COMMUNITY HEALTH SYSTEMS INC
Form 10-Q
November 02, 2007

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2007
Commission file number 001-15925
COMMUNITY HEALTH SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

Delaware	13-3893191
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

4000 Meridian Boulevard
Franklin, Tennessee
(Address of principal executive offices)
37067
(Zip Code)
615-465-7000
(Registrant s telephone number)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or non-accelerated filer, see definition of accelerated filer and large accelerated filer in Rule 126-2 of the Exchange Act (check one).

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

As of October 29, 2007, there were outstanding 95,595,515 shares of the Registrant s Common Stock, $ 0.01 par value.

Community Health Systems, Inc.
Form 10-Q
For the Three and Nine months Ended September 30, 2007

PART I FINANCIAL INFORMATION
Item 1. Financial Statements

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)
(Unaudited)

	September 30, 2007	December 31, 2006
ASSETS		
Current assets		
Cash and cash equivalents	$ 118,855	$ 40,566
Patient accounts receivable, net of allowance for doubtful accounts of $1,001,570 and $478,565 at September 30, 2007, and December 31, 2006, respectively	1,829,605	773,984
Supplies	274,455	113,320
Deferred income taxes	53,157	13,249
Prepaid expenses and taxes	200,374	32,385
Other current assets	233,338	47,880
Total current assets	2,709,784	1,021,384
Property and equipment	6,670,291	2,630,366
Less accumulated depreciation and amortization	(792,871)	(643,789)
Property and equipment, net	5,877,420	1,986,577
Goodwill	4,046,813	1,336,525
Other assets, net	804,680	162,093
Total assets	$ 13,438,697	$ 4,506,579
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Current maturities of long-term debt	$ 79,346	$ 35,396
Accounts payable	505,700	247,747
Current income taxes payable		7,626
Accrued interest	93,154	7,122
Accrued liabilities	711,308	277,392
Total current liabilities	1,389,508	575,283
Long-term debt	9,083,383	1,905,781
Deferred income taxes	329,409	141,472

Other long-term liabilities	416,530	136,811
Minority interests in equity of consolidated subsidiaries	372,954	23,559
Stockholders equity		
Preferred stock, $.01 par value per share, 100,000,000 shares authorized; none issued		
Common stock, $.01 par value per share, 300,000,000 shares authorized; 96,579,924 shares issued and 95,604,375 shares outstanding at September 30, 2007, and 95,026,494 shares issued and 94,050,945 shares outstanding at December 31, 2006	966	950
Additional paid-in capital	1,227,623	1,195,947
Treasury stock, at cost, 975,549 shares at September 30, 2007 and December 31, 2006	(6,678)	(6,678)
Accumulated other comprehensive income (loss)	(21,201)	5,798
Retained earnings	646,203	527,656
Total stockholders equity	1,846,913	1,723,673
Total liabilities and stockholders equity	$ 13,438,697	$ 4,506,579

See accompanying notes to the condensed consolidated financial statements.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except share and per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Net operating revenues	$ 2,352,087	$ 1,117,859	$ 4,792,708	$ 3,192,305
Operating costs and expenses:				
Salaries and benefits	951,500	447,655	1,928,236	1,270,386
Provision for bad debts	279,604	191,083	561,770	411,910
Supplies	318,506	129,427	603,886	376,288
Other operating expenses	464,127	233,304	965,011	655,742
Rent	49,060	23,908	102,337	69,542
Equity in earnings of unconsolidated affiliates	(14,304)		(14,304)	
Depreciation and amortization	106,435	49,535	210,406	138,616
Minority interest in earnings	4,511	601	5,329	1,669
Total operating costs and expenses	2,159,439	1,075,513	4,362,671	2,924,153
Income from operations	192,648	42,346	430,037	268,152
Interest expense, net	139,507	27,494	201,066	73,151
Loss from early extinguishment of debt	27,291		27,291	
Income from continuing operations before income taxes	25,850	14,852	201,680	195,001
Provision for income taxes	9,580	5,611	77,273	75,253
Income from continuing operations	16,270	9,241	124,407	119,748
Discontinued operations, net of taxes:				
Loss from operations of hospitals held for sale and sale of partnership interest	(3,382)	(1,000)	(3,432)	(2,541)
Loss on sale of hospital and partnership interest	(2,428)		(2,428)	(2,559)
Loss on discontinued operations	(5,810)	(1,000)	(5,860)	(5,100)
Net income	$ 10,460	$ 8,241	$ 118,547	$ 114,648
Income from continuing operations per common share:				
Basic	$ 0.17	$ 0.10	$ 1.33	$ 1.25
Diluted	$ 0.17	$ 0.10	$ 1.32	$ 1.24

Net income per common share:				
Basic	$ 0.11	$ 0.09	$ 1.27	$ 1.20
Diluted	$ 0.11	$ 0.09	$ 1.25	$ 1.19
Weighted-average number of shares outstanding:				
Basic	93,651,645	94,119,020	93,467,608	95,470,501
Diluted	94,841,749	95,258,771	94,563,405	96,768,173

See accompanying notes to the condensed consolidated financial statements.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine months Ended September 30, 2007	2006
Cash flows from operating activities		
Net income	$ 118,547	$ 114,648
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	210,406	139,640
Minority interest in earnings	5,329	1,669
Stock-based compensation expense	25,514	14,559
Excess tax benefits relating to stock-based compensation	(2,275)	(6,589)
Loss on early extinguishment of debt	27,291	
Loss on sale of hospital and partnership interest	3,735	3,937
Other non-cash expenses, net	1,820	37
Changes in operating assets and liabilities, net of effects of acquisitions and divestitures:		
Patient accounts receivable	(53,585)	(53,688)
Supplies, prepaid expenses and other current assets	8,519	(4,594)
Accounts payable, accrued liabilities and income taxes	45,750	55,985
Other	13,599	2,447
Net cash provided by operating activities	404,650	268,051
Cash flows from investing activities		
Acquisitions of facilities and other related equipment	(6,982,099)	(317,387)
Purchases of property and equipment	(278,543)	(158,598)
Disposition of hospital and other ancillary operations	12,962	750
Proceeds from sale of equipment	601	4,312
Increase in other assets	(66,025)	(29,460)
Net cash used in investing activities	(7,313,104)	(500,383)
Cash flows from financing activities		
Proceeds from exercise of stock options	7,804	12,585
Excess tax benefits relating to stock-based compensation	2,275	6,589
Stock buy-back		(137,666)
Deferred financing costs	(190,110)	(8)
Redemption of convertible notes		(128)
Proceeds from minority investors in joint ventures	1,188	5,290
Redemption of minority investments in joint ventures	(1,339)	(915)
Distributions to minority investors in joint ventures	(2,774)	(2,642)
Borrowings under credit agreement	9,233,331	479,000
Repayments of long-term indebtedness	(2,063,632)	(220,437)

Net cash provided by financing activities	6,986,743	141,668
Net change in cash and cash equivalents	78,289	(90,664)
Cash and cash equivalents at beginning of period	40,566	104,108
Cash and cash equivalents at end of period	$ 118,855	$ 13,444

See accompanying notes to the condensed consolidated financial statements.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements of Community Health Systems, Inc. and its subsidiaries as of September 30, 2007 and for the three and nine month periods ended September 30, 2007 and September 30, 2006, have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). In the opinion of management, such information contains all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for such periods. All significant intercompany transactions and balances have been eliminated. The results of Triad Hospitals, Inc. (Triad) are included from July 25, 2007, the date of the acquisition of Triad by the Company. The results of operations for the three and nine months ended September 30, 2007, are not necessarily indicative of the results to be expected for the full fiscal year ending December 31, 2007. Certain information and disclosures normally included in the notes to the consolidated financial statements have been condensed or omitted as permitted by the rules and regulations of the Securities and Exchange Commission (SEC), although the Company believes the included disclosures are adequate to make the information presented not misleading. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2006, contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2006. The term Company shall mean the Community Health Systems, Inc. and its subsidiaries, unless the context otherwise means Community Health Systems, Inc.

Third Party Reimbursement Hospitals Acquired in the Triad Acquisition

Revenues relating to the hospitals and other facilities acquired in the Triad acquisition are recorded at estimated net amounts due from patients, third-party payors and others for healthcare services provided. The hospitals acquired in the Triad acquisition have multiple patient accounting systems and, therefore, estimates for contractual allowances are calculated by both automated systems and manually, depending on the type of payor involved and the patient accounting system used by each hospital. In certain systems, the contractual payment terms are preloaded into the system and the system calculates the expected reimbursement amounts. Even for systems that record the expected reimbursement amount, there are still manual estimates based upon historical collections recorded for payors that are not significant or do not have specific contractual terms. In other systems, the contractual adjustments are determined manually using historical collections on each type of payor. All contractual adjustments, regardless of type of payor or method of calculation, are reviewed and compared to actual payment experience. Changes in estimates of contractual allowances have not historically been significant.

Third Party Reimbursement All Other Community Health Systems Hospitals

Net operating revenues from the Company s hospitals and other facilities (other than those acquired in the Triad acquisition) include amounts estimated by management to be reimbursable by Medicare and Medicaid under prospective payment systems and provisions of cost-reimbursement and other payment methods. In addition, the Company is reimbursed by non-governmental payors using a variety of payment methodologies. Amounts the Company receives for treatment of patients covered by these programs are generally less than the standard billing rates. Contractual allowances are automatically calculated and recorded through our internally developed automated contractual allowance system . Within the automated system, actual Medicare DRG data, coupled with all payors historical paid claims data, is utilized to calculate the contractual allowances. This data is automatically updated on a monthly basis and subjected to review by management to ensure reasonableness and accuracy. The Company accounts for the differences between the estimated program reimbursement rates and the standard billing rates as contractual allowance adjustments, which the Company deducts from gross revenues to arrive at net operating revenues. Final settlements under some of these programs are subject to adjustment based on administrative review and audit by third parties. The Company records adjustments to the estimated billings in the periods that such adjustments become known. The Company accounts for adjustments to previous program reimbursement estimates as contractual allowance adjustments and report them in future periods as final settlements are determined. However, due to the complexities involved in these estimates, actual payments the Company receives could be different from the amounts the Company estimates and records. Contractual allowance adjustments related to final settlements or appeals increased net operating revenue by an insignificant amount in each of the three and nine month periods ended September 30, 2007 and September 30, 2006.

