prevented HCA insiders from selling Company stock through June 30, 2005. Thus, his sales were not merely unusual in amount, but were also timed to take advantage of the increase in the price of HCA's stock that immediately followed defendants' false and misleading statements.

9. Joseph N. Steakley

63. Defendant Steakley, Senior Vice President – Internal Audit Services of HCA, sold 110,000 shares of HCA stock during the Class Period for illegal insider trading proceeds of \$5,723,887. Based on defendant Steakley's Form 4s filed with the SEC, as of Steakley's final Class Period trade, he sold approximately 73% of his stock holdings during the Class Period. In comparison, during all of 2004, Steakley sold only 20,000 shares, a mere 18% of his Class Period sales.



64. Steakley's trading was not part of any general or specific pre-planned pattern of stock sales, but was designed to profit from the artificial inflation in HCA's stock price. There is no statement in HCA's 10-K, annual proxy, or any of its public filings that Steakley informed HCA's outside directors of his intention to sell large numbers of shares before exercising his options and making stock sales, or that he received consent to do so. Steakley's Class Period sales occurred just days after HCA's release of its 4Q 2004 and 1Q 2005 financial results highlighting the Company's improving bad debt metrics. Thus, his sales were not merely unusual in amount, but were also timed to take advantage of the increase in the price of HCA's stock that immediately followed defendants' false and misleading statements.

10. Beverly B. Wallace

65. Defendant Wallace, President – Financial Services Group of HCA, sold 106,760 shares of HCA stock for \$5,386,980 in illegal insider trading proceeds. Based on defendant Wallace's Form 4s filed with the SEC, as of Wallace's final Class Period trade, she had sold more than 75% of her stock holdings during the Class Period. In comparison, during all of 2004 Wallace did not sell a single share of HCA stock.

66. Wallace's trading was not part of any general or specific pre-planned pattern of stock sales, but was designed to profit from the artificial inflation in HCA's stock price. There is no statement in HCA's 10-K, annual proxy, or any of its public filings that Wallace informed HCA's outside directors of her intention to sell large numbers of shares before exercising her options and making stock sales, or that she received consent to do so. Wallace sold her HCA stock beginning right after the release of the Company's 4Q 2004 results and continued selling through the days just after HCA's release of its 1Q 2005 financial results. Thus, her sales were not merely unusual in amount, but were also timed to take advantage of the increase in the price of HCA's stock that immediately followed defendants' false and misleading statements.

11. Noel Brown Williams

67. Defendant Williams, Senior Vice President and Chief Information Officer of HCA, sold 244,541 shares of HCA stock during the Class Period for insider trading proceeds of \$12,164,556. Based on defendant Williams' Form 4s filed with the SEC, as of Williams' final Class Period trade, she had sold approximately 90% of her stock holdings during the Class Period. During all of 2004, Williams did not make a single sale of HCA stock.

68. Williams' trading was not part of any general or specific pre-planned pattern of sales, but was designed to profit from the artificial inflation in HCA's stock price. There is no statement in HCA's 10-K, annual proxy, or any of its public filings that Williams informed HCA's outside directors of her intention to sell large numbers of shares before exercising her options and making stock sales, or that she received consent to do so. In fact, Williams sold shares for millions of dollars in insider trading proceeds in the days immediately after HCA released its 4Q 2004 financial results. Williams' additional Class Period sales were also remarkably well-timed as she sold shares for millions of dollars in proceeds as HCA stock increased in value throughout March and April 2005, in response to defendants' statements about improving uninsured admissions and bad debt trends. Thus, her sales were not merely unusual in amount, but were also timed to take advantage of the increase in the price of HCA's stock that immediately followed defendants' false and misleading statements.

V. CLASS PERIOD FALSE AND MISLEADING STATEMENTS

A. Fourth Quarter 2004

69. On January 12, 2005, the first day of the Class Period, defendants issued a press release over the *PR Newswire* entitled "HCA Previews Fourth Quarter Results." The release highlighted the Company's purportedly declining growth in uninsured patient admissions, shrinking provision for doubtful accounts (bad debt) expense and a \$46 million reduction in HCA's reserve for

doubtful accounts. Specifically, HCA reported that it expects diluted earnings per share to approximate \$0.68 to \$0.72, up from the Company's previously announced guidance of \$0.52 to \$0.57 per diluted share. The Company also reported that it expected the provision for doubtful accounts for the fourth quarter to approximate \$626 million, or 10.5% of revenues, compared to \$688 million, or 11.9% of revenues, in the third quarter of 2004 and \$636 million, or 11.4% of revenues, in the fourth quarter of 2003.

70. HCA also reported that it recognized a favorable change in its estimated provision for doubtful accounts totaling approximately \$46 million, or \$0.06 per diluted share, "based upon refinements to its allowance for doubtful accounts estimation process related to estimated recoveries associated with Medicare co-pays and deductibles and collection agency placements. HCA credited the better than expected results to *'the Company's refinements to the provision for doubtful accounts estimation process. . .'*" Finally, the Company reaffirmed its previous earnings guidance for the full year 2005 within a range of \$2.75 to \$2.90 per diluted share.

71. Following the January 12, 2005, press release, securities analysts repeated defendants' false and misleading statements and emphasized the importance of the reported improvements in bad debt metrics. A January 12, 2005, JP Morgan report, for example, stated that "[e]asing bad debt pressure is particularly significant given that it represents an inflection change relative to bad debt-related earnings disappointments delivered over the past four quarters." Similarly, a Lehman Brothers analyst report stated, "this is the first time bad-debt expense has been better than expected in almost two years."

72. Defendants' January 12, 2005 statements had a direct effect on HCA's stock price, which immediately increased more than 10% to \$43.18 per share on unusually high trading volume. In the following weeks, HCA's stock price continued to rise to above \$44 per share.

73. On February 1, 2005, defendants issued a press release over the *PR Newswire* announcing HCA's results for the fourth quarter and year ended December 31, 2004, entitled "HCA Reports Fourth Quarter and 2004 Results." Defendants again reported a decline in the rate of uninsured patient admissions, highlighting metrics purporting to show a reduction in uninsured hospital admissions and emergency room visits of over 75% during the preceding year, and emphasized that the Company had reduced the provision for doubtful accounts and recognized a favorable change of \$46 million in the accounting for doubtful accounts. These results, according to defendants, supported their claim that the financial burden of rising uninsured patient admissions was being reduced.

74. Specifically, HCA announced net income of \$322 million and diluted earnings per share of \$0.70, compared to \$317 million and \$0.63 per diluted share in the previous year's fourth quarter. The Company also reported that the provision for doubtful accounts for the fourth quarter was \$626 million, or 10.5% of revenues, compared to \$688 million, or 11.9% of revenues, in the third quarter of 2004 and \$636 million, or 11.4% of revenues, in the fourth quarter of 2003. For the year ended December 31, 2004, HCA reported that revenues increased to \$23.5 billion versus \$21.8 billion in 2003 and net income of \$1.246 billion, or \$2.58 per diluted share, compared to \$1.332 billion, or \$2.61 per diluted share, in the previous year. The press release also contained the false and misleading statements discussed above in ¶¶69-70.

75. The press release further reported that "[s]ame facility uninsured admissions, compared to the respective 2003 quarter, increased 3.7 percent in the fourth quarter of 2004, 7.2 percent in the third quarter, 15.2 percent in the second quarter and 13.7 percent in the first quarter of 2004. Same facility uninsured emergency room visits, compared to the respective 2003 quarter, increased 3.8 percent in the fourth quarter of 2004, 11.4 percent in the third quarter, 16.9 percent in the second quarter and 17.9 percent in the first quarter of 2004."

76. The same day, February 1, 2005, defendants hosted a conference call with analysts and investors to discuss HCA's business operations and prospects and 4Q 2004 financial results. The call repeated and addressed information previously made public in the defendants' February 1, 2005 press release. Defendants Bovender, Bracken, Evans, Fitzgerald, Johnson and Wallace participated on the call and had an opportunity to address analysts and investors' questions and concerns. Commenting on the results, Bovender stated, "I'm particularly pleased with our finish to the year, a fourth quarter ahead of our expectations." Bracken reiterated that not only "were we pleased to finish what has been a rather tough year with stronger than anticipated fourth quarter earnings, but and I think even more importantly, to see some improvement in certain key performance indicators that have been problematic for us over the last 12 to 18 months." Bracken continued, "*[a]n important development for us in the fourth quarter was that the rate of growth of bad debt expense significantly moderated [and] we noted a significant slowdown in the growth rate of uninsured admissions.*"

77. Defendants' statements on February 1, 2005 had a direct effect on HCA's stock price, which continued to trade above \$45 per share.

