2004 ANNUAL REPORT

EXPANDING OUR REACH

LIFEPOINT HOSPITALS, INC.

LIFEPOINT
HOSPITALS, INC.

We possess the qualities to succeed

OUR MISSION

LifePoint Hospitals owns and operates hospitals throughout the nation where, in most cases, LifePoint's hospital is the only one in its community.

Our mission is to meet the healthcare needs of non-urban communities—the most rapidly growing sector of the national healthcare industry. We accomplish this through a strategic plan that concentrates on five core values:

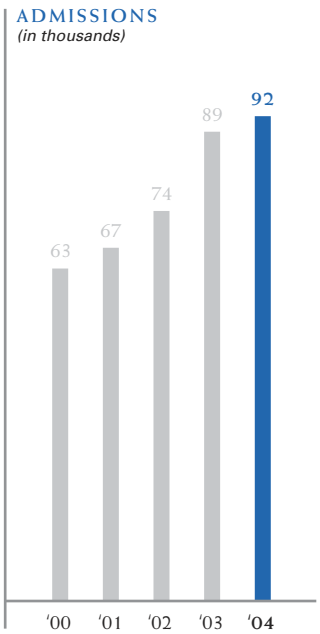
- Delivering high quality patient care,
- Supporting physicians,
- Creating excellent workplaces for our employees,
- Providing community value, and
- Ensuring fiscal responsibility.

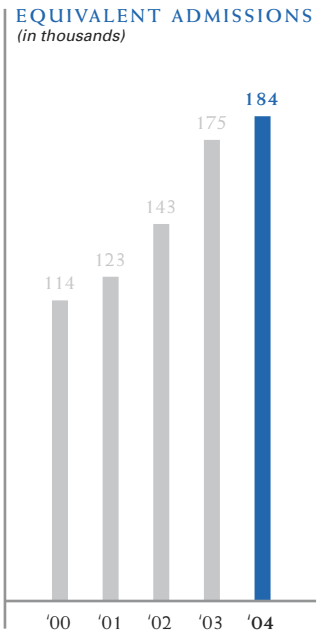
ANNUAL MEETING

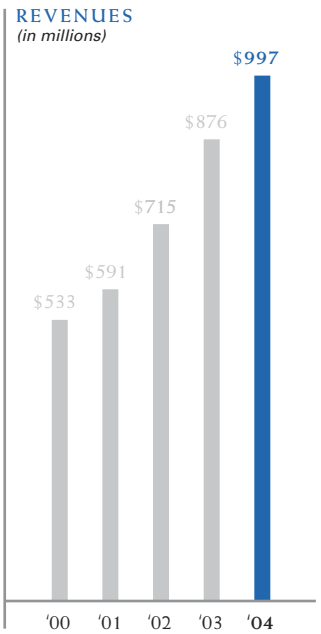
The annual meeting of stockholders will be held on June 30, 2005, at 3:00 p.m. local time at the Nashville City Center, 511 Union Street, 27th Floor, Nashville, Tennessee.

FINANCIAL HIGHLIGHTS

(Dollars in millions, except for per share amounts)	Years Ended December 31, 2004	2003	Percent Change
Operating Results:			
Revenues	**$996.9**	$875.6	13.9%
Net income	**$ 85.7**	$ 68.5	25.1%
Diluted earnings per share	**$ 2.20**	$ 1.80	22.2%
Weighted average number of shares and equivalents—diluted	**42,839**	43,288	(1.0)%
Statistics:			
Number of hospitals at end of period	**29**	28	3.6%
Weighted average licensed beds	**2,692**	2,595	3.7%
Admissions	**91,772**	88,695	3.4%
Equivalent admissions	**183,819**	175,439	4.6%








THE QUALITIES TO GROW

Aug. 16, 2004—LifePoint Hospitals, Inc. and Province Healthcare Company jointly announced today that they have signed a definitive agreement for LifePoint Hospitals to acquire Province Healthcare for approximately $1.7 billion in cash, stock and the assumption of debt. The transaction will create a leading hospital company focused on providing healthcare services in non-urban communities with

To Our Shareholders:

Americans who live and work in rural areas have always held a special appreciation for the power of cooperative effort. We depend on it. It is part of the fabric of our collective lives as communities. It enables us to achieve mutually shared goals. Coming together to help build a neighbor's barn or to sew a quilt for a newly married couple, for example, is quintessentially American. So is the act of forming a cooperative to give individuals greater purchasing power for electricity or investing in broadband line technology to bring rural communities into the information age. In these ways and many others, rural Americans are well practiced in the art of pooling resources, creating entities that are greater than the sum of their components.

So it was fitting that our most notable achievement as a company last year was consistent with this traditional philosophy. We undertook and subsequently completed the acquisition of Province Healthcare Company. In this milestone transaction, we have created a new, unified whole that we believe will be stronger, more efficient and better able to serve our home communities than the sum of our separate organizations.

The acquisition of Province represents a nearly seamless alignment of missions, philosophies, services and solutions. Instead of pursuing this shared mission separately, we now can pursue it with even greater strength, greater potential and greater benefit to more than 50 communities that for us have become hometowns.

This acquisition was not a new experience for us. In a sense, we have been here before—at the inception of our company, when we took 23 hospitals from the HCA system and successfully integrated them into a new, cohesive whole. We are particularly excited about this new opportunity because we have proven our ability to generate uncommon performance from a group of hospitals working toward common goals.

With each succeeding year, we are strengthened in the belief that our company is well positioned in the segment of the acute-care hospital industry that offers the most fertile opportunities for continued growth. Over the years, we have consistently demonstrated an ability to augment the services, capabilities and operational efficiencies of non-urban hospitals in ways that not only enhance their financial performance, but enable them more effectively to fulfill their vital roles in their communities. Through selective acquisitions, we also have steadily expanded our presence within a largely unconsolidated industry. Now, more than ever before, LifePoint is situated to capitalize on that opportunity. I believe we have taken a quantum leap that will add strength to our hospitals, add synergies and momentum to our company and add long-term value for you, our shareholders.

Sharing Values. After the unanimous approval of both boards of directors, we signed a definitive agreement in August 2004 to acquire Province Healthcare. The acquisition dramatically changed our company's physical landscape. LifePoint's scope has expanded to 50 hospitals, representing more than 5,300 beds. Our geographic scope—20 states and a revenue base of $1.9 billion—has roughly doubled from 2003.

Even more important, however, LifePoint's internal and philosophical landscapes remain very much the same. We, and Province, have always shared the same corporate values and strategies. We have shared the same focus on non-urban, acute-care hospitals. We have shared a dedication for providing high-quality care for the people of the rural areas we serve. We both have always believed in improving our hospitals and patient outcomes through aggressive investments in physician recruitment, new technologies and expanded services and facilities. As with our company, most of the former Province's hospitals are sole community providers. Our executive leadership knows many of Province's senior management teams in the field—most of whom will remain with us. Because our two

2004 was one of the most productive and fulfilling years in the Company's history. Net income was up

25.1%

organizations are such a comfortable, natural fit, we believe that the integration of these hospitals will proceed much more smoothly than is often the case.

A Powerful Force in Healthcare.

Geographical diversification. We have moved from a nine-state operation to 20 states, significantly expanding our reach with virtually no geographical overlap between Province and LifePoint hospitals. In addition, even as we have expanded our national footprint, we have reduced our reliance on states such as Kentucky and Tennessee, where many of our efforts previously had been concentrated.

Revenue diversification. In broadening our operations, we also have expanded our financial base. Hospitals in Kentucky, which produced 34% of LifePoint's revenues in 2003, will represent 18% of the revenue of the combined company. Similarly, the top 10 hospitals of our new combined company will now represent only 45% of our total revenue, down from 55% before the merger.

Operating synergies. Through cost savings on a variety of fronts—such as the merging of corporate offices, consolidation in costs for regulatory compliance, and reductions in legal, accounting and finance costs—we expect to realize annual synergies between $15 million and $18 million for the 12 months following the completion of the Province acquisition.

New growth. Among the assets we acquired in the Province transaction are one hospital that Province had recently purchased as well as two development projects. Coastal Carolina Medical Center opened in November 2004, and Fort Mojave Medical Center is scheduled to open in 2005. We believe that these hospitals add real value to the acquisition—not only for the revenues they contribute, but also because all offer very attractive potential for same-facility growth.

In Las Cruces, New Mexico—the eleventh-fastest growing city in the U.S., with an extended service area of more than 170,000 people—Las Cruces Medical Center, a 286-bed, county-owned acute-care hospital, offers significant potential for improved performance through strong management and for solid patient and revenue growth.

In Hilton Head, South Carolina—a haven for older populations that use a disproportionate share of healthcare services—Coastal Carolina Medical Center, a 41-bed facility, enjoys an optimal location in an area experiencing explosive growth.

In Fort Mojave, Arizona, we are developing Fort Mojave Medical Center, a 60-bed *de novo* facility adjacent to a physician medical office building and outpatient diagnostic center. This hospital, too, is strategically situated along a rapidly developing growth corridor that includes a large retiree population.

When the two *de novo* hospitals come online and our management model is fully integrated in Las Cruces, we believe that they will help to demonstrate that Province was undervalued by many observers.

Upside potential. The company we acquired shared an approach similar to our own. The majority of the former Province's hospitals, however, had been owned by it for less than five years after being operated by government or other non-profit entities. As such, they had not had time to reap the full benefit of investor-owned management. Even as sole community providers, they averaged barely 50% of the local market share due to outward migration. With our investment in attracting new physicians, augmenting capabilities and upgrading facilities, we expect to capture increased market share, continue to improve operating efficiencies and witness significantly stronger performance by these hospitals over the next several years.

Strengthened position. In a competitive environment, a 50-hospital company invariably possesses more influence and more operational leverage than two separate companies that own the same combined total. Acquiring Province solidifies LifePoint's leadership in the field of acute-care community hospitals. Going forward, we will be operating from a position of much greater strength, which will simultaneously serve our hospitals, our communities and our shareholders.

Building a Better Hospital—and a Stronger Community. The healthcare facilities we operate are called community hospitals for a reason. They are institutions in which the townspeople feel a strong sense of ownership, regardless of who actually holds the legal title. Many, in fact, began as not-for-profit entities that were owned by the community. They are places to which local residents feel a special


THE QUALITIES TO EXPAND


THE QUALITIES TO CARE

We have expanded our geographic scope to 20 states with a revenue base of approximately

$1.9 billion

connection. Perhaps their children or parents were born there. Their loved ones may have received care there. For many, the hospital is a source of employment. For even more, it is a focal point—a place for community meetings or educational classes—and a source of pride.

Because of all they represent to their communities, these smaller hospitals possess a resource that is the envy of most of their large, urban counterparts: a deep wellspring of customer loyalty. Given a choice, most local residents prefer to receive care in their own communities, from people they know and trust, rather than travel to a distant tertiary-care facility that may seem unfamiliar and impersonal. In addition, many small-town hospitals are the sole providers in their communities (or even counties). As a result, community hospitals do not face the same types of marketplace pressures encountered by large urban hospitals that must compete with one or even several similarly sized and equipped providers for the same patient base.

But community hospitals also frequently face a real disadvantage: They often lack the services, facilities and physician specialists that enable them to compete on a more equal footing with huge, urban institutions. They may lack the same depth of management expertise. They may lack the infrastructure, such as sophisticated information technology systems, that would permit them to operate as efficiently—or even deliver the same quality of care. They may lack the ability to raise capital to expand the scope and breadth of services.

In much the same way that small-town residents pool their efforts to accomplish tasks jointly that they could not manage alone, LifePoint acts as a cooperative of expertise and resources that, leveraged across more than four dozen community hospitals, helps level the competitive field. In making them stronger overall, we enable them to take greatest advantage of their singular strengths.

Our purchase of a hospital is only the beginning of our investments in the facility and the community. These ongoing investments take almost as many different forms as there are areas of healthcare operations; they all focus on one overarching goal: building a hospital that more effectively and conveniently meets the needs of our neighbors.

Based on those needs and on the existing strengths of our individual hospitals, we continually work to expand our services, facilities and capabilities. Altogether, we have invested more than $270 million in such enhancements over the past five years—investments that have paid dividends both to our company and to our communities. In one locality, the investment may take the form of a new emergency room or additional beds. In another, it may involve new imaging technologies or the capability to perform minimally invasive surgeries on an outpatient basis. In still others, it may be new specialty services that local residents otherwise would have had to travel 100 miles or more to receive. For all of our hospitals, we have implemented sophisticated IT systems that not only enable information to flow smoothly between departments and personnel within each hospital but also among our hospitals and our corporate office.

Our company's collective size and strength, meanwhile, benefit our hospitals in other, no less tangible ways. For example, we negotiate volume discounts on supplies that community hospitals alone could not obtain. Similarly, LifePoint negotiates favorable contracts with managed care payors on behalf of our hospitals. Our business office systems—the product of our long hospital management experience—enable our facilities to improve cash flow and minimize writeoffs to bad debt.

New Blood for a Hospital's Lifeblood. More than any other single factor, the strength of the medical staff helps determine the strength of the hospital. Doctors drive the flow of patients. In a real way, they are a healthcare facility's lifeblood. In rural hospitals especially, the availability of physicians in particular specialties determines whether patients (and revenues) will remain in the community or be lost to urban facilities. Not surprisingly, then, physician recruitment has always been a primary focus as we invest in the long-term success of our hospitals.

Though practicing medicine in small, non-urban hospitals is not for everyone, there is no shortage of physicians who are attracted by a small town's less-hurried lifestyle, close proximity to outdoor opportunities and the chance to be part of a close-knit community where their skill and care make a tangible difference to their neighbors' quality of life. Yet the very size that may make these hospitals and communities appealing also makes it difficult for them to identify and recruit new physicians. LifePoint neutralizes that disadvantage by enabling our hospitals to draw upon shared strength that transcends their smaller size. Through nationwide recruiting programs, complemented by investments in the sophisticated medical equipment

Since 1999 we have expanded services and capabilities to our communities by investing capital in our facilities in excess of

$270 million

Kenneth C. Donahey
Chairman, President and Chief Executive Officer

that helps attract and retain physicians, our community hospitals can compete effectively with even the largest healthcare facilities.

In the past two years, we have added nearly 200 new practitioners, representing a variety of clinical specialties, to our hospitals. That figure translates to an average of more than six new doctors for each of the facilities we owned prior to the Province acquisition. Those new physicians, in turn, drive corresponding increases in patient and procedure volume. But they not only strengthen our hospitals; they also help build our communities. They enable more dollars spent on healthcare to be spent and reinvested in the local economy. They contribute to the local tax base. And, through their diversity of backgrounds, experiences and energies, they enrich the community in innumerable ways.

Building on a Solid Foundation. For a variety of reasons, we believe that LifePoint is extremely well situated—better positioned, in fact, than ever before—for continued growth in a segment of the healthcare field where we are now clearly a leader.

We operate in a "target-rich environment." More than 90% of the nation's hospitals are locally owned. As these hospitals continue to look beyond their own communities for the resources that will enable them to continue their missions for the long term, we are poised to make selective acquisitions that complement our portfolio of facilities. In 2004, for example, we completed the purchase of River Parishes Hospital, a 106-bed acute-care facility in La Place, Louisiana. Our pipeline remains robust, and we plan to continue to add steadily to our widening circle of ownership.

Meanwhile, thanks to provisions of the Medicare Modernization Act of 2003, rural hospitals are benefiting from a correction of Medicare's reimbursement formula, which had long placed these facilities at a competitive disadvantage. These increases in reimbursements, which average in the mid-single digits, will translate into more than $18 billion for community hospitals over the coming decade.

Overall healthcare spending, which has grown at a compounded annual rate of more than 7%, should continue to increase as the U.S. population ages. Because we concentrate our efforts on growing areas in the South and West, and because nearly 95% of our hospitals are sole community providers, LifePoint is exceptionally well situated to capitalize on these trends.

The best predictor of our future, we believe, is the track record we have already established. In more than two dozen localities, we have demonstrated that investor-owned healthcare, delivered through well managed hospitals, can benefit community stakeholders and corporate shareholders alike. Our financial results for 2004 add another strong chapter to that record. Our emphasis on recruiting new physicians to our hospitals has been—and, we believe, will remain—a major driver of growth. Finally, amid an environment where aggressive accounting practices have left some providers open to both criticism and risk, LifePoint has always maintained what one industry analyst describes as "the most conservative bad debt accrual policy in the hospital universe"—reducing the sensitivity of our bottom line to changes in bad debt.

Building Healthier Futures. We owe an obligation of stewardship to the neighbors we serve as well as to you, our shareholders. We never forget that a community hospital is both a business and a trust. People entrust their health, their lives and their loved ones to us. Because there is a strong correlation between the vitality of small-town hospitals and that of the town itself, they also in a sense are entrusting us with maintaining the health of the places where they live, work and raise families.

So, we are particularly proud of our success last year in working toward what we regard as mutually reinforcing goals. In building stronger hospitals, we are building value for our shareholders while building up a vital community asset for our neighbors. As we look ahead to 2005 and beyond, we believe that LifePoint is poised for even greater success, carrying out our mission for an even greater number of communities across our land. Truly, this is an exciting time to be part of our company.

Sincerely,

Kenneth C. Donahey
Chairman, President and Chief Executive Officer

Selected Financial Data

The following table contains selected financial data of LifePoint Hospitals for, or as the end of, each of the five years ended December 31, 2004. The selected financial data are derived from our audited financial statements. The timing of acquisitions and divestitures completed during the years presented affects the comparability of the selected financial data. The summary of operations, financial position and other operating data excludes the operations as well as assets and liabilities that are expected to be sold related to Bartow Memorial Hospital, which is held for sale and reflected as discontinued operations in our consolidated 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.*

(Dollars in millions, except revenues per equivalent admission and per share amounts)	Years Ended December 31, 2000	2001	2002	2003	**2004**
Summary of Operations:					
Revenues	$ 532.8	$ 591.3	$ 714.9	$ 875.6	**$ 996.9**
Salaries and benefits	214.3	232.5	280.0	352.3	**399.4**
Supplies	64.4	74.9	88.7	114.2	**129.1**
Other operating expenses	112.3	115.0	129.6	155.4	**166.8**
Provision for doubtful accounts	37.4	39.7	49.8	74.1	**86.2**
Depreciation and amortization	31.4	32.0	35.0	43.1	**48.1**
Interest expense, net	30.7	18.1	13.3	12.8	**12.6**
Debt retirement costs	—	2.6	31.0	—	**1.5**
ESOP expense	7.1	10.4	9.7	6.9	**9.4**
Gain on impairment of long-lived assets	(1.4)	(0.5)	—	—	**—**
	496.2	524.7	637.1	758.8	**853.1**
Income from continuing operations before minority interests and income taxes	36.6	66.6	77.8	116.8	**143.8**
Minority interests in earnings of consolidated entities	2.2	2.7	2.2	0.7	**1.0**
Income from continuing operations before income taxes	34.4	63.9	75.6	116.1	**142.8**
Provision for income taxes	15.7	30.3	32.7	45.9	**56.0**
Income from continuing operations	$ 18.7	$ 33.6	$ 42.9	$ 70.2	**$ 86.8**
Income from continuing operations per share:					
Basic	$ 0.59	$ 0.94	$ 1.14	$ 1.89	**$ 2.34**
Diluted	$ 0.57	$ 0.91	$ 1.10	$ 1.80	**$ 2.20**
Weighted average shares outstanding:					
Basic	31.6	35.7	37.5	37.2	**37.0**
Diluted	32.9	37.1	38.6	43.3	**42.8**
Financial Position (as of end of year):					
Working capital, excluding assets and liabilities held for sale	$ 65.0	$ 82.4	$ 67.5	$ 102.1	**$ 115.9**
Property and equipment, net	284.1	307.8	409.6	443.9	**501.1**
Total assets (including assets held for sale)	496.3	554.3	733.5	799.0	**887.3**
Long-term debt, including amounts due within one year	289.4	150.0	250.0	270.0	**221.0**
Stockholders' equity	128.4	295.0	357.6	394.3	**509.5**

(continued)

Selected Financial Data *(Continued)*

(Dollars in millions, except revenues per equivalent admission and per share amounts)	Years Ended December 31, 2000	2001	2002	2003	**2004**
Other Operating Data:					
Capital expenditures	$ 28.7	$ 35.0	$ 57.5	$ 68.3	**$ 82.0**
Number of hospitals at end of year	19	22	27	28	**29**
Number of licensed beds at end of year[(a)]	1,907	2,141	2,561	2,681	**2,688**
Weighted average licensed beds[(b)]	2,000	1,955	2,192	2,595	**2,692**
Admissions[(c)]	63,168	67,452	74,488	88,695	**91,772**
Equivalent admissions[(d)]	114,081	122,560	142,570	175,439	**183,819**
Revenues per equivalent admission	$ 4,670	$ 4,825	$ 5,015	$ 4,991	**$ 5,423**
Average length of stay (days)[(e)]	4.1	4.1	4.1	4.0	**4.0**
Emergency room visits[(f)]	274,012	288,793	329,922	408,321	**416,060**
Inpatient surgeries	16,236	17,584	20,480	24,528	**26,235**
Outpatient surgeries[(g)]	45,072	51,697	59,950	71,488	**75,508**
Total surgeries	61,308	69,281	80,430	96,016	**101,743**

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

(b) Represents the average number of licensed beds weighted based on periods operated.

(c) 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.

(d) Management and investors use equivalent admissions as a general measure of combined inpatient and outpatient volume. Equivalent admissions are computed by multiplying admissions (inpatient volume) by the outpatient factor (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.

(e) Represents the average number of days admitted patients stay in our hospitals.

(f) Represents the total number of hospital-based emergency room visits.

(g) Outpatient surgeries are those surgeries that do not require admission to our hospitals.

