

Lifepoint Health is a private company, and as such, these financial statements are considered confidential. This information should not be disclosed to any outside parties except to meet your business needs.

CONSOLIDATED FINANCIAL STATEMENTS

OF

LIFEPOINT HEALTH, INC.

FOR THE

FISCAL YEAR ENDED DECEMBER 31, 2023

PART IV

Item 15. *Exhibits and Financial Statement Schedules.*

(a) The following documents are filed as part of this Report:

1. *Consolidated Financial Statements:*

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<u>Report of Independent Auditors</u>	F-1
<u>Consolidated Statements of Operations for the Years Ended December 31, 2023, 2022 and 2021</u>	F-3
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2. *Financial Statement Schedule:* All schedules for which provision is made in the applicable accounting regulations of the SEC are omitted because they either are not required under the related instructions, are inapplicable, or the required information is shown in the consolidated financial statements or notes thereto.
3. *Exhibits:* The exhibits required by Item 601 of Regulation S-K that would be disclosed under Part IV, Item 15 of an annual report on Form 10-K filed with the SEC have been omitted as permitted pursuant to Section 4.02(a) of the Indentures.

Report of Independent Auditors

Board of Directors and Shareholders of
Lifepoint Health, Inc.

Opinion

We have audited the consolidated financial statements of Lifepoint Health, Inc. (the Company), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations, comprehensive (loss) income, equity and cash flows for each of the three years in the period ended December 31, 2023, and the related notes (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2023, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements. In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Information

Management is responsible for the other information. The other information comprises the financial and nonfinancial information included in the annual report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Ernst + Young LLP

February 29, 2024

Lifepoint Health, Inc.
Consolidated Statements of Operations
For the Years Ended December 31, 2023, 2022 and 2021
(In millions)

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Revenues	\$ 9,111	\$ 8,020	\$ 8,937
Salaries and benefits	4,466	4,016	4,176
Supplies	1,306	1,243	1,505
Other operating expenses, net	2,456	2,025	2,228
Depreciation and amortization	330	323	345
Interest expense, net	679	480	466
Debt refinancing costs	52	-	-
Other transaction-related costs	28	46	86
Other non-operating losses (gains), net	12	(8)	19
	<u>9,329</u>	<u>8,125</u>	<u>8,825</u>
(Loss) income before income taxes	(218)	(105)	112
Provision for (benefit from) income taxes	52	100	(27)
Net (loss) income	(270)	(205)	139
Less: Net income attributable to noncontrolling interests and redeemable noncontrolling interests	(66)	(66)	(9)
Net (loss) income attributable to Lifepoint Health, Inc.	<u>\$ (336)</u>	<u>\$ (271)</u>	<u>\$ 130</u>

Lifepoint Health, Inc.
Consolidated Statements of Comprehensive (Loss) Income
For the Years Ended December 31, 2023, 2022 and 2021
(In millions)

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Net (loss) income	\$ (270)	\$ (205)	\$ 139
Other comprehensive (loss) gain:			
Unrealized gains on changes in funded status of pension benefit obligations	-	4	6
Net change in other comprehensive income attributable to equity method investment	(5)	-	-
Other comprehensive (loss) gain	(5)	4	6
Comprehensive (loss) income	(275)	(201)	145
Less: Net income attributable to noncontrolling interests and redeemable noncontrolling interests	(66)	(66)	(9)
Comprehensive (loss) income attributable to Lifepoint Health, Inc.	<u>\$ (341)</u>	<u>\$ (267)</u>	<u>\$ 136</u>

Lifepoint Health, Inc.
Consolidated Balance Sheets
As of December 31, 2023 and 2022
(In millions)

	2023	2022
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 90	\$ 395
Accounts receivable	1,223	1,042
Inventories	189	195
Prepaid expenses	125	128
Other current assets	542	323
	<u>2,169</u>	<u>2,083</u>
Property and equipment, at cost	4,988	4,455
Accumulated depreciation	(1,602)	(1,339)
Property and equipment, net	<u>3,386</u>	<u>3,116</u>
Investments	857	684
Right-of-use operating lease assets	1,023	638
Other long-term assets	164	157
Goodwill and intangible assets	4,250	3,894
Total assets	<u>\$ 11,849</u>	<u>\$ 10,572</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 606	\$ 405
Accrued salaries	293	225
Other current liabilities	681	545
Current maturities of long-term debt	56	29
	<u>1,636</u>	<u>1,204</u>
Long-term debt, net	7,447	6,865
Long-term portion of right-of-use operating lease obligations	952	572
Other long-term liabilities	349	368
Total liabilities	<u>10,384</u>	<u>9,009</u>
Redeemable noncontrolling interests	143	143
Equity:		
Lifepoint Health, Inc. stockholders' equity	953	1,095
Noncontrolling interests	369	325
Total equity	<u>1,322</u>	<u>1,420</u>
Total liabilities and equity	<u>\$ 11,849</u>	<u>\$ 10,572</u>

Lifepoint Health, Inc.

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2023, 2022 and 2021
(In millions)

	2023	2022	2021
Cash flows from operating activities:			
Net (loss) income	\$ (270)	\$ (205)	\$ 139
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:			
Depreciation and amortization	330	323	345
Other non-cash amortization	28	33	33
Non-cash interest expense (income), net	8	(4)	(24)
Debt refinancing costs	52	-	-
Stock-based compensation	5	5	117
Other non-operating losses (gains), net	12	(8)	19
Reserve for self-insurance claims, net of payments	(26)	(6)	6
Changes in cash from operating assets and liabilities, net of effects of acquisitions and divestitures:			
Accounts receivable	(116)	(7)	(112)
Inventories, prepaid expenses and other current assets	(196)	(105)	(83)
Accounts payable, accrued salaries and other current liabilities	315	(20)	131
Medicare advance payments and deferred payroll taxes	-	-	(1,075)
Income taxes payable/receivable and deferred income taxes	15	72	(71)
Other	(16)	4	(15)
Net cash provided by (used in) operating activities	<u>141</u>	<u>82</u>	<u>(590)</u>
Cash flows from investing activities:			
Purchases of property and equipment	(229)	(227)	(274)
Acquisitions, net of cash acquired	(313)	-	-
Net cash impact related to common control transaction	-	-	(875)
Proceeds from sales of hospitals and equity method investment	37	135	119
Investment in ScionHealth term loan	-	(47)	-
Other	11	1	(4)
Net cash used in investing activities	<u>(494)</u>	<u>(138)</u>	<u>(1,034)</u>
Cash flows from financing activities:			
Net change in ABL Facility	35	-	-
Proceeds from borrowings	3,830	-	-
Payments of borrowings	(3,818)	(144)	-
Proceeds from non-core real estate transaction	225	-	-
Payments of debt financing costs	(108)	-	-
Distributions to Parent	(12)	(10)	(93)
Distributions and other cash transactions associated with noncontrolling interests and redeemable noncontrolling interests	(72)	(84)	(26)
Termination of finance lease obligations	-	(130)	(28)
Amortization of finance lease obligations	(32)	(34)	(29)
Net cash provided by (used in) financing activities	<u>48</u>	<u>(402)</u>	<u>(176)</u>
Change in cash and cash equivalents	(305)	(458)	(1,800)
Cash and cash equivalents at beginning of period	395	853	2,653
Cash and cash equivalents at end of period	<u>\$ 90</u>	<u>\$ 395</u>	<u>\$ 853</u>
Supplemental disclosure of cash flow information:			
Interest payments	\$ 496	\$ 373	\$ 379
Capitalized interest	\$ 9	\$ 5	\$ 3
Property and equipment acquired under finance leases	\$ 61	\$ 44	\$ 50
Income tax payments, net	\$ 37	\$ 28	\$ 44

Lifepoint Health, Inc.

Consolidated Statements of Equity
For the Years Ended December 31, 2023, 2022 and 2021
(Dollars in millions)

	Common Stock		Capital in	Accumulated	Accumulated	Noncontrolling	
	Shares	Amount	Excess of	Other	(Deficit)	Interests	Total
			Par Value	Comprehensive	Income		
				(Loss) Income	Income		
Balance at December 31, 2020	100	\$ -	\$ 1,267	\$ (9)	\$ (103)	\$ 32	\$ 1,187
Comprehensive income	-	-	-	6	130	5	141
Stock-based compensation	-	-	117	-	-	-	117
Net equity adjustments related to common control transactions	-	-	48	-	-	-	48
Distributions to Parent	-	-	(85)	-	-	-	(85)
Noncontrolling interests recognized in common control transactions	-	-	-	-	-	317	317
Cash distributions to joint venture partners	-	-	-	-	-	(3)	(3)
Balance at December 31, 2021	100	-	1,347	(3)	27	351	1,722
Comprehensive income (loss)	-	-	-	4	(271)	65	(202)
Stock-based compensation	-	-	5	-	-	-	5
Distributions to Parent	-	-	(10)	-	-	-	(10)
Cash distributions to joint venture partners, net of contributions	-	-	-	-	-	(84)	(84)
Non-cash contributions from joint venture partners	-	-	-	-	-	17	17
Non-cash adjustments related to noncontrolling interests and redeemable noncontrolling interests and other	-	-	(4)	-	-	(24)	(28)
Balance at December 31, 2022	100	-	1,338	1	(244)	325	1,420
Comprehensive (loss) income	-	-	-	(5)	(336)	67	(274)
Stock-based compensation	-	-	5	-	-	-	5
Distributions to Parent	-	-	(12)	-	-	-	(12)
Cash distributions to joint venture partners, net of contributions	-	-	-	-	-	(57)	(57)
Non-cash contributions from joint venture partners	-	-	-	-	-	34	34
Net equity adjustments related to common control transactions	-	-	232	-	-	-	232
Reclassification of equity to noncontrolling interests related to joint venture activity	-	-	(14)	-	-	14	-
Net impact to noncontrolling interests related to acquisitions and divestitures	-	-	-	-	-	(14)	(14)
Non-cash adjustments related to redeemable noncontrolling interests	-	-	(12)	-	-	-	(12)
Balance at December 31, 2023	100	\$ -	\$ 1,537	\$ (4)	\$ (580)	\$ 369	\$ 1,322

Lifepoint Health, Inc.
Notes to Consolidated Financial Statements
December 31, 2023

Note 1. Organization and Summary of Significant Accounting Policies

Organization

Lifepoint Health, Inc., a Delaware corporation (“Lifepoint” or the “Company”), acting through its subsidiaries, is a leading provider of healthcare serving patients, clinicians, communities and partner organizations across the healthcare continuum. The Company generates revenues by providing a broad range of general and specialized healthcare services to patients through a growing diversified healthcare delivery network, which at December 31, 2023 was comprised of 60 community hospital campuses, 39 inpatient rehabilitation facilities (“IRFs”), 23 behavioral health facilities (“BHF”) and additional sites of care that include acute rehabilitation units (“ARUs”), outpatient centers and post-acute care facilities. At December 31, 2023, on a consolidated basis, the Company operated 122 healthcare facilities in 31 states throughout the United States (“U.S.”) with approximately 12,000 licensed beds and approximately 50,000 dedicated employees.

Unless otherwise indicated or the context otherwise requires, references throughout these notes to the consolidated financial statements to the “Company” or “Lifepoint” refer to Lifepoint Health, Inc., and each of its consolidated subsidiaries. References in this Annual Report for the fiscal year ended December 31, 2023 to the “Sponsor” refer to certain funds that are affiliates of the Company (the “Apollo Funds”) that are ultimately controlled and/or managed by certain affiliates of Apollo Management Holdings, L.P. (“Apollo Management” and, when acting on behalf of the Apollo Funds, “Apollo”), which is an affiliate of Apollo Global Management, Inc.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and all subsidiaries and entities controlled by the Company through majority voting control and variable interest entities of which the Company is the primary beneficiary. All significant intercompany accounts and transactions within the Company have been eliminated in consolidation. Noncontrolling interests in non-wholly-owned consolidated subsidiaries of the Company are presented as noncontrolling interests and redeemable noncontrolling interests and distinguish between the interests of the Company and the interests of the noncontrolling owners. Net income attributable to noncontrolling interests and redeemable noncontrolling interests represents the amounts attributable to the noncontrolling interests for each of the applicable periods presented. Investments in entities the Company does not control but in which it does have a substantial ownership interest and over which it can exercise significant influence are accounted for using the equity method.

The Company’s financial statements have been presented on the basis of push down accounting in accordance with Financial Accounting Standards Board Accounting Standards Codification (“ASC”) No. 805-50-S99. Under the push down basis of accounting, certain transactions incurred by the parent company which would otherwise be accounted for in the accounts of the parent are “pushed down” and recorded on the financial statements of the subsidiary. Accordingly, certain items resulting from the acquisition by Apollo have been recorded on the financial statements of the Company.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the amounts reported in the Company’s accompanying consolidated financial statements and notes to the consolidated financial statements. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the prior years to conform to current year presentation. These reclassifications had no effect on results of operations, financial position or cash flows as previously reported.

Lifepoint Health, Inc.
Notes to Consolidated Financial Statements
December 31, 2023

Revenue Recognition and Accounts Receivable

Overview

The Company recognizes revenues in the period in which performance obligations are satisfied. Generally, the Company bills patients and third-party payers several days after the services are performed or the patient is discharged. Accounts receivable primarily consist of amounts due from third-party payers and patients. The Company's ability to collect outstanding receivables is critical to its results of operations and cash flows. Amounts the Company receives for treatment of patients covered by governmental programs and third-party payers such as Medicare, Medicaid, health maintenance organizations ("HMOs"), preferred provider organizations ("PPOs") and private insurers as well as directly from patients are subject to contractual adjustments, discounts and implicit price concessions. Accordingly, the revenue and accounts receivable reported in the Company's financial statements are recorded at the net consideration to which the Company expects to be entitled to receive in exchange for providing patient care.

The majority of the Company's performance obligations are satisfied over time for the delivery of patient care in both outpatient and inpatient settings. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected charges for services anticipated to be provided. The Company believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the remaining services needed to satisfy the obligation. Generally, unsatisfied or partially unsatisfied performance obligations at the end of the reporting period are related to patients admitted to the Company's hospitals that have not yet been discharged. The performance obligations for these patients are typically satisfied when the patients are discharged, which generally occurs within a matter of days of admission. Patients are generally billed when discharged, though they may be billed on an interim basis for longer stays. Accordingly, because all of the Company's performance obligations are part of a contract that is expected to have a duration of one year or less, the Company has elected to apply the exemption provided by ASC 606, "Revenue from Contracts with Customers" ("ASC 606") to not disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied as of period end.

Subsequent adjustments that are determined to be the result of an adverse change in the patient's or the payer's ability to pay are recognized as bad debt expense. With the adoption of ASC 606, bad debt expense is included under the caption "Other operating expenses, net" in the accompanying consolidated statements of operations, instead of separately as a deduction to arrive at revenue. Bad debt expense for the years ended December 31, 2023, 2022 and 2021 was not material for the Company.

Contractual Discounts

The Company derives a significant portion of its revenues from Medicare, Medicaid and other payers that receive discounts from the Company's established billing rates. The Company must estimate the total amount of these discounts to prepare its 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 contractual discounts on a payer-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. Subsequent changes in estimates for contractual discounts are reflected as an adjustment to revenues in the period of the change. Medicare, Medicaid and other discounted payer accounts receivables are written off after they have been final settled with the payer.

Medicaid Supplemental Payments

Medicaid supplemental payments ("MSPs") are payments made to providers separate from, and in addition to, those made at a state's standard Medicaid payment rate. MSP programs are jointly financed by state funds and federal matching funds. The state portion may be funded through general revenue, intergovernmental transfers from local governments or healthcare-related taxes imposed by states in the form of a mandatory provider payment related to healthcare items or services. The two most prevalent forms of MSPs are Medicaid Disproportionate Share Hospital ("DSH") and Upper Payment Limit ("UPL") payments. The Company had total receivables related to Medicaid DSH and UPL programs of \$239 million and \$106 million at December 31, 2023 and 2022, respectively, which are included under the caption "Other current assets" in the Company's accompanying consolidated balance sheets.

Lifepoint Health, Inc.
Notes to Consolidated Financial Statements
December 31, 2023

North Carolina Healthcare Access and Stabilization Program and Medicaid Expansion

On March 27, 2023, the governor of North Carolina signed into law a bill to expand Medicaid coverage in North Carolina, which expanded health coverage to an estimated 600,000 people across North Carolina on December 1, 2023. The legislation also enacted the Healthcare Access and Stabilization Program (“HASP”) aimed at increasing Medicaid reimbursement rates to hospitals providing safety-net services for low-income patients. The Centers for Medicare and Medicaid Services (“CMS”) approved initial HASP payments for the North Carolina fiscal year July 1, 2022 to June 30, 2023. HASP payments for future fiscal years will require annual approval by CMS. Increased reimbursement rates under the initial HASP preprint were applied retrospectively to the beginning of the North Carolina fiscal year, which commenced on July 1, 2022. As a result of the increased reimbursement rates, the Company recognized additional revenues of \$121 million in its consolidated statements of operations for the year ended December 31, 2023, of which \$35 million is related to the period from July 1, 2022 to December 31, 2022. The Company recognized additional provider taxes of \$28 million for the year ended December 31, 2023, included under the caption “Other operating expenses, net” in its accompanying consolidated statements of operations, of which \$9 million is related to the period from July 1, 2022 to December 31, 2022.