Allowance for Doubtful Accounts Hospitals Acquired in the Triad Acquisition

For the hospitals acquired in the Triad acquisition, the Company estimated its allowance for doubtful accounts by applying historical uninsured collection rates to current uninsured receivables. The historical collection rates used at September 30, 2007 were those derived by Triad, prior to the Company s acquisition of Triad. This methodology is consistent with that used by Triad prior to the Company s acquisition. The hospitals acquired from Triad use multiple patient accounting systems which is increasing the time necessary to analyze the uninsured collection rates and the overall methodology of this policy. The Company augmented its estimate with other analytical methods such as changes in the level of uninsured receivables, accounts receivable days, cash collections and accounts receivable agings.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES (Continued)

Allowance for Doubtful Accounts All Other Community Health Systems Hospitals

Effective September 30, 2006, the Company began estimating the allowance for doubtful accounts by reserving a percentage of all self-pay accounts receivable without regard to aging category, based on collection history, adjusted for expected recoveries and, if present, anticipated changes in trends. Since the Company has historically collected substantially all third-party insured accounts receivable, which includes receivables from governmental agencies, within one year of the date of discharge, the Company began reserving 100% of only those third-party insured accounts aged over 365 days from the date of discharge. The percentage used to reserve for all self-pay accounts is based now on the Company s specific collection history for self-pay accounts. Previously, the Company estimated the allowance for doubtful accounts by reserving all accounts aging over 150 days from the date of discharge, without regard to payor class. The Company believes the revised methodology provides a better approach to reflect changes in payor mix and historical collection patterns and to respond to changes in trends and will be more responsive to changes in those factors that impact the collectibility of the Company s accounts receivable. Collections are impacted by the economic ability of patients to pay and the effectiveness of the Company s collection efforts. Significant changes in payor mix, business office operations, economic conditions or trends in federal and state governmental healthcare coverage could affect the Company s collection of accounts receivable. The Company also reviews its overall reserve adequacy by monitoring historical cash collections as a percentage of trailing net revenue less provision for bad debts, as well as by analyzing current period net revenue and admissions by payor classification, aged accounts receivable, days revenue outstanding, and the impact of recent acquisitions and dispositions.

The Company s policy is to write-off gross accounts receivable if the balance is under $10.00 or when such amounts are placed with outside collection agencies. The Company believes this policy accurately reflects its ongoing collection efforts within the Company (other than the hospitals and other facilities acquired in the Triad acquisition) and is consistent with industry practices. The Company had approximately $1.625 billion and $834 million at September 30, 2007 and December 31, 2006, respectively, of accounts previously written-off being pursued by various outside collection agencies. The Company expects to collect less than 4%, net of estimated collection fees, of the amounts being pursued by outside collection agencies. As these amounts have been written-off, they are not included in gross accounts receivable or allowance for doubtful accounts. However, the Company takes into consideration estimated collections of these amounts written-off in evaluating the reasonableness of its allowance for doubtful accounts.

Professional Liability Insurance for Triad Acquisition Hospitals

Substantially all of the professional and general liability risks of the acquired Triad hospitals are subject to a per occurrence deductible. Substantially all losses in periods prior to May 1999 are insured through a wholly-owned insurance subsidiary of HCA, Inc., or HCA, Triad s owner prior to that time, and excess loss policies maintained by HCA. HCA has agreed to indemnify the Triad hospitals in respect of claims covered by such insurance policies arising prior to May 1999. After May 1999, the Triad hospitals obtained insurance coverage on a claims incurred basis from HCA s wholly-owned insurance subsidiary with excess coverage obtained from other carriers that is subject to certain deductibles. Effective for claims incurred after December 31, 2006, Triad began insuring its claims from $1 million to $5 million through its wholly-owned captive insurance company, replacing the coverage provided by HCA. Substantially all claims reported on or after January 2007 are self-insured up to $10 million per claim. Excess insurance for all hospitals is purchased through commercial insurance companies and generally after the self-insured amount covers up to $200 million per occurrence. The excess insurance for the Triad hospitals is underwritten on a claims-made basis. The Company accrues an estimated liability for the uninsured exposure and self-insured retention based on historical loss patterns and actuarial projections.

Professional Liability Insurance Claims for All Other Community Health Systems Hospitals

The Company accrues for estimated losses resulting from professional liability claims. The accrual, which includes an estimate for incurred but not reported claims, is based on historical loss patterns and actuarially determined projections and is discounted to its net present value using a weighted-average risk-free discount rate of 4.6% and

4.1% in 2006 and 2005, respectively. To the extent that subsequent claims information varies from management s estimates, the liability is adjusted currently. The Company s insurance is underwritten on a claims-made basis. Prior to June 1, 2002, substantially all of the Company s professional and general liability risks were subject to a $0.5 million per occurrence deductible; for claims reported from June 1, 2002 through June 1, 2003, these deductibles were $2.0 million per occurrence. Additional coverage above these deductibles was purchased through captive insurance companies in which the Company had a 7.5% minority ownership interest in each and to which the premiums paid by the Company represented less than 8% of the total premium revenues of each captive insurance company. With the formation of the Company s own wholly-owned captive insurance company in June 2003, the Company terminated its minority interest relationships in those entities. Substantially all claims reported on or after June 1, 2003 and before June 1, 2005 are self-insured up to $4 million per claim. Substantially, all claims reported on or after June 1, 2005 are self-

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES (Continued)

insured up to $5 million per claim. Management on occasion has selectively increased the insured risk at certain hospitals based upon insurance pricing and other factors and may continue that practice in the future. Excess insurance for all hospitals is purchased through commercial insurance companies and generally covers the Company for liabilities in excess of the self-insured amount and up to $100 million per occurrence for all claims reported on or after June 1, 2003.

2. ACCOUNTING FOR STOCK-BASED COMPENSATION

Stock-based compensation awards are granted under the Community Health Systems, Inc. Amended and Restated 2000 Stock Option and Award Plan (the 2000 Plan). The 2000 Plan allows for the grant of incentive stock options intended to qualify under Section 422 of the Internal Revenue Code as well as stock options which do not so qualify, stock appreciation rights, restricted stock, performance units and performance shares, phantom stock awards and share awards. Persons eligible to receive grants under the 2000 Plan include the Company s directors, officers, employees and consultants. To date, the options granted under the 2000 Plan are nonqualified stock options for tax purposes. Generally, vesting of these granted options occurs in one-third increments on each of the first three anniversaries of the award date, except for options granted on July 25, 2007, which vests equally on the first two anniversaries of the award date. Options granted prior to 2005 have a 10 year contractual term and options granted in 2005, 2006 and 2007 have an 8 year contractual term. The exercise price of options granted to employees under the 2000 Plan were equal to the fair value of the Company s common stock on the option grant date. As of September 30, 2007, 8,292,202 shares of unissued common stock remain reserved for future grants under the 2000 Plan. The Company also has options outstanding under its Employee Stock Option Plan (the 1996 Plan). These options are fully vested and exercisable and no additional grants of options will be made under the 1996 Plan.

The following table reflects the impact of total compensation expense related to stock-based equity plans under the Statement of Financial Accounting Standards (SFAS) No. 123(R), on the reported operating results for the respective periods (in thousands, except per share data):

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Effect on income from continuing operations before income taxes	$ (11,219)	$ (5,568)	$ (25,514)	$ (14,559)
Effect on net income	$ (6,816)	$ (3,534)	$ (15,500)	$ (9,318)
Effect on net income per share-diluted	$ (0.07)	$ (0.04)	$ (0.16)	$ (0.10)

SFAS No. 123(R) also requires the benefits of tax deductions in excess of the recognized tax benefit on compensation expense to be reported as a financing cash flow, rather than as an operating cash flow, as required under Accounting Principles Board Opinion No. 25 and related interpretations. This requirement reduced our net operating cash flows and increased our financing cash flows by $2.0 million for the three months ended September 30, 2006, and $2.3 million and $6.6 million for the nine months ended September 30, 2007 and 2006, respectively.

At September 30, 2007, $93.4 million of unrecognized stock-based compensation expense from all outstanding unvested stock options and restricted stock is expected to be recognized over a weighted-average period of 21.3 months.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

2. ACCOUNTING FOR STOCK-BASED COMPENSATION (Continued)

The fair value of stock-based awards was estimated using the Black Scholes option pricing model with the assumptions and weighted-average fair values during the three and nine months ended September 30, 2007 and September 30, 2006, as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Expected volatility	24.0%	24.2%	24.4%	24.1%
Expected dividends	0	0	0	0
Expected term	4 years	4 years	4 years	4 years
Risk-free interest rate	4.53%	4.61%	4.52%	4.67%

In determining expected return, the Company examined concentrations of option holdings, historical patterns of option exercises and forfeitures, as well as forward looking factors, to determine if there were discernable employee populations. From this analysis, the Company identified two employee populations, one consisting primarily of certain senior executives and the other consisting of all other recipients.

The expected volatility rate was estimated based on historical volatility. In determining expected volatility, the Company also reviewed the market based implied volatility of actively traded options of its common stock and determined that historical volatility did not differ significantly from the implied volatility.

The expected life computation is based on historical exercise and cancellation patterns and forward looking factors, where present, for each population identified. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of the grant. The pre-vesting forfeiture rate is based on historical rates and forward looking factors for each population identified. As required under SFAS No. 123(R), the Company will adjust the estimated forfeiture rate to its actual experience.

