COMMUNITY HEALTH SYSTEMS INC
Form 10-Q
July 31, 2009

Table of Contents

UNITED STATES 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 June 30, 2009

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)*

(Registrant s telephone number)
615-465-7000

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 has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting

company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o
(Do not check if a smaller reporting company)

Indicated by check mark whether the registrant is a shell company (as defined in Rule 126-2 of the Exchange Act). Yes o No þ

As of July 20, 2009, there were outstanding 92,728,693 shares of the Registrant s Common Stock, $0.01 par value.

Community Health Systems, Inc.
Form 10-Q
For the Three and Six Months Ended June 30, 2009

	Page
Part I. Financial Information	
Item 1. Financial Statements:	
Condensed Consolidated Balance Sheets June 30, 2009 and December 31, 2008 (Unaudited)	2
Condensed Consolidated Statements of Income Three and Six Months Ended June 30, 2009 and June 30, 2008 (Unaudited)	3
Condensed Consolidated Statements of Cash Flows Three and Six Months Ended June 30, 2009 and June 30, 2008 (Unaudited)	4
Notes to Condensed Consolidated Financial Statements (Unaudited)	5
Item 2. Management s Discussion and Analysis of Financial Condition And Results of Operations	37
Item 3. Quantitative and Qualitative Disclosures about Market Risk	55
Item 4. Controls and Procedures	55
Part II. Other Information	
Item 1. Legal Proceedings	56
Item 1A. Risk Factors	58
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	58
Item 3. Defaults Upon Senior Securities	59
Item 4. Submission of Matters to a Vote of Security Holders	59
Item 5. Other Information	59
Item 6. Exhibits	60
Signatures	61
Index to Exhibits	62
EX-4.1	
EX-4.2	
EX-10.1	
EX-10.2	
EX-10.3	
EX-10.4	
EX-10.5	
EX-12	
EX-31.1	
EX-31.2	
EX-32.1	
EX-32.2	

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. ***Financial Statements***

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)
(Unaudited)

	June 30, 2009	December 31, 2008
ASSETS		
Current assets		
Cash and cash equivalents	$ 268,825	$ 220,655
Patient accounts receivable, net of allowance for doubtful accounts of $1,274,698 and $1,111,131 at June 30, 2009 and December 31, 2008, respectively	1,657,923	1,625,470
Supplies	286,594	275,696
Prepaid income taxes		92,710
Deferred income taxes	91,875	91,875
Prepaid expenses and taxes	94,598	73,792
Other current assets	199,616	224,852
Total current assets	2,599,431	2,605,050
Property and equipment	7,505,415	7,110,357
Less accumulated depreciation and amortization	(1,429,270)	(1,215,952)
Property and equipment, net	6,076,145	5,894,405
Goodwill	4,187,968	4,166,091
Other assets, net	1,008,478	1,152,708
Total assets	$ 13,872,022	$ 13,818,254
LIABILITIES AND EQUITY		
Current liabilities		
Current maturities of long-term debt	$ 56,734	$ 33,904
Accounts payable	505,966	532,595
Current income taxes payable	25,920	
Deferred income taxes	6,740	6,740
Accrued interest	143,581	153,234
Accrued liabilities	721,313	782,944

Total current liabilities	1,460,254	1,509,417
Long-term debt	8,883,810	8,938,185
Deferred income taxes	461,098	460,793
Other long-term liabilities	825,473	888,557
Total liabilities	11,630,635	11,796,952
Redeemable noncontrolling interests in equity of consolidated subsidiaries	323,994	320,171
EQUITY		
Community Health Systems, Inc. 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; 93,702,225 shares issued and 92,726,676 shares outstanding at June 30, 2009, and 92,483,166 shares issued and 91,507,617 shares outstanding at December 31, 2008	937	925
Additional paid-in capital	1,168,125	1,151,119
Treasury stock, at cost, 975,549 shares at June 30, 2009 and December 31, 2008	(6,678)	(6,678)
Accumulated other comprehensive loss	(220,565)	(295,575)
Retained earnings	894,599	776,249
Total Community Health Systems, Inc. stockholders equity	1,836,418	1,626,040
Noncontrolling interests in equity of consolidated subsidiaries	80,975	75,091
Total equity	1,917,393	1,701,131
Total liabilities and equity	$ 13,872,022	$ 13,818,254

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except share and per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
Net operating revenues	$ 3,016,961	$ 2,673,153	$ 5,929,710	$ 5,383,508
Operating costs and expenses:				
Salaries and benefits	1,201,680	1,078,165	2,375,120	2,165,250
Provision for bad debts	362,462	285,593	700,230	577,666
Supplies	419,956	375,324	825,593	759,307
Other operating expenses	567,813	523,828	1,112,790	1,049,394
Rent	61,200	58,254	121,528	117,331
Depreciation and amortization	142,447	123,544	278,008	244,850
Total operating costs and expenses	2,755,558	2,444,708	5,413,269	4,913,798
Income from operations	261,403	228,445	516,441	469,710
Interest expense, net	161,473	153,361	325,386	318,063
Loss (gain) from early extinguishment of debt	6		(2,406)	1,328
Equity in earnings of unconsolidated affiliates	(11,783)	(10,499)	(24,700)	(23,383)
Income from continuing operations before income taxes	111,707	85,583	218,161	173,702
Provision for income taxes	37,209	30,190	72,843	61,054
Income from continuing operations	74,498	55,393	145,318	112,648
Discontinued operations, net of taxes:				
(Loss) income from operations of hospitals sold and hospitals held for sale	(508)	(240)	1,977	1,624
(Loss) gain on sale of hospitals, net		(9)	(405)	9,608
(Loss) income from discontinued operations	(508)	(249)	1,572	11,232
Net income	73,990	55,144	146,890	123,880
Less: Net income attributable to noncontrolling interests	14,555	7,251	28,540	15,860
Net income attributable to Community Health Systems, Inc.	$ 59,435	$ 47,893	$ 118,350	$ 108,020

Income from continuing operations attributable to Community Health Systems, Inc. common stockholders per share(1):				
Basic	$ 0.66	$ 0.51	$ 1.30	$ 1.03
Diluted	$ 0.66	$ 0.50	$ 1.29	$ 1.02
Discontinued operations attributable to Community Health Systems, Inc. common stockholders per share(1):				
Basic	$ (0.01)	$	$ 0.01	$ 0.12
Diluted	$ (0.01)	$	$ 0.01	$ 0.12
Net income attributable to Community Health Systems, Inc. common stockholders per share(1):				
Basic	$ 0.66	$ 0.51	$ 1.31	$ 1.15
Diluted	$ 0.65	$ 0.50	$ 1.31	$ 1.14
Weighted-average number of shares outstanding:				
Basic	90,358,583	94,192,295	90,169,735	94,017,435
Diluted	91,071,147	95,513,127	90,666,009	95,127,523

(1) Total per share amounts may not add due to rounding.

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended June 30,	
	2009	**2008**
Cash flows from operating activities		
Net income attributable to Community Health Systems, Inc.	$ 118,350	$ 108,020
Plus: Net income attributable to noncontrolling interests	28,540	15,860
Net income	146,890	123,880
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	278,340	244,850
Stock-based compensation expense	24,805	26,681
Loss (gain) on sale of hospitals and partnership interest, net	405	(13,211)
Excess tax benefits relating to stock-based compensation	3,389	947
(Gain) loss on early extinguishment of debt	(2,406)	1,328
Other non-cash expenses, net	(6,472)	2,041
Changes in operating assets and liabilities, net of effects of acquisitions and divestitures:		
Patient accounts receivable	8,937	(74,786)
Supplies, prepaid expenses and other current assets	5,198	13,570
Accounts payable, accrued liabilities and income taxes	72,042	83,869
Other	13,279	7,614
Net cash provided by operating activities	544,407	416,783
Cash flows from investing activities		
Acquisitions of facilities and other related equipment	(210,904)	(6,646)
Purchases of property and equipment	(267,275)	(275,605)
Proceeds from disposition of hospitals and other ancillary operations	89,909	365,913
Proceeds from sale of property and equipment	355	12,889
Increase in other non-operating assets	(74,506)	(144,380)
Net cash used in investing activities	(462,421)	(47,829)
Cash flows from financing activities		
Proceeds from exercise of stock options	3,445	1,357
Excess tax benefits relating to stock-based compensation	(3,389)	(947)
Deferred financing costs	(207)	(2,444)
Stock buy-back		(10,194)
Proceeds from noncontrolling investors in joint ventures	26,314	11,214
Redemption of noncontrolling investments in joint ventures	(1,631)	(53,485)
Distributions to noncontrolling investors in joint ventures	(22,166)	(14,916)

Borrowings under credit agreement	200,000	22,657
Repayments of long-term indebtedness	(236,182)	(190,998)
Net cash used in financing activities	(33,816)	(237,756)
Net change in cash and cash equivalents	48,170	131,198
Cash and cash equivalents at beginning of period	220,655	132,874
Cash and cash equivalents at end of period	$ 268,825	$ 264,072

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION

The unaudited condensed consolidated financial statements of Community Health Systems, Inc. and its subsidiaries (the Company) as of June 30, 2009 and December 31, 2008 and for the three-month and six-month periods ended June 30, 2009 and June 30, 2008, have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. 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 intercompany transactions and balances have been eliminated. The results of operations for the three and six months ended June 30, 2009, are not necessarily indicative of the results to be expected for the full fiscal year ending December 31, 2009. Certain information and disclosures normally included in the notes to consolidated financial statements have been condensed or omitted as permitted by the rules and regulations of the Securities and Exchange Commission (SEC). The Company believes the 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, 2008, contained in the Company s Annual Report on Form 10-K.

On January 1, 2009, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 160, Noncontrolling Interests in Consolidated Financial Statements an Amendment of ARB No. 51 (SFAS No. 160), which addresses the accounting and reporting framework for noncontrolling ownership interests in consolidated subsidiaries of the parent. SFAS No. 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent company and the interests of the noncontrolling owners. This standard requires that minority interests be renamed noncontrolling interests and that noncontrolling ownership interests be presented separately within equity in the condensed consolidated financial statements. Revenues, expenses and income from continuing operations from less-than-wholly-owned subsidiaries are presented on the condensed consolidated statements of income at the consolidated amounts, with a consolidated net income measure that presents separately the amounts attributable to both the controlling and noncontrolling interests for all periods presented. Noncontrolling ownership interests that are redeemable or may become redeemable at a fixed or determinable price at the option of the holder or upon the occurrence of an event outside of the control of the company continue to be presented in mezzanine equity in accordance with Emerging Issues Task Force Topic D-98, Classification and Measurement of Redeemable Securities. SFAS No. 160 requires retrospective adoption of the presentation and disclosure requirements for all periods presented. Therefore, the condensed consolidated financial statements as of December 31, 2008 and for the three and six months ended June 30, 2008 reflect the provisions of SFAS No. 160 as if it was effective for those periods. Other than these changes in financial statement presentation, the adoption of SFAS No. 160 did not have a material impact on the condensed consolidated financial statements.

During the three months ended June 30, 2009, the Company decided to retain a hospital and related businesses previously classified as held for sale. Results of operations for all periods presented have been restated to include this retained hospital and related businesses, which previously were reported as discontinued operations. The condensed consolidated balance sheets for each of the periods presented have been restated to include assets and liabilities previously reported as held for sale.

Throughout these notes to the condensed consolidated financial statements, Community Health Systems, Inc., the parent company, and its consolidated subsidiaries are referred to on a collective basis as the Company. This drafting

style is not meant to indicate that the publicly-traded parent company or any subsidiary of the parent company owns or operates any asset, business, or property. The hospitals, operations and businesses described in this filing are owned and operated, and management services provided, by distinct and indirect subsidiaries of Community Health Systems, Inc. References to the Company may include one or more of its subsidiaries.

Table of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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) and the Community Health Systems, Inc. 2009 Stock Option and Award Plan (the 2009 Plan).

The 2000 Plan allows for the grant of incentive stock options intended to qualify under Section 422 of the Internal Revenue Code (IRC), 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, all options granted under the 2000 Plan have been 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. Options granted prior to 2005 have a 10 year contractual term, options granted in 2005 through 2007 have an eight year contractual term and options granted in 2008 and 2009 have a 10 year contractual term. The exercise price of all options granted under the 2000 Plan is equal to the fair value of the Company s common stock on the option grant date. As of June 30, 2009, 3,790,273 shares of unissued common stock were reserved for future grants under the 2000 Plan.

The 2009 Plan, which was adopted as of March 24, 2009 and approved by stockholders on May 19, 2009, provides for the grant of incentive stock options intended to qualify under Section 422 of the IRC and for the grant of stock options which do not so qualify, stock appreciation rights, restricted stock, restricted stock units, performance-based shares or units and other share awards. Persons eligible to receive grants under the 2009 Plan include the Company s directors, officers, employees and consultants. The duration of any option granted under the 2009 Plan will be determined by the Company s compensation committee. Generally, however, no option may be exercised more than 10 years from the date of grant, provided that the compensation committee may provide that a stock option may, upon the death of the grantee, be exercised for up to one year following the date of death even if such period extends beyond 10 years. As of June 30, 2009, no grants had been made under the 2009 Plan, with 3,500,000 shares of unissued common stock remaining reserved for future grants.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Effect on income from continuing operations before income taxes	$ (12,519)	$ (13,435)	$ (24,805)	$ (26,681)
Effect on net income	$ (7,605)	$ (8,162)	$ (15,069)	$ (16,209)
Effect on net income attributable to Community Health Systems, Inc. common stockholders per share-diluted	$ (0.08)	$ (0.09)	$ (0.17)	$ (0.17)

At June 30, 2009, $58.6 million of unrecognized stock-based compensation expense was expected to be recognized over a weighted-average period of 23 months. Of that amount, $19.7 million related to outstanding unvested stock

options expected to be recognized over a weighted-average period of 20 months and $38.9 million related to outstanding unvested restricted stock and phantom shares expected to be recognized over a weighted-average period of 24 months.

Table of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The fair value of stock options was estimated using the Black Scholes option pricing model with the following weighted-average assumptions during the three and six months ended June 30, 2009 and 2008:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Expected volatility	44.0%	24.5%	40.2%	24.1%
Expected dividends	0	0	0	0
Expected term	4 years	4 years	4 years	4 years
Risk-free interest rate	1.75%	2.80%	1.63%	2.59%

In determining expected return, the Company examined concentrations of option holdings and historical patterns of option exercises and forfeitures, as well as forward looking factors, in an effort to determine if there were any 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. The Company adjusts the estimated forfeiture rate to its actual experience.

Options outstanding and exercisable under the 2000 Plan as of June 30, 2009, and changes during the three and six 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 June 30, 2009
Outstanding at December 31, 2008	8,764,084	$ 30.97		
Granted	1,160,000	18.18		
Exercised				
Forfeited and cancelled	(63,165)	31.78		
Outstanding at March 31, 2009	9,860,919	29.45		

Granted	31,000		25.27			
Exercised	(267,400)		13.07			
Forfeited and cancelled	(170,277)		30.52			
Outstanding at June 30, 2009	9,454,242	$	29.88	5.6 years	$	19,906
Exercisable at June 30, 2009	5,819,817	$	29.49	4.9 years	$	11,407

The weighted-average grant date fair value of stock options granted during the six months ended June 30, 2009 and 2008, was $6.14 and $7.64, respectively. The aggregate intrinsic value (the number of in-the-money stock options multiplied by the difference between the Company s closing stock price on the last trading day of the reporting period ($25.25) and the exercise price of the respective stock options) in the table above represents the amount that would have been received by the option holders had all option holders exercised their options on

Table of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2009. 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 June 30, 2009 and 2008 was $3.5 million and $0.3 million, respectively, and the aggregate intrinsic value of options exercised during the six months ended June 30, 2009 and 2008 was $3.5 million and $0.4 million, respectively. The aggregate intrinsic value of options vested and expected to vest approximates that of the outstanding options.

The Company has also awarded restricted stock under the 2000 Plan to its directors and employees of certain subsidiaries. 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, for 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 contain a performance objective that must be met in addition to any 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 with the exception of the July 25, 2007 restricted stock awards, which have no additional time vesting restrictions once the performance restrictions are met. Notwithstanding the above-mentioned performance objectives and vesting requirements, the restrictions will lapse earlier in the event of death, disability or termination of employment by the Company for any reason other than for cause of the holder of the restricted stock, or 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 June 30, 2009, and changes during the three and six months then ended were as follows:

	Shares	Weighted-Average Grant Date Fair Value
Unvested at December 31, 2008	1,684,207	$ 35.57
Granted	1,156,000	18.18
Vested	(621,312)	35.68
Forfeited	(5,667)	33.52
Unvested at March 31, 2009	2,213,228	26.46
Granted	19,151	25.27
Vested	(6,498)	36.82
Forfeited	(3,335)	35.11
Unvested at June 30, 2009	2,222,546	$ 26.40

On February 25, 2009, each of the Company s outside directors received a grant of shares of phantom stock under the 2000 Plan equal in value to $130,000 divided by the closing price of the Company s common stock on that date ($18.18), or 7,151 shares per director (a total of 42,906 shares of phantom stock). Vesting of these shares of phantom

stock occurs in one-third increments on each of the first three anniversaries of the award date. As of June 30, 2009, there were 42,906 shares of phantom stock unvested at a weighted-average grant date fair value of $18.18. No shares of phantom stock were vested or canceled during the six months ended June 30, 2009. Pursuant to a March 24, 2009 amendment to the 2000 Plan, future grants of this type will be denominated as restricted stock unit awards.