Kentucky Hospital Rate Improvement Program

The Commonwealth of Kentucky has implemented a Medicaid Hospital Rate Improvement Program (“KY HRIP”), which provides supplemental Medicaid payments to all Kentucky hospitals, other than university hospitals and state mental hospitals, and is intended to reduce the gap between the Kentucky Medicaid program’s regular inpatient Medicaid payments and each hospital’s Medicare allowable costs. During the first quarter of 2021, CMS and the Commonwealth of Kentucky approved a modification to the KY HRIP, which increased the inpatient hospital reimbursement rate from a contracted managed care rate up to a percentage of the average commercial rate. This modification was applied retrospectively to the beginning of the KY HRIP fiscal year, which commenced on July 1, 2020. As a result of this modification, the Company recognized additional revenues of \$113 million in its consolidated statement of operations for the year ended December 31, 2021, of which \$33 million is related to the period from July 1, 2020 to December 31, 2020. Additionally, the Company recognized additional provider taxes of \$15 million for the year ended December 31, 2021, included under the caption “Other operating expenses, net” in the accompanying consolidated statement of operations, of which \$5 million is related to the period from July 1, 2020 to December 31, 2020.

Cost Report Settlements

Cost report settlements under reimbursement agreements with Medicare, Medicaid and certain other payers for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the payment terms of the reimbursement agreement with the payer, correspondence from the payer, and the Company’s historical experience. Estimated settlements are adjusted in future periods as final settlements are determined. There is a reasonable possibility that recorded estimates will change by a material amount in the near-term.

The net cost report settlements due to the Company were \$4 million and \$3 million at December 31, 2023 and 2022, respectively, and are included under the caption “Accounts receivable” on the accompanying consolidated balance sheets. The Company’s management believes that adequate provisions have been made for adjustments that may result from final determination of amounts earned under these programs consistent with the constraints that are required by ASC 606.

For the years ended December 31, 2023, 2022 and 2021, the net retroactive adjustments to revenue related to prior periods for changes in MSP programs, estimated cost report settlements and other reimbursement adjustments resulted in an increase to revenues of \$47 million, \$32 million and \$62 million, respectively.

Self-Pay Revenues

Self-pay revenues are derived from patients who do not have any form of healthcare coverage as well as from patients with third-party healthcare coverage related to the patient responsibility portion, including deductibles and co-payments. The Company evaluates these patients, after such patient’s medical condition is determined to be stable, for their ability to pay based upon federal and state poverty guidelines, qualifications for Medicaid or other governmental assistance programs. The Company estimates the transaction price for self-pay patients and the patient responsibility portion using a number of analytical tools, benchmarks and market conditions. No single statistic or measurement determines the transaction price for these patients. Some of the analytical tools that the Company utilizes include, but are not limited to, historical cash collection experience, revenue trends by payer classification and revenue days in accounts receivable.

Lifepoint Health, Inc.
Notes to Consolidated Financial Statements
December 31, 2023

The revenues associated with self-pay patients are reported at the net amount that the Company expects to collect. Because the Company provides care to patients regardless of their ability to pay, the Company has determined that the differences between the amounts it bills based on gross or discounted charges and the amounts the Company expects to collect represent implicit price concessions. The final amount that will be received from the patient is not known at the date of service, and the Company accounts for this variable consideration in accordance with the provisions of ASC 606. Self-pay accounts receivable are written off after collection efforts have been followed in accordance with the Company's policies.

Charity Care

The Company provides care without charge to certain patients that qualify under the local charity care policy of each of its hospitals. For the years ended December 31, 2023, 2022 and 2021, the Company estimates that its costs of care provided under its charity care programs approximated \$28 million, \$18 million and \$23 million, respectively. The Company does not report a charity care patient's charges in revenues or in the provision for doubtful accounts as it is the Company's policy not to pursue collection of amounts related to these patients, and therefore contracts with these patients do not exist.

The Company's management estimates its costs of care provided under its charity care programs utilizing a calculated ratio of costs to gross charges multiplied by the Company's gross charity care charges provided. The Company's gross charity care charges include only services provided to patients who are unable to pay and qualify under the Company's local charity care policies. To the extent the Company receives reimbursement through the various governmental assistance programs in which it participates to subsidize its care of indigent patients, the Company does not include these patients' charges in its cost of care provided under its charity care program.

Financing Component

The Company has elected to apply the practical expedient permitted under ASC 606 and does not adjust the estimated amount of consideration from patients and third-party payers for the effects of a significant financing component due to the Company's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payer pays for that service will be one year or less.

Rental Income

The Company leases certain real estate assets it owns to unrelated third parties, primarily medical office buildings to non-employed physicians. The Company recognizes rental income for these operating lease arrangements in which the Company is the lessor on a straight-line basis over the lease term in accordance with ASC 842, "Leases" ("ASC 842").

Concentration of Revenues

The Company's revenues by payer and approximate percentages of revenues were as follows for the years ended December 31, 2023, 2022 and 2021:

	2023	2022	2021
	% of	% of	% of
	Revenues	Revenues	Revenues
Medicare	37.4 %	40.1 %	37.7 %
Medicaid	19.1	16.8	18.4
HMOs, PPOs and other private insurers	37.9	37.1	41.3
Self-pay	0.7	0.7	0.6
Other (a)	4.7	5.1	1.8
Revenue from contracts with customers	99.8	99.8	99.8
Rental income	0.2	0.2	0.2
Revenues	100.0 %	100.0 %	100.0 %

(a) Includes revenues from managed ARUs and ancillary goods and services.

Lifepoint Health, Inc.
Notes to Consolidated Financial Statements
December 31, 2023

During the years ended December 31, 2023, 2022 and 2021, approximately 56.5%, 56.9% and 56.1%, respectively, of the Company's revenues related to patients participating in the Medicare and Medicaid programs, collectively. The Company's 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.

Any changes in the current demographic, economic, competitive or regulatory conditions, or to Medicaid programs could have an adverse effect on the Company's revenues or results of operations. The Company's management does not believe that there are any other significant concentrations of revenues from any particular payer or geographic area that would subject the Company to any significant credit risks in the collection of its accounts receivable.

The Company's revenues by primary service type and approximate percentages of revenues were as follows for the years ended December 31, 2023, 2022 and 2021:

	2023		2022		2021
	% of		% of		% of
	Revenues		Revenues		Revenues
Inpatient services	44.4 %		43.5 %		39.4 %
Outpatient services	50.7		51.2		58.6
Non-patient (a)	4.9		5.3		2.0
Revenues	100.0 %		100.0 %		100.0 %

(a) Includes revenues from managed ARUs and ancillary goods and services.

General and Administrative Costs

The majority of the Company's operating expenses are "cost of revenue" items. Operating expenses that could be classified as "general and administrative" by the Company would include its corporate overhead costs, which were \$237 million, \$207 million and \$195 million for the years ended December 31, 2023, 2022 and 2021, respectively, excluding depreciation and amortization, net income and losses associated with non-consolidated equity investments, and certain costs the Company considers non-recurring in nature, including but not limited to, severance and restructuring charges, and transaction and advisory costs recognized in connection with the Company's various business development activities. Lastly, the Company recognized accelerated stock-based compensation expense during the year ended December 31, 2021 in connection with a transaction involving the Company's indirect parent, DSB Parent, L.P., a Delaware limited partnership (the "Parent"), which is also excluded from its aforementioned general and administrative costs. Refer to Note 12 for further discussion of the Company's accounting for the stock-based compensation.

Legislative and Regulatory Response to COVID-19

Numerous legislative and regulatory actions, including enacting the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") and related stimulus legislation, were taken in an attempt to provide businesses, including healthcare providers, with relief from, and to combat the negative effects of, the COVID-19 pandemic.

Medicare Accelerated and Advance Payment Program

Using existing authority and certain expanded authority under the CARES Act, the U.S. Department of Health and Human Services temporarily expanded the CMS Accelerated and Advance Payment Program to a broad group of Medicare Part A and Part B providers. Under the expanded CMS Accelerated and Advance Payment Program, inpatient acute care hospitals could request up to 100% of their Medicare payment amount for a six-month period (critical access hospitals could request up to 125% of their payment amount for such period), and other providers and suppliers could request up to 100% of their Medicare payment amount for a three-month period.

The Company received a total of \$991 million of Medicare advance payments under the CMS Accelerated and Advance Payment Program during the year ended December 31, 2020. During the year ended December 31, 2021, the Company fully repaid all Medicare advance payments.

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CARES Act Tax Provisions

The CARES Act also provided for certain federal income tax changes, including an increase in the interest expense tax deduction limitation, the deferral of the employer portion of Social Security payroll taxes, refundable payroll tax credits, employee retention tax credits, net operating loss carryback periods, alternative minimum tax credit refunds and bonus depreciation of qualified improvement property. During the year ended December 31, 2020, the Company deferred cash payments of approximately \$84 million related to Social Security payroll tax payments. During the year ended December 31, 2021, the Company fully repaid all previously deferred Social Security payroll taxes.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and short-term investments with original maturities of three months or less. The Company places its cash in financial institutions that are federally insured in limited amounts.

Inventories

Inventories of supplies are stated at the lower of cost (first-in, first-out) or market and consist of purchased items. Inventories acquired in connection with business combinations are recorded at fair value which approximates replacement cost. Inventory items are primarily operating supplies used in the direct or indirect treatment of patients.

Investments and Notes Receivable

The Company accounts for its investments in entities in which the Company does not control under either the cost method or the equity method of accounting in accordance with ASC 321 “Investments – Equity Securities” (“ASC 321”) or ASC 323, “Investments – Equity Method and Joint Ventures” (“ASC 323”), respectively. The Company does not consolidate its cost and equity method investments, but rather measures them at their initial costs and then subsequently adjusts their carrying values through income for their respective shares of the earnings or losses or evaluates them for impairment and observable price changes. Refer to Note 8 for further discussion of the Company’s investments.

In June 2016, the Financial Accounting Standards Board issued Accounting Standards Update No. (this “ASU”) 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This ASU requires entities to report “expected” credit losses on financial instruments and other commitments to extend credit rather than the current “incurred loss” model. These expected credit losses for financial assets held at the reporting date are to be based on historical experience, current conditions, and reasonable and supportable forecasts. This ASU will also require enhanced disclosures relating to significant estimates and judgments used in estimating credit losses, as well as the credit quality. This ASU was effective for the Company beginning January 1, 2023. The Company has adopted this ASU with no material impact to its consolidated financial statements.

Property and Equipment

Purchases of property and equipment are recorded at cost. Property and equipment acquired in connection with business combinations are recorded at estimated fair value in accordance with the acquisition method of accounting as prescribed in ASC 805, “Business Combinations” (“ASC 805”). Routine maintenance and repairs are charged to expense as incurred. Expenditures that increase capacities or extend useful lives are capitalized. Fully depreciated assets are retained in property and equipment accounts until they are disposed. The Company capitalizes interest on funds used to pay for the construction of major capital additions and such interest is included in the cost of each capital addition.

The following table provides information regarding the Company’s property and equipment included in the accompanying consolidated balance sheets as of December 31, 2023 and 2022 (in millions):

	2023	2022
Land	\$ 212	\$ 180
Buildings and improvements	2,638	2,376
Equipment	1,926	1,751
Construction in progress	212	148
Property and equipment, at cost	4,988	4,455
Accumulated depreciation	(1,602)	(1,339)
Property and equipment, net of accumulated depreciation	<u>\$ 3,386</u>	<u>\$ 3,116</u>

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Depreciation is computed by applying the straight-line method over the estimated useful lives of buildings, improvements and equipment. Assets under capital and finance leases are generally amortized using the straight-line method over the shorter of the estimated useful life of the assets or life of the lease term, excluding any lease renewals, unless the lease renewals are reasonably assured. Capitalized internal-use software costs are amortized over their expected useful life, which is generally four years. Useful lives are as follows:

	Years		
Buildings and improvements (including those under finance leases)	3	-	40
Equipment	2	-	15
Equipment under finance leases	3	-	6

Depreciation expense (including amortization of finance lease obligations) totaled \$330 million, \$323 million and \$344 million for the years ended December 31, 2023, 2022 and 2021, respectively.

Whenever events or changes in circumstances indicate that the carrying values of certain long-lived assets may be impaired, the Company projects the undiscounted cash flows expected to be generated by these assets. If the projections indicate that the reported amounts are not expected to be recovered, such amounts are reduced to their estimated fair value based on a quoted market price, if available, or an estimate based on valuation techniques available in the circumstances. There were no long-lived asset impairments recorded for the years ended December 31, 2023, 2022 and 2021.

Goodwill and Intangible Assets

The Company accounts for its acquisitions in accordance with ASC 805 using the acquisition method of accounting. Goodwill represents the excess of the cost of an acquired entity over the net amounts assigned to assets acquired and liabilities assumed. In accordance with ASC 350, Intangibles – Goodwill and Other (“ASC 350”), goodwill and intangible assets with indefinite lives are reviewed by the Company annually for impairment on October 1. In 2022, the Company was comprised of two distinct reporting units (i) acute hospital operations and (ii) rehabilitation hospital operations. Due to the significance of the Springstone Transaction (as defined under Note 2) and the impact on the Company’s management team and business operations, the Company re-evaluated its reporting units in accordance with ASC 280, “Segment Reporting” (“ASC 280”) and ASC 350 during 2023 and determined that the Company is now comprised of three distinct reporting units: (i) acute hospital operations, (ii) rehabilitation hospital operations and (iii) behavioral health operations.

For the annual impairment evaluation, the Company estimates fair values of its reporting units utilizing both a discounted cash flow (“DCF”) analysis and a guideline public company (“GPC”) analysis considering observable market data of the Company’s industry peers. Determining fair value requires the exercise of significant judgment, including judgments about appropriate discount rates, perpetual growth rates, profitability and the amount and timing of expected future cash flows. The significant judgments are typically based upon Level 3 inputs, generally defined as unobservable inputs representing the Company’s assumptions. The cash flows employed in the DCF analysis are based on the Company’s most recent financial budgets and business plans and, when applicable, various growth rates and profitability for years beyond the current business plan period. Discount rate assumptions are based on an assessment of the risks inherent in the future cash flows of the reporting unit.

The Company’s intangible assets primarily relate to contract-based physician minimum revenue guarantees; certificates of need and certificates of need exemptions; and licenses, provider numbers and accreditations. Contract-based physician minimum revenue guarantees are amortized over the terms of the agreements. The certificates of need, certificates of need exemptions, licenses, provider numbers, and accreditations have been determined to have indefinite lives and, accordingly, are not amortized. Refer to Note 4 for further discussion of the Company’s goodwill and intangible assets.

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 the income tax provision 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. The establishment or increase in a valuation allowance is included as an expense within the provision for income taxes in the consolidated statements of operations. The Company classifies interest and penalties related to its tax positions as a component of income tax expense. Refer to Note 5 for further discussion of the Company’s accounting for income taxes.

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Reserves for Self-Insurance Claims

Given the nature of the Company's operating environment, the Company is subject to potential professional liability claims, employee workers' compensation claims and other claims. To mitigate a portion of this risk, the Company maintains insurance for individual professional liability claims and employee workers' compensation claims exceeding self-insured retention ("SIR") and deductible levels. At December 31, 2023, the Company's SIR for professional liability claims is \$15 million per claim at the majority of its acute care hospitals. Additionally, the Company participates in state-specific professional liability programs in New Mexico and Pennsylvania. The Company has a \$25,000 deductible for professional liability at each of its IRFs and a \$100,000 deductible at each of its BHF's. At December 31, 2023, the Company's deductible for workers' compensation claims at each of its acute care and BHF's was \$1 million per claim in all states in which it operates except for Montana, Ohio and Washington. The Company participates in state-specific programs for its workers' compensation claims arising in these states. There is no deductible for workers' compensation claims at IRFs. The Company's SIR and deductible levels are evaluated annually as a part of the Company's insurance program's renewal process.

The Company's reserves for self-insurance and deductible claims reflect the current estimate of all outstanding losses, including incurred but not reported losses, based upon actuarial calculations as of the balance sheet date. The loss estimates included in the actuarial calculations may change in the future based upon updated facts and circumstances. The Company's expense for self-insurance and deductible claims 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 the Company's SIR and deductible levels; and interest expense related to the discounted portion of the liability. The Company's expense for self-insurance and deductible claims was approximately \$48 million, \$69 million and \$86 million for the years ended December 31, 2023, 2022 and 2021, respectively.