Options outstanding and exercisable under the 1996 Plan and the 2000 Plan as of September 30, 2007, and changes during the three and nine months then ended were as follows (in thousands, except share and per share data):

	Shares	Weighted average exercise price	Weighted average remaining contractual term (in years)	Aggregate intrinsic value as of September 30, 2007
Outstanding at December 31, 2006	5,482,528	$26.48		
Granted	852,500	37.21		
Exercised	(121,861)	26.13		
Forfeited and cancelled	(24,002)	35.77		
Outstanding at March 31, 2007	6,189,165	27.93		
Granted	54,000	37.20		
Exercised	(123,321)	26.82		
Forfeited and cancelled	(70,841)	36.16		

Outstanding at June 30, 2007	6,049,003	27.94		
Granted	2,516,000	38.09		
Exercised	(32,170)	32.83		
Forfeited and cancelled	(99,478)	35.85		
Outstanding at September 30, 2007	8,433,355	$30.86	6.68 years	$34,716
Exercisable at September 30, 2007	4,025,174	$23.58	5.74 years	$34,683

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

2. ACCOUNTING FOR STOCK-BASED COMPENSATION (Continued)

The weighted-average grant date fair value of stock options granted during the nine months ended September 30, 2007 and September 30, 2006 was $10.29 and $10.38, respectively. The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between the Company s closing stock price on the last trading day of the reporting period ($31.44) and the exercise price, multiplied by the number of the in-the-money options) that would have been received by the option holders had all option holders exercised their options on September 30, 2007. This amount changes based on the market value of the Company s common stock. The aggregate intrinsic value of options exercised during the three months ended September 30, 2007 and 2006 was $0.3 million and $4.8 million, respectively, and the aggregate intrinsic value of options exercised during the nine months ended September 30, 2007 and 2006 was $3.2 million and $16.8 million, respectively.

The Company has also awarded restricted stock under the 2000 Plan to various employees and directors. The restrictions on these shares generally lapse in one-third increments on each of the first three anniversaries of the award date, except for restricted stock granted on July 25, 2007, which restrictions lapse equally on the first two anniversaries of the award date. Certain of the restricted stock awards granted to the Company s senior executives also contain a performance objective that must be met in addition to the vesting requirements. If the performance objective is not attained, the awards will be forfeited in their entirety. Once the performance objective has been attained, restrictions will lapse in one-third increments on each of the first three anniversaries of the award date. Notwithstanding the above mentioned performance objectives and vesting requirements, the restrictions will lapse earlier in the event of death, disability, termination of employment by the Company of the holder of the restricted stock for reason other than for cause or in the event of change in control of the Company. Restricted stock awards subject to performance standards are not considered outstanding for purposes of determining earnings per share until the performance objectives have been satisfied.

Restricted stock outstanding under the 2000 Plan as of September 30, 2007, and changes during the three and nine months then ended are as follows:

	Shares	Weighted average fair value
Unvested at December 31, 2006	969,691	$36.05
Granted	681,000	37.19
Vested	(376,679)	35.42
Forfeited		
Unvested at March 31, 2007	1,274,012	36.84
Granted	8,500	37.20
Vested		
Forfeited	(16,002)	36.66
Unvested at June 30, 2007	1,266,510	36.84
Granted	689,000	40.27
Vested	(6,300)	37.05
Forfeited	(4,500)	37.01
Unvested at September 30, 2007	1,944,710	$38.06

As of September 30, 2007, there was $58.7 million of unrecognized stock-based compensation expense related to unvested restricted stock expected to be recognized over a weighted-average period of 20.2 months.

Under the Director s Fee Deferral Plan, the Company s non-employee directors may elect to receive share equivalent units in lieu of cash for their director s fees. Share equivalent units are calculated by dividing the deferred directors fees by the closing market price of the Company s stock on the last trading date of the reporting period. These units are held in the plan until the director electing to receive the share equivalent units retires or otherwise terminates his/her directorship with the Company. Share equivalent units are converted to shares of common stock of the Company at the time of distribution.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

2. ACCOUNTING FOR STOCK-BASED COMPENSATION (Continued)

The following table represents the amount of directors fees which were deferred and the equivalent units into which they converted for each of the respective periods:

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Directors fees earned and deferred into plan	$ 31,875	$ 39,875	$ 97,125	$ 133,625
Equivalent units	1,013.836	1,067.603	2,757.772	3,642.052

At September 30, 2007, there was a total of 12,543.773 units deferred in the plan with an aggregate fair value of $394,376, based on the closing market price of the Company s common stock on the last trading day of the reporting period of $31.44.

3. COST OF REVENUE

The majority of the Company s operating costs and expenses are cost of revenue items. Operating costs that could be classified as general and administrative by the Company would include the Company s corporate office costs at the Company s Franklin, Tennessee and Plano, Texas offices, which were $37.5 million and $18.9 million for the three months ended September 30, 2007 and 2006, respectively, and $84.5 million and $63.2 million for the nine months ended September 30, 2007 and 2006, respectively. These corporate office costs include stock-based compensation expense recognized under SFAS No. 123(R).

4. USE OF ESTIMATES

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

5. ACQUISITIONS AND DIVESTITURES

Triad Acquisition

On July 25, 2007, the Company completed its acquisition of Triad. Triad owned and operated 50 hospitals in 17 states as well as the Republic of Ireland in non-urban and middle market communities. On a combined basis, after taking into account the acquisition, the Company owns and operates 128 hospitals in 28 states as well as the Republic of Ireland. As a result of its acquisition of Triad, the Company also provides management and consulting services to independent hospitals, through its subsidiary, QHR, on a contract basis. The Company acquired Triad for approximately $6.830 billion, including the assumption of $1.686 billion of existing indebtedness. Prior to entering the merger agreement, Triad terminated an Agreement and Plan of Merger that it had entered into on February 4, 2007 (the Prior Merger Agreement) with Panthera Partners, LLC, Panthera Holdco Corp. and Panthera Acquisition Corporation (collectively, Panthera). Concurrent with the termination of the Prior Merger Agreement and pursuant to the terms thereof, Triad paid a termination fee of $20 million and out-of-pocket expenses of $18.8 million to Panthera. The Company reimbursed Triad for the termination fee and the advance for expense reimbursement paid to Panthera. These amounts are included in the allocated purchase price of Triad.

In connection with the consummation of the acquisition of Triad, the Company obtained $7.215 billion of senior secured financing under a new credit facility (the New Credit Facility) and its wholly-owned subsidiary CHS/Community Health Systems, Inc. (CHS/Community Health) issued $3.021 billion aggregate principal amount of 8.875% senior notes due 2015 (the Notes). The Company used the net proceeds of $3.000 billion from the Notes offering and the net proceeds of $6.065 billion of term loans under the New Credit Facility to acquire the outstanding shares of Triad, to refinance certain of Triad s indebtedness and the Company s indebtedness, to complete certain related transactions, to pay certain costs and expenses of the transactions and for general corporate uses. A

$750 million revolving credit facility and a $400 million delayed draw term loan facility remain available to the Company under the New Credit Facility for future acquisitions, working capital and general corporate purposes.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

5. ACQUISITIONS AND DIVESTITURES (Continued)

The total cost of the Triad acquisition has been allocated to the assets acquired and liabilities assumed based upon their respective fair values in accordance with SFAS No. 141, Business Combinations. The purchase price represented a premium over the fair value of the net tangible and identifiable intangible assets acquired for reasons such as:

strategically, Triad had operations in five states in which the Company previously had no operations;

the combined company has a smaller concentrations of credit risk through greater geographic diversification;

many support functions will be centralized; and

duplicate corporate functions will be eliminated.

The table below summarizes the preliminary allocations of the purchase price (including assumed liabilities) for the Triad acquisition (in thousands):

	September 30, 2007
Current assets	$ 1,644,666
Property and equipment	3,705,442
Goodwill and other intangibles	2,859,915
Liabilities	1,380,490

The allocation process requires the analysis of acquired fixed assets, contracts, contractual commitments, and legal contingencies to identify and record the fair value of all assets acquired and liabilities assumed. Because of the proximity of the transaction to the end of the current quarter, the values of certain assets and liabilities are based on preliminary valuations and are subject to adjustment as additional information is obtained. Such additional information includes, but is not limited to: valuations and physical counts of property and equipment, analysis of physician income guarantee contracts, valuation of contractual commitments and involuntary termination of employees. The Company is also negotiating the termination of certain assumed contracts it deems unfavorable. Under GAAP, the Company has up to twelve months from the closing of the acquisition to complete its valuations and contract terminations. Material adjustments to goodwill may result upon the completion of these matters. Additionally, in conjunction with integrating the former Triad hospitals into the Company, the Company is currently evaluating and comparing the accounting policies and estimation methodologies used by the former management of Triad for those hospitals. Accounts for which such analyses is being performed include, among others, reserves for bad debts and malpractice reserves. Differences between these policies and methodologies are likely to result in our selection of a conforming policy or methodology. Changes in reserve balances or asset values resulting the selection of a conforming policy or methodology could be material and will generally be adjusted through earnings in the period of the change.

The following unaudited pro forma results of operations of the Company for the nine months ended September 30, 2007 and 2006 assume that the Triad acquisition occurred at the beginning of each of the periods presented. The pro forma amounts include certain adjustments, including interest expense, depreciation and taxes. The pro forma net income for the nine months ended September 30, 2007 includes a charge for the early extinguishment of debt of $27.3 million before taxes and $17.5 million after-tax, or $0.19 per share (diluted). The pro forma results do not include transaction costs incurred by Triad prior to the date of the acquisition, and adjustments related to cost savings or other synergies that are anticipated as a result of this acquisition. These unaudited pro forma results are not necessarily indicative of the actual results of operations.