Table of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Under the Directors Fees Deferral Plan, the Company s outside directors may elect to receive share equivalent units in lieu of cash for their directors fees. 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. 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 (in thousands, except units):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Directors fees earned and deferred into plan	$ 20	$ 17	$ 40	$ 58
Equivalent units	792.079	515.464	2,095.860	1,733.069

At June 30, 2009, there was a total of 18,914.862 units deferred in the plan with an aggregate fair value of $0.5 million, based on the closing market price of the Company s common stock on the last trading day of the reporting period of $25.25.

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, which were $43.7 million and $43.0 million for the three months ended June 30, 2009 and 2008, respectively, and $82.9 million and $81.1 million for the six months ended June 30, 2009 and 2008, respectively. Included in these amounts is stock-based compensation expense of $12.5 million and $13.4 million for the three months ended June 30, 2009 and 2008, respectively, and $24.8 million and $26.7 million for the six months ended June 30, 2009 and 2008, respectively.

4. USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements. Actual results could differ from these estimates under different assumptions or conditions.

5. ACQUISITIONS AND DIVESTITURES

In December 2007, the Financial Accounting Standards Board (the FASB) issued SFAS No. 141(R), Business Combinations (SFAS No. 141(R)). SFAS No. 141(R) replaces SFAS No. 141 and addresses the recognition and accounting for identifiable assets acquired, liabilities assumed, and noncontrolling interests in business combinations. This standard requires more assets and liabilities to be recorded at fair value and requires expense recognition (rather

than capitalization) of certain pre-acquisition costs. This standard also requires any adjustments to acquired deferred tax assets and liabilities occurring after the related allocation period to be made through earnings. Furthermore, this standard requires this treatment of acquired deferred tax assets and liabilities be applied to acquisitions occurring prior to the effective date of this standard. SFAS No. 141(R) is effective for fiscal years beginning after December 15, 2008 and is required to be adopted prospectively. SFAS No. 141(R) was adopted by the Company on January 1, 2009. Approximately $2.0 million and $3.0 million of acquisition costs related to prospective acquisitions were expensed during the three and six months ended June 30, 2009, respectively, from the adoption of SFAS No. 141(R). The impact of SFAS No. 141(R) on the Company s consolidated results of operations or consolidated financial position in future periods will be largely dependent on the number of acquisitions pursued by the Company; however, it is not anticipated at this time that such impact will be material.

Table of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Triad Acquisition

On July 25, 2007, the Company completed its acquisition of Triad Hospitals, Inc. (Triad). Triad owned and operated 50 hospitals with 49 hospitals located in 17 states in non-urban and middle market communities and one hospital located in the Republic of Ireland. As of June 30, 2009, eight of the hospitals acquired from Triad have been sold. As a result of its acquisition of Triad, the Company also provides management and consulting services on a contract basis to independent hospitals, through its subsidiary, Quorum Health Resources, LLC. The Company acquired Triad for approximately $6.857 billion, including the assumption of $1.686 billion of existing indebtedness.

In connection with the consummation of the acquisition of Triad, the Company s wholly-owned subsidiary CHS/Community Health Systems, Inc. (CHS) obtained $7.215 billion of senior secured financing under a new credit facility (the Credit Facility) and 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 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. This Credit Facility also provides an additional $750 million revolving credit facility and had a $400 million delayed draw term loan facility for future acquisitions, working capital and general corporate purposes. As of December 31, 2007, the $400 million delayed draw term loan was reduced to $300 million at the request of the Company. As of December 31, 2008, $100 million of the delayed draw term loan had been drawn by the Company, reducing the delayed draw term loan availability to $200 million at that date. In January 2009, the Company drew down the remaining $200 million of the delayed draw term loan.

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. 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 smaller concentrations of credit risk through greater geographic diversification;

many support functions were centralized; and

duplicate corporate functions were eliminated.

The allocation process required 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. The Company completed the allocation of the total cost of the Triad acquisition in the third quarter of 2008 and has made a final analysis and adjustment as of December 31, 2008 to deferred tax accounts based on the final cost allocation, resulting in approximately $2.781 billion of goodwill being recorded with respect to the Triad acquisition.

Other Acquisitions

Effective June 1, 2009, one or more subsidiaries of the Company acquired from Akron General Medical Center all of its joint venture interest in Massillon Community Health System, LLC, which indirectly owns and operates Affinity

Medical Center of Massillon, Ohio. The purchase price for this noncontrolling equity interest was $1.1 million in cash. Affinity Medical Center is now wholly-owned by these subsidiaries of the Company.

Effective April 30, 2009, one or more subsidiaries of the Company acquired Wyoming Valley Health Care System in Wilkes-Barre, Pennsylvania. This health care system includes Wilkes-Barre General Hospital, a 392-bed, full-service acute care hospital located in Wilkes-Barre, and First Hospital Wyoming Valley, a behavioral health facility located in Kingston, Pennsylvania, as well as other outpatient and ancillary services. The total consideration for fixed assets and working capital of Wyoming Valley Health Care System was approximately $178.1 million, of

Table of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

which $153.6 million was paid in cash, net of $14.2 million of cash in acquired bank accounts, and $24.5 million was assumed in liabilities. This acquisition transaction was accounted for using the purchase method of accounting. This preliminary allocation of the purchase price has been determined by the Company based upon available information and the allocation is subject to settling amounts related to purchased working capital and final appraisals of tangible and intangible assets. Adjustments to the purchase price allocation are not expected to be material.

Effective April 1, 2009, one or more subsidiaries of the Company acquired from Share Foundation the remaining 50% equity interest in MCSA L.L.C., an entity in which one or more subsidiaries of the Company previously had a 50% noncontrolling interest, which was not consolidated, and for which it provided certain management services. This acquisition resulted in these subsidiaries of the Company owning 100% equity interest in that entity. MCSA L.L.C. owns and operates Medical Center of South Arkansas (166 licensed beds) in El Dorado, Arkansas. The purchase price was $26.0 million in cash. As of the acquisition date, one or more subsidiaries of the Company had a liability to MCSA L.L.C. of $14.1 million, as a result of a cash management agreement previously entered into with the hospital. Upon completion of the acquisition, this liability was eliminated in consolidation.

Effective February 1, 2009, one or more subsidiaries of the Company completed the acquisition of Siloam Springs Memorial Hospital (74 licensed beds), located in Siloam Springs, Arkansas, from the City of Siloam Springs. The total consideration for this hospital consisted of approximately $1.1 million of assumed liabilities. As required by a lease agreement entered into as part of this acquisition, a subsidiary of the Company deposited $1.6 million of cash in an escrow account and agreed to build a replacement facility at this location, with construction required to commence by February 2011 and be completed by February 2013. If the construction of the replacement facility is not completed within the agreed time frame, the escrow balance will be remitted to the City of Siloam Springs.

Effective November 14, 2008, one or more subsidiaries of the Company acquired from Willamette Community Health Solutions all of its joint venture interest in MWMC Holdings, LLC, which indirectly owns a controlling interest in and operates McKenzie-Willamette Medical Center of Springfield, Oregon. This acquisition resulted from a put right held by Willamette Community Health Solutions in connection with the 2003 transaction establishing the joint venture. The purchase price for this noncontrolling interest was $22.7 million in cash. Physicians affiliated with Oregon Healthcare Resources, Inc. continue to own a noncontrolling interest in the hospital, with the balance owned by these subsidiaries of the Company.

Effective October 1, 2008, one or more subsidiaries of the Company completed the acquisition of Deaconess Medical Center (388 licensed beds) and Valley Hospital and Medical Center (123 licensed beds) both located in Spokane, Washington, from Empire Health Services. The total consideration for these two hospitals was approximately $185.8 million, of which $149.2 million was paid in cash and $36.6 million was assumed in liabilities. Based upon the Company s preliminary purchase price allocation relating to this acquisition as of June 30, 2009, no goodwill has been recorded. The acquisition transaction was accounted for using the purchase method of accounting. This preliminary allocation of the purchase price has been determined by the Company based upon available information and the allocation is subject to settling amounts related to purchased working capital and final appraisals of tangible and intangible assets. Adjustments to the purchase price allocation are not expected to be material.

Effective June 30, 2008, one or more subsidiaries of the Company acquired the remaining 35% equity interest in Affinity Health Systems, LLC, which indirectly owns and operates Trinity Medical Center (560 licensed beds) in Birmingham, Alabama, from Baptist Health Systems, Inc. of Birmingham, Alabama (Baptist), giving these

subsidiaries 100% ownership of that facility. The purchase price for this noncontrolling interest was $51.5 million in cash and the cancellation of a promissory note issued by Baptist to Affinity Health Systems, LLC in the original principal amount of $32.8 million.

Table of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Discontinued Operations

Effective March 31, 2009, the Company, through its subsidiaries Triad-Denton Hospital LLC and Triad-Denton Hospital LP, completed the settlement of pending litigation which resulted in the sale of its ownership interest in a partnership, which owned and operated Presbyterian Hospital of Denton (255 licensed beds) in Denton, Texas, to Texas Health Resources for $103.0 million in cash. Also included as part of the settlement, these subsidiaries of the Company transferred certain hospital related assets.

Effective March 1, 2008, one or more subsidiaries of the Company sold Woodland Medical Center (100 licensed beds) located in Cullman, Alabama; Parkway Medical Center (108 licensed beds) located in Decatur, Alabama; Hartselle Medical Center (150 licensed beds) located in Hartselle, Alabama; Jacksonville Medical Center (89 licensed beds) located in Jacksonville, Alabama; National Park Medical Center (166 licensed beds) located in Hot Springs, Arkansas; St. Mary s Regional Medical Center (170 licensed beds) located in Russellville, Arkansas; Mineral Area Regional Medical Center (135 licensed beds) located in Farmington, Missouri; Willamette Valley Medical Center (80 licensed beds) located in McMinnville, Oregon; and White County Community Hospital (60 licensed beds) located in Sparta, Tennessee, to Capella Healthcare, Inc., headquartered in Franklin, Tennessee. The proceeds from this sale were $315.0 million in cash.

Effective February 21, 2008, one or more subsidiaries of the Company sold THI Ireland Holdings Limited, a private limited company incorporated in the Republic of Ireland, which leased and managed the operations of Beacon Medical Center (122 licensed beds) located in Dublin, Ireland, to Beacon Medical Group Limited, headquartered in Dublin, Ireland. The proceeds from this sale were $1.5 million in cash.

Effective February 1, 2008, one or more subsidiaries of the Company sold Russell County Medical Center (78 licensed beds) located in Lebanon, Virginia to Mountain States Health Alliance, headquartered in Johnson City, Tennessee. The proceeds from this sale were $48.6 million in cash.

In connection with the above actions 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.

Net operating revenues and income (loss) on discontinued operations for the respective periods are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net operating revenues	$ 85	$ 35,932	$ 42,113	$ 159,764
(Loss) income from operations of hospitals sold and hospitals held for sale before income taxes	(807)	(850)	3,024	2,578
(Loss) gain on sale of hospitals, net		(9)	(644)	17,715

Income from discontinued operations, before taxes	(807)	(859)	2,380	20,293
Income tax (benefit) expense	(299)	(610)	808	9,061
(Loss) income from discontinued operations, net of tax	$ (508)	$ (249)	$ 1,572	$ 11,232

Interest expense and loss on early extinguishment of debt was allocated to discontinued operations based on sale proceeds available for debt repayment.

During the three months ended June 30, 2009, the Company decided to retain a hospital and related businesses previously classified as held for sale. Results of operations for all periods presented have been restated to include this retained hospital and related businesses, which were previously reported as discontinued operations. The

Table of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

condensed consolidated balance sheets for each of the periods presented have been restated to include assets and liabilities previously reported as held for sale.

6. INCOME TAXES

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), on January 1, 2007. The total amount of unrecognized benefit that would affect the effective tax rate, if recognized, was approximately $13.6 million as of June 30, 2009. It is the Company s policy to recognize interest and penalties accrued related to unrecognized benefits in its condensed consolidated statements of income as income tax expense. During the six months ended June 30, 2009, the Company decreased liabilities by approximately $0.1 million and recorded $0.5 million in interest and penalties related to prior state income tax returns through its income tax provision from continuing operations, which are included in its FIN 48 liability at June 30, 2009. A total of approximately $1.8 million of interest and penalties is included in the amount of FIN 48 liability at June 30, 2009.

The Company believes that it is reasonably possible that approximately $4.1 million of its current unrecognized tax benefit may be recognized within the next twelve months as a result of a lapse of the statute of limitations and settlements with taxing authorities.

The Company, or one of its subsidiaries, files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The Company has extended the federal statute of limitations for Triad for the tax periods ended December 31, 1999, December 31, 2000, April 30, 2001, June 30, 2001, December 31, 2001, December 31, 2002 and December 31, 2003. The Company is currently under examination by the IRS of the federal tax return of Triad for the tax periods ended December 31, 2004, December 31, 2005, December 31, 2006 and July 25, 2007. The Company believes the results of this examination will not be material to its consolidated results of operations or consolidated financial position. With few exceptions, the Company is no longer subject to state income tax examinations for years prior to 2004.

Prior to the adoption of SFAS No. 160 on January 1, 2009, income attributable to noncontrolling interests was deducted from earnings before arriving at income from continuing operations. With the adoption of SFAS No. 160, the income attributable to noncontrolling interests has been reclassified below net income and therefore is no longer deducted in arriving at income from continuing operations. However, the provision for income taxes does not change because those subsidiaries with noncontrolling interests attribute their taxable income to their respective investors. Accordingly, the Company will not pay tax on the income attributable to the noncontrolling interests. As a result of separately reporting income that is taxed to others, the Company s effective tax rate on continuing operations before income taxes, as reported on the face of the financial statements is 33.3% and 35.3% for the three months ended June 30, 2009 and 2008, respectively, and 33.4% and 35.1% for the six months ended June 30, 2009 and 2008, respectively. However, the actual effective tax rate that is attributable to the Company s share of income from continuing operations before income taxes (income from continuing operations before income taxes, as presented on the face of the statement of income, less income from continuing operations attributable to noncontrolling interests of $14.6 million and $7.4 million for the three months ended June 30, 2009 and 2008, respectively, and $28.2 million and $15.6 million for the six months ended June 30, 2009 and 2008, respectively) is 38.3% for the three and six months ended June 30, 2009 and 38.6% for the three and six months ended June 30, 2008.

Cash paid for income taxes, net of refunds received, resulted in net cash paid of $61.6 million for the three months ended June 30, 2009 and a net cash refund of $46.5 million for the three months ended June 30, 2008. Cash paid for income taxes, net of refunds received, resulted in a net cash refund of $0.7 million and $49.3 million for the six months ended June 30, 2009 and 2008, respectively.

Table of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill for the six months ended June 30, 2009, are as follows (in thousands):

Balance as of December 31, 2008	$ 4,166,091
Goodwill acquired as part of acquisitions during 2009	18,514
Consideration adjustments and finalization of purchase price allocation adjustments for prior year s acquisitions	3,363
Balance as of June 30, 2009	$ 4,187,968

SFAS No. 142 requires that goodwill be allocated to each identified reporting unit, which is defined as an operating segment or one level below the operating segment (referred to as a component of the entity). Management has determined that the Company s operating segments meet the criteria to be classified as reporting units. At June 30, 2009, the hospital operations reporting unit, the home care agencies reporting unit, and the hospital management services reporting unit had $4.120 billion, $34.2 million and $33.3 million, respectively, of goodwill.

SFAS No. 142 requires goodwill to be evaluated for impairment at the same time every year and when an event occurs or circumstances change that, more likely than not, reduce the fair value of the reporting unit below its carrying value. SFAS No. 142 requires a two-step method for determining goodwill impairment. Step one is to compare the fair value of the reporting unit with the unit s carrying amount, including goodwill. If this test indicates the fair value is less than the carrying value, then step two is required to compare the implied fair value of the reporting unit s goodwill with the carrying value of the reporting unit s goodwill. The Company has selected September 30th as its annual testing date. The Company performed its annual goodwill evaluation as required by SFAS No. 142 as of September 30, 2008. No impairment was indicated by this evaluation.

The Company estimates the fair value of the related reporting units using both a discounted cash flow model, as well as an EBITDA multiple model. These models are both based on the Company s best estimate of future revenues and operating costs and are reconciled to the Company s consolidated market capitalization. The cash flow forecasts are adjusted by an appropriate discount rate based on the Company s weighted-average cost of capital. Historically, the Company s valuation models did not fully capture the fair value of the Company s business as a whole, as they did not consider the increased consideration a potential acquirer would be required to pay, in the form of a control premium, in order to gain sufficient ownership to set policies, direct operations and control management decisions. However, because the Company s models have indicated value significantly in excess of the carrying amount of assets in the Company s reporting units, the additional value from a control premium was not a determining factor in the outcome of step one of the Company s impairment assessment.

The gross carrying amount of the Company s other intangible assets subject to amortization was $77.2 million at June 30, 2009 and $68.6 million at December 31, 2008, and the net carrying amount was $54.0 million at June 30, 2009 and $54.1 million at December 31, 2008. The carrying amount of the Company s other intangible assets not subject to amortization was $34.6 million and $35.2 million at June 30, 2009 and December 31, 2008, respectively. Other intangible assets are included in other assets, net on the Company s condensed consolidated balance sheets.

Substantially all of the Company s intangible assets are contract-based intangible assets related to operating licenses, management contracts, or non-compete agreements entered into in connection with prior acquisitions.

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 June 30, 2009 and 2008 was $3.6 million and $0.8 million, respectively, and $6.9 million and $3.2 million for the six months ended June 30, 2009 and 2008, respectively. Amortization expense on intangible assets is estimated to be $7.5 million for the remainder of 2009, $12.5 million in 2010, $6.4 million in 2011, $4.8 million in 2012, $4.3 million in 2013, and $18.6 million in 2014 and thereafter.