78. Immediately following the conference call, between February 2 and February 11, 2005, defendants Anderson, Bovender, Steakley, Wallace and Williams sold 706,704 shares of their personal HCA holdings for insider trading proceeds of \$31.8 million. Bovender alone sold 500,000 shares of his HCA stock on February 2, 2005, for proceeds in excess of \$22.3 million.

79. On March 11, 2005, defendants filed HCA's annual report with the SEC on Form 10-K for 4Q 2004 and FY 2004, which contained the same false and misleading statements discussed above in ¶¶73-75. Defendants Bovender, Bracken and Johnson signed the Company's Form 10-K and reaffirmed the previously announced financial results, including the results related to HCA's uninsured admissions and provision for doubtful accounts. Filed together with HCA's

annual report on Form 10-K were certifications from defendants Bovender and Johnson in compliance with §§ 302 and 906 of the Sarbanes-Oxley Act. Included in the certifications were statements by Bovender and Johnson asserting that they had reviewed the Company's Form 10-K for 4Q 2004 and FY 2004 and that the public "report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report."

80. Additionally, the Form 10-K for 4Q 2004 and FY 2004 included the following statement regarding HCA's internal controls and the defendants' responsibility for the accuracy of the information presented in the Form 10-K:

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures . . . . Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this annual report.

\* \* \*

Our management is responsible for establishing and maintaining effective internal control over financial reporting . . . .

81. On March 15, 2005, defendant Johnson gave a public presentation about HCA to analysts and investors at the SG Cowen & Co. 25<sup>th</sup> Annual Health Care Conference. During the presentation, Johnson reiterated HCA's 4Q 2004 results and stated that "***we see improving bad debt trends, we're encouraged about the future with this line item.***" Johnson further stated that "as a result of the slowing net revenue per adjusted admission for the uninsured and ***a leveling off of a number of uninsured admissions per quarter, we're seeing some reduction in the growth rate of bad debts as a result.***"

82. Each of the representations referred to above in ¶¶69-70, 73-76, 79-81, was materially false and misleading, or omitted to state facts necessary to make the statements made, in light of the circumstances in which they were made, not misleading. Indeed, HCA's misstatements caused the Company's earnings to be overstated, in direct contravention of GAAP (as detailed in ¶¶117-123, below), because defendants mislead investors regarding the following facts which were then known to, or recklessly disregarded by them, including that:

(a) Defendants reported that HCA had been experiencing trends beneficial to its "operating results," including "improving bad debt trends" and "a leveling off of [the] number of uninsured admissions," despite the fact that the Company was experiencing negative operational trends, including increased uninsured admissions and a corresponding increase in self-pay accounts receivables (accounts receivable for uninsured patients) from \$3.32 billion in 3Q 2004 to \$3.76 billion in 4Q 2004, which were driving down HCA's earnings and decreasing the Company's profitability;

(b) Contrary to defendants' statements that HCA was experiencing a slowing rate of increase in uninsured admissions, the number of uninsured individuals in the United States had continued to increase by more than 850,000 individuals from 2003 to 2004, as reported by the United States Census Bureau in its "Income, Poverty, and Health Insurance Coverage in the United States: 2004," issued in August 2005;

(c) HCA was actually suffering from an increase in the average number of days receivable outstanding (from 46 to 47) and a substantial increase in the self-pay accounts receivable, including a 13.3% increase in uninsured accounts receivable from 3Q 2004 to 4Q 2004, which indicates that defendants' statements that the Company was experiencing "a moderation in the growth in its uninsured patient admissions and emergency room visits," and a "slowing rate of increase in uninsured admissions," were false and misleading;

(d) As detailed in ¶¶117-123, HCA's financial statements for 4Q 2004 failed to comply with GAAP and HCA's earnings were overstated because defendants did not adequately reserve for bad debts associated with uninsured patients. If defendants had maintained HCA's provision for doubtful accounts in accordance with GAAP and actual, historical results, defendants would not have been able to report that the reserve had been reduced from 11.9% of revenues in 3Q 2004 to only 10.5% of revenues in 4Q 2004, that there was improvement in the bad debt expense metric or had support for the claims that the uninsured admissions growth rate had slowed, and could not have been able to reduce the provision for doubtful accounts by \$46 million;

(e) As a result of defendants' manipulation of the provision for doubtful accounts, HCA's total allowance for doubtful accounts as a percentage of total self-pay accounts receivable was reduced, without basis, from a historical average of 89% (which had increased to 90.5% in 3Q 2004) to only 78% in 4Q 2004; and

(f) If defendants had maintained HCA's allowance for doubtful accounts in accordance with GAAP and based on the historically supported allowance in the periods before and after the Class Period, HCA's allowance for doubtful accounts would have been materially higher. The average reserve to revenue ratio was 12.27% for the three quarters before the Class Period and the three quarters following the Class Period. In 4Q 2004, the reserve would have been approximately \$729 million, instead of the \$626 million reported by defendants. As a result, HCA's income before minority interests and income taxes for 4Q 2004 would have been reduced by \$103 million to only \$428 million, 19.4% less than the reported \$531 million.

B. First Quarter 2005

83. On March 28, 2005, following the close of trading, defendants issued a Company press release over the *PR Newswire* previewing its results for the first quarter 2005, entitled "HCA Previews First Quarter 2005 Earnings and Announces Hospital Divestitures." The release disclosed



that HCA's 1Q 2005 earnings would exceed its 1Q 2004 earnings by more than 27%, as a result of the purported improvement in bad debt trends, and that HCA would be revising its fiscal 2005 Earnings Per Share ("EPS") estimates upward based on these favorable results. Specifically, HCA reported that it expects diluted earnings per share to range from \$0.88 to \$0.93, compared to \$0.69 for the prior year's first quarter. HCA stated that the results benefited from increased patient volume, effective expense management, *improved bad debt trends (slowing rate of increase in uninsured admissions compared to the first quarter of 2004 and a continued moderation in the growth rate associated with the uncollectibility of self-pay receivables)* and a reduction in shares outstanding due to the completion of a modified "Dutch" auction tender offer in the fourth quarter of 2004.

84. Following the March 28, 2005 press release, securities analysts repeated defendants' false and misleading statements and continued to emphasize the importance of HCA's purportedly improving bad debt trends. Long-term HCA skeptic David Shore of Prudential Equity, for example, declared in a March 29, 2005 report that HCA's bad-debt expense improvement seemed "sustainable" and Prudential Equity increased its HCA earnings forecast.

85. Defendants' statements on March 28, 2005 had a direct effect on HCA's stock price, which increased nearly 10% on unusually high volume over the following two trading days to \$53.09. Within one week of defendants' statements, HCA's stock was trading in excess of \$54.50 per share.

86. On April 21, 2005, defendants issued a press release over the *PR Newswire* announcing HCA's results for the first quarter of 2005, entitled "HCA Reports 2005 First Quarter Results of \$0.95 per Diluted Share." Defendants' press release emphasized the dramatic reduction in HCA's provision for doubtful accounts, favorable patient mix (fewer uninsured patients) and improving bad debt trends, and attributed improved financial results to these trends. In particular,

the Company announced net income for the first quarter of 2005 of \$414 million, or \$0.95 per diluted share, compared to \$345 million, or \$0.69 per diluted share, in the previous year's first quarter.

87. The Company also reported that the provision for doubtful accounts for the first quarter of 2005 was \$574 million, or 9.3% of revenues, compared to \$694 million, or 11.7% of revenues, in the first quarter of 2004. Adjusting for the effect of the uninsured discounts, the provision for doubtful accounts for the first quarter of 2005 was \$683 million, or 10.9 percent of revenues. Charity care (excluding the discounts to the uninsured) was \$284 million in the first quarter of 2005 compared to \$218 million in the first quarter of 2004. Both charity care and the new uninsured discounts lower revenues and the provision for doubtful accounts by generally corresponding amounts.

