LifePoint Hospitals, Inc.

Annual Report 2000

COMPANY PROFILE

At December 31, 2000, LifePoint Hospitals, Inc. owned and operated 20 hospitals in non-urban areas. In most cases, the LifePoint facility is the only hospital in its community. LifePoint's non-urban operating strategy offers continued operational improvement by focusing on its five core values: delivering high quality patient care, supporting physicians, creating excellent workplaces for its employees, providing community value, and ensuring fiscal responsibility. Headquartered in Brentwood, Tennessee, LifePoint Hospitals was affiliated with over 6,000 employees at December 31, 2000.

VISION

At LifePoint, we offer ***high quality, cost-effective healthcare*** in the communities we serve.

We provide our ***employees*** with an environment based on respect, encouraging the personal and professional growth of each individual.

By being a strong ***community resource,*** LifePoint's care knows no boundaries.

We support ***physicians' medical practices*** through innovative facilities, advanced technology, and a well-trained, organized clinical staff.

LifePoint is ***fiscally responsible,*** committed to ensuring that we meet the capital needs of our hospitals and the expectations of our stakeholders.

We do these things, not out of a sense of obligation, but with a sense of pride.

After all, it's our hometown, too.

ANNUAL MEETING

The annual meeting of stockholders will be held on May 14, 2001, at 10:00 a.m. local time at the Nashville City Center, 511 Union Street, 25th Floor, Nashville, Tennessee.

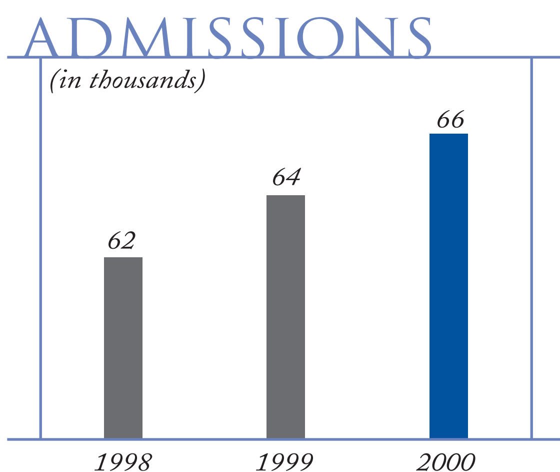
FINANCIAL HIGHLIGHTS

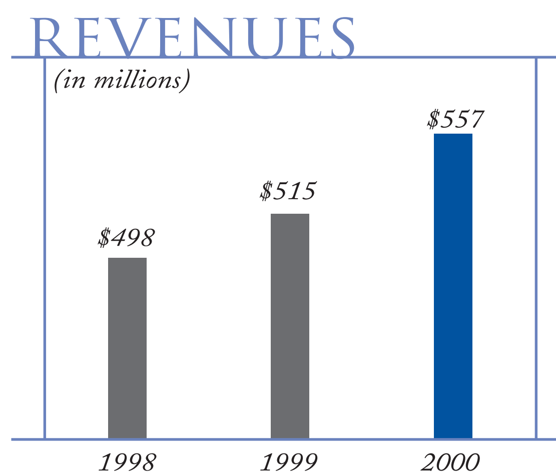
($ millions, except per share amounts)	**2000**	1999	Percent Change
OPERATING RESULTS:			
Revenues	**$ 557.1**	$ 515.2	8.1%
EBITDA[a]	**$ 105.8**	$ 78.1	35.4%
EBITDA as a % of revenues	**19.0%**	15.2%	
Net income (loss)	**$ 17.9**	$ (7.4)	
Diluted earnings (loss) per share	**$ 0.54**	$ (0.24)	
Shares used in computing diluted earnings (loss) per share (000)	**32,944**	30,529	
STATISTICS:			
Number of hospitals at end of period	**20**	23 [b]	(13.0%)
Weighted average licensed beds	**2,056**	2,169	(5.2%)
Admissions	**66,085**	64,081	3.1%
Equivalent admissions	**119,812**	114,321	4.8%

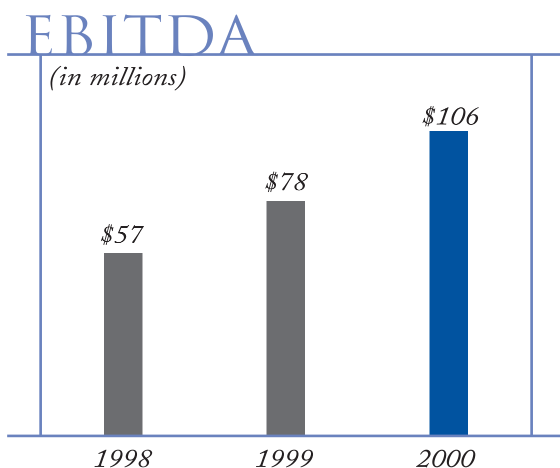
Years Ended December 31,

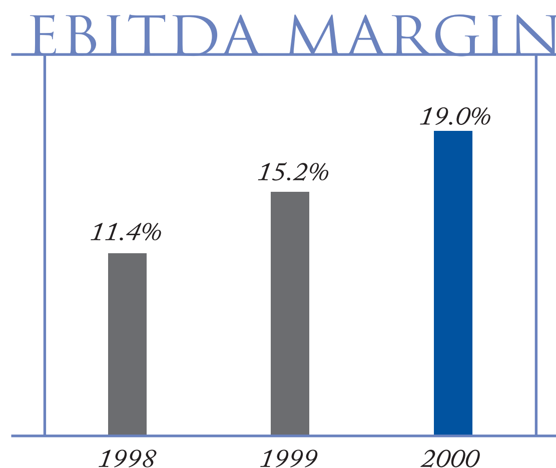
[a] EBITDA is defined as income from continuing operations before depreciation and amortization, interest expense, management fees, impairment of long-lived assets, ESOP expense, minority interests in earnings of consolidated entities and income taxes.

[b] Includes three facilities held for sale.









LETTER TO STOCKHOLDERS

TO OUR STOCKHOLDERS:

The year 2000 was an incredible year for LifePoint Hospitals, its employees and its stockholders. Our financial and operating results, along with the confidence that so many people placed in LifePoint Hospitals, continue to drive our company forward. I want to take this opportunity to thank each of you personally for your continued support throughout the year.

Our success during the year was tempered by the loss of our former Chairman and Chief Executive Officer, Scott Mercy, who was killed in a plane crash. Scott was LifePoint Hospitals' biggest supporter, and he held a deep commitment to our employees, patients, physicians and the communities that we serve. Scott brought together a management team with a shared vision of excellence in the operation of our company and its hospitals. Scott touched all of us, and he will always be missed. We will remember his leadership and his motivation, but most of all, we will remember his friendship.

All of us at LifePoint remain committed to our common vision of:

- delivering high quality patient care;
- supporting physicians;
- creating excellent workplaces for our employees;
- providing community value; and
- ensuring fiscal responsibility.

These five basic principles have formed the foundation of our company since its inception. Every decision that we make is measured in accordance with this vision.

I am pleased to report that during the year we remained focused on executing our operations strategy, and we are excited about the following accomplishments:

OPERATIONS

Executed facility-specific strategies to meet the needs of our communities. We believe that healthcare is a local issue. Accordingly, each of our hospitals has developed specific strategies to enhance the quality of healthcare in its community. These strategies position each hospital to support the population growth in its market and to expand the hospital's role as a community asset.

Strengthened physician recruitment and retention efforts. One of the keys to our strong performance is the success we have achieved in recruiting physicians. Since 1998, LifePoint has recruited 179 physicians, 56% of whom are specialists. Recruiting and retaining physicians in our non-urban communities is critical to expanding the number of available healthcare services in these areas. We expect to continue our momentum in physician recruitment in the coming years.

Expanded services to reduce outmigration. Our hospitals continue to expand or renovate their emergency rooms, operating rooms, and outpatient areas, and to increase specialty services so that patients no longer have to leave their local communities to receive specialty care. We invested $31.4 million in our facilities in 2000 and expect to invest another $35 - $40 million in 2001. We will continue to make appropriate capital investments to improve and broaden the scope of available healthcare services and to support the needs of newly recruited specialists in our markets.

Improved expense management. Each of LifePoint's hospitals has remained focused on cost control initiatives. We have seen the results in reduced labor expenses and improved productivity, lower supply costs and increased collected revenue. We have implemented cost control initiatives, such as adjusting staffing levels according to patient volumes, modifying supply purchases consistent with usage patterns and

providing training to hospital staff in more efficient billing and collection processes. We expect to see further improvements in these areas as management remains focused on these key operational issues.

Improved managed care position. As an independent company, we have been able to increase revenues from managed care plans by negotiating facility-specific contracts with payers. As we grow our position as a significant provider of acute care services in our markets, we expect to be able to improve our negotiating leverage and decrease the levels of discounts in the arrangements in which we participate.

Continued focus on constituency satisfaction. LifePoint measures the satisfaction of our four primary constituents: employees, patients, physicians and community. We have measured constituency satisfaction since the formation of our company, and we continue to see substantial improvement in the results for all four constituencies. Our hospitals are focused on developing constituency satisfaction initiatives that will give them a competitive edge in their markets.

FINANCIAL RESULTS

LifePoint's outstanding 2000 financial performance is the result of our focus on the basics of community hospital operations. By continuing to position our hospitals appropriately in their respective markets, equivalent admissions increased 4.8%. Other key utilization statistics, including surgeries, emergency room visits and outpatient visits, showed significant improvements from the prior year's results. These indicators reflect the success of our hospitals in meeting the needs of their communities. Financial improvements include an increase in annual revenue of 8.1% and an increase in operating cash flow (EBITDA) of 35.4%. Earnings per share for 2000 was $0.54, an increase from the prior year's loss per share of $0.24. With the strong cash flow from operations, we invested $31 million back into our facilities and improved our debt coverage to 2.7x in 2000 from 3.3x in 1999. We are very pleased with our financial results as well as our progress in driving our operating plan forward. Our success is attributable to the efforts of management in each of our facilities.

PUBLIC SECONDARY OFFERING

In March 2001, the Company raised $106.7 million in a public secondary offering of 3,680,000 shares of common stock. The net proceeds of approximately $100 million will be used to repay a portion of the Company's outstanding indebtedness. The offering helps us deleverage the Company, strengthen our balance sheet and execute our strategy for the future.

ACQUISITIONS AND DIVESTITURES

In addition to improving existing markets through intensive focus on physician recruitment, service expansion, expense management and the introduction of new technology, LifePoint's strategic plan also included adding value through strategic portfolio realignment. The three hospitals that had been "held for sale" since the Company's formation were sold in 2000. In addition, we sold Riverview Medical Center in Gonzales, Louisiana, and Springhill Medical Center in Springhill, Louisiana, to strategic buyers in their local communities. We also acquired the following hospitals during the year:

Putnam Community Medical Center, a 141-bed facility in Palatka, Florida, was acquired in June 2000. Putnam Community Medical Center services North Central Florida with over 500 employees and 102 medical staff members in 20 specialties.

Lander Valley Medical Center, a 102-bed facility in Lander, Wyoming, was acquired in July 2000. Lander is located about 30 miles from our hospital in Riverton, Wyoming, which creates opportunities for developing operational synergies between the two markets.

Finally, we opened *Bluegrass Community Hospital,* a 25-bed critical access hospital located in Versailles, Kentucky, on January 2, 2001. We are operating this hospital under a two-year master lease agreement with renewal options.

LEGISLATION

Along with all healthcare providers, we have been facing the challenges of the Balanced Budget Act of 1997, which substantially cut Medicare reimbursement for our facilities. This year, legislators began listening to the needs of providers and, as a result, enacted the Benefit Improvement and Protection Act of 2000 (BIPA). BIPA provides for a more rational approach to federal healthcare program reimbursement and is especially favorable for rural providers. Our facilities will receive greater reimbursement, which will give us the ability to expand the scope and enhance the quality of healthcare services we deliver in our non-urban communities.

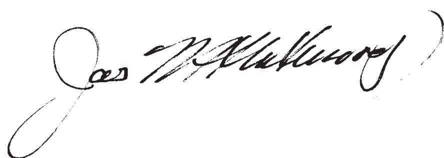
FUTURE

LifePoint Hospitals continues to be an operations-driven company. Substantial growth opportunities remain in our markets that can be captured through our continued physician recruitment and service expansion, as well as decreasing outmigration to other markets. Our hospitals are positioned to meet the growing needs for quality healthcare in their non-urban markets. As we look ahead, we will complement our operations growth by pursuing a disciplined acquisition strategy. We will continue to be selective in our acquisitions, and we will only acquire hospitals that fit our rural strategy. We are excited about the opportunities ahead and the possibility to add value to existing and new markets.

In closing, I would like to remind you that as an owner of this company, you should not have to wait for our annual report and my stockholder letter to keep abreast of the developments at LifePoint Hospitals. You can monitor the Company's performance throughout the year at our Investor Relations Website, www.lifepointhospitals.com. We will continue to use the Internet to communicate to our stockholders throughout the years to come.

Again, I would like to recognize the dedicated efforts of our employees. The results achieved by this Company would not be possible without their day-to-day efforts of delivering excellent patient care. To our stockholders, we gratefully acknowledge your support and continuing interest. Thank you all for another exceptional year, and we look forward to reporting our progress in 2001!