Table of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. EARNINGS PER SHARE

The following table sets forth the components of the numerator and denominator for the computation of basic and diluted earnings per share for income from continuing operations, discontinued operations and net income attributable to Community Health Systems, Inc. common stockholders (in thousands, except share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Numerator for basic and diluted earnings per share:				
Income from continuing operations, net of tax	$ 74,498	$ 55,393	$ 145,318	$ 112,648
Less: Income from continuing operations attributable to noncontrolling interests, net of taxes	14,555	7,447	28,185	15,602
Income from continuing operations attributable to Community Health Systems, Inc. common stockholders basic and diluted	$ 59,943	$ 47,946	$ 117,133	$ 97,046
(Loss) income from discontinued operations, net of tax	$ (508)	$ (249)	$ 1,572	$ 11,232
Less: Income (loss) from discontinued operations attributable to noncontrolling interests, net of taxes		(196)	355	258
(Loss) income from discontinued operations attributable to Community Health Systems, Inc. common stockholders basic and diluted	$ (508)	$ (53)	$ 1,217	$ 10,974
Denominator:				
Weighted-average number of shares outstanding basic	90,358,583	94,192,295	90,169,735	94,017,435
Effect of dilutive securities:				
Restricted stock awards	534,525	399,975	387,851	238,715
Employee options	168,802	920,857	103,805	871,373
Other equity based awards	9,237		4,618	
Weighted-average number of shares outstanding diluted	91,071,147	95,513,127	90,666,009	95,127,523
Dilutive securities outstanding not included in the computation of earnings per share because				

their effect is antidilutive:				
Employee options	6,008,843	3,540,068	7,766,781	3,950,600

9. STOCKHOLDERS EQUITY

Authorized capital shares of the Company include 400,000,000 shares of capital stock consisting of 300,000,000 shares of common stock and 100,000,000 shares of preferred stock. Each of the aforementioned classes of capital stock has a par value of $0.01 per share. Shares of preferred stock, none of which were outstanding as of June 30, 2009, may be issued in one or more series having such rights, preferences and other provisions as determined by the Board of Directors without approval by the holders of common stock.

Table of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On December 13, 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. This program will conclude at the earlier of three years or when the maximum number of shares has been repurchased. During the year ended December 31, 2008, the Company repurchased 4,786,609 shares, which is the cumulative number of shares that have been repurchased under this program, at a weighted-average price of $18.80 per share. During the six months ended June 30, 2009, the Company did not repurchase any shares under this program.

The following schedule presents the reconciliation of the carrying amount of total equity, equity attributable to the Company, and equity attributable to the noncontrolling interests as if the provisions of SFAS No. 160 were adopted on the first day of the six-month period ended June 30, 2009 (in thousands):

		Community Health Systems, Inc. Stockholders						
	Redeemable Noncontrolling Interests	Common Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Noncontrolling Interests	Total Stockholder Equity
lance, December 31, 08								
s previously reported)	$	$ 925	$ 1,197,944	$ (6,678)	$ (295,575)	$ 776,249	$	$ 1,672,865
nuary 1, 2009 adjustment noncontrolling interests m adoption of FAS No. 160	320,171		(46,825)				75,091	28,266
lance, December 31, 08 s adjusted)	320,171	925	1,151,119	(6,678)	(295,575)	776,249	75,091	1,701,131
omprehensive income oss):								
et income	20,119					118,350	8,421	126,771
et change in fair value of terest rate swaps					74,049			74,049
et change in fair value of ailable for sale securities oss)					(449)			(449
djustment to pension bility					1,410			1,410
otal comprehensive come	20,119				75,010	118,350	8,421	201,781
et distributions to ncontrolling interests	(2,060)						(3,147)	(3,147

rchase of subsidiary ares from noncontrolling terests	(140)		3,345			610		3,955
le of less than holly-owned subsidiaries	(21,691)							
djustment to redemption lue of redeemable ncontrolling interests	7,595		(7,595)					(7,595)
suance of common stock connection with the ercise of stock options		3	3,445					3,448
ncellation of restricted ck for tax withholdings vested shares		(2)	(3,605)					(3,607)
x benefit from exercise options			(3,389)					(3,389)
are-based compensation		11	24,805					24,816
lance, June 30, 2009	$ 323,994	$ 937	$ 1,168,125	$ (6,678)	$ (220,565)	$ 894,599	$ 80,975	$ 1,917,393

Table of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following schedule discloses the effects of changes in the Company s ownership interest in its less than wholly-owned subsidiaries on Community Health Systems, Inc. stockholders equity:

	Six Months Ended June 30, 2009
Net income attributable to Community Health Systems, Inc.	$ 118,350
Transfers from the noncontrolling interests:	
Increase in Community Health Systems, Inc. paid-in capital for purchase of subsidiary partnership interests	3,345
Net transfers from the noncontrolling interests	3,345
Change from net income attributable to Community Health Systems, Inc. and transfers (to) from noncontrolling interests	$ 121,695

10. COMPREHENSIVE INCOME

The following table presents the components of comprehensive income, 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 Credit Facility, the change in fair value of available for sale securities is the unrealized gain (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 June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net income	$ 73,990	$ 55,144	$ 146,890	$ 123,880
Net change in fair value of interest rate swaps	61,139	109,368	74,049	4,814
Net change in fair value of available for sale securities	801	(105)	(449)	(858)
Amortization of unrecognized pension components	970	880	1,410	(112)
Comprehensive income	136,900	165,287	221,900	127,724
Less: Comprehensive income attributable to noncontrolling interests	14,555	7,251	28,540	15,860
Comprehensive income attributable to Community Health Systems, Inc.	$ 122,345	$ 158,036	$ 193,360	$ 111,864

The net change in fair value of the interest rate swaps, the net change in fair value of available for sale securities and amortization of unrecognized pension cost components are included in accumulated other comprehensive loss on the accompanying condensed consolidated balance sheets.

11. EQUITY INVESTMENTS

As of June 30, 2009, the Company owned equity interests of 27.5% in four hospitals in Las Vegas, Nevada, and 26.1% in one hospital in Las Vegas, Nevada, in which Universal Health Systems, Inc. owns the majority interest, and an equity interest of 38.0% in three hospitals in Macon, Georgia in which HCA, Inc. owns the majority interest. Effective April 1, 2009, one or more subsidiaries of the Company acquired from Share Foundation the remaining 50% equity interest in MCSA L.L.C., an entity in which one or more subsidiaries of the Company previously had a 50% noncontrolling interest and for which it provided certain management services. This acquisition resulted in these subsidiaries of the Company owning 100% equity interest in that entity. MCSA L.L.C. owns and operates

Table of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Medical Center of South Arkansas in El Dorado, Arkansas. The results of operations for MCSA L.L.C. were included in the consolidated financial statements effective April 1, 2009.

Summarized combined financial information for the three and six months ended June 30, 2009 and 2008, for these unconsolidated entities in which the Company owns an equity interest is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Revenues	$ 348,684	$ 359,695	$ 724,382	$ 723,362
Operating costs and expenses	309,129	322,151	633,802	641,914
Net income	39,541	37,578	90,580	88,277

The summarized financial information for the three and six months ended June 30, 2009 and 2008 was derived from the unaudited financial information provided to the Company by those unconsolidated entities.

The Company s investment in all of its unconsolidated affiliates is $424.8 million and $421.6 million at June 30, 2009 and December 31, 2008, respectively, and is included in other assets in the accompanying condensed consolidated balance sheets. Included in the Company s results of operations is the Company s equity in pre-tax earnings from all of its investments in unconsolidated affiliates, which was $11.8 million and $10.5 million for the three months ended June 30, 2009 and 2008, respectively, and $24.7 million and $23.4 million for the six months ended June 30, 2009 and 2008, respectively.

12. LONG-TERM DEBT

Credit Facility and Notes

On July 25, 2007, CHS entered into the Credit Facility with a syndicate of financial institutions led by Credit Suisse, as administrative agent and collateral agent. The Credit Facility consisted 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 nine years. As of December 31, 2007, the $400 million delayed draw term loan facility had been reduced to $300 million at the request of CHS. During the fourth quarter of 2008, $100 million of the delayed draw term loan was drawn by CHS, reducing the delayed draw term loan availability to $200 million at December 31, 2008. In January 2009, CHS drew down the remaining $200 million of the delayed draw term loan. The revolving credit facility also includes a subfacility for letters of credit and a swingline subfacility. In connection with the consummation of the acquisition of Triad, CHS used a portion of the net proceeds from its Credit Facility and the Notes offering to repay its outstanding debt under the previously outstanding credit facility, the 6.50% senior subordinated notes due 2012 and certain of Triad s existing indebtedness. During the third quarter of 2007, 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 previously outstanding 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 6.50% senior subordinated notes due 2012 through a cash tender offer and consent solicitation.

The Credit Facility requires 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 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

Table of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 Credit Facility is CHS. All of the obligations under the Credit Facility are unconditionally guaranteed by the Company and certain existing and subsequently acquired or organized domestic subsidiaries. All obligations under the 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 and each subsidiary guarantor, including equity interests held by the Company, CHS 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 Credit Facility bear interest on the outstanding unpaid principal amount at a rate equal to an applicable percentage plus, at CHS 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 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 Alternate Base Rate loans under the revolving credit facility.

CHS 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 outstanding 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. CHS is initially 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. With respect to the delayed draw term loan facility, CHS was also obligated to pay commitment fees of 0.50% per annum for the first nine months after the closing of the Credit Facility, 0.75% per annum for the next three months after such nine-month period and thereafter, 1.0% per annum. In each case, the commitment fee was paid on the unused amount of the delayed draw term loan facility. After the draw down of the remaining $200 million of the delayed draw term loan in January 2009, CHS no longer pays commitment fees for the delayed draw term loan facility. CHS paid arrangement fees on the closing of the Credit Facility and pays an annual administrative agent fee.

The 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 Credit Facility include, but are not limited to, (1) CHS 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

Table of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 Credit Facility.

The Notes were issued by CHS 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 accrues from the date of original issuance. Interest is calculated on the basis of 360-day year comprised of twelve 30-day months.

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

On and after July 15, 2011, CHS 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%

In addition, any time prior to July 15, 2010, CHS 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); 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 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, as a result of an exchange offer made by CHS, substantially all of the Notes issued in July 2007 were exchanged in November 2007 for new notes (the Exchange Notes) having terms substantially identical in all material respects to the Notes (except that the Exchange Notes were issued under a registration statement pursuant to the Securities Act of 1933, as amended). References to the Notes shall also be deemed to include Exchange Notes unless the context provides otherwise.

During the three months ended June 30, 2009, the Company repurchased on the open market and cancelled $61.0 million of principal amount of the Notes. This resulted in a net gain from early extinguishment of debt of $0.3 million with an after-tax impact of $0.2 million. During the six months ended June 30, 2009, the Company

Table of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

repurchased on the open market and cancelled $121.5 million of principal amount of the Notes. This resulted in a net gain from early extinguishment of debt of $2.7 million with an after-tax impact of $1.7 million.

On April 2, 2009, the Company paid down $110.4 million of its term loans under the Credit Facility. Of this amount, $85.0 million was paid down as required under the terms of the Credit Facility with the net proceeds received from the sale of the ownership interest in the partnership that owned and operated Presbyterian Hospital of Denton. This resulted in a loss from early extinguishment of debt of $1.1 million with an after-tax impact of $0.7 million recorded in discontinued operations for both the three and six months ended June 30, 2009. The remaining $25.4 million was paid on the term loans as required under the terms of the Credit Facility with the net proceeds received from the sale of various other assets. This resulted in a loss from early extinguishment of debt of $0.3 million with an after-tax impact of $0.2 million recorded in continuing operations for both the three and six months ended June 30, 2009.

As of June 30, 2009, the availability for additional borrowings under the Credit Facility was $750 million pursuant to the revolving credit facility, of which $89.2 million was set aside for outstanding letters of credit. CHS also has the ability to add up to $300 million of borrowing capacity from receivable transactions (including securitizations) under the Credit Facility, which has not yet been accessed. CHS also has the ability to amend the Credit Facility to provide for one or more tranches of term loans in an aggregate principal amount of $600 million, which CHS has not yet accessed. As of June 30, 2009, the weighted-average interest rate under the Credit Facility, excluding swaps, was 3.2%.

Cash paid for interest, net of interest income, was $102.1 million and $97.4 million during the three months ended June 30, 2009 and 2008, respectively, and $335.0 million and $326.4 million during the six months ended June 30, 2009 and 2008, respectively.

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments has been estimated by the Company using available market information as of June 30, 2009 and December 31, 2008, and valuation methodologies considered appropriate. The estimates presented are not necessarily indicative of amounts the Company could realize in a current market exchange (in thousands):

	June 30, 2009		December 31, 2008	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Cash and cash equivalents	$ 268,825	$ 268,825	$ 220,655	$ 220,655
Available-for-sale securities	6,959	6,959	6,325	6,325
Trading securities	21,654	21,654	24,325	24,325
Liabilities:				
Credit facilities	6,054,715	5,449,224	5,965,866	4,653,375
Tax-exempt bonds	8,000	8,000	8,000	8,000
Senior notes	2,789,331	2,740,518	2,910,831	2,677,965

Other debt	42,769	42,769	41,663	41,663

Cash and cash equivalents. The carrying amount approximates fair value due to the short-term maturity of these instruments (less than three months).

Available-for-sale securities. Estimated fair value is based on closing price as quoted in public markets.

Trading securities. Estimated fair value is based on closing price as quoted in public markets.

Table of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Credit facilities. Estimated fair value is based on information from the Company s bankers regarding relevant pricing for trading activity among the Company s lending institutions.

Tax-exempt bonds. The carrying amount approximates fair value as a result of the weekly interest rate reset feature of these publicly-traded instruments.

Senior notes. Estimated fair value is based on the average bid and ask price as quoted by the bank who served as underwriter in the sale of these notes.

Other debt. The carrying amount of all other debt approximates fair value due to the nature of these obligations.

Interest Rate Swaps. The fair value of interest rate swap agreements is the amount at which they could be settled, based on estimates calculated by the Company using a discounted cash flow analysis based on observable market inputs and validated by comparison to estimates obtained from the counterparty. The Company has designated the interest rate swaps as cash flow hedge instruments whose recorded value included in other long-term liabilities in the consolidated balance sheet approximates fair market value.

The Company assesses the effectiveness of its hedge instruments on a quarterly basis. For the three months ended June 30, 2009 and 2008, the Company completed an assessment of the cash flow hedge instruments and determined the hedges to be highly effective. The Company has also determined that the ineffective portion of the hedges do not have a material effect on the Company s consolidated financial position, operations or cash flows. The counterparties to the interest rate swap agreements expose the Company to credit risk in the event of non-performance. However, at June 30, 2009, since all but one of the swap agreements entered into by the Company were in net liability positions so that the Company would be required to make the net settlement payments to the counterparties, the Company does not anticipate non-performance by those counterparties. The Company does not hold or issue derivative financial instruments for trading purposes.

Table of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Interest rate swaps consisted of the following at June 30, 2009:

Swap #	Notional Amount (in 000 s)	Fixed Interest Rate	Termination Date	Fair Value (in 000 s)
1	$704,000	0.4250%	August 28, 2009	$ (147)[1]
2	100,000	4.3375%	November 30, 2009	(1,725)
3	200,000	2.8800%	September 17, 2010	(3,397)
4	100,000	4.9360%	October 4, 2010	(4,435)
5	100,000	4.7090%	January 24, 2011	(5,059)
6	300,000	5.1140%	August 8, 2011	(22,170)
7	100,000	4.7185%	August 19, 2011	(6,746)
8	100,000	4.7040%	August 19, 2011	(6,590)
9	100,000	4.6250%	August 19, 2011	(6,544)
10	200,000	4.9300%	August 30, 2011	(14,235)
11	200,000	3.0920%	September 18, 2011	(6,442)
12	100,000	3.0230%	October 23, 2011	(3,064)
13	200,000	4.4815%	October 26, 2011	(12,729)
14	200,000	4.0840%	December 3, 2011	(11,097)
15	100,000	3.8470%	January 4, 2012	(5,026)
16	100,000	3.8510%	January 4, 2012	(5,036)
17	100,000	3.8560%	January 4, 2012	(5,048)
18	200,000	3.7260%	January 8, 2012	(9,470)
19	200,000	3.5065%	January 16, 2012	(8,399)
20	250,000	5.0185%	May 30, 2012	(20,874)
21	150,000	5.0250%	May 30, 2012	(12,597)
22	200,000	4.6845%	September 11, 2012	(15,307)
23	100,000	3.3520%	October 23, 2012	(3,563)
24	125,000	4.3745%	November 23, 2012	(8,486)
25	75,000	4.3800%	November 23, 2012	(5,129)
26	150,000	5.0200%	November 30, 2012	(13,386)
27	100,000	5.0230%	May 30, 2013	(9,290)
28	300,000	5.2420%	August 6, 2013	(31,538)
29	100,000	5.0380%	August 30, 2013	(9,517)
30	50,000	3.5860%	October 23, 2013	(1,879)
31	50,000	3.5240%	October 23, 2013	(1,754)
32	100,000	5.0500%	November 30, 2013	(9,742)
33	200,000	2.0700%	December 19, 2013	6,241
34	100,000	5.2310%	July 25, 2014	(10,895)
35	100,000	5.2310%	July 25, 2014	(10,895)
36	200,000	5.1600%	July 25, 2014	(21,120)
37	75,000	5.0405%	July 25, 2014	(7,498)

38	125,000	5.0215%	July 25, 2014	(12,384)

(1) This interest rate swap is a 90-day swap for which we pay a monthly fixed rate of 0.4250% and receive one-month LIBOR rates payable on $704 million of term loans under the Credit Facility. As with each of these swap agreements, the variable interest rate received matches the variable interest rate paid for the revolving credit and term loans under the Credit Facility. The Company continues to pay a margin of 225 basis points for the revolving credit and term loans under the Credit Facility.