88. HCA again credited the better than expected results to "a moderation in the growth in its uninsured patient admissions and emergency room visits. Same facility uninsured admissions, compared to the first quarter of 2004, increased 3.3 percent. Same facility uninsured emergency room visits increased 15.1 percent in the first quarter of 2005 compared to the first quarter of 2004."

89. Moreover, the Company made the following representation with respect to its uninsured discount policy:

Same facility revenue per equivalent admission increased 2.5 percent in the first quarter of 2005 compared to the prior year first quarter. HCA's revised uninsured discount policy, which became effective January 1, 2005, resulted in \$109 million in discounts, \$108 million on a same facility basis, being provided to the uninsured during the first quarter of 2005. Adjusting for the uninsured discounts, same facility revenue per equivalent admission growth was 4.3 percent in the first quarter of 2005 compared to the first quarter of 2004. Revenues, the provision for doubtful accounts, certain operating expense categories as a percentage of revenues and revenue per equivalent admission have been adjusted to reflect the impact of the discounts to the uninsured in the attached table entitled "Supplemental Non-GAAP Disclosures" and the related footnotes describe how the Company uses the measures and why the Company believes these measures are useful.

90. Finally, HCA revised its earnings guidance for the full year 2005 within a range of \$3.05 to \$3.20 per diluted share, an increase from the previous guidance for 2005 of \$2.75 to \$2.90 per diluted share. The press release also contained the false and misleading statements discussed above in ¶83.

91. Defendant Bovender touted the first quarter 2005 results, stating, “I am extremely pleased with the results of our first quarter. Solid inpatient and outpatient volume growth, favorable patient mix, effective expense management and *improving bad debt trends, or more simply, a slowing rate of increase associated with the uncollectability of uninsured receivables, all contributed to the substantial improvement in our financial performance.*”

92. The same day, April 21, 2005, defendants hosted a conference call with analysts and investors to discuss HCA’s business operations and prospects and 1Q 2005 financial results. The call repeated and addressed information previously made public in the defendants’ April 21, 2005 press release. Defendants Anderson, Bovender, Bracken, Evans, Fitzgerald, Hazen, Johnson and Wallace participated on the call and had an opportunity to address analysts and investors’ questions and concerns. Commenting on the results, Bovender stated “the drivers of our success were improvement in volumes, exceptional expense control, *improving trends relative to the uninsured*, and improved up-front collections.” Bracken stated, “I think about the quarter and how I would summarize it is that it was one in which we had reasonable increases in patient volume, *notably with decreasing rates of growth in uninsured patients . . . . This volume was accompanied by substantial improvements and efficiencies in our . . . bad debt categories.*” Bracken reiterated that “*significant improvement was noted in . . . bad debt metrics*” and “*our bad debt metrics improved significantly.*” Johnson also stated that:

we saw a marked improvement in bad debt expense this quarter. Reported bad debt as a percentage of net revenue were 9.3% and after adjusting for uninsured discounts, 10.9%. This improved performance is attributable to several factors. Slowing growth, uninsured admissions, stabilization of the uncollectability percentage based

on our hindsight review, and significant improvement in point of service collections . . . .

Hazen also repeated that “[w]e saw real significant progress in our bad debts efforts across our markets.”

93. Following the April 21, 2005 press release and conference call, securities analysts, including those at Oppenheimer & Co., Morgan Stanley and Jeffries & Co., repeated defendants’ false and misleading statements and continued to emphasize the importance of HCA’s purportedly improving bad debt trends.

94. Defendants’ statements on April 21, 2005 had a direct effect on HCA’s stock price, which continued to trade at artificially inflated levels above \$54 per share.

95. Beginning April 22, 2005, and over the four weeks immediately following these false and misleading statements described in ¶¶83-94 above, defendants Anderson, Bracken, Evans, Hankins, Hazen, Johnson, Steakley, Wallace and Williams sold 813,302 shares of their personal HCA holdings for insider trading proceeds of \$44 million. Johnson alone sold 155,000 shares of his HCA stock on April 22, 2005 for proceeds of \$8.3 million.

96. On May 6, 2005, defendants filed HCA’s quarterly report with the SEC on Form 10-Q for 1Q 2005, which contained the same false and misleading statements discussed above in ¶¶86-91. Defendant Johnson signed the Company’s Form 10-Q and reaffirmed the previously announced financial results, including the results related to HCA’s uninsured admissions and provision for doubtful accounts. The Form 10-Q also stated that the “financial statements have been prepared in accordance with generally accepted accounting principles” and that “[i]n the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal and recurring nature.”

97. Filed together with HCA’s quarterly report on Form 10-Q for 1Q 2005 were certifications from defendants Bovender and Johnson in compliance with §§ 302 and 906 of the

Sarbanes-Oxley Act. Included in the certifications were statements by Bovender and Johnson asserting that they had reviewed the Company's Form 10-Q for 1Q 2005 and that the public "report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report."

98. On June 14, 2005, HCA's Senior Vice President – Corporate Communications, Vic Campbell ("Campbell"), and the Company's Head of Investor Relations, Mark Kimbrough ("Kimbrough"), represented HCA at the Goldman Sachs 26th Annual Health Care Conference. During the course of the presentations, Campbell and Kimbrough reiterated defendants' false and misleading statements regarding the purported beneficial trends with bad debt expenses. Referring to the defendants statements regarding 4Q 2004 and 1Q 2005, Campbell stated that "[w]e've had a couple of quarters now as I think most of you are aware where the trend lines have looked better" and "as you can see from this slide and our second slide, our numbers have looked a little bit better over the last couple of quarters."

99. The reconfirmation of defendant s' statements on June 14, 2005 had a direct effect on HCA's stock price, which continued to increase and reached a Class Period high of \$58.04 per share by June 22, 2005.

100. During June 2005, only weeks before the disclosure of defendants' scheme, defendants Bracken, Fitzgerald and Hazen sold 288,800 shares of their personal HCA holdings for insider trading proceeds of \$15.7 million. Bracken alone sold 150,000 shares of his HCA stock in June 2005 for proceeds of \$8.1 million.

101. Each of the representations referred to above in ¶¶83, 86-92, 96-98, was materially false and misleading, or omitted to state facts necessary to make the statements made, in light of the circumstances in which they were made, not misleading. Indeed, HCA's misstatements caused the

Company's earnings to be overstated, in direct contravention of GAAP, because defendants misled investors regarding the following facts which were then known to or recklessly disregarded by them, including that:

(a) Defendants reported that HCA had been experiencing trends beneficial to its "operating results," including "improved bad debt trends" and the "slowing rate of increase in uninsured admissions" which had caused HCA to increase its fiscal 2005 earnings projections on March 28, 2005, despite that fact that the Company was then experiencing negative operational trends, including the substantial increase in self-pay accounts receivable, from \$3.32 billion immediately before the Class Period to \$3.82 billion in 1Q 2005, which were driving down HCA's earnings, decreasing the Company's profitability and established that defendants had been unable to control the costs associated with the rising admissions of uninsured patients;

(b) HCA was actually suffering from a substantial increase in self-pay accounts receivable, including a 15% increase from 3Q 2004 to 1Q 2005, and that HCA's actual accounts receivable for uninsured patients *not* covered by the allowance for doubtful accounts grew 4% from 4Q 2004 to 1Q 2005 and 169% from 3Q 2004 to 1Q 2005, which indicates that defendants' statements that the Company was experiencing "a moderation in the growth in its uninsured patient admissions and emergency room visits," "improving trends relative to the uninsured," and "real significant progress in our bad debts efforts across our markets," were false and misleading;

(c) As detailed in ¶¶117-123, HCA's financial statements for 4Q 2004 and FY 2004 and 1Q 2005 failed to comply with GAAP and HCA's earnings were overstated because defendants did not adequately reserve for bad debts associated with uninsured patients. If defendants had maintained HCA's allowance for doubtful accounts in accordance with GAAP and actual, historical results, defendants would not have been able to report that the Company's bad debt trend lines looked better or claimed that "significant improvement was noted in . . . bad debt metrics";

(d) As a result of defendants' manipulation of the provision for doubtful accounts, HCA's total allowance for doubtful accounts as a percentage of total self-pay accounts receivable was reduced, without basis, from a historical average of 89% to 77.72% in 1Q 2005; and

(e) If defendants had maintained HCA's allowance for doubtful accounts in accordance with GAAP and based on the historically supported allowance in the period before and after the Class Period, HCA's allowance for doubtful accounts would have been materially higher. The average reserve to revenue ratio was 12.27% for the three quarters before the Class Period and the three quarters following the Class Period. In 1Q 2005, the reserve would have been approximately \$758 million, instead of the \$574 million reported by defendants. As a result, HCA's income before minority interests and income taxes for 1Q 2005 would have been reduced by \$184 million to only \$519 million, 26.2% less than the reported \$703 million.