Management's Discussion and Analysis of Financial Condition and Results of Operations *(as filed with the SEC on Form 10-K as of December 31, 2004)*

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

Executive Overview

This was another challenging year for both the healthcare services industry and our company. We believe that we produced positive financial results after considering all of the factors affecting our industry. This year was negatively impacted by lower patient volumes that were experienced by most healthcare providers as a result of the lack of flu-related cases in late 2004. We also experienced the continuation of higher co-payments and deductibles for patients and more patients electing not to be covered by a health insurance program, resulting in increased collection pressures on providers. We believe that our financial results for 2004 reflect our disciplined operating strategy that addressed these industry challenges. We are guardedly optimistic regarding our outlook for 2005 as a result of the improved reimbursement environment and patient volumes more in line with historical trends and our future acquisition of Province. During 2005, we will continue to focus on physician recruiting and retention, investing capital in our hospitals and seeking selected hospital acquisitions that fit our non-urban strategy and complement our existing portfolio of hospitals. In addition, upon closing of the Province transaction, we will work to integrate the Province facilities. The following table reflects our summarized operating results:

	Years Ended December 31,		
	2002	2003	**2004**
Number of hospitals in continuing operations at end of period	27	28	**29**
Revenues from continuing operations (in millions)	$714.9	$875.6	**$996.9**
Income from continuing operations (in millions)	$ 42.9	$ 70.2	**$ 86.8**
Diluted earnings per share from continuing operations	$ 1.10	$ 1.80	**$ 2.20**

Anticipated Acquisition of Province Healthcare Company

We announced on August 16, 2004 that we entered into a definitive agreement to acquire Province Healthcare Company for approximately $1.7 billion in cash, stock and the assumption of debt. Province is a healthcare services company focused on operating acute care hospitals located in non-urban markets throughout the United States. As of December 31, 2004 Province owned or leased 21 general acute care hospitals in 13 states, with a total of approximately 2,533 licensed beds. Province generated $882.9 million in revenues from continuing operations during 2004. Province's objective has been to be the primary provider of quality healthcare services in the selected non-urban communities that it serves. If consummated, the proposed Province transaction will create a hospital company focused on providing healthcare services in non-urban communities, with 51 hospitals, of which 48 are located in markets where the combined company will be the sole hospital provider in the community. The transaction is expected to close in the first half of 2005.

Based on $40.20, the closing price of a share of our common stock on February 16, 2005 and the number of shares of Province common stock outstanding on such date, we will issue approximately 14.6 million shares of our common stock to Province stockholders and will pay approximately $571.2 million in cash.

Discontinued Operations

During 2004, we committed to a plan to divest Bartow. Please refer to Note 3 of our consolidated financial statements included elsewhere in this report for a discussion of our discontinued operations of Bartow. We expect to sell Bartow during 2005. Unless otherwise indicated, all relevant financial and statistical information included herein relates to our continuing operations.

Hospital Acquisitions

We seek to identify and acquire additional hospitals in non-urban areas. The proposed Province transaction gives us a unique opportunity to acquire 21 additional hospitals in non-urban areas. Additionally, we plan on pursuing a disciplined acquisition strategy that is focused on attempting to acquire one to three additional hospitals each year. We seek to acquire hospitals that are the sole or significant market provider of healthcare services in their community. In evaluating a hospital for acquisition, we focus on a variety of factors. One factor we consider is the number of patients that are traveling outside of the community for healthcare services. Another factor we consider is the hospital's prior operating history and our ability to implement new healthcare services. Upon acquiring a facility, we work to quickly integrate the hospital into our operating practices. Please refer to Note 2 of our consolidated financial statements included in this report for further discussion of acquisitions that we made in 2002, 2003 and 2004. In addition, please refer to the "Business Strategy" section in Part I, Item 1. *Business,* in our 2004 Form 10-K for a table of our hospital acquisitions since our inception.

Revenue Sources

Our hospitals generate revenues by providing healthcare services to our patients. We are paid for these healthcare services from a number of different sources, depending upon the patient's medical insurance coverage. Primarily, we are paid by governmental Medicare and Medicaid programs, by commercial insurance, including managed care organizations, and directly by the patient. The amounts we are paid for providing healthcare services to our patients vary depending upon the payor.

Governmental payors generally pay significantly less than the hospital's customary charges for the services provided. Please refer to the "Sources of Revenue" section in Part I, Item 1. *Business,* in our 2004 Form 10-K for a detailed discussion of our revenue sources.

Revenues from governmental payors, such as Medicare and Medicaid, are controlled by complex rules and regulations that stipulate the amount a hospital is paid for providing healthcare services. These rules and regulations require an extensive amount of effort to ensure our compliance with the requirements to participate in these governmental programs. In addition, these rules and regulations are subject to frequent changes as a result of legislative and administrative action on both the federal and state level. For these reasons, revenues from governmental payors change frequently and require us to regularly monitor the environment in which these governmental programs operate. For example, MMA increased the payments received by non-urban healthcare providers beginning in 2004.

Revenues from HMOs, PPOs and other private insurers are subject to contracts and other arrangements that require us to discount the amounts we customarily charge for healthcare services. These discounted arrangements often limit our ability to increase charges in response to increasing costs. We actively negotiate with these payors to ensure we are appropriately pricing our healthcare services. Insured patients are generally not responsible for any difference between customary hospital charges and the amounts received from commercial insurance payors. However, the patient is responsible for payments related to amounts not covered by insurance, such as exclusions, deductibles and co-payments.

Self-pay revenues are generated through the treatment of uninsured patients. Our hospitals experienced an increase in self-pay revenues during the past two years.

Revenues/Volume Trends

The key metrics we use internally to evaluate our revenues are equivalent admissions, which equate to volume, and revenue per equivalent admission, which relates to pricing and acuity. We anticipate our patient volumes and related revenues will continue to increase as a result of the following factors:

- *Physician Recruitment and Retention.* Recruiting and retaining both primary care physicians and specialists for our non-urban communities is a key to increasing revenues and patient volumes. Continuing to add specialists should help our hospitals increase volumes by offering new services. We signed 85 admitting physicians during 2004, all of which started work at our hospitals in 2004. In addition, we recruited 18 non-admitting physicians such as emergency room physicians, anesthesiologists, dermatologists, allergists and other important specialists who are vital to meeting community needs and often use hospital outpatient services. During 2005, we anticipate recruiting an additional 92 admitting physicians to start in 2005.
- *Capital Expenditures.* Increases in capital expenditures in our hospitals should increase our local market share and help persuade patients to obtain healthcare services within their communities. The following table reflects our capital expenditures:

	Capital Expenditures (in millions)		
	2002	2003	**2004**
Capital Projects	$38.8	$45.6	**$60.4**
Routine	18.7	22.7	**21.6**
Total	$57.5	$68.3	**$82.0**

- *Medicare Rate Increases.* MMA provides a prescription drug benefit for Medicare beneficiaries and also provides numerous provisions that provide incremental funding to hospitals. The earliest provisions of MMA were effective in 2004. Please refer to the "Sources of Revenue" section in Part I, Item 1. *Business,* in our 2004 Form 10-K report for a discussion of MMA's provisions that affect our reimbursement.

Although we anticipate that our patient volumes will increase, the resulting revenues will likely be partially offset by the following factors:

- *Growth in Outpatient Services.* We anticipate that the long-term growth trend in outpatient services will continue. A number of procedures once performed only on an inpatient basis have been, and will 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 those for similar procedures performed in an inpatient setting. The following table shows net outpatient, inpatient and other revenues as a percentage of our total revenues:

	Revenues		
	2002	2003	**2004**
Outpatient	50.2%	50.4%	**51.5%**
Inpatient	48.2	48.4	**47.3**
Other	1.6	1.2	**1.2**
Total	100.0%	100.0%	**100.0%**

- *Efforts to Reduce Payments.* Revenues from HMOs, PPOs and other private insurance programs are subject to contracts and other arrangements that require us to discount the amounts we customarily charge for healthcare services. These discounted arrangements often limit our ability to increase charges in response to increasing costs during the term of the contracts.

- *States Implementing Medicaid Cost Containment Measures.* A number of states have incurred budget deficits within recent years. To close these budget gaps, certain states have reduced spending and increased taxes. State cost containment activity continues to focus on reducing provider payments and limiting eligible enrollees under the state Medicaid programs.

Other Trends

- *Increases in Provision for Doubtful Accounts.* We experienced an increase in our provision for doubtful accounts during the past two years. The increase was the result of a combination of broad economic factors, including an increased number of uninsured patients, and health care plan design changes that resulted in increased co-payments and deductibles. Our provision for doubtful accounts was as follows (in millions):

	Provision for Doubtful Accounts		
	2002	2003	**2004**
First Quarter	$12.2	$15.8	**$20.7**
Second Quarter	11.7	15.1	**18.9**
Third Quarter	10.9	22.4	**24.4**
Fourth Quarter	15.0	20.8	**22.2**
Total	$49.8	$74.1	**$86.2**

The provision for doubtful accounts relates primarily to self-pay revenues. The following table reflects our quarterly self-pay revenue activity which exhibits these trends (in millions):

	Self-Pay Revenues		
	2002	2003	**2004**
First Quarter	$13.7	$17.6	**$21.0**
Second Quarter	15.5	16.6	**21.4**
Third Quarter	13.0	21.4	**26.8**
Fourth Quarter	15.4	20.1	**23.7**
Total	$57.6	$75.7	**$92.9**

Our revenues are reduced when we write-off patient accounts identified as charity and indigent care. Our hospitals write-off a portion of a patient's account upon the determination that the patient qualifies under a hospital's charity/indigent care policy. The following table reflects our charity and indigent care write-offs (in millions):

	Charity and Indigent Care Write-offs		
	2002	2003	**2004**
First Quarter	$0.7	$1.0	**$1.9**
Second Quarter	0.8	1.4	**2.4**
Third Quarter	1.0	1.0	**1.7**
Fourth Quarter	1.0	1.8	**1.8**
Total	$3.5	$5.2	**$7.8**

The following table shows our revenue days in our consolidated accounts receivable:

	Revenue Days in Accounts Receivable	
	2003	**2004**
March 31	39.8	**39.1**
June 30	38.7	**38.8**
September 30	37.7	**40.6**
December 31	39.3	**38.8**

The approximate percentages of billed hospital receivables (which is a component of total accounts receivable) are summarized as follows:

	December 31,	
	2003	**2004**
Insured receivables	41.1%	**40.9%**
Uninsured receivables (including co-payments and deductibles)	58.9	**59.1**
Total	100.0%	**100.0%**

The approximate percentages of billed hospital receivables in summarized aging categories are as follows:

	December 31,	
	2003	**2004**
0 to 60 days	47.5%	**52.5%**
61 to 150 days	23.6	**20.8**
Over 150 days	28.9	**26.7**
Total	100.0%	**100.0%**

We anticipate that our provision for doubtful accounts for the next several quarters will remain at approximately 8.5%-9% of revenues, excluding the Province hospitals. We implemented a number of operating strategies during 2004 that improved our cash collections of self-pay revenues. However, if the trend of increasing self-pay revenues continues, then this trend could have a material adverse effect on our results of operations and financial position in the future.

- *Increased Purchase Prices for Acquisitions.* As previously discussed, we attempt to make acquisitions in a highly competitive environment. We have seen higher prices being paid for hospital acquisitions in the past few years. In some cases, the cost of an acquisition could result in a dilutive effect on our results of operations for up to two years depending on various factors, including the acquired hospital's results of operations, allocations of tangible and intangible assets, effects of subsequent legislation changes and limitations on rate increases. In addition, our acquisition activity requires transitions from, and the integration of, various information systems that are used by hospitals we acquire. We rely heavily on HCA-IT for information systems integration as part of our contractual arrangement for information technology services.

- *Shortage of Clinical Personnel and Increased Contract Labor Usage.* In recent years, many hospitals, including the hospitals we own, have encountered difficulty in recruiting and retaining nursing and other clinical personnel. When we are unable to staff our nursing and clinical positions, we are required to use contract labor to ensure adequate patient care. Contract labor generally costs more per hour than employed labor. We have adopted a number of human resources strategies in an attempt to improve our ability to recruit and retain nursing and other clinical personnel. These strategies are working as we experienced a $1.2 million, or 8.9%, decrease in contract labor costs in 2004 compared to 2003. However, we expect that the staffing issues related to nurses and other clinical personnel will continue in the near term.

- *Increases in Supply Costs.* During the past few years, we have experienced an increase in supply costs as a percentage of revenues, especially in the areas of pharmaceutical, orthopaedic, and cardiac supplies. We participate in a group purchasing organization in an attempt to achieve optimum supply costs from our vendors. Because of the fixed reimbursement nature of most governmental and commercial payor arrangements, we may not be able to recover supply cost increases through increased revenues.

- *Challenges in Professional and General Liability Costs.* In recent years, we have incurred favorable loss experience, as reflected in our external actuarial reports. We implemented enhanced risk management processes for monitoring professional and general liability claims and managing in high-risk areas. Professional and general liability costs remain a challenge to us, and we expect this pressure to continue in the near term.

Outlook

We expect to continue increasing our revenues and net income by continuing to selectively acquire hospitals and increasing the operating results of the hospitals we currently own, including the hospitals we expect to acquire from Province. We plan to adhere to our disciplined acquisition strategy as we seek to selectively acquire hospitals. We intend to continue to invest in additional healthcare services in our facilities and implement our operating strategies.

The Province acquisition will require significant attention from our management to integrate the business practices and operations of Province's hospitals. In order for us to increase revenues and profitability of our hospitals, there are a number of ongoing challenges that we must effectively manage, such as:

- competition from other healthcare providers, including physicians in our communities;
- recruiting and retaining quality physicians;
- increasing the volume of patients in our facilities;
- staffing issues related to the shortage of clinical personnel and the use of contract labor;
- identifying and acquiring hospitals at appropriate prices;
- the integration of new acquisitions into our operating systems and practices;
- pricing pressures from government and commercial payors; and
- increased bad debt risk as a result of the increased number of uninsured patients and increased co-payments and deductibles due from insured patients.

By successfully focusing on each of these challenges, we anticipate increasing our revenues and profitability on both a short-term and long-term basis. These challenges are intensified by our inability to control related trends and the associated risks. Therefore, our actual results may differ from our expectations. To maintain or improve operating margins in the future, we must, among other things, increase patient volumes through physician recruiting while controlling the costs of providing services.

Critical Accounting Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect reported amounts and related disclosures. We consider an accounting estimate to be critical if:

- it requires assumptions to be made that were uncertain at the time the estimate was made; and
- changes in the estimate or different estimates that could have been made could have a material impact on our consolidated results of operations or financial condition.

The table that follows presents information about our critical accounting estimates, as well as the effects of hypothetical changes in the material assumptions used to develop each estimate:

Balance Sheet or Income Statement Caption/Nature of Critical Estimate Item	Assumptions/Approach Used	Sensitivity Analysis
Allowance for doubtful accounts and provision for doubtful accounts Accounts receivable primarily consist of amounts due from third-party payors and patients. Our ability to collect outstanding receivables is critical to our results of operations and cash flows. To provide for accounts receivable that could become uncollectible in the future, we establish an allowance for doubtful accounts to reduce the carrying value of such receivables to their estimated net realizable value. The primary uncertainty lies with uninsured patient receivables and deductibles, co-payments or other amounts due from individual patients. Our allowance for doubtful accounts, included in our balance sheets as of December 31 was as follows (in millions): • 2004–$103.6; and • 2003–$111.7. Our provision for doubtful accounts, included in our results of operations, was as follows (in millions): • 2004–$86.2; • 2003–$74.1; and • 2002–$49.8.	The largest component of bad debts in our patient accounts receivable relates to accounts for which patients are responsible, which we refer to as patient responsibility accounts. These accounts include both amounts payable by uninsured patients and co-payments and deductibles payable by insured patients. In general, our policy is to collect deductibles, co-payments and self-pay accounts prior to or at the time of service for non-emergency care. If we do not collect these patient responsibility accounts prior to the delivery of care, the accounts are handled through our billing and collections processes. We verify each patient's insurance coverage as early as possible before a scheduled admission or procedure, including with respect to eligibility, benefits and authorization/pre-certification requirements, in order to notify patients of the amounts for which they will be responsible. We verify insurance coverage within a reasonable amount of time for all emergency room visits and urgent admissions in compliance with the Emergency Medical Treatment and Active Labor Act. In general, we go through the following steps in collecting accounts receivable: • cash collection of deductibles, co-payments and self-pay accounts prior to or at the time service is provided; • billing and follow-up with third-party payors; • collection calls; • utilization of collection agencies; and • if collection efforts are unsuccessful, write-off of the accounts.	If self-pay revenues during 2004 were changed by 1%, our 2004 after-tax income from continuing operations would change by approximately $0.6 million. This is only one example of reasonably possible sensitivity scenarios. The process of determining the allowance requires us to estimate uncollectible patient accounts that are highly uncertain and requires a high degree of judgment. It is impacted by changes in regional economic conditions, business office operations, payor mix and trends in federal or state governmental healthcare coverage. A significant increase in our provision for doubtful accounts (as a percentage of revenues) would lower our earnings. This would adversely affect our results of operations, financial condition, liquidity and future access to capital.

Balance Sheet or Income Statement Caption/Nature of Critical Estimate Item	Assumptions/Approach Used	Sensitivity Analysis
	Our policy is to write off accounts after all collection efforts have failed, which is typically no longer than one year after the date of discharge of the patient. Patient responsibility accounts represent the majority of our write-offs. All of our hospitals retain third-party collection of delinquent accounts. At most of our hospitals, more than one collection agency is used to promote competition and improve performance results. The selection of collection agencies and the timing of referral of an account to a collection agency varies among hospitals. Generally, we do not write-off accounts prior to utilizing the services of a collection agency. Once collection efforts have proven unsuccessful, an account is written off from our patient accounting system against the allowance for doubtful accounts. We determine the adequacy of the allowance for doubtful accounts utilizing a number of analytical tools and benchmarks to determine the adequacy of the consolidated allowance. No single statistic or measurement determines the adequacy of the allowance. As it relates to our recently-acquired hospitals, we monitor trends in revenues and collections on a monthly basis for 18 to 24 months subsequent to the acquisition on a facility-by-facility basis. As it relates to our core hospitals, which we refer to as "same-hospital," we monitor the revenue trends by payor classification on a month-by-month basis along with the composition of our accounts receivable agings. This review is focused primarily on trends in self-pay revenues, accounts receivable, co-payment receivables and historical payment patterns. In addition, we analyze other factors such as revenue days in accounts receivable and reviewing admissions and charges by physicians, primarily focusing on recently recruited physicians.	

Balance Sheet or Income Statement Caption/Nature of Critical Estimate Item	Assumptions/Approach Used	Sensitivity Analysis
Revenue recognition/Allowance for contractual discounts We recognize revenues in the period in which services are performed. Accounts receivable primarily consist of amounts due from third-party payors and patients. Amounts we receive for treatment of patients covered by governmental programs, such as Medicare and Medicaid, and other third-party payors such as HMOs, PPOs and other private insurers, are generally less than our established billing rates. Accordingly, our gross revenues and accounts receivable are reduced to net realizable value through an allowance for contractual discounts. Approximately 86.8% of our revenues during 2004 relate to discounted charges. The sources of these revenues were as follows (as a percentage of total revenues): • Medicare–36.9%; • Medicaid–11.2%; and • Managed Care–38.7%.	Revenues are recorded at estimated net amounts due from patients, third-party payors and others for health care services provided. We utilize multiple patient accounting systems. Therefore, estimates for contractual allowances are calculated using computerized and manual processes depending on the type of payor involved and the patient accounting system used by each of our hospitals. In certain hospitals, the contractual allowances are calculated by a computerized system based on payment terms for each payor. In other hospitals, the contractual allowances are determined manually using historical collections for each type of payor. For all hospitals, certain manual estimates are used in calculating contractual allowances based on historical collections from payors that are not significant or have not entered into a contract with us. All contractual adjustments, regardless of type of payor or method of calculation, are reviewed and compared to actual experience. *Governmental payors* The majority of services performed on Medicare and Medicaid patients are reimbursed at predetermined reimbursement rates. The differences between the established billing rates (i.e., gross charges) and the predetermined reimbursement rates are recorded as contractual discounts and deducted from gross charges. Under a prospective reimbursement system, there is no adjustment or settlement of the difference between the actual cost to provide the service and the predetermined reimbursement rates. Discounts for retrospectively cost-based revenues, which were more prevalent in periods before 2000, are estimated based on historical and current factors and are adjusted in future periods when settlements of filed cost reports are received. Final settlements under these programs are subject to adjustment based on administrative review and audit by third-party intermediaries, which can take several years to resolve completely.	*Governmental payors* Because the laws and regulations governing the Medicare and Medicaid programs are complex and subject to change, the estimates we record could change by material amounts. Adjustments related to final settlements increased our revenues by the following amounts (in millions): • 2004–$7.5; • 2003–$6.0; and • 2002–$13.0.