Sincerely,



James M. Fleetwood, Jr.
Chairman and Chief Executive Officer

SELECTED CONSOLIDATED FINANCIAL DATA

The following table contains selected historical financial data for each of the years in the five year period ended December 31, 2000. We derived the selected historical financial data as of December 31, 1996 from unaudited financial statements. You should read this table in conjunction with the consolidated financial statements and related notes included elsewhere in this report and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	Years Ended December 31,				
	1996	1997	1998	1999	2000
	(Dollars in millions, except per share amounts)				
Summary of Operations:					
Revenues	$ 464.0	$ 487.6	$ 498.4	$ 515.2	$ 557.1
Salaries and benefits	175.2	196.6	220.8	217.4	224.2
Supplies	50.9	55.0	62.0	64.2	67.0
Other operating expenses	99.3	119.5	117.2	117.3	118.1
Provision for doubtful accounts	28.0	34.5	41.6	38.2	42.0
Depreciation and amortization	23.5	27.4	28.3	31.4	34.1
Interest expense	14.1	15.4	19.1	23.4	30.7
Management fees	6.2	8.2	8.9	3.2	—
ESOP expense	—	—	—	2.9	7.1
Impairment of long-lived assets	—	—	26.1	25.4	(1.4)
	397.2	456.6	524.0	523.4	521.8
Income (loss) from continuing operations before minority interests and income taxes	66.8	31.0	(25.6)	(8.2)	35.3
Minority interests in earnings of consolidated entities	1.2	2.2	1.9	1.9	2.2
Income (loss) from continuing operations before income taxes	65.6	28.8	(27.5)	(10.1)	33.1
Provision (benefit) for income taxes	26.3	11.7	(9.8)	(2.7)	15.2
Income (loss) from continuing operations(a)	$ 39.3	$ 17.1	$ (17.7)	$ (7.4)	$ 17.9
Net income (loss)(a)	$ 41.2	$ 12.5	$ (21.8)	$ (7.4)	$ 17.9
Basic earnings (loss) per share:					
Income (loss) from continuing operations(a)	$ 1.31	$ 0.57	$ (0.59)	$ (0.24)	$ 0.57
Net income (loss)(a)	$ 1.37	$ 0.41	$ (0.73)	$ (0.24)	$ 0.57
Shares used in computing basic earnings (loss) per share (in millions)	30.0	30.0	30.0	30.5	31.6
Diluted earnings (loss) per share:					
Income (loss) from continuing operations(a)	$ 1.30	$ 0.57	$ (0.59)	$ (0.24)	$ 0.54
Net income (loss)(a)	$ 1.36	$ 0.41	$ (0.73)	$ (0.24)	$ 0.54
Shares used in computing diluted earnings (loss) per share (in millions)	30.3	30.2	30.0	30.5	32.9
Cash dividends declared per common share	—	—	—	—	—
Financial Position (as of end of year):					
Assets	$ 376.0	$ 397.9	$ 355.0	$ 420.4	$ 488.0
Long-term debt, including amounts due within one year	1.6	1.6	0.6	260.2	289.4
Intercompany balances payable to HCA	176.3	182.5	167.6	—	—
Working capital	39.0	41.1	26.9	42.2	65.4

SELECTED CONSOLIDATED FINANCIAL DATA — (Continued)

	Years Ended December 31,				
	1996	1997	1998	1999	2000
	(Dollars in millions, except per share amounts)				
Other Operating Data:					
EBITDA(b)	$ 110.6	$ 82.0	$ 56.8	$ 78.1	$ 105.8
Capital expenditures	53.4	51.8	29.3	64.8	31.4
Number of hospitals at end of year	22	22	23	23	20
Number of licensed beds at end of year(c)	2,074	2,080	2,169	2,169	1,963
Weighted average licensed beds(d)	2,060	2,078	2,127	2,169	2,056
Admissions(e)	59,381	60,487	62,269	64,081	66,085
Equivalent admissions(f)	98,869	105,126	110,029	114,321	119,812
Average length of stay (days)(g)	4.7	4.4	4.4	4.2	4.1

(a) Includes charges related to impairment of long-lived assets of $25.4 million ($16.2 million after-tax) and $26.1 million ($15.9 million after-tax) for the years ended December 31, 1999 and 1998, respectively, and gain on impairment of long-lived assets of $1.4 million ($0.8 million after-tax) for the year ended December 31, 2000.

(b) EBITDA is defined as income from continuing operations before depreciation and amortization, interest expense, management fees, impairment of long-lived assets, ESOP expense, minority interests in earnings of consolidated entities and income taxes. EBITDA is commonly used as an analytical indicator within the healthcare industry and also serves as a measure of leverage capacity and debt service ability. EBITDA should not be considered as a measure of financial performance under generally accepted accounting principles, and the items excluded from EBITDA are significant components in understanding and assessing financial performance. EBITDA should not be considered in isolation or as an alternative to net income, cash flows generated by operating, investing or financing activities or other financial statement data presented in the consolidated financial statements as an indicator of financial performance or liquidity. Because EBITDA is not a measurement determined in accordance with generally accepted accounting principles and is thus susceptible to varying calculations, EBITDA as presented may not be comparable to other similarly titled measures of other companies.

(c) Licensed beds are those beds for which a facility has been granted approval to operate from the applicable state licensing agency.

(d) Represents the average number of licensed beds weighted based on periods owned.

(e) Represents the total number of patients admitted (in the facility for a period in excess of 23 hours) to our hospitals and is used by management and investors as a general measure of inpatient volume. Amounts for the years ended December 31, 1998 and 1999 have been restated to conform to current year definitions.

(f) Equivalent admissions is used by management and investors as a general measure of combined inpatient and outpatient volume. Equivalent admissions is computed by multiplying admissions (inpatient volume) by the sum of gross inpatient revenue and gross outpatient revenue and then dividing the resulting amount by gross inpatient revenue. The equivalent admissions computation "equates" outpatient revenue to the volume measure (admissions) used to measure inpatient volume resulting in a general measure of combined inpatient and outpatient volume. Amounts for the years ended December 31, 1998 and 1999 have been restated to conform to current year definitions.

(g) Represents the average number of days admitted patients stay in our hospitals. Average length of stay has declined as a result of the continuing pressures from managed care and other payers to restrict admissions and reduce the number of days that are covered by the payers for certain procedures and by technological and pharmaceutical improvements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read this discussion together with our consolidated historical financial statements and related notes included elsewhere in this report.

Overview

At December 31, 2000, we operated 20 general, acute care hospitals. For the year ended December 31, 2000, we generated $557.1 million in net revenues. Effective January 2, 2001, we opened Bluegrass Community Hospital located in Versailles, Kentucky. We currently operate in the states of Alabama, Florida, Kansas, Kentucky, Tennessee, Utah and Wyoming.

Forward-Looking Statements

This report and other materials we have filed or may file with the Securities and Exchange Commission, as well as information included in oral statements or other written statements made, or to be made, by us, contain, or will contain, disclosures which are "forward-looking statements." Forward-looking statements include all statements that do not relate solely to historical or current facts and can be identified by the use of words such as "may," "believe," "will," "expect," "project," "estimate," "anticipate," "plan" or "continue." These forward-looking statements are based on the current plans and expectations of our management and are subject to a number of uncertainties and risks that could significantly affect our current plans and expectations and future financial condition and results. These factors include, but are not limited to:

- the highly competitive nature of the healthcare business including the competition to recruit general and specialized physicians;
- the efforts of insurers, healthcare providers and others to contain healthcare costs;
- possible changes in the Medicare program that may further limit reimbursements to healthcare providers and insurers;
- changes in federal, state or local regulation affecting the healthcare industry;
- the possible enactment of federal or state healthcare reform;
- the ability to attract and retain qualified management and personnel, including physicians, both general practitioners and specialists, consistent with our expectations and targets;
- our ability to acquire hospitals on favorable terms;
- liabilities and other claims asserted against us;
- uncertainty with the newly issued HIPAA regulations;
- the ability to enter into, renegotiate and renew payor arrangements on acceptable terms;
- the availability and terms of capital to fund our business strategy;
- implementation of our business strategy and development plans;
- our ongoing efforts to monitor, maintain and comply with applicable laws, regulations, policies and procedures including those required by the corporate integrity agreement that we entered into with the government in December, 2000;
- the ability to increase patient volumes and control the costs of providing services and supply costs;
- successful development or license, performance and use of management information systems, including software for efficient claims processing;
- limitations placed on us to preserve the tax treatment of the distribution of our common stock from HCA;
- fluctuations in the market value of our common stock;

- changes in accounting practices; and
- changes in general economic conditions.

As a consequence, current plans, anticipated actions and future financial conditions and results may differ from those expressed in any forward-looking statements made by or on behalf of our company. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. You are cautioned not to unduly rely on such forward-looking statements when evaluating the information presented in this report.

Contingencies

HCA has been the subject of various federal and state investigations, actions and general liability claims. These investigations, actions and claims relate to HCA and its subsidiaries, including subsidiaries that, prior to our formation as an independent company, owned the facilities we now own. On December 14, 2000, HCA announced that it signed an agreement with the Department of Justice and four U.S. attorneys' offices resolving all pending federal criminal issues in the government's investigation. HCA also announced at this time that it signed a civil settlement agreement with the Department of Justice resolving civil false claims issues related to DRG coding, outpatient laboratory and home health. The criminal agreement has been accepted by the federal courts. The civil settlement agreement is conditioned on court approval of the settlement, which HCA expects to receive in the first quarter of 2001. These agreements relate only to conduct that was the subject of the federal investigations resolved in the agreements, and HCA has stated publicly that it continues to discuss civil claims relating to cost reporting and physician relations with the government.

HCA has agreed to indemnify us for any losses, other than consequential damages, arising from the pending governmental investigations of HCA's business practices prior to the date of the distribution and losses arising from legal proceedings, present or future, related to the investigation or actions engaged in prior to the distribution that relate to the investigation. However, it is possible that we could be held responsible for any claims that are not covered by the agreements reached with the federal government or for which HCA is not required to, or fails to, indemnify us. We may be affected by the initiation of additional investigations against HCA or us in the future, if any, and the related media coverage. It is possible that these matters could have a material adverse effect on our financial condition and results of operations in future periods.

Results of Operations

Revenue/Volume Trends

We expect our patient volumes and related revenues to continue to increase as a result of the following factors:

- *Expanding Service Offerings.* We believe our efforts to improve the quality and broaden the scope of healthcare services available at our facilities will lead to increased patient volumes. Recruiting and retaining both general practitioners and specialists for our non-urban communities is a key to the success of these efforts. Between the date of the distribution of our stock from HCA and December 31, 2000, we recruited 150 physicians, of which approximately 61% are specialists. Adding new physicians should help increase patient volumes which, in turn, should increase revenues. Continuing to add specialists should also allow us to grow by offering new services.

- *Improving Managed Care Position.* We believe we have been able to negotiate contract terms that are generally more favorable for our facilities than terms available in urban markets.

- *Aging U.S. Population.* In general, the population of the United States and of the communities that we serve is aging. At the end of 2000, approximately 13% of the U.S. population was 65 years

old or older compared to 11% of the population at the end of 1980. This aging trend is projected to continue so that by 2025, approximately 18% of the U.S. population is expected to be older than 65.

Although we expect our patient volumes to increase, the resulting revenue will likely be offset in part by the following factors:

- *Revenues from Medicare, Medicaid and Managed Care Plans.* We derive a significant portion of our revenues from Medicare, Medicaid and managed care plans. Admissions related to Medicare, Medicaid and managed care plan patients were 90.4% and 89.2% of total admissions for the years ended December 31, 2000 and 1999, respectively. These payers receive significant discounts compared to other payers.

- *Efforts to Reduce Payments.* Insurance companies, government programs (other than Medicare) and employers purchasing health care services for their employees also negotiate discounted fees rather than paying standard prices. Hospitals generally receive lower payments per patient under managed care plans than under traditional indemnity insurance plans. In addition, an increasing proportion of our services are reimbursed under prospective payment amounts regardless of the cost incurred.

- *Growth in Outpatient Services.* We expect the growth trend in outpatient services to continue. A number of procedures once performed only on an inpatient basis have been, and will likely continue to be, converted to outpatient procedures. This conversion has occurred through continuing advances in pharmaceutical and medical technologies and as a result of efforts made by payors to control costs. Generally, the payments we receive for outpatient procedures are less than for similar procedures performed in an inpatient setting.

Reductions in Medicare and Medicaid payment levels, the increase in outpatient services and the patient volume being related to patients participating in managed care plans will present ongoing challenges for us. These challenges are exacerbated by our inability to control these trends and the associated risks. To maintain or improve operating margins in the future, we must, among other things, increase patient volumes while controlling the costs of providing services. If we are not able to achieve these improvements and the trend toward declining reimbursements and payments continues, results of operations and cash flow will deteriorate.

Impact of Acquisitions and Divestitures

Acquisitions

Effective July 1, 2000, we acquired Lander Valley Medical Center in Lander, Wyoming for approximately $33.0 million. Effective June 16, 2000, we acquired Putnam Community Medical Center in Palatka, Florida for approximately $49.4 million. We accounted for these two acquisitions using the purchase method of accounting and allocated the purchase price of each transaction to identifiable assets acquired and liabilities assumed based on their respective fair values.

Divestitures

Effective November 17, 2000, we sold Springhill Medical Center located in Springhill, Louisiana for approximately $5.7 million. We deposited the proceeds into a trust for tax planning reasons and we intend to use them for future capital reinvestment.

Effective September 1, 2000, we sold Barrow Medical Center in Winder, Georgia for approximately $2.2 million.

Effective August 1, 2000, we sold Riverview Medical Center in Gonzales, Louisiana for approximately $20.7 million. We used the proceeds from this transaction and our available cash to pay down existing borrowings under our revolving credit facility.

Effective April 1, 2000, we sold Halstead Hospital in Halstead, Kansas and effective February 1, 2000, we sold Trinity Hospital in Erin, Tennessee. We previously held Halstead Hospital, Trinity Hospital and Barrow Medical Center for sale. We recorded an impairment of long-lived assets related to these three hospitals of $24.8 million in 1998 and an additional impairment of $25.4 million in 1999.

During 2000, we recorded a $1.4 million pre-tax gain related to the favorable settlement on the sale of one of the facilities that we previously held for sale.

We consolidated the operating results of the acquisitions and divestitures for the periods subsequent to acquisition and for the periods prior to sale, respectively.

Because of the relatively small number of hospitals we own, each hospital acquisition can materially affect our overall operating margin. We typically take a number of steps to lower operating costs when we acquire a hospital. The impact of our actions may be offset by other cost increases to expand services, strengthen medical staff and improve market position. The benefits of our investments and of other activities to improve operating margins generally do not occur immediately. Consequently, the financial performance of a newly acquired hospital may adversely affect our overall operating margins in the short term. As we acquire additional hospitals, this effect should be mitigated by the expanded financial base of our existing hospitals and the allocation of corporate overhead among a larger number of hospitals.

Operating Results Summary

The following table presents summaries of results from continuing operations for the years ended December 31, 1998, 1999 and 2000:

	Years Ended December 31,					
	1998		1999		2000	
	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues
Revenues	**$498.4**	100.0%	**$515.2**	100.0%	**$557.1**	100.0%
Salaries and benefits	**220.8**	44.3	**217.4**	42.2	**224.2**	40.2
Supplies	**62.0**	12.4	**64.2**	12.5	**67.0**	12.0
Other operating expenses	**117.2**	23.5	**117.3**	22.7	**118.1**	21.3
Provision for doubtful accounts	**41.6**	8.4	**38.2**	7.4	**42.0**	7.5
	441.6	88.6	**437.1**	84.8	**451.3**	81.0
EBITDA(a)	**56.8**	11.4	**78.1**	15.2	**105.8**	19.0
Depreciation and amortization	**28.3**	5.7	**31.4**	6.2	**34.1**	6.2
Interest expense	**19.1**	3.8	**23.4**	4.5	**30.7**	5.5
Management fees	**8.9**	1.8	**3.2**	0.6	**—**	—
ESOP expense	**—**	—	**2.9**	0.6	**7.1**	1.3
Impairment of long-lived assets	**26.1**	5.2	**25.4**	4.9	**(1.4)**	(0.3)
Income (loss) from continuing operations before minority interests and income taxes	**(25.6)**	(5.1)	**(8.2)**	(1.6)	**35.3**	6.3
Minority interests in earnings of consolidated entities	**1.9**	0.4	**1.9**	0.4	**2.2**	0.4
Income (loss) from continuing operations before income taxes	**(27.5)**	(5.5)	**(10.1)**	(2.0)	**33.1**	5.9
Provision (benefit) for income taxes	**(9.8)**	(2.0)	**(2.7)**	(0.6)	**15.2**	2.7
Income (loss) from continuing operations	**$(17.7)**	(3.5)%	**$ (7.4)**	(1.4)%	**$ 17.9**	3.2%
% changes from prior year:						
Revenues			**3.4%**		**8.1%**	
Income (loss) from continuing operations before income taxes			**63.1**		**425.7**	
Income (loss) from continuing operations			**58.4**		**342.4**	
Admissions(b)			**3.2**		**3.1**	
Equivalent admissions(c)			**4.2**		**4.8**	
Revenues per equivalent admission			**(0.8)**		**3.2**	
Same hospital % changes from prior year(d):						
Revenues					**8.8**	
Admissions(b)					**2.6**	
Equivalent admissions(c)					**6.5**	
Revenues per equivalent admission					**2.2**	

(a) EBITDA is defined as income from continuing operations before depreciation and amortization, interest expense, management fees, impairment of long-lived assets, ESOP expense, minority interests in earnings of consolidated entities and income taxes. EBITDA is commonly used as an analytical indicator within the healthcare industry and also serves as a measure of leverage capacity and debt service ability. EBITDA should not be considered as a measure of financial performance under generally accepted accounting principles and the items excluded from EBITDA are significant components in understanding and assessing financial performance. EBITDA should not be considered in isolation or as an alternative to net income, cash flows generated by operating, investing or financing activities or other financial statement data presented in the consolidated financial statements as an indicator of financial performance or liquidity. Because EBITDA is not a measurement determined in accordance with generally accepted accounting principles and is susceptible to varying calculations, EBITDA as presented may not be comparable to other similarly titled measures of other companies.