C. The Falsity Of Defendants' Statements Is Revealed

102. On July 13, 2005, before the market opened, defendants issued a press release entitled "HCA Previews Second Quarter 2005 Earnings" disclosing the true state of the Company's bad debt provisions and rising uninsured admissions rates. The release provided that, absent a number of one-time gains and expenses, EPS for the quarter would be a disappointing \$0.72 to \$0.76, below Wall Street's expectations of \$0.77 a share and flat compared to 2Q 2004. Defendants admitted that earnings were hurt by increases in the provision for doubtful accounts and uninsured patient admissions: *"Adjusting for the effect of the uninsured discounts, the expected provision for doubtful accounts for the second quarter of 2005 would be \$725 million, or 11.6 percent of revenues. Uninsured patient admissions increased approximately 5 percent in the second quarter compared to the prior year period."*

103. The Company's stock price plunged on this announcement, dropping from \$54.57 per share on July 12, 2005 to close at \$49.74 on July 13, 2005. Just as had occurred during the Class

Period when defendants made positive, albeit false, representations about HCA's results and projections, these disappointing results caused a massive upswing in trading activity with over 15 million shares trading on July 13, 2005, seven times the average daily trading volume of the Company's shares over the preceding 20 trading days.

104. Thereafter, on July 27, 2005, defendants issued a press release entitled, "HCA Reports Second Quarter 2005 Results of \$0.90 per Diluted Share," which confirmed that HCA's 2Q 2005 earnings per share was only \$0.71 absent the one time gains and expenses, well below prior earnings guidance, Wall Street expectations and 2Q 2004 results. Defendant Bovender acknowledged that the results reflected "a slight increase in bad debt expense" and that:

***Adjusting for the effect of the uninsured discounts provided to the uninsured during the quarter, the provision for doubtful accounts for the second quarter of 2005 would be \$725 million, or 11.6 percent of revenues. The Company's uninsured discount policy lowers revenues and the provision for doubtful accounts by generally corresponding amounts. Uninsured patient admissions increased 5.1 percent in the second quarter of 2005 compared to the prior year period.***

105. As a result of these disclosures, several analyst firms, including Morgan Stanley, cut HCA's stock rating and the Company's stock price continued to languish.

106. On September 20, 2005, the *Dow Jones Newswire* published a story that began to focus on the unusual and suspicious insider trading at HCA during the Class Period. The *Dow Jones* story stated in relevant part that:

Senate Majority Leader Bill Frist, a potential presidential candidate in 2008, sold ***all*** his stock in his family's hospital corporation about two weeks before it issued a disappointing earnings report and the price fell nearly 15%.

Frist held an undisclosed amount of stock in Hospital Corporation of America, based in Nashville, Tenn., the nation's largest for-profit hospital chain. On June 13, he instructed the trustee managing the assets to sell his HCA shares and those of his wife and children, said Amy Call, a spokeswoman for Frist.

Frist's shares were sold by July 1 and those of his wife and children by July 8, Call said. The trustee decided when to sell the shares, and the Tennessee Republican had no control over the exact time they were sold, she said.



HCA shares peaked at midyear, climbing to \$58.22 a share on June 22. After slipping slightly for two weeks, the price fell to \$49.90 on July 13 after the company announced its quarterly earnings would not meet analysts' expectations. On Tuesday, the shares closed at \$48.76.

\* \* \*

Frist's father, Thomas, founded the company and his brother, Thomas Jr., is a director and leading stockholder.

107. That same day, it was reported that HCA had received a subpoena from the SEC requesting documents in conjunction with the agency's investigation of insider trading at the Company in the months before July 13, 2005.

108. Following the disclosures of insider trading at HCA, the Company's stock price continued its decline from a close of \$49.07 on September 19, 2005, to close at \$45.62 on September 22, 2005.

109. On September 23, 2005, the *Wall Street Journal* ran a story regarding the continuing investigation of HCA, which disclosed that the SEC was investigating the stock sales made by the defendants and insiders, stating in relevant part that:

***The SEC is looking into whether Mr. Frist had any inside knowledge of problems at the company that prompted his sales, according to a person with knowledge of the matter. The investigation is expected to expand to other individuals who also sold HCA shares prior to its earnings warning, this person said. The SEC routinely investigates stock sales ahead of major news, such as an earnings warning or a merger. Several insiders sold stock in the weeks leading up to HCA's July 13 earnings warning. An SEC spokesman declined to comment.***

110. On September 23, 2005, the Company itself disclosed it had been subpoenaed by the SEC concerning insider trading and that the U.S. Attorneys' Office for the Southern District of New York was also investigating insider trading at HCA. On September 24, 2005 the Company received a subpoena from the Department of Justice as well.

111. On September 29, 2005, the *Wall Street Journal* ran another story regarding the expanding probe of HCA which stated:

The SEC's formal order of investigation also applies to stock sales made by insiders at HCA Inc., six of whom sold stock just prior to an earnings warning that caused the company's stock price to fall 9%, these people said. The SEC is investigating whether Mr. Frist or other individuals had any inside information that prompted them to sell shares. The Department of Justice is also investigating and sent a subpoena to HCA last week.

The *Wall Street Journal* also noted that many of the "insider sales occurred in early June – when HCA's stock was near a 52-week high – ***and just days before a company-imposed blackout that prevented any insider trades for more than a month. Under HCA policy, no insiders can sell for two weeks leading to the end of the quarter through the day when the company announces its earnings. HCA warned on July 13 and reported on July 27.***"

112. On October 13, 2005, the Company issued its 3Q 2005 financial guidance for the quarter ended September 30, 2005. Defendants said HCA's earnings would range from \$0.61 to \$0.63 a share, upwards of 7.5% lower than the average estimate of \$0.66 a share from analysts polled by Thomson Financial. HCA's provision for bad debt continued to grow to a record high of \$859 million, or 13.71% of revenue, and admissions of uninsured patients was projected to have grown another 15%.

113. At the same time, three of the Company's competitors, Tenet, Triad and Community, reported provisions for doubtful accounts for 3Q 2005 of 11.2%, 11.2% and 10.0%, respectively – in line with each of these competitor's prior trends.

114. Fulcrum Global Partners analyst Sheryl Skolnick issued a research note stating that "[t]his implies effectively flat year-over-year growth, and that is where we have a problem," downgrading her rating on HCA shares to neutral from buy. Raymond James & Associates Inc. analyst John Ransom was more forceful in his characterization of HCA's outlook, calling it "dismal" in a research note.

115. On October 24, 2005, Barron's published an article titled, "Why HCA Disappointed." According to the Barron's article, "some 24 executives and insiders unloaded 3.2 million shares

from January through July of this year [2005]. That was more than four times the amount of stock unloaded by insiders in all of 2004 and is thought to be the biggest stock liquidation ever at HCA. The stock fetched more than \$160 million.” Despite the fact that the Company and other hospital concerns for years had been “laboring in a difficult environment of rising uninsured-patient admissions,” the Company had two upward earnings revisions in January and March 2005, for 4Q 2004 and 1Q 2005, respectively. These earnings adjustments resulted from “lower-than-expected provisions for doubtful accounts.” However, the Barron’s article noted that “a close analysis of certain trends in HCA’s self-pay, or uninsured, accounts receivables raises questions about the reduced provisions in doubtful accounts that the company made for the fourth quarter of last year [2004] and the first quarter of this year [2005].”