Balance Sheet or Income Statement Caption/Nature of Critical Estimate Item	Assumptions/Approach Used	Sensitivity Analysis
	Managed Care For most managed care plans, estimated contractual allowances are adjusted to actual contractual allowances as cash is received and claims are reconciled. We evaluate the following criteria in developing the estimated contractual allowance percentages each month: historical contractual allowance trends based on actual claims paid by managed care payors; review of contractual allowance information reflecting current contract terms; consideration and analysis of changes in payor mix reimbursement levels; and other issues that may impact contractual allowances.	*Managed Care* If our overall estimated contractual discount percentage on all of our managed care revenues were changed by 1%, our 2004 after-tax income from continuing operations would change by approximately $4.5 million. This is only one example of reasonably possible sensitivity scenarios. The process of determining the allowance requires us to estimate the amount expected to be received and requires a high degree of judgment. It is impacted by changes in managed care contracts and other related factors. A significant increase in our estimate of contractual discounts would lower our earnings. This would adversely affect our results of operations, financial condition, liquidity and future access to capital.
Professional and general liability claims We are subject to potential medical malpractice lawsuits and other claims as part of providing healthcare services. To mitigate a portion of this risk, we maintained insurance for individual malpractice claims exceeding $1.0 million for 2001. For 2002, we increased our self-insured retention level to $10.0 million on individual malpractice claims. For 2003, we lowered our self-insured retention level to $5.0 million on individual malpractice claims and for 2004, we increased our self-insured retention level back to $10.0 million. Each year, we obtain quotes from various malpractice insurers with respect to the cost of obtaining medical malpractice insurance coverage. We compare these quotes to our most recent actuarially determined estimates of losses at various self-insured retention levels. Accordingly, changes in insurance costs affect the self-insurance retention level we choose each year. As insurance costs have increased in recent years, we have accepted a higher level of risk in self-insured retention levels.	Our reserves for professional and general liability claims are based upon independent actuarial calculations, which consider historical claims data, demographic considerations, severity factors and other actuarial assumptions in the determination of reserve estimates. Reserve estimates are discounted to present value using a 5.0% discount rate. We revise our reserve estimates twice each year based upon the calculations performed by our independent actuaries. Our estimated reserve for professional and general liability claims will be significantly affected if current and future claims differ from historical trends. While we monitor reported claims closely and consider potential outcomes as estimated by our independent actuaries when determining our professional and general liability reserves, the complexity of the claims, the extended period of time to settle the claims and the wide range of potential outcomes complicates the estimation process. In addition, certain states have passed varying forms of tort reform limiting the amount of medical malpractice losses. If such laws are passed in the states where our hospitals are located, our loss estimates could decrease.	During 2004, we ceased receiving reserve estimates from one of the three actuaries that had historically been used to calculate loss reserve estimates. This change in our estimation process reduced our reserve levels and related professional and general liability insurance expense for 2004 by $4.0 million, on a pretax basis, or $0.06 per diluted share. We continue to derive our estimates for financial reporting purposes by using a mathematical average of the actuarial valuations from our other two actuaries. The results of the updated actuarial valuations from these two actuaries reduced our reserve estimates for years prior to 2004 by $2.4 million on a pretax basis, or $0.03 per diluted share, which reduced our professional and general liability expense in 2004. Additionally, actuarial calculations include a large number of variables that may significantly impact the estimate of ultimate losses that are recorded during a reporting period. Professional judgment is used by each actuary in determining their loss estimates by selecting factors that are considered appropriate by the actuary for our specific circumstances. Changes in assumptions used by our independent actuaries with respect to

Balance Sheet or Income Statement Caption/Nature of Critical Estimate Item	Assumptions/Approach Used	Sensitivity Analysis
The reserve for professional and general liability claims, included in our balance sheets as of December 31 was as follows (in millions): • 2004–$27.2; and • 2003–$27.5. The reserve for professional and general liability claims as of the balance sheet dates reflects management's current estimate of all outstanding losses, including incurred but not reported losses, based upon actuarial calculations. The loss estimates included in the actuarial calculations may change in the future based upon updated facts and circumstances. The total cost of professional and general liability coverage, included in our results of operations, was as follows (in millions): • 2004–$5.4; • 2003–$8.3; and • 2002–$10.8. Our cost for professional and general liability coverage each year includes the actuarially determined estimate of losses for the current year, including claims incurred but not reported; the change in the estimate of losses for prior years based upon actual claims development experience as compared to prior actuarial projections; the insurance premiums for losses in excess of our self-insured retention levels; the administrative costs of the insurance program and interest expense related to the discounted portion of the liability.	We implemented enhanced risk management processes for monitoring professional and general liability claims and managing losses in high-risk areas during 2002 and 2003 to attempt to reduce loss levels and appropriately manage risk. We refined our estimation process for determining our reserves for professional and general liability claims during 2003 by expanding from using one actuary to using multiple actuaries. We use the calculations of each actuary and average their results in determining our recorded reserve levels. This averaging process results in a refined estimation approach that we believe produces a more reliable estimate of ultimate losses.	demographics, industry trends and judgmental selection of factors may impact our recorded reserve levels and our results of operations. We derive our estimates for financial reporting purposes by using a mathematical average of our actuarial results. Changes in our initial estimates of professional and general liability claims are non-cash charges and accordingly, there would be no material impact on our liquidity or capital resources.
Accounting for income taxes Deferred tax assets generally represent items that will result in a tax deduction in future years for which we have already recorded the tax benefit in our income statement. We assess the likelihood that deferred tax assets will be recovered from future taxable income. To the extent we believe that recovery is not probable, a valuation allowance is established. To the extent we establish a valuation allowance or increase this allowance, we must include an expense as part of the income tax provision in our results of operations.	The first step in determining the deferred tax asset valuation allowance is identifying reporting jurisdictions where we have a history of tax and operating losses or are projected to have losses in future periods as a result of changes in operational performance. We then determine if a valuation allowance should be established against the deferred tax assets for that reporting jurisdiction.	Our deferred tax liabilities exceeded our deferred tax assets by $26.6 million as of December 31, 2004, excluding the impact of valuation allowances. Historically, we have produced federal taxable income. Therefore, the likelihood of our not realizing the federal tax benefit of our deferred tax assets is remote.

Balance Sheet or Income Statement Caption/Nature of Critical Estimate Item	Assumptions/Approach Used	Sensitivity Analysis
Our deferred tax asset balances in our balance sheets as of December 31 were as follows (in millions): • 2004–$51.7; and • 2003–$36.3. Our valuation allowances for deferred tax assets in our balance sheets as of December 31 were as follows (in millions): • 2004–$3.4; and • 2003–$4.0. In addition, significant judgment is required in determining and assessing the impact of certain tax-related contingencies. We establish accruals when, despite our belief that our tax return positions are fully supportable, it is probable that we have incurred a loss related to tax contingencies and the loss or range of loss can be reasonably estimated. We adjust the accruals related to tax contingencies as part of our provision for income taxes in our results of operations based upon changing facts and circumstances, such as progress of a tax audit, development of industry related examination issues, as well as legislative, regulatory or judicial developments. A number of years may elapse before a particular matter, for which we have established an accrual, is audited and resolved.	The second step is to determine the amount of the valuation allowance. We will generally establish a valuation allowance equal to the net deferred tax asset (deferred tax assets less deferred tax liabilities) related to the jurisdiction identified in step one of the analysis. In certain cases, we may not reduce the valuation allowance by the amount of the deferred tax liabilities depending on the nature and timing of future taxable income attributable to deferred tax liabilities. In assessing tax contingencies, we identify tax issues that we believe may be challenged upon examination by the taxing authorities. We also assess the likelihood of sustaining tax benefits associated with tax planning strategies and reduce tax benefits based on management's judgment regarding such likelihood. We compute the tax and related interest on each contingency. We then determine the amount of loss or reduction in tax benefits based upon the foregoing and reflect such amount as a component of the provision for income taxes in the reporting period. During each reporting period, we assess the facts and circumstances related to recorded tax contingencies. If tax contingencies are no longer deemed probable based upon new facts and circumstances, the contingency is reflected as a reduction of the provision for income taxes in the current period.	However, we do have subsidiaries with a history of tax losses in certain state jurisdictions. If our assertion regarding the future profitability of those subsidiaries were incorrect, then our deferred tax assets would be understated by the amount of the valuation allowance of $3.4 million at December 31, 2004. The IRS may propose adjustments for items we have failed to identify as tax contingencies. If the IRS were to propose and sustain assessments equal to 10% of our taxable income for 2004, we would incur $5.0 million of additional tax payments plus applicable penalties and interest.

Our management has discussed the development and selection of these critical accounting estimates with the audit committee of our Board of Directors and the audit committee has reviewed the disclosure presented above relating to our critical accounting estimates.

The above table of critical accounting estimates is not intended to be a comprehensive list of all of our accounting policies that require estimates. We believe that of our significant accounting policies, as discussed in Note 1 of our consolidated financial statements, the estimates discussed above involve a higher degree of judgment and complexity. We believe the current assumptions and other considerations used to estimate amounts reflected in our consolidated financial statements are appropriate. However, if actual experience differs from the assumptions and other considerations used in estimating amounts reflected in our consolidated financial statements, the resulting changes could have a material adverse effect on our consolidated results of operations and our financial condition.

Results of Operations

Operating Results Summary

The following tables present summaries of results of operations for the three months ended December 31, 2003 and 2004, and for the years ended December 31, 2002, 2003 and 2004 (dollars in millions, except revenues per equivalent admission):

	Three Months Ended December 31,			
	2003	2004	Change	% Change
Revenues	$229.2	$257.5	$28.3	12.4%
Salaries and benefits[a]	90.1	102.7	12.6	14.0
Supplies[b]	30.9	33.7	2.8	9.3
Other operating expenses[c]	39.3	42.9	3.6	9.1
Provision for doubtful accounts	20.8	22.2	1.4	6.6
Depreciation and amortization	11.6	13.6	2.0	17.1
Interest expense, net	2.9	2.9	—	(1.0)
ESOP expense	2.0	2.3	0.3	23.0
	197.6	220.3	22.7	11.5
Income from continuing operations before minority interests and income taxes	31.6	37.2	5.6	17.3
Minority interests in earnings of consolidated entities	0.2	0.3	0.1	(9.6)
Income from continuing operations before income taxes	31.4	36.9	5.5	17.6
Provision for income taxes	11.7	13.9	2.2	17.8
Income from continuing operations	$ 19.7	$ 23.0	$ 3.3	17.5

	Three Months Ended December 31,	
	2003	2004
	% of Revenues	% of Revenues
Revenues	100.0%	100.0%
Salaries and benefits[a]	39.3	39.9
Supplies[b]	13.5	13.1
Other operating expenses[c]	17.1	16.6
Provision for doubtful accounts	9.1	8.6
Depreciation and amortization	5.1	5.4
Interest expense, net	1.3	1.1
ESOP expense	0.8	0.9
	86.2	85.6
Income from continuing operations before minority interests and income taxes	13.8	14.4
Minority interests in earnings of consolidated entities	0.1	0.1
Income from continuing operations before income taxes	13.7	14.3
Provision for income taxes	5.1	5.3
Income from continuing operations	8.6%	9.0%

	Three Months Ended December 31, 2003		2004	
	Amount	% Change from Prior Year	Amount	% Change from Prior Year
Continuing Operations[i]:				
Number of hospitals at end of period	28	3.7%	29	3.6%
Admissions[d]	23,722	20.9	22,769	(4.0)
Equivalent admissions[e]	46,338	22.9	45,744	(1.3)
Revenues per equivalent admission	$ 4,946	(4.2)	$ 5,630	13.8
Outpatient factor[e]	1.96	2.1	2.01	2.6
Emergency room visits[f]	110,842	28.0	103,852	(6.3)
Inpatient surgeries	6,281	18.2	6,500	3.5
Outpatient surgeries[g]	18,277	18.1	19,133	4.7
Total surgeries	24,558	18.1	25,633	4.4
Medicare case mix index[i]	1.17	1.7	1.20	2.6
Same-hospital[h]:				
Revenues	$ 222.7	N/M	$ 241.0	8.2%
Number of hospitals at end of period	27	N/M	27	—
Admissions[d]	23,135	N/M	21,621	(6.5)
Equivalent admissions[e]	44,912	N/M	42,721	(4.9)
Revenues per equivalent admission	$ 4,961	N/M	$ 5,641	13.7
Outpatient factor[e]	1.94	N/M	1.98	2.1
Emergency room visits[f]	107,289	N/M	95,763	(10.7)
Inpatient surgeries	6,115	N/M	6,063	(0.9)
Outpatient surgeries[g]	17,610	N/M	17,582	(0.2)
Total surgeries	23,725	N/M	23,645	(0.3)
Medicare case mix index[i]	1.16	N/M	1.19	2.6

	Years Ended December 31, 2003	2004	Change	% Change
Revenues	$875.6	$996.9	$121.3	13.9%
Salaries and benefits[a]	352.3	399.4	47.1	13.4
Supplies[b]	114.2	129.1	14.9	13.1
Other operating expenses[c]	155.4	166.8	11.4	7.4
Provision for doubtful accounts	74.1	86.2	12.1	16.3
Depreciation and amortization	43.1	48.1	5.0	11.6
Interest expense, net	12.8	12.6	(0.2)	(1.2)
Debt retirement costs	—	1.5	1.5	N/M
ESOP expense	6.9	9.4	2.5	37.5
	758.8	853.1	94.3	12.4
Income from continuing operations before minority interests and income taxes	116.8	143.8	27.0	23.0
Minority interests in earnings of consolidated entities	0.7	1.0	0.3	33.6
Income from continuing operations before income taxes	116.1	142.8	26.7	22.9
Provision for income taxes	45.9	56.0	10.1	21.7
Income from continuing operations	$ 70.2	$ 86.8	$ 16.6	23.7

	Years Ended December 31,			
	2002	2003	Change	% Change
Revenues	$714.9	$875.6	$160.7	22.5%
Salaries and benefits[a]	280.0	352.3	72.3	25.9
Supplies[b]	88.7	114.2	25.5	28.7
Other operating expenses[c]	129.6	155.4	25.8	19.8
Provision for doubtful accounts	49.8	74.1	24.3	48.9
Depreciation and amortization	35.0	43.1	8.1	23.0
Interest expense, net	13.3	12.8	(0.5)	(4.0)
Debt retirement costs	31.0	—	(31.0)	(100.0)
ESOP expense	9.7	6.9	(2.8)	(29.1)
	637.1	758.8	121.7	19.1
Income from continuing operations before minority interests and income taxes	77.8	116.8	39.0	50.3
Minority interests in earnings of consolidated entities	2.2	0.7	(1.5)	(66.7)
Income from continuing operations before income taxes	75.6	116.1	40.5	53.7
Provision for income taxes	32.7	45.9	13.2	40.6
Income from continuing operations	$ 42.9	$ 70.2	$ 27.3	63.8

	Years Ended December 31,		
	2002 % of Revenues	2003 % of Revenues	**2004 % of Revenues**
Revenues	100.0%	100.0%	**100.0%**
Salaries and benefits[a]	39.2	40.2	**40.1**
Supplies[b]	12.4	13.0	**12.9**
Other operating expenses[c]	18.1	17.8	**16.7**
Provision for doubtful accounts	7.0	8.5	**8.7**
Depreciation and amortization	4.8	4.8	**4.9**
Interest expense, net	1.9	1.5	**1.3**
Debt retirement costs	4.3	—	**0.1**
ESOP expense	1.4	0.8	**0.9**
	89.1	86.6	**85.6**
Income from continuing operations before minority interests and income taxes	10.9	13.4	**14.4**
Minority interests in earnings of consolidated entities	0.3	0.1	**0.1**
Income from continuing operations before income taxes	10.6	13.3	**14.3**
Provision for income taxes	4.6	5.3	**5.6**
Income from continuing operations	6.0%	8.0%	**8.7%**

	Years Ended December 31, 2002		2003		2004	
	Amount	% Change from Prior Year	Amount	% Change from Prior Year	Amount	% Change from Prior Year
Continuing Operations[j]:						
Number of hospitals at end of period	27	22.7%	28	3.7%	29	3.6%
Admissions[d]	74,488	10.4	88,695	19.1	91,772	3.5
Equivalent admissions[e]	142,570	16.3	175,439	23.1	183,819	4.8
Revenues per equivalent admission	$ 5,015	3.9	$ 4,991	(0.5)	$ 5,423	8.7
Outpatient factor[e]	1.91	4.9	1.98	3.7	2.0	1.0
Emergency room visits[f]	329,922	14.2	408,321	23.8	416,060	1.9
Inpatient surgeries	20,480	16.5	24,528	19.8	26,235	7.0
Outpatient surgeries[g]	59,950	16.0	71,488	19.2	75,508	5.6
Total surgeries	80,430	16.1	96,016	19.4	101,743	6.0
Medicare case mix index[i]	1.15	—	1.17	1.7	1.18	0.9
Same-hospital[h]:						
Revenues	N/M	N/M	$ 869.1	N/M	$ 951.7	9.5
Number of hospitals at end of period	N/M	N/M	27	N/M	27	—
Admissions[d]	N/M	N/M	88,108	N/M	88,461	0.4
Equivalent admissions[e]	N/M	N/M	174,013	N/M	175,064	0.6
Revenues per equivalent admission	N/M	N/M	$ 4,995	N/M	$ 5,436	8.8
Outpatient factor[e]	N/M	N/M	1.98	N/M	1.98	—
Emergency room visits[f]	N/M	N/M	404,768	N/M	392,422	(3.1)
Inpatient surgeries	N/M	N/M	24,362	N/M	25,030	2.7
Outpatient surgeries[g]	N/M	N/M	70,821	N/M	71,077	0.4
Total surgeries	N/M	N/M	95,183	N/M	96,107	1.0
Medicare case mix index[i]	N/M	N/M	1.17	N/M	1.18	0.9

N/M – not meaningful.

(a) Represents our cost of salaries and benefits, including employee health benefits and workers compensation insurance, for all hospital and corporate employees and contract labor.

(b) Includes our hospitals' costs for pharmaceuticals, blood, surgical instruments and all general supply items, including the cost of freight.

(c) Consists primarily of contract services, physician recruitment, professional fees, repairs and maintenance, rents and leases, utilities, insurance, marketing and non-income taxes.

(d) 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.

(e) 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 outpatient factor (the sum of gross inpatient revenue and gross outpatient revenue and then dividing the resulting amount by gross inpatient revenue). The equivalent admissions computation "equates" outpatient revenue to the volume measure (admissions) used to measure inpatient volume resulting in a general measure of combined inpatient and outpatient volume.

(f) Represents the total number of hospital-based emergency room visits.

(g) Outpatient surgeries are those surgeries that do not require admission to our hospitals.

(h) Same-hospital information excludes the operations of hospitals that we acquired after January 1, 2003 and Bartow, which is held for sale. The costs of corporate overhead are included in same-hospital information.

(i) Refers to the acuity or severity of illness of an average Medicare patient at our hospitals.

(j) Continuing operations information excludes the operations of Bartow, which we plan to sell and is classified as held for sale. All historical amounts have been restated to exclude the operations of Bartow. Please refer to Note 3 of our consolidated financial statements included elsewhere herein for a discussion of this potential asset sale.

For the Quarters Ended December 31, 2003 and 2004

Revenues

Our revenues for the quarter ended December 31, 2004 increased by $28.3 million, or 12.4%, to $229.2 million compared to the quarter ended December 31, 2003. This increase is attributable to a number of factors, including:

- $18.3 million from our same-hospital revenues; and
- $10.0 million from our 2003 acquisition of Spring View Hospital and 2004 acquisition of River Parishes Hospital.

Adjustments to estimated reimbursement amounts increased our revenues by $3.7 million for the quarter ended December 31, 2004 compared to decreasing our revenues by $0.1 million for the quarter ended December 31, 2003. Of the $3.7 million in revenues during the quarter ended December 31, 2004, $2.3 million related to Medicaid settlements, which covered a number of settlement years at one of our rural health clinics. We employ the physicians at this clinic and these settlements also increased their salary and wages. The net impact on our income from continuing operations before income taxes was only $0.2 million. Our DSH payments from Medicare for the quarter ended December 31, 2004 were $6.5 million, an increase of $4.1 million over the same period in 2003. This increase is primarily the result of the DSH payment increases under MMA.

Our same-hospital inpatient revenues for the quarter ended December 31, 2004 increased by $3.2 million, or 2.8%, to $118.1 million compared to the quarter ended December 31, 2003. However, our same-hospital admissions decreased by 6.5% in the quarter ended December 31, 2004 as compared to the quarter ended December 31, 2003. The primary factor that caused this volume decrease was a 28.8% decrease in respiratory or flu-related admissions in the quarter ended December 31, 2004 as compared to the same period in 2003. This decrease was partially offset by increases in musculoskeletal and circulatory admissions, which involve higher intensity procedures. The increase in higher intensity procedures is the result of capital spending at our facilities and strong physician recruitment in the past year. Although our inpatient surgery cases decreased slightly in the quarter ended December 31, 2004 as compared to the same period in 2003, our higher acuity cases such as orthopaedic and cardiovascular surgeries increased.

Our same-hospital outpatient revenues for the quarter ended December 31, 2004 increased by $15.5 million, or 14.8%, to $120.3 million compared to the quarter ended December 31, 2003. This outpatient growth was largely driven by an increase in radiology procedures such as CT-scans and MRIs, cardiac catheterization procedures and nuclear medicine cases. This increase was partially offset by a slight decrease in same-hospital outpatient surgeries and a 10.7% decrease in same-hospital emergency room visits. This large decrease was primarily the result of a decline in flu-related cases. Outpatient surgeries declined slightly, primarily as a result of competition with a new physician-owned surgery center near our Dodge City, Kansas hospital.

After factoring all of the above, our equivalent admissions decreased on a same-hospital basis for the quarter ended December 31, 2004 compared to the same period in 2003. As it relates to pricing and acuity, our same-hospital revenues per equivalent admission for the quarter ended December 31, 2004 increased by $680 per equivalent admission over the same period in 2003, reflecting positive reimbursement trends and higher intensity procedures, as discussed above.

The table below shows the sources of our revenues for the quarters ended December 31, expressed as percentages of total revenues, including adjustments to estimated reimbursement amounts:

	Continuing Operations		Same-hospital	
	2003	**2004**	2003	**2004**
Medicare	36.6%	**36.5%**	36.7%	**37.1%**
Medicaid	11.0	**11.4**	11.0	**11.7**
HMOs, PPOs and other private insurers	39.8	**38.8**	39.8	**38.8**
Self Pay	8.7	**9.2**	8.5	**8.9**
Other	3.9	**4.1**	4.0	**3.5**
Total	100.0%	**100.0%**	100.0%	**100.0%**

Expenses

Salaries and benefits as a percentage of revenues increased from 39.3% for the quarter ended December 31, 2003 to 39.9% for the quarter ended December 31, 2004, primarily as a result of our recent acquisition of River Parishes Hospital, which had higher salaries and benefits as a percentage of revenues than our average and the increases in salaries to the employed physicians at the rural health clinic as a result of the Medicaid settlements described in "Revenues" above. Man-hours per equivalent admission increased 5.9% for the quarter ended December 31, 2004 over the same period last year. We had a 9.1% increase in salaries and benefits per man-hour in the quarter ended December 31, 2004 compared to the same period in 2003, primarily because of an increase in employee benefit costs. However, our contract labor costs decreased by 11.2% to $2.7 million in the quarter ended December 31, 2004 compared to $3.0 million in the quarter ended December 31, 2003. Appropriate staffing and minimizing the use of contract labor will continue to be a significant initiative for us.

Supply costs as a percentage of revenues decreased from 13.5% for the quarter ended December 31, 2003 to 13.1% for the quarter ended December 31, 2004, on a consolidated basis. On a consolidated and same-hospital basis, our cost of supplies per

equivalent admission increased 10.7% and 10.5%, respectively, in the quarter ended December 31, 2004 as a result of rising supply costs compared to the same period in 2003, particularly in the pharmaceutical, cardiac and orthopaedic hip and joint implant areas. This was partially offset because our same-hospital surgeries, which generally incur higher supply costs per equivalent admission, decreased for the quarter ended December 31, 2004 over the same period in 2003.

Other operating expenses as a percentage of revenues decreased from 17.1% for the quarter ended December 31, 2003 to 16.6% for the quarter ended December 31, 2004, primarily as a result of the 12.4% increase in our revenues, which grew at a faster rate than our other operating expenses. This is because a portion of our other operating expenses are fixed and not volume-driven. Our professional and general liability insurance expense was a negative $1.1 million during the quarter ended December 31, 2004 compared to $0.7 million in the quarter ended December 31, 2003. This decrease relates to favorable loss experience as reflected in our year-end external actuarial reports and our 2004 change to cease using one of our actuaries to estimate projected losses under the self-insured portion of our insurance program, as further discussed above in the "Critical Accounting Estimates." We believe the favorable loss experience was a direct result of our implementation of risk management programs, risk assessment surveys and follow-up, and quality care programs instituted. Our physician recruiting costs increased from $3.5 million in the quarter ended December 31, 2003 to $4.6 million in the quarter ended December 31, 2004 as a result of our increased number of recruited physicians. Our HCA information technology services expenses for the quarter ended December 31, 2004 was $4.7 million compared to $3.8 million for the same period in 2003 as a result of an increased number of hospitals and information system conversion fees.