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

(c) Management and investors use equivalent admissions as a general measure of combined inpatient and outpatient volume. We compute equivalent admissions by multiplying admissions (inpatient volume) by the sum of gross inpatient revenue and gross outpatient revenue and then dividing the resulting amount by gross inpatient revenue. The equivalent admissions computation "equates" outpatient revenue to the volume measure (admissions) used to measure inpatient volume resulting in a general measure of combined inpatient and outpatient volume.

(d) "Same hospital" information excludes the operations of hospitals which we either acquired or divested during the years presented.

For the Years Ended December 31, 2000 and 1999

Revenues increased 8.1% to $557.1 million for the year ended December 31, 2000 compared to $515.2 million for the year ended December 31, 1999, primarily as a result of an 8.8% increase in same hospital revenues and our acquisition of two hospitals during fiscal 2000. Our sale of five hospitals during fiscal 2000 partially offset the increase in revenues. The 8.8% increase in same hospital revenues resulted primarily from a 2.6% increase in same hospital inpatient admissions and a 6.5% increase in same hospital equivalent admissions, adjusted to reflect combined inpatient and outpatient volume.

Revenues per equivalent admission increased 3.2% primarily due to our acquisition of two hospitals in fiscal 2000 with higher revenues per equivalent admission compared to our average. The higher revenues per equivalent admission at one of the acquired hospitals resulted primarily from a low number of outpatient procedures performed at that hospital as revenues from outpatient services are generally lower than inpatient services. In addition, the higher revenues per equivalent admission at the other acquired hospital resulted primarily from a lower percentage of revenues from managed care plans as compared to our average. The increase in revenues per equivalent admission was partially offset by an increase in outpatient revenues for the year ended December 31, 2000 compared to the same period last year. Outpatient revenues as a percentage of patient revenues were 48.1% for the year ended December 31, 2000 compared to 47.2% for the same period last year. We also recorded favorable adjustments to estimated third party settlements of $3.2 million for the year ended December 31, 2000 compared to $0.7 million for the year ended December 31, 1999.

Our costs did not increase at the same rate as our revenue. The increase in volumes and revenues per equivalent admission contributed to the reduction of our operating expenses as a percent of revenue because we were able to spread our operating costs over an increased base of revenues.

Salaries and benefits decreased as a percentage of revenues to 40.2% for the year ended December 31, 2000 from 42.2% for the year ended December 31, 1999 primarily as a result of improvements in labor productivity and an increase in revenues per equivalent admission, as discussed above. In addition, man-hours per equivalent admission decreased 5.4% over the same period last year.

Supply costs decreased as a percentage of revenues to 12.0% for the year ended December 31, 2000 from 12.5% for the year ended December 31, 1999. The decrease related primarily to the increase in revenues per equivalent admission and a lower number of high intensity services provided during the year ended December 31, 2000 compared to the same period last year.

Other operating expenses decreased as a percentage of revenues to 21.3% for the year ended December 31, 2000 from 22.7% for the year ended December 31, 1999. Other operating expenses consist primarily of contract services, physician recruitment, professional fees, repairs and maintenance, rents and leases, utilities, insurance, marketing and non-income taxes. The decrease was primarily the result of an increase in volumes and revenues per equivalent admission as discussed above and a decrease in contract services as a percentage of revenues.

Provision for doubtful accounts increased slightly as a percentage of revenues to 7.5% for the year ended December 31, 2000 from 7.4% for the year ended December 31, 1999.

Depreciation and amortization expense increased to $34.1 million for the year ended December 31, 2000 from $31.4 million for the year ended December 31, 1999 primarily due to the opening of a replacement facility in Bartow, Florida in December 1999 and the acquisition of two hospitals in fiscal 2000. This increase was partially offset by a decrease in depreciation and amortization expense related to the sale of hospitals during 2000.

Interest expense increased to $30.7 million for the year ended December 31, 2000 from $23.4 million for the year ended December 31, 1999. This increase is primarily due to the interest expense we incurred on the debt obligations we assumed from HCA as a result of the distribution. The increase is also due to our increased borrowings to finance acquisitions and an increase in interest rates. For the year ended December 31, 1999, interest expense consisted of interest incurred on the net intercompany balance with HCA and approximately seven and a half months of interest expense on the debt obligations we assumed from HCA.

Management fees incurred during 1999 represent fees allocated to us by HCA before the distribution. This amount represented allocations, using revenues as the allocation basis, of the corporate, general and administrative expenses of HCA.

ESOP expense increased to $7.1 million for the year ended December 31, 2000 from $2.9 million for the year ended December 31, 1999. We established the ESOP in June 1999; therefore, only seven months of expense for the ESOP is reflected in the year ended December 31, 1999. The increase in ESOP expense is also due to a higher average fair market value of our common stock for the year ended December 31, 2000 compared to the same period last year. We recognize ESOP expense based on the average fair market value of the shares committed to be released during the period.

During the year ended December 31, 2000, we recorded a $1.4 million pre-tax gain related to the favorable settlement on the sale of a facility that we previously held for sale. During the year ended December 31, 1999, we recorded a $25.4 million impairment charge related to the three facilities we identified as held for sale during 1998. We sold the three hospital facilities held for sale during the year ended December 31, 2000. We recorded the impairment charge and the gain in the accompanying consolidated statements of operations as impairment of long-lived assets. For the year ended December 31, 2000 and 1999, these facilities had net revenues of $14.4 million and $42.6 million, EBITDA of $(1.0) million and $(0.7) million, admissions of 1,140 and 4,689 and equivalent admissions of 2,781 and 8,722, respectively.

Minority interests in earnings of consolidated entities increased slightly to $2.2 million for the year ended December 31, 2000 from $1.9 million for the year ended December 31, 1999.

Income (loss) from continuing operations before income taxes increased to $33.1 million for the year ended December 31, 2000 compared to $(10.1) million for the year ended December 31, 1999 primarily because of the $25.4 million impairment charge we incurred during 1999, increases in revenues and decreases in expenses as described above.

The provision (benefit) for income taxes for the year ended December 31, 2000 was $15.2 million compared to $(2.7) million for the year ended December 31, 1999. These provisions reflect effective income tax rates of 46.1% for 2000 and 26.7% for 1999. The increase in the effective rate relates primarily to the impairment charge taken in the fourth quarter of 1999 as discussed above and also due to the increase in the nondeductible portion of ESOP expense.

Net income (loss) increased to $17.9 million for the year ended December 31, 2000 compared to $(7.4) million for the year ended December 31, 1999 due to the reasons described above.

For the Years Ended December 31, 1999 and 1998

Revenues increased 3.4% to $515.2 million for the year ended December 31, 1999 compared to $498.4 million for the year ended December 31, 1998 primarily because of increases in the volume of patients treated at our facilities. Inpatient admissions increased 3.2% and equivalent admissions, adjusted to reflect combined inpatient and outpatient volume, increased 4.2% for the year ended December 31, 1999 compared to the year ended December 31, 1998. Revenues per equivalent admission decreased 0.8% for the year ended December 31, 1999 compared to the prior year. The decline in revenues per equivalent admission resulted from several factors, including:

- decreases in Medicare reimbursement rates mandated by the Balanced Budget Act which became effective October 1, 1997. These rates lowered revenues by approximately $10.1 million for the year ended December 31, 1999 compared to periods before the effective date of the Balanced Budget Act;
- continued increases in the number of managed care payers which as a percentage of total admissions increased to 20.2% for the year ended December 31, 1999 compared to 18.6% for the year ended December 31, 1998; and
- favorable adjustments to third party settlements of $0.7 million recorded during the year ended December 31, 1999 compared to $1.2 million recorded during the year ended December 31, 1998.

Salaries and benefits decreased as a percentage of revenues to 42.2% for the year ended December 31, 1999 from 44.3% for the year ended December 31, 1998 primarily as a result of improvements in labor productivity. Man-hours per equivalent admission decreased 9.2% over the prior year.

Supply costs increased slightly to 12.5% as a percentage of revenues for the year ended December 31, 1999 from 12.4% for the year ended December 31, 1998.

Other operating expenses decreased as a percentage of revenues to 22.7% for the year ended December 31, 1999 from 23.5% for the year ended December 31, 1998 primarily because of a decrease in professional fees and contract services.

Provision for doubtful accounts decreased as a percentage of revenues to 7.4% for the year ended December 31, 1999 from 8.4% for the year ended December 31, 1998. In fiscal year 1998, a majority of our facilities converted their computer information systems which hampered their business office billing functions. Some facilities did not timely bill accounts and our allowance for bad debt increased in 1998.

During 1999, we began to recover from the conversions and focus more on collections of accounts receivable.

Depreciation and amortization expense increased to $31.4 million for the year ended December 31, 1999 from $28.3 million for the year ended December 31, 1998 primarily as a result of capital expenditures related to computer information systems. The majority of our facilities began depreciating the systems in the fourth quarter of 1998.

Interest expense increased to $23.4 million for the year ended December 31, 1999 from $19.1 million for the year ended December 31, 1998 primarily as a result of the interest expense we incurred on the debt obligations that we assumed from HCA in connection with the distribution. For the year ended December 31, 1998, our interest expense primarily included interest that we incurred on the net intercompany balance with HCA. On the date HCA distributed our common stock to its stockholders, we eliminated the intercompany amounts payable by us to HCA.

Management fees allocated by HCA equaled $3.2 million for the year ended December 31, 1999 and $8.9 million for the year ended December 31, 1998. These amounts represented allocations, using revenues as the allocation basis, of the corporate, general and administrative expenses of HCA; HCA stopped allocating management fees to us after the distribution. Increases in salaries, supplies and other operating costs related to the establishment and operation of our corporate office during 1999 offset the elimination of management fee allocations by HCA.

ESOP expense of $2.9 million during 1999 relates to the newly established ESOP.

During the fourth quarter of 1998, we decided to sell three hospital facilities that we identified as not compatible with our operating plans based on management's review of all facilities, consideration of current and expected market conditions and consideration of current and expected capital needs in each market. At December 31, 1998, the carrying value before the impairment charge of the long-lived assets related to these hospital facilities equaled approximately $47.2 million. We reduced the carrying value to fair value, based on estimates of selling values at that time, for a total non-cash charge of $24.8 million. During the fourth quarter of 1999, based on revised selling values, we recorded an additional non-cash charge of $25.4 million (comprised of $22.4 million in further impairment charges for these facilities and $3.0 million in anticipated selling/closing costs). For the year ended December 31, 1999 and 1998, these facilities had net revenues of $42.6 million and $48.0 million, EBITDA of $(0.7) million and $0.3 million, admissions of 4,689 and 5,454 and equivalent admissions of 8,722 and 9,295, respectively.

We recorded, during the third quarter of 1998, an impairment loss of approximately $1.3 million related to the write-off of intangibles and other long-lived assets of physician practices where we determined that the recorded asset values were not fully recoverable based on the operating results trends and projected future cash flows. We have now recorded these assets being held and used at estimated fair value based on discounted, estimated future cash flows.

These impairment charges did not have a significant impact on our cash flows and we do not expect the charges to significantly impact cash flows for future periods. Depreciation and amortization expense related to these assets will decrease in future periods as a result of the write-downs. In the aggregate, we do not expect the net effect of the change in depreciation and amortization expense to have a material effect on operating results for future periods.

Minority interests in earnings of consolidated entities remained unchanged as a percentage of revenues at 0.4% compared to the prior year.

Loss from continuing operations before income taxes was $10.1 million for the year ended December 31, 1999 compared to a loss of $27.5 million for the year ended December 31, 1998 primarily because of increases in revenue and decreases in certain expenses as described above.

Net loss equaled $7.4 million for the year ended December 31, 1999 compared to a loss of $21.8 million for the year ended December 31, 1998. The year ended December 31, 1998 included a $4.1 million after-tax loss from our discontinued home health operations, resulting primarily from declines in Medicare rates of reimbursement under the Balanced Budget Act and declines in home health visits. We divested our home health operations during 1998.

Liquidity and Capital Resources

We rely upon our bank credit facilities and other traditional funding sources to supplement any cash needs not met by operations. At December 31, 2000, we had working capital of $65.4 million compared to $42.2 million at December 31, 1999 primarily due to a $27.2 million increase in cash resulting from net cash collections during 2000 and to a decrease in accounts payable. The increase in working capital was offset by increases in current maturities on long-term debt.

Cash provided by operating activities increased to $83.4 million in 2000 compared to $59.3 million in 1999 and $47.5 million in 1998. The increase in 2000 resulted primarily from receipt of an income tax refund of $4.4 million in 2000 compared to income tax payments of $15.4 million during 1999. The increase in 1999 over 1998 was primarily attributable to less of a net loss in 1999 than in 1998.

Cash used in investing activities increased to $91.8 million during 2000 compared to $68.8 million in 1999 and $31.5 million in 1998. The increase in 2000 resulted primarily from our two hospital acquisitions during fiscal 2000. The increase was partially offset by proceeds of $24.3 million from the sale of facilities and by decreased capital expenditures of $31.4 million during 2000 compared to $64.8 million in 1999 (which included the construction of a replacement facility). Capital expenditures totaled $29.3 million in 1998. At December 31, 2000, we had projects under construction which had an estimated additional cost to complete and equip of approximately $12.0 million. We anticipate that these projects will be completed over the next twelve months. We believe our capital expenditure program is adequate to expand, improve and equip our existing healthcare facilities. We expect to make total capital expenditures in 2001 of approximately $35 to $40 million, excluding acquisitions.