116. Indeed, the Barron’s article identifies myriad ways in which defendants misled investors about the true state of the Company’s uninsured admissions and escalating doubtful accounts, including the following:

- Although defendants led investors to believe that the Company’s self-pay admissions were decreasing, “self-pay (uninsured-patient) account receivables for the period [4Q 2004] jumped by \$446 million, to \$3.8 billion.”
- Defendants withheld vital information from investors – including a table showing the amount of uninsured patient receivables not covered by the Company’s bad debt reserve. In fact, after May 13, 2004, Defendants stopped including a table with this integral information “even though the unreserved coverage number [i.e., the amount of uninsured patient receivables not covered by bad debt reserves] soared to \$820 million from \$316 million in the third. The unreserved portion of uninsured-patient receivables rose to \$851 and \$869 in the subsequent two quarters.”
- The Company’s 10K for 2004 indicated that in 4Q04, the “reserves now covered just 78% of its self-pay receivables. The coverage ratio has been 90.5% in the preceding period.” Defendants attributed this purported decrease to “the inclusion in uninsured receivables of a category the company depicted as unpaid bills of patients whose ‘eligibility for Medicaid coverage was being evaluated’ by HCA.”

VI. DEFENDANTS' FALSE FINANCIAL REPORTING  
AND GAAP VIOLATIONS DURING THE CLASS PERIOD

117. To artificially inflate HCA's stock price during the Class Period, defendants overstated the Company's income and assets by failing to provide adequate reserves for its doubtful accounts. HCA included its false financial statements and results in press releases and in its SEC filings. The SEC filings represented that the financial information presented therein was a fair statement of HCA's financial results and that the results were prepared in accordance with GAAP.

118. These representations were false and misleading as to the financial information reported, as such financial information was not prepared in conformity with GAAP, nor was the financial information a "fair representation" of HCA's financial condition and operations, causing the financial results to be presented in violation of GAAP and SEC rules.

119. SEC Regulation S-X (17 C.F.R. § 210.4-01(a)(1)) provides that financial statements filed with the SEC which are not prepared in compliance with GAAP are presumed to be misleading and inaccurate, despite footnote or other disclosure. Regulation S-X requires that interim financial statements must also comply with GAAP, with the exception that interim financial statements need not include disclosures which would be duplicative of disclosures accompanying annual financial statements. 17 C.F.R. § 210.10-01(a). The responsibility for preparing financial statements that conform to GAAP rests with corporate management as set forth in § 110.02 of the American Institute of Certified Public Accountants ("AICPA") Professional Standards:

The financial statements are management's responsibility . . . Management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, record, process, summarize, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements. The entity's transactions and the related assets, liabilities, and equity are within the direct knowledge and control of management . . . Thus, the fair presentation of financial statements in conformity with [GAAP] is an implicit and integral part of management's responsibility.

120. In connection with its accounts receivable, a company is required to establish an allowance for doubtful accounts, *i.e.*, a reserve for the estimated amount of receivables that a company deems to be uncollectible. GAAP, as set forth in FASB Statement of Financial Accounting Standard (“SFAS”) No. 5 at ¶8, states:

An estimated loss from a loss contingency . . . shall be accrued by a charge to income if both of the following conditions are met:

- a. Information available prior to issuance of the financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements. It is implicit in this condition that it must be probable that one or more future events will occur confirming the fact of the loss.
- b. The amount of loss can be reasonably estimated.

*See also*, AICPA Accounting and Auditing Guide, Health Care Organizations, Chapter 5 at ¶5.03.

121. By not providing adequate reserves for its doubtful accounts during the Class Period, HCA’s assets and earnings were materially overstated in violation of GAAP.

122. Due to these accounting improprieties, the Company presented its financial results and statements in a manner which violated GAAP, including violations of the following fundamental accounting principles:

(a) The principle that interim financial reporting should be based upon the same accounting principles and practices used to prepare annual financial statements. (APB No. 28 at ¶10);

(b) The principle that financial reporting should provide information that is useful to present and potential investors and creditors and other users in making rational investment, credit and similar decisions. (FASB Statement of Concepts No. 1 at ¶34);

(c) The principle that financial reporting should provide information about the economic resources of an enterprise, the claims to those resources, and effects of transactions, events

and circumstances that change resources and claims to those resources. (FASB Statement of Concepts No. 1 at ¶40);

(d) The principle that financial reporting should provide information about how management of an enterprise has discharged its stewardship responsibility to owners (stockholders) for the use of enterprise resources entrusted to it. To the extent that management offers securities of the enterprise to the public, it voluntarily accepts wider responsibilities for accountability to prospective investors and to the public in general. (FASB Statement of Concepts No. 1 at ¶50);

(e) The principle that financial reporting should provide information about an enterprise's financial performance during a period. Investors and creditors often use information about the past to help in assessing the prospects of an enterprise. Thus, although investment and credit decisions reflect investors' expectations about future enterprise performance, those expectations are commonly based at least partly on evaluations of past enterprise performance. (FASB Statement of Concepts No. 1 at ¶42);

(f) The principle that financial reporting should be reliable in that it represents what it purports to represent. That information should be reliable as well as relevant, is a notion that is central to accounting. (FASB Statement of Concepts No. 2 at ¶¶58-59);

(g) The principle of completeness, which means that nothing is left out of the information that may be necessary to insure that it validly represents underlying events and conditions. (FASB Statement of Concepts No. 2 at ¶79); and

(h) The principle that conservatism be used as a prudent reaction to uncertainty to try to ensure that uncertainties and risks inherent in business situations are adequately considered. The best way to avoid injury to investors is to try to ensure that what is reported represents what it purports to represent. (FASB Statement of Concepts No. 2, ¶¶95, 97.)

123. Further, the undisclosed adverse information concealed by defendants during the Class Period is the type of information which, because of SEC regulations, regulations of the national stock exchanges and customary business practice, is expected by investors and securities analysts to be disclosed and is known by corporate officials and their legal and financial advisors to be the type of information which is expected to be and must be disclosed.

## VII. SCIENTER

### A. Defendants' Knowledge Of The True Facts Regarding HCA's Doubtful Accounts, Uninsured Patient Accounts Receivables, Accounting Manipulations And Operational Results

124. Throughout the Class Period, the Individual Defendants held themselves out to investors and the market as the persons most knowledgeable at HCA about the Company's business, operations, performance and financial results. As described more fully in ¶¶14-24, each of the Individual Defendants not only held one of the senior most positions at HCA, but, in accordance with the Company's Code of Ethics, the Individual Defendants had access to the operational and financial information concerning HCA's uninsured admission rates and bad debt trends and results. In addition, during the Class Period defendants Bovender and Johnson provided certifications with each of HCA's financial reports filed with the SEC attesting that they were responsible for and had maintained the Company's disclosure controls and procedures. Bovender and Johnson asserted that the controls assured that the Individual Defendants, as the Company's senior officers, were promptly provided with material information relating to HCA's operational and financial trends, which would include the critical uninsured admission rates and the provision for doubtful accounts and allowance for doubtful accounts rates and trends.

125. HCA's internal information technology systems were designed to assure that each of the Individual Defendants had continual access to the Company's latest financial results and specifically, the bad debts metrics. Prior to the beginning of the Class Period, HCA designed a new

automated system called the “Allowance For Bad Debt Process” to calculate HCA’s allowance for doubtful accounts. The “Allowance For Bad Debt Process,” also known internally as the “Hindsight Analysis,” tracked data related to the doubtful accounts with an automated real-time computer system, including the number of uninsured admissions, and the reserves and receivables related thereto. This new automated process replaced a more primitive and haphazard approach used by HCA prior to the Class Period. Critically, the “Allowance For Bad Debt Process” was accessible by senior management and senior executives in real-time, 24 hours a day.

126. The computer model used to run the hindsight analysis, however, was based on certain assumptions about hospital bill payment patterns. Regardless of historical trends or actual results, these assumptions could be changed continually and the model could be re-run “with the click of a button.” Thus, a simple change in the assumptions could manipulate the end result of the hindsight analysis, and the ultimate percentage of receivables that would be reserved for as uncollectible.