Table of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. FAIR VALUE

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157), which defines fair value, provides a framework for measuring fair value, and expands disclosures required for fair value measurements. SFAS No. 157 applies to other accounting pronouncements that require fair value measurement; it does not require any new fair value measurements. SFAS No. 157 was effective for fiscal years beginning after November 15, 2007, and was adopted by the Company as of January 1, 2008. The adoption of this statement has not had a material effect on the Company s consolidated results of operations or consolidated financial position.

In February 2008, the FASB issued FASB Staff Position No. 157-2, Effective Date of FASB Statement No. 157, (FSP 157-2). FSP 157-2 deferred the effective date of the provisions of SFAS No. 157 for all non-financial assets and non-financial liabilities to fiscal years beginning after November 15, 2008, and was adopted by the Company as of January 1, 2009. The adoption of this statement has not had a material effect on the Company s consolidated results of operations or consolidated financial position.

Fair Value Hierarchy

SFAS No. 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, SFAS No. 157 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity s own assumption about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

SFAS No. 157 classifies the inputs used to measure fair value into the following hierarchy:

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

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

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

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

The following table sets forth, by level within the fair value hierarchy, the financial assets and liabilities recorded at fair value on a recurring basis as of June 30, 2009 (in thousands):

	June 30, 2009	Level 1	Level 2	Level 3
Available-for-sale securities	$ 6,959	$ 6,959	$	$
Trading securities	21,654	21,654		
Total assets	$ 28,613	$ 28,613	$	$
Fair value of interest rate swap agreements	$ 319,432	$	$ 319,432	$
Total liabilities	$ 319,432	$	$ 319,432	$

Table of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Available-for-sale securities and trading securities classified as Level 1 are measured using quoted market prices.

The valuation of the Company s interest rate swap agreements is determined using market valuation techniques, including discounted cash flow analysis on the expected cash flows of each agreement. This analysis reflects the contractual terms of the agreement, including the period to maturity, and uses observable market-based inputs, including forward interest rate curves. The fair values of interest rate swap agreements are determined by netting the discounted future fixed cash payments (or receipts) and the discounted expected variable cash receipts (or payments). The variable cash receipts (or payments) are based on the expectation of future interest rates based on observable market forward interest rate curves and the notional amount being hedged.

To comply with the provisions of SFAS No. 157, the Company incorporates credit valuation adjustments (CVAs) to appropriately reflect both its own nonperformance or credit risk and the respective counterparty s nonperformance or credit risk in the fair value measurements. In adjusting the fair value of its interest rate swap agreements for the effect of nonperformance risk, the Company has considered the impact of any netting features included in the agreements. The CVA on the Company s interest rate swap agreements at June 30, 2009 resulted in a decrease in the fair value of the related liability of $40.5 million and an after-tax adjustment of $25.9 million to other comprehensive income.

The majority of the inputs used to value its interest rate swap agreements, including the forward interest rate curves and market perceptions of the Company s credit risk used in the CVAs, are observable inputs available to a market participant. As a result, the Company has determined that the interest rate swap valuations are classified in Level 2 of the fair value hierarchy.

The contractual obligation liability recorded during the year ended December 31, 2008, represented the fair value of a put option assumed in connection with a business combination using unobservable inputs and assumptions available to the Company. The contractual obligation represented by this liability was settled during the three months ended March 31, 2009, as a result of the sale of ownership interest in the partnership that owned Presbyterian Hospital of Denton. The following table presents a reconciliation of the beginning and ending balance of the contractual obligation liability (in thousands):

	Contractual Obligation Liability
Balance at January 1, 2009	$ 48,985
Settlement of contractual obligation liability	(48,985)
Balance at June 30, 2009	$

15. DERIVATIVE INSTRUMENTS

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS No. 161). SFAS No. 161 expands the disclosure requirements for derivative instruments and for hedging

activities in order to provide additional understanding of how an entity uses derivative instruments and how they are accounted for and reported in an entity s financial statements. The new disclosure requirements for SFAS No. 161 are effective for fiscal years beginning after November 15, 2008, and were adopted by the Company on January 1, 2009. The adoption of this statement has not had a material effect on the Company s consolidated results of operations or consolidated financial position.

The Company is exposed to certain risks relating to its ongoing business operations. The primary risk managed by using derivative instruments is interest rate risk. Interest rate swaps are entered into to manage interest rate risk associated with the term loans in the Credit Facility. SFAS No. 133 requires companies to recognize all derivative instruments as either assets or liabilities at fair value in the consolidated statement of financial position. In

Table of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

accordance with SFAS No. 133, the Company designates interest rate swaps as cash flow hedges. For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transactions affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

The Company s derivative instruments had no effect on the Company s consolidated results of operations for the three and six months ended June 30, 2009 and 2008.

The fair values of derivative instruments in the condensed consolidated balance sheets as of June 30, 2009 and December 31, 2008 were as follows (in thousands):

	Asset Derivatives				Liability Derivatives			
	June 30, 2009		December 31, 2008		June 30, 2009		December 31, 2008	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments under Statement 133	Other assets, net	$	Other assets, net	$	Other long-term liabilities	$ 319,432	Other long-term liabilities	$ 435,134

16. SEGMENT INFORMATION

The Company operates in three distinct operating segments, represented by hospital operations (which includes its general acute care hospitals and related healthcare entities that provide inpatient and outpatient health care services), home care agency operations (which provide in-home outpatient care), and hospital management services (which provides executive management and consulting services to non-affiliated acute care hospitals). Only the hospital operations segment meets the criteria in SFAS No. 131, Disclosure about Segments of an Enterprise and Related Information (SFAS No. 131), as a separate reportable segment. The financial information for the home care agencies and management services segments do not meet the quantitative thresholds defined in SFAS No. 131 and are combined into the corporate and all other reportable segment.

The distribution between reportable segments of the Company s revenues and income from continuing operations before income taxes is summarized in the following tables (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008

Revenues:				
Hospital operations	$ 2,946,985	$ 2,611,869	$ 5,798,032	$ 5,260,539
Corporate and all other	69,976	61,284	131,678	122,969
	$ 3,016,961	$ 2,673,153	$ 5,929,710	$ 5,383,508
Income from continuing operations before income taxes:				
Hospital operations	$ 147,786	$ 123,515	$ 287,847	$ 245,935
Corporate and all other	(36,079)	(37,932)	(69,686)	(72,233)
	$ 111,707	$ 85,583	$ 218,161	$ 173,702

Table of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. 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 a letter dated October 4, 2007, the Civil Division of the Department of Justice notified the Company that, as a result of an investigation into the way in which different state Medicaid programs apply to the federal government for matching or supplemental funds that are ultimately used to pay for a small portion of the services provided to Medicaid and indigent patients, it believes the Company and three of its New Mexico hospitals have caused the State of New Mexico to submit improper claims for federal funds in violation of the Federal False Claims Act. This investigation has culminated in the federal government s intervention in a qui tam lawsuit styled *U.S. ex rel. Baker vs. Community Health Systems, Inc.* The federal government filed its complaint in intervention on June 30, 2009. The relator filed a second amended complaint on July 1, 2009. The Company s responses are due within 60 days. The Company is vigorously defending this action.

18. SUBSEQUENT EVENTS

SFAS No. 165 Subsequent Events (SFAS No. 165) establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In particular, this Statement sets forth: (1) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (2) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and (3) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. SFAS No. 165 is effective for interim or annual financial periods ending after June 15, 2009. This standard does not result in significant changes in the subsequent events that are reported either through recognition or disclosure in the consolidated financial statements. In accordance with SFAS No. 165, the Company evaluated all material events occurring subsequent to the balance sheet date through July 31, 2009, the date the consolidated financial statements were issued, for events requiring disclosure or recognition in the consolidated financial statements.

19. FASB ACCOUNTING STANDARDS CODIFICATION

SFAS No. 168 The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162 (SFAS No. 168) is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The FASB Accounting Standards Codification (Codification) will become the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. On the effective date of this Statement, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification will become non-authoritative. The issuance of SFAS No. 168 and the Codification do not change current U.S. GAAP and will not have an impact on the Company s consolidated results of operations or consolidated financial position.

20. SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION

In connection with the consummation of the Triad acquisition, CHS obtained $7.215 billion of senior secured financing under the Credit Facility and issued the Notes in the aggregate principal amount of $3.021 billion. The Notes are senior unsecured obligations of CHS and are guaranteed on a senior basis by the Company and by certain of existing and subsequently acquired or organized 100% owned domestic subsidiaries.

Table of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Notes are fully and unconditionally guaranteed on a joint and several basis. The following condensed consolidating financial statements present Community Health Systems, Inc. (as parent guarantor), CHS (as the issuer), the subsidiary guarantors, the subsidiary non-guarantors and eliminations. These condensed consolidating financial statements have been prepared and presented in accordance with SEC Regulation S-X Rule 3-10 Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered .

The accounting policies used in the preparation of this financial information are consistent with those elsewhere in the consolidated financial statements of the Company, except as noted below:

Intercompany receivables and payables are presented gross in the supplemental consolidating balance sheets.

Cash flows from intercompany transactions are presented in cash flows from financing activities, as changes in intercompany balances with affiliates, net.

Income tax expense is allocated from the parent guarantor to the income producing operations (other guarantors and non-guarantors) and the issuer through stockholders equity. As this approach represents an allocation, the income tax expense allocation is considered non-cash for statement of cash flow purposes.

Interest expense, net has been presented to reflect net interest expense and interest income from outstanding long-term debt and intercompany balances.

The Company s intercompany activity consists primarily of daily cash transfers for purposes of cash management, the allocation of certain expenses and expenditures paid for by the parent on behalf of its subsidiaries, and the push down of investment in its subsidiaries. The Company s subsidiaries generally do not purchase services from one another and therefore the intercompany transactions do not represent revenue generating transactions. All intercompany transactions eliminate in consolidation.

Table of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Condensed Consolidating Balance Sheet
June 30, 2009

	Parent Guarantor	Issuer	Other Guarantors	Non-Guarantors	Eliminations	Consolidated
			(In thousands, except share data)			
ASSETS						
Current assets:						
Cash and cash equivalents	$	$	$ 173,773	$ 95,052	$	$ 268,825
Patient accounts receivable, net of allowance for doubtful accounts			1,035,917	622,006		1,657,923
Supplies			180,048	106,546		286,594
Deferred income taxes	91,875					91,875
Prepaid expenses and taxes		24	70,791	23,783		94,598
Other current assets		20	107,452	92,144		199,616
Total current assets	91,875	44	1,567,981	939,531		2,599,431
Intercompany receivable	938,577	9,375,765	8,398,180	2,753,282	(21,465,804)	
Property and equipment, net			3,886,085	2,190,060		6,076,145
Goodwill			2,423,680	1,764,288		4,187,968
Other assets, net of accumulated amortization		155,262	347,233	505,983		1,008,478
Net investment in subsidiaries	1,324,759	5,274,168	3,295,169		(9,894,096)	
Total assets	$ 2,355,211	$ 14,805,239	$ 19,918,328	$ 8,153,144	$ (31,359,900)	$ 13,872,022
LIABILITIES AND EQUITY						
Current liabilities:						
	$	$ 32,603	$ 21,094	$ 3,037	$	$ 56,734

Current maturities of long-term debt						
Accounts payable	19		341,821	164,126		505,966
Current income taxes payable	25,920					25,920
Deferred income taxes	6,740					6,740
Interest payable (receivable)		144,656	1,134	(2,209)		143,581
Accrued liabilities	8,283	8,712	487,320	216,998		721,313
Total current liabilities	40,962	185,971	851,369	381,952		1,460,254
Long-term debt		8,812,201	29,571	42,038		8,883,810
Intercompany payable		4,173,569	17,121,462	7,067,616	(28,362,647)	
Deferred income taxes	461,098					461,098
Other long-term liabilities	16,733	319,432	271,108	218,200		825,473
Total liabilities	518,793	13,491,173	18,273,510	7,709,806	(28,362,647)	11,630,635
Redeemable noncontrolling interests in equity of consolidated subsidiaries			31,302	292,692		323,994
Equity:						
Community Health Systems, Inc. stockholders equity:						
Preferred stock						
Common stock	937		1	2	(3)	937
Additional paid-in capital	1,168,125	589,298	625,783	26,753	(1,241,834)	1,168,125
Treasury stock, at cost	(6,678)					(6,678)
Accumulated other comprehensive loss	(220,565)	(220,565)	(16,129)		236,694	(220,565)
Retained earnings	894,599	945,333	1,003,861	42,916	(1,992,110)	894,599
Total Community Health Systems, Inc. stockholders equity	1,836,418	1,314,066	1,613,516	69,671	(2,997,253)	1,836,418
Noncontrolling interests in equity of consolidated subsidiaries				80,975		80,975
Total equity	1,836,418	1,314,066	1,613,516	150,646	(2,997,253)	1,917,393
Total liabilities and equity	$ 2,355,211	$ 14,805,239	$ 19,918,328	$ 8,153,144	$ (31,359,900)	$ 13,872,022

29

Table of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Condensed Consolidating Balance Sheet
December 31, 2008

	Parent Guarantor	Issuer	Other Guarantors	Non-Guarantors	Eliminations	Consolidated
			(In thousands)			
ASSETS						
Current assets:						
Cash and cash equivalents	$	$	$ 155,018	$ 65,637	$	$ 220,655
Patient accounts receivable, net of allowance for doubtful accounts			1,024,402	601,068		1,625,470
Supplies			170,417	105,279		275,696
Deferred income taxes	91,875					91,875
Prepaid expenses and taxes	92,710	111	66,559	7,122		166,502
Other current assets		85	131,661	93,106		224,852
Total current assets	184,585	196	1,548,057	872,212		2,605,050
Intercompany receivable	1,026,905	9,325,281	5,207,453	3,402,559	(18,962,198)	
Property and equipment, net			3,658,095	2,236,310		5,894,405
Goodwill			2,404,082	1,762,009		4,166,091
Other assets, net of accumulated amortization		171,396	330,132	651,180		1,152,708
Net investment in subsidiaries	1,109,833	4,459,037	3,330,368		(8,899,238)	
Total assets	$ 2,321,323	$ 13,955,910	$ 16,478,187	$ 8,924,270	$ (27,861,436)	$ 13,818,254
LIABILITIES AND EQUITY						
Current liabilities:						
Current maturities of long-term debt	$	$ 12,066	$ 7,653	$ 14,185	$	$ 33,904

Accounts payable	70		376,273	156,252		532,595
Current income taxes payable						
Deferred income taxes	6,740					6,740
Interest payable (receivable)		152,070	2,263	(1,099)		153,234
Accrued liabilities	8,869	567	471,764	301,744		782,944
Total current liabilities	15,679	164,703	857,953	471,082		1,509,417
Long-term debt		8,865,390	34,958	37,837		8,938,185
Intercompany payable	200,600	3,369,977	13,832,783	7,832,161	(25,235,521)	
Deferred income taxes	460,793					460,793
Other long-term liabilities	18,211	435,134	218,306	216,906		888,557
Total liabilities	695,283	12,835,204	14,944,000	8,557,986	(25,235,521)	11,796,952
Redeemable noncontrolling interests in equity of consolidated subsidiaries			51,602	268,569		320,171
Equity:						
Community Health Systems, Inc. stockholders equity:						
Preferred stock						
Common stock	925		1	2	(3)	925
Additional paid-in capital	1,151,119	545,268	577,375	8,709	(1,131,352)	1,151,119
Treasury stock, at cost	(6,678)					(6,678)
Accumulated other comprehensive loss	(295,575)	(295,575)	(17,090)		312,665	(295,575)
Retained earnings	776,249	871,013	922,299	13,913	(1,807,225)	776,249
Total Community Health Systems, Inc. stockholders equity	1,626,040	1,120,706	1,482,585	22,624	(2,625,915)	1,626,040
Noncontrolling interests in equity of consolidated subsidiaries				75,091		75,091
Total equity	1,626,040	1,120,706	1,482,585	97,715	(2,625,915)	1,701,131
Total liabilities and equity	$ 2,321,323	$ 13,955,910	$ 16,478,187	$ 8,924,270	$ (27,861,436)	$ 13,818,254

Table of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Condensed Consolidating Statement of Income
Three Months Ended June 30, 2009

	Parent Guarantor	Issuer	Other Guarantors	Non-Guarantors	Eliminations	Consolidated
			(In thousands)			
Net operating revenues	$	$	$ 1,872,775	$ 1,144,186	$	$ 3,016,961
Operating costs and expenses:						
Salaries and benefits			722,366	479,314		1,201,680
Provision for bad debts			237,169	125,293		362,462
Supplies			257,235	162,721		419,956
Other operating expenses			331,921	235,892		567,813
Rent			32,818	28,382		61,200
Depreciation and amortization			89,392	53,055		142,447
Total operating costs and expenses			1,670,901	1,084,657		2,755,558
Income from operations			201,874	59,529		261,403
Interest expense, net		31,196	124,537	5,740		161,473
Loss (gain) from early extinguishment of debt		6				6
Equity in earnings of unconsolidated affiliates	(59,435)	(68,908)	(36,911)		153,471	(11,783)
Income from continuing operations before income taxes	59,435	37,706	114,248	53,789	(153,471)	111,707
Provision for (benefit from) income taxes		(21,729)	43,348	15,590		37,209
Income from continuing operations	59,435	59,435	70,900	38,199	(153,471)	74,498
Discontinued operations, net of taxes:						
(Loss) income from operations of hospitals sold and held for sale			(7)	(501)		(508)