Cash provided by financing activities increased to $35.6 million in 2000 compared to $22.0 million in 1999. This increase resulted primarily from an increase in long-term debt to pay for acquisitions. Cash used in financing activities was $16.0 million in 1998 primarily due to a decrease in intercompany balances with HCA.

In June 2000, we borrowed the remaining $35 million from our $60 million term loan facility and $30 million under our $65 million revolving credit facility. We utilized this additional debt to fund acquisitions. Effective August 1, 2000, we sold Riverview Medical Center in Gonzales, Louisiana for approximately $20.7 million. We used the proceeds from this transaction and our available cash to pay off the $30 million outstanding balance under our revolving credit facility. As of December 31, 2000 and as of February 28, 2001, we did not have any amounts outstanding under our revolving credit facility.

Management does not consider the sale of any assets to be necessary to repay our indebtedness or to provide working capital. However, for other reasons, we may sell facilities in the future from time to time. Management expects that operations and amounts available under our bank credit agreement will provide sufficient liquidity for the next twelve months.

We intend to acquire additional hospitals and are actively seeking such acquisitions. These acquisitions may, however, require additional financing. We also continually review our capital needs and financing opportunities and may seek additional financing for our acquisition program or other needs.

We do not expect to pay dividends on our common stock in the foreseeable future.

Long-Term Debt

Bank Credit Agreement

On May 11, 1999, we assumed from HCA the obligations under a bank credit agreement with a group of lenders with commitments aggregating $210 million. The credit agreement consists of a $60 million term loan facility, an $85 million term loan facility and a $65 million revolving credit facility.

At the time of the distribution, $25 million of the $60 million term loan facility was drawn. In June 2000, we borrowed the remaining $35 million of the $60 million term loan facility. The final payment under this term loan facility is due November 11, 2004.

The $85 million term loan facility was drawn in full at the time of the distribution from HCA. The final payment under this term loan facility is due November 11, 2005.

The $65 million revolving credit facility is available for working capital and other general corporate purposes and any outstanding amounts under the revolving credit facility will be due and payable on November 11, 2004. As of December 31, 2000 and as of February 28, 2001, we did not owe any amounts under this facility.

We make payments under the term loan facilities in quarterly installments with quarterly amortization based on annual amounts. Interest on the bank facilities is currently based on LIBOR plus 2.75% for the revolving credit facility and the $60 million term loan facility, and LIBOR plus 3.25% for the $85 million term loan facility. The weighted average interest rate on the bank facilities equaled approximately 9.7% at December 31, 2000. We also pay a commitment fee equal to 0.5% of the average daily amount available under the revolving credit facility.

Our subsidiaries guarantee our obligations under the bank facilities. These guarantees are secured by a pledge of substantially all of the subsidiaries' assets. The credit agreement requires that we comply with various financial ratios and tests and contains covenants, including but not limited to restrictions on new indebtedness, the ability to merge or consolidate, asset sales, capital expenditures and dividends.

Senior Subordinated Notes

On May 11, 1999, we assumed from HCA $150 million in senior subordinated notes maturing on May 15, 2009 and bearing interest at 10.75%. In November 1999, in a registered exchange offer, we issued a like aggregate principal amount of notes in exchange for these notes. Interest is payable semi-annually. The notes are unsecured obligations and are subordinated in right of payment to all existing and future senior indebtedness. Our subsidiaries also guarantee our obligations under the notes.

The indenture pursuant to which the notes were made contains certain covenants, including but not limited to restrictions on new indebtedness, the ability to merge or consolidate, asset sales, capital expenditures and dividends.

Market Risks Associated with Financial Instruments

Our interest expense is sensitive to changes in the general level of interest rates. We do not currently use derivatives to alter the interest rate characteristics of our debt instruments.

With respect to our interest-bearing liabilities, approximately $139.3 million of our long-term debt at December 31, 2000 is subject to variable rates of interest. The remaining balance in long-term debt of $150.1 million at December 31, 2000 is subject to fixed interest rates. The fair value of our total long-term debt (including current portion) equaled $301.4 million at December 31, 2000. We determined the fair value of our senior subordinated notes using the quoted market price at December 31, 2000. We estimate the fair value of the remaining long-term debt using discounted cash flows, based on our incremental

borrowing rates. Based on a hypothetical 1% increase in interest rates on our variable rate debt, the potential annualized losses in future pretax earnings would be approximately $1.4 million. The impact of this change in interest rates on the carrying value of long-term debt would not be significant. We determine the estimated changes to interest expense and the fair value of long-term debt by considering the impact of hypothetical interest rates on our borrowing cost and long-term debt balances. These analyses do not take into account the effects, if any, of the potential changes in our credit ratings or the overall level of economic activity. Further, in the event of a change in interest rates of significant magnitude, management would expect to take actions intended to further mitigate its exposure to such change. For further information, see the discussion above of our long-term debt.

Recently Issued Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," which was required to be adopted in years beginning after June 15, 1999. In June 1999, SFAS No. 137 was issued, deferring the effective date of SFAS No. 133 for one year. Management does not anticipate that the adoption of the new statement will have a material effect on our financial condition or results of operations.

Year 2000 Compliance

We did not experience any material disruptions or other effects caused by the Year 2000 problem, nor do we expect to experience any material disruptions or other effects caused by the Year 2000 problem in the future.

Inflation

The healthcare industry is labor intensive. Wages and other expenses increase during periods of inflation and when shortages in marketplaces occur. In addition, suppliers pass along rising costs to us in the form of higher prices. Our ability to pass on these increased costs is limited because of increasing regulatory and competitive pressures, as discussed above. In the event we experience inflationary pressures, results of operations may be materially effected.

Healthcare Reform

In recent years, an increasing number of legislative proposals have been introduced or proposed to Congress and in some state legislatures. While we are unable to predict which, if any, proposals for healthcare reform will be adopted, there can be no assurance that proposals adverse to our business will not be adopted.

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders
LifePoint Hospitals, Inc.

We have audited the accompanying consolidated balance sheets of LifePoint Hospitals, Inc. as of December 31, 1999 and 2000, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2000. These consolidated financial statements are the responsibility of the management of LifePoint Hospitals, Inc. (the "Company"). Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

Ernst & Young LLP

Nashville, Tennessee
January 29, 2001, except for
Note 3, as to which the date
is March 16, 2001

LIFEPOINT HOSPITALS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended December 31, 1998, 1999 and 2000
(Dollars in millions, except per share amounts)

	1998	1999	2000
Revenues	$498.4	$515.2	$557.1
Salaries and benefits	220.8	217.4	224.2
Supplies	62.0	64.2	67.0
Other operating expenses	117.2	117.3	118.1
Provision for doubtful accounts	41.6	38.2	42.0
Depreciation and amortization	28.3	31.4	34.1
Interest expense	19.1	23.4	30.7
Management fees	8.9	3.2	—
ESOP expense	—	2.9	7.1
Impairment of long-lived assets	26.1	25.4	(1.4)
	524.0	523.4	521.8
Income (loss) from continuing operations before minority interests and income taxes	(25.6)	(8.2)	35.3
Minority interests in earnings of consolidated entities	1.9	1.9	2.2
Income (loss) from continuing operations before income taxes	(27.5)	(10.1)	33.1
Provision (benefit) for income taxes	(9.8)	(2.7)	15.2
Income (loss) from continuing operations	(17.7)	(7.4)	17.9
Discontinued operations:			
Loss from operations, net of income tax benefit of $2.6	(4.1)	—	—
Net income (loss)	$(21.8)	$ (7.4)	$ 17.9
Basic earnings (loss) per share (see Note 14):			
Income (loss) from continuing operations	$(0.59)	$(0.24)	$ 0.57
Loss from discontinued operations	(0.14)	—	—
Net income (loss)	$(0.73)	$(0.24)	$ 0.57
Diluted earnings (loss) per share (see Note 14):			
Income (loss) from continuing operations	$(0.59)	$(0.24)	$ 0.54
Loss from discontinued operations	(0.14)	—	—
Net income (loss)	$(0.73)	$(0.24)	$ 0.54

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

LIFEPOINT HOSPITALS, INC.

CONSOLIDATED BALANCE SHEETS
December 31, 1999 and 2000
(Dollars in millions, except per share amounts)

	1999	2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 12.5	$ 39.7
Accounts receivable, less allowances for doubtful accounts of $50.3 and $52.3 at December 31, 1999 and 2000, respectively	46.7	41.7
Inventories	14.3	13.9
Deferred taxes and other current assets	25.9	22.2
	99.4	117.5
Property and equipment:		
Land	7.9	8.7
Buildings and improvements	204.1	236.9
Equipment	260.6	244.9
Construction in progress (estimated cost to complete and equip after December 31, 2000 — $12.0)	20.2	9.4
	492.8	499.9
Accumulated depreciation	(198.4)	(183.4)
	294.4	316.5
Intangible assets, net	26.4	53.8
Other	0.2	0.2
	$ 420.4	$ 488.0
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 26.5	$ 16.1
Accrued salaries	14.7	13.8
Other current liabilities	12.9	11.1
Current maturities of long-term debt	3.1	11.1
	57.2	52.1
Long-term debt	257.1	278.3
Deferred taxes	12.5	15.2
Professional liability risks and other liabilities	3.4	9.4
Minority interests in equity of consolidated entities	4.5	4.6
Stockholders' equity:		
Preferred stock, $.01 par value; 10,000,000 shares authorized; no shares issued	—	—
Common stock, $.01 par value; 90,000,000 shares authorized; 33,701,208 shares and 34,709,504 shares issued and outstanding at December 31, 1999 and 2000, respectively	0.3	0.3
Capital in excess of par value	137.9	156.5
Unearned ESOP compensation	(28.9)	(25.7)
Notes receivable for shares sold to employees	(10.2)	(7.2)
Retained earnings (accumulated deficit)	(13.4)	4.5
	85.7	128.4
	$ 420.4	$ 488.0

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

LIFEPOINT HOSPITALS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 1998, 1999 and 2000
(Dollars in millions)

	1998	1999	2000
Cash flows from operating activities:			
Net income (loss)	$(21.8)	$ (7.4)	$ 17.9
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
ESOP expense	—	2.9	7.1
Provision for doubtful accounts	41.6	38.2	42.0
Depreciation and amortization	28.3	31.4	34.1
Minority interests in earnings of consolidated entities	1.9	1.9	2.2
Deferred income taxes (benefit)	(12.4)	(13.8)	13.6
Loss (gain) on impairment of long-lived assets	26.1	25.4	(1.4)
Loss from discontinued operations	4.1	—	—
Reserve for professional liability risk	—	3.4	5.4
Increase (decrease) in cash from operating assets and liabilities, net of effects from acquisitions and divestitures:			
Accounts receivable	(21.3)	(29.8)	(32.8)
Inventories and other assets	0.2	(1.1)	(1.7)
Accounts payable and accrued expenses	0.9	7.1	(11.4)
Income taxes payable	—	(0.3)	6.2
Other	(0.1)	1.4	2.2
Net cash provided by operating activities	47.5	59.3	83.4
Cash flows from investing activities:			
Purchases of property and equipment, net	(29.3)	(64.8)	(31.4)
Purchases of facilities	—	—	(82.4)
Proceeds from sale of facilities	—	—	24.3
Other	(2.2)	(4.0)	(2.3)
Net cash used in investing activities	(31.5)	(68.8)	(91.8)
Cash flows from financing activities:			
Borrowings under bank debt	—	—	35.0
Repayments of bank debt	—	—	(5.7)
Proceeds from exercise of stock options	—	—	7.2
(Decrease) increase in intercompany balances with HCA, net	(14.9)	22.4	—
Other	(1.1)	(0.4)	(0.9)
Net cash (used in) provided by financing activities	(16.0)	22.0	35.6
Change in cash and cash equivalents	—	12.5	27.2
Cash and cash equivalents at beginning of year	—	—	12.5
Cash and cash equivalents at end of year	$ —	$ 12.5	$ 39.7
Supplemental disclosure of cash flow information:			
Interest payments	$ 19.1	$ 21.2	$ 29.4
Income taxes paid (received), net	$ —	$ 15.4	$ (4.4)
Supplemental non-cash financing activities:			
Assumption of debt from HCA	$ —	$260.0	$ —
Elimination of intercompany amounts payable to HCA	$ —	$224.9	$ —

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

LIFEPOINT HOSPITALS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Years Ended December 31, 1998, 1999, and 2000
(Dollars and shares in millions)

	Common Stock		Capital In Excess Of Par Value	Retained Earnings (Accumulated Deficit)	Equity, Investments By HCA	Notes Receivable For Shares Sold To Employees	Unearned ESOP Compensation	Total
	Shares	Amount						
Balance at December 31, 1997		$	$	$	$ 140.5	$	$	$ 140.5
Net loss					(21.8)			(21.8)
Balance at December 31, 1998					118.7			118.7
Net income before spin-off					6.0			6.0
Stock issued in connection with:								
Executive Stock Purchase Plan	1.0		10.2			(10.2)		—
Employee Stock Ownership Plan	2.8		32.1				(32.1)	—
Issuance of stock options			1.6					1.6
ESOP compensation earned			(0.3)				3.2	2.9
Assumption of debt from HCA			(260.0)					(260.0)
Elimination of intercompany debt to HCA			229.9					229.9
Spin-off capitalization	29.9	0.3	124.4		(124.7)			—
Net loss after spin-off				(13.4)				(13.4)
Balance at December 31, 1999	33.7	0.3	137.9	(13.4)	—	(10.2)	(28.9)	85.7
Net income				17.9				17.9
ESOP compensation earned			3.9				3.2	7.1
Exercise of stock options, including tax benefits and other	1.0		17.1					17.1
Stock issued in connection with Management Stock Purchase Plan			0.7					0.7
Payment on Executive Stock Purchase Plan			(3.1)			3.0		(0.1)
Balance at December 31, 2000	34.7	$0.3	$ 156.5	$ 4.5	$ —	$ (7.2)	$(25.7)	$ 128.4

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

LIFEPOINT HOSPITALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2000

Note 1 — Organization and Accounting Policies

Organization

On May 11, 1999, HCA — The Healthcare Company ("HCA") completed the spin-off of its operations comprising the America Group to its stockholders by distributing all outstanding shares of LifePoint Hospitals, Inc. (the "Distribution"). LifePoint Hospitals, Inc., together with its subsidiaries, as appropriate, is hereinafter referred to as the "Company." A description of the Distribution and certain transactions with HCA is included in Note 2.

At December 31, 2000, the Company was comprised of 20 general, acute care hospitals and related health care entities. The entities are located in non-urban areas in the states of Alabama, Florida, Kansas, Kentucky, Tennessee, Utah and Wyoming.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all subsidiaries and entities controlled by the Company through the Company's direct or indirect ownership of a majority voting interest or exclusive rights granted to the Company by contract as the sole general partner to manage and control the ordinary course of the affiliates' business. All significant intercompany accounts and transactions within the Company have been eliminated in consolidation. Investments in entities which the Company does not control, but in which it has a substantial ownership interest and can exercise significant influence, are accounted for using the equity method.