127. Defendants not only assured investors that they promptly received the material information about HCA’s financial results, but held themselves out to investors as both informed of and knowledgeable about the Company’s provision for doubtful accounts, uninsured admission rates and bad debt trends. Indeed, Bovender testified to Congress in June 2004 that “[t]he financial pressures facing hospitals today, including the growing non-reimbursed costs of providing care for the uninsured, are illustrated in declining hospital profit margins.” As described in ¶¶14-19, 21, 23, defendants Bovender, Johnson, Bracken, Anderson, Evans, Fitzgerald, Hazen, Johnson and Wallace directly participated in HCA’s conference calls and meetings with analysts and investors. In the course of these communications, defendants were responsible and did present information regarding the Company’s provision for doubtful accounts, uninsured admission rates and bad debt trends.



128. Concurrent with their representations on conference calls, defendants Bovender, Johnson and Bracken signed and certified, based on their knowledge and positions as executive officers, HCA's SEC filings during the Class Period. Specifically, all three defendants signed HCA's FY 2004 Form 10-K and Johnson signed the Company's 1Q 2005 Form 10-Q. Moreover, as described in ¶¶14(c), 15(c), defendants Bovender and Johnson provided certifications with each of HCA's financial reports filed with the SEC, attesting to their own knowledge of the factual basis for the reported information and purported accuracy of that information.

129. Based on their own representations and the admitted critical nature of the uninsured admissions, provision for doubtful accounts and bad debt trends to HCA's results and prospects, defendants were aware of or recklessly disregarded the true, but undisclosed, facts described in ¶¶82, 101. These facts include: the dramatic and unsupported divergence, in both a total dollar amount and as a percentage of revenue, in the provision for doubtful accounts from historical norms; the significant increases in HCA's actual self-pay receivables reflecting increasing, not decreasing, receivables from uninsured patients and rising not falling, rates of uninsured patients; and the dramatic reduction in the percentage of self-pay receivables (primarily uninsured patient receivables) covered by the provision for doubtful accounts.

130. At the same time as defendants were alerted to these negative trends evidencing the inaccuracy of their public statements, they actively altered the manner in which HCA accounted for and reported uninsured patient receivables. Beginning in January 2005, defendants arbitrarily began to discount the revenue from uninsured patients and, more importantly, apply an identical dollar discount to the Company's provision for doubtful accounts. This had the effect of dramatically reducing both the provision for doubtful accounts and the provision for doubtful accounts as a percentage of revenue. While HCA's financial reports and releases included the provision for doubtful accounts and percentage figures both with and without the new discount policy, in their

public statements defendants routinely compared the discounted numbers with the historical undiscounted figures. As later reported in *Barron's*, “the discounted first-quarter number [1Q 2005] bolstered HCA’s claim that the financial burden of rising admissions of uninsured patients was abating . . . . HCA’s improved showing from discounting arises from the fact that the numerator of the bad-debt ratio – the provision for doubtful accounts – is far smaller than its denominator – total revenues from both insured and uninsured patients.”

B. Insider Trading At Suspicious Times And In Unusual Amounts

131. As detailed above, while defendants were issuing the fraudulent statements identified herein about HCA’s financial results and business, the Individual Defendants sold more than 2.1 million shares of HCA stock for insider proceeds of \$109.6 million *in only six months*. Notwithstanding the Individual Defendants’ knowledge about the ongoing fraud and their duties as officers and directors of the Company to disclose adverse material facts before trading in HCA stock, the Individual Defendants personally profited from the artificial inflation in HCA’s stock which their fraudulent scheme created. In doing so, each defendant was individually in violation of his duty to “abstain or disclose” the adverse, material non-public information they each possessed when they traded in HCA stock.

132. Defendants were remarkably successful in timing their trades, capturing high prices – as high as \$55.85 per share – during the Class Period run-up of HCA’s share price, which peaked just as defendants completed their selling spree. In addition, the shares sold by the Individual Defendants were collectively more than 30 times the number of shares sold in the six months before the Class Period and 22 times the number of shares sold in all of 2004. In sum, the Individual Defendants’ Class Period stock sell-off was the biggest insider stock liquidation in the history of HCA.

C. Additional Insider Trading Allegations

133. Remarkably, as the Individual Defendants were selling their shares of HCA stock and pocketing over \$109 million in illegal insider trading proceeds, other HCA executives and insiders also made large, well-timed sales. In a coordinated and historically unique pattern, these insiders and executives also pocketed tens of millions of dollars in trading proceeds:

HCA Insider	Position	Trading Dates	Shares Sold	Proceeds
<b>John M. Steele</b>	Senior VP – Human Resources	February 4, 2005	6,000	\$ 270,000
		April 26, 2005	126,542	\$ 6,974,618
<b>A. Bruce Moore, Jr.</b>	President – Outpatient Services	February 10, 2005	50,000	\$ 2,316,500
		April 22, 2005	50,000	\$ 2,678,572
<b>Rosalyn S. Elton</b>	Senior VP – Operations Finance	February 4, 2005	65,000	\$ 2,925,000
		May 31, 2005 – June 6, 2005	50,000	\$ 2,698,750
<b>Patricia T. Linder</b>	Senior VP – Government Programs	February 4, 2005 – February 7, 2005	20,000	\$ 910,159
		March 4, 2005	35,000	\$ 1,717,799
		March 29, 2005 – April 6, 2005	160,588	\$ 8,518,694
<b>Frank M. Houser, M.D.</b>	Senior VP – Quality and Medical Director	April 28, 2005	45,000	\$ 2,475,000
		May 5, 2005 – May 10, 2005	67,747	\$ 3,736,855
<b>Richard J. Shallcross</b>	CFO – Western Group	March 4, 2005	3,000	\$ 141,512
		May 9, 2005	11,500	\$ 636,803
		May 23, 2005 – June 1, 2005	28,582	\$ 1,553,202
<b>Jeffrey T. Crudele</b>	CFO – Eastern Group	June 9, 2005	17,500	\$ 953,214
<b>William Rutherford</b>	CFO – Eastern Group	February 7, 2005	65,000	\$ 2,960,762

HCA Insider	Position	Trading Dates	Shares Sold	Proceeds
<b>Victor L. Campbell</b>	Senior VP – Corporate Communications	May 2, 2005	75,000	\$ 4,177,158
		May 17, 2005 – May 18, 2005	40,000	\$ 2,160,000
<b>Alan R. Yuspeh</b>	Senior VP – Ethics, Compliance, Corporate Responsibility	February 2005	11,874	\$ 540,662
		April 22, 2005	10,000	\$ 532,160
		May 9, 2005	10,000	\$ 548,580
<b>Marilyn Tavenner</b>	President – Outpatient Services	January 31, 2005 – February 3, 2005	24,350	\$ 1,095,347
<b>Vanas Carl George</b>	Senior VP – Development	May 9, 2005	18,000	\$ 986,954
<b>Frank S. Royal, M.D.</b>	Director	February 25, 2005	15,000	\$ 703,039
<b>TOTAL:</b>			<b>1,005,683</b>	<b>\$52,211,340</b>

134. As discussed above, in addition to the Company’s officers, Senator William Frist, the son of HCA’s founder, Thomas Frist, and brother of Thomas F. Frist, Jr., a Director and Chairman Emeritus of the Company, sold 100% of his HCA stock during the last months of the Class Period, and prior to the July 13, 2005 disclosures, for proceeds of between \$10 million and \$30 million.

D. Defendants’ Self-Interested Motivation To Inflate Their Salaries And Bonuses

135. While the Individual Defendants reaped most of their wealth through the insider trading scheme, the fraud also secured their salaries and bonuses, as well as facilitating the approval of the 2005 HCA Equity Incentive Plan guaranteeing that defendants could again load up with thousands of options to buy stock.

136. The salaries and bonuses for each of the Individual Defendants were, in large part, contingent on HCA’s performance during the prior year. Following FY 2003, when HCA’s stock price and performance were flat, the Company did not give merit salary increases. In 2005, however, Bovender received a merit increase based on HCA’s performance, including the dramatic

rise in the Company's stock price following the positive, albeit false, representations about 4Q 2004 results, of 3.5% to \$1.57 million. At the same time, other Individual Defendants received merit increases of, on average, 3.6%.