Nine months ended
September 30,

	2007	2006
Pro forma net operating revenues from continuing operations	$8,004,159	$7,173,200
Pro forma net income (loss)	(19,030)	53,684
Pro forma net income (loss) per share:		
Basic	(0.20)	0.56
Diluted	(0.20)	0.55

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
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5. ACQUISITIONS AND DIVESTITURES (Continued)

Other Acquisitions

Effective April 1, 2007, the Company completed its acquisition of Lincoln General Hospital (157 licensed beds), located in Ruston, Louisiana. The total consideration for this hospital was approximately $48.4 million, of which $44.8 million was paid in cash and $3.6 million was assumed in liabilities. On May 1, 2007, the Company completed its acquisition of Porter Health (301 licensed beds), located in Valparaiso, Indiana, with a satellite campus in Portage, Indiana and outpatient medical campuses located in Chesterton, Demotte, and Hebron, Indiana. As part of this acquisition, the Company has agreed to construct a 225-bed replacement facility for the Valparaiso hospital no later than April 2011. The total consideration for Porter Health was approximately $109.7 million, of which $88.9 million was paid in cash and $20.8 million was assumed in liabilities. The Company has estimated its purchase price allocation relating to these acquisitions resulting in approximately $6.1 million of goodwill being recorded. This allocation is preliminary pending, among other things, finalization of valuation of tangible and intangible assets.

During 2006, the Company acquired, through seven separate purchase transactions and three capital lease transactions, substantially all of the assets and working capital of eight hospitals and three home health agencies. On March 1, 2006, the Company acquired, through a combination of purchasing certain assets and entering into a capital lease for other related assets, Forrest City Hospital, a 118 bed hospital located in Forrest City, Arkansas. On April 1, 2006, the Company completed the acquisition of two hospitals from Baptist Health System, Birmingham, Alabama: Baptist Medical Center DeKalb (134 beds) and Baptist Medical Center Cherokee (60 beds). On May 1, 2006, the Company acquired Via Christi Oklahoma Regional Medical Center, a 140 bed hospital located in Ponca City, Oklahoma. On June 1, 2006, the Company acquired Mineral Area Regional Medical Center, a 135 bed hospital located in Farmington, Missouri. On September 30, 2006, the Company acquired Cottage Home Options, a home health agency and related business, located in Galesburg, Illinois. On July 1, 2006, the Company acquired the healthcare assets of Vista Health, which included Victory Memorial Hospital (336 beds) and St. Therese Medical Center (71 non-acute care beds), both located in Waukegan, Illinois. On September 1, 2006, the Company acquired Humble Texas Home Care, a home health agency located in Humble, Texas. On October 1, 2006, the Company acquired Helpsource Home Health, a home health agency located in Wichita Falls, Texas. On November 1, 2006, the Company acquired through two separate capital lease transactions, Campbell Memorial Hospital, a 99 bed hospital located in Weatherford, Texas and Union County Hospital, a 25 bed hospital located in Anna, Illinois. The aggregate consideration for these eight hospitals and three home health agencies totaled approximately $385.7 million, of which $353.8 million was paid in cash and $31.9 million was assumed in liabilities. Goodwill recognized in these transactions totaled $65.6 million, which is expected to be fully deductible for tax purposes.

Discontinued Operations

Effective March 18, 2006, the Company sold Highland Medical Center, a 123 bed facility located in Lubbock, Texas, to Shiloh Health Services, Inc., then located in Louisville, Kentucky. The proceeds from this sale were $0.5 million. This hospital had previously been classified as held for sale. Effective September 1, 2007, the Company sold its partnership interest in River West L.P. which owned and operated River West Medical Center (an 80 bed facility located in Plaquemine, Louisiana) to an affiliate of Shiloh Health Services, Inc. of Lubbock, Texas. The proceeds from this sale were $0.3 million. In addition, the Company has classified as held for sale the following hospitals acquired as part of the Triad acquisition: Northeast Arkansas Medical Center (104 licensed beds) located in Jonesboro, Arkansas, Barberton Citizens Hospital (312 licensed beds) located in Barberton, Ohio and Beacon Hospital (122 licensed beds) located in Dublin, Ireland. In connection with management s decision to sell the previously mentioned facilities and partnership interest and in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the Company has classified the results of operations of the above mentioned hospitals as discontinued operations in the accompanying condensed consolidated statements of income.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

5. ACQUISITIONS AND DIVESTITURES (Continued)

Net operating revenues and loss from discontinued operations for the five hospitals in discontinued operations (including the partnership interest), for the three and nine month periods ended September 30, 2007 and 2006 (as applicable) are as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Net operating revenues	$ 40,418	$ 5,624	$ 52,902	$ 18,794
Loss from operations before income taxes	(3,966)	(1,538)	(4,043)	(3,907)
Loss on sale of hospital and partnership interests	(3,735)		(3,735)	(3,938)
Loss from discontinued operations, before taxes	(7,701)	(1,538)	(7,778)	(7,845)
Income tax benefit	(1,891)	(538)	(1,918)	(2,745)
Loss from discontinued operations, net of tax	$ (5,810)	$ (1,000)	$ (5,860)	$ (5,100)

The computation of the loss from discontinued operations, before taxes, for the nine months ended September 30, 2006 also includes the net write-off of $4.4 million of tangible assets at the one hospital sold during the nine months ended September 30, 2006.

The computation of the loss from discontinued operations, before taxes, for the three and nine months ended September 30, 2007 also includes the net write-off of $4.0 million of tangible assets and $0.1 million of goodwill related to assets held by the partnership whose interests were sold during the three months ended September 30, 2007.

Interest expense was allocated to discontinued operations based on estimated sale proceeds available for debt repayment.

Assets and liabilities of the hospitals classified as discontinued operations included in the accompanying condensed consolidated balance sheets are as follows. There were no material assets or liabilities related to these hospitals at December 31, 2006.

	September 30, 2007 (In Thousands)
Current assets	$ 50,524
Property and equipment	82,380
Other assets	3,483
Current liabilities	(24,312)
Long-term liabilities	(2,241)
Net assets	$ 109,834

6. INCOME TAXES

The Company adopted the provisions of the FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes , on January 1, 2007. The total amount of unrecognized benefit that would affect the effective tax rate, if recognized, is approximately $4.4 million as of September 30, 2007. It is the Company s policy to recognize interest and penalties accrued related to unrecognized benefits in its statement of operations as income tax expense. During the nine months ended September 30, 2007, the Company recorded approximately $1.1 million in liabilities and $0.4 million in interest and penalties related to prior state income tax returns through its income tax provision from continuing operations and which are included in its FASB Interpretation No. 48 liability at September 30, 2007. A total of approximately $2.8 million of interest is included in the amount of FASB Interpretation No. 48 liability at September 30, 2007. During the three months ended September 30, 2007, the Company released $5.2 million plus accrued interest of $0.8 million of its FASB Interpretation No. 48 liability, as a result of the expiration of the statute of limitations pertaining to tax positions taken in prior years relative to legal settlements. In addition, as a result of the additional interest expense to be incurred resulting from the Triad acquisition, the Company determined that certain of its state net operating losses will expire before being utilized resulting in the recording of a valuation allowance of $3.4 million. During the twelve months ending September 30, 2008, it is reasonably possible that the Company s FASB Interpretation No. 48 liability will

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

6. INCOME TAXES (Continued)

decrease $4.1 million due to a tentative income tax examination settlement of the federal tax returns of Triad for the short taxable years ended April 27, 2001, June 30, 2001 and December 31, 2001, and the taxable years ended December 31, 2002 and 2003.

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. With few exceptions, the Company (excluding Triad) is no longer subject to U.S. federal or state income tax examinations for years prior to 2003. During 2006, the Company agreed to a settlement at the Internal Revenue Service (the IRS) Appeals Office with respect to the 2003 tax year. The Company has since received a closing letter with respect to the examination for that tax year. The settlement was not material to the Company s results of operations or financial position.

The IRS has concluded an examination of the federal income tax returns of Triad for the short taxable years ended April 27, 2001, June 30, 2001 and December 31, 2001, and the taxable years ended December 31, 2002 and 2003. On May 10, 2006, the IRS issued an examination report with proposed adjustments. Triad filed a protest on June 9, 2006 and the matter was referred to the IRS Appeals Office. Representatives of Triad met with the IRS Appeals Office in April 2007 and reached a tentative settlement. In the opinion of management, the tentative settlement, if finalized, would not have a material impact on the Company s results of operations or financial position.

Cash paid for income taxes, net of refunds received, was $55.4 million and $49.7 million during the three months ended September 30, 2007 and 2006, respectively, and $84.8 million and $86.2 million during the nine months ended September 30, 2007 and 2006, respectively.

7. GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill for the nine months ended September 30, 2007, are as follows (in thousands):

Balance as of December 31, 2006	$ 1,336,525
Goodwill acquired as part of acquisitions during 2007	2,709,440
Consideration adjustments and finalization of purchase price allocations for acquisitions completed prior to 2007	2,708
Goodwill written-off as part of disposal transactions	(1,860)
Balance as of September 30, 2007	$ 4,046,813

In May 2007, the Company sold certain operations ancillary to one of its hospitals. This transaction and related operations were not material.

The Company completed its most recent annual goodwill impairment test as required by SFAS No. 142, Goodwill and Other Intangible Assets, during 2006, using a measurement date of September 30, 2006. Based on the results of the impairment test, the Company was not required to recognize an impairment of goodwill in 2006.

The gross carrying amount of the Company s other intangible assets was $76.2 million at September 30, 2007 and $13.7 million at December 31, 2006, and the net carrying amount was $65.1 million at September 30, 2007 and $7.4 million at December 31, 2006. Other intangible assets are included in other assets, net on the Company s condensed consolidated balance sheets.