Use of Estimates

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

Reclassifications

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

Equity

Equity for periods prior to the Distribution represents the net investment in the Company by HCA. It includes Common Stock, additional paid-in-capital and net earnings.

Revenues

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

Revenues are recorded at estimated amounts due from patients and third-party payers for the health care services provided. Settlements under reimbursement agreements with third-party payers are estimated and recorded in the period the related services are rendered and are adjusted in future periods as final settlements are determined. The net adjustments to estimated settlements resulted in increases to revenues of $1.2 million, $0.7 million and $3.2 million for the years ended December 31, 1998, 1999 and 2000, respectively. Management believes that adequate provisions have been made for adjustments that may

result from final determination of amounts earned under these programs. HCA retains sole responsibility for, and will be entitled to, any Medicare, Medicaid or cost-based Blue Cross settlements relating to cost reporting periods ending on or prior to the Distribution. The net settlement payable estimated as of December 31, 1999 and 2000 and included in accounts receivable in the accompanying balance sheets approximated $5.1 million and $13.5 million, respectively.

Laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Company believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that would have a material effect on the Company's financial statements. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid programs.

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

The Company's revenue is particularly sensitive to regulatory and economic changes in the states of Kentucky and Tennessee. As of December 31, 2000, the Company operated 20 hospitals with six located in the Commonwealth of Kentucky and six located in the State of Tennessee. Based on those 20 hospitals, the Company generated 38.8% of its revenue from its Kentucky hospitals and 20.7% from its Tennessee hospitals for the year ended December 31, 2000.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and marketable securities with original maturities of three months or less.

Accounts Receivable

The Company receives payment for services rendered from federal and state agencies (under the Medicare, Medicaid and TRICARE programs), managed care health plans, commercial insurance companies, employers and patients. During the years ended December 31, 1998, 1999 and 2000, approximately 48.9%, 47.4% and 47.0%, respectively, of the Company's revenues related to patients participating in the Medicare and Medicaid programs. Management recognizes that revenues and receivables from government agencies are significant to its operations, but it does not believe that there are significant credit risks associated with these government agencies. Management does not believe that there are any other significant concentrations of revenues from any particular payer that would subject it to any significant credit risks in the collection of its accounts receivable.

Inventories

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

Long-Lived Assets

(a) Property and Equipment

Property and equipment are stated at cost. Routine maintenance and repairs are charged to expense as incurred. Expenditures that increase capacities or extend useful lives are capitalized.

Depreciation expense, computed using the straight-line method, was $27.1 million, $30.6 million and $32.8 million for the years ended December 31, 1998, 1999 and 2000, respectively. Buildings and improvements are depreciated over estimated useful lives ranging generally from 10 to 40 years. Estimated useful lives of equipment vary generally from 3 to 10 years.

(b) Intangible Assets

Intangible assets consist primarily of costs in excess of the fair value of identifiable net assets of acquired entities and are amortized using the straight-line method, generally over periods ranging from 30 to 40 years for hospital acquisitions.

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

Deferred loan costs are included in intangible assets on the balance sheet and are amortized over the term of the related debt. In connection with the Distribution, the Company recorded $10.7 million and $0.8 million of deferred loan costs during the years ended December 31, 1999 and 2000, respectively.

The following is a summary of intangible assets at December 31, (in millions):

	1999	2000
Cost in excess of net assets acquired	$24.3	$53.6
Deferred loan costs	10.7	11.5
	35.0	65.1
Less accumulated amortization	(8.6)	(11.3)
Total intangible assets	$26.4	$53.8

Income Taxes

For the periods prior to the Distribution, HCA filed consolidated federal and state income tax returns which included all of its eligible subsidiaries, including the Company. The provisions for income taxes (benefits) in the consolidated statements of operations for periods prior to the Distribution were computed on a separate return basis (i.e., assuming the Company had not been included in a consolidated income tax return with HCA). All income tax payments for these periods were made by the Company through HCA.

Professional and General Liability Risks

The Company is primarily self-insured for its professional and general liability risks. The reserve for professional and general liability risks was $3.4 million and $8.9 million at December 31, 1999 and 2000, respectively. The reserves for self-insured professional and general liability losses and loss adjustment expenses are based on actuarially projected estimates discounted to their present value using a rate of 6.0%.

The cost of self-insurance for the years ended December 31, 1998, 1999 and 2000 was approximately $6.8 million, $7.1 million and $7.6 million, respectively.

Management Fees

For the year ended December 31, 1998 and for the period prior to the Distribution in 1999, HCA incurred various corporate general and administrative expenses. These corporate overhead expenses were allocated to the Company based on net revenues. In the opinion of management, this allocation method was reasonable.

Stock Based Compensation

The Company accounts for stock option grants in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees." The Company recognizes no compensation expense for grants when the exercise price equals or exceeds the market price of the underlying stock on the date of grant.

Earnings Per Share

Earnings per share ("EPS") is based on the weighted average number of common shares outstanding and dilutive stock options, adjusted for the shares issued to the ESOP. As the ESOP shares are committed to be released, the shares become outstanding for earnings per share calculations.

Recently Issued Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," which was required to be adopted in years beginning after June 15, 1999. In June 1999, SFAS No. 137 was issued, deferring the effective date of SFAS No. 133 for one year. Management does not anticipate that the adoption of the new statement will have a material effect on the financial condition or the results of operations of the Company.

Note 2 — The Distribution and Transactions With HCA

As a result of the Distribution, the Company became an independent, publicly-traded company. Owners of HCA Common Stock received one share of the Company's Common Stock for every 19 shares of HCA Common Stock held which resulted in approximately 29.9 million shares of the Company's Common Stock outstanding immediately after the Distribution. After the Distribution, HCA had no ownership in the Company. Immediately after the Distribution, however, certain HCA benefit plans received shares of the Company on behalf of HCA employees.

In connection with the Distribution, all intercompany amounts payable by the Company to HCA were eliminated and the Company assumed certain indebtedness from HCA (see Note 8). In addition, the Company entered into various agreements with HCA which are intended to facilitate orderly changes for both companies in a way which would be minimally disruptive to each entity. These agreements provide certain indemnities to the parties (see Note 3), and provide for the allocation of tax and other assets, liabilities, and obligations arising from periods prior to the Distribution.

In connection with the Distribution, HCA received a ruling from the Internal Revenue Service (the "IRS") to the effect, among other things, that the Distribution would qualify as a tax-free transaction under Section 355 of the Internal Revenue Code of 1986, as amended. Such a ruling, while generally binding upon the IRS, is subject to certain factual representations and assumptions provided by HCA. The Company has agreed to certain restrictions on its future actions to provide further assurances that the Distribution will qualify as tax-free. Restrictions include, among other things, limitations on the liquidation, merger or consolidation with another company, certain issuances and redemptions of the Company's Common Stock and the sale or other disposition of assets. If the Company fails to abide by such restrictions and, as a result, the Distribution fails to qualify as a tax-free transaction, the Company will be

obligated to indemnify HCA for any resulting liability, which could have a material adverse effect on the Company's financial position and results of operations.

Note 3 — HCA Investigations, Litigation and Indemnification Rights

HCA has been the subject of various federal and state investigations, *qui tam* actions, shareholder derivative and class action suits, patient/payer actions and general liability claims. These investigations, actions and claims relate to HCA and its subsidiaries, including subsidiaries that, prior to the Company's formation as an independent company, owned the facilities the Company now owns.

On December 14, 2000, HCA announced that it signed an agreement with the Department of Justice and four U.S. attorneys' offices resolving all pending federal criminal issues in the government's investigation. HCA also announced at this time that it signed a civil settlement agreement with the Department of Justice resolving civil false claims issues related to DRG coding, outpatient laboratory and home health. The criminal agreement has been accepted by the federal district courts. The civil settlement agreement is conditioned on court approval of the settlement, which HCA expects to receive in the first quarter of 2001. These agreements relate only to conduct that was the subject of the federal investigations resolved in the agreements, and HCA has stated publicly that it continues to discuss civil claims relating to cost reporting and physician relations with the government.

Based on our review of documents filed by HCA with the Securities and Exchange Commission, the agreements with the government do not resolve all *qui tam* actions filed by private parties against HCA. Representatives of state attorneys general have agreed to recommend to state officials that HCA be released from criminal and civil liability related to the matters covered by the settlement agreements.

HCA has disclosed that, on March 15, 2001, the Department of Justice filed a status report setting forth the government's decisions regarding intervention in existing *qui tam* actions against HCA and filed formal complaints for those suits in which the government has intervened. HCA stated that, of the original 30 *qui tam* actions, the Department of Justice remains active in eight actions. The actions are not covered by the settlement agreements.

HCA agreed to indemnify the Company for any losses, other than consequential damages, arising from the pending governmental investigations of HCA's business practices prior to the date of the distribution and losses arising from legal proceedings, present or future, related to the investigation or actions engaged in prior to the distribution that relate to the investigation. However, the Company could be held responsible for any claims that are not covered by the agreements reached with the federal government or for which HCA is not required to, or fails to, indemnify the Company. The Company may also be affected by the initiation of additional investigations or claims against HCA in the future, if any, and the related media coverage.

Note 4 — Impact of Acquisitions and Divestitures

Acquisitions

Effective July 1, 2000, the Company acquired Lander Valley Medical Center in Lander, Wyoming for a purchase price of $33.0 million. Cost in excess of net assets acquired totaled $9.5 million and is being amortized over 40 years.

In June 2000, the Company acquired Putnam Community Medical Center in Palatka, Florida for approximately $49.4 million. Cost in excess of net assets acquired totaled $20.6 million and is being amortized over 40 years.

The foregoing acquisitions were accounted for using the purchase method of accounting. The purchase prices of these transactions were allocated to the assets acquired and liabilities assumed based upon their

respective fair values. The following table summarizes the allocation of the aggregate purchase price of the acquisitions for the year ended December 31, 2000 (in millions):

Net cash used for acquisitions	$ 82.4
Fair value of assets acquired	(55.0)
Liabilities assumed	2.7
Cost in excess of net assets acquired	$ 30.1

Divestitures

Effective November 17, 2000, the Company sold Springhill Medical Center in Springhill, Louisiana for approximately $5.7 million. The proceeds were deposited in a Starker Trust for future capital reinvestment and are reflected in "Deferred taxes and other current assets" on the accompanying consolidated balance sheets.

Effective September 1, 2000, the Company sold Barrow Medical Center in Winder, Georgia for approximately $2.2 million.

Effective August 1, 2000, the Company sold Riverview Medical Center in Gonzales, Louisiana for approximately $20.7 million. The proceeds from the transaction and the Company's available cash were used to pay down existing borrowings under the Company's revolving credit facility.

Effective April 1, 2000, the Company sold Halstead Hospital in Halstead, Kansas and effective February 1, 2000, the Company sold Trinity Hospital in Erin, Tennessee.

Halstead Hospital, Trinity Hospital, and Barrow Medical Center were the three hospitals previously held for sale by the Company. The Company recorded an impairment of long-lived assets related to the hospitals held for sale in 1998 and an additional impairment in 1999.

During 2000, the Company recorded a $1.4 million pre-tax gain related to the favorable settlement on the sale of a facility that was previously held for sale. The gain is included in the accompanying consolidated statements of operations as impairment of long-lived assets.

The operating results of the acquisitions and divestitures have been consolidated in the accompanying consolidated statements of operations for the periods subsequent to acquisition and for the periods prior to sale, respectively.

Pro forma Results of Operations

The following unaudited pro forma results of operations give effect to the operations of the hospitals acquired and sold during the year ended December 31, 2000 as if the respective transactions had occurred at the beginning of the periods presented (in millions, except per share data):

	Year Ended December 31,	
	1999	**2000**
Revenues	$513.2	$557.0
Net income	$ 15.3	$ 19.4
Earnings per share:		
Basic	$ 0.50	$ 0.61
Diluted	$ 0.50	$ 0.59

The pro forma results of operations do not purport to represent what the Company's results of operations would have been had such transactions in fact occurred at the beginning of the periods presented or to project the Company's results of operations in any future period.

Note 5 — Income Taxes

The provision (benefit) for income taxes for the years ended December 31, 1998, 1999 and 2000 consists of the following (dollars in millions):

	1998	1999	2000
Current:			
Federal	$ 2.6	$ 9.6	$ —
State	—	1.5	1.6
	2.6	11.1	1.6
Deferred:			
Federal	(10.5)	(13.3)	13.5
State	(1.9)	(1.6)	(0.1)
	(12.4)	(14.9)	13.4
Increase in Valuation Allowance	—	1.1	0.2
Total	$(9.8)	$ (2.7)	$ 15.2

The net change in the total valuation allowance for the years ended December 31, 1999 and 2000 was an increase of $1.1 million and $0.2 million, respectively. The increases are primarily as a result of state net operating loss carryforwards that management believes may not be fully utilized because of the uncertainty regarding the Company's ability to generate taxable income in certain states. Various subsidiaries have state net operating loss carryforwards of approximately $26.2 million with expiration dates through the year 2020.

The Company generated a federal net operating loss of approximately $8.4 million for the year ended December 31, 2000 which will expire in the year 2020.

A reconciliation of the statutory federal income tax rate to the Company's effective income tax rate on income (loss) from continuing operations before income taxes for the years ended December 31, 1998, 1999 and 2000 follows:

	1998	1999	2000
Federal statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal income tax benefit	3.9	10.6	2.6
ESOP	—	—	4.4
Non-deductible intangible assets	(2.6)	(3.0)	1.3
Valuation allowance	—	(10.8)	0.9
Other items, net	(0.7)	(5.1)	1.9
Effective income tax rate	35.6%	26.7%	46.1%

Deferred income taxes result from temporary differences in the recognition of assets, liabilities, revenues and expenses for financial accounting and tax purposes. Sources of these differences and the related tax effects are as follows (dollars in millions):

	1999	2000
Deferred tax liabilities:		
Depreciation and fixed asset basis differences	$(18.4)	$(21.7)
Other	(0.6)	(1.9)
Total deferred tax liabilities	(19.0)	(23.6)
Deferred tax assets:		
Provision for doubtful accounts	14.3	6.0
Employee compensation	5.9	3.0
Professional liability	1.3	3.8
Other	5.5	5.4
Total deferred tax assets	27.0	18.2
Valuation allowance	(1.1)	(1.3)
Net deferred tax assets	25.9	16.9
Net deferred tax assets (liabilities)	$ 6.9	$ (6.7)

The balance sheet classification of deferred income tax assets (liabilities) is as follows (dollars in millions):

	1999	2000
Current	$ 19.4	$ 8.5
Long-term	(12.5)	(15.2)
Total	$ 6.9	$ (6.7)

HCA and the Company entered into a tax sharing and indemnification agreement. Under the agreement, HCA maintains full control and absolute discretion with regard to any combined or consolidated tax filings for periods prior to the Distribution. In addition, the agreement provides that HCA will generally be responsible for all taxes that are allocable to periods prior to the Distribution and HCA and the Company will each be responsible for its own tax liabilities for periods after the Distribution.