The Company's reserves for professional liability claims are based upon quarterly and/or semi-annual actuarial calculations. These reserve calculations consider historical claims data, demographic considerations, severity factors and other actuarial assumptions, which are discounted to present value. The Company's reserves for self-insured claims have been discounted to their present value using a discount rate of 2.0% at December 31, 2023 and 1.8% at December 31, 2022. The Company's management selects a discount rate by considering a risk-free interest rate that corresponds to the period when the self-insured claims are incurred and projected to be paid.

Professional and general liability claims are typically resolved over an extended period of time, often as long as five years or more, while workers' compensation claims are typically resolved in one to two years. Accordingly, the Company's reserves for self-insured claims, comprised of estimated indemnity and expense payments related to reported events and incurred but not reported events as of the end of the period, include both a current and long-term component. The current portion of the Company's reserves for self-insured claims is included under the caption "Other current liabilities" and the long-term portion is included under the caption "Other long-term liabilities" in the accompanying consolidated balance sheets.

The following table provides information regarding the classification of the Company's reserves for self-insured claims at December 31, 2023 and 2022 (in millions):

	2023	2022
Current portion	\$ 70	\$ 74
Long-term portion	195	219
	<u>\$ 265</u>	<u>\$ 293</u>

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The following table presents the changes in our reserves for self-insured claims for the years ended December 31, 2023 and 2022 (in millions):

	2023	2022
Reserve at the beginning of the period	\$ 293	\$ 295
Increase for the provision of current year claims	55	65
(Decrease)/Increase for the provision of prior year claims	(5)	5
Payments related to current year claims	(3)	(3)
Payments related to prior year claims	(71)	(72)
Provision for the change in discount rate	(2)	(1)
Non-cash change in reserve for claims in excess of SIR levels	(6)	2
Liabilities assumed in connection with acquisitions	4	2
Reserve at the end of the period	<u>\$ 265</u>	<u>\$ 293</u>

The combination of changing conditions and the extended time required for claim resolution results in a loss estimation process that requires actuarial skill and the application of judgment, and such estimates require periodic revision. As a result of the variety of factors that must be considered, there is a risk that actual incurred losses may develop differently from estimates. The results of the Company's quarterly and semi-annual actuarial calculations resulted in changes to its reserves for self-insured claims for prior years. As a result, the Company's related self-insured claims expense decreased by \$5 million and increased by \$5 million for the years ended December 31, 2023 and 2022, respectively.

Point of Life Indemnity, Ltd.

The Company operates, with approval from the Cayman Islands Monetary Authority, a captive insurance company under the name Point of Life Indemnity, Ltd. Through this wholly-owned subsidiary of the Company, the captive insurance company issues malpractice indemnity policies to certain subsidiaries employing physicians and advanced practice providers and contracting with physicians. Fees charged to these subsidiaries are eliminated in consolidation. Reserves for the Company's estimate of the related outstanding claims, including incurred but not reported losses, are actuarially determined and are included as a component of the Company's reserves for professional liability self-insurance claims.

Self-Insured Medical Benefits

The Company is self-insured for substantially all of the eligible medical plan claims of its employees. The reserve for medical benefits primarily reflects the current estimate of incurred but not reported losses based upon an annual actuarial calculation as of the balance sheet date. The undiscounted reserve for self-insured medical benefits was \$72 million and \$50 million at December 31, 2023 and 2022, respectively, and is included in the Company's accompanying consolidated balance sheets under the caption "Other current liabilities".

Noncontrolling Interests and Redeemable Noncontrolling Interests

Noncontrolling interests represent the portion of equity in a subsidiary not attributable, directly or indirectly, to the Company. The Company's accompanying consolidated financial statements include all assets, liabilities, revenues, and expenses at their consolidated amounts, which include the amounts attributable to the Company and the noncontrolling interest. The Company recognizes as a separate component of earnings that portion of income or loss attributable to noncontrolling interests based on the portion of the entity not owned by the Company. Refer to Note 9 for further discussion of the Company's noncontrolling interests and redeemable noncontrolling interests.

Variable Interest Entities

The Company follows the provisions of ASC 810, "Consolidation" for determining whether an entity is a variable interest entity ("VIE"). In order to determine if the Company is a primary beneficiary of a VIE for financial reporting purposes, it must consider whether it has the power to direct activities of the VIE that most significantly impact the performance of the VIE and whether the Company has the obligation to absorb losses or the right to receive returns that are significant to the VIE. The Company consolidates a VIE when it is the primary beneficiary.

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As of December 31, 2023, the Company consolidated 23 acute care hospitals, 36 IRFs, and 19 BHF's that are subject to joint venture agreements. Under GAAP, the Company determined that 9 of its acute care hospitals, 32 of its IRFs and 19 of its BHF's qualify as VIEs, and furthermore, the Company concluded that it is the primary beneficiary in all of the VIEs. The Company holds an ownership interest and acts as manager in each of the partnerships. Through the management services agreement, the Company is delegated necessary responsibilities to provide management services, administrative services and direction of the day-to-day operations. Based upon the Company's assessment of the most significant activities of its acute care hospitals and IRFs, the Company, as manager, has the ability to direct the majority of those activities in all such joint ventures which qualify as VIEs.

The analysis upon which the consolidation determination rests can be complex, can involve uncertainties, and requires judgment on various matters, some of which could be subject to different interpretations.

The Company's consolidated VIEs comprised approximately \$2,303 million, or 19.4%, of the Company's total assets and \$1,366 million, or 13.2%, of the Company's total liabilities as of December 31, 2023.

Stock-Based Compensation

The Parent has issued profits units (the "Units") to certain employees, directors, consultants and other service providers under the terms and conditions of the Third Amended and Restated Limited Partnership Agreement of the Parent dated May 27, 2022 (as amended, the "Parent Partnership Agreement") and forms of award agreements. The Company accounted for these stock-based awards in accordance with the provisions of ASC 718, "Compensation – Stock Compensation" ("ASC 718"). In accordance with ASC 718, the Company recognized compensation expense based on the estimated grant date fair value of each stock-based award. The Company recognizes forfeitures of Units as they occur. Refer to Note 12 for further discussion of the Company's accounting for the Units.

Defined Benefit Pension Plans

The Company maintains certain assets and assumed certain liabilities associated with two separate defined benefit pension plans covering certain employees at two of its facilities. The Company accounts for its defined benefit pension plans in accordance with ASC 715, "Compensation – Defined Benefit Plans" ("ASC 715"). In accordance with ASC 715, the Company recognizes the unfunded liability of its defined benefit pension plans in the Company's consolidated balance sheets and unrecognized gains (losses) and prior service credits (costs) as changes in other comprehensive income (loss). The measurement date of the defined benefit pension plans' assets and liabilities coincides with the Company's year-end. The Company's pension benefit obligations are measured using actuarial calculations that incorporate discount rates, rate of compensation increases, when applicable, expected long-term returns on plan assets and consider expected age of retirement and mortality. Refer to Note 11 for further discussion of the Company's defined benefit pension plans.

Defined Contribution Plans

During the year ended December 31, 2023, the Company maintained a defined contribution retirement plan covering a majority of its employees. This defined contribution retirement plan contains discretionary matching contribution formulas, as well as definite contribution formulas for employees at certain facilities. Refer to Note 11 for further discussion of the Company's defined contribution plan.

Note 2. Business Development Update

Rehabilitation Expansion

The Company has continued to expand its rehabilitation business since closing the Kindred Transaction (as defined below). Following the transactions described below, as of December 31, 2023, the Company's consolidated inpatient rehabilitation operations include 39 IRFs with approximately 1,900 beds across 19 states.

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Everest Operational IRFs Acquisition

On January 24, 2023, a wholly-owned, indirect subsidiary of the Company entered into a definitive agreement with entities affiliated with Everest Rehabilitation Hospitals, LLC (“Everest”), to acquire four IRFs (the “Everest Operational IRFs”) located in Arkansas, Texas, and Ohio (the “Everest Operational IRF Transaction”) for an aggregate purchase price of approximately \$38 million. The closing of the Everest Operational IRF Transaction was consummated on March 1, 2023. Effective September 28, 2023, the Company contributed the Operational IRF located in Rogers, Arkansas to a new joint venture between the Company and Mercy Hospital Northwest Arkansas (“Mercy”). Upon formation of the joint venture, the Company reclassified \$11 million of its equity in the facility to noncontrolling interests in the accompanying consolidated statements of equity representing the estimated fair value of Mercy’s intangible assets contributed to the joint venture. The Company maintains a controlling interest in the joint venture and has continued to consolidate the facility in the Company’s consolidated financial statements.

Everest Developing IRFs Acquisitions

In connection with the closing of the Everest Operational IRF Transaction, certain of the Company’s affiliated entities entered into a definitive agreement with entities affiliated with Everest to acquire six IRFs that Everest is currently developing in Texas and Florida (the “Everest Developing IRFs”) for an aggregate purchase price of approximately \$60 million. The acquisition of the first of the Everest Developing IRFs, located in El Paso, Texas (“El Paso”), was consummated on August 1, 2023. The Company accounted for the acquisition of El Paso in accordance with ASC 805, under the acquisition method of accounting. The fair values of assets acquired and liabilities assumed are on a preliminary basis at December 31, 2023. The Company anticipates closing the acquisition of the remaining five Everest Developing IRFs on a rolling basis beginning in the second quarter of 2024.

De Novo IRFs Openings

During the two years ended December 31, 2023, the Company’s consolidated joint ventures have opened six de novo IRFs with approximately 300 beds (which does not include Saint Thomas Rehabilitation Hospital listed below), as summarized below.

Facility Name	Location	Opening Date	Beds
Frazier Rehabilitation Hospital - Brownsboro	Louisville, KY	July 18, 2023	40
UC Davis Rehabilitation Hospital	Sacramento, CA	May 18, 2023	52
Community Rehabilitation Hospital West	Indianapolis, IN	May 16, 2023	40
Dignity Health East Valley Rehabilitation Hospital - Gilbert	Gilbert, AZ	December 21, 2022	40
Mercy Rehabilitation Hospital South	St. Louis, MO	December 6, 2022	50
Saint Thomas Rehabilitation Hospital (a)	Nashville, TN	June 14, 2022	40
Tampa Rehabilitation Hospital	Tampa, FL	May 17, 2022	80

(a) We hold a noncontrolling ownership interest in Saint Thomas Rehabilitation Hospital and have accounted for it as an equity investment in accordance with ASC 323

Behavioral Health Expansion

During the year ended December 31, 2023, the Company significantly expanded its behavioral health presence through the transactions described below. Following such transactions, as of December 31, 2023, the Company’s consolidated behavioral health operations include 23 BHF’s with approximately 1,700 beds across ten states.

Springstone Transaction

On August 26, 2022, the Company entered into a definitive agreement with (i) entities affiliated with Medical Properties Trust, Inc. (“MPT”) and (ii) BH EIK Management, LP, a management company owned by certain members of the executive leadership team (“Springstone Management”) of Springstone Health Opco, LLC (“Springstone”), for an affiliate of the Company (the “Lifepoint Member”) to acquire a majority ownership interest in Springstone from Springstone Management and to acquire a promissory note issued by Springstone to an affiliate of MPT (the “Springstone Transaction”). Springstone was a national behavioral health provider with 18 BHF’s and 37 outpatient locations across nine states. Pursuant to the Springstone Transaction, MPT continued to own the majority of Springstone’s real estate locations, subject to an amended and restated master lease between affiliates of MPT and Springstone (the “Springstone Master Lease”), and an affiliate of MPT (“MPT DS”) retained a noncontrolling interest in Springstone, subject to a put/call agreement (the “Put/Call Agreement”).

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The Springstone Transaction was consummated on February 7, 2023, upon which certain of the Company's subsidiaries entered into the Springstone Master Lease, and the Company funded \$229 million in cash to complete the transaction. Refer to Note 7 for further discussion of the Springstone Master Lease.

On January 25, 2024, MPT DS delivered to the Lifepoint Member a put option notice pursuant to the Put/Call Agreement, notifying the Lifepoint Member of its exercise of the put right under the Put/Call Agreement. In accordance with the Put/Call Agreement, the Lifepoint Member is obligated to acquire all of the equity interests of Springstone owned by MPT DS. The Company expects to close on the purchase of MPT DS's equity interest in Springstone during the three months ended March 31, 2024 for a purchase price of approximately \$12 million, following which the Company will own all of the outstanding equity interests of Springstone.

The Company accounted for the Springstone Transaction in accordance with ASC 805 under the acquisition method of accounting. The following table summarizes the fair values of assets acquired and liabilities assumed on a preliminary basis in connection with the Springstone Transaction (in millions):

Current assets	\$	82
Property and equipment, net		481
Right-of-use operating lease assets		13
Goodwill and intangible assets		286
Current liabilities		(53)
Finance lease obligations		(541)
Other long-term debt, net		(23)
Long-term portion of right-of-use operating lease obligations		(11)
Noncontrolling interests and redeemable noncontrolling interests		(5)
Net assets acquired	\$	229

Cornerstone El Dorado Transaction

On January 20, 2023, a subsidiary of Knight Health Holdings LLC (d/b/a ScionHealth), a Delaware limited liability company ("ScionHealth"), acquired Cornerstone Healthcare Group Holding, Inc., a Delaware corporation ("Cornerstone"), which operates 15 specialty hospitals, eight senior living locations, and Cornerstone Behavioral Health El Dorado ("El Dorado") (the "Cornerstone Transaction"). Immediately following ScionHealth's acquisition of Cornerstone on January 20, 2023, the Company paid \$35 million in cash to acquire El Dorado, a 54-bed BHF located in Tucson, Arizona, from ScionHealth (the "El Dorado Transaction"). The Company accounted for the acquisition of El Dorado in accordance with ASC Subtopic 805-50 "Related Issues" ("ASC 805-50") as a transaction between entities under common control.

In connection with the Cornerstone Transaction and the El Dorado Transaction, the Company entered into a number of transition services agreements ("TSAs") and other ancillary agreements with ScionHealth and its subsidiaries pursuant to which (i) the Company provides certain transition services to ScionHealth to support the businesses acquired by ScionHealth in connection with the Cornerstone Transaction and (ii) ScionHealth provides certain transition services to the Company to support El Dorado.

De Novo BHF Opening

During the year ended December 31, 2023, the Company's consolidated joint venture opened one de novo BHF, as summarized below.

Facility Name	Location	Opening Date	Beds
Valley Springs Behavioral Health Hospital	Holyoke, MA	August 14, 2023	150

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Joint Venture for Highpoint Health System

Effective December 1, 2023, the Company formed a new joint venture with an affiliate of Ascension Saint Thomas to expand access to high quality care and services in Northern Middle Tennessee (the “Highpoint Joint Venture”). Pursuant to a contribution agreement between the parties, at the closing the Company contributed its ownership interest in the Highpoint Health System in exchange for a controlling interest in the Highpoint Joint Venture. The Highpoint Health System is a regional health system comprised of Sumner Regional Medical Center, a 167-bed acute care hospital located in Gallatin, Tennessee; Sumner Station Emergency Room and Outpatient Services, a free standing emergency department and outpatient services center located in Gallatin, Tennessee; Trousdale Medical Center, a 25-bed critical access hospital located in Carthage, Tennessee; and Riverview Regional Medical Center, a 25-bed critical access hospital located in Carthage, Tennessee; and more than 15 affiliated clinics and sites of care. Upon formation of the Highpoint Joint Venture, the Company reclassified \$22 million of its equity in Highpoint Health System to noncontrolling interests representing the estimated fair value of Ascension Saint Thomas’ ownership interest in Highpoint. The Company maintains a controlling interest in Highpoint Health System and has continued to consolidate the facility in the Company’s consolidated financial statements.

Kindred Transaction

On June 18, 2021, the Company entered into a securities purchase agreement (the “Kindred Purchase Agreement”) for us and/or one or more affiliated assignees to acquire, directly or indirectly, Kindred Healthcare, LLC (“Kindred”), a leading specialty hospital company that operated facilities providing post-acute care, rehabilitation services and behavioral health services throughout the U.S. Upon the closing of the Kindred Transaction on December 23, 2021, a new healthcare company was established operating under the name ScionHealth, which is separate from Lifepoint. The Company acquired the IRF, behavioral health, contract rehabilitation service and certain support center businesses of Kindred, separated and transferred the equity and assets comprising 18 select acute care hospitals to ScionHealth and acquired Class B Units of ScionHealth, with an aggregate value of \$350 million, which are perpetual non-convertible, non-voting units that accrue cumulative dividends at the rate of 10.00% per annum and, upon liquidation, are entitled to a return of their nominal value issue price of \$350 million plus accrued, unpaid dividends. The Company refers to the foregoing transactions as the “Kindred Transaction.” The Company’s acquisition of Kindred’s inpatient rehabilitation and contract rehabilitation service business (including 28 IRFs with 1,447 beds), behavioral health business (including two BHF’s with 96 beds), and certain support center businesses transformed the Company into a more diversified healthcare platform, well-positioned to advance healthcare delivery in communities across the country.