137. In addition to preserving and increasing their salaries, defendants also used HCA's artificially inflated stock price to assure that shareholders would approve the 2005 HCA Equity Incentive Plan. As approved on May 26, 2005, while HCA's stock price was trading near its artificially inflated peak, the Equity Incentive Plan authorized the Company to award, in aggregate, 20,000,000 new shares to the Individual Defendants and other HCA officers. Approval of the Equity Incentive Plan was critical to allow the Individual Defendants to continue to enrich themselves through stock options, and to replace those options exercised and sold during the Class Period.

E. Defendants' Motivation To Meet HCA's Debt Covenants  
And Maintain The Company's Investment Grade Rating

138. In late 2004, HCA completed a massive stock buyback which cost the Company \$2.5 billion. Because HCA had been suffering through an extended period of flat and/or disappointing financial results which adversely impacted its cash flow, the Company was required to borrow all \$2.5 billion required to finance the buyback. As a result, leading credit-rating agency Standard & Poor's immediately downgraded HCA's debt rating to junk status. The credit downgrade put pressure on HCA's officers and executives because the cost of capital to the Company under its existing revolving credit lines was dependent on HCA's credit ratings. It, therefore, became increasingly expensive for HCA to borrow money. At the same time, HCA's operational metrics were, prior to defendants' fraud, stagnating and preventing revenue growth. HCA's constrained access to low-cost capital and stagnating revenues caused the Company's debt coverage ratios to drop and increased the Company's reliance on its now more expensive revolving credit line. As a result, HCA executives and officers were under pressure at the beginning of the Class Period to prevent further deterioration of the Company's financial picture by increasing the Company's stock

price and market capitalization and showing increased revenues. Defendants' fraud enabled the Company to both stave off any further credit downgrades by bringing its debt coverage ratios back to targeted levels and allay investor concerns about the Company's continued access to low-cost capital.

F. The Closeness In Time Between Defendants' Fraudulent Statements And The Disclosure Of Inconsistent Information

139. Additional indicia of defendants' scienter is the closeness in time of the defendants' false and misleading statements and the July 13, 2005, disclosure of the true facts regarding HCA's uninsured admissions and bad debt results and trends. All of defendants' false and misleading statements were made within six months of the July 13, 2005 disclosures and the false statements were repeated by the Company through at least June 14, 2005, less than one month before defendants were forced to reveal the truth about the Company's operational and financial results and prospects.

G. GAAP Violations And The Disclosure Of Accounting Information In Such A Way That Its Negative Implications Were Hidden From Investors

140. The intentional violations of GAAP and intentional efforts to disclose HCA's accounting information in such a way as to obfuscate the negative results and implications are further evidence of the defendants' scienter. As detailed in ¶¶117-123, the defendants failed to properly record or report HCA's provision for doubtful accounts in direct violation of GAAP. As a result, defendants fraudulently inflated the Company's reported earnings and EPS.

VIII. LOSS CAUSATION/ECONOMIC HARM

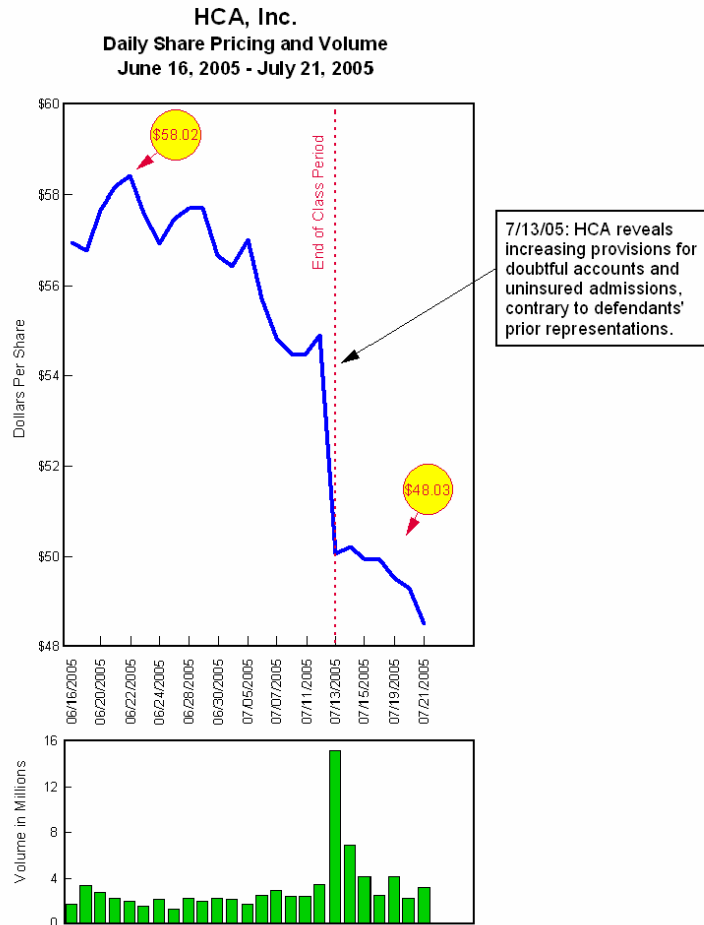
141. During the Class Period, as detailed herein, defendants engaged in a scheme to deceive the market and a course of conduct that artificially inflated HCA's stock price and operated as a fraud or deceit on Class Period purchasers of HCA stock by misrepresenting the Company's operations, financial results and future business prospects, including its purportedly declining growth

in uninsured admissions, reduced allowance for bad debts and improving bad debt metrics. When defendants' misrepresentations and omissions were disclosed and became apparent, HCA's stock price fell precipitously as the prior artificial inflation came out of the stock. As a result of their purchases of HCA stock during the Class Period, Lead Plaintiffs and other members of the class suffered economic loss, *i.e.*, damages, under the federal securities laws.

142. Defendants' false and misleading statements and omissions, identified herein at ¶¶69-101, had the intended effect and caused HCA's stock to trade at artificially inflated levels throughout the Class Period, reaching a high of \$58.60 on June 22, 2005.

143. On July 13, 2005, prior to the opening of the market, defendants' stunned investors, issuing a press release entitled, "HCA Previews Second Quarter 2005 Earnings" and revealing that both the provision for doubtful accounts and the rate of uninsured patient admissions had increased dramatically, back in line with pre-Class Period trends. These revelations were in sharp contrast to defendants' prior statements and indicated that there had been material misrepresentations and omissions regarding HCA's financial results and operational trends. As summarized in an October 2005 *Barron's* article, "Why HCA Disappointed," "***much of Wall Street was shocked on July 13 . . . as a result of bigger-than-expected bad-debt provisions***" and "[a]nalyst reports were peppered with adjectives like '***disappointing***' and '***unexpected***' [and] [o]ne termed the second-quarter revision '***a painful head fake.***'" Analysts at Citigroup described defendants' disclosures and the subsequent stock price drop as "***a clear disappointment versus recently heightened investor expectations.***" As investors and the market realized that HCA's prior financial results and assertions of reducing bad debt trends and the negative impact of uninsured admissions had been misrepresented, and the true state of HCA's business and operations had been obfuscated by defendants, the prior artificial inflation came out of the Company's stock price, damaging investors.

144. As a direct result of the public revelations regarding HCA's true provision for doubtful accounts, bad debt trends and rising admission rates for uninsured patients, HCA's stock price immediately dropped \$4.83 per share to \$49.74 on July 13, 2005, on unusually high volume of over 15.1 million shares. See stock chart below:



145. Over the following three weeks, as defendants were forced to reconfirm the true facts about HCA's results and outlook, the Company's stock price continued to drop, to as low as \$47.86 per share, and by October 2005, was trading as low as \$45.46 per share. The drop removed the artificial inflation from the Company's stock price, causing real economic loss to investors who had purchased HCA stock during the Class Period. In sum, as the truth about defendants' prior misstatements and omissions was revealed, HCA's stock price dropped dramatically, the artificial



inflation came out of the stock and Lead Plaintiffs and other members of the class were damaged, suffering economic losses of at least \$4.83 per share.