The agreement does not have an impact on the realization of deferred tax assets or the payment of deferred tax liabilities of the Company except to the extent that the temporary differences give rise to such deferred tax assets and liabilities after the Distribution and are adjusted as a result of final tax settlements after the Distribution. In the event of such adjustments, the tax sharing and indemnification agreement provides for certain payments between HCA and the Company as appropriate.

Note 6 — Impairment of Long-Lived Assets

During the fourth quarter of 1998, the Company decided to sell three hospital facilities that were identified as not compatible with the Company's operating plans, based upon management's review of all facilities, and giving consideration to current and expected market conditions and the current and expected capital needs in each market. At December 31, 1998, the carrying value before the impairment charge of the long-lived assets related to these hospital facilities was approximately $47.2 million. The carrying value was reduced to fair value, based on estimates of selling values at that time, for a total non-cash charge of $24.8 million. During the fourth quarter of 1999, the Company recorded an additional non-cash charge of $25.4 million (comprised of $22.4 million in further impairment charges for these facilities and $3.0 million in anticipated selling/closing costs). The remaining carrying value of the long-lived assets

related to these hospital facilities of approximately $22.4 million was written down based on the revised selling values. The three hospital facilities held for sale were sold during the year ended December 31, 2000 (see Note 4). For the years ended December 31, 1998, 1999 and 2000, respectively, these divested facilities had net revenues of $48.0 million, $42.6 million and $14.4 million and a loss from continuing operations before income tax benefit and the asset impairment charges of approximately $2.9 million, $3.8 million and $2.3 million, respectively.

During the third quarter of 2000, the Company recorded a $1.4 million pre-tax gain related to the favorable settlement on the sale of a facility that was previously held for sale. The gain is recorded in the accompanying consolidated statement of operations as an impairment of long-lived assets.

The Company recorded, during the third quarter of 1998, an impairment loss of approximately $1.3 million related to the write-off of intangibles and other long-lived assets of certain physician practices where the recorded asset values were not deemed to be fully recoverable based upon the operating results trends and projected future cash flows. These assets being held and used are now recorded at estimated fair value based upon discounted, estimated future cash flows.

The impairment charges did not have a significant impact on the Company's cash flows and are not expected to significantly impact cash flows for future periods. As a result of the write-downs, depreciation and amortization expense related to these assets will decrease in future periods. In the aggregate, the net effect of the change in depreciation and amortization expense is not expected to have a material effect on operating results for future periods.

Note 7 — Discontinued Operations

During 1998, the Company completed the divestiture of its home health businesses for amounts approximating their carrying value. The Company implemented plans to sell the home health businesses during 1997. The estimated loss on sale and operating results of the home health businesses are reflected as discontinued operations in the consolidated statement of operations.

Revenues for the disposed home health businesses were approximately $18.9 million for the year ended December 31, 1998.

Note 8 — Long-Term Debt

Long-term debt consists of the following (in millions):

	December 31,	
	1999	2000
Bank Facilities	$110.0	$139.3
Senior Subordinated Notes	150.0	150.0
Other debt	0.2	0.1
	260.2	289.4
Less current maturities	(3.1)	(11.1)
	$257.1	$278.3

Maturities of long-term debt at December 31, 2000 are as follows (in millions):

2001	$ 11.1
2002	15.9
2003	15.9
2004	15.8
2005	80.7
Thereafter	150.0
	$289.4

Bank Credit Agreement

On May 11, 1999, the Company assumed from HCA the obligations under a bank credit agreement (the "Credit Agreement") with a group of lenders with commitments aggregating $210 million. The Credit Agreement consists of a $60 million term loan facility, an $85 million term loan facility, and a $65 million revolving credit facility (collectively the "Bank Facilities").

As of December 31, 2000, the $60 million term loan facility was drawn in full. The final payment under this term loan facility is due November 11, 2004.

The $85 million term loan facility was drawn in full at the time of the Distribution. The final payment under this term loan is due November 11, 2005.

The $65 million revolving credit facility is available for working capital and other general corporate purposes, and any outstanding amounts thereunder will be due and payable on November 11, 2004. No amounts were outstanding under this facility as of December 31, 2000.

Repayments under the term loan facilities are due in quarterly installments with quarterly amortization based on annual amounts. Interest on the Bank Facilities is currently based on LIBOR plus 2.75% for the revolving credit facility and the $60 million term loan facility, and LIBOR plus 3.25% for the $85 million term loan facility. The weighted average interest rate on the Bank Facilities was approximately 9.7% at December 31, 2000. The Company also pays a commitment fee equal to 0.5% of the average daily amount available under the revolving credit facility.

The Company's obligations under the Bank Facilities are guaranteed by its subsidiaries. These guarantees are secured by a pledge of substantially all of the subsidiaries' assets. The Credit Agreement requires that the Company comply with various financial ratios and tests and contains covenants, including but not limited to restrictions on new indebtedness, the ability to merge or consolidate, asset sales, capital expenditures and dividends.

Senior Subordinated Notes

On May 11, 1999, the Company assumed from HCA $150 million in Senior Subordinated Notes maturing on May 15, 2009 and bearing interest at 10.75%. In November 1999, in a registered exchange offer, the Company issued a like aggregate principal amount of notes in exchange for these notes (the "Notes"). Interest is payable semi-annually. The Notes are unsecured obligations and are subordinated in right of payment to all existing and future senior indebtedness.

The indenture pursuant to which the Notes were made contains certain covenants, including but not limited to restrictions on new indebtedness, the ability to merge or consolidate, asset sales, capital expenditures and dividends.

The Notes are guaranteed jointly and severally on a full and unconditional basis by all of the Company's operating subsidiaries ("Subsidiary Guarantors"). The Company is a holding company with no operations apart from its ownership of the Subsidiary Guarantors. The aggregate assets, liabilities, equity and earnings of the Subsidiary Guarantors are substantially equivalent to the total assets, liabilities, equity and earnings of the Company and its subsidiaries on a consolidated basis.

At December 31, 2000, all but one of the Subsidiary Guarantors were wholly owned and fully and unconditionally guaranteed the Notes. Separate financial statements and other disclosures of the wholly owned Subsidiary Guarantors are not presented because management believes that such separate financial statements and disclosures would not provide additional material information to investors.

As of May 11, 1999, two of the Subsidiary Guarantors were not wholly owned, and the guarantees of such non-wholly owned entities were limited. During the fourth quarter of 1999, the Company acquired ownership of the remaining interest in one such Subsidiary Guarantor, and the limitations on the guarantee of such Subsidiary Guarantor, as well as the limitations on the guarantee of the remaining non-wholly owned Subsidiary Guarantor, were eliminated. Therefore, at December 31, 2000, only one of the Company's consolidating subsidiaries, Dodge City Healthcare Group, L.P., was not wholly owned, although all assets, liabilities, equity and earnings of this entity fully and unconditionally, jointly and severally guarantee the Notes. The Company owns approximately 70% of the partnership interests in this mostly owned Subsidiary Guarantor.

Presented below is summarized condensed consolidating financial information for the Company and its subsidiaries as of and for the years ended December 31, 1999 and 2000 segregating the parent company, the issuer of the Notes (LifePoint Hospitals Holdings, Inc.), the combined wholly owned Subsidiary Guarantors, the mostly owned Subsidiary Guarantor and eliminations.

LifePoint Hospitals, Inc.
Condensed Consolidating Statement of Operations
For the Year Ended December 31, 1999
(in millions)

	Parent	Issuer of Notes	Wholly Owned Guarantor Subsidiaries	Mostly Owned Guarantor Subsidiary	Eliminations	Consolidated Total
Revenues	$ —	$ —	$482.5	$32.7	$ —	$515.2
Salaries and benefits	—	—	206.2	11.2	—	217.4
Supplies	—	—	60.0	4.2	—	64.2
Other operating expenses	0.2	—	112.3	4.8	—	117.3
Provision for doubtful accounts	—	—	35.4	2.8	—	38.2
Depreciation and amortization	—	—	29.7	1.7	—	31.4
Interest expense	—	17.7	5.1	0.6	—	23.4
Management fees	—	—	2.5	0.7	—	3.2
ESOP expense	—	—	2.9	—	—	2.9
Equity in earnings of affiliates	7.3	(7.0)	—	—	(0.3)	—
Impairment of long-lived assets	—	—	25.4	—	—	25.4
	7.5	10.7	479.5	26.0	(0.3)	523.4
Income (loss) before minority interests and income taxes	(7.5)	(10.7)	3.0	6.7	0.3	(8.2)
Minority interests in earnings of consolidated entities	—	1.9	—	—	—	1.9
Income (loss) before income taxes	(7.5)	(12.6)	3.0	6.7	0.3	(10.1)
Provision (benefit) for income taxes	(0.1)	(5.3)	2.7	—	—	(2.7)
Net income (loss)	$(7.4)	$ (7.3)	$ 0.3	$ 6.7	$ 0.3	$ (7.4)

LifePoint Hospitals, Inc.
Condensed Consolidating Statement of Operations
For the Year Ended December 31, 2000
(in millions)

	Parent	Issuer of Notes	Wholly Owned Guarantor Subsidiaries	Mostly Owned Guarantor Subsidiary	Eliminations	Consolidated Total
Revenues	$ —	$ —	$524.9	$32.2	$ —	$557.1
Salaries and benefits	—	—	213.9	10.3	—	224.2
Supplies	—	—	62.8	4.2	—	67.0
Other operating expenses	—	—	113.1	5.0	—	118.1
Provision for doubtful accounts	—	—	39.4	2.6	—	42.0
Depreciation and amortization	—	—	32.4	1.7	—	34.1
Interest expense	—	30.9	(0.5)	0.3	—	30.7
Management fees	—	—	(0.6)	0.6	—	—
ESOP expense	—	—	6.8	0.3	—	7.1
Impairment of long-lived assets	—	—	(1.4)	—	—	(1.4)
Equity in earnings of affiliates	(17.9)	(38.8)	—	—	56.7	—
	(17.9)	(7.9)	465.9	25.0	56.7	521.8
Income (loss) before minority interests and income taxes	17.9	7.9	59.0	7.2	(56.7)	35.3
Minority interests in earnings of consolidated entities	—	2.2	—	—	—	2.2
Income (loss) before income taxes	17.9	5.7	59.0	7.2	(56.7)	33.1
Provision (benefit) for income taxes	—	(12.2)	27.4	—	—	15.2
Net income (loss)	$ 17.9	$ 17.9	$ 31.6	$ 7.2	$(56.7)	$ 17.9

LifePoint Hospitals, Inc.
Condensed Consolidating Balance Sheet
December 31, 1999
(in millions)

	Parent	Issuer of Notes	Wholly Owned Guarantor Subsidiaries	Mostly Owned Guarantor Subsidiary	Eliminations	Consolidated Total
ASSETS						
Current assets:						
Cash and cash equivalents	$ —	$ —	$ 12.5	$ —	$ —	$ 12.5
Accounts receivable, net	—	—	41.4	5.3	—	46.7
Inventories	—	—	13.1	1.2	—	14.3
Deferred taxes and other current assets	—	—	25.8	0.1	—	25.9
	—	—	92.8	6.6	—	99.4
Property and equipment:						
Land	—	—	7.6	0.3	—	7.9
Buildings	—	—	194.2	9.9	—	204.1
Equipment	—	—	250.3	10.3	—	260.6
Construction in progress	—	—	20.2	—	—	20.2
	—	—	472.3	20.5	—	492.8
Accumulated depreciation	—	—	(187.2)	(11.2)	—	(198.4)
	—	—	285.1	9.3	—	294.4
Net investment in and advances to subsidiaries	85.7	333.2	—	—	(418.9)	—
Intangible assets, net	—	9.8	6.1	10.5	—	26.4
Other	—	—	0.2	—	—	0.2
	$85.7	$343.0	$ 384.2	$ 26.4	$(418.9)	$ 420.4
LIABILITIES AND EQUITY						
Current liabilities:						
Accounts payable	$ —	$ —	$ 25.9	$ 0.6	$ —	$ 26.5
Accrued salaries	—	—	14.7	—	—	14.7
Other current liabilities	—	2.5	10.1	0.3	—	12.9
Current maturities of long-term debt	—	2.9	0.2	—	—	3.1
	—	5.4	50.9	0.9	—	57.2
Intercompany balances to affiliates	—	(9.7)	(1.0)	10.7	—	—
Long-term debt	—	257.1	—	—	—	257.1
Deferred income taxes	—	—	12.5	—	—	12.5
Professional liability risks and other liabilities	—	—	3.4	—	—	3.4
Minority interests in equity of consolidated entities	—	4.5	—	—	—	4.5
Stockholders' equity	85.7	85.7	318.4	14.8	(418.9)	85.7
	$85.7	$343.0	$ 384.2	$ 26.4	$(418.9)	$ 420.4

LifePoint Hospitals, Inc.
Condensed Consolidating Balance Sheet
December 31, 2000
(in millions)

	Parent	Issuer of Notes	Wholly Owned Guarantor Subsidiaries	Mostly Owned Guarantor Subsidiary	Eliminations	Consolidated Total
ASSETS						
Current assets:						
Cash and cash equivalents	$ —	$ —	$ 39.7	$ —	$ —	$ 39.7
Accounts receivable, net	—	—	36.4	5.3	—	41.7
Inventories	—	—	12.9	1.0	—	13.9
Deferred taxes and other current assets	—	—	22.1	0.1	—	22.2
	—	—	111.1	6.4	—	117.5
Property and equipment:						
Land	—	—	8.4	0.3	—	8.7
Buildings and improvements	—	—	227.0	9.9	—	236.9
Equipment	—	—	234.4	10.5	—	244.9
Construction in progress	—	—	9.4	—	—	9.4
	—	—	479.2	20.7	—	499.9
Accumulated depreciation	—	—	(170.9)	(12.5)	—	(183.4)
	—	—	308.3	8.2	—	316.5
Net investment in and advances to subsidiaries	128.4	401.5	—	—	(529.9)	—
Intangible assets, net	—	9.1	34.5	10.2	—	53.8
Other	—	—	0.2	—	—	0.2
	$128.4	$410.6	$ 454.1	$ 24.8	$(529.9)	$ 488.0
LIABILITIES AND EQUITY						
Current liabilities:						
Accounts payable	$ —	$ —	$ 15.6	$ 0.5	$ —	$ 16.1
Accrued salaries	—	—	13.8	—	—	13.8
Other current liabilities	—	2.6	8.2	0.3	—	11.1
Current maturities of long-term debt	—	11.0	0.1	—	—	11.1
	—	13.6	37.7	0.8	—	52.1
Intercompany balances to affiliates	—	(14.3)	6.4	7.9	—	—
Long-term debt	—	278.3	—	—	—	278.3
Deferred income taxes	—	—	15.2	—	—	15.2
Professional liability risks and other liabilities	—	—	9.4	—	—	9.4
Minority interests in equity of consolidated entities	—	4.6	—	—	—	4.6
Stockholders' equity	128.4	128.4	385.4	16.1	(529.9)	128.4
	$128.4	$410.6	$ 454.1	$ 24.8	$(529.9)	$ 488.0