The weighted-average amortization period for the intangible assets subject to amortization is approximately nine years. There are no expected residual values related to these intangible assets. Amortization expense on these intangible assets during the three months ended September 30, 2007 and 2006 was $2.4 million and $0.4 million, respectively. Amortization expense on these intangible assets during the nine months ended September 30, 2007 and 2006 was $3.4 million and $1.3 million, respectively. Amortization expense on intangible assets is estimated to be $4.1 million for the remainder of 2007, $14.7 million in 2008, $13.8 million in 2009, $13.1 million in 2010, $11.7 million in 2011, and $7.4 million in 2012.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

8. EARNINGS PER SHARE

The following table sets forth the components of the numerator and denominator for the computation of basic and diluted income from continuing operations per share (in thousands, except share data):

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Numerator:				
Numerator for basic earnings per share - Income from continuing operations available to common stockholders basic	$ 16,270	$ 9,241	$ 124,407	$ 119,748
Numerator for diluted earnings per share - Income from continuing operations	$ 16,270	$ 9,241	$ 124,407	$ 119,748
Interest, net of tax, on 4.25% convertible notes				135
Income from continuing operations available to common stockholders diluted	$ 16,270	$ 9,241	$ 124,407	$ 119,883
Denominator:				
Weighted-average number of shares outstanding basic	93,651,645	94,119,020	93,467,608	95,470,501
Effect of dilutive securities:				
Non-employee director options		11,884	3,942	11,884
Restricted stock awards	286,473	177,493	169,850	110,397
Employee options	903,631	950,374	922,005	981,367
4.25% convertible notes				194,024
Weighted-average number of shares outstanding diluted	94,841,749	95,258,771	94,563,405	96,768,173
Dilutive securities outstanding not included in the computation of earnings per share because their effect is antidilutive:				
Employee options	3,601,075	1,106,400	2,186,571	1,065,733

9. STOCKHOLDERS EQUITY

On January 17, 2006, the Company completed the redemption of all its remaining outstanding 4.25% Convertible Subordinated Notes due 2008 (the 4.25% Notes). Prior to the call for redemption made on December 16, 2005, there was $136.6 million in aggregate principal amount of the 4.25% Notes outstanding. At the conclusion of the call for redemption, $0.1 million in principal amount of the 4.25% Notes were redeemed for cash and $136.5 million of the 4.25% Notes were converted by the holders into 4,074,510 shares of the Company s common stock.

On January 14, 2006, the Company commenced an open market repurchase program for up to 5,000,000 shares of the Company s common stock, not to exceed $200 million in repurchases. Under this program, the Company repurchased the entire 5,000,000 shares at a weighted-average price of $35.23. This program concluded on November 8, 2006 when the maximum number of shares had been repurchased. On December 13, 2006, the Company commenced another open market repurchase program for up to 5,000,000 shares of the Company s common stock, not to exceed

$200 million in repurchases. This program will conclude at the earlier of three years or when the maximum number of shares have been repurchased. As of September 30, 2007, the Company has not repurchased any shares under this program.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
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10. COMPREHENSIVE INCOME (LOSS)

The following table presents the components of comprehensive income (loss), net of related taxes. The net change in fair value of interest rate swap agreements is a function of the spread between the fixed interest rate of each swap and the underlying variable interest rate under the Company s credit facility, the change in fair value of available for sale securities is the unrealized gains (losses) on the related investments and the amortization of unrecognized pension cost components is the amortization of prior service costs and credits and actuarial gains and losses (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Net income	$ 10,460	$ 8,241	$ 118,547	$ 114,648
Net change in fair value of interest rate swaps	(38,036)	(9,470)	(28,236)	(1,966)
Net change in fair value of available for sale securities	(37)	208	(13)	236
Amortization of unrecognized pension cost components	1,250		1,250	
Comprehensive income (loss)	$ (26,363)	$ (1,021)	$ 91,548	$ 112,918

The net change in fair value of the interest rate swap agreements, the net change in fair value of available for sale securities and amortization of unrecognized pension cost components are included in stockholders equity on the accompanying condensed consolidated balance sheets.

11. EQUITY INVESTMENTS

The Company owns equity interests of 27.5% and 26.1%, respectively, in two hospitals in Las Vegas, Nevada in which Universal Health Systems, Inc. owns the majority interest, an equity interest of 38.0% in a hospital in Macon, Georgia in which HCA owns the majority interest and an equity interest of 50.0% in a hospital in Eldorado, Arkansas in which the SHARE Foundation, a not-for-profit foundation, owns the remaining 50.0%. These equity investments were acquired as part of the acquisition of Triad. The Company uses the equity method of accounting for its investments in these entities. The balance of the Company s investment in unconsolidated affiliates is $269.0 million at September 30, 2007, and is included in other long term assets in the accompanying condensed consolidated balance sheet. Included in the Company s results of operations for the three and nine month periods ended September 30, 2007, is $14.3 million representing the Company s equity in pre-tax earnings from investments in unconsolidated affiliates for the period July 25, 2007 through September 30, 2007.

Summarized combined financial information for the three and nine months ended September 30, 2007 and 2006, for the unconsolidated entities in which the Company owns an equity interest in is as follows (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2007	2006	2007	2006
Revenues	$319,795	$291,249	$958,339	$858,762
Net income	$ 40,169	$ 35,523	$124,563	$102,410

12. LONG-TERM DEBT

Terminated Credit Facility and Notes

On August 19, 2004, the Company entered into a $1.625 billion senior secured credit facility with a consortium of lenders which was subsequently amended on December 16, 2004, July 8, 2005 and December 13, 2006 (the Terminated Credit Facility). The purpose of the Terminated Credit Facility was to refinance and replace the Company s previous credit agreement, repay specified other indebtedness, and fund general corporate purposes, including amending the credit facility to permit declaration and payment of cash dividends, to repurchase shares or make other distributions, subject to certain restrictions. The Terminated Credit Facility consisted of a $1.2 billion term loan that was due to mature in 2011 and a $425 million revolving credit facility that was due to mature in 2009. The First Incremental Facility Amendment, dated as of December 13, 2006, increased the Company s term loans by $400 million (the Incremental Term Loan Facility) and also gave the Company the ability to add up to $400 million of additional term loans. The full amount of the Incremental Term Loan Facility was funded on December 13, 2006, and the

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

12. LONG-TERM DEBT (Continued)

proceeds were used to repay the full outstanding amount (approximately $326 million) of the revolving credit facility under the credit agreement and the balance was available to be used for general corporate purposes. The Company was able to elect from time to time an interest rate per annum for the borrowings under the term loan, including the incremental term loan, and revolving credit facility equal to (a) an alternate base rate, which would have been equal to the greatest of (i) the Prime Rate (as defined) in effect and (ii) the Federal Funds Effective Rate (as defined), plus 50 basis points, plus (1) 75 basis points for the term loan and (2) the Applicable Margin (as defined) for revolving credit loans or (b) the Eurodollar Rate (as defined) plus (1) 175 basis points for the term loan and (2) the Applicable Margin for Eurodollar revolving credit loans. The Company also paid a commitment fee for the daily average unused commitments under the revolving credit facility. The commitment fee was based on a pricing grid depending on the Applicable Margin for Eurodollar revolving credit loans and ranged from 0.250% to 0.500%. The commitment fee was payable quarterly in arrears and on the revolving credit termination date with respect to the available revolving credit commitments. In addition, the Company paid fees for each letter of credit issued under the credit facility.

On December 16, 2004, the Company issued $300 million 6 1/2% senior subordinated notes due 2012. On April 8, 2005, the Company exchanged these notes for notes having substantially the same terms as the outstanding notes, except the exchange notes were registered under the Securities Act of 1933, as amended (the 1933 Act).

New Credit Facility and Notes

On July 25, 2007, the New Credit Facility was entered into with a syndicate of financial institutions led by Credit Suisse, as administrative agent and collateral agent. The New Credit Facility consists of a $6.065 billion funded term loan facility with a maturity of seven years, a $400 million delayed draw term loan facility with a maturity of seven years and a $750 million revolving credit facility with a maturity of six years. The revolving credit facility also includes a subfacility for letters of credit and a swingline subfacility. As previously disclosed, in connection with the consummation of the acquisition of Triad, the Company used a portion of the net proceeds from its New Credit Facility and the Notes offering to repay its outstanding debt under the Terminated Credit Facility. The Company recorded a pre-tax write-off of approximately $13.9 million in deferred loan costs relative to the early extinguishment of the debt under the Terminated Credit Facility and incurred tender and solicitation fees of approximately $13.4 million on the early repayment of the Company s $300 million aggregate principal amount of 6 1/2% Senior Subordinated Notes due 2012 through a cash tender offer and consent solicitation.

The New Credit Facility requires the Company to make quarterly amortization payments of each term loan facility equal to 0.25% of the outstanding amount of the term loans, if any, with the outstanding principal balance payable on July 25, 2014.

The term loan facility must be prepaid in an amount equal to (1) 100% of the net cash proceeds of certain asset sales and dispositions by the Company and its subsidiaries, subject to certain exceptions and reinvestment rights, (2) 100% of the net cash proceeds of issuances of certain debt obligations or receivables based financing by the Company and its subsidiaries, subject to certain exceptions, and (3) 50%, subject to reduction to a lower percentage based on the Company s leverage ratio (as defined in the New Credit Facility, generally as the ratio of total debt on the date of determination to the Company s EBITDA, as defined, for the four quarters most recently ended prior to such date) of excess cash flow (as defined) for any year, commencing in 2008, subject to certain exceptions.

Voluntary prepayments and commitment reductions are permitted in whole or in part, without any premium or penalty, subject to minimum prepayment or reduction requirements.

The obligor under the New Credit Facility is CHS/Community Health. All of the obligations under the New Credit Facility are unconditionally guaranteed by the Company and certain existing and subsequently acquired or organized domestic subsidiaries. All obligations under the New Credit Facility and the related guarantees are secured by a perfected first priority lien or security interest in substantially all of the assets of the Company, CHS/Community Health and each subsidiary guarantor, including equity interests held by the Company, CHS/Community Health or any subsidiary guarantor, but excluding, among others, the equity interests of non-significant subsidiaries, syndication subsidiaries, securitization subsidiaries and joint venture subsidiaries.