Transition Services Agreements

The Company entered into a number of TSAs and other ancillary agreements with ScionHealth and its subsidiaries. For the years ended December 31, 2023 and 2022, in connection with the TSAs, the Company was reimbursed by ScionHealth for certain costs incurred on its behalf of \$47 million and \$61 million, respectively, and paid ScionHealth \$2 million and \$3 million for each period, respectively, for certain costs incurred on the Company’s behalf.

Additionally, the Company and ScionHealth are party to a number of commercial services agreements, pursuant to which the Company provides ScionHealth with therapy services, rehabilitation unit and behavioral health unit management, consulting and development services, among other commercial services. For the years ended December 31, 2023 and 2022, the Company recorded revenues related to these commercial services agreements of \$63 million and \$55 million, respectively.

Lastly, the Company had a net receivable of \$124 million and \$84 million, respectively, recorded under the caption “Other current assets” in its accompanying consolidated balance sheets at December 31, 2023 and December 31, 2022.

Accounting for the Kindred Transaction

The Company accounted for the Kindred Transaction in accordance with ASC 805-50 as a transaction between entities under common control. In accordance with ASC 805-50, the Company recognized the assets and liabilities transferred in connection with the Kindred Transaction at the common parent’s historical cost basis as of December 23, 2021. In accordance with ASC 805-50, combinations of entities under common control requires retrospective adjustment of comparative period financial information for the periods in which the entities were under common control. The Company and the Knight Transferred Business were under common control beginning December 23, 2021, and therefore, the Company has not retrospectively adjusted its previously issued financial statements.

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The following tables summarize the impact of the net asset transfers in connection with ScionHealth and the finalized purchase price allocation (in millions):

Net assets transferred from ScionHealth to Lifepoint	\$ 1,031
Net assets transferred from Lifepoint to ScionHealth	(404)
Cash transferred to ScionHealth from Lifepoint	(929)
Class B Units of ScionHealth transferred to Lifepoint	350
Net equity adjustments related to common control transactions	<u>\$ 48</u>

	From ScionHealth To Lifepoint	From Lifepoint To ScionHealth
Current assets	\$ 198	\$ (271)
Property and equipment, net	153	(501)
Other long-term assets	475	(30)
Goodwill and intangible assets	1,095	(121)
Current liabilities	(123)	118
Long-term liabilities	(473)	378
Noncontrolling interests and redeemable noncontrolling interests	(294)	23
Net assets transferred to (from) Lifepoint	<u>\$ 1,031</u>	<u>\$ (404)</u>

Transaction-Related Costs

During the years ended December 31, 2023, 2022 and 2021, the Company recognized transaction-related costs of \$28 million, \$46 million and \$86 million, respectively. The transaction-related costs recognized during the year ended December 31, 2023, were primarily related to the Springstone Transaction, the Non-Core Real Estate Financing Transaction (as defined under Note 7) and other business development activities. The transaction-related costs recognized during the years ended December 31, 2022 and 2021 were primarily related to the Kindred Transaction, Springstone Transaction and other business development activities. For more information related to the Non-Core Real Estate Financing Transaction, refer to Note 7.

Additional Divestitures

Clark Memorial Hospital and Scott Memorial Hospital

Effective September 29, 2023, the Company sold its 75% equity interest in the joint venture that owned Clark Memorial Hospital (“Clark Memorial”), a 236-bed acute care facility located in Jeffersonville, Indiana, and Scott Memorial Hospital (“Scott Memorial”), a 25-bed acute care facility located in Scottsburg, Indiana, to Norton Healthcare, Inc., the minority owner of such joint venture. The Company received net cash proceeds from the transaction of \$37 million, including certain net working capital accounts.

In connection with the divestitures of Clark Memorial and Scott Memorial, the Company recognized a net loss of approximately \$10 million, which is included under the caption “Other non-operating losses (gains), net” in the accompanying consolidated statements of operations for the year ended December 31, 2023. The net loss on sale is primarily attributable to the excess of the carrying values of the net assets associated with Clark Memorial and Scott Memorial, including allocated goodwill, over the net proceeds received in the transaction.

Colorado Plains Medical Center and Western Plains Medical Complex

Effective May 1, 2022, the Company sold Colorado Plains Medical Center (“Colorado Plains”), a 50-bed acute care facility located in Fort Morgan, Colorado, and Western Plains Medical Complex (“Western Plains”), a 99-bed acute care facility located in Dodge City, Kansas, to an unrelated third party. The Company received cash proceeds from the Colorado Plains and Western Plains transaction of \$135 million, including net working capital, of which \$63 million was utilized to settle a finance lease obligation related to Western Plains.

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In connection with the sale of Colorado Plains and Western Plains, the Company recognized a net gain of \$12 million, which is included under the caption “Other non-operating (gains) losses, net” in the accompanying consolidated statements of operations for the year ended December 31, 2022. The net gain on sale is primarily attributable to transaction proceeds in excess of the book values of the net assets associated with Colorado Plains and Western Plains, partially offset by losses associated with the write-off of allocated goodwill and the termination of a finance lease obligation related to Western Plains.

Providence Health and KershawHealth

Effective August 1, 2021, the Company sold Providence Health, comprised of two hospital campuses located in Columbia, South Carolina, and KershawHealth, located in Camden, South Carolina, to an unrelated third party. The Company received cash proceeds from the transaction of \$86 million, including net working capital, a portion of which was utilized to settle a \$28 million finance lease obligation related to KershawHealth. Refer to Note 7 for additional information regarding the Company’s accounting for leases.

In connection with the divestiture of Providence Health and KershawHealth, the Company recognized a net impairment loss of \$42 million during the year ended December 31, 2021, which is included under the caption “Other non-operating (gains) losses, net” in the accompanying consolidated statement of operations for the year ended December 31, 2021. The net impairment loss is primarily attributable to the write-down of property and equipment and allocated goodwill to their estimated fair values, as well as the termination of a finance lease obligation related to KershawHealth.

Capital Medical Center

On December 23, 2020, the Company entered into a definitive agreement with an unrelated third party to sell its majority ownership interest in Capital Medical Center, located in Olympia, Washington. Effective April 1, 2021, the Company sold its ownership interest in Capital Medical Center for cash proceeds of \$38 million, including net working capital, in addition to the purchaser’s assumption of certain finance lease obligations.

In connection with the Company’s divestiture of Capital Medical Center, the Company recognized a net gain on sale of \$24 million during the year ended December 31, 2021, which is included under the caption “Other non-operating (gains) losses, net” in the accompanying consolidated statement of operations for the year ended December 31, 2021. The net gain on sale is primarily attributable to the purchaser’s assumption of certain finance lease obligations and liabilities, partially offset by the write-off of property and equipment, allocated goodwill, and certain other assets.

Note 3. Long-Term Debt & Lease Obligations

The Company’s long-term debt, including current portions and finance lease obligations, consisted of the following at December 31, 2023 and 2022 (in millions):

	2023	2022
ABL Facility	\$ 35	\$ -
ABL Last-Out Revolving Credit Facility	80	-
Term Loan Facility	1,850	3,215
6.75% Secured Notes	-	600
4.375% Secured Notes	600	600
9.875% Secured Notes	800	-
11.0% Secured Notes	1,100	-
9.75% Unsecured Notes	1,270	1,270
5.375% Unsecured Notes	500	500
Other Secured Debt	20	-
Unamortized debt issuance costs	(132)	(100)
Finance lease obligations	1,380	809
Total debt	<u>\$ 7,503</u>	<u>\$ 6,894</u>

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Maturities of the Company's long-term debt outstanding at December 31, 2023, excluding finance lease obligations and unamortized debt issuance costs, are as follows for the years indicated (in millions):

2024	\$	19
2025		18
2026		1,309
2027		618
2028		1,891
Thereafter		2,400
	\$	<u>6,255</u>

As described below, effective October 10, 2023, the Company used the net proceeds of the amendment and restatement of the Term Loan Facility in an outstanding principal amount of \$1,850 million and the offering of \$1,100 million aggregate principal amount of the 11.0% Secured Notes, together with cash on hand, to prepay all \$3,015 million of existing term loans then-outstanding under the Term Loan Facility.

ABL Facility

General

As of December 31, 2023, the Company had \$35 million in borrowings outstanding under the ABL Facility (as defined below) and approximately \$63 million in letters of credit outstanding primarily related to the self-insured retention level of its general and professional liability insurance and workers' compensation programs as security for payment of claims and as security for certain lease agreements. Amounts available for borrowing under the ABL Facility were approximately \$682 million as of December 31, 2023.

Effective November 16, 2018, the Company entered into a senior secured asset-based revolving credit facility (as amended from time to time the "ABL Facility") in an aggregate principal amount of \$800 million with a maturity of five years. The ABL Facility also includes both a letter of credit sub-facility and a swingline loan sub-facility. In addition, the Company may request one or more incremental revolving commitments in an aggregate principal amount up to the greater of (x) the greater of (i) \$255 million and (ii) 0.23 times pro forma Adjusted EBITDA (as defined in this Report) for the most recently available four fiscal quarter periods, and (y) the amount by which the borrowing base exceeds the aggregate commitments under the ABL Facility, subject to certain conditions and receipt of commitments by existing or additional lenders.

On January 27, 2023, the Company entered into an Incremental Assumption and Amendment Agreement No. 2 with certain of the Company's subsidiaries, DSB Acquisition LLC ("Holdings"), the lenders party thereto and Citibank, N.A., as administrative agent, which amended and restated the ABL Facility. The ABL Facility matures on January 27, 2028; provided, that if more than \$200 million aggregate principal amount of the Notes or the Term Loan Facility (as defined below) remain outstanding 91 days before the stated maturity thereof, then the ABL Facility will mature and the commitments under the facility will terminate on such date. The ABL Facility continues to provide revolving availability of \$800 million, with a \$150 million letter of credit sub-facility and a \$40 million swingline sub-facility, and under the ABL Facility, the Company continues to have the right to request one or more incremental revolving commitments. Availability under the ABL Facility continues to be subject to a borrowing base that is based on a specified percentage of eligible accounts receivable. Borrowings under the ABL Facility continue to be subject to the satisfaction of customary conditions, including the absence of a default and the accuracy of representations and warranties.

Collateral and Guarantors

The obligations under the ABL Facility are guaranteed by Holdings, on a limited recourse basis and each of the direct and indirect material, wholly-owned domestic subsidiaries of the Company that guaranteed the obligations under the ABL Facility. The obligations are secured by a pledge of the capital stock of the Company and substantially all of their assets and those of each subsidiary guarantor subject to certain exceptions. Such security interests consist of a first-priority lien with respect to "ABL Priority Collateral" (which generally includes most accounts receivable and certain related assets of the Company and the subsidiary guarantors) and a second-priority lien with respect to the "Non-ABL Priority Collateral" (which generally includes most inventory and fixed assets, equity interests and intellectual property of the Company and the subsidiary guarantors). Additionally, certain of the Company's restricted subsidiaries that are not guarantors will pledge certain of their assets (the "Credit Support Party Collateral") on a first-priority basis, as further security of the obligations under the ABL Facility. The Credit Support Party Collateral will secure only the obligations under

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the ABL Facility.

Interest Rates and Fees

Prior to the amendment and restatement effective January 27, 2023, as discussed below, borrowings under the ABL Facility bore interest at a rate equal to, at the Company's option, either (a) a London Interbank Offered Rate ("LIBOR") rate determined by reference to the costs of funds for Eurodollar deposits for the interest period relevant to such borrowing, adjusted for certain additional costs or (b) a base rate determined by reference to the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate of Citibank, N.A. and (iii) the one-month adjusted LIBOR plus 1.00%, in each case plus an initial applicable margin of 1.75% for LIBOR loans and 0.75% for base rate loans. The applicable margin for borrowings was subject to step-downs based on average availability thresholds.

Effective January 27, 2023, borrowings under the ABL Facility will bear interest at a rate equal to, at the Company's option, either (a) an adjusted term Secured Overnight Financing Rate ("SOFR") for the interest period in effect, subject to a floor of 0.00%, or (b) a base rate determined by the highest of (i) the prime rate in effect, (ii) the federal funds effective rate plus 0.50% and (iii) an adjusted term SOFR with an interest period of one month plus 1.00%, subject to a floor of 1.00%, in each case plus an applicable margin of 1.75% for adjusted term SOFR loans and 0.75% for base rate loans. The applicable margin for borrowings will be subject to step-downs based on average availability thresholds.

The Company is required to pay a commitment fee under the ABL Facility in respect of the unutilized commitments at an initial rate equal to 0.375% per annum. The commitment fee may be subject to one step-down based on the average daily utilization under the ABL Facility. The Company will also be required to pay customary agency fees as well as letter of credit participation fees.

Restrictive Covenants and Other Matters

The ABL Facility contains certain customary affirmative covenants and events of default. The negative covenants in the ABL Facility include, among other things, limitations (none of which are absolute) on the Company and its subsidiaries' ability to incur additional debt or issue certain preferred shares, create liens on certain assets, make certain loans or investments (including acquisitions), pay dividends on or make distributions in respect of their capital stock or make other restricted payments, consolidate, merge, sell or otherwise dispose of all or substantially all of theirs and their restricted subsidiaries' assets, sell certain assets, enter into certain transactions with their affiliates, enter into sale-leaseback transactions, change their lines of business, restrict dividends from their subsidiaries or restrict liens, change their fiscal year, and modify the terms of certain debt.

The ABL Facility requires that the Company and its restricted subsidiaries maintain a minimum fixed charge coverage ratio of not less than 1.00 to 1.00 at any time when availability is less than an agreed amount.

The ABL Facility contains certain customary events of default, including relating to a change of control. If an event of default occurs, the lenders under the ABL Facility are entitled to take various actions, including the acceleration of amounts due under the ABL Facility and all actions permitted to be taken by a secured creditor in respect of the collateral securing the ABL Facility.

ABL Last-Out Revolving Credit Facility

On September 28, 2023, the Company executed an amendment to the ABL Facility that provided for \$80 million in last-out revolving credit commitments (collectively, the "ABL Last-Out Revolving Credit Facility") with a maturity date of January 27, 2028, which were incremental to the \$800 million revolving commitments under the ABL Facility. The ABL Last-Out Revolving Credit Facility is required to be drawn before the revolving commitments under the ABL Facility but cannot be repaid if any amount of the revolving commitment under the ABL Facility remains outstanding unless the applicable ABL Last-Out Revolving Credit Facility is permanently reduced and certain other conditions are met. As of December 31, 2023, there was \$80 million outstanding under the ABL Last-Out Revolving Credit Facility.

The ABL Last-Out Revolving Credit Facility bears interest at a rate per annum equal to the SOFR rate, adjusted for statutory reserves, plus a margin of 3.75%. Relative to the 4.375% Secured Notes, the 9.875% Secured Notes and the Company's Term Loan Facility, the ABL Last-Out Revolving Credit Facility shares in the guarantee and security interests in respect of the ABL Facility with the same lien priority as any other loans or obligations under the ABL Facility but is junior in right of payment as compared to such other loans and certain obligations under the ABL Facility.

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Term Loan Facility

General

Effective November 16, 2018, the Company entered into a senior secured term loan credit facility initially scheduled to mature on November 16, 2025 (the “Term Loan Facility”). The Term Loan Facility had an initial aggregate principal amount of \$3,550 million. The aggregate principal amount outstanding as of January 1, 2022 and June 30, 2023 was \$3,215 million. On August 14, 2023, the Company made an optional prepayment of \$200 million of outstanding borrowings under the Term Loan Facility with a portion of the net proceeds from the offering of \$800 million in aggregate principal amount of the 9.875% Secured Notes described below, together with cash on hand. On October 10, 2023, the Company made an optional prepayment of the remaining \$3,015 million of outstanding borrowings under the Term Loan Facility with the net proceeds of a \$1,850 million new term loan (as described below) and the net proceeds from the offering of \$1,100 million in aggregate principal amount of the 11.0% Secured Notes (the “11.0% Secured Notes”) together with cash on hand.