Provision for doubtful accounts as a percentage of revenues decreased from 9.1% for the quarter ended December 31, 2003 to 8.6% for the quarter ended December 31, 2004. We have implemented numerous programs at our facilities to increase cash collections prior to or at the time the service is provided without limiting the access to healthcare services for those unable to pay for such services. The provision for doubtful accounts related primarily to self-pay amounts due from patients. Our self-pay revenues, net of charity and indigent care write-offs, increased by 18.9% from $20.1 million for the quarter ended December 31, 2003 to $23.7 million for the quarter ended December 31, 2004. The factors influencing this increase are primarily a combination of broad economic factors, including the increased number of uninsured patients and health care plan design changes that resulted in increased co-payments and deductibles.

Depreciation and amortization expense increased to $13.6 million in the quarter ended December 31, 2004 from $11.6 million in the quarter ended December 31, 2003, primarily as a result of our acquisitions and depreciation associated with recently completed capital improvements at our facilities.

The provision for income taxes from continuing operations increased to $13.9 million in the quarter ended December 31, 2004 from $11.7 million in the quarter ended December 31, 2003. The income tax provisions from continuing operations reflected an effective income tax rate of 37.5% for the quarter ended December 31, 2004 compared to 37.4% for the quarter ended December 31, 2003.

For the Years Ended December 31, 2003 and 2004

Revenues

Our revenues for 2004 increased by $121.3 million, or 13.9%, to $996.9 million compared to 2003. This increase is attributable to:

- $82.6 million increase in our same-hospital revenues; and
- $38.7 million in revenues from our 2003 acquisition of Spring View Hospital and 2004 acquisition of River Parishes Hospital.

Adjustments to estimated reimbursement amounts increased our revenues by $7.5 million for 2004 compared to $6.0 million for 2003. In addition, as discussed in Note 1 to our consolidated financial statements, we recognized $3.2 million in additional revenues during 2004 following the confirmation by CMS of a Medicare disproportionate share ("DSH") designation at one of our hospitals. Our DSH payments from Medicare for 2004 were $21.2 million, an increase of $11.2 million over 2003. This increase is primarily the result of the DSH payment increases under MMA.

Our same-hospital inpatient revenues for 2004 increased by $42.3 million, or 10.0%, to $463.4 million compared to 2003. The primary factors causing this change were increases in admissions and inpatient surgeries, which involve higher intensity procedures. The increase in higher intensity procedures is the result of capital spending at our facilities and strong physician recruitment in the past year.

Our same-hospital outpatient revenues for 2004 increased by $40.2 million, or 9.2%, to $477.7 million compared to 2003. This outpatient growth was largely driven by a 0.4% increase in same-hospital outpatient surgeries, an increase in radiology procedures such as CT-scans and MRIs, as well as cardiac catheterization procedures. In addition, the $40.2 million increase in revenues includes $3.2 million from the Medicare DSH designation described in Note 1 to our consolidated financial statements in this report.

After factoring all of the above, our equivalent admissions increased by 0.6% on a same-hospital basis for 2004 compared to 2003. As it relates to pricing and acuity, our same-hospital revenues per equivalent admission for 2004 increased 8.8%, or $441 per equivalent admission, over 2003 reflecting positive reimbursement trends and higher intensity procedures as discussed above.

The table below shows the sources of our revenues for the years ended December 31, expressed as percentages of total revenues:

	Continuing Operations		Same-hospital	
	2003	**2004**	2003	**2004**
Medicare	35.9%	**36.9%**	36.6%	**37.3%**
Medicaid	10.9	**11.2**	10.9	**11.3**
HMOs, PPOs and other private insurers	40.5	**38.7**	39.8	**38.7**
Self Pay	8.6	**9.3**	8.6	**9.0**
Other	4.1	**3.9**	4.1	**3.7**
Total	100.0%	**100.0%**	100.0%	**100.0%**

Expenses

Salaries and benefits decreased slightly as a percentage of revenues for 2004 as compared to 2003, primarily as a result of the 13.9% increase in our revenues. Man-hours per equivalent admission increased 1.2% for 2004 over 2003. In addition, we had a 6.1% increase in salaries and benefits per man-hour in 2004 compared to 2003. However, our contract labor costs decreased by 8.9% to $12.2 million in 2004 compared to $13.4 million in 2003. Appropriate staffing and minimizing the use of contract labor will continue to be a significant initiative for us.

Supply costs as a percentage of revenues decreased slightly for 2004 as compared to 2003, primarily as a result of the increase in our revenues. On both a consolidated and same-hospital basis, our cost of supplies per equivalent admission increased 7.9% in 2004 as a result of rising supply costs compared to 2003, particularly in the pharmaceutical, cardiac and spine and joint implant areas. In addition, our same-hospital surgeries, which generally incur higher supply costs per equivalent admission, increased by 1.0% for 2004 over 2003.

Other operating expenses as a percentage of revenues decreased from 17.8% in 2003 to 16.7% in 2004, primarily as a result of the 13.9% increase in our revenues and a $2.9 million decrease in our professional and general liability insurance expense.

A portion of our other operating expenses are fixed and not volume-driven. Our professional and general liability insurance expense was $5.4 million during 2004 compared to $8.3 million in 2003. This decrease relates to favorable loss experience as reflected in our year-end external actuarial reports and our estimate changes regarding the use of multiple actuaries to estimate projected losses under the self-insured portion of our insurance program, as further discussed above in the "Critical Accounting Estimates," included elsewhere herein. However, our physician recruiting costs increased from $12.0 million in 2003 to $14.8 million in 2004 as a result of our increased number of recruited physicians. Our HCA information technology services expense for 2004 increased to $15.8 million compared to $13.7 million in 2003 as a result of an increased number of hospitals and information system conversion fees.

Provision for doubtful accounts increased as a percentage of revenues from 8.5% in 2003 to 8.7% in 2004. The provision for doubtful accounts related primarily to self-pay amounts due from patients. Our self-pay revenues, net of charity and indigent care write-offs, increased by 22.7% from $75.7 million for 2003 to $92.9 million for 2004. The factors influencing this increase are primarily a combination of broad economic factors, including the increased number of uninsured patients and plan design changes increasing co-payments and deductibles. On a same-hospital basis, the provision for doubtful accounts remained constant as a percentage of revenues at 8.5% for both 2004 and 2003. We have implemented numerous programs at our facilities to increase cash collections prior to or at the time the service is provided without limiting the access to healthcare services for those unable to pay for such services.

Depreciation and amortization expense increased to $48.1 million in 2004 from $43.1 million in 2003, primarily as a result of our acquisitions and depreciation associated with recently completed capital improvements at our facilities.

The provision for income taxes from continuing operations increased to $56.0 million in 2004 from $45.9 million in 2003. The income tax provisions from continuing operations reflected an effective income tax rate of 39.2% for 2004 compared to 39.6% for 2003. The effective tax rate decreased primarily as a result of decreases to valuation allowances attributable to state net operating losses.

For the Years Ended December 31, 2002 and 2003

Revenues

Our revenues for 2003 increased by $160.7 million, or 22.5%, to $875.6 million compared to 2002. This increase is attributable to a number of factors, including:

- $34.8 million from our same-hospital revenues, excluding adjustments to estimated reimbursement amounts and including a $2.9 million decrease in non-patient revenues;
- $126.5 million increase from our 2002 acquisitions (our 2002 acquisitions had revenues of $140.1 million and $13.6 million in 2003 and 2002, respectively);
- $6.4 million from our 2003 acquisition of Spring View Hospital; and
- $7.0 million net decrease in our adjustments to estimated reimbursement amounts. Adjustments to estimated reimbursement amounts resulted in an increase to net revenues of $6.0 million in 2003 compared to $13.0 million in 2002. Net adjustments of $5.0 million of the $13.0 million in 2002 related to the favorable settlement of a Kentucky inpatient Medicaid rate appeal that covered the period January 1, 1996 through June 30, 2002. The remaining $8.0 million of adjustments related primarily to cost reports that were delayed by outpatient PPS. The adjustments to estimated reimbursement amounts had a favorable diluted earnings per share effect of $0.08 for 2003 and $0.17 for 2002.

Our same-hospital inpatient revenues, excluding adjustments to estimated reimbursement amounts, in 2003 increased by $16.6 million, or 5.1%, to $344.9 million compared to 2002. Our same-hospital Medicare case mix increased from 1.16 in 2002 to 1.18 in 2003. A primary driver in the case mix increase was our open-heart program at Lake Cumberland Regional Hospital that opened in the fourth quarter of 2002. In addition, we had a 0.8% increase in our inpatient surgeries in 2003 compared to 2002, on a same-hospital basis.

Our same-hospital outpatient revenues, excluding adjustments to estimated reimbursement amounts, in 2003 increased by $21.8 million, or 6.3%, to $369.3 million compared to 2002. This outpatient growth was largely driven by a 1.5% increase in same-hospital outpatient surgeries and a 1.9% increase in same-hospital emergency room visits.

After factoring all of the above, our equivalent admissions increased by 1.0% on a same-hospital basis in 2003 compared to 2002. As it relates to pricing and acuity, our same-hospital revenues per equivalent admission for 2003 were up 2.9%, or $148 per equivalent admission, over 2002. Revenues per equivalent admission on our 2002 acquisitions were approximately $1,000 less than our same-hospital revenues per equivalent admission during 2003 because our 2002 acquisitions are located in states with lower reimbursement levels.

The table below shows the sources of our revenues for the years ended December 31, expressed as percentages of total revenues, including adjustments to estimated reimbursement amounts:

	Continuing Operations		Same-hospital	
	2002	2003	2002	2003
Medicare	35.4%	35.9%	35.5%	36.2%
Medicaid	11.6	10.9	11.7	11.1
HMOs, PPOs and other private insurers	43.0	40.5	43.1	42.5
Self Pay	8.1	8.6	7.9	8.1
Other	1.9	4.1	1.8	2.1
Total	100.0%	100.0%	100.0%	100.0%

Expenses

Salaries and benefits increased as a percentage of revenues primarily as a result of our 2002 acquisitions, which had higher than average salaries and benefits as a percentage of our revenues. Salaries and benefits in 2003 were approximately 45.3% as a percentage of revenues for our 2002 acquisitions. On a same-hospital basis, salaries and benefits increased as a percentage of revenues to 39.2% in 2003 compared to 38.9% in 2002. This was primarily due to a 4.8% increase in same-hospital salaries and benefits per man-hour in 2003 compared to 2002. However, our productivity improved with a 1.0% decrease in our man-hours per equivalent admission. In addition, our same-hospital contract labor increased by 12.4% to $12.1 million in 2003 compared to $10.7 million in 2002 as a result of continuing clinical labor shortages in some of our communities.

Supply costs as a percentage of revenues increased in 2003 compared to 2002. On a same-hospital basis, supply costs increased as a percentage of revenues to 12.9% in 2003 from 12.3% in 2002. On a same-hospital basis, our cost of supplies per equivalent admission increased 7.4% as a result of rising supply costs, particularly in the pharmaceutical and cardiac areas. In addition, we opened our new open-heart unit at Lake Cumberland Regional Hospital during the fourth quarter of 2002, which also contributed to the increase in our supply costs per equivalent admission. We utilize the group-purchasing and supplies management services of HealthTrust Purchasing Group, which makes certain national supply and equipment contracts available to our facilities.

Other operating expenses decreased as a percentage of revenues in 2003 from 2002. On a same-hospital basis, other operating expenses decreased as a percentage of revenues to 17.5% in 2003 from 18.0% in 2002 primarily as a result of lower professional and general liability insurance expense. Our professional and general liability insurance expense was $8.3 million during 2003 compared to $10.8 million in 2002. This decrease relates to favorable loss experience as reflected in our external actuarial reports and our 2003 change to using multiple actuaries to estimate projected losses under the self-insured portion

of our insurance program, as discussed above in the "Critical Accounting Estimates." Our physician recruiting costs increased from $5.8 million in 2002 to $12.0 million in 2003 as a result of our increased number of recruited physicians.

Provision for doubtful accounts increased as a percentage of revenues in 2003 compared to 2002. The provision for doubtful accounts related primarily to self-pay amounts due from patients. Our self-pay revenues for 2003 increased by 31.4% to $75.7 million compared to $57.6 million in 2002. The factors influencing this increase are a combination of broad economic factors, including the increased number of uninsured patients, employers shifting costs to employees through higher co-payments and higher unemployment rates. In addition, our 2002 acquisitions had a higher than average provision for doubtful accounts as a percentage of our revenues. Provision for doubtful accounts as a percentage of revenues for our 2002 acquisitions was 14.8% for 2003. On a same-hospital basis, the provision for doubtful accounts also increased as a percentage of revenues to 7.2% in 2003 from 6.8% in 2002 as a result of the same factors described above.

Depreciation and amortization expense increased in 2003 compared to 2002, primarily as a result of our 2002 and 2003 acquisitions and depreciation associated with capital improvements at our facilities. Depreciation expense associated with our 2002 and 2003 acquisitions was $6.6 million for 2003. Same-hospital depreciation and amortization expense was $36.5 million in 2003 compared to $34.5 million in 2002.

We repurchased all of our $150.0 million 10¾% Senior Subordinated Notes during 2002. In connection with these repurchases, we incurred debt retirement costs of $31.0 million which consisted of $26.5 million in premiums, commissions and fees paid for the repurchases and $4.5 million in non-cash net deferred loan cost write-offs.

The provision for income taxes increased in 2003 compared to 2002. The income tax provisions reflected an effective income tax rate from continuing operations of 39.6% for 2003 compared to 43.3% for 2002. The effective tax rate decrease was attributable to a decrease in the ESOP permanent difference and a reduction in tax contingencies relating to adjustments to IRS examination issues as a result of the IRS issuing its findings during 2003. Please refer to Note 5 to our consolidated financial statements in this report for more information related to the IRS findings.

Liquidity and Capital Resources

Liquidity

Our primary sources of liquidity are cash flows provided by our operations and our revolving credit facility. Our liquidity for 2003 and 2004 was derived primarily from net cash provided by operating activities.

Cash flows from continuing operations for the years ended December 31 were as follows (in millions):

Source (use) of cash flows	2002	2003	2004
Operating activities	$ 114.3	$105.0	**$ 148.6**
Investing activities	(221.5)	(84.2)	**(113.6)**
Financing activities	75.7	(21.0)	**(37.8)**
Net change in cash and cash equivalents from continuing operations	$ (31.5)	$ (0.2)	**$ (2.8)**
Interest payments	$ 16.3	$ 12.4	**$ 12.1**
Income taxes paid, net	$ 21.0	$ 41.4	**$ 44.6**
Working capital as of December 31, excluding assets and liabilities held for sale	$ 67.5	$102.1	**$ 115.9**

2004

Operating Activities

The $43.6 million increase in cash flows provided by continuing operating activities for 2004 as compared to 2003 is primarily a result of:

- increased income from continuing operations of $16.6 million in 2004 as compared to 2003; and
- improved cash flows from operations related to changes in working capital of $20.1 million in 2004 as compared to 2003, partially because of the collection of receivables that were delayed in 2003 from the difficulties that some of our Medicare intermediaries experienced complying with HIPAA. However, we paid $3.2 million more in income taxes during 2004 as compared to 2003 as a result of an increase in our net income.

Investing Activities

Cash used in continuing investing activities during 2004 consisted primarily of capital improvement costs of $82.0 million, the $24.8 million purchase price and direct transaction costs of River Parishes Hospital, the $0.5 million direct transaction costs and working capital settlement of Spring View Hospital, the $3.6 million direct transaction costs related to the Province acquisition, and $1.5 million related to our purchase of a surgery center in Sulligent, Alabama. Our routine capital expenditures decreased from $22.7 million in 2003 to $21.6 million in 2004 as a result of a higher number of routine projects during 2003. Cash used in investing activities for 2003 primarily consisted of capital improvement costs of $68.3 million and the initial purchase price of Spring View Hospital of $15.7 million.

Financing Activities

Cash used in continuing financing activities during 2004 consisted primarily of $29.9 million used to repurchase our Convertible Notes, including $0.9 million in cash premium costs, and $50.0 million repayments under our revolving

credit facility. These activities were partially offset by $30.0 million borrowed under our revolving credit facility and $10.2 million in proceeds from stock option exercises and purchases of shares under our employee stock purchase plans. We used approximately $24.5 million of the $30.0 million revolving credit facility borrowing to acquire River Parishes Hospital.

2003

Operating Activities

The decrease in cash flows from continuing operating activities in 2003 compared to 2002 primarily reflects:

- Higher tax payments of approximately $20.4 million in 2003, primarily as a result of the tax benefit associated with our debt retirement costs during 2002, which reduced income tax payments in 2002, and approximately $6.6 million of prepaid tax payments related to our pending IRS examination settlement, as discussed in Note 5 to our consolidated financial statements in this report.
- Higher revenues in December 2003 compared to December 2002 as a result of higher admissions in December 2003. In addition, some of our Medicare intermediaries experienced some technical difficulties complying with HIPAA as we electronically submitted our bills, thereby slowing our collections. These factors led to a $16.4 million increase in our consolidated accounts receivable balance as of December 31, 2003 compared to December 31, 2002.
- An increase in our working capital, excluding assets and liabilities held for sale, by $34.6 million from December 31, 2002 to December 31, 2003. This increase was primarily the result of the increases in accounts receivable and income taxes receivable, as discussed above. The increase in accounts receivable increased our net revenue days in accounts receivable at December 31, 2003, exclusive of our 2002 and 2003 acquisitions, to 37.5 days compared to 35.4 days at December 31, 2002.

Investing Activities

Cash used in continuing investing activities primarily consisted of capital improvement costs of $68.3 million and the purchase of Spring View Hospital for $15.8 million, including direct transaction costs and working capital. We used our available cash to finance the cost of this acquisition. Our routine capital expenditures increased from $18.7 million in 2002 to $22.7 million in 2003 as a result of an increased base of fixed assets.

Financing Activities

Cash used in continuing financing activities consisted primarily of $45.7 million in repurchases of common stock, partially offset by $20.0 million borrowed under our revolving credit facility.

Capital Resources

Revolving Credit Facility

Our revolving credit facility provides for borrowings up to $200.0 million, expires in June 2006, is guaranteed by substantially all of our current and future subsidiaries and is secured by substantially all of our assets. The revolving credit facility requires that we comply with certain financial covenants, including:

	Requirement	Level at December 31, 2004
Maximum permitted consolidated leverage ratio	<3.50 to 1.00	1.06 to 1.00
Maximum permitted consolidated senior leverage ratio	<2.50 to 1.00	0.04 to 1.00
Minimum permitted consolidated interest coverage ratio	>3.50 to 1.00	15.51 to 1.00
Minimum permitted consolidated net worth	>$269.9 million	$509.5 million
Maximum capital expenditures—last twelve months	<$136.1 million	$ 82.3 million

The revolving credit facility also requires that we comply with various other covenants, including, but not limited to, restrictions on new indebtedness, the ability to merge or consolidate, asset sales, capital expenditures, acquisitions and dividends, with respect to all of which we were in compliance as of December 31, 2004. During the second quarter of 2004, we entered into an amendment under the revolving credit facility that allows us to repurchase up to $150.0 million of our Convertible Notes. As of December 31, 2004, we had no outstanding indebtedness under our revolving credit facility and letters of credit in the aggregate amount of $8.3 million outstanding, leaving $191.7 million available under our revolving credit facility. We repaid the $20.0 million of indebtedness outstanding under our revolving credit facility in February 2004 with our available cash. In addition, we borrowed $30.0 million under our revolving credit facility in 2004 to fund our acquisition of River Parishes Hospital and for general corporate purposes. Subsequently during 2004, we used our available cash to repay the $30.0 million of indebtedness outstanding under the revolving credit facility.

The applicable interest rate under the revolving credit facility is based on a rate, at our option, equal to either (i) LIBOR plus a margin ranging from 1.25% to 2.25% or (ii) prime plus a margin ranging from 0% to 0.5%, both depending on our consolidated total debt to consolidated EBITDA ratio, as defined, for the most recent four quarters.

Our revolving credit facility does not contain provisions that would accelerate the maturity date of our debt upon a downgrade in our credit rating. However, a downgrade in our credit rating could adversely affect our ability to renew our existing credit facility or obtain access to new credit facilities or other capital sources in the future and could increase the cost of such facilities and other capital sources. Our credit ratings as of December 31, 2004 were as follows:

	Standard & Poor's	Moody's
Corporate Credit Rating/Senior Implied	BB	Ba3
Senior Secured Bank Credit Facility	BB+	Ba2
Senior Unsecured/Issuer	—	B2
Subordinated	—	B3
Outlook	Watch, Negative	Positive

Standard & Poor's placed our ratings on credit watch with negative implications on August 16, 2004 after we announced our agreement to acquire Province.

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance, special purpose or variable interest entities, established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Accordingly, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

Convertible Notes

On May 22, 2002, we sold 4½% Convertible Subordinated Notes due 2009 in the aggregate principal amount of $250 million (the "Convertible Notes"). The net proceeds of approximately $242.5 million were used for acquisitions, capital improvements at our existing facilities, repurchase of our 10¾% Senior Subordinated Notes, working capital and general corporate purposes. The Convertible Notes bear interest at the rate of 4½% per year, payable semi-annually on June 1 and December 1. The Convertible Notes are convertible at the option of the holder at any time on or prior to maturity into shares of our common stock at a conversion price of $47.36 per share. The conversion price is subject to adjustment in certain circumstances. We may redeem all or a portion of the Convertible Notes on or after June 3, 2005, at the then current redemption prices, plus accrued and unpaid interest. Holders of the Convertible Notes may require us to repurchase all of the holder's Convertible Notes at 100% of their principal amount plus accrued and unpaid interest in some circumstances involving a change of control, as defined. The Convertible Notes are unsecured and subordinated to our existing and future senior indebtedness and senior subordinated indebtedness. The Convertible Notes rank junior to our other liabilities. The indenture governing the Convertible Notes does not contain any financial covenants.

We repurchased $29.0 million of our $250.0 million Convertible Notes during 2004 and paid a premium of $0.9 million on these repurchases. These repurchases reduced the number of shares of common stock that were reserved for issuance upon conversion of the Convertible Notes from 5,278,825 shares to 4,666,481 shares.