The loans under the New Credit Facility will bear interest on the outstanding unpaid principal amount at a rate equal to an applicable percentage plus, at the Company s option, either (a) an Alternate Base Rate (as defined) determined by reference to the greater of (1) the Prime Rate (as defined) announced by Credit Suisse or (2) the Federal Funds Effective Rate (as defined) plus one-half of 1.0%, or (b) a reserve adjusted London interbank offered rate for dollars (Eurodollar Rate) (as defined). The applicable percentage for term loans is 1.25% for Alternate Base Rate loans and 2.25% for Eurodollar rate loans. The applicable percentage for revolving loans is initially 1.25% for Alternate Base Rate revolving loans and 2.25% for Eurodollar revolving

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

12. LONG-TERM DEBT (Continued)

loans, in each case subject to reduction based on the Company s leverage ratio. Loans under the swingline subfacility bear interest at the rate applicable to alternative base rate loans under the revolving credit facility.

The Company has agreed to pay letter of credit fees equal to the applicable percentage then in effect with respect to Eurodollar rate loans under the revolving credit facility times the maximum aggregate amount available to be drawn under all letters of credit issued under the subfacility for letters of credit. The issuer of any letter of credit issued under the subfacility for letters of credit will also receive a customary fronting fee and other customary processing charges. The Company is also obligated to pay commitment fees of 0.50% per annum (subject to reduction based upon the Company s leverage ratio) on the unused portion of the revolving credit facility. For purposes of this calculation, swingline loans are not treated as usage of the revolving credit facility. The Company is also obligated to pay commitment fees of 0.50% per annum for the first six months after the closing of the New Credit Facility, 0.75% per annum for the next three months and 1.0% per annum thereafter, in each case on the unused amount of the delayed draw term loan facility. The Company paid arrangement fees on the closing of the New Credit Facility and will pay an annual administrative agent fee.

The New Credit Facility contains customary representations and warranties, subject to limitations and exceptions, and customary covenants restricting, subject to certain exceptions, the Company s and its subsidiaries ability to, among other things (1) declare dividends, make distributions or redeem or repurchase capital stock, (2) prepay, redeem or repurchase other debt, (3) incur liens or grant negative pledges, (4) make loans and investments and enter into acquisitions and joint ventures, (5) incur additional indebtedness or provide certain guarantees, (6) make capital expenditures, (7) engage in mergers, acquisitions and asset sales, (8) conduct transactions with affiliates, (9) alter the nature of the Company s businesses, (10) grant certain guarantees with respect to physician practices, (11) engage in sale and leaseback transactions or (12) change the Company s fiscal year. The Company is also required to comply with specified financial covenants (consisting of a leverage ratio and an interest coverage ratio) and various affirmative covenants.

Events of default under the New Credit Facility include, but are not limited to, (1) the Company s failure to pay principal, interest, fees or other amounts under the credit agreement when due (taking into account any applicable grace period), (2) any representation or warranty proving to have been materially incorrect when made, (3) covenant defaults subject, with respect to certain covenants, to a grace period, (4) bankruptcy events, (5) a cross default to certain other debt, (6) certain undischarged judgments (not paid within an applicable grace period), (7) a change of control, (8) certain ERISA-related defaults, and (9) the invalidity or impairment of specified security interests, guarantees or subordination provisions in favor of the administrative agent or lenders under the New Credit Facility.

The Notes were issued by CHS/Community Health in connection with the Triad acquisition in the principal amount of $3.021 billion. These Notes will mature on July 15, 2015. The Notes bear interest at the rate of 8.875% per annum, payable semiannually in arrears on January 15 and July 15, commencing January 15, 2008. Interest on the Notes accrue from the date of original issuance. Interest will be calculated on the basis of 360-day year comprised of twelve 30-day months.

Except as set forth below, CHS/Community Health is not entitled to redeem the Notes prior to July 15, 2011.

On and after July 15, 2011, CHS/Community Health is entitled, at its option, to redeem all or a portion of the Notes upon not less than 30 nor more than 60 days notice, at the redemption prices (expressed as a percentage of principal amount on the redemption date), plus accrued and unpaid interest, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the 12-month period commencing on July 15 of the years set forth below:

Period	Redemption Price
2011	104.438%
2012	102.219%

2013 and thereafter	100.000%

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
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12. LONG-TERM DEBT (Continued)

In addition, any time prior to July 15, 2010, CHS/Community Health is entitled, at its option, on one or more occasions to redeem the Notes (which include additional Notes (the Additional Notes), if any, which may be issued from time to time under the indenture under which the Notes were issued) in an aggregate principal amount not to exceed 35% of the aggregate principal amount of the Notes (which includes Additional Notes, if any) originally issued at a redemption price (expressed as a percentage of principal amount) of 108.875%, plus accrued and unpaid interest to the redemption date, with the Net Cash Proceeds (as defined) from one or more Public Equity Offerings (as defined) (provided that if the Public Equity Offering is an offering by the Company, a portion of the Net Cash Proceeds thereof equal to the amount required to redeem any such Notes is contributed to the equity capital of CHS/Community Health); provided, however, that:

(1) at least 65% of such aggregate principal amount of Notes originally issued remains outstanding immediately after the occurrence of each such redemption (other than the Notes held, directly or indirectly, by the Company or its subsidiaries); and

(2) each such redemption occurs within 90 days after the date of the related Public Equity Offering.

CHS/Community Health is entitled, at its option, to redeem the Notes, in whole or in part, at any time prior to July 15, 2011, upon not less than 30 or more than 60 days notice, at a redemption price equal to 100% of the principal amount of Notes redeemed plus the Application Premium (as defined), and accrued and unpaid interest, if any, as of the applicable redemption date.

Pursuant to a registration rights agreement entered into at the time of the issuance of the Notes, CHS/Community Health commenced an offer (the Exchange Offer) on October 9, 2007 to exchange the Notes for new notes (the Exchange Notes) having terms substantially identical in all material respects to the Notes (except that the Exchange Notes will be issued under a registration statement pursuant to the 1933 Act.) This registration statement was declared effective by the SEC on October 9, 2007. The Exchange Offer is scheduled to expire on November 13, 2007 unless extended. If the Exchange Offer is not consummated on or before November 18, 2007 or under certain other circumstances (each, a Registration Default), additional interest will be paid on the Notes at a rate of 0.25% per annum for the first 90-day period following the Registration Default, and such rate will increase by an additional 0.25% per annum with respect to each subsequent 90-day period until all Registration Defaults have been cured, up to a maximum additional interest rate of 1.0% per annum.

As of September 30, 2007, the Company s availability for additional borrowings under its New Credit Facility was $1.150 billion (consisting of a $750 million revolving credit facility and a $400 million delayed draw term loan facility), of which $44.6 million was set aside for outstanding letters of credit. The Company also has the ability to add up to $300 million of borrowing capacity from receivable transactions (including securitizations) under the New Credit Facility which has not yet been accessed. The Company also has the ability to amend the New Credit Facility to provide for one or more tranches of term loans in an aggregate principal amount of $600 million, which the Company has not yet accessed. As of September 30, 2007, the Company s weighted-average interest rate under the New Credit Facility was 8.35%.

Cash paid for interest, net of interest income, was $54.7 million and $21.7 million during the three months ended September 30, 2007 and 2006, respectively, and $115.0 million and $69.0 million during the nine months ended September 30, 2007 and 2006, respectively.

13. RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements", which defines fair value, provides a framework for measuring fair value, and expands the disclosures required for fair value measurements. SFAS No. 157 applies to other accounting pronouncements that require fair value measurements; it does not require any new fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and is required to be adopted by the Company beginning in the first quarter of 2008. Although the Company will continue to evaluate the application of SFAS No. 157, management does not currently believe adoption will have a material impact on the

Company s results of operations or financial position.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
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14. CONTINGENCIES

The Company is a party to various legal proceedings incidental to its business. In the opinion of management, any ultimate liability with respect to these actions will not have a material adverse effect on the Company s consolidated financial position, cash flows or results of operations. In addition, in connection with the closing of the Triad acquisition on July 25, 2007, the Company has assumed both recorded and unrecorded contingencies of Triad. The Company s management is not aware of any unrecorded contingencies assumed in connection with the Triad acquisition, whose ultimate outcome will have a material adverse effect on the Company s consolidated financial position, cash flows or results of operations.

15. SUBSEQUENT EVENTS

The Company filed a registration statement with the SEC to make an offer to exchange the Notes for the new notes having terms substantially identical in all material respects to the Notes. The registration statement was declared effective by the SEC on October 9, 2007. The Exchange Offer was commenced on October 9, 2007 and is scheduled to expire on November 13, 2007, unless extended.

The Company has entered into a definitive agreement to acquire Empire Health Services in Spokane, Washington. The health system includes two full-service acute care hospitals, Deaconess Medical Center (388 licensed beds) and Valley Hospital and Medical Center (123 licensed beds), and other outpatient and ancillary services. The transaction, subject to federal and state approvals, is expected to close in the first quarter of 2008.

Effective October 31, 2007, the Company sold its 60% membership interest in Northeast Arkansas Medical Center (NEA) a 104 bed facility located in Jonesboro, Arkansas to Baptist Memorial Health Care (Baptist), headquartered in Memphis, Tennessee for $16.8 million. In connection with this transaction, the Company also sold real estate and other assets previously leased to NEA by a subsidiary of the Company to a subsidiary of Baptist for $26.3 million.

16. SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION

In connection with the consummation of the Triad acquisition, the Company obtained $7.215 billion of senior secured financing under the New Credit Facility and CHS/Community Health issued the Notes in the aggregate principal amount of $3.021 billion. The Notes are senior unsecured obligations of CHS/Community Health and are guaranteed on a senior basis by the Company and by certain of the Company s domestic subsidiaries. The Notes are fully and unconditionally guaranteed by the Company and certain of its current and future, direct and indirect, 100% owned domestic subsidiaries. Such guarantees are joint and several. The following condensed consolidating financial statements present the Company (as guarantor), CHS/Community Health (as the issuer), the subsidiary guarantors, the subsidiary non-guarantors and eliminations. This condensed consolidating financial information has been prepared and presented in accordance with SEC Regulation S-X Rule 3-10 Financial Statements of Guarantors and Affiliates whose Securities Collateralize an issue Registered or Being Registered .