Effective October 10, 2023, the Company entered into an Incremental Assumption and Amendment Agreement No. 4, which amended and restated the Term Loan Facility in its entirety to provide for a new senior secured term loan credit facility in an aggregate principal amount of \$1,850 million, maturing on November 16, 2028. In addition, the Company may request one or more incremental term commitments in an aggregate principal amount up to the greater of (i) \$800 million and (ii) 0.75 times pro forma Adjusted EBITDA for the most recently available four fiscal quarter periods, plus additional amounts subject to certain agreed leverage requirements, certain other conditions and receipt of commitments by existing or additional lenders. The Term Loan Facility has a springing 91-day maturity if more than \$150 million aggregate principal amount of the Company’s 9.75% Unsecured Notes remain outstanding 91 days before the stated maturity thereof.

Collateral and Guarantors

All obligations under the Term Loan Facility are unconditionally guaranteed by Holdings on a limited recourse basis and each of the existing and future direct and indirect material, wholly-owned domestic subsidiaries of the co-borrowers, subject to certain exceptions. The obligations under the Term Loan Facility are secured by a pledge of the capital stock of the Company and substantially all of its assets and those of each subsidiary guarantor, including a pledge of the capital stock of all entities directly held by the Company and each subsidiary guarantor (which pledge is limited to 65% of the voting capital stock of first-tier foreign subsidiaries), in each case subject to certain exceptions. Such security interests consist of a first-priority lien with respect to the Non-ABL Priority Collateral and a second-priority lien with respect to the ABL Priority Collateral.

Interest Rates and Principal Payments

Prior to the amendment effective June 30, 2023, as discussed below, borrowings under the Term Loan Facility bore interest at a rate equal to, at the Company’s option, either (a) a LIBOR rate determined by reference to the costs of funds for Eurodollar deposits for the interest period relevant to such borrowing, adjusted for certain additional costs or (b) a base rate determined by reference to the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate of Citibank, N.A. and (iii) the one-month adjusted LIBOR plus 1.00%, in each case plus an applicable margin of 3.75% for LIBOR loans and 2.75% for base rate loans.

Effective June 30, 2023, borrowings under the Term Loan Facility bore interest at a rate equal to, at the Company’s option, either (a) adjusted SOFR for the interest period in effect, subject to a floor of 0.00%, or (b) a base rate determined by the highest of (i) prime rate in effect, (ii) federal funds effective rate plus 0.50% and (iii) adjusted SOFR for a one-month interest period plus 1.00%, in each case, plus an applicable margin of 3.75% for SOFR loans and 2.75% for base rate loans.

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Effective October 10, 2023, borrowings under the Term Loan Facility bore interest at a rate equal to, at the Company's option, either (a) adjusted SOFR for the interest period in effect, subject to a floor of 0.00%, plus an applicable margin of 5.50% or (b) a base rate determined by the highest of (i) prime rate in effect, (ii) federal funds effective rate plus 0.50% and (iii) adjusted SOFR for a one-month interest period plus 1.00%, in each case, plus an applicable margin of 4.50%. Effective October 10, 2023, the Term Loan Facility requires scheduled quarterly amortization payments in an annual amount equal to 1.0% of the original principal amount of the term loans borrowed on such date, with the balance to be paid at maturity. The Term Loan Facility requires the Company to make certain mandatory prepayments, including using (i) a portion of annual excess cash flow, as defined in the Term Loan Facility, (ii) net cash proceeds of certain non-ordinary assets sales or dispositions of property and (iii) net cash proceeds of any issuance or incurrence of debt not permitted under the Term Loan Facility.

Restrictive Covenants and Other Matters

The Term Loan Facility contains certain customary affirmative covenants and events of default. The negative covenants in the Term Loan Facility include, among other things, limitations (none of which are absolute) on the Company and its subsidiaries' ability to incur additional debt or issue certain preferred shares, create liens on certain assets, make certain loans or investments (including acquisitions), pay dividends on or make distributions in respect of their capital stock or make other restricted payments, consolidate, merge, sell or otherwise dispose of all or substantially all of theirs and their restricted subsidiaries' assets, sell certain assets, enter into certain transactions with their affiliates enter into sale-leaseback transactions, change their lines of business, restrict dividends from subsidiaries or restrict liens, change their fiscal year and modify the terms of certain debt or organizational agreements.

The Term Loan Facility contains certain customary events of default, including relating to a change of control. If an event of default occurs, the lenders under the Term Loan Facility are entitled to take various actions, including the acceleration of amounts due under the Term Loan Facility and all actions permitted to be taken by a secured creditor in respect of the collateral securing the Term Loan Facility.

4.375% Secured Notes

On February 13, 2020, the Company completed the offering of \$600 million in aggregate principal amount of its 4.375% Secured Notes (the "4.375% Secured Notes"). The 4.375% Secured Notes will mature on February 15, 2027. Interest on the 4.375% Secured Notes will accrue at 4.375% per annum and will be paid semi-annually, in arrears, on February 15 and August 15 of each year, beginning August 15, 2020. The net proceeds from the offering, together with the net proceeds from the Incremental Term Loan and cash on hand, were used to fund the settlement of the tender offer, which satisfied and discharged the Company's obligations as it relates to the 8.25% secured notes due 2023 and the 11.5% secured notes due 2024 and to pay certain fees in connection with the refinancing transactions described herein.

The Company's obligations under the 4.375% Secured Notes are fully and unconditionally guaranteed by each of the Company's wholly-owned domestic restricted subsidiaries that guarantee the Term Loan Facility. The 4.375% Secured Notes and the related guarantees are secured obligations of the Company and each subsidiary guarantor. The 4.375% Secured Notes and related guarantees are secured by, subject to permitted liens, (i) first-priority security interests in the Company's Non-ABL Priority Collateral and (ii) second-priority security interests in the Company's ABL Priority Collateral.

The Company may redeem the 4.375% Secured Notes at its option, in whole at any time or in part from time to time, at the redemption prices set forth in such indenture (as amended or supplemented from time to time, the "4.375% Secured Notes Indenture").

The 4.375% Secured Notes Indenture, among other things, limits the Company's ability and the ability of its restricted subsidiaries to, among other things: (i) incur or guarantee additional indebtedness; (ii) pay dividends or distributions on, or redeem or repurchase, capital stock and make other restricted payments; (iii) make certain investments; (iv) consummate certain asset sales; (v) engage in certain transactions with affiliates; (vi) grant or assume certain liens; and (vii) consolidate, merge or transfer all or substantially all of their assets. These covenants are subject to a number of important qualifications and exceptions as described in the 4.375% Secured Notes Indenture. Additionally, upon the occurrence of specified change of control events, the Company must offer to repurchase the 4.375% Secured Notes at 101% of the principal amount, plus accrued and unpaid interest, if any, to, but not including, the purchase date. The 4.375% Secured Notes Indenture also provides for customary events of default.

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9.875% Secured Notes

On August 14, 2023, the Company completed the offering of \$800 million in aggregate principal amount of its 9.875% Secured Notes (the “9.875% Secured Notes”). The 9.875% Secured Notes will mature on August 15, 2030. Interest on the 9.875% Secured Notes accrues at 9.875% per annum and is paid semi-annually, in arrears, on February 15 and August 15 of each year, beginning February 15, 2024. The net proceeds from the offering of the 9.875% Secured Notes, together with cash on hand, were used to purchase or redeem all \$600 million aggregate principal amount of the Company’s outstanding 6.75% Secured Notes (the “6.75% Secured Notes”), repay \$200 million of outstanding borrowings under the Company’s Term Loan Facility and pay related fees and expenses in connection with the 9.875% Secured Notes offering.

The Company’s obligations under the 9.875% Secured Notes are fully and unconditionally guaranteed, jointly and severally, by each of the Company’s wholly-owned domestic restricted subsidiaries that guarantee the Term Loan Facility and the other Notes. The 9.875% Secured Notes and the related guarantees are secured obligations of the Company and each subsidiary guarantor. The 9.875% Secured Notes and related guarantees are secured by, subject to permitted liens, (i) first-priority security interests in the Company’s Non-ABL Priority Collateral and (ii) second-priority security interests in the Company’s ABL Priority Collateral.

Prior to August 15, 2026, the Company may redeem the 9.875% Secured Notes at its option, in whole at any time or in part from time to time, at a redemption price equal to 100% of the principal amount of the 9.875% Secured Notes redeemed, plus a “make-whole” premium and accrued and unpaid interest, if any. In addition, prior to August 15, 2026, the Company may also redeem up to 40% of the original aggregate principal amount of the 9.875% Secured Notes (calculated after giving effect to any issuance of additional 9.875% Secured Notes) in an aggregate amount not to exceed the amount of net cash proceeds of one or more equity offerings at a redemption price equal to 109.875%, plus accrued and unpaid interest, if any, so long as at least 50% of the original aggregate principal amount of the 9.875% Secured Notes (calculated after giving effect to any issuance of additional 9.875% Secured Notes) must remain outstanding after each such redemption. On or after August 15, 2026, the Company may redeem the 9.875% Secured Notes at its option, in whole at any time or in part from time to time, at the redemption prices set forth in such indenture (as amended or supplemented from time to time, the “9.875% Secured Notes Indenture”).

The 9.875% Secured Notes Indenture, among other things, limits the Company’s ability and the ability of its restricted subsidiaries to, among other things: (i) incur or guarantee additional indebtedness; (ii) pay dividends or distributions on, or redeem or repurchase, capital stock and make other restricted payments; (iii) make certain investments; (iv) consummate certain asset sales; (v) engage in certain transactions with affiliates; (vi) grant or assume certain liens; and (vii) consolidate, merge or transfer all or substantially all of their assets. These covenants are subject to a number of important qualifications and exceptions as described in the 9.875% Secured Notes Indenture. Additionally, upon the occurrence of specified change of control events, the Company must offer to repurchase the 9.875% Secured Notes at 101% of the principal amount, plus accrued and unpaid interest, if any, to, but not including, the purchase date. The 9.875% Secured Notes Indenture also provides for customary events of default.

11.0% Secured Notes

On October 10, 2023, the Company completed the offering of \$1,100 million in aggregate principal amount of its 11.0% Secured Notes. The 11.0% Secured Notes will mature on October 15, 2030. Interest on the 11.0% Secured Notes accrues at 11.0% per annum and is paid semi-annually, in arrears, on April 15 and October 15 of each year, beginning April 15, 2024. The net proceeds from the offering of the 11.0% Secured Notes, together with the net proceeds of the amendment and restatement of the Term Loan Facility and cash on hand, were used to repay in full all \$3,015 million of outstanding borrowings under the Term Loan Facility and to pay related fees and expenses in connection with the 11.0% Secured Notes offering.

The Company’s obligations under the 11.0% Secured Notes are fully and unconditionally guaranteed, jointly and severally, by each of the Company’s wholly-owned domestic restricted subsidiaries that guarantee the Term Loan Facility and the other Notes. The 11.0% Secured Notes and the related guarantees are secured obligations of the Company and each subsidiary guarantor. The 11.0% Secured Notes and related guarantees are secured by, subject to permitted liens, (i) first-priority security interests in the Company’s Non-ABL Priority Collateral and (ii) second-priority security interests in the Company’s ABL Priority Collateral.

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Prior to October 15, 2026, the Company may redeem the 11.0% Secured Notes at its option, in whole at any time or in part from time to time, at a redemption price equal to 100% of the principal amount of the 11.0% Secured Notes redeemed, plus a “make-whole” premium and accrued and unpaid interest, if any. In addition, prior to October 15, 2026, the Company may also redeem up to 40% of the original aggregate principal amount of the 11.0% Secured Notes (calculated after giving effect to any issuance of additional 11.0% Secured Notes) in an aggregate amount not to exceed the amount of net cash proceeds of one or more equity offerings at a redemption price equal to 111.0%, plus accrued and unpaid interest, if any, so long as at least 50% of the original aggregate principal amount of the 11.0% Secured Notes (calculated after giving effect to any issuance of additional 11.0% Secured Notes) must remain outstanding after each such redemption. On or after October 15, 2026, the Company may redeem the 11.0% Secured Notes at its option, in whole at any time or in part from time to time, at the redemption prices set forth in such indenture (as amended or supplemented from time to time, the “11.0% Secured Notes Indenture”).

The 11.0% Secured Notes Indenture, among other things, limits the Company’s ability and the ability of its restricted subsidiaries to, among other things: (i) incur or guarantee additional indebtedness; (ii) pay dividends or distributions on, or redeem or repurchase, capital stock and make other restricted payments; (iii) make certain investments; (iv) consummate certain asset sales; (v) engage in certain transactions with affiliates; (vi) grant or assume certain liens; and (vii) consolidate, merge or transfer all or substantially all of their assets. These covenants are subject to a number of important qualifications and exceptions as described in the 11.0% Secured Notes Indenture. Additionally, upon the occurrence of specified change of control events, the Company must offer to repurchase the 11.0% Secured Notes at 101% of the principal amount, plus accrued and unpaid interest, if any, to, but not including, the purchase date. The 11.0% Secured Notes Indenture also provides for customary events of default.

Tender Offer and Redemption of 6.75% Secured Notes

On August 14, 2023, the Company repurchased and cancelled approximately \$569 million (or 95%) of the 6.75% Secured Notes pursuant to the Company’s previously announced tender offer and consent solicitation. The Company used part of the net proceeds from the 9.875% Secured Notes offering and cash on hand to repurchase such notes. In connection with the tender offer and consent solicitation for the 6.75% Secured Notes, the Company and the trustee for the 6.75% Secured Notes entered into a supplemental indenture to the indenture governing the 6.75% Secured Notes to eliminate substantially all of the restrictive covenants and certain events of default in the indenture governing the 6.75% Secured Notes, release the collateral securing the 6.75% Secured Notes and shorten the required notice period for redemptions of the 6.75% Secured Notes from 30 days to 2 business days.

Shortly following the repurchases of the 6.75% Secured Notes described above, the Company delivered a notice of redemption to redeem the 6.75% Secured Notes not purchased by the Company on the early settlement date for the tender offer. Such 6.75% Secured Notes were redeemed on August 16, 2023 at a redemption price of 101.688% of the principal amount thereof, plus accrued and unpaid interest to the redemption date.

Debt Refinancing Costs

In connection with the offering of the 9.875% Secured Notes, the 11.0% Secured Notes and the Term Loan Facility, the Company capitalized approximately \$12 million, \$10 million, and \$67 million, respectively, of new debt issuance costs, which are included as a reduction to “Long-term debt, net” in the Company’s accompanying consolidated balance sheet.

Additionally, during the year ended December 31, 2023, the Company recognized approximately \$52 million of debt refinancing costs associated with the various debt refinancing transactions completed during 2023, which are included under the caption “Debt refinancing costs” in the accompanying consolidated statements of operations for the year ended December 31, 2023. These debt refinancing costs were comprised of \$11 million of early termination premiums associated with the tender offer and redemption of 6.75% Secured Notes, the write-off of \$36 million of previously capitalized debt issuance costs, and \$5 million of other miscellaneous costs.

9.75% Unsecured Notes

On November 16, 2018, the Company completed the offering of \$1,425 million in aggregate principal amount of 9.75% Unsecured Notes (the “9.75% Unsecured Notes,” and together with the 5.375% Unsecured Notes (the “5.375% Unsecured Notes”), 6.75% Secured Notes and the 4.375% Secured Notes, the “Notes”). The 9.75% Unsecured Notes will mature on December 1, 2026. Interest on the 9.75% Unsecured Notes accrues at 9.750% per annum and is paid semi-annually, in arrears, on June 1 and December 1 of each year, beginning June 1, 2019.

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The Company's obligations under the 9.75% Unsecured Notes are fully and unconditionally guaranteed by each of the Company's wholly-owned domestic restricted subsidiaries that guarantees the Term Loan Facility. The 9.75% Unsecured Notes and the related guarantees are unsecured obligations of the Company and the subsidiary guarantors.

The Company may redeem the 9.75% Unsecured Notes at its option, in whole at any time or in part from time to time, at the redemption prices set forth in such indenture (as amended or supplemented from time to time, the "9.75% Unsecured Notes Indenture").

The 9.75% Unsecured Notes Indenture, among other things, limits the Company's ability and the ability of its restricted subsidiaries to, among other things: (i) incur or guarantee additional indebtedness; (ii) pay dividends or distributions on, or redeem or repurchase, capital stock and make other restricted payments; (iii) make certain investments; (iv) consummate certain asset sales; (v) engage in certain transactions with affiliates; (vi) grant or assume certain liens; and (vii) consolidate, merge or transfer all or substantially all of their assets. These covenants are subject to a number of important qualifications and exceptions. Additionally, upon the occurrence of specified change of control events, the Company must offer to repurchase the 9.75% Unsecured Notes at 101% of the principal amount, plus accrued and unpaid interest, if any, to, but not including, the purchase date. The 9.75% Unsecured Notes Indenture also provides for customary events of default.