Liquidity and Capital Resources Outlook

We have received a commitment from Citigroup North America, Inc. and its affiliates ("Citigroup") to finance the cash consideration for the acquisition of Province, to refinance Province's existing debt and to provide for the ongoing working capital and general corporate needs of our newly combined company. The commitment provides for up to $1.325 billion in term loans and up to $400 million in revolving loans on customary terms and conditions.

We expect the level of capital expenditures in 2005 to be in a range of $150.0 million to $160.0 million, including Province's facilities. We have large projects in process at a number of our facilities. We are reconfiguring some of our hospitals to more effectively accommodate patient services and restructuring existing surgical capacity in some of our hospitals to permit additional patient volume and a greater variety of services. At December 31, 2004, we had projects under construction with an estimated additional cost to complete and equip of approximately $71.5 million. We anticipate that these projects will be completed over the next three years. We anticipate funding these expenditures through cash provided by operating activities, available cash and borrowings under our revolving credit facility.

Our business strategy contemplates the acquisition of additional hospitals, and we regularly review potential acquisitions. These acquisitions may, however, require additional financing. We regularly evaluate opportunities to sell additional equity or debt securities, obtain credit facilities from lenders or restructure our long-term debt or equity for strategic reasons or to further strengthen our financial position. The sale of additional equity or convertible debt securities could result in additional dilution to our stockholders.

We have never declared or paid dividends on our common stock. We intend to retain future earnings to finance the growth and development of our business and, accordingly, do not currently intend to declare or pay any dividends on our common stock. Our Board of Directors will evaluate our future earnings, results of operations, financial condition and capital requirements in determining whether to declare or pay cash dividends. Delaware law prohibits us from paying any dividends unless we have capital surplus or net profits available for this purpose. In addition, our credit facilities impose restrictions on our ability to pay dividends. During 2003, we repurchased approximately 2.1 million shares of our common stock for an aggregate price of approximately $45.7 million, which computes to an average price paid per share of $22.10.

We believe that cash flows from operations, amounts available under our revolving credit facility, amounts committed from Citigroup, and our anticipated access to capital markets are sufficient to fund the purchase price for the acquisition of Province and potential other acquisitions, meet expected liquidity needs, including repayment of all of our and Province's debt obligations at or prior to maturity, planned capital expenditures and other expected operating needs over the next three years.

Contractual Obligations, Commitments and Off-Balance Sheet Arrangements

Contractual Obligations

We have various contractual obligations, which are recorded as liabilities in our consolidated financial statements. Other items, such as certain purchase commitments and other executory contracts, are not recognized as liabilities in our consolidated financial statements but are required to be disclosed. For example, we are required to make certain minimum lease payments for the use of property under certain of our operating lease agreements.

The following table summarizes our significant contractual obligations as of December 31, 2004 and the future periods in which such obligations are expected to be settled in cash (in millions):

		Payments Due by Period			
Contractual Obligations	Total	2005	2006–2007	2008–2009	After 2009
Long-term debt obligations[a]	$264.9	$ 9.9	$19.9	$235.1	$ —
Capital lease obligations	0.1	0.1	—	—	—
Operating lease obligations[b]	20.5	5.3	7.6	3.9	3.7
Other long-term liabilities[c]	—	—	—	—	—
Purchase obligations[d]	120.5	45.9	40.6	34.0	—
Total	$406.0	$61.2	$68.1	$273.0	$3.7

(a) Included in long-term debt obligations are principal and interest owed on our Convertible Notes. This obligation is explained further in Note 6 to our consolidated financial statements in this report.

(b) We enter into operating leases in the normal course of business. Substantially all of our lease agreements have fixed payment terms based on the passage of time. Some lease agreements provide us with the option to renew the lease. Our future operating lease obligations would change if we exercised these renewal options and if we entered into additional operating lease agreements. The above table reflects our future minimum operating lease payments. Please refer to Note 8 to our consolidated financial statements in this report for more information regarding our operating leases.

(c) We had a $28.4 million other long-term liability balance on our consolidated balance sheet as of December 31, 2004. This balance reflected a $27.2 million reserve for professional and general liability claims and $1.2 million related to other liabilities. We excluded the $27.2 million reserve for professional and general liability claims and $1.2 million of other liabilities from this table due to the uncertainty of the dollar amounts to be ultimately paid as well as the timing of such amounts. Please refer to the "Critical Accounting Estimates—Professional and General Liability Reserves" above for more information.

(d) The following table summarizes our significant purchase obligations as of December 31, 2004 and the future periods in which such obligations are expected to be settled in cash (in millions):

		Payments Due by Period			
Purchase Obligations	Total	2005	2006–2007	2008–2009	After 2009
HCA-IT services[e]	$ 77.5	$14.3	$30.4	$32.8	$—
Capital expenditure obligations[f],[g]	11.8	9.1	2.7	—	—
Physician commitments[h]	9.5	9.3	0.2	—	—
GEMS obligations[i]	2.9	2.9	—	—	—
Other purchase obligations[j]	18.8	10.3	7.3	1.2	—
Total	$120.5	$45.9	$40.6	$34.0	$—

(e) HCA-IT provides various information systems services, including, but not limited to, financial, clinical, patient accounting and network information services to us under a contract that was recently extended through December 31, 2009. Please refer to the "Arrangements Relating to the Distribution" section in Part I, Business, in our 2004 Form 10-K for more information. The amounts in the above table are based on estimated fees that will be charged to our 30 hospitals as of December 31, 2004 with an annual fee increase that is capped by the consumer price index increase. We used a 4.0% annual rate increase as the estimated consumer price index increase for the contract period. These fees will increase if we acquire additional hospitals (including the acquisition of Province) and use HCA-IT for information system conversion services at the acquired hospitals.

(f) Pursuant to the asset purchase agreement for Logan Regional Medical Center, we have agreed to expend, regardless of the results of the hospital's operations, at least $20.0 million in the aggregate for capital expenditures and improvements during the ten-year period following the date of acquisition of December 1, 2002. We have incurred approximately $8.2 million of the required capital improvements as of December 31, 2004.

(g) We had projects under construction with an estimated additional cost to complete and equip of approximately $71.5 million as of December 31, 2004. Since we can terminate substantially all of the related construction contracts at any time without paying a termination fee, such cost is excluded from the above table except for the amounts disclosed in footnote (f) above. In addition, as discussed in Part I, Item 3, Legal Proceedings of our 2004 Form 10-K, we may be required to make significant expenditures in order to bring our facilities into compliance with the ADA. We are currently unable to estimate the costs that could be associated with modifying our facilities because these costs are negotiated and determined on a facility-by-facility basis and, therefore, have varied and will continue to vary significantly among facilities.

(h) In consideration for a physician relocating to one of our communities and agreeing to engage in private practice for the benefit of the respective community, we may loan certain amounts to a physician, normally over a period of one year, to assist in establishing his or her practice. We have committed to advance a maximum amount of approximately $23.7 million as of December 31, 2004. The actual amount of such commitments to be advanced often depends upon the financial results of a physician's private practice during the loan period. The physician commitment amounts reflected in the above table were estimated based on our historical amounts actually paid to physicians.

(i) General Electric Medical Services ("GEMS") provides diagnostic imaging equipment maintenance and bio-medical services to us pursuant to a contract that expires in the first quarter of 2005. The amounts in the above table reflect our obligation based on the equipment we owned as of December 31, 2004. During the first quarter of 2005, we have entered into a new contract with GEMS that is effective for the period April 1, 2005 through March 31, 2008. We are still assessing the impact of this new contract on our contractual obligations, and we plan to disclose that impact in our first quarter 2005 Form 10-Q.

(j) Reflects our minimum commitments to purchase goods or services under non-cancelable contracts as of December 31, 2004.

Province Commitment

As described previously in our "Executive Summary," we entered into a definitive agreement to acquire Province Healthcare Company for approximately $1.7 billion in cash, stock and the assumption of debt. This transaction is subject to the approval by each company's stockholders, receipt of necessary financing and certain other conditions. We will incur indebtedness to pay the cash portion of the consideration to be paid to Province stockholders and to refinance certain existing debt of both companies.

Legal and Tax Matters

As disclosed in Note 5 and Note 8 to our consolidated financial statements in this report, we have exposure for certain legal and tax matters.

Off-Balance Sheet Arrangements

We had standby letters of credit outstanding of approximately $8.3 million as of December 31, 2004. Of this amount, $8.2 million was related to the self-insured retention levels of our professional and general liability insurance programs as security for the payment of claims and $0.1 million was related to obligations to certain utility companies.

Recently Issued Accounting Pronouncements

The Financial Accounting Standards Board ("FASB") issued SFAS No. 145, "Rescission of FASB Statements Nos. 4, 44 and 64, Amendment of FASB No. 13, and Technical Corrections" ("SFAS No. 145") in April 2002. We adopted SFAS No. 145 effective January 1, 2003, which required a reclassification of debt retirement costs from an extraordinary loss to a component of income before income taxes. Under certain provisions of SFAS No. 145, gains and losses related to the extinguishment of debt are no longer segregated on the income statement as extraordinary items net of the effect of income taxes. Instead, these gains and losses are included as a component of income before income taxes. The provisions of SFAS No. 145 were effective for fiscal years beginning after May 15, 2002. Any gain or loss on early extinguishment of debt that was classified as an extraordinary item in prior periods presented that did not meet the criteria in APB Opinion No. 30 for classification as an extraordinary item was reclassified upon adoption.

In December 2003, the FASB issued Revised Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46R"), which requires the consolidation of variable interest entities. FIN 46R, as revised, was applicable to financial statements of companies that had interests in "special purpose entities" during 2003. Effective as of the first quarter of 2004, FIN 46R was applicable to financial statements of companies that have interests in all other types of entities. Adoption of FIN 46R had no effect on the Company's financial position, results of operations or cash flows.

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payments" ("SFAS No. 123R"), a revision of SFAS No. 123, "Accounting for Stock-Based Compensation," which addresses financial accounting and reporting for costs associated with stock-based compensation. SFAS No. 123R addresses all forms of share-based payment awards, including shares issued under employee stock purchase plans, stock options and restricted stock. SFAS No. 123R will require us to recognize compensation expense beginning July 1, 2005, in an amount equal to the fair value of share-based payments related to unvested share-based payment awards over the applicable vesting period. Under the Modified Prospective Method, we do not anticipate recording a material amount of compensation expense at the time of adoption since almost all options then previously granted will be fully vested as a result of the impendent acquisition of Province, as further discussed in Note 2 to our consolidated financial statements included elsewhere herein.

Seasonality

We typically experience higher patient volumes and revenues in the first and fourth quarters of each year. We typically experience such seasonal volume and revenue peaks because more people generally become ill during the winter months, which in turn results in significant increases in the number of patients we treat during those months.

Inflation

The healthcare industry is labor intensive. Wages and other expenses increase during periods of inflation and when labor shortages in marketplaces occur. In addition, suppliers and insurers 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. Accordingly, inflationary pressures could have a material adverse effect on our results of operations.

Factors That May Affect Future Results

We make forward-looking statements in this report and in other reports and proxy statements we file with the SEC. In addition, our senior management makes forward-looking statements orally to analysts, investors, the media and others. Broadly speaking, forward-looking statements include:

- projections of our revenues, net income, earnings per share, capital expenditures or other financial items;
- descriptions of plans or objectives of our management for future operations or services, including pending acquisitions;
- forecasts of our future economic performance; and
- descriptions of assumptions underlying or relating to any of the foregoing.

In this report, for example, we make forward-looking statements discussing our expectations about:

- completion and integration of the Province acquisition;
- future financial performance;
- future liquidity;
- future debt and equity structure;
- future acquisitions;
- industry trends;
- reimbursement changes;
- patient volumes and related revenues;
- recruiting and retention of clinical personnel;
- future capital expenditures;
- the impact of new accounting standards; and
- physician recruiting.

Forward-looking statements discuss matters that are not historical facts. Because they discuss future events or conditions, forward-looking statements often include words such as "can," "could," "may," "should," "believe," "will," "would," "expect," "project," "estimate," "anticipate," "plan," "intend," "target," "continue" or similar expressions. Do not unduly rely on forward-looking statements. They give our expectations about the future and are not guarantees. Forward-looking statements speak only as of the date they are made, and we might not update them to reflect changes that occur after the date they are made.

There are several factors, many beyond our control, that could cause results to differ significantly from our expectations. Some of these factors are described under "Risk Factors" in the Company's filings with the SEC. Other factors, such as market, operational, liquidity, interest rate and other risks, are described elsewhere in our 2004 Form 10-K (see, for example, "Liquidity and Capital Resources" and Item 7A). Any factor described in our 2004 Form 10-K could by itself, or together with one or more factors, adversely affect our business, results of operations and/or financial condition. There may be factors not described in our 2004 Form 10-K that could cause results to differ from our expectations.

Quantitative and Qualitative Disclosures About Market Risk

Interest Rates

The following discusses our exposure to market risk related to changes in interest rates.

Outstanding Debt—As of December 31, 2004, we had outstanding debt of $221.0 million, all of which was our Convertible Notes. Our Convertible Notes bear interest at the annual fixed rate of 4½%. As of December 31, 2004, the fair value of our Convertible Notes was $222.7 million, based on the quoted market price at December 31, 2004. In addition, we have available a $200.0 million revolving credit facility that is subject to variable interest rates. Indebtedness under our revolving credit facility bears interest at a rate, at our option, equal to either (i) LIBOR plus a margin ranging from 1.25% to 2.25% or (ii) prime plus a margin ranging from 0% to 0.5%, both depending on our consolidated total debt to consolidated EBITDA ratio, as defined, for the most recent four quarters. In the event we borrow cash under the revolving credit facility and interest rates increase significantly, we expect to take actions to mitigate our exposure to such interest rate increases. We do not currently use derivatives to alter the interest rate characteristics of our debt instruments.

Cash Balances—Certain of our outstanding cash balances are invested overnight with high credit quality financial institutions. We do not have significant exposure to changing interest rates on invested cash at December 31, 2004. As a result, the interest rate market risk implicit in these investments at December 31, 2004, if any, is low.

Management's Report on Internal Control Over Financial Reporting

Management of LifePoint Hospitals, Inc. is responsible for the preparation, integrity and fair presentation of its published consolidated financial statements. The financial statements have been prepared in accordance with U.S. generally accepted accounting principles and, as such, include amounts based on judgments and estimates made by management. The Company also prepared the other information included in the annual report and is responsible for its accuracy and consistency with the consolidated financial statements.

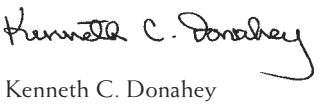
Management is also responsible for establishing and maintaining effective internal control over financial reporting. The Company's internal control over financial reporting includes those policies and procedures that pertain to the Company's ability to record, process, summarize and report reliable financial data. The Company maintains a system of internal control over financial reporting, which is designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation of reliable published financial statements and safeguarding of the Company's assets. The system includes a documented organizational structure and division of responsibility, established policies and procedures, including a code of conduct to foster a strong ethical climate, which are communicated throughout the Company, and the careful selection, training and development of our people.

The Board of Directors, acting through its Audit and Compliance Committee, is responsible for the oversight of the Company's accounting policies, financial reporting and internal control. The Audit and Compliance Committee of the Board of Directors is comprised entirely of outside directors who are independent of management. The Audit and Compliance Committee is responsible for the appointment and compensation of the independent registered public accounting firm. It meets periodically with management, the independent registered public accounting firm and the internal auditors to ensure that they are carrying out their responsibilities. The Audit and Compliance Committee is also responsible for performing an oversight role by reviewing and monitoring the financial, accounting and auditing procedures of the Company in addition to reviewing the Company's financial reports. Internal auditors monitor the operation of the internal control system and report findings and recommendations to management and the Audit and Compliance Committee. Corrective actions are taken to address control deficiencies and other opportunities for improving the system as they are identified. The independent registered public accounting firm and the internal auditors have full and unlimited access to the Audit and Compliance Committee, with or without management, to discuss the adequacy of internal control over financial reporting, and any other matters which they believe should be brought to the attention of the Audit and Compliance Committee.

Management recognizes that there are inherent limitations in the effectiveness of any system of internal control over financial reporting, including the possibility of human error and the circumvention or overriding of internal control. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect misstatements. Further, because of changes in conditions, the effectiveness of internal control over financial reporting may vary over time.

The Company assessed its internal control system as of December 31, 2004 in relation to criteria for effective internal control over financial reporting described in "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its assessment, the Company has determined that, as of December 31, 2004, its system of internal control over financial reporting was effective.

The consolidated financial statements have been audited by the independent registered public accounting firm Ernst & Young LLP, which was given unrestricted access to all financial records and related data, including minutes of all meetings of stockholders, the Board of Directors and committees of the Board. Reports of the independent registered public accounting firm, which includes the independent registered public accounting firm's attestation of management's assessment of internal controls, are also presented within this document.



Kenneth C. Donahey
Chairman, Chief Executive Officer and President

Michael J. Culotta
Chief Financial Officer

Brentwood, Tennessee
February 23, 2005

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

The Board of Directors and Stockholders of
LifePoint Hospitals, Inc.

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that LifePoint Hospitals, Inc. (the "Company") maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

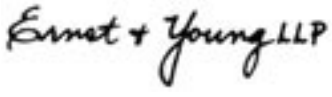
We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of LifePoint Hospitals, Inc. as of December 31, 2003 and 2004, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2004, and our report dated February 23, 2005 expressed an unqualified opinion thereon.



Nashville, Tennessee
February 23, 2005

Report of Independent Registered Public Accounting Firm

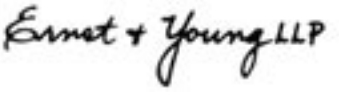
The Board of Directors and Stockholders of
LifePoint Hospitals, Inc.

We have audited the accompanying consolidated balance sheets of LifePoint Hospitals, Inc. (the "Company") as of December 31, 2003 and 2004, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit 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, 2003 and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 23, 2005 expressed an unqualified opinion thereon.



Nashville, Tennessee
February 23, 2005

Consolidated Statements of Operations

For the Years Ended December 31, 2002, 2003 and 2004

(Dollars in millions, except per share amounts)	2002	2003	2004
Revenues	$714.9	$875.6	$996.9
Salaries and benefits	280.0	352.3	399.4
Supplies	88.7	114.2	129.1
Other operating expenses	129.6	155.4	166.8
Provision for doubtful accounts	49.8	74.1	86.2
Depreciation and amortization	35.0	43.1	48.1
Interest expense, net	13.3	12.8	12.6
Debt retirement costs	31.0	—	1.5
ESOP expense	9.7	6.9	9.4
	637.1	758.8	853.1
Income from continuing operations before minority interests and income taxes	77.8	116.8	143.8
Minority interests in earnings of consolidated entities	2.2	0.7	1.0
Income from continuing operations before income taxes	75.6	116.1	142.8
Provision for income taxes	32.7	45.9	56.0
Income from continuing operations	42.9	70.2	86.8
Loss from discontinued operations, net of income taxes	(1.4)	(1.7)	(1.1)
Net income	$ 41.5	$ 68.5	$ 85.7
Basic earnings (loss) per share:			
Continuing operations	$ 1.14	$ 1.89	$ 2.34
Discontinued operations	(0.03)	(0.05)	(0.03)
Net income	$ 1.11	$ 1.84	$ 2.31
Diluted earnings (loss) per share:			
Continuing operations	$ 1.10	$ 1.80	$ 2.20
Discontinued operations	(0.03)	(0.04)	(0.03)
Net income	$ 1.07	$ 1.76	$ 2.17

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

Consolidated Balance Sheets

December 31, 2003 and 2004

(Dollars in millions, except per share amounts)	2003	2004
Assets		
Current assets:		
Cash and cash equivalents	$ 20.6	$ 18.6
Accounts receivable, less allowances for doubtful accounts of $111.7 and $103.6 at December 31, 2003 and 2004, respectively	101.4	112.0
Inventories	21.7	25.3
Assets held for sale	34.7	33.0
Income taxes receivable	7.4	7.5
Deferred income taxes and other current assets	19.5	31.4
	205.3	227.8
Property and equipment:		
Land	18.5	20.5
Buildings and improvements	347.2	385.4
Equipment	315.7	342.0
Construction in progress (estimated cost to complete and equip after December 31, 2004 is $71.5)	28.2	48.6
	709.6	796.5
Accumulated depreciation	(265.7)	(295.4)
	443.9	501.1
Deferred loan costs, net	7.0	4.9
Intangible assets, net	4.2	3.3
Other	—	5.8
Goodwill	138.6	144.4
	$ 799.0	$ 887.3
Liabilities and Equity		
Current liabilities:		
Accounts payable	$ 30.9	$ 29.5
Accrued salaries	25.4	31.2
Liabilities held for sale	0.3	0.3
Other current liabilities	12.2	18.2
	68.8	79.2
Revolving credit facility	20.0	—
Convertible Notes	250.0	221.0
Deferred income taxes	35.9	47.9
Professional and general liability claims and other liabilities	28.6	28.4
Minority interests in equity of consolidated entities	1.4	1.3
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; 39,084,396 shares and 40,123,768 shares issued at December 31, 2003 and 2004, respectively	0.4	0.4
Capital in excess of par value	301.7	332.6
Unearned ESOP compensation	(16.1)	(12.9)
Unearned compensation on nonvested stock	—	(4.5)
Retained earnings	137.2	222.8
Common stock in treasury, at cost, 1,198,800 shares at December 31, 2003 and 2004	(28.9)	(28.9)
	394.3	509.5
	$ 799.0	$ 887.3