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16. SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (Continued)
Condensed Consolidated Balance Sheets
December 31, 2006

	Parent Guarantor	Issuer	Other Guarantors	Non-Guarantors	Eliminations	Consolidated
ASSETS						
Current assets						
Cash and cash equivalents	$	$	$ 28,975	$ 11,591	$	$ 40,566
Patient accounts receivable, net of allowance for doubtful accounts			631,859	142,125		773,984
Supplies			93,260	20,060		113,320
Deferred income taxes	13,249					13,249
Prepaid expenses and taxes			32,365	20		32,385
Other current assets			27,678	20,202		47,880
Total current assets	13,249		814,137	193,998		1,021,384
Property and equipment, net			1,654,413	332,164		1,986,577
Goodwill			1,159,611	176,914		1,336,525
Other assets, net of accumulated amortization		20,804	126,669	14,620		162,093
Investment in subsidiaries	1,081,747	1,068,432	367,456		(2,517,635)	
Total assets	$ 1,094,996	$ 1,089,236	$ 4,122,286	$ 717,696	$ (2,517,635)	$ 4,506,579
LIABILITIES AND STOCKHOLDERS EQUITY						
Current liabilities						
Current maturities of long-term debt	$	$ 16,000	$ 20,317	$ (921)	$	$ 35,396
Accounts payable			208,594	39,153		247,747
Current income taxes payable			7,626			7,626
Accrued liabilities						

Employee compensation			132,405	29,783		162,188
Accrued Interest	867	5,866	316	73		7,122
Other			90,788	24,416		115,204
Total current liabilities	867	21,866	460,046	92,504		575,283
Long-term debt	300,000	1,556,000	48,918	863		1,905,781
Deferred income taxes	141,472					141,472
Other long-term liabilities			124,925	11,886		136,811
Minority interests in equity of consolidated subsidiaries			502	23,057		23,559
Intercompany payable	(1,071,016)	(1,570,373)	2,424,206	664,836	(447,653)	
Stockholders equity						
Preferred Stock	950		1	2	(3)	950
Common Stock						
Additional paid-in Capital	1,195,947					1,195,947
Treasury stock, at cost	(6,678)					(6,678)
Accumulated other comprehensive income	5,798	5,798	(7,516)		1,718	5,798
Retained earnings	527,656	1,075,945	1,071,204	(75,452)	(2,071,697)	527,656
Total stockholders equity	1,723,673	1,081,743	1,063,689	(75,450)	(2,069,982)	1,723,673
Total liabilities and stockholders equity	$ 1,094,996	$ 1,089,236	$ 4,122,286	$ 717,696	$ (2,517,635)	$ 4,506,579

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
16. SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (Continued)
Condensed Consolidated Balance Sheets
September 30, 2007

	Parent Guarantor	Issuer	Other Guarantors	Non-Guarantors	Eliminations	Consolidated
ASSETS						
Current Assets						
Cash and cash equivalents	$	$	$ 75,171	$ 43,684	$	$ 118,855
Patient accounts receivable, net of allowance for doubtful accounts			1,164,680	664,925		1,829,605
Supplies			169,858	104,597		274,455
Prepaid taxes			104,832			104,832
Deferred income taxes	53,157					53,157
Prepaid expenses			56,065	39,477		95,542
Other current assets			126,406	106,932		233,338
Total current assets	53,157		1,697,012	959,615		2,709,784
Property and equipment, net			3,757,682	2,119,738		5,877,420
Goodwill			3,456,057	590,756		4,046,813
Net investment in subsidiaries	1,248,497	1,290,709	1,480,483		(4,019,689)	
Other Assets, net of accumulated amortization		199,837	174,979	429,864		804,680
Total assets	$ 1,301,654	$ 1,490,546	$ 10,566,213	$ 4,099,973	$ (4,019,689)	$ 13,438,697
LIABILITIES AND STOCKHOLDERS EQUITY						
Current Liabilities						
Current maturities of long-term debt	$	$ 60,650	$ 10,586	$ 8,110	$	$ 79,346
Accounts payable			247,947	257,753		505,700
Current income taxes payable						
Accrued liabilities						

Employee compensation			231,924	217,110		449,034
Accrued interest payable (receivable)		89,390	10,210	(6,446)		93,154
Other			139,869	122,405		262,274
Total current liabilities		150,040	640,536	598,932		1,389,508
Long-term debt payable (receivable)	4	9,026,440	210,620	(153,681)		9,083,383
Deferred income taxes	329,409					329,409
Other long-term liabilities		23,314	184,180	209,036		416,530
Minority interests in equity of consolidated subsidiaries			13,567	359,387		372,954
Intercompany payable (receivable)	(874,672)	(8,957,741)	8,232,378	1,412,906	187,129	
Stockholders equity						
Preferred stock						
Common stock	966		1	2	(3)	966
Additional paid-in capital	1,227,623					1,227,623
Treasury stock, at cost,975,549 shares	(6,678)					(6,678)
Accumulated other comprehensive income (loss)	(21,201)	(21,201)	(6,280)		27,481	(21,201)
Retained earnings	646,203	1,269,694	1,291,211	1,673,391	(4,234,296)	646,203
Total stockholders equity	1,846,913	1,248,493	1,284,932	1,673,393	(4,206,818)	1,846,913
Total liabilities and stockholders equity	$ 1,301,654	$ 1,490,546	$ 10,566,213	$ 4,099,973	$ (4,019,689)	$ 13,438,697

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
16. SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (Continued)
Condensed Consolidated Statements of Income
Three Months Ended September 30, 2007

	Parent Guarantor	Issuer	Other Guarantors	Non-Guarantors	Eliminations	Consolidated
Net Revenue	$	$	$ 1,560,543	$ 791,544	$	$ 2,352,087
Expenses and Costs:						
Salaries and benefits			584,291	367,209		951,500
Provision for bad debts			182,827	96,777		279,604
Supplies			203,722	114,784		318,506
Other operating expenses			309,842	139,981		449,823
Rent			27,239	21,821		49,060
Minority Interests in Earnings			614	3,897		4,511
Depreciation & Amortization			70,606	35,829		106,435
Equity in earnings of unconsolidated affiliates	(20,040)	(47,331)	(5,047)		72,418	
Total operating costs and expenses	(20,040)	(47,331)	1,374,094	780,298	72,418	2,159,439
Income from operations	20,040	47,331	186,449	11,246	(72,418)	192,648
Interest expense, net			141,146	(1,639)		139,507
Loss from early extinguishment of debt		27,291				27,291
Income from continuing operations before income taxes	20,040	20,040	45,303	12,885	(72,418)	25,850
Provision for income taxes	9,580					9,580
Income from continuing operations	10,460	20,040	45,303	12,885	(72,418)	16,270
Discontinued operations, net of taxes:						
Loss from operations of hospitals held for sale and sale of partnership interest				(3,382)		(3,382)
Loss on sale of hospital and partnership interest				(2,428)		(2,428)

Loss on discontinued operations				(5,810)		(5,810)
Net Income	$ 10,460	$ 20,040	$ 45,303	$ 7,075	$ (72,418)	$ 10,460

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
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16. SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (Continued)
Condensed Consolidated Statement of Income
Three Months Ended September 30, 2006

	Parent Guarantor	Issuer	Other Guarantors	Non-Guarantors	Eliminations	Consolidated
Net Revenue	$	$	$ 908,851	$ 209,008	$	$ 1,117,859
Expenses and Costs:						
Salaries and benefits			347,410	100,245		447,655
Provision for bad debts			167,445	23,638		191,083
Supplies			104,012	25,415		129,427
Other operating expenses			184,501	48,803		233,304
Rent			16,878	7,030		23,908
Minority Interests in Earnings			13	588		601
Depreciation & Amortization			42,057	7,478		49,535
Equity in earnings of unconsolidated affiliates	(13,852)	(13,852)	11,042		16,662	
Total operating costs and expenses	(13,852)	(13,852)	873,358	213,197	16,662	1,075,513
Income from operations	13,852	13,852	35,493	(4,189)	(16,662)	42,346
Interest expense, net			22,345	5,149		27,494
Income from continuing operations before income taxes	13,852	13,852	13,148	(9,338)	(16,662)	14,852
Provision for income taxes	5,611					5,611
Income from continuing operations	8,241	13,852	13,148	(9,338)	(16,662)	9,241
Discontinued operations, net of taxes:						
Loss on sale of hospital						
Loss from operations of hospital held for sale				(1,000)		(1,000)
Impairment of assets held for sale						
Loss on discontinued operations				(1,000)		(1,000)
Net Income	$ 8,241	$ 13,852	$ 13,148	$ (10,338)	$ (16,662)	$ 8,241

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
16. SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (Continued)
Condensed Consolidated Statements of Income
Nine Months Ended September 30, 2007

	Parent Guarantor	Issuer	Other Guarantors	Non-Guarantors	Eliminations	Consolidated
Net Revenue	$	$	$ 3,496,026	$ 1,296,682	$	$ 4,792,708
Expenses and Costs:						
Salaries and benefits			1,321,594	606,642		1,928,236
Provision for bad debts			413,933	147,837		561,770
Supplies			427,634	176,252		603,886
Other operating expenses			698,683	252,024		950,707
Rent			64,357	37,980		102,337
Minority Interests in Earnings			614	4,715		5,329
Depreciation & Amortization			156,418	53,988		210,406
Equity in earnings of unconsolidated affiliates	(195,820)	(223,111)	(1,088)		420,019	
Total operating costs and expenses	(195,820)	(223,111)	3,082,145	1,279,438	420,019	4,362,671
Income from operations	195,820	223,111	413,881	17,244	(420,019)	430,037
Interest expense, net			191,803	9,263		201,066
Loss from early extinguishment of debt		27,291				27,291
Income from continuing operations before income taxes	195,820	195,820	222,078	7,981	(420,019)	201,680
Provision for income taxes	77,273					77,273
Income from continuing operations	118,547	195,820	222,078	7,981	(420,019)	124,407
Discontinued operations, net of taxes:						
Loss from operations of hospitals held for sale and sale of partnership interest				(3,432)		(3,432)
Loss on sale of hospital and partnership interest				(2,428)		(2,428)
Loss on discontinued operations				(5,860)		(5,860)
Net Income	$ 118,547	$ 195,820	$ 222,078	$ 2,121	$ (420,019)	$ 118,547