(Loss) gain on sale of hospitals, net						
(Loss) income from discontinued operations			(7)	(501)		(508)
Net income	59,435	59,435	70,893	37,698	(153,471)	73,990
Less: Net income attributable to noncontrolling interests			1,362	13,193		14,555
Net income attributable to Community Health Systems, Inc.	$ 59,435	$ 59,435	$ 69,531	$ 24,505	$ (153,471)	$ 59,435

Table of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Condensed Consolidating Statement of Income
Three Months Ended June 30, 2008

	Parent Guarantor	Issuer	Other Guarantors	Non-Guarantors	Eliminations	Consolidated
			(In thousands)			
Net operating revenues	$	$	$ 1,625,112	$ 1,048,041	$	$ 2,673,153
Operating costs and expenses:						
Salaries and benefits			614,094	464,071		1,078,165
Provision for bad debts			182,401	103,192		285,593
Supplies			221,305	154,019		375,324
Other operating expenses			306,556	217,272		523,828
Rent			32,485	25,769		58,254
Depreciation and amortization			76,189	47,355		123,544
Total operating costs and expenses			1,433,030	1,011,678		2,444,708
Income from operations			192,082	36,363		228,445
Interest expense, net		14,598	132,578	6,185		153,361
Loss (gain) from early extinguishment of debt						
Equity in earnings of unconsolidated affiliates	(47,893)	(51,796)	(24,096)		113,286	(10,499)
Income from continuing operations before income taxes	47,893	37,198	83,600	30,178	(113,286)	85,583
Provision for (benefit from) income taxes		(10,695)	32,109	8,776		30,190
Income from continuing operations	47,893	47,893	51,491	21,402	(113,286)	55,393
Discontinued operations, net of taxes:						
(Loss) income from operations of hospitals sold and held for sale			820	(1,060)		(240)
				(9)		(9)

(Loss) gain on sale of hospitals, net						
(Loss) income from discontinued operations			820	(1,069)		(249)
Net income	47,893	47,893	52,311	20,333	(113,286)	55,144
Less: Net income attributable to noncontrolling interests			(129)	7,380		7,251
Net income attributable to Community Health Systems, Inc.	$ 47,893	$ 47,893	$ 52,440	$ 12,953	$ (113,286)	$ 47,893

Table of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Condensed Consolidating Statement of Income
Six Months Ended June 30, 2009

	Parent Guarantor	Issuer	Other Guarantors	Non-Guarantors	Eliminations	Consolidated
			(In thousands)			
Net operating revenues	$	$	$ 3,666,028	$ 2,263,682	$	$ 5,929,710
Operating costs and expenses:						
Salaries and benefits			1,418,148	956,972		2,375,120
Provision for bad debts			462,779	237,451		700,230
Supplies			499,985	325,608		825,593
Other operating expenses			640,015	472,775		1,112,790
Rent			64,960	56,568		121,528
Depreciation and amortization			174,695	103,313		278,008
Total operating costs and expenses			3,260,582	2,152,687		5,413,269
Income from operations			405,446	110,995		516,441
Interest expense, net		49,113	263,163	13,110		325,386
Loss (gain) from early extinguishment of debt		(2,406)				(2,406)
Equity in earnings of unconsolidated affiliates	(118,350)	(128,532)	(73,184)		295,366	(24,700)
Income from continuing operations before income taxes	118,350	81,825	215,467	97,885	(295,366)	218,161
Provision for (benefit from) income taxes		(36,525)	81,156	28,212		72,843
Income from continuing operations	118,350	118,350	134,311	69,673	(295,366)	145,318
Discontinued operations, net of taxes:						

(Loss) income from operations of hospitals sold and held for sale			(218)	2,195		1,977
(Loss) gain on sale of hospitals, net				(405)		(405)
(Loss) income from discontinued operations			(218)	1,790		1,572
Net income	118,350	118,350	134,093	71,463	(295,366)	146,890
Less: Net income attributable to noncontrolling interests			4,124	24,416		28,540
Net income attributable to Community Health Systems, Inc.	$ 118,350	$ 118,350	$ 129,969	$ 47,047	$ (295,366)	$ 118,350

Table of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Condensed Consolidating Statement of Income
Six Months Ended June 30, 2008

	Parent Guarantor	Issuer	Other Guarantors	Non-Guarantors	Eliminations	Consolidated
			(In thousands)			
Net operating revenues	$	$	$ 3,262,125	$ 2,121,383	$	$ 5,383,508
Operating costs and expenses:						
Salaries and benefits			1,241,128	924,122		2,165,250
Provision for bad debts			376,307	201,359		577,666
Supplies			442,623	316,684		759,307
Other operating expenses			614,346	435,048		1,049,394
Rent			63,851	53,480		117,331
Depreciation and amortization			152,455	92,395		244,850
Total operating costs and expenses			2,890,710	2,023,088		4,913,798
Income from operations			371,415	98,295		469,710
Interest expense, net		27,522	270,062	20,479		318,063
Loss (gain) from early extinguishment of debt		1,328				1,328
Equity in earnings of unconsolidated affiliates	(108,020)	(107,428)	(72,077)		264,142	(23,383)
Income from continuing operations before income taxes	108,020	78,578	173,430	77,816	(264,142)	173,702
Provision for (benefit from) income taxes		(29,442)	67,133	23,363		61,054
Income from continuing operations	108,020	108,020	106,297	54,453	(264,142)	112,648
Discontinued operations, net of taxes:						
(Loss) income from operations of hospitals			268	1,356		1,624

sold and held for sale						
(Loss) gain on sale of hospitals, net				9,608		9,608
(Loss) income from discontinued operations			268	10,964		11,232
Net income	108,020	108,020	106,565	65,417	(264,142)	123,880
Less: Net income attributable to noncontrolling interests			(1,270)	17,130		15,860
Net income attributable to Community Health Systems, Inc.	$ 108,020	$ 108,020	$ 107,835	$ 48,287	$ (264,142)	$ 108,020

Table of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Condensed Consolidating Statement of Cash Flows
Six Months Ended June 30, 2009

	Parent Guarantor	Issuer	Other Guarantors	Non-Guarantors	Eliminations	Consolidated
			(In thousands)			
Cash flows from operating activities:						
Net cash provided by (used in) operating activities	$ (1,269)	$ (11,605)	$ 400,905	$ 156,376	$	$ 544,407
Cash flows from investing activities:						
Acquisitions of facilities and other related equipment			(198,326)	(12,578)		(210,904)
Purchases of property and equipment			(205,505)	(61,770)		(267,275)
Proceeds from disposition of hospitals and other ancillary operations				89,909		89,909
Proceeds from sale of property and equipment			102	253		355
Increase in other non-operating assets		(18,381)	(47,989)	(8,136)		(74,506)
Net cash (used in) provided by investing activities		(18,381)	(451,718)	7,678		(462,421)
Cash flows from financing activities:						
Proceeds from exercise of stock options	3,445					3,445
Excess tax benefits relating to stock-based compensation	(3,389)					(3,389)
Deferred financing costs		(207)				(207)
Stock buy-back						
Proceeds from noncontrolling investors in joint ventures			326	25,988		26,314
Redemption of noncontrolling investments in joint ventures				(1,631)		(1,631)
Distributions to noncontrolling investors in joint ventures			(4,205)	(17,961)		(22,166)

Changes in intercompany balances with affiliates, net	1,213	61,381	74,334	(136,928)		
Borrowings under credit agreement		200,000				200,000
Repayments of long-term indebtedness		(231,188)	(887)	(4,107)		(236,182)
Net cash (used in) provided by financing activities	1,269	29,986	69,568	(134,639)		(33,816)
Net change in cash and cash equivalents			18,755	29,415		48,170
Cash and cash equivalents at beginning of period			155,018	65,637		220,655
Cash and cash equivalents at end of period	$	$	$ 173,773	$ 95,052	$	$ 268,825

Table of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Condensed Consolidating Statement of Cash Flows
Six Months Ended June 30, 2008

	Parent Guarantor	Issuer	Other Guarantors	Non-Guarantors	Eliminations	Consolidated
			(In thousands)			
Cash flows from operating activities:						
Net cash provided by (used in) operating activities	$ 61,067	$ (31,359)	$ 406,999	$ (19,924)	$	$ 416,783
Cash flows from investing activities:						
Acquisitions of facilities and other related equipment			(6,464)	(182)		(6,646)
Purchases of property and equipment			(189,971)	(85,634)		(275,605)
Proceeds from disposition of hospitals and other ancillary operations			10,693	355,220		365,913
Proceeds from sale of property and equipment			1,094	11,795		12,889
Increase in other non-operating assets			(114,592)	(29,788)		(144,380)
Net cash (used in) provided by investing activities			(299,240)	251,411		(47,829)
Cash flows from financing activities:						
Proceeds from exercise of stock options	1,357					1,357
Excess tax benefits relating to stock-based compensation	(947)					(947)
Deferred financing costs		(2,444)				(2,444)
Stock buy-back	(10,194)					(10,194)
Proceeds from noncontrolling investors in joint ventures				11,214		11,214
Redemption of noncontrolling investments in joint ventures				(53,485)		(53,485)
Distributions to noncontrolling investors in joint ventures				(14,916)		(14,916)

Changes in intercompany balances with affiliates, net	(51,283)	195,597	60,797	(205,111)		
Borrowings under credit agreement		25,000	44,818	(47,161)		22,657
Repayments of long-term indebtedness		(186,794)	(68,321)	64,117		(190,998)
Net cash (used in) provided by financing activities	(61,067)	31,359	37,294	(245,342)		(237,756)
Net change in cash and cash equivalents			145,053	(13,855)		131,198
Cash and cash equivalents at beginning of period			114,853	18,021		132,874
Cash and cash equivalents at end of period	$	$	$ 259,906	$ 4,166	$	$ 264,072

Table of Contents

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.

Throughout this Quarterly Report on Form 10-Q, Community Health Systems, Inc., the parent company, and its consolidated subsidiaries are referred to on a collective basis using words like we, our, us and the Company . This drafting style is not meant to indicate that the publicly-traded parent company or any subsidiary of the parent company owns or operates any asset, business, or property. The hospitals, operations and businesses described in this filing are owned and operated, and management services provided, by distinct and indirect subsidiaries of Community Health Systems, Inc. References to the Company may include one or more of its subsidiaries.

Executive Overview

We are the largest publicly traded operator of hospitals in the United States in terms of number of facilities and net operating revenues. We provide healthcare services through these hospitals that we own and operate in non-urban and selected urban markets. We generate revenue primarily by providing a broad range of general hospital healthcare services to patients in the communities in which we are located. We currently have 122 general acute care hospitals. In addition, we own and operate home care agencies, located primarily in markets where we also operate a hospital, and through our wholly-owned subsidiary, Quorum Health Resources, LLC, or QHR, we provide management and consulting services to non-affiliated 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.

During the three months ended June 30, 2009, we continued to navigate the uncertainties of the global and domestic economies. Unemployment continues to increase, credit markets remained tightened and there remained a low level of liquidity in many financial markets. Consequently, as previously disclosed, we are continuing to take a cautious approach to our acquisition strategy in this uncertain economic environment. During the three months ended June 30, 2009, we acquired the remaining 50% interest in a hospital in El Dorado, Arkansas, in which we previously were a joint venture partner, but did not consolidate its operations, and we completed the previously announced acquisition of a health care system in Wilkes Barre, Pennsylvania.

Despite these uncertainties in the economy, our net operating revenue for the three months ended June 30, 2009 increased to $3.017 billion, as compared to $2.673 billion for the three months ended June 30, 2008. Income from continuing operations, before noncontrolling interests, for the three months ended June 30, 2009 increased 34.5% over the three months ended June 30, 2008. This increase in income from continuing operations during the three months ended June 30, 2009, as compared to the three months ended June 30, 2008, is due primarily to an increase in surgeries performed at our hospitals, strong outpatient growth, the realization of synergies from our acquisition of Triad Hospitals, Inc., or Triad, and the recognition of cost savings from our ability to effectively control costs. Total admissions for the three months ended June 30, 2009 increased 5.8% compared to the three months ended June 30, 2008. This increase in admissions was due primarily to our recent acquisitions.

Our net operating revenue for the six months ended June 30, 2009 increased to $5.930 billion, as compared to $5.384 billion for the six months ended June 30, 2008. Income from continuing operations, before noncontrolling interests, for the six months ended June 30, 2009 increased 29.0% over the six months ended June 30, 2008. This increase in income from continuing operations during the six months ended June 30, 2009, as compared to the six months ended June 30, 2008 is due primarily to an increase in surgeries performed at our hospitals, strong outpatient growth, the realization of synergies from the Triad acquisition, and the recognition of cost savings from our ability to effectively control costs. Total admissions for the six months ended June 30, 2009 increased 1.7% compared to the six months ended June 30, 2008. This increase in admissions was due primarily to our recent acquisitions.

Self-pay revenues represented approximately 10.8% and 10.7% of our net operating revenues for the three months ended June 30, 2009 and 2008, respectively, and 11.2% and 10.8% of our net operating revenues for the six months ended June 30, 2009 and 2008, respectively. The value of charity care services relative to total net operating revenues increased to 3.9% and 3.8% for the three and six months ended June 30, 2009, respectively, compared to 3.8% and 3.7% for the three and six months ended June 30, 2008, respectively. Uninsured and underinsured patients continue to be an industry-wide issue, and we anticipate this trend will continue into the foreseeable future.

Table of Contents

As a result of our current levels of cash, available borrowing capacity, long-term outlook on our debt repayments and our continued projection of our ability to generate cash flows, we do not anticipate a significant impact on our ability to invest the necessary capital in our business over the next twelve months and into the foreseeable future. We believe there continues to be ample opportunity for growth in substantially all of our markets by decreasing the need for patients to travel outside their communities for health care services. Furthermore, we continue to benefit from synergies from the acquisition of Triad and will continue to strive to improve operating efficiencies and procedures in order to improve our profitability at all of our hospitals.

During the three months ended June 30, 2009, we decided to retain a hospital and related businesses previously classified as held for sale. Results of operations for all periods presented have been restated to include this retained hospital and related businesses, which previously were reported as discontinued operations. The condensed consolidated balance sheets for each of the periods presented have been restated to include assets and liabilities previously reported as held for sale.

Sources of Consolidated Net Operating Revenue

The following table presents the approximate percentages of net operating revenue derived from Medicare, Medicaid, managed care, self-pay and other sources for the periods indicated. The data for the periods presented are not strictly comparable due to the significant effect that hospital acquisitions have had on these statistics.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Medicare	27.2%	27.6%	27.5%	28.1%
Medicaid	9.0%	8.7%	8.7%	8.5%
Managed Care and other third party payors	53.0%	53.0%	52.6%	52.6%
Self-pay	10.8%	10.7%	11.2%	10.8%
Total	100.0%	100.0%	100.0%	100.0%

As shown above, we receive a substantial portion of our revenue from the Medicare and Medicaid programs. Included in Managed Care and other third party payors is net operating revenue from insurance companies with which we have insurance provider contracts, Managed Care Medicare, insurance companies for which we do not have insurance provider contracts, workers compensation carriers, and non-patient service revenue, such as rental income and cafeteria sales.

Net operating revenues include amounts estimated by management to be reimbursable by Medicare and Medicaid under prospective payment systems and provisions of cost-based reimbursement and other payment methods. In addition, we are reimbursed by non-governmental payors using a variety of payment methodologies. Amounts we receive for treatment of patients covered by these programs are generally less than the standard billing rates. We account for the differences between the estimated program reimbursement rates and the standard billing rates as contractual allowance adjustments, which we deduct 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. We account for adjustments to previous program reimbursement estimates as contractual allowance adjustments and report them in the periods that such adjustments become known. Contractual allowance adjustments related to final settlements and previous program reimbursement estimates impacted net operating revenues and net

income by an insignificant amount in each of the three-month and six-month periods ended June 30, 2009 and 2008. In the future, we expect the percentage of revenues received from the Medicare program to increase due to the general aging of the population.

The payment rates under the Medicare program for inpatient acute care services are based on a prospective payment system, depending upon the diagnosis of a patient s condition. These rates are indexed for inflation annually, although increases have historically been less than actual inflation. Reductions in the rate of increase in Medicare reimbursement may cause our net operating revenue growth to decline.

Table of Contents

In addition, specified managed care programs, insurance companies, and employers are actively negotiating the amounts paid to hospitals. The trend toward increased enrollment in managed care may adversely affect our net operating revenue growth.

Results of Operations

Our hospitals offer a variety of services involving a broad range of inpatient and outpatient medical and surgical services. These include orthopedics, cardiology, occupational medicine, diagnostic services, emergency services, rehabilitation treatment, home health and skilled nursing. The strongest demand for hospital services generally occurs during January through April and the weakest demand for these services occurs during the summer months. Accordingly, eliminating the effect of new acquisitions, our net operating revenues and earnings are historically highest during the first quarter and lowest during the third quarter.