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

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2002, 2003 and 2004

(Dollars in millions)	2002	2003	2004
Cash flows from continuing operating activities:			
Net income	$ 41.5	$ 68.5	$ 85.7
Adjustments to reconcile net income to net cash provided by continuing operating activities:			
Loss from discontinued operations, net of income taxes	1.4	1.7	1.1
Depreciation and amortization	35.0	43.1	48.1
Debt retirement costs	31.0	—	1.5
ESOP expense	9.7	6.9	9.4
Minority interests in earnings of consolidated entities	2.2	0.7	1.0
Deferred income taxes	3.0	8.9	4.4
Reserve for professional and general liability claims, net	9.2	2.4	(0.2)
Tax benefit from employee stock plans	1.7	2.3	6.2
Increase (decrease) in cash from operating assets and liabilities, net of effects from acquisitions:			
Accounts receivable	(15.4)	(15.5)	(11.1)
Inventories and other current assets	(3.1)	(4.8)	(6.6)
Accounts payable and accrued expenses	1.1	2.2	8.9
Income taxes payable	6.9	(7.5)	(0.1)
Estimated third-party payor settlements	(10.2)	(5.7)	(2.3)
Other	0.3	1.8	2.6
Net cash provided by continuing operating activities	114.3	105.0	148.6
Cash flows from continuing investing activities:			
Purchase of property and equipment	(57.5)	(68.3)	(82.0)
Acquisitions, net of cash acquired	(137.1)	(16.5)	(30.5)
Purchase of minority interest in joint venture	(25.0)	—	—
Other	(1.9)	0.6	(1.1)
Net cash used in continuing investing activities	(221.5)	(84.2)	(113.6)
Cash flows from continuing financing activities:			
Repurchase of Convertible Notes	—	—	(29.9)
Repayment under revolving credit facility	—	—	(50.0)
Borrowing under revolving credit facility	—	20.0	30.0
Repurchase of common stock	—	(45.7)	—
Proceeds from issuance of Convertible Notes, net	242.5	—	—
Repurchase of Senior Subordinated Notes	(176.5)	—	—
Proceeds from exercise of stock options	3.0	3.7	10.2
Proceeds from employee loan repayments	5.7	—	—
Other	1.0	1.0	1.9
Net cash provided by (used in) continuing financing activities	75.7	(21.0)	(37.8)
Net cash used in continuing operations	(31.5)	(0.2)	(2.8)
Net cash (used in) provided by discontinued operations	(2.7)	(2.2)	0.8
Change in cash and cash equivalents	(34.2)	(2.4)	(2.0)
Cash and cash equivalents at beginning of year	57.2	23.0	20.6
Cash and cash equivalents at end of year	$ 23.0	$ 20.6	$ 18.6
Supplemental disclosure of cash flow information:			
Interest payments	$ 16.3	$ 12.4	$ 12.1
Capitalized interest	$ 0.8	$ 0.8	$ 1.1
Income taxes paid, net	$ 21.0	$ 41.4	$ 44.6

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

Consolidated Statements of Stockholders' Equity

For the Years Ended December 31, 2002, 2003 and 2004

(Amounts in millions)	Common Stock Shares	Common Stock Amount	Capital in Excess of Par Value	Unearned ESOP Compensation	Unearned Compensation on Nonvested Stock	Notes Receivable for Shares Sold to Employees	Retained Earnings	Treasury Stock	Total
Balance at December 31, 2001	39.3	$0.4	$285.0	$(22.5)	$ —	$(5.7)	$ 37.8	$ —	$ 295.0
Net income	—	—	—	—	—	—	41.5	—	41.5
ESOP compensation earned	—	—	6.5	3.2	—	—	—	—	9.7
Exercise of stock options, including tax benefits and other	0.3	—	4.7	—	—	—	—	—	4.7
Stock issued in connection with employee stock purchase plans	—	—	1.0	—	—	—	—	—	1.0
Proceeds from employee loan repayments	—	—	—	—	—	5.7	—	—	5.7
Balance at December 31, 2002	39.6	0.4	297.2	(19.3)	—	—	79.3	—	357.6
Net income	—	—	—	—	—	—	68.5	—	68.5
ESOP compensation earned	—	—	3.7	3.2	—	—	—	—	6.9
Exercise of stock options, including tax benefits and other	0.3	—	6.0	—	—	—	—	—	6.0
Stock activity in connection with employee stock purchase plans	0.1	—	1.3	—	—	—	(0.3)	—	1.0
Repurchases and retirement of common stock	(0.9)	—	(6.5)	—	—	—	(10.3)	—	(16.8)
Purchases of treasury stock at cost	(1.2)	—	—	—	—	—	—	(28.9)	(28.9)
Balance at December 31, 2003	37.9	0.4	301.7	(16.1)	—	—	137.2	(28.9)	394.3
Net income	—	—	—	—	—	—	85.7	—	85.7
ESOP compensation earned	—	—	6.2	3.2	—	—	—	—	9.4
Exercise of stock options, including tax benefits and other	0.8	—	16.4	—	—	—	—	—	16.4
Stock activity in connection with employee stock purchase plans	—	—	1.9	—	—	—	(0.1)	—	1.8
Unvested stock issued to key employees and outside directors, net of forfeitures	0.2	—	6.4	—	(6.4)	—	—	—	—
Amortization of unvested stock grants	—	—	—	—	1.9	—	—	—	1.9
Balance at December 31, 2004	**38.9**	**$0.4**	**$332.6**	**$(12.9)**	**$(4.5)**	**$ —**	**$222.8**	**$(28.9)**	**$509.5**

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

Note 1—Organization and Summary of Significant Accounting Policies

Organization

LifePoint Hospitals, Inc. is a holding company. Its subsidiaries own, lease and operate their respective facilities and other assets. The term "LifePoint" or the "Company" as used herein refers to LifePoint Hospitals, Inc. and its subsidiaries, unless otherwise stated or indicated by context. As of December 31, 2004, the Company operated 30 general, acute care hospitals with an aggregate of 2,744 licensed beds in non-urban communities. The Company's hospitals are located in the states of Alabama, Florida, Kansas, Kentucky, Louisiana, Tennessee, Utah, West Virginia and Wyoming. During the third quarter of 2004, the Company committed to a plan to divest its 56-bed Bartow Memorial Hospital ("Bartow"), located in Bartow, Florida. The operations of Bartow have been reflected as discontinued operations, as further discussed in Note 3. The Company's remaining 29 hospitals are reported as continuing operations.

The majority of the Company's expenses are "cost of revenue" items. Costs that could be classified as "general and administrative" by the Company would include the LifePoint corporate office costs, which were $20.8 million, $23.6 million and $29.8 million for the years ended December 31, 2002, 2003 and 2004 respectively.

The Company became independent and publicly traded on May 11, 1999 when HCA Inc. ("HCA") distributed all outstanding shares of the Company's common stock to its stockholders in a spin-off transaction.

Principles of Consolidation

The accompanying 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 interest and exclusive rights granted to the Company as the sole general partner of such entities. All significant intercompany accounts and transactions within the Company have been eliminated in consolidation.

Fair Value of Financial Instruments

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable and accounts payable approximate fair value because of the short-term maturity of these instruments.

The carrying value of the Company's 4½% Convertible Subordinated Notes due June 1, 2009 (the "Convertible Notes") was $221.0 million on December 31, 2004. The fair value of the Company's Convertible Notes was $222.7 million on December 31, 2004, based on the quoted market price at December 31, 2004.

Revenue Recognition and Allowance for Contractual Discounts

The Company recognizes revenues in the period in which services are performed. Accounts receivable primarily consist of amounts due from third-party payors and patients. Amounts the Company receives for treatment of patients covered by governmental programs such as Medicare and Medicaid and other third-party payors such as health maintenance organizations, preferred provider organizations and other private insurers are generally less than the Company's established billing rates. Accordingly, the revenues and accounts receivable reported in the Company's consolidated financial statements are recorded at the amount expected to be received.

The Company derives a significant portion of its revenues from Medicare, Medicaid and other payors that receive discounts from our standard charges. The Company must estimate the total amount of these discounts to prepare its consolidated financial statements. The Medicare and Medicaid regulations and various managed care contracts under which these discounts must be calculated are complex and are subject to interpretation and adjustment. The Company estimates the allowance for contractual discounts on a payor-specific basis given its interpretation of the applicable regulations or contract terms. These interpretations sometimes result in payments that differ from the Company's estimates. Additionally, updated regulations and contract renegotiations occur frequently, necessitating regular review and assessment of the estimation process by management. Changes in estimates related to the allowance for contractual discounts affect revenues reported in the Company's consolidated statements of operations.

Settlements under reimbursement agreements with third-party payors are estimated and recorded in the period the related services are rendered and are adjusted in future periods as final settlements are determined. There is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The net adjustments to estimated third-party payor settlements resulted in increases to revenues from continuing operations of $13.0 million, $6.0 million and $7.5 million (exclusive of the matter discussed in the following paragraph) for the years ended December 31, 2002, 2003 and 2004, respectively. The net estimated third-party payor settlements as of December 31, 2003 and 2004 and included in other current liabilities in the accompanying balance sheets approximated $2.5 million and $0.1 million, respectively. Management believes that adequate provisions have been made for adjustments that may result from final determination of amounts earned under these programs.

During the third quarter of 2003, the Company received correspondence from one of its fiscal intermediaries questioning a particular Medicare disproportionate share designation at one of its hospitals. This hospital had this designation since 2001 and was previously approved for this designation by its fiscal intermediary. The Company and the fiscal intermediary worked together and contacted the Centers for Medicare and Medicaid Services ("CMS") for resolution of the designation. The Company reduced revenues by $3.0 million and $0.2 million during the third and fourth quarters of 2003, respectively, representing the three-year difference in reimbursement from this change in designation. The Company received notification from CMS late in the first quarter of 2004 reconfirming the original designation. Based upon the favorable resolution of this issue, the Company increased revenues by $3.2 million in the first quarter of 2004.

During the years ended December 31, 2002, 2003 and 2004, approximately 47.0%, 46.8% and 48.1%, respectively, of the Company's revenues from continuing operations related to patients participating in the Medicare and Medicaid programs. Management recognizes that revenues and receivables from government agencies are significant to the Company's 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 payor that would subject the Company to any significant credit risks in the collection of its accounts receivable.

Laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation. 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's revenue is particularly sensitive to regulatory and economic changes in Kentucky and Tennessee. As of December 31, 2004, the Company operated 30 hospitals with eight located in the Commonwealth of Kentucky and seven located in the State of Tennessee. The Company generated 39.5%, 34.5% and 35.2% of its revenues from continuing operations from its Kentucky hospitals (including 4.1%, 3.7% and 4.2% from state-sponsored Medicaid programs) and 24.6%, 20.5% and 19.5% from its Tennessee hospitals (including 3.2%, 2.8% and 2.7% from the state-sponsored TennCare program) for the years ended December 31, 2002, 2003 and 2004, respectively.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and marketable securities with original maturities of three months or less. The Company places its cash in financial institutions that are federally insured.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable primarily consist of amounts due from third-party payors and patients. The Company's ability to collect outstanding receivables is critical to its results of operations and cash flows. To provide for accounts receivable that could become uncollectible in the future, the Company establishes an allowance for doubtful accounts to reduce the carrying value of such receivables to their estimated net realizable value. The primary uncertainty of such allowances lies with uninsured patient receivables and deductibles, co-payments or other amounts due from individual patients.

The Company has an established process to determine the adequacy of the allowance for doubtful accounts that relies on a number of analytical tools and benchmarks to arrive at a reasonable allowance. No single statistic or measurement determines the adequacy of the allowance for doubtful accounts. Some of the analytical tools that the Company utilizes include, but are not limited to, historical cash collection experience, revenue trends by payor classification and revenue days in accounts receivable. Accounts receivable are written off after collection efforts have been followed in accordance with the Company's policies.

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

	Balances at Beginning of Year	Additions Charged to Costs and Expenses[(a)]	Accounts Written Off, Net of Recoveries	Acquisitions	Balances at End of Year
Allowance for doubtful accounts:					
Year ended December 31, 2002	$ 59.0	$55.2	$ (48.6)	$43.5	$109.1
Year ended December 31, 2003	109.1	81.5	(78.9)	—	111.7
Year ended December 31, 2004	111.7	94.7	(102.8)	—	103.6

(a) Additions charged to costs and expenses include amounts related to the Company's continuing operations and the operations of Bartow, which is reflected as discontinued operations in the Company's accompanying consolidated financial statements.

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 less accumulated depreciation. Routine maintenance and repairs are charged to expense as incurred. Expenditures that increase capacities or extend useful lives are capitalized. Depreciation is computed by applying the straight-line method over the estimated useful lives of buildings and improvements (10 to 40 years) and equipment (3 to 10 years). Interest on funds used to pay for the construction of major capital additions is included in the cost of each capital addition. Depreciation expense from continuing operations was $34.7 million, $42.4 million and $47.3 million for the years ended December 31, 2002, 2003 and 2004, respectively.

The Company evaluates its long-lived assets for possible impairment whenever circumstances indicate that the carrying amount of the asset, or related group of assets, may not be recoverable from estimated future cash flows, in accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"). Fair value estimates are derived from independent appraisals, established market values of comparable assets or internal calculations of estimated future net cash flows. The Company's estimates of future cash flows are based on assumptions and projections it believes to be reasonable and supportable. The Company's assumptions take into account revenue and expense growth rates, patient volumes, changes in payor mix, and changes in legislation and other payor payment patterns. These assumptions vary by type of facility.

(b) Goodwill and Intangible Assets

Under SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"), goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed at least annually for impairment. The amortization provisions of SFAS No. 142 applied to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, the Company adopted SFAS No. 142, effective January 1, 2002. Pursuant to SFAS No. 142, the Company completed its transition impairment tests of goodwill during the second quarter of 2002 and did not incur an impairment charge. The Company also performed its annual impairment tests as of October 1, 2002, 2003 and 2004, and did not incur an impairment charge.

The Company's intangible assets relate to non-competition agreements and certificates of need. Non-competition agreements are amortized over the terms of the agreements. The certificates of need were determined to have indefinite lives by an independent appraiser and, accordingly, are not amortized. See Note 4 for a summary of goodwill and intangible assets and the effects of adopting SFAS No. 142.

Discontinued Operations

In accordance with the provisions of SFAS No. 144, the Company has presented the operating results, financial position and cash flows of Bartow as discontinued operations in the accompanying consolidated financial statements as of December 31, 2003 and 2004 and for each of the three years in the period ended December 31, 2004. The results of operations of Bartow have been reflected as discontinued operations, net of taxes, in the accompanying consolidated statements of operations and certain assets and liabilities of Bartow that are anticipated to be sold are reflected as assets held for sale and liabilities held for sale in the accompanying consolidated balance sheets, as further described in Note 3.

Income Taxes

The Company accounts for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company assesses the likelihood that deferred tax assets will be recovered from future taxable income. To the extent the Company believes that recovery is not likely, a valuation allowance is established. To the extent the Company establishes a valuation allowance or increases this allowance, the Company must include an expense within the provision for income taxes in the consolidated statements of operations.

Professional and General Liability Claims

Given the nature of the Company's operating environment, the Company is subject to potential medical malpractice lawsuits and other claims as part of providing healthcare services. To mitigate a portion of this risk, the Company maintained insurance for individual malpractice claims exceeding $10.0 million for 2002. For 2003, the Company lowered its self-insured retention level to $5.0 million on individual malpractice claims and for 2004, the Company increased its self-insured retention level back up to $10.0 million. The Company's reserves for professional and general liability claims are based upon independent actuarial

calculations which consider historical claims data, demographic considerations, severity factors and other actuarial assumptions in determining reserve estimates. Reserve estimates are discounted to present value using a 5.0% discount rate and are revised twice each year by the Company's independent actuaries. The estimated reserve for professional and general liability claims will be significantly affected if current and future claims differ from historical trends. While management monitors reported claims closely and considers potential outcomes as estimated by its actuaries when determining its professional and general liability reserves, the complexity of the claims, the extended period of time to settle the claims and the wide range of potential outcomes complicates the estimation.

The Company implemented enhanced risk management processes in monitoring claims and managing losses in high-risk areas during 2002 and 2003 to attempt to reduce loss levels and appropriately manage risk. During 2003, the Company improved its estimation process for determining its reserves for professional and general liability claims by expanding from using one actuary to using multiple actuaries. The Company uses the calculations of each actuary by averaging each actuary's results into the determination of its recorded reserve levels. This averaging process results in a refined estimation approach that the Company believes produces a more reliable estimate of ultimate losses.

During 2004, the Company ceased receiving reserve estimates from one of the three actuaries that had historically been used to calculate loss reserve estimates. This change in the Company's estimation process reduced its reserve levels and related professional and general liability insurance expense for continuing operations for the year ended December 2004 by $4.0 million, on a pretax basis, or $0.06 per diluted share. The Company continues to derive its estimates for financial reporting purposes by using a mathematical average of the actuarial valuations from its other two actuaries. The results of the updated actuarial valuations from these two actuaries reduced the Company's reserve estimates for years prior to 2004 by $2.4 million on a pretax basis, or $0.03 per diluted share, which reduced its professional and general liability expense in the year ended December 31, 2004.

Actuarial calculations include a large number of variables that may significantly impact the estimate of ultimate losses that are recorded during a reporting period. Professional judgment is used by each actuary in determining the loss estimates by selecting factors that are considered appropriate by the actuary for the Company's specific circumstances. Changes in assumptions used by the Company's actuaries with respect to demographics, industry trends and judgmental selection of factors may impact the Company's recorded reserve levels.

The reserve for professional and general liability claims as of the balance sheet date reflects the current estimate of all outstanding losses, including incurred but not reported losses, based upon actuarial calculations. The loss estimates included in the actuarial calculations may change in the future based upon updated facts and circumstances. The reserve for professional and general liability claims was $27.5 million and $27.2 million at December 31, 2003 and 2004, respectively.

The Company's cost for professional and general liability claims each year includes: the actuarially determined estimate of losses for the current year, including claims incurred but not reported; the change in the estimate of losses for prior years based upon actual claims development experience as compared to prior actuarial projections; the insurance premiums for losses in excess of our self-insured retention level; the administrative costs of the insurance program; and interest expense related to the discounted portion of the liability. The total cost of professional and general liability claims from continuing operations for the years ended December 31, 2002, 2003 and 2004 was approximately $10.8 million, $8.3 million and $5.4 million, respectively.

Physician Recruiting Costs

Physician recruiting costs are expensed when incurred and are included in other operating expenses in the accompanying consolidated statements of operations. Physician recruiting expenses of continuing operations were $5.8 million, $12.0 million and $14.8 million for the years ended December 31, 2002, 2003 and 2004, respectively. See Note 8 for a discussion on the Company's commitments to advance amounts to recruited physicians.

Comprehensive Income

SFAS No. 130, "Reporting Comprehensive Income," requires that changes in certain amounts that are recorded directly to stockholders' equity be shown in the financial statements as a component of comprehensive income. For the years ended December 31, 2002, 2003 and 2004, the Company had no items of comprehensive income recorded directly to stockholders' equity. Therefore, comprehensive income is equivalent to net income.

Segment Reporting

The Company's business of providing healthcare services to patients comprises a single reportable operating segment under SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information."

Stock-Based Compensation

In December 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure, an Amendment of FASB Statement No. 123" ("SFAS No. 148"). SFAS No. 148 amended SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair-value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amended the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS No. 148 had no material impact on the Company. The Company has included the required disclosures below and in Note 7.

The Company issues stock options and other stock-based awards to key employees and directors as more fully described in Note 7. SFAS No. 123, "Accounting for Stock-Based Compensation," encourages, but does not require, companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has chosen to continue to account for employee stock-based compensation using the intrinsic value method as prescribed in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related FASB Interpretations. Since the exercise price of all options granted under the Company's incentive plans was equal to the market price of the underlying common stock on the grant date, no stock-based employee compensation is recognized in net income related to stock options.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, as amended, to stock-based compensation for the years ended December 31, 2002, 2003 and 2004 (dollars in millions, except per share amounts):

	2002[(a)]	2003	2004
Net income, as reported	$41.5	$68.5	$85.7
Add: Stock-based compensation expense included in reported net income, net of related tax effects	—	—	1.1
Less: Stock-based compensation expense determined under fair-value based method for all awards, net of related tax effects	(8.2)	(9.0)	(9.0)
Pro forma net income	33.3	59.5	77.8
Interest on Convertible Notes, net of taxes	—	7.8	7.3
Diluted pro forma net income	$33.3	$67.3	$85.1
Denominator for basic earnings per share—weighted average shares	37.5	37.2	37.0
Effect of dilutive securities:			
Employee stock benefit plans	1.1	0.8	0.8
Convertible Notes	—	5.3	5.0
Denominator for diluted earnings per share—adjusted weighted average shares	38.6	43.3	42.8
Earnings per share:			
Basic—as reported	$1.11	$1.84	$2.31
Basic—pro forma	$0.89	$1.60	$2.10
Diluted—as reported	$1.07	$1.76	$2.17
Diluted—pro forma	$0.86	$1.56	$1.99

(a) The impact of 3.3 million potential weighted average shares of common stock, if converted, and interest expense related to the Convertible Notes was not included in the computation of diluted earnings per share and pro forma diluted earnings per share because the effect would have been anti-dilutive.

The per share weighted average fair value of stock options granted during 2002, 2003 and 2004 was $13.99, $8.02 and $12.66, respectively, on the date of grant using a Black-Scholes option-pricing model, assuming no expected dividends and the following weighted average assumptions:

	2002	2003	2004
Risk free interest rate	3.51%	1.90%	**2.23%**
Expected life, in years	3.0	3.0	**3.0**
Expected volatility	53.0%	53.0%	**53.1%**

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Option valuation models require the input of highly subjective assumptions including the expected stock price volatility. The Company's employee stock options have characteristics significantly different from those of traded options. Changes in the subjective input assumptions can materially affect the fair value estimate. Other option valuation models may produce significantly different fair values of the Company's employee stock options.

Earnings Per Share

Earnings per share ("EPS") is based on the weighted average number of common shares outstanding and dilutive stock options, Convertible Notes and restricted shares, adjusted for the shares issued to the LifePoint Employee Stock Ownership Plan (the "ESOP"). As the ESOP shares are committed to be released, the shares become outstanding for EPS calculations. In addition, the numerator, net income, is adjusted for interest expense related to the Convertible Notes, which is discussed further in Note 6.

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. These reclassifications, primarily for the Company's discontinued operations as described in Note 3, have no impact on total assets, liabilities, stockholders' equity, net income or cash flows.

Recently Issued Accounting Pronouncements

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statement Nos. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections" ("SFAS No. 145"). The Company adopted SFAS No. 145 effective January 1, 2003, which required a reclassification of debt retirement costs from an extraordinary loss to a component of income before income taxes. Under certain provisions of SFAS No. 145, gains and losses related to the early extinguishment of debt are no longer segregated on the statement of operations as extraordinary items net of the effect of income taxes. Instead, these gains and losses are included as a component of income before income taxes. Any gain or loss on early extinguishment of debt that was classified as an extraordinary item in prior periods presented that did not meet the criteria in APB Opinion No. 30 for classification as an extraordinary item was reclassified upon adoption.

In December 2003, the FASB issued Revised Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46R"), which requires the consolidation of variable interest entities. FIN 46R, as revised, was applicable to financial statements of companies that had interests in "special purpose entities" during 2003. Effective as of the first quarter of 2004, FIN 46R was applicable to financial statements of companies that have interests in all other types of entities. Adoption of FIN 46R had no effect on the Company's financial position, results of operations or cash flows.