LifePoint Hospitals, Inc.
Condensed Consolidating Statement of Cash Flows
For the Year Ended December 31, 1999
(in millions)

	Parent	Issuer of Notes	Wholly Owned Guarantor Subsidiaries	Mostly Owned Guarantor Subsidiary	Eliminations	Consolidated Total
Cash flows from operating activities:						
Net income (loss)	$(7.4)	$(7.3)	$ 0.3	$ 6.7	$ 0.3	$ (7.4)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:						
ESOP expense	—	—	2.9	—	—	2.9
Equity in earnings of affiliates	7.3	(7.0)	—	—	(0.3)	—
Provision for doubtful accounts	—	—	35.4	2.8	—	38.2
Depreciation and amortization	—	—	29.7	1.7	—	31.4
Minority interests in earnings of consolidated entities	—	1.9	—	—	—	1.9
Deferred income taxes (benefit)	—	—	(13.8)	—	—	(13.8)
Impairment of long-lived assets	—	—	25.4	—	—	25.4
Reserve for professional liability risk	—	—	3.4	—	—	3.4
Increase (decrease) in cash from operating assets and liabilities:						
Accounts receivable	—	—	(27.5)	(2.3)	—	(29.8)
Inventories and other current assets	—	—	(0.8)	(0.3)	—	(1.1)
Accounts payable and accrued expenses	—	17.7	(10.3)	(0.3)	—	7.1
Income taxes payable	—	—	(0.3)	—	—	(0.3)
Other	0.1	1.8	(0.5)	—	—	1.4
Net cash provided by operating activities	—	7.1	43.9	8.3	—	59.3
Cash flows from investing activities:						
Purchases of property and equipment, net	—	—	(63.6)	(1.2)	—	(64.8)
Other	—	—	(4.0)	—	—	(4.0)
Net cash used in investing activities	—	—	(67.6)	(1.2)	—	(68.8)
Cash flows from financing activities:						
Distributions	—	—	6.0	(6.0)	—	—
Increase (decrease) in intercompany balances with affiliates, net	—	(7.1)	7.9	(0.8)	—	—
Increase (decrease) in intercompany balances with HCA, net	—	—	22.4	—	—	22.4
Other	—	—	(0.1)	(0.3)	—	(0.4)
Net cash (used in) provided by financing activities	—	(7.1)	36.2	(7.1)	—	22.0
Change in cash and cash equivalents	—	—	12.5	—	—	12.5
Cash and cash equivalents at beginning of period	—	—	—	—	—	—
Cash and cash equivalents at end of period	$ —	$ —	$ 12.5	$ —	$ —	$ 12.5

LifePoint Hospitals, Inc.
Condensed Consolidating Statement of Cash Flows
For the Year Ended December 31, 2000
(in millions)

	Parent	Issuer of Notes	Wholly Owned Guarantor Subsidiaries	Mostly Owned Guarantor Subsidiary	Eliminations	Consolidated Total
Cash flows from operating activities:						
Net income (loss)	$ 17.9	$ 17.9	$ 31.6	$7.2	$(56.7)	$ 17.9
Adjustments to reconcile net income (loss) to net cash provided by operating activities:						
ESOP expense	—	—	6.8	0.3	—	7.1
Equity in earnings of affiliates	(17.9)	(38.8)	—	—	56.7	—
Provision for doubtful accounts	—	—	39.4	2.6	—	42.0
Depreciation and amortization	—	—	32.4	1.7	—	34.1
Minority interests in earnings of consolidated entities	—	2.2	—	—	—	2.2
Deferred income taxes (benefit)	—	—	13.6	—	—	13.6
Gain on impairment of long-lived assets	—	—	(1.4)	—	—	(1.4)
Reserve for professional liability risk	—	—	5.4	—	—	5.4
Increase (decrease) in cash from operating assets and liabilities, net of effects from acquisitions and divestitures:						
Accounts receivable	—	—	(30.2)	(2.6)	—	(32.8)
Inventories and other current assets	—	—	(1.9)	0.2	—	(1.7)
Accounts payable and accrued expenses	—	0.1	(11.4)	(0.1)	—	(11.4)
Income taxes payable	—	—	6.2	—	—	6.2
Other	—	0.5	1.7	—	—	2.2
Net cash (used in) provided by operating activities	—	(18.1)	92.2	9.3	—	83.4
Cash flows from investing activities:						
Purchases of property and equipment, net	—	—	(31.1)	(0.3)	—	(31.4)
Purchases of facilities	—	—	(82.4)	—	—	(82.4)
Proceeds from sale of facilities	—	—	24.3	—	—	24.3
Other	—	(2.0)	(0.3)	—	—	(2.3)
Net cash used in investing activities	—	(2.0)	(89.5)	(0.3)	—	(91.8)
Cash flows from financing activities:						
Borrowings under bank debt	—	35.0	—	—	—	35.0
Repayments of bank debt	—	(5.7)	—	—	—	(5.7)
Distributions	—	—	6.6	(6.6)	—	—
Proceeds from exercise of stock options	—	—	7.2	—	—	7.2
Increase (decrease) in intercompany balances with affiliates, net	—	(8.3)	10.7	(2.4)	—	—
Other	—	(0.9)	—	—	—	(0.9)
Net cash provided by (used in) financing activities	—	20.1	24.5	(9.0)	—	35.6
Change in cash and cash equivalents	—	—	27.2	—	—	27.2
Cash and cash equivalents at beginning of period	—	—	12.5	—	—	12.5
Cash and cash equivalents at end of period	$ —	$ —	$ 39.7	$ —	$ —	$ 39.7

Note 9 — Stock Benefit Plans

In connection with the Distribution, the Company adopted the 1998 Long-Term Incentive Plan, for which 5,425,000 shares of the Company's Common Stock have been reserved for issuance. The 1998 Long-Term Incentive Plan authorizes the grant of stock options, stock appreciation rights and other stock based awards to officers and employees of the Company. On the Distribution Date, approximately 591,900 stock options were granted under this plan, relating to pre-existing vested HCA options. These options were granted at various prices, were exercisable on the date of grant, and expire at various dates not to exceed 10 years. Options to purchase an additional 2,740,000 and 260,700 shares were granted to the Company's employees during the years ended December 31, 1999 and 2000, respectively, under this plan with an exercise price of the fair market value on the date of grant. These options are exercisable beginning in part from the date of grant to five years after the date of grant. All options granted under this plan expire in 10 years from the date of grant. The Company also granted 340,000 options to HCA executives in 1999 with an exercise price of the fair market value on the date of grant. These options were exercisable on the date of grant and HCA paid the Company $1.5 million in exchange for the issuance of these options.

The Company also adopted the Executive Stock Purchase Plan in 1999, in which 1,000,000 shares of the Company's Common Stock were reserved and subsequently issued. The Executive Stock Purchase Plan grants a right to specified executives of the Company to purchase shares of Common Stock from the Company. The Company loaned each participant in the plan 100% of the purchase price of the Company's Common Stock at the fair value based on the date of purchase (approximately $10.2 million), on a full recourse basis at interest rates ranging from 5.2% to 5.3%. The loans are reflected as a reduction to stockholders' equity as "Notes receivable for shares sold to employees." As of December 31, 2000, approximately $3.0 million of such loans have been paid under the Executive Stock Purchase Plan. In addition, such executives have been granted options equal to three-quarters of a share for each share purchased. Options to purchase 750,000 shares had been issued pursuant to the 1998 Long-Term Incentive Plan and 219,512 such options have been exercised as of December 31, 2000. The exercise price of these stock options is equal to the fair value on the date of grant. The options expire in 10 years and are exercisable 50% on the date of grant and 50% five years after the Distribution.

In addition, the Company has a Management Stock Purchase Plan which provides to certain designated employees an opportunity to purchase restricted shares of its Common Stock at a discount through payroll deductions over six month intervals. Shares of Common Stock reserved for this plan were 250,000 at December 31, 2000. Approximately 79,000 restricted shares were issued to employees during the year ended December 31, 2000 under this plan.

The Company also adopted an Outside Directors Plan for which 175,000 shares of the Company's Common Stock have been reserved for issuance. Approximately 20,000 and 37,700 options were granted under such plan to non-employee directors during the years ended December 31, 1999 and 2000, respectively. These options are exercisable beginning in part from the date of grant to three years after the date of grant and expire 10 years after grant.

In addition, the Company granted an option to purchase 50,000 shares of the Company's Common Stock to The LifePoint Community Foundation in 1999. The exercise price of the stock option was equal to the fair value on the date of grant.

Presented below is a summary of stock option activity for 1999 and 2000:

	Stock Options	Option Price Per Share	Weighted Average Exercise Price
Balances, December 31, 1998	—	$ —	$ —
Conversion of HCA options	591,900	0.07-18.38	12.12
Granted	3,900,000	7.63-12.00	10.62
Exercised	(9,300)	0.18-12.33	9.01
Cancelled	(71,200)	0.18-18.38	12.63
Balances, December 31, 1999	4,411,400	0.07-18.38	10.79
Granted	298,400	17.25-39.69	22.06
Exercised	(1,268,800)	0.07-18.38	10.80
Cancelled	(101,300)	0.18-19.88	12.75
Balances, December 31, 2000	3,339,700	0.07-39.69	11.73

At December 31, 2000, there were approximately 982,200 options available for grant.

The following table summarizes information regarding the options outstanding at December 31, 2000:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 12/31/00	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at 12/31/00	Weighted Average Exercise Price
$ 0.07 to $ 5.81	20,500	1	$ 0.22	20,500	$ 0.22
3.56 to 8.76	55,200	2	5.66	55,200	5.66
5.56 to 10.95	18,700	3	8.21	18,700	8.21
11.87 to 13.13	68,500	4	11.87	68,500	11.87
12.22 to 14.98	59,200	5	12.33	59,200	12.33
14.16 to 17.73	101,800	6	16.25	101,800	16.25
17.11 to 18.38	30,900	7	18.34	30,900	18.34
12.90 to 15.64	20,700	8	13.11	20,700	13.11
7.63 to 12.00	2,694,100	9	10.61	1,008,500	10.64
17.25 to 39.69	270,100	10	22.54	5,600	29.56
	3,339,700			1,389,600	

If the Company had measured compensation cost for the stock options granted during 1999 and 2000 under the fair value based method prescribed by SFAS No. 123, the net income (loss) would have been changed to the pro forma amounts set forth below (dollars in millions, except per share amounts):

	1999	2000
Net income (loss):		
As reported	$ (7.4)	$17.9
Pro forma	(8.1)	16.6
Basic earnings (loss) per share:		
As reported	$(0.24)	$0.57
Pro forma	(0.26)	0.52
Diluted earnings (loss) per share:		
As reported	$(0.24)	$0.54
Pro forma	(0.26)	0.50

The effect of applying SFAS No. 123 for providing pro forma disclosure is not likely to be representative of the effect on reported net income for future years.

The per share weighted-average fair value of stock options granted (including conversion of HCA options in 1999) during 1999 and 2000 was $3.73 and $9.22, respectively, on the date of grant using a Black-Scholes option pricing model, assuming no expected dividends and the following weighted average assumptions:

	1999	2000
Risk free interest rate	5.90%	6.16%
Expected life, in years	4.7	3.8
Expected volatility	35.0%	45.0%

Note 10 — Capital Stock

Common Stock

Holders of common stock are entitled to one vote for each share held of record on all matters on which stockholders may vote. There are no preemptive, conversion, redemption or sinking fund provisions applicable to our common stock. In the event of liquidation, dissolution or winding up, holders of common stock are entitled to share ratably in the assets available for distribution, subject to any prior rights of any holders of preferred stock then outstanding.

Preferred Stock

The certificate of incorporation provides that up to 10,000,000 shares of preferred stock, of which 90,000 shares have been designated as Series A Junior Participating Preferred Stock, par value $.01 per share, may be issued. The board of directors has the authority to issue preferred stock in one or more series and to fix for each series the voting powers, full, limited or none, and the designations, preferences and relative, participating, optional or other special rights and qualifications, limitations or restrictions on the stock, and the number of shares constituting any series and the designations of this series, without any further vote or action by the stockholders. Because the terms of the preferred stock may be fixed by the board of directors without stockholder action, the preferred stock could be issued quickly with terms calculated to defeat a proposed takeover or to make the removal of our management more difficult.

Preferred Stock Purchase Rights

Pursuant to a stockholders' rights plan, each outstanding share of common stock is accompanied by one preferred stock purchase right. Each right entitles the registered holder to purchase one one-thousandth of a share of Series A preferred stock at a price of $35 per one one-thousandth of a share, subject to adjustment.

Each share of Series A preferred stock will be entitled, when, as and if declared, to a preferential quarterly dividend payment in an amount equal to the greater of $10 or 1,000 times the aggregate of all dividends declared per share of common stock. In the event of liquidation, dissolution or winding up, the holders of Series A preferred stock will be entitled to a minimum preferential liquidation payment equal to $1,000 per share, plus an amount equal to accrued and unpaid dividends and distributions on the stock, whether or not declared, to the date of such payment, but will be entitled to an aggregate payment of 1,000 times the payment made per share of common stock. The rights are not exercisable until the rights distribution date as defined in the stockholders' rights plan. The rights will expire on May 7, 2009, unless the expiration date is extended or unless the rights are earlier redeemed or exchanged.

The rights have certain anti-takeover effects. The rights will cause substantial dilution to a person or group that attempts to acquire the Company on terms not determined by the board of directors to be in the best interests of all stockholders. The rights should not interfere with any merger or other business combination approved by the board of directors.

Note 11 — Retirement Plans

In connection with the Distribution, the Company established the LifePoint Employee Stock Ownership Plan ("ESOP"), a defined contribution retirement plan which covers substantially all employees. The ESOP purchased from the Company approximately 8.3% of the Company's Common Stock at fair market value (approximately 2.8 million shares at $11.50 per share). Shares are allocated ratably to employee accounts over a period of 10 years (1999 through 2008). The shares held by the ESOP which have not yet been allocated to employee accounts are included in stockholders' equity as "Unearned ESOP compensation." Unearned ESOP shares are released at historical cost upon being allocated to employee accounts. ESOP expense is recognized using the average market price of shares committed to be released during the accounting period with any difference between the average market price and the cost being charged or credited to capital in excess of par value. As the shares are committed to be released, the shares become outstanding for earnings per share calculations. ESOP expense was $2.9 million and $7.1 million for the years ended December 31, 1999 and 2000, respectively.

The ESOP shares as of December 31, 2000 were as follows:

Allocated shares	379,671
Shares committed to be released	179,673
Unreleased shares	2,237,375
Total ESOP shares	2,796,719
Fair value of unreleased shares	$112.1 million

Prior to the Distribution, the Company participated in HCA's defined contribution retirement plans, which covered substantially all employees. Benefits were determined primarily as a percentage of a participant's earned income and were vested over specific periods of employee service. Certain plans also required the Company to make matching contributions at certain percentages. The cost of these plans was $5.3 million during 1998. Amounts approximately equal to expense for these plans were funded annually. After the Distribution, the Company no longer participated in these plans.