The following tables summarize, for the periods indicated, selected operating data.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(Expressed as a percentage of net operating revenues)			
Consolidated(a)				
Net operating revenues	100.0%	100.0%	100.0%	100.0%
Operating expenses(b)	(86.6)	(86.8)	(86.6)	(86.7)
Depreciation and amortization	(4.7)	(4.7)	(4.7)	(4.6)
Income from operations	8.7	8.5	8.7	8.7
Interest expense, net	(5.4)	(5.7)	(5.4)	(5.9)
Gain from early extinguishment of debt				
Equity in earnings of unconsolidated affiliates	0.4	0.4	0.4	0.4
Income from continuing operations before income taxes	3.7	3.2	3.7	3.2
Provision for income taxes	(1.2)	(1.1)	(1.2)	(1.1)
Income from continuing operations	2.5	2.1	2.5	2.1
Income from discontinued operations, net of tax				0.2
Net income	2.5	2.1	2.5	2.3
Less: Net income attributable to noncontrolling interests	(0.5)	(0.3)	(0.5)	(0.3)
Net income attributable to Community Health Systems, Inc.	2.0%	1.8%	2.0%	2.0%

	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009

Percentage increase (decrease) from same period prior year(a):		
Net operating revenues	12.9%	10.1%
Admissions	5.8	1.7
Adjusted admissions(c)	7.7	3.8
Average length of stay		
Net income attributable to Community Health Systems, Inc.(d)	24.1	9.6
Same-store percentage increase from same period prior year(a)(e):		
Net operating revenues	6.7%	5.5%
Admissions	(0.4)	(2.7)
Adjusted admissions(c)	1.7	(0.4)

Table of Contents

(a) Pursuant to Statement of Financial Accounting Standards, or SFAS, No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, or SFAS No. 144, we have restated our prior period financial statements and statistical results to reflect discontinued operations.

(b) Operating expenses include salaries and benefits, provision for bad debts, supplies, rent and other operating expenses.

(c) Adjusted admissions is a general measure of combined inpatient and outpatient volume. We computed adjusted admissions by multiplying admissions by gross patient revenues and then dividing that number by gross inpatient revenues.

(d) Includes income or loss from discontinued operations.

(e) Includes acquired hospitals to the extent we operated them in both years.

Three months Ended June 30, 2009 Compared to Three months Ended June 30, 2008

Net operating revenues increased $344 million to $3.017 billion for the three months ended June 30, 2009, from $2.673 billion for the three months ended June 30, 2008. Growth from hospitals owned throughout both periods contributed $178 million of that increase and $166 million was contributed by hospitals acquired in 2009 and 2008. On a same-store basis, this represents an increase in net revenue of 6.7%. The increase from hospitals that we owned throughout both periods was primarily attributable to higher acuity level of services provided and outpatient growth, along with rate increases and favorable payor mix.

On a consolidated basis, inpatient admissions increased by 5.8% and adjusted admissions increased by 7.7%. On a same-store basis, admissions decreased by 0.4% during the three months ended June 30, 2009. This decrease in admissions was due primarily to the impact of closing certain unprofitable services during the three months ended June 30, 2009.

Operating expenses, excluding depreciation and amortization, as a percentage of net operating revenues, decreased to 86.6% for the three months ended June 30, 2009, compared to 86.8% for the three months ended June 30, 2008. Salaries and benefits, as a percentage of net operating revenues, decreased 0.5% to 39.8% for the three months ended June 30, 2009, compared to 40.3% for the three months ended June 30, 2008. Provision for bad debts, as a percentage of net operating revenues, increased 1.3% to 12.0% for the three months ended June 30, 2009, compared to 10.7% for the three months ended June 30, 2008. This increase primarily represents an increase in self-pay revenues over the comparable period of 2008 due to increased charges and the impact of current economic conditions on individuals ability to pay. Supplies, as a percentage of net operating revenues, decreased 0.1% to 13.9% for the three months ended June 30, 2009, as compared to 14.0% for the three months ended June 30, 2008. Rent and other operating expenses, as a percentage of net operating revenues, decreased 0.9% to 20.9% for the three months ended June 30, 2009, as compared to 21.8% for the three months ended June 30, 2008. This decrease is due primarily to reductions in contract labor. Equity in earnings of unconsolidated affiliates, as a percentage of net operating revenues, remained consistent at 0.4% for each of the three-month periods ended June 30, 2009 and 2008.

Depreciation and amortization remained consistent at 4.7% of net operating revenues for each of the three-month periods ended June 30, 2009 and 2008.

Interest expense, net, increased by $8.1 million from $153.4 million for the three months ended June 30, 2008 to $161.5 million for the three months ended June 30, 2009. An increase in our average outstanding debt during the three

months ended June 30, 2009, compared to the three months ended June 30, 2008, accounted for $1.6 million of this increase, while an increase in interest rates during the three months ended June 30, 2009, compared to June 30, 2008, accounted for $3.4 million. The remaining increase in interest expense of $3.1 million is the result of decreased capitalized interest due to fewer major construction projects during the three months ended June 30, 2009, compared to the three months ended June 30, 2008.

The net results of the above mentioned changes resulted in income from continuing operations before income taxes increasing $26.1 million from $85.6 million for the three months ended June 30, 2008 to $111.7 million for the three months ended June 30, 2009.

Table of Contents

Provision for income taxes increased from $30.2 million for the three months ended June 30, 2008 to $37.2 million for the three months ended June 30, 2009, due primarily to an increase in taxable income in the comparable period resulting from the decrease in operating expenses as a percentage of net operating revenues.

Income from continuing operations as a percentage of net operating revenue increased from 2.1% for the three months ended June 30, 2008 to 2.5% for the three months ended June 30, 2009. Net income as a percentage of net operating revenue increased from 2.1% for the three months ended June 30, 2008 to 2.5% for the three months ended June 30, 2009. The increase in income from continuing operations as a percentage of net operating revenue is primarily a result of the net decreases in operating expenses, as discussed above.

Net income attributable to noncontrolling interests as a percentage of net operating revenue was 0.5% for the three months ended June 30, 2009, compared to 0.3% for the three months ended June 30, 2008. This increase is due primarily to additional syndications entered into after the second quarter of 2008.

Net income attributable to Community Health Systems, Inc. was $59.4 million for the three months ended June 30, 2009, compared to $47.9 million for the three months ended June 30, 2008, representing an increase of 24.1%. The increase in net income is reflective of the impact of the revenue growth and net decrease in expenses discussed above.

Six months Ended June 30, 2009 Compared to Six months Ended June 30, 2008

Net operating revenues increased $546 million to $5.930 billion for the six months ended June 30, 2009, from $5.384 billion for the six months ended June 30, 2008. Growth from hospitals owned throughout both periods contributed $293 million of that increase and $253 million was contributed by hospitals acquired in 2009 and 2008. On a same-store basis, this represents an increase in net revenue of 5.5%. The increase from hospitals that we owned throughout both periods was primarily attributable to higher acuity level of services provided and outpatient growth, along with rate increases and favorable payor mix. These improvements were partially offset by the strong flu and respiratory season during the six months ended June 30, 2008 and the extra day from the leap year in 2008, both of which were non-recurring events in 2009.

On a consolidated basis, inpatient admissions increased by 1.7% and adjusted admissions increased by 3.8%. On a same-store basis, admissions decreased by 2.7% during the six months ended June 30, 2009. This decrease in admissions was due primarily to the strong flu and respiratory season during the six months ended June 30, 2008, which did not recur during 2009, the 2008 period having one additional day because it was a leap year, and the impact of closing certain unprofitable services.

Operating expenses, excluding depreciation and amortization, as a percentage of net operating revenues, decreased to 86.6% for the six months ended June 30, 2009, compared to 86.7% for the six months ended June 30, 2008. Salaries and benefits, as a percentage of net operating revenues, decreased 0.1% to 40.1% for the six months ended June 30, 2009, compared to 40.2% for the six months ended June 30, 2008. Provision for bad debts, as a percentage of net operating revenues, increased 1.1% to 11.8% for the six months ended June 30, 2009, compared to 10.7% for the six months ended June 30, 2008. This increase primarily represents an increase in self-pay revenues over the comparable period of 2008 due to increased charges and the impact of current economic conditions on individuals ability to pay. Supplies, as a percentage of net operating revenues, decreased 0.2% to 13.9% for the six months ended June 30, 2009, as compared to 14.1% for the six months ended June 30, 2008. This decrease is primarily the result of improvements from greater utilization of and improved pricing under our purchasing program. Rent and other operating expenses, as a percentage of net operating revenues, decreased 0.9% to 20.8% for the six months ended June 30, 2009, as compared to 21.7% for the six months ended June 30, 2008. This decrease is due primarily to reductions in contract labor. Equity in earnings of unconsolidated affiliates, as a percentage of net operating revenues, remained consistent at 0.4% for each of the six-month periods ended June 30, 2009 and 2008.

Depreciation and amortization increased from 4.6% of net operating revenues for the six months ended June 30, 2008 to 4.7% of net operating revenues for the six months ended June 30, 2009. The increase in depreciation and amortization as a percentage of net operating revenue is primarily due to the opening of three replacement hospitals in the second and third quarters of 2008.

Table of Contents

Interest expense, net, increased by $7.3 million from $318.1 million for the six months ended June 30, 2008 to $325.4 million for the six months ended June 30, 2009. An increase in our average outstanding debt during the six months ended June 30, 2009, compared to the six months ended June 30, 2008, accounted for $2.0 million of the increase in interest expense, while an increase in interest rates during the six months ended June 30, 2009, compared to June 30, 2008, accounted for $1.0 million. In addition, $6.1 million of the increase in interest expense is the result of decreased capitalized interest due to fewer major construction projects during the six months ended June 30, 2009, compared to the six months ended June 30, 2008. These increases were offset by an additional $1.8 million of interest expense in 2008, which was not incurred in 2009, since 2008 was a leap year.

The net results of the above mentioned changes resulted in income from continuing operations before income taxes increasing $44.5 million from $173.7 million for the six months ended June 30, 2008 to $218.2 million for the six months ended June 30, 2009.

Provision for income taxes increased from $61.1 million for the six months ended June 30, 2008 to $72.8 million for the six months ended June 30, 2009, due primarily to an increase in taxable income in the comparable period resulting from both the gain on early extinguishment of debt, as well as the decrease in operating expenses as a percentage of net operating revenues.

Income from continuing operations as a percentage of net operating revenue increased from 2.1% for the six months ended June 30, 2008 to 2.5% for the six months ended June 30, 2009. Net income as a percentage of net operating revenue increased from 2.3% for the six months ended June 30, 2008 to 2.5% for the six months ended June 30, 2009. The increase in income from continuing operations as a percentage of net operating revenue is primarily a result of the net decreases in operating expenses, as discussed above.

Net income attributable to noncontrolling interests as a percentage of net operating revenue was 0.5% for the six months ended June 30, 2009, compared to 0.3% for the six months ended June 30, 2008. This increase is due primarily to additional syndications entered into after the first quarter of 2008.

Net income attributable to Community Health Systems, Inc. was $118.4 million for the six months ended June 30, 2009, compared to $108.0 million for the six months ended June 30, 2008, representing an increase of 9.6%, as net income for the six months ended June 30, 2008 included a gain of $9.6 million from the sale of hospitals during that period.

Liquidity and Capital Resources

Net cash provided by operating activities increased $127.6 million, from $416.8 million for the six months ended June 30, 2008 to $544.4 million for the six months ended June 30, 2009. The increase in cash flows, in comparison to the prior year period, is from an increase in net income of $23.0 million, increases in non-cash expenses of $35.4 million, consisting primarily of depreciation and an increase in cash flows from the change in accounts receivable of $83.7 million. These increases were offset by decreases in cash flows from net changes in supplies, prepaid expenses and other current assets of $8.4 million and accounts payable, accrued liabilities and income taxes and other of $6.1 million.

The cash used in investing activities was $462.4 million for the six months ended June 30, 2009, compared to $47.8 million for the six months ended June 30, 2008. The increase in cash used in investing activities, in comparison to the prior year period, is from an increase in acquisitions of facilities and other related equipment of $204.3 million, a reduction in the amount of proceeds from the disposition of hospitals and other ancillary operations of $276.0 million due to the sale of one hospital in 2009 versus the sale of 11 hospitals in 2008, a reduction in the amount of the proceeds from sale of property and equipment of $12.5 million, a net decrease in other non-operating

assets of $69.9 million, and a reduction in the amount of purchases of property and equipment of $8.3 million.

The cash used in financing activities was $237.8 million for the six months ended June 30, 2008, compared to $33.8 million for the six months ended June 30, 2009. This change is primarily due to an increase in borrowing under our Credit Facility.

Table of Contents

Capital Expenditures

Cash expenditures related to purchases of facilities were $210.9 million for the six months ended June 30, 2009, compared to $6.6 million for the six months ended June 30, 2008. These expenditures during the six months ended June 30, 2009 include the purchase of two hospitals, a controlling equity interest in another hospital, surgery centers, and physician practices and the settlement of working capital items from a prior year acquisition. The expenditures during the six months ended June 30, 2008 were for the acquisition of ten physician practices and a clinic.

Excluding the cost to construct replacement hospitals, our capital expenditures for the six months ended June 30, 2009 totaled $265.6 million, compared to $172.2 million for the six months ended June 30, 2008. These capital expenditures related primarily to the purchase of additional equipment and minor renovations. Costs to construct replacement hospitals for the six months ended June 30, 2009 totaled $1.7 million, compared to $103.4 million for the six months ended June 30, 2008. At June 30, 2009, there are no replacement hospitals currently under construction. In 2008, the Company completed construction of and opened three replacement hospitals, accounting for the higher costs incurred during the six months ended June 30, 2008. Pursuant to hospital purchase agreements in effect as of June 30, 2009, where required certificate of need approval has been obtained, we are required to build replacement hospitals in Valparaiso, Indiana by April 2011 and in Siloam Springs, Arkansas by February 2013. Also as required by an amendment to a lease agreement entered into in 2005, we agreed to build a replacement hospital at Barstow Community Hospital in Barstow, California. Estimated construction costs, including equipment costs, are approximately $304.0 million for these three replacement hospitals. In addition, in October 2008, after the purchase of the minority owner s interest in our Birmingham, Alabama facility, we initiated the purchase of an alternate site for a replacement hospital rather than the one previously selected by Triad. The new site includes a partially constructed hospital structure, for which we are currently assessing completion costs, to be used for relocating the existing Birmingham facility. This project is subject to the approval of a certificate of need. Upon receiving the certificate of need, and after resolution of any legal opposition, we will undertake completion of the unfinished facility.

Capital Resources

Net working capital was $1.139 billion at June 30, 2009, compared to $1.096 billion at December 31, 2008. The $43.5 million increase was primarily attributable to an increase in working capital attributable to the acquisition of Siloam Springs Memorial Hospital, Wyoming Valley Health Care System and a controlling equity interest in MCSA L.L.C., an increase in cash as a result of cash flows from operations, an increase in prepaid expenses and a decrease in accounts payable and accrued liabilities offset by a decrease in prepaid taxes.

In connection with the consummation of the Triad acquisition in July 2007, we obtained $7.215 billion of senior secured financing under a Credit Facility with a syndicate of financial institutions led by Credit Suisse, as administrative agent and collateral agent. The Credit Facility consisted of a $6.065 billion funded term loan facility with a maturity of seven years, a $300 million delayed draw term loan facility (reduced from $400 million) with a maturity of seven years and a $750 million revolving credit facility with a maturity of nine years. During the fourth quarter of 2008, $100 million of the delayed draw term loan was drawn down by us reducing the delayed draw term loan availability to $200 million at December 31, 2008. In January 2009, we drew down the remaining $200 million of the delayed draw term loan. The revolving credit facility also includes a subfacility for letters of credit and a swingline subfacility. The Credit Facility requires us to make quarterly amortization payments of each term loan facility equal to 0.25% of the initial outstanding amount of the term loans, if any, with the outstanding principal balance of each term loan facility 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 us and our 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 us and our subsidiaries,

subject to certain exceptions, and (3) 50%, subject to reduction to a lower percentage based on our leverage ratio (as defined in the Credit Facility generally as the ratio of total debt on the date of determination to our 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

Table of Contents

reductions are permitted in whole or in part, without premium or penalty, subject to minimum prepayment or reduction requirements.

The obligor under the Credit Facility is CHS/Community Health Systems, Inc., or CHS, a wholly-owned subsidiary of Community Health Systems, Inc. All of our obligations under the Credit Facility are unconditionally guaranteed by Community Health Systems, Inc. and certain existing and subsequently acquired or organized domestic subsidiaries. All obligations under the Credit Facility and the related guarantees are secured by a perfected first priority lien or security interest in substantially all of the assets of Community Health Systems, Inc., CHS and each subsidiary guarantor, including equity interests held by us 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 Credit Facility bear interest on the outstanding unpaid principal amount at a rate equal to an applicable percentage plus, at our 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 0.5%, 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 was initially 1.25% for Alternate Base Rate revolving loans and 2.25% for Eurodollar revolving loans, in each case subject to reduction based on our leverage ratio. Loans under the swingline subfacility bear interest at the rate applicable to Alternate Base Rate loans under the revolving credit facility.

We have 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 outstanding 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. We were initially obligated to pay commitment fees of 0.50% per annum (subject to reduction based upon on our 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. With respect to the delayed draw term loan facility, we were also obligated to pay commitment fees of 0.50% per annum for the first nine months after the close of the Credit Facility, 0.75% per annum for the next three months after such nine-month period and thereafter 1.0% per annum. In each case, the commitment fee was based on the unused amount of the delayed draw term loan facility. After the draw down of the remaining $200 million of the delayed draw term loan in January 2009, we no longer pay commitment fees for the delayed draw term loan facility. We also paid arrangement fees on the closing of the Credit Facility and pay an annual administrative agent fee.

The Credit Facility contains customary representations and warranties, subject to limitations and exceptions, and customary covenants restricting our and our subsidiaries ability to, among other things and subject to various exceptions, (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 our businesses, (10) grant certain guarantees with respect to physician practices, (11) engage in sale and leaseback transactions or (12) change our fiscal year. We and our subsidiaries are 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 Credit Facility include, but are not limited to, (1) our 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 Credit Facility.