146. The decline in HCA's stock price at the end of the Class Period was a direct result of the nature and extent of defendants' fraud finally being revealed to investors and the market. The timing and magnitude of HCA's stock price decline negates any inference that the loss suffered by Lead Plaintiffs and other class members was caused by changed market conditions, macroeconomic or industry factors or Company-specific facts unrelated to the defendants' fraudulent conduct. During the same period in which HCA's stock price declined precipitously on extremely high volume as a result of defendants' fraud being revealed, the Standard & Poor's 500 securities index was essentially flat. The economic loss, *i.e.*, damages, suffered by Lead Plaintiffs and other members of the class was a direct result of defendants' fraudulent scheme to artificially inflate HCA's stock price and the subsequent significant decline in the value of HCA's stock when defendants' prior misrepresentations and other fraudulent conduct was revealed.

#### IX. LEAD PLAINTIFFS' CLASS ACTION ALLEGATIONS

147. Lead Plaintiffs bring this action as a class action pursuant to Fed. R. Civ. P. 23(a) and (b)(3) on behalf of a class consisting of all persons who purchased or otherwise acquired the publicly traded securities of HCA during the Class Period who were damaged by defendants' fraud (the "Class"). Excluded from the Class are defendants, the officers and directors of the Company, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which defendants have or had a controlling interest.

148. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, HCA's common stock was listed and actively traded on the NYSE, an efficient market. As of June 30, 2005, the Company had over 450 million shares of common stock issued and outstanding. While the exact number of Class members is unknown to

Lead Plaintiffs at this time and can only be ascertained through appropriate discovery, Lead Plaintiffs believe that there are thousands of members in the proposed Class. Record owners and other members of the Class may be identified from records maintained by HCA or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions. During the Class Period, HCA was followed and reported on by analysts at numerous securities firms, including Raymond James & Associates, Inc., Citigroup, JP Morgan, Lehman Brothers, Prudential Equity, Fulcrum Global Partners, Oppenheimer & Co., Jeffries & Co., and Morgan Stanley.

149. Lead Plaintiffs' claims are typical of the claims of the members of the Class as all members of the Class were similarly affected by defendants' wrongful conduct in violation of federal law that is complained of herein.

150. Lead Plaintiffs will fairly and adequately protect the interests of the members of the Class and have retained counsel competent and experienced in class and securities litigation. Lead Plaintiffs are members of the Class and do not have interests antagonistic to, or in conflict with, the other members of the Class.

151. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

- (a) Whether the federal securities laws were violated by defendants' acts as alleged herein;
- (b) Whether statements made by defendants to the investing public during the Class Period misrepresented and omitted material facts about the operational and financial results of HCA;

(c) Whether the market price of HCA securities during the Class Period were artificially inflated due to the misrepresentations complained of herein;

(d) Whether defendants acted knowingly or recklessly in misrepresenting material facts; and

(e) To what extent the members of the Class have sustained damages and the proper measure of damages.

152. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

## COUNT I

### **For Violation of § 10(b) of the 1934 Act and Rule 10b-5 Against All Defendants**

153. Lead Plaintiffs incorporate ¶¶1-152 by reference.

154. During the Class Period, defendants disseminated or approved the false statements specified above, which they knew or deliberately disregarded were misleading in that they contained misrepresentations and failed to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

155. Defendants violated §10(b) of the 1934 Act and Rule 10b-5 in that they:

(a) employed devices, schemes and artifices to defraud;

(b) made untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or

(c) engaged in acts, practices and a course of business that operated as a fraud or deceit upon Lead Plaintiffs and others similarly situated in connection with their acquisition of HCA's publicly traded securities during the Class Period.

156. Lead Plaintiffs and the Class have suffered damages in that, in reliance on the integrity of the market, they paid artificially inflated prices for HCA common stock and were harmed when the artificial inflation came out of the stock price. Lead Plaintiffs and the Class would not have acquired HCA common stock at the prices they paid, or at all, if they had been aware that the market prices had been artificially and falsely inflated by defendants' misleading statements.

157. As a direct and proximate result of these defendants' wrongful conduct, Lead Plaintiffs and the other members of the Class suffered damages in connection with their acquisitions of HCA common stock during the Class Period.

## **COUNT II**

### **For Violation of § 20(a) of the 1934 Act Against All Defendants**

158. Lead Plaintiffs incorporate ¶¶1-157 by reference.

159. The Individual Defendants acted as controlling persons of HCA within the meaning of § 20(a) of the 1934 Act. By reason of their positions as officers and directors of HCA, and their ownership of HCA stock, the Individual Defendants had the power and authority to cause HCA to engage in the wrongful conduct complained of herein. HCA controlled the Individual Defendants and all of its employees. By reason of such conduct, defendants are liable pursuant to § 20(a) of the 1934 Act.

### COUNT III

#### **For Violation of § 20A of the 1934 Act Against Defendants Bracken, Hazen, Johnson and Williams**

160. Lead Plaintiffs incorporate herein ¶¶1-159 by reference. This Count is brought pursuant to § 20A of the Exchange Act on behalf of all purchasers of HCA common stock during the Class Period.

161. Defendants Bracken, Hazen, Johnson and Williams, by virtue of their positions as officers of HCA had access to, and were in possession of, material non-public information about HCA at the time of their sales of thousands of shares of HCA common stock during the Class Period.

162. By virtue of their participation in the scheme to defraud investors described in Count I above, and their sale of stock while in possession of material non-public information about HCA, Bracken, Hazen, Johnson and Williams violated § 10(b) of the Exchange Act and applicable rules and regulations thereunder.

163. The chart below details Bracken's sales of HCA common stock made contemporaneously with Lead Plaintiffs' purchase of shares of HCA common stock:

Date Sold	Shares	Plaintiff	Date Purchased	Shares
4/22/05	77,000	Sterling Heights	4/22/05	3,100
6/7/05	50,000	Louisiana Firefighters	6/7/05	20,200

164. The chart below details Hazen's sales of HCA common stock made contemporaneously with Lead Plaintiffs' purchase of HCA common stock:

Date Sold	Shares	Plaintiff	Date Purchased	Shares
6/7/05	65,000	Louisiana Firefighters	6/7/05	20,200

165. The chart below details Johnson's sales of shares of HCA common stock made contemporaneously with Lead Plaintiffs' purchase of shares of HCA common stock:

Date Sold	Shares	Plaintiff	Date Purchased	Shares
4/22/05	155,000	Sterling Heights	4/22/05	3,100

166. The chart below details Williams' sales of HCA common stock made contemporaneously with Lead Plaintiffs' purchase of shares of HCA common stock:

Date Sold	Shares	Plaintiff	Date Purchased	Shares
4/6/05	37,552	Sterling Heights	4/6/05	11,000

167. Lead Plaintiffs and all other members of the Class who purchased shares of HCA common stock contemporaneously with sales of HCA common stock by Bracken, Hazen, Johnson and Williams: (i) have suffered substantial damages because, in reliance on the integrity of the market, they paid artificially inflated prices for HCA common stock as a result of the violations of § 10(b) of the Exchange Act and Rule 10b-5 as alleged in Count I; and (ii) would not have purchased HCA common stock at the prices they paid, or at all, if they had been aware that the market prices had been artificially inflated by Bracken's, Hazen's, Johnson's and Williams' false and misleading statements and concealment. At the time of the purchases by Lead Plaintiffs and the other members of the Class, the fair and true market value of the HCA common stock was substantially less than the price paid by them.

X. PRAYER FOR RELIEF

WHEREFORE, Lead Plaintiffs, on behalf of themselves and the Class, pray for judgment as follows:

A. Declaring this action to be a class action properly maintained pursuant to Fed. R. Civ. P. 23;

B. Awarding Lead Plaintiffs and other members of the Class damages together with interest thereon;

C. Awarding Lead Plaintiffs and other members of the Class costs and expenses of this litigation, including reasonable attorneys' fees, accountants' fees and experts' fees and other costs and disbursements; and

D. Awarding Lead Plaintiffs and other members of the Class such equitable/injunctive or other and further relief as may be just and proper under the circumstances.

XI. JURY DEMAND

Lead Plaintiffs demand a trial by jury.

DATED: April 20, 2006

Respectfully submitted,

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**CERTIFICATE OF SERVICE**

I hereby certify that on this 20<sup>th</sup> day of April, 2006, a true and exact copy of this pleading was filed electronically. Notice of this filing will be sent by operation of the Court's electronic filing system to all parties indicated on the electronic filing receipt. All other parties will be served by regular U.S. mail. Parties may access this filing through the Court's electronic filing system.

E-mail notification to:

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