5.375% Unsecured Notes

On December 4, 2020, the Company completed the offering of the 5.375% Unsecured Notes. The 5.375% Unsecured Notes will mature on January 15, 2029. Interest on the 5.375% Unsecured Notes accrues at 5.375% per annum and is paid semi-annually, in arrears, on January 15 and July 15 of each year, beginning July 15, 2021. The net proceeds of the offering, together with cash on hand, were used to prepay \$500 million of the total aggregate principal amount outstanding under the Term Loan Facility and to pay related fees and expenses in connection with the offering.

The Company's obligations under the 5.375% Unsecured Notes are fully and unconditionally guaranteed by each of the Company's wholly-owned domestic restricted subsidiaries that guarantees the Term Loan Facility. The 5.375% Unsecured Notes and the related guarantees are unsecured obligations of the Company and the subsidiary guarantors.

Prior to January 15, 2024, the Company may redeem the 5.375% Unsecured Notes at its option, in whole at any time or in part from time to time, at a redemption price equal to 100% of the principal amount of the 5.375% Unsecured Notes redeemed, plus a "make-whole" premium and accrued and unpaid interest, if any. In addition, prior to December 4, 2023, the Company may also redeem up to 40% of the original aggregate principal amount of the 5.375% Unsecured Notes (calculated after giving effect to any issuance of additional notes) in an aggregate amount not to exceed the amount of net cash proceeds of one or more equity offerings at a redemption price equal to 105.375%, plus accrued and unpaid interest, if any, so long as at least 50% of the original aggregate principal amount of the 5.375% Unsecured Notes (calculated after giving effect to any issuance of additional notes) must remain outstanding after each such redemption. On or after January 15, 2024, the Company may redeem the 5.375% Unsecured Notes at the redemption prices set forth in such indenture (as amended or supplemented from time to time, the "5.375% Unsecured Notes Indenture").

The 5.375% Unsecured Notes Indenture, among other things, limits the Company's ability and the ability of its restricted subsidiaries to, among other things: (i) incur or guarantee additional indebtedness; (ii) pay dividends or distributions on, or redeem or repurchase, capital stock and make other restricted payments; (iii) make certain investments; (iv) consummate certain asset sales; (v) engage in certain transactions with affiliates; (vi) grant or assume certain liens; and (vii) consolidate, merge or transfer all or substantially all of their assets. Additionally, upon the occurrence of specified change of control events, the Company must offer to repurchase the 5.375% Unsecured Notes at 101% of the principal amount, plus accrued and unpaid interest, if any, to, but not including, the purchase date. The 5.375% Unsecured Notes Indenture also provides for customary events of default.

Other Secured Debt

On February 7, 2023, concurrently with the consummation of the Springstone Transaction, certain of the Company's subsidiaries entered into an amended and restated credit agreement with Capital One, N.A. as administrative agent and lender, which provides for a \$35 million senior secured asset-based revolving credit facility ("Other Secured Debt") and matures on December 17, 2026. At December 31, 2023, \$20 million of Other Secured Debt was outstanding.

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Notes Repurchase Program

On June 3, 2022, the Executive Committee of the Board of Directors of the Company authorized the repurchase of up to \$200 million aggregate principal amount of the Notes (the “Notes Repurchase Program”). During the year ended December 31, 2022, the Company repurchased \$155 million aggregate principal amount of its 9.75% Unsecured Notes for an aggregate repurchase price of \$144 million in connection with the Notes Repurchase Program. As of December 31, 2023, the Company had remaining authority to repurchase up to an additional \$45 million aggregate principal amount of the Notes in accordance with the Notes Repurchase Program. Future repurchases, if any, under the Notes Repurchase Program will depend on a number of factors, including but not limited to market conditions.

Finance Lease Obligations

Refer to Note 7 for discussion of the Company’s finance lease obligations.

Interest Rate Swap Agreement

On December 21, 2018, the Company entered into an interest rate swap agreement with Citibank, N.A. as counterparty (the “Interest Rate Swap”) whereby the Company paid a fixed rate of 2.63% on a notional amount of \$1,100 million and received one-month LIBOR. The Interest Rate Swap became effective on February 19, 2019 and terminated on February 19, 2022. Refer to Note 10 for additional information regarding the Company’s accounting for its Interest Rate Swap.

Note 4. Goodwill and Intangible Assets

Goodwill

The following table presents the changes in the carrying amount of goodwill for the years ended December 31, 2023 and 2022 (in millions):

Balance at January 1, 2022	\$	3,914
Additions related to acquisitions		16
Finalization of the purchase price allocation for the Kindred Transaction		(74)
Write-off allocation related to 2022 divestitures		(45)
Balance at December 31, 2022		3,811
Additions related to acquisitions		375
Write-off allocation related to 2023 divestitures		(19)
Balance at December 31, 2023	\$	4,167

In 2022, the Company was comprised of two distinct reporting units (i) acute hospital operations and (ii) rehabilitation hospital operations. Due to the significance of the Springstone Transaction and the impact on the Company’s management team and business operations, the Company re-evaluated its reporting units in accordance with ASC 280 and ASC 350 during 2023 and determined that the Company is now comprised of three distinct reporting units: (i) acute hospital operations, (ii) rehabilitation hospital operations and (iii) behavioral health operations. For the annual impairment evaluation, the Company estimates fair values of its reporting units utilizing both a DCF analysis and a GPC analysis. The Company did not recognize any goodwill impairment charges during the years ended December 31, 2023, 2022 and 2021.

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Intangible Assets

The following table provides information regarding the Company's intangible assets included in the accompanying consolidated balance sheets as of December 31, 2023 and 2022 (in millions):

	2023	2022
Amortizable intangible assets:		
Physician minimum revenue guarantees		
Gross carrying amount	\$ 17	\$ 21
Accumulated amortization	(9)	(12)
Net total	8	9
Indefinite-lived intangible assets:		
Certificates of need and certificates of need exemptions	27	26
Licenses, provider numbers, and accreditations	48	48
Net total	75	74
Total intangible assets:		
Gross carrying amount	92	95
Accumulated amortization	(9)	(12)
Net total	\$ 83	\$ 83

Physician Minimum Revenue Guarantees

The Company has committed to provide certain financial assistance pursuant to recruiting agreements, or "physician minimum revenue guarantees," 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 advance certain amounts of money to a physician to assist in establishing his or her practice.

The Company accounts for its physician minimum revenue guarantees in accordance with the provisions of ASC 460, "Guarantees" ("ASC 460"). In accordance with ASC 460, the Company records a contract-based intangible asset and a related guarantee liability for new physician minimum revenue guarantees. The contract-based intangible asset is amortized as a component of other operating expenses, in the accompanying consolidated statements of operations, over the period of the physician contract, which typically ranges from four to five years.

Certificates of Need and Certificates of Need Exemptions

The construction of new facilities, the acquisition or expansion of existing facilities and the addition of new services and certain equipment at the Company's facilities may be subject to state laws that require prior approval by state regulatory agencies. These certificate of need laws generally require that a state agency determine the public need and give approval prior to the construction or acquisition of facilities or the addition of new services. The Company has acquired facilities in certain states that have adopted certificate of need laws. The Company has determined that these intangible assets have an indefinite useful life.

Licenses, Provider Numbers and Accreditations

To operate hospitals, the Company must obtain certain licenses, provider numbers and accreditations from federal, state and other accrediting agencies. The Company has acquired facilities in certain jurisdictions that require licenses, provider numbers and accreditations.

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Amortization Expense

Amortization expense for the Company's intangible assets during the years ended December 31, 2023, 2022 and 2021 was \$4 million, \$5 million and \$8 million, respectively.

Total estimated amortization expense for the Company's intangible assets during the next five years are as follows (in millions):

2024	\$	4
2025		2
2026		1
2027		1
	<u>\$</u>	<u>8</u>

Note 5. Income Taxes

The Company recognized a provision for income taxes of \$52 million and \$100 million for the years ended December 31, 2023 and 2022, respectively, and a benefit from income taxes of \$27 million for the year ended December 31, 2021. The provision for income taxes recognized for the years ended December 31, 2023 and 2022 is primarily a result of an increase in the valuation allowance for certain deferred tax assets due to the limitation on the deductibility of interest expense under Section 163(j) of the Code (and the regulations thereunder) and write-offs of goodwill associated with divestitures. The benefit from income taxes recognized for the year ended December 31, 2021 is primarily a result of a reduction in the valuation allowance for certain deferred tax assets, partially offset by limitations on the tax deductibility of interest expense (back to its previous limitation of 30% of adjusted taxable income), stock-based compensation expense, write-offs of goodwill associated with divestitures, and certain transaction and advisory costs recognized during the year ended December 31, 2021.

The provision for (benefit from) income taxes for the years ended December 31, 2023, 2022 and 2021 consisted of the following (in millions):

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Current:			
Federal	\$ 46	\$ 56	\$ 46
State	16	5	5
	<u>62</u>	<u>61</u>	<u>51</u>
Deferred:			
Federal	(115)	(70)	23
State	(31)	1	(7)
	<u>(146)</u>	<u>(69)</u>	<u>16</u>
Change in valuation allowance	136	108	(94)
Total	<u>\$ 52</u>	<u>\$ 100</u>	<u>\$ (27)</u>

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The following table reconciles the differences between the statutory federal income tax rate to the Company's effective tax rate on net (loss) income before income taxes and including net income attributable to noncontrolling interests and redeemable noncontrolling interests for the years ended December 31, 2023, 2022 and 2021:

	2023	2022	2021
Federal statutory rate	21.0 %	21.0 %	21.0 %
State income taxes, net of federal income tax benefits	5.9	5.6	(2.6)
Change in valuation allowance	(62.5)	(102.6)	(83.3)
Tax effect of goodwill write-offs and impairments	(1.7)	(8.7)	9.9
Noncontrolling interests and redeemable noncontrolling interests	6.9	12.8	-
State net operating loss carryforward expirations, refunds and rate and state apportionment changes	2.4	(11.2)	-
Taxes payable and deferred tax liability adjustments	5.0	(10.7)	-
Nondeductible acquisition and merger-related costs	-	-	30.2
Other nondeductible expenses and other items	(1.2)	(1.3)	1.1
Effective income tax rate	<u>(24.2) %</u>	<u>(95.1) %</u>	<u>(23.7) %</u>

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 were as follows as of December 31, 2023 and 2022 (in millions):

	2023	2022
Deferred income tax liabilities:		
Depreciation and amortization	\$ (92)	\$ (98)
Right-of-use operating lease assets	(68)	(24)
Tax deductible goodwill	(30)	(28)
Investments in partnerships	(85)	(46)
Other	(2)	(6)
Total deferred income tax liabilities	<u>(277)</u>	<u>(202)</u>
Deferred income tax assets:		
Provision for doubtful accounts	56	43
Employee compensation	47	40
Net operating loss carryforwards	109	115
Insurance reserves	78	76
Section 163(j) interest expense carryforward	216	118
Investments in partnerships	59	1
Right-of-use operating lease obligations	68	24
Deferred loss on sale of facilities	21	21
Other	43	50
Total deferred income tax assets	<u>697</u>	<u>488</u>
Valuation allowance	(441)	(305)
Net deferred income tax assets	<u>256</u>	<u>183</u>
Deferred income taxes	<u>\$ (21)</u>	<u>\$ (19)</u>

Noncurrent deferred income tax liabilities totaled \$21 million and \$19 million at December 31, 2023 and 2022, respectively, and are included under the caption "Other long-term liabilities" on the accompanying consolidated balance sheets.

As of December 31, 2023, the Company had federal net operating loss carryforwards ("NOLs") of approximately \$47 million with an indefinite carryforward period and subject to annual usage limitations under Section 382 of the Internal Revenue Code 1986, as amended (the "Code"). In addition, the Company had state and local NOLs of approximately \$2 billion that expire at various dates between 2024 and 2042 or have an indefinite carryforward period.

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The Company has established a valuation allowance for deferred tax assets at December 31, 2023 and 2022, due to the uncertainty of realizing these assets in the future. During the years ended December 31, 2023 and 2022, the Company increased its valuation allowance by \$136 million and \$108 million, respectively, primarily because of the limitation on the deductibility of interest expense under Section 163(j) of the Code.

The Company made federal income tax payments of \$25 million, \$20 million, and \$50 million for the years ended December 31, 2023, 2022 and 2021, respectively. A net refund of federal income taxes previously paid by Legacy Lifepoint Health, Inc. (“Legacy Lifepoint”) for the tax year ended December 31, 2013, in the amount of \$23 million was received during the year ended December 31, 2021 related to the carryback of the final Legacy Lifepoint federal NOL generated for the year ended November 16, 2018, to the tax year ended December 31, 2013. The Company made net state and local income tax payments in the amount of \$12 million, \$8 million, and \$17 million for the years ended December 31, 2023, 2022 and 2021, respectively.

The Company’s policy is to accrue interest and penalties related to potential underpayment of income taxes within the provision for income taxes. Interest is computed on the difference between the Company’s uncertain tax benefit positions and the amount deducted or expected to be deducted in our income tax returns. The Company does not expect to incur interest or penalties related to income taxes for the year ended December 31, 2023, and therefore made no increase to its accrual for uncertain tax benefit positions associated with prior years during the year ended December 31, 2023.

The Company files a consolidated U.S. federal income tax return, as well as income tax returns in various state jurisdictions. All of the Company’s tax years are subject to examination by the Internal Revenue Service and various state taxing authorities.

Note 6. Other Current Liabilities

The following table provides information regarding the Company’s other current liabilities, which are included in the accompanying consolidated balance sheets at December 31, 2023 and 2022 (in millions):

	2023	2022
Accrued interest	\$ 138	\$ 86
Current portion of right-of-use operating lease obligations	82	71
Current portion of self-insurance reserves	70	74
Self-insured medical benefits liabilities	72	50
Medicaid supplemental payment program provider taxes	53	25
Income taxes payable	33	10
Accrued property taxes	20	24
Accrued expenses and other	213	205
	<u>\$ 681</u>	<u>\$ 545</u>

Note 7. Leases

Summary

The Company leases real property and equipment under finance and operating leases. The leases expire at various times and have various renewal options. For leases with terms greater than twelve months, the Company records the related assets and obligations at the present value of lease payments over the term. Interest rates used in computing the present value of the lease payments are based on the Company’s incremental borrowing rate at the inception of the lease. The Company’s lease agreements generally require the Company to pay maintenance, repairs, taxes and insurance costs.

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The following table presents certain information related to the Company's lease assets and liabilities at December 31, 2023 and 2022 (dollars in millions):

	Balance Sheet Classification	2023	2022
Assets:			
Finance leases	Property and equipment, net	\$ 963	\$ 514
Operating leases	Other long-term assets	1,023	638
Total lease assets		<u>\$ 1,986</u>	<u>\$ 1,152</u>
Liabilities:			
Current:			
Finance leases	Current maturities of long-term debt	\$ 37	\$ 29
Operating leases	Other current liabilities	82	71
Long-term:			
Finance leases	Long-term debt, net	1,343	780
Operating leases	Other long-term liabilities	952	572
Total lease liabilities		<u>\$ 2,414</u>	<u>\$ 1,452</u>
Weighted-average remaining term (in years):			
Finance leases		16.2	17.0
Operating leases		11.1	9.7
Weighted-average discount rate:			
Finance leases		10.2 %	9.6 %
Operating leases		9.4 %	7.6 %

The following table presents certain information related to finance and operating lease expense for the years ended December 31, 2023, 2022 and 2021 (in millions):

	Statement of Operations	2023	2022	2021
Finance lease expense:				
Amortization related to lease assets	Depreciation and amortization	\$ 64	\$ 44	\$ 44
Interest related to lease liabilities	Interest expense, net	123	49	82
Operating lease expense	Other operating expenses, net	152	114	76
Short-term, variable and other lease expense	Other operating expenses, net	48	42	45
Total lease expense		<u>\$ 387</u>	<u>\$ 249</u>	<u>\$ 247</u>

The following table presents supplemental cash flow information related to finance and operating leases for the years ended December 31, 2023, 2022 and 2021 (in millions):

	2023	2022	2021
Operating cash flows related to operating leases	\$ 190	\$ 149	\$ 118
Operating cash flows related to finance leases	\$ 113	\$ 53	\$ 79
Financing cash flows related to finance leases	\$ 32	\$ 34	\$ 29

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The following table reconciles the undiscounted cash flows to the finance and operating lease obligations included in the consolidated balance sheet at December 31, 2023 (in millions):

	Finance Leases	Operating Leases
2024	\$ 158	175
2025	159	164
2026	154	155
2027	145	146
2028	138	137
Thereafter	1,855	988
Total minimum lease payments	2,609	1,765
Less: Amounts attributable to interest	(1,980)	(731)
Present value of minimum lease payments	629	1,034
Non-cash portions of finance lease obligations	751	-
Less: Current portions of lease obligations	(37)	(82)
Long-term portion of lease obligations	\$ 1,343	\$ 952

Springstone

Effective February 7, 2023, concurrently with the consummation of the Springstone Transaction, certain of the Company's subsidiaries entered into the Springstone Master Lease with certain affiliates of MPT, with respect to the 18 BHF's acquired. The Springstone Master Lease provides a 20-year term with two optional five-year renewal periods. The Company accounted for the Springstone Master Lease as a finance lease in accordance with ASC 842 and established an initial finance lease obligation of \$545 million. Refer to Note 2 for further discussion of the Springstone Transaction.