Table of Contents

As of June 30, 2009, there was approximately $750 million of available borrowing capacity under our Credit Facility, of which $89.2 million was set aside for outstanding letters of credit.

During the three months ended June 30, 2009, the Company repurchased on the open market and cancelled $61.0 million of principal amount of the Notes. This resulted in a net gain from early extinguishment of debt of $0.3 million with an after-tax impact of $0.2 million. During the six months ended June 30, 2009, we repurchased on the open market and cancelled $121.5 million of principal amount of the Notes. This resulted in a net gain from early extinguishment of debt of $2.7 million with an after-tax impact of $1.7 million.

On April 2, 2009, the Company paid down $110.4 million of its term loans under the Credit Facility. Of this amount, $85.0 million was paid down as required under the terms of the Credit Facility with the net proceeds received from the sale of the ownership interest in the partnership that owned and operated Presbyterian Hospital of Denton. This resulted in a loss from early extinguishment of debt of $1.1 million with an after-tax impact of $0.7 million recorded in discontinued operations for both the three and six months ended June 30, 2009. The remaining $25.4 million was paid on the term loans as required under the terms of the Credit Facility with the net proceeds received from the sale of various other assets. This resulted in a loss from early extinguishment of debt of $0.3 million with an after-tax impact of $0.2 million recorded in continuing operations for the three and six months ended June 30, 2009.

As of June 30, 2009, we are currently a party to the following interest rate swap agreements to limit the effect of changes in interest rates on a portion of our long-term borrowings. On each of these swaps, we received a variable rate of interest based on the three-month London Inter-Bank Offer Rate, or LIBOR, in exchange for the payment by us of a fixed rate of interest. We currently pay, on a quarterly basis, a margin above LIBOR of 225 basis points for revolving credit and term loans under the Credit Facility.

Swap #	Notional Amount (in 000 s)	Fixed Interest Rate	Termination Date	Fair Value (in 000 s)
1	$704,000	0.4250%	August 28, 2009	$ (147) [1]
2	100,000	4.3375%	November 30, 2009	(1,725)
3	200,000	2.8800%	September 17, 2010	(3,397)
4	100,000	4.9360%	October 4, 2010	(4,435)
5	100,000	4.7090%	January 24, 2011	(5,059)
6	300,000	5.1140%	August 8, 2011	(22,170)
7	100,000	4.7185%	August 19, 2011	(6,746)
8	100,000	4.7040%	August 19, 2011	(6,590)
9	100,000	4.6250%	August 19, 2011	(6,544)
10	200,000	4.9300%	August 30, 2011	(14,235)
11	200,000	3.0920%	September 18, 2011	(6,442)
12	100,000	3.0230%	October 23, 2011	(3,064)
13	200,000	4.4815%	October 26, 2011	(12,729)
14	200,000	4.0840%	December 3, 2011	(11,097)
15	100,000	3.8470%	January 4, 2012	(5,026)
16	100,000	3.8510%	January 4, 2012	(5,036)
17	100,000	3.8560%	January 4, 2012	(5,048)
18	200,000	3.7260%	January 8, 2012	(9,470)
19	200,000	3.5065%	January 16, 2012	(8,399)
20	250,000	5.0185%	May 30, 2012	(20,874)

21	150,000	5.0250%	May 30, 2012	(12,597)
22	200,000	4.6845%	September 11, 2012	(15,307)
23	100,000	3.3520%	October 23, 2012	(3,563)
24	125,000	4.3745%	November 23, 2012	(8,486)

Table of Contents

Swap #	Notional Amount (in 000 s)	Fixed Interest Rate	Termination Date	Fair Value (in 000 s)
25	75,000	4.3800%	November 23, 2012	(5,129)
26	150,000	5.0200%	November 30, 2012	(13,386)
27	100,000	5.0230%	May 30, 2013	(9,290)
28	300,000	5.2420%	August 6, 2013	(31,538)
29	100,000	5.0380%	August 30, 2013	(9,517)
30	50,000	3.5860%	October 23, 2013	(1,879)
31	50,000	3.5240%	October 23, 2013	(1,754)
32	100,000	5.0500%	November 30, 2013	(9,742)
33	200,000	2.0700%	December 19, 2013	6,241
34	100,000	5.2310%	July 25, 2014	(10,895)
35	100,000	5.2310%	July 25, 2014	(10,895)
36	200,000	5.1600%	July 25, 2014	(21,120)
37	75,000	5.0405%	July 25, 2014	(7,498)
38	125,000	5.0215%	July 25, 2014	(12,384)

(1) This interest rate swap is a 90-day swap for which we pay a monthly fixed rate of 0.4250% and receive one-month LIBOR rates payable on $704 million of term loans under the Credit Facility. As with each of these swap agreements, the variable interest rate received matches the variable interest rate paid for the revolving credit and term loans under the Credit Facility. We continue to pay a margin of 225 basis points for the revolving credit and term loans under the Credit Facility.

The Credit Facility and/or the Notes contain various covenants that limit our ability to take certain actions including, among other things, our ability to:

incur, assume or guarantee additional indebtedness;

issue redeemable stock and preferred stock;

repurchase capital stock;

make restricted payments, including paying dividends and making investments;

redeem debt that is junior in right of payment to the notes;

create liens without securing the notes;

sell or otherwise dispose of assets, including capital stock of subsidiaries;

enter into agreements that restrict dividends from subsidiaries;

merge, consolidate, sell or otherwise dispose of substantial portions of our assets;

enter into transactions with affiliates; and

guarantee certain obligations.

In addition, our Credit Facility contains restrictive covenants and requires us to maintain specified financial ratios and satisfy other financial condition tests. Our ability to meet these restricted covenants and financial ratios and tests can be affected by events beyond our control, and we cannot assure you that we will meet those tests. A breach of any of these covenants could result in a default under our Credit Facility and/or the Notes. Upon the occurrence of an event of default under our Credit Facility or the Notes, all amounts outstanding under our Credit Facility and the Notes may become due and payable and all commitments under the Credit Facility to extend further credit may be terminated.

Table of Contents

We believe that internally generated cash flows, availability for additional borrowings under our Credit Facility of a $750 million revolving credit facility, and our ability to add up to $300 million of borrowing capacity from receivable transactions (including securitizations) will be sufficient to finance acquisitions, capital expenditures and working capital requirements through the next 12 months. We believe these same sources of cash flows, borrowings under our credit agreement and, despite the current conditions in the financial and capital markets resulting from the global credit and liquidity issues, access to bank credit and capital markets will be available to us beyond the next 12 months and into the foreseeable future.

On December 22, 2008, we filed a universal automatic shelf registration statement on Form S-3ASR that will permit us, from time to time, in one or more public offerings, to offer debt securities, common stock, preferred stock, warrants, depositary shares, or any combination of such securities. The shelf registration statement will also permit our subsidiary, CHS, to offer debt securities that would be guaranteed by us, from time to time in one or more public offerings. The terms of any such future offerings would be established at the time of the offering.

The following table shows the ratio of earnings to fixed charges for the six months ended June 30, 2009:

	Six Months Ended June 30, 2009
Ratio of earnings to fixed charges(1)	1.53x

(1) There are no shares of preferred stock outstanding.

Off-balance Sheet Arrangements

Our consolidated operating results for the six months ended June 30, 2009 and 2008, included $143.3 million and $139.0 million, respectively, of net operating revenue and $10.6 million and $7.4 million, respectively, of income from operations generated from six hospitals operated by us under operating lease arrangements. In accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP, the respective assets and the future lease obligations under these arrangements are not recorded on our condensed consolidated balance sheet. Lease payments under these arrangements are included in rent expense when paid and totaled approximately $8.3 million for the six months ended June 30, 2009, compared to $8.2 million for the six months ended June 30, 2008. The current terms of these operating leases expire between June 2010 and December 2019, not including lease extension options. If we allow these leases to expire, we would no longer generate revenue nor incur expenses from these hospitals.

In the past, we have utilized operating leases as a financing tool for obtaining the operations of specified hospitals without acquiring, through ownership, the related assets of the hospital and without a significant outlay of cash at the front end of the lease. We utilize the same management and operating strategies to improve operations at those hospitals held under operating leases as we do at those hospitals that we own. We have not entered into any operating leases for hospital operations since December 2000.

Joint Ventures

We have sold noncontrolling interests in certain of our subsidiaries or acquired subsidiaries with existing noncontrolling interest ownership positions. As of June 30, 2009, we have hospitals owned by physician joint ventures in 23 of the markets we serve, with ownership interests ranging from less than 1% to 40%, including one hospital that also had a non-profit entity as a partner. In addition, three other hospitals had non-profit entities as partners. Redeemable noncontrolling interests in equity of consolidated subsidiaries was $324.0 million and $320.2 million as of June 30, 2009 and December 31, 2008, respectively, and noncontrolling interests in equity of consolidated subsidiaries was $81.0 million and $75.1 million as of June 30, 2009 and December 31, 2008, respectively, and the amount of net income attributable to noncontrolling interests was $14.6 million and $7.3 million for the three months ended June 30, 2009 and 2008, respectively, and $28.5 million and $15.9 million for the six months ended June 30, 2009 and 2008, respectively.

Table of Contents

Reimbursement, Legislative and Regulatory Changes

Legislative and regulatory action has resulted in continuing change in the Medicare and Medicaid reimbursement programs which will continue to limit payment increases under these programs and in some cases implement payment decreases. Within the statutory framework of the Medicare and Medicaid programs, there are substantial areas subject to administrative rulings, interpretations, and discretion which may further affect payments made under those programs, and the federal and state governments might, in the future, reduce the funds available under those programs or require more stringent utilization and quality reviews of hospital facilities. Additionally, there may be a continued rise in managed care programs and future restructuring of the financing and delivery of healthcare in the United States. These events could cause our future financial results to decline.

Inflation

The healthcare industry is labor intensive. Wages and other expenses increase during periods of inflation and when labor shortages occur in the marketplace. In addition, our suppliers pass along rising costs to us in the form of higher prices. We have implemented cost control measures, including our case and resource management program, to curb increases in operating costs and expenses. We have generally offset increases in operating costs by increasing reimbursement for services, expanding services and reducing costs in other areas. However, we cannot predict our ability to cover or offset future cost increases.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of our condensed consolidated financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and potentially result in materially different results under different assumptions and conditions. We believe that our critical accounting policies are limited to those described below.

Third Party Reimbursement

Net operating revenues 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, we are reimbursed by non-governmental payors using a variety of payment methodologies. Amounts we receive 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 this automated system, actual Medicare DRG data and payors historical paid claims data are utilized to calculate the contractual allowances. This data is automatically updated on a monthly basis. All hospital contractual allowance calculations are subjected to monthly review by management to ensure reasonableness and accuracy. We account for the differences between the estimated program reimbursement rates and the standard billing rates as contractual allowance adjustments, which we deduct from gross revenues to arrive at net operating revenues. The process of estimating contractual allowances requires us to estimate the amount expected to be received based on government programs and payor contract provisions. The key assumption in this process is the estimated contractual reimbursement percentage, which is based on payor classification and historical paid claims data. Due to the complexities involved in these estimates, actual payments we receive could be different from the amounts we estimate

and record. If the actual contractual reimbursement percentage under government programs and managed care contracts differed by 1% from our estimated reimbursement percentage, net income for the six months ended June 30, 2009 would have changed by approximately $25.8 million, and net accounts receivable would have changed by $42.0 million. Final settlements under some of these programs are subject to adjustment based on administrative review and audit by third parties. We account for adjustments to previous program reimbursement estimates as contractual allowance adjustments and report them in the periods that

Table of Contents

such adjustments become known. Contractual allowance adjustments related to final settlements and previous program reimbursement estimates impacted net operating revenues and net income by an insignificant amount in each of the three-month and six-month periods ended June 30, 2009 and 2008.

Allowance for Doubtful Accounts

Substantially all of our accounts receivable are related to providing healthcare services to our hospitals patients. Collection of these accounts receivable is our primary source of cash and is critical to our operating performance. Our primary collection risks relate to uninsured patients and outstanding patient balances for which the primary insurance payor has paid some but not all of the outstanding balance, with the remaining outstanding balance (generally deductibles and co-payments) owed by the patient. At the point of service, for patients required to make a co-payment, we generally collect less than 15% of the related revenue. For all procedures scheduled in advance, our policy is to verify insurance coverage prior to the date of the procedure. Insurance coverage is not verified in advance of procedures for walk-in and emergency room patients.

We estimate 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. For all other payor categories we reserve 100% of all accounts aging over 365 days from the date of discharge. The percentage used to reserve for all self-pay accounts is based on our collection history. We believe that we collect substantially all of our third-party insured receivables, which include receivables from governmental agencies.

Collections are impacted by the economic ability of patients to pay and the effectiveness of our collection efforts. Significant changes in payor mix, business office operations, economic conditions or trends in federal and state governmental healthcare coverage could affect our collection of accounts receivable. The process of estimating the allowance for doubtful accounts requires us to estimate the collectability of self-pay accounts receivable, which is primarily based on our collection history, adjusted for expected recoveries and, if available, anticipated changes in collection trends. Significant change in payor mix, business office operations, economic conditions, trends in federal and state governmental healthcare coverage or other third party payors could affect our estimates of accounts receivable collectability. If the actual collection percentage differed by 1% from our estimated collection percentage as a result of a change in expected recoveries, net income for the six months ended June 30, 2009 would have changed by $13.4 million, and net accounts receivable would have changed by $21.7 million. We also continually review our 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 by payor, days revenue outstanding, and the impact of recent acquisitions and dispositions.

Our 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. We believe this policy accurately reflects our ongoing collection efforts and is consistent with industry practices. We had approximately $1.4 billion at June 30, 2009 and $1.5 billion December 31, 2008, being pursued by various outside collection agencies. We expect to collect less than 3%, 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 our gross accounts receivable or our allowance for doubtful accounts. Collections on amounts previously written-off are recognized as a reduction to bad debt expense when received. However, we take into consideration estimated collections of these future amounts written-off in evaluating the reasonableness of our allowance for doubtful accounts.

All of the following information is derived from our hospitals, excluding clinics, unless otherwise noted.

Patient accounts receivable from our hospitals represent approximately 95% of our total consolidated accounts receivable.

Days revenue outstanding was 50 days at June 30, 2009 and 53 days at December 31, 2008. Our target range for days revenue outstanding is 52 to 58 days.

Table of Contents

Total gross accounts receivable (prior to allowance for contractual adjustments and doubtful accounts) was approximately $6.083 billion as of June 30, 2009 and approximately $5.458 billion as of December 31, 2008.

The approximate percentage of total gross accounts receivable (prior to allowances for contractual adjustments and doubtful accounts) summarized by payor category is as follows:

	As of	
	June 30, 2009	**December 31, 2008**
Insured receivables	65.4%	67.0%
Self-pay receivables	34.6%	33.0%
Total	100.0%	100.0%

For the hospital segment, the combined total of the allowance for doubtful accounts and related allowances for other self-pay discounts and contractuals, as a percentage of gross self-pay receivables, was approximately 81% at June 30, 2009 and 80% at December 31, 2008. If the receivables that have been written-off but where collections are still being pursued by outside collection agencies, were included in both the allowances and gross self-pay receivables specified above, the percentage of combined allowances to total self-pay receivables would have been approximately 88% at June 30, 2009 and December 31, 2008.

Goodwill and Other Intangibles

Goodwill represents the excess of cost over the fair value of net assets acquired. Goodwill arising from business combinations is accounted for under the provisions of SFAS No. 141(R) Business Combinations and SFAS No. 142, Goodwill and Other Intangible Assets and is not amortized. SFAS No. 142 requires goodwill to be evaluated for impairment at the same time every year and when an event occurs or circumstances change that, more likely than not, reduce the fair value of the reporting unit below its carrying value. SFAS No. 142 requires a two-step method for determining goodwill impairment. Step one is to compare the fair value of the reporting unit with the unit s carrying amount, including goodwill. If this test indicates the fair value is less than the carrying value, then step two is required to compare the implied fair value of the reporting unit s goodwill with the carrying value of the reporting unit s goodwill. We have selected September 30th as our annual testing date.

We estimate the fair value of the related reporting units using both a discounted cash flow model as well as an EBITDA multiple model. These models are both based on our best estimate of future revenues and operating costs and are reconciled to our consolidated market capitalization. The cash flow forecasts are adjusted by an appropriate discount rate based on our weighted average cost of capital. Historically our valuation models did not fully capture the fair value of our business as a whole, as they did not consider the increased consideration a potential acquirer would be required to pay, in the form of a control premium, in order to gain sufficient ownership to set policies, direct operations and control management decisions. However, because our models have indicated value significantly in excess of the carrying amount of assets in our reporting units, the additional value from a control premium was not a determining factor in the outcome of step one of our impairment assessment.

Impairment or Disposal of Long-Lived Assets

In accordance with SFAS No. 144, whenever events or changes in circumstances indicate that the carrying values of certain long-lived assets may be impaired, we project the undiscounted cash flows expected to be generated by these assets. If the projections indicate that the reported amounts are not expected to be recovered, such amounts are reduced to their estimated fair value based on a quoted market price, if available, or an estimate based on valuation techniques available in the circumstances.

Professional Liability Insurance Claims

As part of our business of owning and operating hospitals, we are subject to legal actions alleging liability on our part. We accrue for losses resulting from such liability claims, as well as loss adjustment expenses that are out-of-pocket and directly related to such liability claims. These direct out-of-pocket expenses include fees of outside counsel and experts. We do not accrue for costs that are part of our corporate overhead, such as the costs of our in-

Table of Contents

house legal and risk management departments. The losses resulting from professional liability claims primarily consist of estimates for known claims, as well as estimates for incurred but not reported claims. The estimates are based on specific claim facts, our historical claim reporting and payment patterns, the nature and level of our hospital operations, and actuarially determined projections. The actuarially determined projections are based on our actual claim data, including historic reporting and payment patterns which have been gathered over an approximate 20-year period. As discussed below, since we purchase excess insurance on a claims-made basis that transfers risk to third party insurers, the liability we accrue does not include an amount for the losses covered by our excess insurance. Since we believe that the amount and timing of our future claims payments are reliably determinable, we discount the amount we accrue for losses resulting from professional liability claims using the risk-free interest rate corresponding to the timing of our expected payments.