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payments" ("SFAS No. 123R"), a revision of SFAS No. 123, "Accounting for Stock-Based Compensation," which addresses financial accounting and reporting for costs associated with stock-based compensation. SFAS No. 123R addresses all forms of share-based payment ("SBP") awards, including shares issued under employee stock purchase plans, stock options and restricted stock. SFAS No. 123R will require the Company to recognize compensation expense beginning July 1, 2005 in an amount equal to the fair value of share-based payments related to unvested share-based payment awards over the applicable vesting period. Under the Modified Prospective Method, the Company does not anticipate recording a material amount of compensation expense at the time of adoption since almost all options then previously granted will be fully vested as a result of the impendent acquisition of Province Healthcare Company, as further discussed in Note 2.

Note 2—Acquisitions

Anticipated Acquisition of Province Healthcare Company

LifePoint announced on August 16, 2004 that it entered into a definitive agreement to acquire Province Healthcare Company ("Province") for approximately $1.7 billion in cash, stock and the assumption of debt. If consummated, the proposed Province transaction will create a hospital company focused on providing healthcare services in non-urban communities, with 51 hospitals, of which 48 are located in markets where the combined company will be the sole hospital provider in the community. The transaction is expected to close in the first half of 2005.

Pursuant to the definitive agreement, if the proposed transaction is consummated, the businesses of LifePoint and Province will be combined under a newly formed company, which will be renamed "LifePoint Hospitals, Inc." ("New LifePoint"). Each Province stockholder will receive a per share consideration comprised of $11.375 in cash and a number of shares of New LifePoint common stock equal to an exchange ratio of between 0.3447 and 0.2917, which will represent a value of $11.375, if the volume weighted average of the daily sale prices for shares of LifePoint common stock for the 20 consecutive trading day period ending at the close of business on the third trading day prior to closing, (the "LifePoint average share price"), is between $33.00 and $39.00. If the LifePoint average share price is $33.00 or less, the exchange ratio will be 0.3477, and if the LifePoint average share price is $39.00 or more, the exchange ratio will be 0.2917.

Due to the variable nature of the exchange ratio to determine the per share consideration, the measurement date to determine the fair value of New LifePoint common stock to be issued will be determined in accordance with Emerging Issues Task Force Issue Number 99-12, "Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Business Combination," ("EITF No. 99-12"). As stated in paragraph 7 in EITF No. 99-12, the measurement date is the earliest date, from the date the terms of the acquisition are agreed to and announced to the date of final application of the formula pursuant to the acquisition agreement, on which subsequent applications of the formula do not result in a change in the number of shares or the amount of other consideration.

The agreement provides for alternative structures. While it is anticipated that shares received by Province stockholders will be received in a tax-free exchange, the parties have agreed to a taxable alternative structure at the same price if necessary to complete the acquisition.

Each of the Boards of Directors of LifePoint and Province have unanimously approved the proposed transaction. Completion of the transaction is subject to approval by each company's stockholders, receipt of necessary financing and certain other conditions. LifePoint has received a commitment from Citigroup North America and its affiliates ("Citigroup") to finance the cash consideration of the acquisition, to refinance Province's and the Company's existing debt and to provide for the ongoing working capital and general corporate needs of New LifePoint. The commitment provides for up to $1.325 billion in term loans and up to $400 million in revolving loans on customary terms and conditions.

The consummation of the proposed Province transaction will constitute a "change in control" under the Company's 1998 Long-Term Incentive Plan, Management Stock Purchase Plan, Outside Directors Stock and Incentive Compensation Plan, Change in Control Severance Plan and Executive Performance Incentive Plan. As a result, almost all stock options issued under the Company's equity compensation plans and outstanding as of the effective time of the proposed Province transaction that have not previously vested will become fully vested and exercisable upon the effective time of the proposed Province transaction.

Acquisition—2004

Effective July 1, 2004, the Company acquired the 106-bed River Parishes Hospital in LaPlace, Louisiana, from Universal Health Services, Inc. for approximately $24.8 million in cash, including certain working capital and direct acquisition costs. The Company borrowed from its revolving credit facility and paid the purchase price for this acquisition on June 30, 2004. Unaudited revenues for this facility were approximately $21.0 million since the Company's acquisition on July 1, 2004. The hospital is located approximately 30 miles west of New Orleans, Louisiana, and is the only hospital located in St. John the Baptist Parish. The estimated purchase price allocation is pending a final appraisal from an independent third-party and is subject to settling amounts related to purchased working capital. Estimated goodwill totaled approximately $5.2 million, all of which is expected to be deductible for tax purposes.

Acquisition—2003

Effective October 1, 2003, the Company acquired Spring View Hospital, a 75-bed acute care hospital located in Lebanon, Kentucky. The acquisition also included 38-bed Spring View Nursing Home and Spring View Pediatrics. The consideration for this acquisition was $15.9 million, which consisted of $15.5 million in cash paid at the closing and a $0.4 million net working capital settlement paid in 2004. The Company used its available cash to pay for this acquisition. Goodwill totaled approximately $5.8 million, all of which is expected to be deductible for tax purposes. Intangible assets of $0.6 million relate to the certificates of need issued by the Commonwealth of Kentucky for Spring View Hospital and Spring View Nursing Home. See Note 4 for a discussion of these intangible assets.

Acquisitions—2002

Effective December 1, 2002, the Company acquired Northwest Medical Center, a 71-bed acute care hospital located in Winfield, Alabama; and Burdick-West Medical Center (now known as Lakeland Community Hospital), a 99-bed acute care hospital located in Haleyville, Alabama. The consideration for both hospitals totaled $29.5 million, including $6.5 million for net working capital. The consideration consisted of $28.7 million in cash and $0.8 million in assumed liabilities. The Company used its available cash to fund this acquisition. Goodwill totaled approximately $4.2 million, all of which is expected to be deductible for tax purposes.

Effective December 1, 2002, the Company acquired Logan General Hospital (now known as Logan Regional Medical Center), a 132-bed acute care hospital; and Guyan Valley Hospital, a 19-bed critical access hospital, both located in Logan, West Virginia. The consideration for both hospitals totaled $89.4 million, which consisted of $87.5 million in cash and a $1.9 million working capital settlement paid in 2004. The Company used its available cash to fund this acquisition. Goodwill totaled approximately $56.2 million, all of which is expected to be deductible for tax purposes.

Effective October 3, 2002, the Company acquired Russellville Hospital, a 100-bed acute care hospital located in Russellville, Alabama. The consideration for this hospital was $19.8 million in cash. The Company used its available cash to fund this acquisition. Goodwill totaled approximately $7.0 million, all of which is expected to be deductible for tax purposes.

The Company's motivation to acquire Northwest Medical Center, Lakeland Community Hospital and Russellville Hospital was to expand the Company's presence in Alabama. It was also expected that a combined strategy for recruitment of various physician specialties could be achieved. In addition, some managerial positions have been combined for purposes of enhanced operational efficiencies. The Company acquired Logan Regional Medical Center and Guyan Valley Hospital to enter the West Virginia market. The Company's strategy is to expand healthcare services in Logan and southern West Virginia.

In October 2002, the Company purchased the outstanding 30% limited partner interest in Dodge City Healthcare Group, L.P., the entity that owns and operates 110-bed Western Plains Regional Hospital in Dodge City, Kansas, for $25.0 million in cash. The Company used its available cash to fund this acquisition. Under the terms of the purchase agreement, the Company's former limited partners have agreed not to compete with the hospital for five years. The non-competition agreements have been valued by an independent third-party at $4.0 million and are being amortized over the life of the agreements. Goodwill totaled approximately $16.3 million, all of which is expected to be deductible for tax purposes.

Intangible assets in the aggregate for acquisitions in 2002 totaled $0.5 million and relate to certificates of need issued by the states in which the Company acquired hospitals. See Note 4 for a discussion of these intangible assets.

Allocations of Purchase Price

The above 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 and are subject to change during the twelve-month period subsequent to the acquisition date. The operating results of the above facilities have been included in the accompanying consolidated statements of operations from the date of each respective facility's acquisition. The following table summarizes the allocations of the aggregate purchase price of the acquisitions, including assumed liabilities and direct transaction costs, excluding the 2002 purchase of the remaining 30% interest in Dodge City Healthcare Group, L.P., for the years ended December 31, 2002, 2003 and 2004 (in millions):

	2002	2003	2004
Fair value of assets acquired, excluding cash:			
Accounts receivable, net	$ 11.9	$ —	$ —
Other current assets	2.3	0.5	1.5
Property and equipment	68.4	10.0	19.7
Intangible assets	0.5	0.6	—
Goodwill	67.4	5.8	5.8
	$150.5	$16.9	$27.0

The pro forma results of operations for the 2003 acquisition of Spring View Hospital and 2004 acquisition of River Parishes Hospital were not included because these acquisitions were not material.

Note 3—Discontinued Operations

During 2004, the Company committed to a plan to divest its 56-bed Bartow Memorial Hospital located in Bartow, Florida. The Company has reflected Bartow as discontinued operations, consistent with the provisions of SFAS No. 144. The results of operations, net of taxes, and the carrying value of the assets and liabilities of Bartow that are expected to be sold in 2005 have been reflected in the accompanying consolidated financial statements as discontinued operations/assets held for sale/liabilities held for sale in accordance with SFAS No. 144. All prior periods have been reclassified to conform to this presentation for all periods presented. These required reclassifications to the prior period financial statements did not impact total assets, liabilities, stockholders' equity, net income or cash flows.

The revenues and loss before income taxes of Bartow reported in discontinued operations for the years ended December 31, 2002, 2003 and 2004 are as follows (in millions):

	2002	2003	2004
Revenues	$28.7	$31.5	$32.8
Loss before income taxes	(2.0)	(2.5)	(1.8)

The following assets and liabilities of Bartow to be sold are reported as assets and liabilities held for sale in the accompanying consolidated balance sheets at December 31 (in millions):

	2003	2004
Inventories	$ 0.7	$ 0.7
Property and equipment, net	30.2	28.5
Goodwill	3.8	3.8
Assets held for sale	$34.7	$33.0
Accrued salaries	$ 0.3	$ 0.3
Liabilities held for sale	$ 0.3	$ 0.3

Note 4—Goodwill and Intangible Assets

Pursuant to SFAS No. 142, the Company completed its transitional impairment tests of goodwill during the second quarter of 2002 and did not incur an impairment charge. The Company also performed its annual impairment tests as of October 1, 2002, 2003 and 2004 and did not incur an impairment charge.

The following table presents the changes in the carrying amount of goodwill for the years ended December 31, 2003 and 2004 (in millions):

Balance at December 31, 2002	$132.6
Consideration adjustments and finalization of purchase price allocations for acquisitions completed in 2002	0.2
Purchase price allocation for acquisition completed in 2003	5.8
Balance at December 31, 2003	138.6
Purchase price allocations for acquisitions in 2004	5.8
Balance at December 31, 2004	$144.4

The following table provides information regarding the Company's intangible assets, which are included in the accompanying consolidated balance sheets at December 31 (in millions):

	Gross Carrying Amount		Accumulated Amortization	
Class of Intangible Asset	2003	2004	2003	2004
Non-competition agreements	$4.2	$4.0	$1.1	$1.8
Certificates of need	1.1	1.1	—	—
Total	$5.3	$5.1	$1.1	$1.8

Certificates of need were issued by state governments to the hospitals acquired by the Company. An independent appraiser valued each certificate of need. In addition, these intangible assets were determined to have indefinite lives and, accordingly, are not amortized.

Approximately $4.0 million of the gross carrying amount of the non-competition agreements is related to the Company's purchase of the outstanding 30% limited partnership interest in Dodge City Healthcare Group, L.P., as discussed in Note 2. The other $0.2 million gross carrying amount of the non-competition agreements expired on December 31, 2004. Amortization expense related to the non-competition agreements for the years ended December 31, 2002, 2003 and 2004 was $0.3 million, $0.7 million, and $0.8 million, respectively. The Company estimates amortization expense for these intangible assets to approximate $0.8 million for each of the years ending December 31, 2005 and 2006, and $0.6 million for the year ending December 31, 2007. The non-competition agreements are amortized on a straight-line basis over the five-year length of the agreements.

Note 5—Income Taxes

The provision for income taxes for the years ended December 31, 2002, 2003 and 2004 consists of the following (in millions):

	2002	2003	2004
Current:			
Federal	$27.3	$34.2	$48.6
State	2.4	2.8	2.4
	29.7	37.0	51.0
Deferred:			
Federal	1.0	9.7	3.7
State	1.2	(1.3)	2.0
	2.2	8.4	5.7
Increase (decrease) in valuation allowance	0.8	0.5	(0.7)
Total	$32.7	$45.9	$56.0

The increases in the valuation allowance in 2002 and 2003 are primarily the 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. The decrease in the valuation allowance in 2004 was primarily the result of utilization of previously reserved state net operating loss carryforwards. Various subsidiaries have state net operating loss carryforwards in the aggregate of approximately $67.4 million (primarily in the states of Florida, Tennessee and West Virginia) with expiration dates through the year 2024.

A reconciliation of the statutory federal income tax rate to the Company's effective income tax rate on income before income taxes for the years ended December 31, 2002, 2003 and 2004 follows:

	2002	2003	2004
Federal statutory rate	35.0%	35.0%	**35.0%**
State income taxes, net of federal income tax benefit	3.3	2.4	**2.7**
ESOP expense	3.2	1.2	**1.5**
Valuation allowance	1.1	0.5	**(0.3)**
Other items, net	0.7	0.5	**0.3**
Effective income tax rate	43.3%	39.6%	**39.2%**

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 (in millions):

	2003	2004
Deferred income tax liabilities:		
Depreciation and amortization	$(46.2)	**$(62.4)**
Prepaid expenses	(3.7)	**(4.2)**
Other	(7.9)	**(11.7)**
Total deferred income tax liabilities	(57.8)	**(78.3)**
Deferred income tax assets:		
Provision for doubtful accounts	13.3	**19.5**
Employee compensation	3.6	**12.7**
Professional liability claims	14.1	**10.9**
Other	5.3	**8.6**
Total deferred income tax assets	36.3	**51.7**
Valuation allowance	(4.0)	**(3.4)**
Net deferred income tax assets	32.3	**48.3**
Net deferred income tax liabilities	$(25.5)	**$(30.0)**

The balance sheet classification of deferred income tax assets (liabilities) at December 31 is as follows (in millions):

	2003	2004
Current	$ 10.4	**$ 17.9**
Long-term	(35.9)	**(47.9)**
Total	$(25.5)	**$(30.0)**

The Company's income taxes receivable balances were $7.4 million and $7.5 million at December 31, 2003 and 2004, respectively. The tax benefits associated with the Company's employee stock plans were $1.7 million, $2.3 million and $6.2 million for the years ended December 31, 2002, 2003 and 2004, respectively. These tax benefits reduced current taxes payable, increased capital in excess of par value, and increased deferred tax assets attributable to state net operating loss carryforwards by $0.5 million in 2004.

During 2003, the Internal Revenue Service ("IRS") notified the Company regarding its findings related to the examination of the Company's tax returns for the years ended December 31, 1999, 2000 and 2001. The Company reached a partial settlement with the IRS on all issues except for the Company's method of determining its bad debt deduction for which the IRS has proposed an additional assessment of $7.4 million. All of the adjustments proposed by the IRS are temporary differences. The IRS has delayed final settlement of this assessment until resolution of certain pending court proceedings related to the use of this bad debt deduction method by HCA. On October 4, 2004, HCA was denied certiorari on its appeal of this matter to the United States Supreme Court. The Company intends to reach resolution of its IRS examination after the final settlement of HCA's tax years preceding the spin-off of the Company from HCA. Due to the complexity of the computations involved, neither the Company nor HCA is presently able to estimate when the final settlement of these tax years will occur. The Company applied its 2002 federal income tax refund in the amount of $6.6 million as a deposit against any potential settlement to forestall the tolling of interest on such settlement beyond the March 15, 2003 deposit date. Management believes that adequate provisions have been reflected in the consolidated financial statements to satisfy final resolution of the remaining disputed issue based upon current facts and circumstances.

HCA and the Company entered into a tax sharing and indemnification agreement as part of the 1999 spin-off transaction. Under the agreement, HCA maintains full control and absolute discretion with regard to any combined or consolidated tax filings for periods prior to the 1999 spin-off transaction. In addition, the agreement provides that HCA will generally be responsible for all taxes that are allocable to periods prior to the 1999 spin-off transaction and HCA and the Company will each be responsible for its own tax liabilities for periods after the 1999 spin-off transaction.

The tax sharing and indemnification 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 1999 spin-off transaction and are adjusted as a result of final tax settlements after the 1999 spin-off transaction. 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—Long-Term Debt

Long-term debt consists of the following at December 31 (in millions):

	2003	2004
Bank Credit Agreement	$ 20.0	$ —
Convertible Notes	250.0	221.0
	270.0	221.0
Less current maturities	—	—
	$270.0	$221.0

Maturities of the Company's long-term debt at December 31, 2004 were as follows (in millions):

2005–2008	$ —
2009	221.0
Thereafter	—
	$221.0

Bank Credit Agreement

In June 2001, the Company completed a $200 million, five-year amended and restated credit agreement (the "2001 Agreement") with a syndicate of lenders, which increased the available credit under the revolving credit agreement from $65 million to $200 million and expires in June 2006. As of December 31, 2004, the Company had no indebtedness outstanding under the 2001 Agreement and $8.3 million in letters of credit outstanding, leaving $191.7 million available under the 2001 Agreement. Of the $8.3 million in letters of credit outstanding as of December 31, 2004, $8.2 million was related to the self-insured retention levels of the Company's professional and general liability insurance program as security for the payment of claims and $0.1 million was related to certain utility companies. The Company repaid its $20.0 million of indebtedness outstanding at December 31, 2003 under the 2001 Agreement in February 2004 with its available cash. The Company borrowed $30.0 million under its 2001 Agreement in June 2004 to fund the acquisition of River Parishes Hospital, as previously described, and for general corporate purposes. Subsequently, the Company used available cash to repay the $30.0 million of indebtedness outstanding under the 2001 Agreement.

The applicable interest rate under the 2001 Agreement is based on a rate, at the Company's option, equal to either (i) LIBOR plus a margin ranging from 1.25% to 2.25% or (ii) prime plus a margin ranging from 0% to 0.5%, both depending on the Company's consolidated total debt to consolidated EBITDA ratio, as defined in the 2001 Agreement, for the most recent four quarters. The Company also pays a commitment fee ranging from 0.3% to 0.5% of the average daily unused balance. The applicable commitment fee rate is based on the Company's consolidated total debt to consolidated EBITDA ratio, as defined, for the most recent four quarters.

Obligations under the 2001 Agreement are guaranteed by substantially all of the Company's current and future subsidiaries and are secured by substantially all of the assets of the Company and its subsidiaries and the stock of the Company's subsidiaries. The 2001 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, for which the Company is in compliance as of December 31, 2004.

Convertible Notes

Effective May 22, 2002, the Company sold $250 million of Convertible Subordinated Notes due June 1, 2009 (the "Convertible Notes"). The net proceeds were approximately $242.5 million and were used for acquisitions, capital improvements at the Company's existing facilities, repurchases of the Company's 10¾% Senior Subordinated Notes discussed below, working capital and general corporate purposes. The Convertible Notes bear interest at the rate of 4½% per year, payable semi-annually on June 1 and December 1. The Convertible Notes are convertible at the option of the holder at any time on or prior to maturity into shares of the Company's common stock at a conversion price of $47.36 per share. The conversion price is subject to adjustment in certain circumstances. The Company may redeem all or a portion of the Convertible Notes on or after June 3, 2005, at the then current redemption prices, plus accrued and unpaid interest. Holders of the Convertible Notes may require the Company to repurchase all of the holder's Convertible Notes at 100% of their principal amount plus accrued and unpaid interest in some circumstances involving a change of control, as defined. The Convertible Notes are unsecured and subordinated to the Company's existing and future senior indebtedness and senior subordinated indebtedness. The Convertible Notes rank junior to the Company's liabilities. The indenture does not contain any financial covenants.

During 2004, the Company repurchased $29.0 million of its $250.0 million Convertible Notes and paid a $0.9 million premium on these repurchases. In connection with these repurchases, the Company expensed $0.6 million of deferred loan costs attributable to the $29.0 million Convertible Note repurchases. The deferred loan cost charge and the $0.9 million premium paid together resulted in a $1.5 million charge in debt retirement costs for the year ended December 31, 2004. The $1.5 million of debt retirement costs had a negative $0.02 per diluted share impact for the year ended December 31, 2004. The $29.0 million repurchase reduced the amount of shares of common stock reserved for issuance upon conversion of the Convertible Notes from 5,278,825 shares to 4,666,481 shares.

Senior Subordinated Notes

During 2002, the Company repurchased its $150.0 million 10¾% Senior Subordinated Notes and paid $26.5 million in premiums, commissions and fees on these repurchases. In connection with these repurchases, the Company recorded debt retirement costs in the year ended December 31, 2002 of $31.0 million.

Deferred Loan Costs

The Company incurred loan costs of approximately $7.5 million during 2002. The Company capitalized such costs and is amortizing these costs to interest expense over the terms of the related debt (five years for the 2001 Agreement and seven years for the Convertible Notes). The interest expense related to deferred loan cost amortization was approximately $1.4 million, $1.6 million and $1.5 million during 2002, 2003 and 2004, respectively. During 2002, as a result of the repurchase of the 10¾% Senior Subordinated Notes, the Company expensed the remaining deferred loan costs of $4.5 million attributable to the 10¾% Senior Subordinated Notes as part of the debt retirement costs in the consolidated income statements.

Note 7—Stockholders' Equity

Preferred Stock

The Company's certificate of incorporation provides up to 10,000,000 shares of preferred stock may be issued, of which 90,000 shares have been designated as Series A Junior Participating Preferred Stock, par value $.01 per share. 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 the Company's management more difficult.

Preferred Stock Purchase Rights

Pursuant to the Company's 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.

Common Stock

Holders of the Company's 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.

Share Repurchase Program

In April 2003, the Company's Board of Directors authorized the repurchase of up to $100 million of outstanding shares of the Company's common stock either in the open market or through privately negotiated transactions, subject to market conditions, regulatory constraints and other factors, to enable it to take advantage of opportunistic market conditions. This stock repurchase program was publicly announced on April 28, 2003. The Company is not obligated to repurchase any specific number of shares under the program. The program expired on October 28, 2004. The Company repurchased 2,062,400 shares for an aggregate of approximately $45.7 million. Certain of these shares are designated by the Company as treasury stock. The Company retired 863,600 of its 2,062,400 treasury shares during 2003 at a cost of $16.8 million, leaving 1,198,800 shares in treasury at a cost of $28.9 million as of December 31, 2004.