MPT Lease Modifications

On August 1, 2021, the Company sold KershawHealth, which was subject to the Amended and Restated Master Lease Agreement with certain affiliates of MPT, dated March 21, 2016 (the "Capella Master Lease") and paid \$28 million to MPT to terminate its lease obligation associated with KershawHealth. The removal of KershawHealth from the Capella Master Lease triggered a lease modification for accounting purposes in accordance with ASC 842, which resulted in the reclassification of right-of-use operating lease assets and obligations of \$98 million and \$106 million, respectively, related to certain other properties subject to the Capella Master Lease, to property and equipment and finance lease obligations of \$129 million and \$137 million, respectively.

Effective December 23, 2021, the Company terminated the Capella Master Lease, the Amended and Restated Hot Springs Master Lease Agreement with certain affiliates of MPT dated March 21, 2016 and the Master Lease Agreement with certain affiliates of MPT dated December 17, 2019, and certain subsidiaries of the Company entered into a new master lease agreement with certain affiliates of MPT, dated December 23, 2021, with respect to ten of the Company's facilities (the "2021 Master Lease"). The entry into the 2021 Master Lease triggered a lease modification for accounting purposes in accordance with ASC 842, which resulted in the reclassification of right-of-use operating lease assets and obligations of \$61 million and \$66 million, respectively, to property and equipment and finance lease obligations of \$41 million and \$46 million, respectively. All of the facilities subject to the 2021 Master Lease are accounted for as finance leases as of December 31, 2023.

Effective May 1, 2022, the Company sold Western Plains, which was subject to the 2021 Master Lease. In connection therewith, the 2021 Master Lease was amended. The purchase of Western Plains from MPT triggered a lease modification for accounting purposes in accordance with ASC 842, which resulted in the derecognition of a \$33 million finance lease obligation related to Western Plains, and the recognition of additional property assets and finance lease obligations of \$6 million related to certain other properties subject to the 2021 Master Lease.

Effective December 13, 2022, the 2021 Master Lease was amended to, among other things, provide for a five-year extension and amendment of certain financial covenants. Additionally, as a result of increases in the discount rates associated with the 2021 Master Lease, the Company's finance lease obligations include a non-cash end-of-term deferred gain of \$462 million.

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Non-Core Real Estate Financing Transaction

Effective September 19, 2023, the Company and certain of its subsidiaries (such subsidiaries, the “Lifepoint OpCos”) entered into a Master Transaction Agreement (the “Master Transaction Agreement”) with DSB Holdings, Inc., an indirect parent company of Lifepoint (“DSB Holdings”), Realpoint Properties, LLC, a subsidiary of DSB Holdings (“Realpoint”), and certain of Realpoint’s subsidiaries (such subsidiaries, the “Realpoint PropCos”). Under the terms of the Master Transaction Agreement, the Lifepoint OpCos contributed to the Realpoint PropCos, by deed or 99-year ground lease as applicable, 36 medical office buildings, one skilled nursing facility and one assisted living facility. In connection with the foregoing transactions contemplated by the Master Transaction Agreement, the applicable Lifepoint OpCos entered into separate triple-net leases for the contributed properties, which have a 15-year term and aggregate initial base rent of approximately \$25 million per year, subject to a 3% annual escalator. In addition, in connection with the foregoing transactions, under the Master Transaction Agreement, Realpoint distributed approximately \$225 million in cash to the Company, and the Company retained approximately \$169 million of Class B preferred interests in Realpoint, having a liquidation preference of approximately \$169 million with a 9.5% annual preferred return, and approximately 2% of the outstanding Class A common interests in Realpoint. In addition, the Company entered into asset management agreements with Realpoint or the Realpoint PropCos, as applicable, under which Lifepoint will provide certain administrative and management services to them in exchange for management fees of approximately \$0.3 million per year, in the aggregate, subject to a 3% annual escalator. DSB Holdings, the Company and one of its subsidiaries serve as guarantor for each of the triple-net leases, and DSB Holdings and the Company have provided an environmental indemnity and a non-recourse carveout guaranty on Realpoint’s financing of the acquisition of the real estate from the Lifepoint OpCos. These transactions are referred to, collectively, as the “Non-Core Real Estate Financing Transaction.”

The Company accounted for the Lifepoint OpCos’ contributions of \$149 million net book value of real property assets to the Realpoint PropCos in accordance with ASC 805-50, as a transaction between entities under common control and accounted for the leases of the properties transferred to the Realpoint PropCos as operating leases under ASC 842. The Company recognized \$219 million of right-of-use operating lease assets and right-of-use operating lease obligations under the captions “Right-of-use operating lease assets” and “Long-term portion of right-of-use operating lease obligations”, respectively, in its accompanying consolidated balance sheet as of December 31, 2023. The Company accounts for the equity investment in Realpoint under ASC 323 and the carrying value of the Company’s investment in Realpoint was \$166 million and is included under the caption “Investments” in its accompanying consolidated balance sheet as of December 31, 2023. The Lifepoint OpCos’ contributions of real property assets to the Realpoint PropCos and the initial equity investment in Realpoint resulted in a net equity adjustment of \$245 million recorded under the caption “Net equity adjustments related to common control transactions” in the Company’s accompanying consolidated statements of equity for the year ended December 31, 2023.

Lease Covenants

Certain of the Company’s lease agreements, including the 2021 Master Lease and the Springstone Master Lease, contain financial covenants, including required minimum lease coverage and fixed charge coverage ratios. The Company’s lease agreements generally include non-financial covenants, which may include those requiring the Company to maintain licenses necessary for operation of a facility or required for certification under Medicare or Medicaid. The failure to comply with or obtain a waiver of such covenants or otherwise cure such non-compliance could result in an event of default under the applicable lease. Certain of the Company’s lease agreements, including the 2021 Master Lease and the Springstone Master Lease, are structured as master leases under which certain defaults related to one facility may result in a default on the entire portfolio subject to the applicable master lease agreement.

Note 8. Investments and Notes Receivable

Investments

The Company accounts for its investments in entities in which the Company does not control under either the cost method or the equity method of accounting in accordance with ASC 321 or ASC 323, respectively. The Company does not consolidate its cost and equity method investments, but rather measures them at their initial costs and then subsequently adjusts their carrying values through income for their respective shares of the earnings or losses during the period or evaluates them for impairment and observable price changes. Investment income is included under the caption “Other operating expenses, net” in the accompanying consolidated statements of operations.

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The following table presents the changes in the Company's investments during the years ended December 31, 2023 and 2022 (in millions):

Balance at January 1, 2022	\$	655
Income ^(a)		102
Contributions		26
Distributions and other ^(a)		(99)
Balance at December 31, 2022		684
Income		57
Contributions ^(b)		397
Net change in other comprehensive income attributable to equity method investment		(7)
Distributions and other ^(b)		(274)
Balance at December 31, 2023	\$	857

- (a) Includes a gain of approximately \$60 million recognized in connection with the receipt of a dividend associated with a cost method investment.
- (b) Includes real property contributions of \$394 million and cash distributions of \$225 million, respectively, related to the Non-Core Real Estate Financing Transaction. The Company retained approximately \$169 million of Class B preferred interests in Realpoint.

ScionHealth Class B Units

In connection with the Kindred Transaction during the year ended December 31, 2021, Lifepoint acquired the Class B Units with an aggregate initial value of \$350 million. The Class B Units in ScionHealth, a privately held company, do not have a readily determinable fair value, and therefore, the Company has accounted for the Class B Units using the measurement alternative in accordance with ASC 321. The Company's investment in the Class B Units was recorded at \$350 million and is included under the caption "Investments" in the accompanying consolidated balance sheets at December 31, 2023 and 2022. The Company noted no observable price changes or transactions between the date of acquisition and December 31, 2023 and did not recognize any impairment charges related to the Class B Units during the years ended December 31, 2023, 2022 and 2021. The Class B Units are perpetual non-convertible, non-voting units that accrue cumulative dividends at the rate of 10.00% per annum and, upon liquidation, are entitled to a return of their nominal value issue price of \$350 million plus accrued, unpaid dividends.

Realpoint Investments

In connection with the Non-Core Real Estate Financing Transaction, Lifepoint retained approximately \$169 million of Class B preferred interests in Realpoint, having a liquidation preference of approximately \$169 million with a 9.5% annual preferred return, and approximately 2% of the outstanding Class A common interests in Realpoint. The Company accounts for its equity investment in Realpoint in accordance with ASC 323. Under ASC 323, the Company recognizes its proportionate share of Realpoint income and loss in its accompanying consolidated statement of operations. The Company recognizes its proportionate share of Realpoint other comprehensive income and loss as an increase or decrease to stockholders' equity through accumulated other comprehensive income (loss). In applying the equity method of accounting, the Company allocates its share of earnings and losses, including other comprehensive income using a hypothetical liquidation at book value method. The Company's investment is reported at cost and adjusted each period for the Company's share of Realpoint income or loss, including other comprehensive income, and dividends paid, if any. For the year ended December 31, 2023, the Company recognized investment income of \$4 million included under the caption "Other operating expenses, net" in the accompanying consolidated statement of operations and other comprehensive loss of \$7 million included under the caption "Net change in other comprehensive income attributable to equity method investment" in the accompanying consolidated statements of equity. The carrying value of the Company's investment in Realpoint was \$166 million and is included under the caption "Investments" in its accompanying consolidated balance sheet as of December 31, 2023. The Company assesses its investment for impairment whenever events or changes in circumstances indicate that the carrying value of an investment may not be recoverable.

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Investments Related to Lifepoint Forward Innovation Strategy

In connection with the Lifepoint Forward innovation strategy, the Company made investments of cash and contributions of existing investments and securities into certain unconsolidated but affiliated entities owned by the Company, Parent, ScionHealth and other affiliated entities (collectively, “Forward Health Ventures”). Forward Health Ventures, in turn, makes targeted and strategic investments in new and existing early-stage enterprises primarily focused on developing meaningful solutions to enhance quality, increase access to care, and improve value across our enterprise, including a significant focus on digital health capabilities that span the healthcare continuum. In exchange for the Company’s investments of cash and contributions of existing investments and securities, Forward Health Ventures has issued to Lifepoint noncontrolling equity interests and perpetual cumulative preferred instruments. The equity interests in Forward Health Ventures, a privately held company, do not have a readily determinable fair value, and therefore, the Company has accounted for the equity interests using the measurement alternative in accordance with ASC 321. At December 31, 2023 and 2022, in the aggregate, the Company’s cost method investment in Forward Health Ventures totaled \$54 million and \$53 million, respectively. The Company noted no observable price changes or transactions between the date of initial investment and December 31, 2023 and did not recognize any impairment charges related to the investment in Forward Health Ventures during the years ended December 31, 2023, 2022 and 2021. In addition to the cost method investment in Forward Health Ventures, the Company also entered into management and administrative services arrangements with Forward Health Ventures and commercial arrangements with certain underlying early-stage enterprises, including pilot and services agreements and a revolving credit facility that the Company provides to one of these enterprises. The revolving credit facility provides for loans up to approximately \$15 million, has a 5-year maturity (or earlier upon our demand) and bears interest at 9.00%. At December 31, 2023, \$14 million was drawn and outstanding.

Notes Receivable

On March 10, 2022, certain of the Company’s subsidiaries invested approximately \$47 million for an aggregate \$50 million principal amount of ScionHealth’s senior secured term loan (the “Term Loan Note Receivable”). The Term Loan Note Receivable matures on December 23, 2028 and bears interest at a rate equal to, at ScionHealth’s option, (a) a eurocurrency rate plus an applicable margin of 5.25% or (b) a base rate plus an applicable margin of 4.25%. The Company has accounted for the Term Loan Note Receivable in accordance with ASC 310, “Receivables”. As of December 31, 2023, the Term Loan Note Receivable had a carrying value of approximately \$46 million and is included under the caption “Other long-term assets” on the Company’s accompanying consolidated balance sheet.

Note 9. Noncontrolling Interests and Redeemable Noncontrolling Interests

Noncontrolling Interests

Noncontrolling interests represent the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. The Company’s accompanying consolidated financial statements include all assets, liabilities, revenues and expenses of consolidated subsidiaries at their consolidated amounts, which include the amounts attributable to the Company and the noncontrolling interest. The Company recognizes the portion of income or loss attributable to noncontrolling interests based on the portion of the entity not owned by the Company as a separate component within equity and earnings.

The following table presents the changes in the Company’s noncontrolling interests during the years ended December 31, 2023 and 2022 (in millions):

Balance at January 1, 2022	\$	351
Net income attributable to noncontrolling interests		65
Cash distributions, net of contributions		(84)
Finalization of the purchase price allocations for the Kindred Transaction		(24)
Non-cash contributions from joint venture partners		17
Balance at December 31, 2022		325
Net income attributable to noncontrolling interests		67
Cash distributions, net of contributions		(57)
Non-cash contributions from joint venture partners		34
Reclassification of equity to noncontrolling interests related to joint venture activity		14
Net impact to noncontrolling interests related to acquisitions and divestitures		(14)
Balance at December 31, 2023	\$	369

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Redeemable Noncontrolling Interests

Certain of the Company's noncontrolling interests include redemption features that cause these interests not to meet the requirements for classification as equity in accordance with ASC 480-10-S99-3, "Distinguishing Liabilities from Equity." Redemption features related to these interests could require the Company to deliver cash, if exercised. Accordingly, these redeemable noncontrolling interests are classified in the mezzanine section of the Company's accompanying consolidated balance sheets under the caption "Redeemable noncontrolling interests." Changes in the fair value of the Company's redeemable noncontrolling interests are recognized as adjustments to consolidated stockholders' equity.

The following table presents the changes in the Company's redeemable noncontrolling interests during the years ended December 31, 2023 and 2022 (in millions):

Balance at January 1, 2022	\$	139
Net income attributable to redeemable noncontrolling interests		1
Sale of redeemable noncontrolling interest units		5
Distributions and repurchases		(5)
Fair value adjustments		3
Balance at December 31, 2022		143
Net income attributable to redeemable noncontrolling interests		(1)
Redeemable noncontrolling interests recognized in connection with the Springstone Transaction		4
Distributions and repurchases		(15)
Fair value adjustments		12
Balance at December 31, 2023	\$	143

Note 10. Fair Value of Financial Instruments

Fair Value Hierarchy

Fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, the Company utilizes the fair value hierarchy pursuant to ASC 820, "Fair Value Measurements and Disclosures" ("ASC 820") that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumption about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

The inputs used to measure fair value are classified into the following fair value hierarchy:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Level 3 includes values determined using pricing models, discounted cash flow methodologies, or similar techniques reflecting the Company's own assumptions.

In instances where the determination of the fair value hierarchy measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment of factors specific to the asset or liability.

Cash and Cash Equivalents, Accounts Receivable, Accounts Payable and Other Current Liabilities

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

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Long-Term Debt

The carrying amounts and fair values of the Company's long-term debt instruments, excluding unamortized debt issuance costs, as of December 31, 2023 and December 31, 2022 were as follows (in millions):

	Carrying Amount		Fair Value	
	December 31, 2023	December 31, 2022	December 31, 2023	December 31, 2022
ABL Facility	\$ 35	\$ -	\$ 35	\$ -
ABL Last-Out Revolving Credit Facility	\$ 80	\$ -	\$ 80	\$ -
Term Loan Facility	\$ 1,850	\$ 3,215	\$ 1,843	\$ 3,014
6.75% Secured Notes	\$ -	\$ 600	\$ -	\$ 563
4.375% Secured Notes	\$ 600	\$ 600	\$ 554	\$ 506
9.875% Secured Notes	\$ 800	\$ -	\$ 808	\$ -
11.0% Secured Notes	\$ 1,100	\$ -	\$ 1,159	\$ -
9.75% Unsecured Notes	\$ 1,270	\$ 1,270	\$ 1,257	\$ 1,024
5.375% Unsecured Notes	\$ 500	\$ 500	\$ 368	\$ 281
Other Secured Debt	\$ 20	\$ -	\$ 20	\$ -

The fair values of the Company's long-term debt instruments were estimated based on the average bid and ask price as determined using published rates and categorized as Level 2 within the fair value hierarchy in accordance with ASC 820.

Interest Rate Swap

The Company measured its Interest Rate Swap at fair value on a recurring basis. The fair value of the Company's Interest Rate Swap was based on quotes from its counterparty. The Company considers those inputs to be Level 2 in the fair value hierarchy.