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
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16. SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (Continued)
Condensed Consolidated Statements of Income
Nine Months Ended September 30, 2006

	Parent Guarantor	Issuer	Other Guarantors	Non-Guarantors	Eliminations	Consolidated
Net Revenue	$	$	$ 2,565,527	$ 626,778	$	$ 3,192,305
Expenses and Costs:						
Salaries and benefits			985,692	284,694		1,270,386
Provision for bad debts			336,425	75,485		411,910
Supplies			302,035	74,253		376,288
Other operating expenses			509,288	146,454		655,742
Rent			49,260	20,282		69,542
Minority Interests in Earnings			27	1,642		1,669
Depreciation & Amortization			116,037	22,579		138,616
Equity in earnings of unconsolidated affiliates	(189,901)	(189,901)	19,881		359,921	
Total operating costs and expenses	(189,901)	(189,901)	2,318,645	625,389	359,921	2,924,153
Income from operations	189,901	189,901	246,882	1,389	(359,921)	268,152
Interest expense, net			58,442	14,709		73,151
Income from continuing operations before income taxes	189,901	189,901	188,440	(13,320)	(359,921)	195,001
Provision for income taxes	75,253					75,253
Income from continuing operations	114,648	189,901	188,440	(13,320)	(359,921)	119,748
Discontinued operations, net of taxes:						
Loss on sale of hospital				(2,559)		(2,559)
Loss from operations of hospital held for sale				(2,541)		(2,541)
Loss on discontinued operations				(5,100)		(5,100)
Net Income	$ 114,648	$ 189,901	$ 188,440	$ (18,420)	$ (359,921)	$ 114,648

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
16. SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (Continued)
Condensed Consolidated Statements of Cash Flows
Nine Months Ended September 30, 2007

	Parent Guarantor	Issuer	Other Guarantors	Non-Guarantors	Eliminations	Consolidated
Cash flows from operating activities:						
Net income	$ 118,547	$ 195,820	$ 222,078	$ 2,121	$ (420,019)	$ 118,547
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization			156,418	53,988		210,406
Stock-based compensation expense	25,514					25,514
Excess tax benefits relating to stock-based compensation	(2,275)					(2,275)
Loss on early extinguishment of debt		27,291				27,291
Minority interest in earnings			614	4,715		5,329
Loss on sale of hospital and partnership interest				3,735		3,735
Other non-cash expenses, net			1,323	497		1,820
Changes in operating assets and liabilities, net of effects of acquisitions and divestitures:						
Patient accounts receivable			(23,436)	(30,149)		(53,585)
Supplies, prepaid expenses and other current assets			(56,112)	64,631		8,519
Accounts payable, accrued liabilities and income taxes	145,487	78,012	(199,279)	21,530		45,750
Advances to subsidiaries, net of return on investment	29,575	(782,182)	(257,160)	589,748	420,019	
Other	(26,982)	26,218	637,428	(623,065)		13,599
Net cash provided by (used in) operating activities	289,866	(454,841)	481,874	87,751		404,650
Cash flows from investing activities						
Acquisitions of facilities and other related equipment		(6,829,532)	(105,610)	(46,957)		(6,982,099)
Purchases of property and equipment			(253,233)	(25,310)		(278,543)
Proceeds from sale of equipment			502	99		601
				12,962		12,962

Disposition of hospital and other ancillary operations						
Increase in other assets			(53,507)	(12,518)		(66,025)
Net cash provided by (used in) investing activities		(6,829,532)	(411,848)	(71,724)		(7,313,104)
Cash flows from financing activities:						
Proceeds from exercise of stock options	7,804					7,804
Stock buy-back						
Deferred financing costs		(190,110)				(190,110)
Excess tax benefits relating to stock-based compensation	2,275					2,275
Redemption of convertible notes						
Proceeds from minority investors in joint ventures	51			1,137		1,188
Redemption of minority investments in joint ventures				(1,339)		(1,339)
Distribution to minority investors in joint ventures				(2,774)		(2,774)
Borrowings under credit agreement		9,193,483		39,848		9,233,331
Repayments of long-term indebtedness	(299,996)	(1,719,000)	(23,568)	(21,068)		(2,063,632)
Net cash provided by (used in) financing activities	(289,866)	7,284,373	(23,568)	15,804		6,986,743
Net change in cash and cash equivalents			46,458	31,831		78,289
Cash and cash equivalents at beginning of period			28,713	11,853		40,566
Cash and cash equivalents at end of period	$	$	$ 75,171	$ 43,684	$	$ 118,855

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16. SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (Continued)
Condensed Consolidated Statements of Cash Flows
Nine Months Ended September 30, 2006

	Parent Guarantor	Issuer	Other Guarantors	Non-Guarantors	Eliminations	Consolidated
Cash flows from operating activities						
Net income	$ 114,648	$ 189,901	$ 188,440	$ (18,420)	$ (359,921)	$ 114,648
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization			116,037	23,603		139,640
Stock-based compensation expense	14,559		(21,427)	21,427		14,559
Excess tax benefits relating to stock-based compensation	(6,589)					(6,589)
Minority interest in earnings			27	1,642		1,669
Loss on sale of hospital				3,937		3,937
Other non-cash expenses, net	4		414	(381)		37
Changes in operating assets and liabilities, net of effects of acquisitions and divestitures:						
Patient accounts receivable			(38,782)	(14,906)		(53,688)
Supplies, prepaid expenses and other current assets			(11,653)	7,059		(4,594)
Accounts payable, accrued liabilities and income taxes	9,580	2,273	74,757	(30,625)		55,985
Advances to subsidiaries, net of return on investment	(10,093)	(455,410)	51,792	53,790	359,921	
Other	(3,438)	236	24,094	(18,445)		2,447
Net cash provided by (used in) operating activities	118,671	(263,000)	383,699	28,681		268,051
Cash flows from investing activities						
Acquisitions of facilities and other related equipment			(303,730)	(13,657)		(317,387)
Purchases of property and equipment			(141,328)	(17,270)		(158,598)
Proceeds from sale of equipment				750		750
Disposition of hospital and other ancillary operations			4,311	1		4,312
Increase in other assets			(18,301)	(11,159)		(29,460)
			(459,048)	(41,335)		(500,383)

Net cash provided by (used in) investing activities						
Cash flows from financing activities						
Proceeds from exercise of stock options	12,585					12,585
Stock buy-back	(137,666)					(137,666)
Deferred financing costs			(8)			(8)
Excess tax benefits relating to stock based compensation	6,589					6,589
Redemption of convertible notes	(128)					(128)
Proceeds from minority investors in joint ventures				5,290		5,290
Redemption of minority investments in joint ventures				(915)		(915)
Distribution to minority investors in joint ventures	(51)			(2,591)		(2,642)
Borrowings under credit agreement		475,000		4,000		479,000
Repayments of long-term indebtedness		(212,000)	(3,756)	(4,681)		(220,437)
Net cash provided by (used in) financing activities	(118,671)	263,000	(3,764)	1,103		141,668
Net change in cash and cash equivalents			(79,113)	(11,551)		(90,664)
Cash and cash equivalents at beginning of period			83,579	20,529		104,108
Cash and cash equivalents at end of period	$	$	$ 4,466	$ 8,978	$	$ 13,444

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

You should read this discussion together with our unaudited condensed consolidated financial statements and accompanying notes included herein.

Unless the context otherwise requires, Community Health Systems, the Company, we, us and our refer to Comm Health Systems, Inc. and its consolidated subsidiaries.

Executive Overview

We are the largest publicly owned operator of hospitals in the United States and provide healthcare services through these hospitals that we own and operate in non-urban and selected urban markets throughout the United States. We generate revenue primarily by providing a broad range of general hospital healthcare services to patients in the communities in which we are located. Our hospital facilities included in continuing operations consist of 125 general acute care hospitals. In addition, we own four home health agencies which are located in markets where we do not operate a hospital and through our wholly-owned subsidiary, QHR, we provide management and consulting services to independent general acute care hospitals located throughout the United States. We are paid for our services by governmental agencies, private insurers and directly by the patients we serve. Effective July 25, 2007, we completed our acquisition of Triad Hospitals Inc., or Triad, for an aggregate consideration of $6.830 billion, including $1.686 billion of indebtedness. In connection with this acquisition, one of our subsidiaries issued $3.021 billion principal amount of 8.875% senior notes due 2015 and we obtained a new $7.215 billion credit facility to pay the cash consideration under the merger agreement, to refinance substantially all of both the assumed indebtedness and our existing indebtedness and to pay related fees and expenses. This new credit facility also provides an additional $750 million revolving credit facility and a $400 million delayed draw term loan facility which remain available to us for future acquisitions, working capital, and general corporate purposes. We believe the acquisition of Triad will benefit the Company since it expanded the number of markets we serve, expanded our operations into five states where we previously did not operate, and reduced our concentration of credit risk in any one state. We also believe that synergies obtained from eliminating duplicate corporate functions and centralizing many support functions will allow us to improve Triad s margins. Operating results and statistical data for the periods ended September 30, 2007, include comparative information for the operations of the acquired Triad hospitals from July 25, 2007, the date of its acquisition. Same store operating results and statistical data include the hospitals acquired in the Triad acquisition for the months of August and September 2007 and 2006 and all other hospitals owned throughout both periods.

The following table reflects our summarized operating results:

	Three Months Ended September 30,		Nine Months Ended September 30,
	2007	2006	2007