Note 12 — Contingencies

Significant Legal Proceedings

Various lawsuits, claims and legal proceedings have been and are expected to be instituted or asserted against HCA and the Company, including those relating to shareholder derivative and class action complaints; purported class action lawsuits filed by patients and payers alleging, in general, improper and fraudulent billing, coding and physician referrals, as well as other violations of law; certain *qui tam* or "whistleblower" actions alleging, in general, unlawful claims for reimbursement or unlawful payments to physicians for the referral of patients, as well as other violations and litigation matters. While the amounts claimed may be substantial, the ultimate liability cannot be determined or reasonably estimated at this time due to the considerable uncertainties that exist. Therefore, it is possible that the Company's results of operations, financial position and liquidity in a particular period could be materially, adversely affected upon the resolution of certain of these contingencies. (See Note 3, for a description of the ongoing government investigations and HCA's obligations to indemnify the Company with respect to losses incurred by the Company arising from such governmental investigations and related proceedings.)

On January 12, 2001, Access Now, Inc., a disability rights organization, filed a class action lawsuit against each of the Company's hospitals alleging non-compliance with the accessibility guidelines under the Americans with Disabilities Act. The lawsuit, filed in the United States District Court for the Eastern District of Tennessee, seeks injunctive relief requiring facility modification, where necessary, to meet the Americans with Disabilities Act guidelines, along with attorneys fees and costs. The Company is working with Access Now to determine the scope of facility modification needed to comply with the Act.

Corporate Integrity Agreement

In December 2000, the Company entered into a corporate integrity agreement with the Office of Inspector General and agreed to maintain its compliance program in accordance with the corporate integrity agreement. Complying with the compliance measures and reporting and auditing requirements of the corporate integrity agreement will require additional efforts and costs. Failure to comply with the terms of the corporate integrity agreement could subject the Company to significant monetary penalties.

General Liability Claims

The Company is, from time to time, subject to claims and suits arising in the ordinary course of business, including claims for damages for personal injuries, breach of management contracts, for wrongful restriction of, or interference with, physicians' staff privileges and employment related claims. In certain of these actions, plaintiffs request punitive or other damages against the Company which may not be covered by insurance. The Company is currently not a party to any proceeding which, in management's opinion, would have a material adverse effect on the Company's business, financial condition or results of operations.

Physician Commitments

The Company has committed to provide certain financial assistance pursuant to recruiting agreements with various physicians practicing in the communities it serves. In consideration for a physician relocating to one of its communities and agreeing to engage in private practice for the benefit of the respective community, the Company may loan certain amounts of money to a physician, normally over a period of one year, to assist in establishing his or her practice. The Company has committed to advance amounts of approximately $10.9 million at December 31, 2000. The actual amount of such commitments to be subsequently advanced to physicians often depends upon the financial results of a physician's private practice during the guaranteed period. Generally, amounts advanced under the recruiting agreements may be forgiven prorata over a period of 48 months contingent upon the physician continuing to practice in the respective community. It is management's opinion that amounts actually advanced and not repaid will not have a material adverse effect on the Company's results of operations or financial position.

Acquisitions

The Company has acquired and will continue to acquire businesses with prior operating histories. Acquired companies may have unknown or contingent liabilities, including liabilities for failure to comply with health care laws and regulations, such as billing and reimbursement, fraud and abuse and similar anti-referral laws. Although the Company institutes policies designed to conform practices to its standards following completion of acquisitions, there can be no assurance that the Company will not become liable for past activities that may later be asserted to be improper by private plaintiffs or government agencies. Although the Company generally seeks to obtain indemnification from prospective sellers covering such matters, there can be no assurance that any such matter will be covered by indemnification, or if covered, that such indemnification will be adequate to cover potential losses and fines.

Note 13 — Other Information

A summary of other current liabilities as of December 31 follows (in millions):

	1999	2000
Employee benefit plan	$ 2.7	$ 3.2
Accrued interest related to long-term debt	2.6	2.6
Taxes, other than income	0.3	0.3
Other	7.3	5.0
	$12.9	$11.1

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

	Balances at Beginning of Period	Additions Charged to Costs and Expenses	Accounts Written Off, Net of Recoveries	Balance at End of Period
Allowance for doubtful accounts:				
Year ended December 31, 1998	$37.5	$41.6	$(30.8)	$48.3
Year ended December 31, 1999	48.3	38.2	(36.2)	50.3
Year ended December 31, 2000	50.3	42.0	(40.0)	52.3

Note 14 — Earnings Per Share

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

	1998	1999	2000
Numerator (a):			
Income (loss) from continuing operations	$(17.7)	$ (7.4)	$17.9
Denominator (b):			
Share reconciliation:			
Shares used for basic earnings (loss) per share	30.0	30.5	31.6
Effect of dilutive securities (c):			
Stock options and other	—	—	1.3
Shares used for diluted earnings (loss) per share	30.0	30.5	32.9
Earnings (loss) per share:			
Basic earnings (loss) per share from continuing operations	$(0.59)	$(0.24)	$0.57
Diluted earnings (loss) per share from continuing operations	$(0.59)	$(0.24)	$0.54

(a) Amount is used for both basic and diluted earnings (loss) per share computations since there is no earnings effect related to the dilutive securities.

(b) The Company expected to issue 30,000,000 shares of Common Stock at the time of the Distribution. Earnings per share information has been presented as if the 30,000,000 shares had been outstanding for the year ended December 31, 1998.

(c) The dilutive effect of approximately 0.2 million and 0.1 million shares, related to stock options, for the years ended December 31, 1998 and 1999, respectively, was not included in the computation of diluted loss per share because to do so would have been antidilutive for those periods.

Note 15 — Fair Value of Financial Instruments

The carrying amounts reported in the consolidated balance sheets for cash, accounts receivable and accounts payable approximates fair value.

The carrying value of long-term debt (including current portion) was $289.4 million for the year ended December 31, 2000. The fair value of long-term debt (including current portion) was $301.4 million for the year ended December 31, 2000. The fair value of the Notes has been determined using the quoted market price at December 31, 2000. The fair values of the remaining long-term debt are estimated using discounted cash flows, based on the Company's incremental borrowing rates.

Note 16 — Unaudited Quarterly Financial Information

The quarterly interim financial information shown below has been prepared by the Company's management and is unaudited. It should be read in conjunction with the audited consolidated financial statements appearing herein (dollars in millions, except per share amounts).

	1999			
	First	Second	Third	Fourth
Revenues	$134.2	$128.2	$125.4	$127.4
Net income (loss)	4.0	1.0	1.1	(13.5)(a)
Basic and diluted earnings (loss) per share	0.13	0.04	0.03	(0.44)(a)

	2000			
	First	Second	Third	Fourth
Revenues	$136.0	$133.3	$145.3	$142.5
Net income	4.0	3.7	4.8(b)	5.4
Basic earnings per share	0.13	0.12	0.15(b)	0.17
Diluted earnings per share	0.13	0.11	0.14	0.16

(a) During the fourth quarter of 1999, the Company recorded a $25.4 million pre-tax charge ($16.2 million after tax) related to the impairment of certain long-lived assets (See Note 6 — Impairment of Long-Lived Assets).

(b) During the third quarter of 2000, the Company recorded a $1.4 million pretax gain ($0.8 million after tax) related to a previously impaired asset (See Note 6 — Impairment of Long-Lived Assets).

Note 17 — Subsequent Event

Effective January 2, 2001, the Company entered into a two-year lease to operate Bluegrass Community Hospital in Versailles, Kentucky.

DIRECTORS AND EXECUTIVE OFFICERS

DIRECTORS

James M. Fleetwood, Jr.
Chairman of the Board
LifePoint Hospitals, Inc.

Richard H. Evans
Chairman
Evans Holdings, LLC

DeWitt Ezell, Jr.
Former State President
BellSouth Corporation

Ricki Tigert Helfer
Independent Consultant
Financial Regulation
in the U.S. and Abroad

William V. Lapham
Retired Partner
Ernst & Young LLP

John E. Maupin, Jr., D.D.S.
President
Meharry Medical College

EXECUTIVE OFFICERS

James M. Fleetwood, Jr.
Chairman, Chief Executive Officer,
President and Chief Operating Officer

Kenneth C. Donahey
Executive Vice President and
Chief Financial Officer

William F. Carpenter III
Senior Vice President, General Counsel
and Secretary

Neil D. Hemphill
Senior Vice President of Administration
and Human Resources

Todd J. Kerr
Senior Vice President of Audit and Compliance

William M. Gracey
President, National Division

Daniel S. Slipkovich
President, Continental Division

Roberto G. Pantoja
Vice President and Controller

CORPORATE INFORMATION

TRANSFER AGENT AND REGISTRAR

National City Bank
Shareholder Services Group
P. O. Box 92301
Cleveland, OH 44193-0900
216-476-8663/800-622-6757

INDEPENDENT AUDITORS

Ernst & Young LLP
Nashville, TN

CORPORATE HEADQUARTERS

103 Powell Court, Suite 200
Brentwood, TN 37027
615-372-8500

FORM 10-K

The Company has filed an annual report on Form 10-K for the year ended December 31, 2000, with the Securities and Exchange Commission. Stockholders may obtain a copy of this report, without charge, by writing: Investor Relations, LifePoint Hospitals, Inc., 103 Powell Court, Suite 200, Brentwood, TN 37027, or visiting the Company's Website at www.lifepointhospitals.com.

ANNUAL MEETING

The Annual Meeting of Stockholders will be held on May 14, 2001, at 10:00 a.m. local time at:
511 Union Street, 25th Floor
Nashville, TN 37219

COMMON STOCK AND DIVIDEND INFORMATION

The Common Stock of LifePoint Hospitals, Inc. is traded on the Nasdaq National Market under the symbol "LPNT." At March 23, 2001, the Company had a total of approximately 71,874 stockholders, including 5,824 stockholders of record and approximately 66,050 persons or entities holding Common Stock in nominee name. No dividends have been paid on the Common Stock, and the Company does not anticipate paying cash dividends in the foreseeable future.

The following table shows, for periods indicated, the high and low sales prices per share of the Common Stock as reported by the Nasdaq National Market.

1999[1]	High	Low
Second Quarter	$ 17.50	$ 9.13
Third Quarter	14.38	6.88
Fourth Quarter	12.63	7.69
2000		
First Quarter	$ 18.00	$ 12.25
Second Quarter	23.56	15.50
Third Quarter	37.00	19.94
Fourth Quarter	51.75	31.13
2001		
First Quarter (through March 23)	$ 50.36	$ 27.75

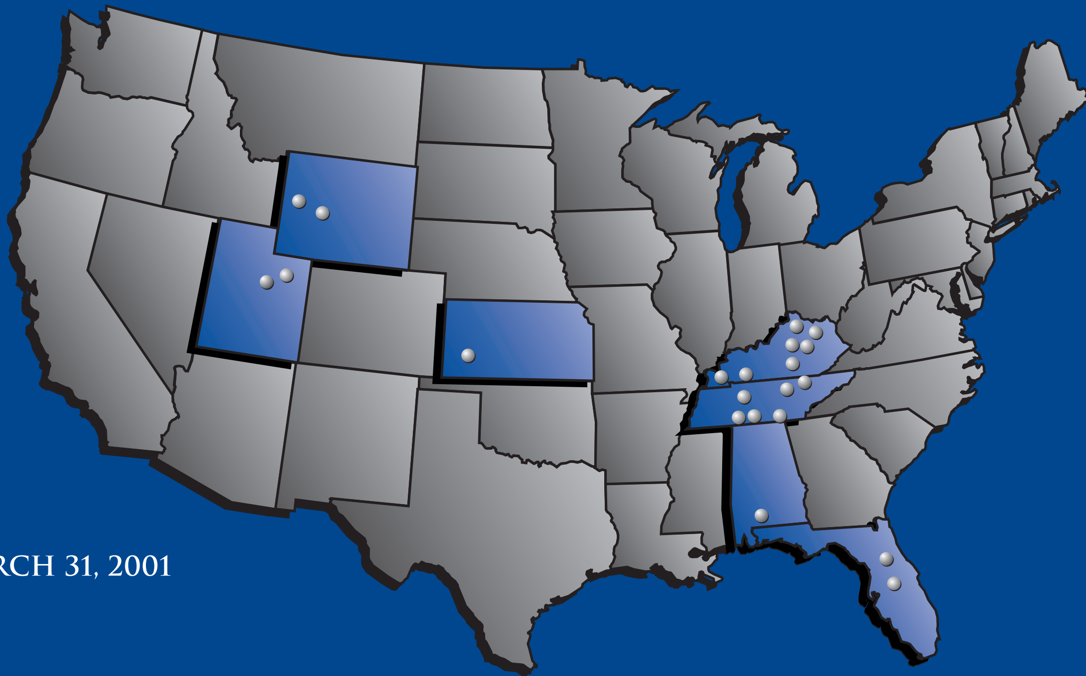
[1] Beginning May 11, 1999, the date the Company's Common Stock began publicly trading.

SCOTT L. MERCY

August 18, 1961 - May 30, 2000

In memory of Scott L. Mercy
Former Chairman and Chief Executive Officer
LifePoint Hospitals, Inc.

LIFEPOINT HOSPITALS, INC. operates 21 hospitals in non-urban areas. In most cases, the LifePoint facility is the only hospital in its community. LifePoint's non-urban operating strategy offers continued operational improvement by focusing on its five core values: delivering high quality patient care, supporting physicians, creating excellent workplaces for its employees, providing community value, and ensuring fiscal responsibility. Headquartered in Brentwood, Tennessee, LifePoint Hospitals is affiliated with over 6,000 employees.



MARCH 31, 2001

FACILITY	CITY	STATE	LICENSED BEDS
Andalusia Regional Hospital	Andalusia	AL	101
Bartow Memorial Hospital	Bartow	FL	56
Putnam Community Medical Center	Palatka	FL	141
Western Plains Medical Complex	Dodge City	KS	110
Georgetown Community Hospital	Georgetown	KY	75
Jackson Purchase Medical Center	Mayfield	KY	107
Meadowview Regional Hospital	Maysville	KY	111
Bourbon Community Hospital	Paris	KY	58
Logan Memorial Hospital	Russellville	KY	92
Lake Cumberland Regional Hospital	Somerset	KY	227
Bluegrass Community Hospital	Versailles	KY	25
Smith County Memorial Hospital	Carthage	TN	63
Crockett Hospital	Lawrenceburg	TN	107
Livingston Regional Hospital	Livingston	TN	122
Hillside Hospital	Pulaski	TN	95
Emerald Hodgson Hospital	Sewanee	TN	40
Southern Tennessee Medical Center	Winchester	TN	159
Castleview Hospital	Price	UT	88
Ashley Valley Medical Center	Vernal	UT	39
Lander Valley Medical Center	Lander	WY	102
Riverton Memorial Hospital	Riverton	WY	70

LifePoint
Hospitals, Inc.

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