The Company did not designate its Interest Rate Swap as a cash flow hedge in accordance with ASC 815, "Derivatives and Hedging." Accordingly, all changes in the fair value of the Company's Interest Rate Swap were recognized through interest expense in its statements of operations. The Company recognized non-cash interest income of \$4 million and \$27 million during the years ended December 31, 2022 and 2021, respectively, related to changes in the fair value of its Interest Rate Swap. The Interest Rate Swap terminated on February 19, 2022.

Financial Liabilities

The Company has a contingent consideration liability payable to the former owners of Canyon Vista Medical Center ("Canyon Vista") that represents the Level 3 estimated fair value of the contingent consideration using unobservable inputs and assumptions available to the Company. The key assumptions used in estimating the fair value of the Canyon Vista contingent consideration liability are the range of probabilities that the payments will be earned by the seller and a discount rate adjusted for the Company's credit risk.

At December 31, 2023 and 2022, the Canyon Vista contingent consideration liability was recorded at an estimated fair value of \$11 million and \$12 million, respectively, of which \$1 million is included under the caption "Other current liabilities" at December 31, 2023 and 2022, and \$10 million and \$11 million, respectively, is included under the caption "Other long-term liabilities" in the Company's accompanying consolidated balance sheets. For the year ended December 31, 2022, the Company recognized a non-cash gain of \$4 million, related to the change in the estimated fair value of the Canyon Vista contingent consideration liability, which is included under the caption "Other non-operating losses, net" on the accompanying consolidated statement of operations.

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Note 11. Employee Benefit Plans

Defined Benefit Pension Plans

The Company maintains certain assets and assumed certain liabilities associated with two separate defined benefit pension plans (i) associated with certain employees of Marquette General Hospital covered by a collective bargaining agreement (the “Marquette Pension Plan”) and (ii) associated with certain non-union employees of Bell Hospital (the “Bell Pension Plan” and, collectively with the Marquette Pension Plan, the “Pension Plans”). Both Pension Plans are closed to new participants. Participants in the Marquette Pension Plan are required to make annual contributions totaling 6% of annual compensation to the Marquette Pension Plan to continue accruing benefits. Participants in the Bell Pension Plan no longer accrue benefits. The Company makes contributions to the Pension Plans sufficient to meet its minimum funding requirements as prescribed by the Employee Retirement Income Security Act of 1974, as amended.

Status and Expense

The following table presents the changes in the benefit obligations and plan assets of the Pension Plans during the years ended December 31, 2023 and 2022 and the unfunded liability of the Pension Plans at December 31, 2023 and 2022 (in millions):

	2023	2022
Change in benefit obligations:		
Benefit obligations at beginning of year	\$ 55	\$ 73
Service costs	-	1
Interest costs	3	2
Actuarial loss (gain)	3	(19)
Benefits paid	(3)	(2)
Benefit obligations at end of year	58	55
Change in plan assets:		
Fair value of plan assets at beginning of year	47	59
Actual return on plan assets	7	(11)
Employer contributions	-	1
Benefits and expenses paid	(3)	(2)
Fair value of plan assets at end of year	51	47
Unfunded pension benefit obligations	\$ 7	\$ 8

The Company recognizes changes in the funded status of the Pension Plans as a direct increase or decrease to stockholders’ equity through accumulated other comprehensive income (loss). For the years ended December 31, 2023 and 2022, the Company recognized comprehensive gains that were nominal and \$4 million, respectively, as an increase in equity. These adjustments were primarily related to changes in the Company’s unfunded pension liability due to changes in the discount rates and mortality assumptions used to measure the projected benefit obligation.

The following table summarizes the weighted-average assumptions used by the Company to determine its benefit obligations as of December 31, 2023 and 2022 (in millions):

	2023	2022
Discount rate	4.9 %	5.1 %
Rate of compensation increases, when applicable	3.0 %	3.0 %

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Plan Assets

At December 31, 2023, the Pension Plans' investments include a balance of mutual funds and money market funds in order to achieve an overall rate of return that minimizes the need for additional employer contributions. The Company measures the fair value of its Pension Plans' assets in accordance with ASC 820. The Pension Plans' investments in mutual funds are valued at the net asset value ("NAV") of shares reported in the active market in which the funds are traded. Because quoted prices are available for mutual funds and the markets in which they are traded are generally considered active, the Company has classified each of them as a Level 1 investment. The Pension Plans' investments in money market funds are valued at quoted prices in markets that are not active by a combination of inputs, including but not limited to dealer quotes who are market makers in the underlying funds and other directly and indirectly observable inputs. Because the inputs used to value money market funds are either directly or indirectly observable, but are not quoted prices in active markets, the Company has classified these assets as Level 2 investments. The Pension Plans' investments in pooled, common and collective funds are valued at the NAV of shares owned based on the readily determinable quoted market price that each fund publishes at the end of each day. While the underlying assets are actively traded on an exchange, the pooled, common and collective funds are not and, therefore, the Company has not classified these assets in the fair value hierarchy. No investment is classified as Level 3 as of December 31, 2023 and 2022.

The following table summarizes the assets of the Pension Plans, measured at fair value as of December 31, 2023 and 2022, by major asset category and aggregated by level within the fair value hierarchy (in millions):

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	NAV
December 31, 2023:				
Mutual funds	\$ 35	\$ 35	\$ -	\$ -
Money market funds	1	-	1	-
Pooled, Common and Collective Funds	15	-	-	15
Total	<u>\$ 51</u>	<u>\$ 35</u>	<u>\$ 1</u>	<u>\$ 15</u>
December 31, 2022:				
Mutual funds	\$ 32	\$ 32	\$ -	\$ -
Money market funds	1	-	1	-
Pooled, Common and Collective Funds	14	-	-	14
Total	<u>\$ 47</u>	<u>\$ 32</u>	<u>\$ 1</u>	<u>\$ -</u>

The Company expects to make nominal contributions to the Pension Plans during the year ended December 31, 2024. Additionally, the Company expects to make future benefit payments from the Pension Plans as follows for the years indicated (in millions):

2024	\$ 3
2025	3
2026	3
2027	4
2028	4
Five years thereafter	19
	<u>\$ 36</u>

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Multiemployer Pension Plan

The Company has the obligation to contribute to a multiemployer pension plan on behalf of certain employees covered by collective bargaining agreements, in accordance with the terms of such collective bargaining agreements. The Company's contributions to the multiemployer pension plan are determined based on the terms of the applicable collective bargaining agreements. Multiemployer plans are different from single-employer plans because assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers. Also, if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. If the Company stops participating in the multiemployer plan, the Company may be required to pay a withdrawal liability based on its portion of the unfunded status of the plan. Currently, the Company does not anticipate ending its participation in this plan.

Defined Contribution Plans

During the year ended December 31, 2023, the Company maintained a defined contribution retirement plan covering a majority of its employees. This defined contribution plans contains discretionary matching contribution formulas and definite non-elective contribution formulas for employees at certain facilities. The Company's expense related to its defined contribution plans was \$31 million, \$28 million and \$30 million for the years ended December 31, 2023, 2022 and 2021, respectively.

Deferred Compensation Plans

The Company maintains supplemental deferred compensation plans with respect to certain of its employees and affiliated physicians. As of December 31, 2023 and 2022, the assets associated with these deferred compensation plans were \$51 million and \$45 million, respectively, and the liabilities were \$64 million and \$56 million, respectively. These amounts are included under the captions "Other long-term assets" and "Other long-term liabilities", respectively, on the accompanying consolidated balance sheets at December 31, 2023 and 2022.

Note 12. Stock-Based Compensation

The Parent is authorized to issue Units to employees, executives, directors, and other service providers of the Company, under the terms and conditions of the Parent Partnership Agreement. The Company has determined that the Units are a substantive class of members' equity for accounting purposes because the Units are legal equity of the Parent, they have participation features, including distribution and liquidation rights, which allow them to participate in the residual returns of the Parent, and vested interests are retained upon termination, subject to certain repurchase rights. As a result, these awards are accounted for under ASC 718.

In June 2021, certain affiliates of the Parent completed the sale of the Parent, including the Company and its subsidiaries, to other affiliates of the Parent (the "Parent Transaction"). Following the Parent Transaction, the Company continues to be owned by affiliates of the Parent and the transaction had no business or operational impact on the Company. However, in connection with the Parent Transaction, all unvested and outstanding Units held by certain current employees, executives, and directors of the Company became vested. The Company has accounted for this event as a modification in accordance with ASC 718 and recognized additional stock-based compensation expense of \$112 million during the nine months ended September 30, 2021 related to the modification and accelerated vesting of such Units. Additionally, for the nine months ended September 30, 2021, the Company made cash distributions to the Parent of \$93 million to partially fund the Parent's repurchase of certain previously issued Units and capital units, primarily held by certain former employees, as well as certain current employees, executives, and directors of the Company.

Following the Parent Transaction, on June 25, 2021, an aggregate of 20,775,000 Units were granted to certain executives and employees of the Company under the Parent Partnership Agreement and a newly adopted equity incentive plan and an additional 1,000,000 Units were granted on September 28, 2021. Approximately 2,800,000 Units were granted in 2022 to certain executives, directors, and certain of our employees and our affiliates' employees.

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Service Units

Service Units of Parent (“Service Units”) have been granted to certain members of the Company’s Board of Directors (the “Board”), and Tranche A Units of Parent (“Tranche A Units”) have been granted to certain of our employees and executives and certain of our affiliates’ employees. Service Units vest on a time-basis only, on the date that is the earliest of (i) six months and one day following grant date or (ii) the date of the applicable director’s termination of service due to death, disability or as a result of the director’s removal from the Board other than for cause. Tranche A Units vest in equal installments on the last day of each of the first twenty calendar quarters that commence on or after the grant date, subject to continued service. Service Units and Tranche A Units will automatically vest upon the sale of the Company. In the event of an initial public offering, all unvested Service Units and Tranche A Units will remain outstanding and continue to vest based on the stated vesting pattern. Unvested Service Units and Tranche A Units are forfeited upon a holder’s termination of service. As of December 31, 2023, there were approximately 7.9 million outstanding Service Units, approximately 4.7 million of which are unvested.

Service Units and Tranche A Units are accounted for as equity awards and related compensation expense is recognized ratably over the vesting period. As of December 31, 2023, Service Units and Tranche A Units had unrecognized compensation expense of \$15 million. The expense is expected to be recognized over a weighted-average period of 1.8 years from December 31, 2023.

Performance Units

Performance Units of Parent (“Performance Units”) which have been granted as Tranche B Units and Tranche C Units of Parent, will vest based upon equity holders of the Parent realizing certain targeted multiples of invested capital (“MOIC thresholds”). Performance Units are accounted for as equity awards with expense recognition occurring upon the realization of the stated MOIC thresholds due to a liquidity event. Unvested Units that do not vest on termination are forfeited upon such termination, subject to certain conditions. As of December 31, 2023, there were approximately 15.3 million outstanding Performance Units, all of which are unvested.

The following table summarizes the Company’s total stock-based compensation expense for the years ended December 31, 2023, 2022 and 2021 (in millions):

	2023	2022	2021
Service Units	\$ 5	\$ 5	\$ 30
Performance Units	-	-	87
Total stock-based compensation expense	<u>\$ 5</u>	<u>\$ 5</u>	<u>\$ 117</u>

Valuation Assumptions

The fair value of all Units was determined using a Monte Carlo simulation framework. The following table shows the weighted average assumptions used by the Company to develop the fair value estimates and the resulting estimates of weighted-average fair value per Unit granted during the years ended December 31, 2023, 2022 and 2021:

Common equity value of the Company (in millions)	\$ 3,600
Expected volatility	63.1 %
Risk-free interest rate	0.92 %
Expected dividends	-
Average expected term (years)	5.0

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Note 13. Commitments and Contingencies

Capital Expenditure Commitments

The Company is reconfiguring some of its facilities to more effectively accommodate patient services and to provide for a greater variety of services. The Company has incurred approximately \$212 million in costs related to uncompleted projects as of December 31, 2023, which is included under the caption “Property and equipment, at cost” in the Company’s accompanying consolidated balance sheet. At December 31, 2023, these uncompleted projects had an estimated cost to complete of approximately \$138 million. The estimated timeframe for completion of these projects generally ranges from less than one year up to two years. Additionally, the Company is subject to annual capital expenditure commitments in connection with several of its facilities. At December 31, 2023, the Company estimated its total remaining capital expenditure commitments to be approximately \$540 million. The majority of this amount represents long-term commitments that are computed as a percentage of revenues at the applicable facility.

Legal Proceedings and General Liability Claims

Healthcare facilities, including the Company and its facilities, are, from time to time, subject to claims and suits arising in the ordinary course of business, including but not limited to, claims for damages for personal injuries, medical malpractice, breach of contracts, wrongful restriction of or interference with physicians’ staff privileges, employment related claims, wage and hour claims, consumer protection and data privacy claims, and putative class action claims. In certain of these actions, plaintiffs request payment for damages, including punitive damages, that may not be covered by insurance.

In addition, the Company is subject to the regulation and oversight of various state and federal governmental agencies. Further, under the False Claims Act, private parties have the right to bring qui tam, or “whistleblower,” suits against healthcare facilities that submit false claims for payments to, or improperly retain identified overpayments from, governmental payers. Some states have adopted similar state whistleblower and false claims provisions. These qui tam or “whistleblower” actions initiated under the civil False Claims Act may be pending but placed under seal by the court to comply with the False Claims Act’s requirements for filing such suits. As a result, they could be proceeding without the Company’s knowledge. If a provider is found to be liable under the False Claims Act, the provider may be required to pay up to three times the actual damages sustained by the government plus substantial civil monetary penalties that are subject to annual adjustment for inflation for each separate false claim.

Although the healthcare industry has seen numerous ongoing investigations related to compliance and billing practices, hospitals, in particular, continue to be a primary enforcement target for the Office of the Inspector General, the Department of Justice and other governmental agencies and fraud and abuse programs. Certain of the Company’s individual facilities have received, and from time to time, other facilities may receive, inquiries or subpoenas from Medicare Administrative Contractors, and federal and state agencies. Any proceedings against the Company may involve potentially substantial amounts as well as the possibility of civil, criminal, or administrative fines, penalties, or other sanctions, which could be material. Settlements of suits involving Medicare and Medicaid issues routinely require both monetary payments as well as corporate integrity agreements. Depending on whether the underlying conduct in these or future inquiries or investigations could be considered systemic, their resolution could have a material adverse effect on the Company’s financial position, results of operations and liquidity.

The Company does not control and cannot predict with certainty the progress or final outcome of discussions with government agencies, investigations and legal proceedings against the Company. Therefore, the final amounts paid to resolve such matters, claims and obligations could be material and could materially differ from amounts currently recorded, if any. Any such changes in the Company’s estimates or any adverse judgments could materially adversely impact the Company’s future results of operations and cash flows.

The Company accrues an estimate for a contingent liability when losses are both probable and reasonably estimable. The Company reviews its accruals each quarter and adjusts them to reflect the impact of developments, advice of legal counsel and other information pertaining to a particular matter.

Note 14. Subsequent Events

In accordance with the provisions of ASC 855, “Subsequent Events,” the Company evaluated all material events subsequent to the balance sheet date through February 29, 2024, the date of issuance, for events requiring disclosure or recognition in the Company’s consolidated financial statements. There were no subsequent events requiring disclosure or recognition in the Company’s consolidated financial statements other than those included below or elsewhere in the notes to these consolidated financial statements.

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Change Healthcare Systems Incident

The Company uses, directly or indirectly through its third-party vendors, information technology systems provided by Change Healthcare (“Change Systems”) for various business and administrative support functions, including revenue cycle management. On February 21, 2024, the Company was notified by Change Healthcare of a cyber security incident impacting the Change Systems (the “Change Systems Incident”), and the Company’s access to such systems was disabled. As of the date of this Report, Change Healthcare has not provided an estimated timeframe for resuming functionality of the Change Systems. The Company’s management continues to work directly with Change Healthcare, its third-party vendors, and other parties to identify and implement solutions intended to minimize the operational and financial impact to the Company caused by the Change Systems Incident. The Company has implemented, and plans to continue to implement, alternative systems where available to help mitigate the potential impact of delays in the timing of remittances from payors. While the Change Systems Incident has yet to be resolved, to date, it has not adversely impacted patient care at the Company’s facilities, and the Company does not expect it will have a material impact on its business, financial condition or results of operations. However, the Company cannot predict the ultimate outcome of the Change Systems Incident and whether its efforts to minimize its impact will be successful.

SIGNATURE

Lifepoint Health, Inc. has caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

LIFEPOINT HEALTH, INC.

Date: February 29, 2024

By: /s/ Michael S. Coggin

Michael S. Coggin

Executive Vice President and Chief Financial Officer

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