The following table summarizes the Company's share repurchase activity, all of which occurred during 2003, by month:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program
May 2003	863,600	$19.43	863,600
June 2003	10,200	19.70	10,200
September 2003	450,000	24.31	450,000
October 2003	738,600	23.92	738,600
Total	2,062,400	$22.10	2,062,400

ESOP Compensation

In connection with the 1999 spin-off transaction, the Company established the 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). The purchase was primarily financed by the ESOP issuing a promissory note to the Company, which is being repaid annually in equal installments over a 10-year period beginning December 31, 1999. The Company makes contributions to the ESOP which the ESOP uses to repay the loan. The Company's stock acquired by the ESOP is held in a suspense account and is being allocated to participants at book value from the suspense account as the loan is repaid over a 10-year period.

The loan to the ESOP is recorded as unearned ESOP compensation in the accompanying consolidated balance sheets. Reductions are made to unearned ESOP compensation as shares are committed to be released to participants at cost. Shares are deemed to be committed to be released ratably during each period as the employees perform services. Shares are allocated ratably to employee accounts over a period of 10 years (1999 through 2008). ESOP expense is recognized using the average market price of shares committed to be released to participants 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. The non-cash ESOP expense was $9.7 million, $6.9 million and $9.4 million for the years ended December 31, 2002, 2003 and 2004, respectively. The ESOP expense tax deduction is fixed at $3.2 million per year. The fair value of unreleased shares was $39.0 million at December 31, 2004.

The ESOP shares as of December 31, 2004 were as follows:

Allocated shares	1,525,219
Shares committed to be released	152,813
Unreleased shares	1,118,687
Total ESOP shares	2,796,719

Executive Stock Purchase Plan

The Company adopted the Executive Stock Purchase Plan in 1999, in which 1,000,000 shares of the Company's common stock were reserved and issued in 1999. The Executive Stock Purchase Plan granted 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 were reflected as notes receivable for shares sold to employees in the accompanying consolidated statements of stockholders' equity. During the year ended December 31, 2002, the Company's executives repaid the remaining $5.7 million of such loans, which were fully repaid as of December 31, 2002.

Management Stock Purchase Plan

The Company has a Management Stock Purchase Plan ("MSPP") which provides to certain designated employees an opportunity to purchase restricted shares of the Company's common stock at a discount through payroll deductions over six month intervals. Shares of the Company's common stock reserved for this plan were 250,000 at December 31, 2004. Such shares are subject to a three-year cliff-vesting period. All of the outstanding unvested shares of MSPP restricted stock will be fully vested as a result of the impendent acquisition of Province, as further discussed in Note 2. The Company redeems shares from employees upon vesting of the MSPP restricted stock for minimum statutory tax withholding purposes. The Company redeemed 17,669 and 3,760 shares upon vesting of the MSPP restricted stock during 2003 and 2004, respectively. There were no redemptions during 2002 because the MSPP shares vested beginning in 2003. Presented below is a summary of activity under the MSPP for 2002, 2003 and 2004:

	Shares Available for Issuance
December 31, 2001	151,573
Forfeitures	29,121
Issuances	(18,994)
December 31, 2002	161,700
Forfeitures	15,051
Issuances	(32,217)
December 31, 2003	144,534
Forfeitures	7,704
Issuances	(25,932)
December 31, 2004	126,306

Employee Stock Purchase Plan

Effective January 1, 2002, the Company began an Employee Stock Purchase Plan ("ESPP") which provides an opportunity for substantially all employees to purchase shares of the Company's common stock at a purchase price equal to 85% of the lower of the closing price on the first day or last day of a six-month interval. The Company's stockholders approved an amendment to the ESPP to increase the number of shares of common stock available for issuance from 100,000 to 300,000 in May 2003. Presented below is a summary of activity under the ESPP for 2002, 2003 and 2004:

	Shares Available for Issuance
December 31, 2001	—
Initial allocation	100,000
Issuances	(39,890)
December 31, 2002	60,110
Additional allocation	200,000
Issuances	(70,787)
December 31, 2003	189,323
Issuances	(27,924)
December 31, 2004	161,399

Stock Options

1998 Long-Term Incentive Plan

The Company's 1998 Long-Term Incentive Plan, as amended, authorizes 11,625,000 shares of the Company's common stock for issuance as of December 31, 2004. In June 2004, the Company's stockholders approved an amendment to the 1998 Long-Term Incentive Plan to increase the number of shares of common stock available for issuance from 9,625,000 to 11,625,000. 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. Options to purchase 914,950, 1,036,850 and 906,300 shares were granted to the Company's employees during the years ended December 31, 2002, 2003 and 2004, respectively, under this plan with an exercise price equal to the fair market value on the date of grant. These options become exercisable beginning one year from the date of grant to three years after the date of grant. All options granted under this plan expire 10 years from the date of grant.

During the first quarter of 2004, the Company granted 175,000 shares of nonvested stock awards to certain key executives under the Company's 1998 Long-Term Incentive Plan. The nonvested stock awards vest three years from the grant date and contain no vesting requirements other than continued employment of the executive. The fair market value at the date of grant of these nonvested stock awards was $33.17 per share and was recorded as unearned compensation as a component of stockholders' equity. Unearned compensation is being amortized on a straight-line basis in the statements of operations over the three-year vesting period of the awards. The total cost of the amortization related to these nonvested stock awards was approximately $1.7 million for the year ended December 31, 2004.

All of the outstanding options, except for those granted in December 2004, and all of the outstanding nonvested stock awards under the 1998 Long-Term Incentive Plan will be fully vested as a result of the impendent acquisition of Province, as further discussed in Note 2.

Outside Directors Stock and Incentive Plan

The Company also has an Outside Directors Stock and Incentive Plan ("ODSIP") for which 375,000 shares of the Company's common stock have been reserved for issuance. In June 2004, the Company's stockholders approved an amendment to the ODSIP to increase the number of shares of common stock available for issuance from 175,000 to 375,000. The Company granted 26,000 and 30,000 options under such plan to non-employee directors during the years ended December 31, 2002 and 2003, respectively. There were no options granted under such plan during 2004. These options become exercisable beginning in part from the date of grant to three years after the date of grant and expire 10 years after grant.

The ODSIP further provides that non-employee directors may elect to receive, in lieu of any portion of their annual retainer (in multiples of 25%), a deferred stock unit award. A deferred stock unit award represents the right to receive a specified number of shares of the Company's common stock. The shares are paid, subject to the election of the non-employee director, either two years following the date of the award or at the end of the director's service on the board of directors. The number of shares of the Company's common stock to be paid under a deferred stock unit award is equal to the value of the cash retainer that the non-employee director has elected to forego, divided by the fair market value of the Company's common stock on the date of the award.

During the second quarter of 2004, the Company granted 21,000 shares of nonvested stock awards to its outside directors under the ODSIP. These nonvested stock awards vest three years from the grant date and contain no vesting requirements other than continued service of the director. The fair market value at the date of grant of these nonvested stock awards was $37.86 and was recorded as unearned compensation as a component of stockholders' equity. Unearned compensation is being amortized on a straight-line basis in the statements of operations over the three-year vesting period of the awards. The total cost of the amortization related to these nonvested stock awards was approximately $0.2 million for the year ended December 31, 2004.

All outstanding options and nonvested stock awards under the ODSIP will be fully vested as a result of the impendent acquisition of Province, as further discussed in Note 2.

Summary

Presented below is a summary of stock benefit activity for 2002, 2003 and 2004:

		Stock Options Outstanding		Nonvested Stock Outstanding		Deferred Stock Units Outstanding
	Shares Available for Grant	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Grant Date Price	Number of Shares
December 31, 2001	1,683,108	3,439,140	$19.33	—	$ —	5,817
Increases in shares available (approved by stockholders)	2,500,000	—	N/A	—	—	—
Stock option grants	(940,950)	940,950	36.11	—	—	—
Deferred stock unit grants	(2,059)	—	N/A	—	—	2,059
Stock option exercises	—	(265,026)	11.18	—	—	—
Stock option cancellations	98,645	(98,645)	19.04	—	—	—
December 31, 2002	3,338,744	4,016,419	23.81	—	—	7,876
Stock option grants	(1,066,850)	1,066,850	21.60	—	—	—
Deferred stock unit grants	(3,076)	—	N/A	—	—	3,076
Deferred stock units vested	—	—	N/A	—	—	(1,474)
Stock option exercises	—	(333,006)	11.20	—	—	—
Stock option cancellations	356,821	(356,821)	27.75	—	—	—
Adjustments	14,813	—	—	—	—	—
December 31, 2003	2,640,452	4,393,442	23.91	—	—	9,478
Increases in shares available (approved by stockholders)	2,200,000	—	N/A	—	—	—
Stock option grants	(906,300)	906,300	33.49	—	—	—
Deferred stock unit grants	(2,376)	—	N/A	—	—	2,376
Deferred stock units vested	—	—	N/A	—	—	(1,544)
Nonvested stock grants	(196,000)	—	N/A	196,000	33.67	—
Stock option exercises	—	(774,635)	13.23	—	—	—
Stock option cancellations	165,526	(165,526)	33.64	—	—	—
Nonvested stock cancellations	10,000	—	N/A	(10,000)	33.17	—
December 31, 2004	**3,911,302**	**4,359,581**	**$27.43**	**186,000**	**$33.70**	**10,310**

The following table summarizes information regarding the stock options outstanding at December 31, 2004:

	Stock Options Outstanding			Exercisable Stock Options	
Range of Exercise Prices	Number of Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
$ 0.07 to $12.90	890,933	4.89	$10.44	890,933	$10.44
$14.16 to $17.44	71,833	4.46	$17.19	71,833	$17.19
$18.38 to $29.88	924,968	8.80	$22.01	308,407	$22.27
$31.05 to $33.17	1,054,529	6.87	$32.69	261,664	$31.45
$35.35 to $46.19	1,417,318	7.69	$38.23	1,104,772	$38.69
Total	4,359,581	7.10	$27.43	2,637,609	$25.92

Note 8—Commitments and Contingencies

Americans with Disabilities Act Claim

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 "ADA"). 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 currently unable to estimate the costs that could be associated with modifying these facilities because these costs are negotiated and determined on a facility-by-facility basis and, therefore, have varied and will continue to vary significantly among facilities. In January 2002, the District Court certified the class action and issued a scheduling order that requires the parties to complete discovery and inspection for approximately six facilities per year. The Company intends to vigorously defend the lawsuit, recognizing the Company's obligation to correct any deficiencies in order to comply with the ADA. As of December 31, 2004, the plaintiffs have conducted inspections at 22 of the Company's hospitals. On July 19, 2004, the United States District Court approved the settlement agreements between the parties relating to two of the Company's facilities. These facilities have completed the litigation process and now will move forward in implementing facility modifications in accordance with the terms of the settlement and the Company currently anticipates that the costs associated with modifying these two facilities will be approximately $1.0 million.

Corporate Integrity Agreement

In December 2000, the Company entered into a five-year corporate integrity agreement with the Office of Inspector General and agreed to maintain its compliance program in accordance with the corporate integrity agreement. This agreement has been amended four times since 2000. Complying with the compliance measures and reporting and auditing requirements of the corporate integrity agreement requires additional efforts and costs. Failure to comply with the terms of the corporate integrity agreement could subject the Company to significant monetary penalties.

Legal Proceedings and 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, medical malpractice, breach of management contracts, 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 a maximum amount of approximately $23.7 million at December 31, 2004. The actual amount of such commitments to be subsequently advanced to physicians is estimated at $9.5 million and 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.

Capital Expenditure Commitments

The Company is reconfiguring some of its facilities to accommodate more effectively patient services and restructuring existing surgical capacity in some of its hospitals to permit additional patient volume and a greater variety of services. The Company has incurred approximately $48.6 million in uncompleted projects as of December 31, 2004, which is included in construction in progress in its accompanying consolidated balance sheet. At December 31, 2004, the Company had projects under construction with an estimated additional cost to complete and equip of approximately $71.5 million.

Pursuant to the asset purchase agreement for Logan Regional Medical Center, the Company has agreed to expend, regardless of the results of the hospital's operations, at least $20.0 million in the aggregate for capital expenditures and improvements during the ten-year period following the date of acquisition of December 1, 2002. The Company had incurred approximately $8.2 million of the required capital improvements as of December 31, 2004.

Acquisitions

The Company has acquired and will continue to acquire businesses with prior operating histories. Acquired companies, including Province, 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.

Leases

The Company leases real estate properties, buildings, vehicles and equipment under cancelable and non-cancelable leases. Rental expense related to continuing operations for the years ended December 31, 2002, 2003 and 2004 was $7.4 million, $8.4 million and $9.5 million, respectively.

Future minimum operating lease payments are as follows at December 31, 2004 (in millions):

2005	$ 5.3
2006	4.2
2007	3.4
2008	2.5
2009	1.4
Thereafter	3.7
Total minimum payments	$20.5

Tax Matters

See Note 5. *Income Taxes* for a discussion of contingent tax matters.

Note 9—Earnings (Loss) Per Share

The following table sets forth the computation of basic and diluted earnings (loss) per share for the years ended December 31, 2002, 2003 and 2004 (dollars and shares in millions, except per share amounts):

	2002[(a)]	2003	2004
Numerator:			
Numerator for basic earnings per share—income from continuing operations	$ 42.9	$ 70.2	$ 86.8
Interest on Convertible Notes, net of taxes	—	7.8	7.3
Numerator for diluted earnings per share—income from continuing operations	42.9	78.0	94.1
Loss from discontinued operations, net of income taxes	(1.4)	(1.7)	(1.1)
	$ 41.5	$ 76.3	$ 93.0
Denominator:			
Denominator for basic earnings (loss) per share—weighted average shares outstanding	37.5	37.2	37.0
Effect of dilutive securities:			
Employee stock benefit plans	1.1	0.8	0.8
Convertible Notes	—	5.3	5.0
Denominator for diluted earnings (loss) per share—adjusted weighted average shares	38.6	43.3	42.8
Basic earnings (loss) per share:			
Continuing operations	$ 1.14	$ 1.89	$ 2.34
Discontinued operations	(0.03)	(0.05)	(0.03)
Net income	$ 1.11	$ 1.84	$ 2.31
Diluted earnings (loss) per share:			
Continuing operations	$ 1.10	$ 1.80	$ 2.20
Discontinued operations	(0.03)	(0.04)	(0.03)
Net income	$ 1.07	$ 1.76	$ 2.17

(a) The impact of 3.3 million potential weighted average shares of common stock, if converted, and interest expense related to the Convertible Notes was not included in the computation of diluted earnings per share because the effect would have been anti-dilutive.

Note 10—Related Party Transactions

As part of an officer's relocation package, the Company purchased a house for approximately $0.5 million during 2004, which is in other assets on the Company's accompanying balance sheet as of December 31, 2004. In addition, as part of another officer's relocation package, the Company purchased a house for approximately $0.6 million in the second quarter of 2002 and subsequently sold it in the fourth quarter of 2002.

The Company loaned certain Company executives 100% of the purchase price of the Company's common stock at the fair market value based on the date of purchase during 1999. The loans are reflected as notes receivable for shares sold to employees in the Company's consolidated statements of stockholders' equity. During 2002, Company executives repaid $5.7 million of such loans, which were fully repaid as of December 31, 2002.

Note 11—Subsequent Event

The Company exercised its option to purchase Bluegrass Community Hospital ("Bluegrass") for $3.2 million in January 2005. The Company had previously leased Bluegrass from Woodford Healthcare, Inc., a Kentucky not-for-profit corporation, from January 2001 through December 2004.

Note 12—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).

	2003			
	First	Second	Third	Fourth
Revenues[a]	$212.9	$214.1	$219.4	$229.2
Income from continuing operations	$ 18.1	$ 16.0	$ 16.4	$ 19.7
Loss from discontinued operations	(0.4)	(0.7)	(0.2)	(0.4)
Net income	$ 17.7	$ 15.3	$ 16.2	$ 19.3
Basic earnings (loss) per share:				
Continuing operations	$ 0.48	$ 0.43	$ 0.44	$ 0.54
Discontinued operations	(0.01)	(0.02)	(0.01)	(0.01)
Net income	$ 0.47	$ 0.41	$ 0.43	$ 0.53
Diluted earnings (loss) per share:				
Continuing operations	$ 0.46	$ 0.41	$ 0.42	$ 0.51
Discontinued operations	(0.01)	(0.01)	—	(0.01)
Net income	$ 0.45	$ 0.40	$ 0.42	$ 0.50

	2004			
	First	Second	Third	Fourth
Revenues[b]	$247.5	$238.2	$253.7	$257.5
Income from continuing operations	$ 24.2	$ 19.5	$ 20.1	$ 23.0
Loss from discontinued operations	(0.3)	(0.8)	(0.4)	0.4
Net income	$ 23.9	$ 18.7	$ 19.7	$ 23.4
Basic earnings (loss) per share:				
Continuing operations	$ 0.66	$ 0.53	$ 0.54	$ 0.62
Discontinued operations	(0.01)	(0.02)	(0.01)	0.01
Net income	$ 0.65	$ 0.51	$ 0.53	$ 0.63
Diluted earnings (loss) per share:				
Continuing operations	$ 0.61	$ 0.50	$ 0.51	$ 0.58
Discontinued operations	(0.01)	(0.02)	(0.01)	0.01
Net income	$ 0.60	$ 0.48	$ 0.50	$ 0.59

(a) The net adjustments to estimated third-party payor settlements increased (decreased) revenues by $2.9 million, $1.4 million, $1.9 million and $(0.2) million during the first, second, third and fourth quarters, respectively.

(b) The net adjustments to estimated third-party payor settlements increased revenues by $1.4 million, $0.8 million, $1.6 million and $3.7 million during the first, second, third and fourth quarters, respectively. In addition, the Company recognized $3.2 million of additional revenues during the first quarter of 2004 related to a Medicare disproportionate share designation confirmation by the CMS.

BOARD OF DIRECTORS

Kenneth C. Donahey
Chairman of the Board,
President and Chief Executive Officer
LifePoint Hospitals, Inc.

Richard H. Evans
Chairman
Evans Holdings. LLC

DeWitt Ezell, Jr.
Former State President
BellSouth Corporation

Michael P. Haley
Chairman
MW Manufacturers, Inc.

Ricki Tigert Helfer
Independent Consultant
Financial Regulation and Reform International

William V. Lapham
Retired Partner
Ernst & Young LLP

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

Owen G. Shell, Jr.
Retired President
Bank of America, Asset Management Group

EXECUTIVE OFFICERS

Kenneth C. Donahey
Chairman of the Board, President and
Chief Executive Officer

William F. Carpenter III
Executive Vice President, General Counsel,
Secretary and Corporate Governance Officer

Michael J. Culotta
Chief Financial Officer

William M. Gracey
Chief Operating Officer

CORPORATE INFORMATION

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Nashville, Tennessee

Corporate Headquarters
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615-372-8500

Form 10-K
The Company has filed an annual report on Form 10-K for the year ended December 31, 2004, 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, Tennessee 37027, or by visiting the Company's Website at www.lifepointhospitals.com.

Common Stock and Dividend Information
The Common Stock of LifePoint Hospitals, Inc. is traded on the Nasdaq National Market under the symbol "LPNT." At May 16, 2005, the Company had approximately 49,704 stockholders, including 5,054 stockholders of record and approximately 44,650 persons or entities holding common stock, in nominee name. No dividends have been paid on the common stock and the Company does not currently intend to declare or pay any dividends.

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.

	High	Low
2003		
First Quarter	$ 30.65	$ 19.60
Second Quarter	25.72	16.55
Third Quarter	29.44	20.55
Fourth Quarter	31.05	22.51
2004		
First Quarter	$37.32	$29.41
Second Quarter	39.16	32.23
Third Quarter	33.60	26.60
Fourth Quarter	37.74	28.50
2005		
First Quarter	$40.66	$33.24

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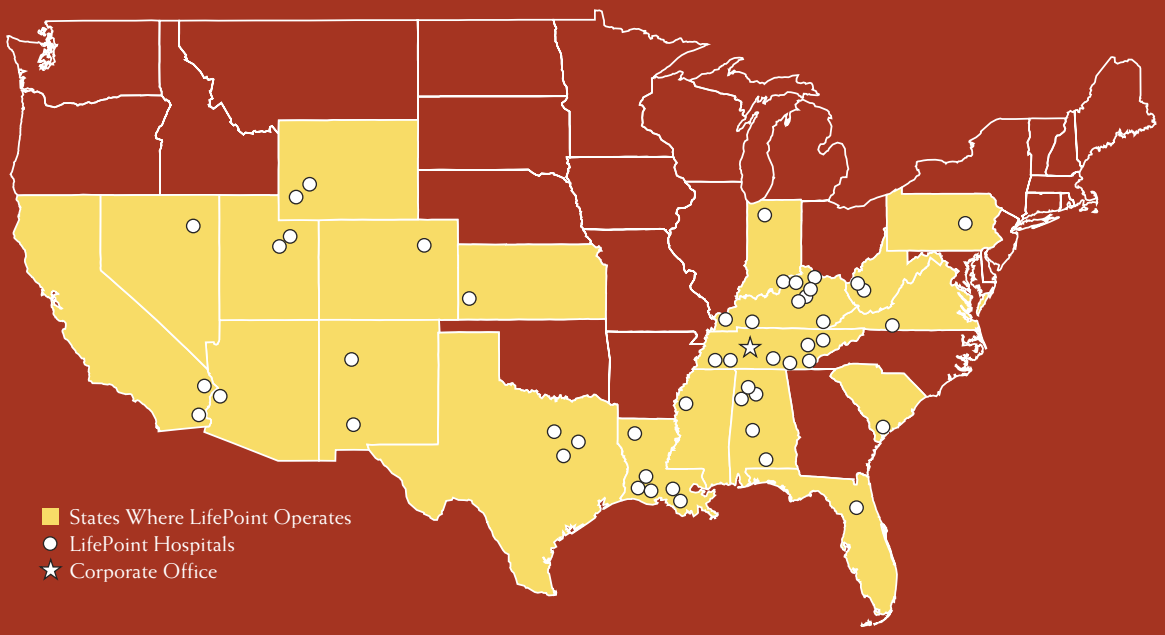
FACILITY LOCATIONS

As of April 15, 2005, LifePoint Hospitals, Inc. owns and operates 50 hospitals in 20 states with approximately 5,285 licensed beds. Of the combined 50 hospitals, 46 are in markets where LifePoint is the sole community hospital provider.



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