The net present value of the projected payments was discounted using a weighted-average risk-free rate of 2.6% and 4.1% in 2008 and 2007, respectively. This liability is adjusted for new claims information in the period such information becomes known to us. Professional malpractice expense includes the losses resulting from professional liability claims and loss adjustment expense, as well as paid excess insurance premiums, and is presented within other operating expenses in the accompanying consolidated statements of income.

Our processes for obtaining and analyzing claims and incident data are standardized across all of our hospitals and have been consistent for many years. We monitor the outcomes of the medical care services that we provide and for each reported claim, we obtain various information concerning the facts and circumstances related to that claim. In addition, we routinely monitor current key statistics and volume indicators in our assessment of utilizing historical trends. The average lag period between claim occurrence and payment of a final settlement is between 4 and 5 years, although the facts and circumstances of individual claims could result in the timing of such payments being different from this average. Since claims are paid promptly after settlement with the claimant is reached, settled claims generally represent less than 1.0% of the total liability at the end of any period.

For purposes of estimating our individual claim accruals, we utilize specific claim information, including the nature of the claim, the expected claim amount, the year in which the claim occurred and the laws of the jurisdiction in which the claim occurred. Once the case accruals for known claims are determined, information is stratified by loss layers and retentions, accident years, reported years, geography, and claims relating to the acquired Triad hospitals versus claims relating to our other hospitals. Several actuarial methods are used against this data to produce estimates of ultimate paid losses and reserves for incurred but not reported claims. Each of these methods uses our company-specific historical claims data and other information. This company-specific data includes information regarding our business, including historical paid losses and loss adjustment expenses, historical and current case loss reserves, actual and projected hospital statistical data, a variety of hospital census information, employed physician information, professional liability retentions for each policy year, geographic information and other data.

Based on these analyses, we determine our estimate of the professional liability claims. The determination of management s estimate, including the preparation of the reserve analysis that supports such estimate, involves subjective judgment of the management. Changes in reserving data or the trends and factors that influence reserving data may signal fundamental shifts in our future claim development patterns or may simply reflect single-period anomalies. Even if a change reflects a fundamental shift, the full extent of the change may not become evident until years later. Moreover, since our methods and models use different types of data and we select our liability from the results of all of these methods, we typically cannot quantify the precise impact of such factors on our estimates of the liability. Due to our standardized and consistent processes for handling claims and the long history and depth of our company-specific data, our methodologies have produced reliably determinable estimates of ultimate paid losses.

We are primarily self-insured for these claims; however, we obtain excess insurance that transfers the risk of loss to a third-party insurer for claims in excess of our self-insured retentions. Our excess insurance is underwritten on a

claims-made basis. For claims reported prior to June 1, 2002, substantially all of our professional and general liability risks were subject to a $0.5 million per occurrence self-insured retention and for claims reported from June 1, 2002 through June 1, 2003, these self-insured retentions were $2.0 million per occurrence. Substantially all claims reported after June 1, 2003 and before June 1, 2005 are self-insured up to $4 million per claim. Substantially

Table of Contents

all claims reported on or after June 1, 2005 are self-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 has been purchased through commercial insurance companies and generally covers us for liabilities in excess of the self-insured retentions and up to $100 million per occurrence for claims reported on or after June 1, 2003 and up to $150 million per occurrence for claims occurred and reported after January 1, 2008.

Effective January 1, 2008, the former Triad Hospitals are insured on a claims-made basis as described above and through commercial insurance companies as described above for substantially all claims occurring on or after January 1, 2002 and reported on or after January 1, 2008. Substantially all losses for the former Triad hospitals in periods prior to May 1999 were 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 former Triad hospitals in respect of claims covered by such insurance policies arising prior to May 1999. After May 1999 through December 31, 2006, the former 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 occurring during 2007 were self-insured up to $10 million per claim.

There have been no significant changes in our estimate of the reserve for professional liability claims during the three and six months ended June 30, 2009.

Income Taxes

We must make estimates in recording provision for income taxes, including determination of deferred tax assets and deferred tax liabilities and any valuation allowances that might be required against the deferred tax assets. We believe that future income will enable us to realize these deferred tax assets, subject to the valuation allowance we have established.

On January 1, 2007, we adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes. The total amount of unrecognized benefit that would affect the effective tax rate, if recognized, was approximately $13.6 million as of June 30, 2009. It is our policy to recognize interest and penalties accrued related to unrecognized benefits in our condensed consolidated statements of income as income tax expense. During the six months ended June 30, 2009, we decreased liabilities by approximately $0.1 million and recorded $0.5 million in interest and penalties related to prior state income tax returns through our income tax provision from continuing operations, which are included in our FASB Interpretation No. 48 liability at June 30, 2009. A total of approximately $1.8 million of interest and penalties is included in the amount of FASB Interpretation No. 48 liability at June 30, 2009.

We believe it is reasonably possible that approximately $4.1 million of our current unrecognized tax benefit may be recognized within the next twelve months as a result of a lapse of the statute of limitations and settlements with taxing authorities.

We, or one of our subsidiaries, file income tax returns in the U.S. federal jurisdiction and various state jurisdictions. We have extended the federal statute of limitations for Triad for the tax periods ended December 31, 1999, December 31, 2000, April 30, 2001, June 30, 2001, December 31, 2001, December 31, 2002 and December 31, 2003. We are currently under examination by the IRS of the federal tax return of Triad for the tax periods ended December 31, 2004, December 31, 2005, December 31, 2006 and July 25, 2007. We believe the results of this examination will not be material to our consolidated results of operations or consolidated financial position. With few

exceptions, we are no longer subject to state income tax examinations for years prior to 2004.

Prior to the adoption of SFAS No. 160, Noncontrolling Interests in Consolidated Financials Statements an Amendment of ARB No. 51, or SFAS No. 160, on January 1, 2009, income attributable to noncontrolling interests was deducted from earnings before arriving at income from continuing operations. With the adoption of SFAS No. 160, the income attributable to noncontrolling interests has been reclassified below net income and therefore is no longer deducted in arriving at income from continuing operations. However, the provision for

Table of Contents

income taxes does not change because those subsidiaries with noncontrolling interests attribute their taxable income to their respective investors. Accordingly, we will not pay tax on the income attributable to the noncontrolling interests. As a result of separately reporting income that is taxed to others, our effective tax rate on continuing operations before income taxes, as reported on the face of the financial statements is 33.3% and 35.3% for the three months ended June 30, 2009 and 2008, respectively, and 33.4% and 35.1% for the six months ended June 30, 2009 and 2008, respectively. However, the actual effective tax rate that is attributable to the Company s share of income from continuing operations before income taxes (income from continuing operations before income taxes, as presented on the face of the statement of income, less income from continuing operations attributable to noncontrolling interests of $14.6 million and $7.4 million for the three months ended June 30, 2009 and 2008, respectively, and $28.2 million and $15.6 million for the six months ended June 30, 2009 and 2008, respectively) is 38.3% for the three and six months ended June 30, 2009 and 38.6% for the three and six months ended June 30, 2008.

Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations , or SFAS No. 141(R). SFAS No. 141(R) replaces SFAS No. 141 and addresses the recognition and accounting for identifiable assets acquired, liabilities assumed, and noncontrolling interests in business combinations. This standard requires more assets and liabilities to be recorded at fair value and requires expense recognition (rather than capitalization) of certain pre-acquisition costs. This standard also requires any adjustments to acquired deferred tax assets and liabilities occurring after the related allocation period to be made through earnings. Furthermore, this standard requires this treatment of acquired deferred tax assets and liabilities also be applied to acquisitions occurring prior to the effective date of this standard. SFAS No. 141(R) is effective for fiscal years beginning after December 15, 2008 and is required to be adopted prospectively with no early adoption permitted. We adopted SFAS No. 141(R) on January 1, 2009. Approximately $2.0 million and $3.0 million of acquisition costs related to prospective acquisitions were expensed during the three and six months ended June 30, 2009, respectively, from the adoption of SFAS No. 141(R). The impact of SFAS No. 141(R) on our consolidated results of operations and consolidated financial position in future periods will be largely dependent on the number of acquisitions we pursue; however, we do not anticipate at this time that such impact will be material.

SFAS No. 160 addresses the accounting and reporting framework for noncontrolling ownership interests in consolidated subsidiaries of the parent. SFAS No. 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent company and the interests of the noncontrolling owners. These disclosure requirements require that minority interests be renamed noncontrolling interests and that noncontrolling ownership interests be presented separately within equity in the consolidated financial statements. Revenues, expenses and income from continuing operations from less-than-wholly-owned subsidiaries are presented on the condensed consolidated statements of income at the consolidated amounts, with a consolidated net income measure that presents separately the amounts attributable to both the controlling and noncontrolling interests for all periods presented. Noncontrolling ownership interests that are redeemable or may become redeemable at a fixed or determinable price at the option of the holder or upon the occurrence of an event outside of the control of the company continue to be presented in mezzanine equity in accordance with Emerging Issues Task Force Topic D-98, Classification and Measurement of Redeemable Securities. SFAS No. 160 requires retrospective adoption of the presentation and disclosure requirements for all periods presented. Therefore, the condensed consolidated financial statements as of December 31, 2008 and for the three and six months ended June 30, 2008 reflect the provisions of SFAS No. 160 as if it was effective for those periods. Other than these changes in financial statement presentation, the adoption of SFAS No. 160 did not have a material impact on the condensed consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities , or SFAS No. 161. SFAS No. 161 expands the disclosure requirements for derivative instruments and for hedging activities in order to provide additional understanding of how an entity uses derivative instruments and how they are

accounted for and reported in an entity s financial statements. The new disclosure requirements for SFAS No. 161 are effective for fiscal years beginning after November 15, 2008, and was adopted by us on January 1, 2009. The adoption of this statement has not had a material effect on our consolidated results of operations or consolidated financial position.

Table of Contents

SFAS No. 165 Subsequent Events , or SFAS No. 165, establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In particular, this Statement sets forth: (1) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (2) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and (3) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. SFAS No. 165 is effective for interim or annual financial periods ending after June 15, 2009. This standard does not result in significant changes in the subsequent events that are reported either through recognition or disclosure in the consolidated financial statements. In accordance with SFAS No. 165, the Company evaluated all material events occurring subsequent to the balance sheet date through July 31, 2009, the date the consolidated financial statements were issued, for events requiring disclosure or recognition in the consolidated financial statements.

SFAS No. 168 The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162 , or SFAS No. 168, is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The FASB Accounting Standards Codification, or Codification, will become the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission, or SEC, under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. On the effective date of this Statement, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification will become non-authoritative. The issuance of SFAS No. 168 and the Codification do not change current U.S. GAAP and will not have an impact on our consolidated results of operations or consolidated financial position.

FORWARD-LOOKING STATEMENTS

Some of the matters discussed in this report include forward-looking statements. Statements that are predictive in nature, that depend upon or refer to future events or conditions or that include words such as expects, anticipates, intends, plans, believes, estimates, thinks, and similar expressions are forward-looking statements. These statem involve known and unknown risks, uncertainties, and other factors that may cause our actual results and performance to be materially different from any future results or performance expressed or implied by these forward-looking statements. These factors include, but are not limited to, the following:

- general economic and business conditions, both nationally and in the regions in which we operate;
- legislative proposals for healthcare reform and universal access to healthcare coverage;
- risks associated with our substantial indebtedness, leverage, and debt service obligations;
- demographic changes;
- changes in, or the failure to comply with, governmental regulations;
- potential adverse impact of known and unknown government investigations and Federal and State False Claims Act litigation;
- our ability, where appropriate, to enter into and maintain managed care provider arrangements and the terms of these arrangements;

changes in, or the failure to comply with, managed care contracts could result in disputes and changes in reimbursement that could be applied retroactively;

changes in inpatient or outpatient Medicare and Medicaid payment levels;

increases in the amount and risk of collectability of patient accounts receivable;

increases in wages as a result of inflation or competition for highly technical positions and rising supply costs due to market pressure from pharmaceutical companies and new product releases;

liabilities and other claims asserted against us, including self-insured malpractice claims;

Table of Contents

competition;

our ability to attract and retain, without significant employment costs, qualified personnel, key management, physicians, nurses and other health care workers;

trends toward treatment of patients in less acute or specialty healthcare settings, including ambulatory surgery centers or specialty hospitals;

changes in medical or other technology;

changes in U.S. GAAP;

the availability and terms of capital to fund additional acquisitions or replacement facilities;

our ability to successfully acquire additional hospitals and complete the sale of hospitals held for sale;

our ability to successfully integrate any acquired hospitals or to recognize expected synergies from such acquisitions;

our ability to obtain adequate levels of general and professional liability insurance; and

timeliness of reimbursement payments received under government programs.

Although we believe that these statements are based upon reasonable assumptions, we can give no assurance that our goals will be achieved. Given these uncertainties, prospective investors are cautioned not to place undue reliance on these forward-looking statements. These forward-looking statements are made as of the date of this filing. We assume no obligation to update or revise them or provide reasons why actual results may differ.

Item 3. ***Quantitative and Qualitative Disclosures about Market Risk***

We are exposed to interest rate changes, primarily as a result of our senior secured credit facility which bears interest based on floating rates. In order to manage the volatility relating to the market risk, we entered into interest rate swap agreements described under the heading Liquidity and Capital Resources in Item 2. We do not anticipate any material changes in our primary market risk exposures in 2009. We utilize risk management procedures and controls in executing derivative financial instrument transactions. We do not execute transactions or hold derivative financial instruments for trading purposes. Derivative financial instruments related to interest rate sensitivity of debt obligations are used with the goal of mitigating a portion of the exposure when it is cost effective to do so.

A 1% change in interest rates on variable rate debt in excess of that amount covered by interest rate swaps would have resulted in interest expense fluctuating approximately $0.1 million and $3.5 million for the three months ended June 30, 2009 and 2008, respectively, and $1.4 million and $7.3 million for the six months ended June 30, 2009 and 2008, respectively.

Item 4. ***Controls and Procedures***

Our Chief Executive Officer and Chief Financial Officer, with the participation of other members of management, have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a 15(e) and 15d 15(e) under the Securities and Exchange Act of 1934, as amended), as of the end of the period covered by this report.

Based on such evaluations, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective (at the reasonable assurance level) to ensure that the information required to be included in this report has been recorded, processed, summarized and reported within the time periods specified in the Commission s rules and forms and to ensure that the information required to be included in this report was accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

There have been no changes in our internal control over financial reporting during the quarter ended June 30, 2009, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

Table of Contents

PART II OTHER INFORMATION

Item 1. *Legal Proceedings*

From time to time, we receive various inquiries or subpoenas from state regulators, fiscal intermediaries, the Centers for Medicare and Medicaid Services and the Department of Justice regarding various Medicare and Medicaid issues. In addition, we are subject to other claims and lawsuits arising in the ordinary course of our business. We are not aware of any pending or threatened litigation that is not covered by insurance policies or reserved for in our financial statements or which we believe would have a material adverse impact on us; however, some pending or threatened proceedings against us may involve potentially substantial amounts as well as the possibility of civil, criminal, or administrative fines, penalties, or other sanctions, which could be material. Settlements of suits involving Medicare and Medicaid issues routinely require both monetary payments as well as corporate integrity agreements. Additionally, qui tam or whistleblower actions initiated under the civil False Claims Act may be pending but placed under seal by the court to comply with the False Claims Act s requirements for filing such suits.

Community Health Systems, Inc. Legal Proceedings

In May 1999, we were served with a complaint in U.S. ex rel. Bledsoe v. Community Health Systems, Inc., subsequently moved to the Middle District of Tennessee, Case No. 2-00-0083. This qui tam action sought treble damages and penalties under the False Claims Act against us. The Department of Justice did not intervene in this action. The allegations in the amended complaint were extremely general, but involved Medicare billing at our White County Community Hospital in Sparta, Tennessee. By order entered on September 19, 2001, the U.S. District Court granted our motion for judgment on the pleadings and dismissed the case, with prejudice. The qui tam whistleblower (also referred to as a relator) appealed the district court s ruling to the U.S. Court of Appeals for the Sixth Circuit. On September 10, 2003, the Sixth Circuit Court of Appeals rendered its decision in this case, affirming in part and reversing in part the district court s decision to dismiss the case with prejudice. The court affirmed the lower court s dismissal of certain of plaintiff s claims on the grounds that his allegations had been previously publicly disclosed. In addition, the appeals court agreed that, as to all other allegations, the relator had failed to include enough information to meet the special pleading requirements for fraud under the False Claims Act and the Federal Rules of Civil Procedure. However, the case was returned to the district court to allow the relator another opportunity to amend his complaint in an attempt to plead his fraud allegations with particularity. In May 2004, the relator in U.S. ex rel. Bledsoe filed an amended complaint alleging fraud involving Medicare billing at White County Community Hospital. We then filed a renewed motion to dismiss the amended complaint. On January 6, 2005, the District Court dismissed with prejudice the bulk of the relator s allegations. The only remaining allegations involve a small number of charges from 1997 and 1998 at White County. After further motion practice between the relator and the United States Government regarding the relator s right to participate in a previous settlement with the Company, the District Court again dismissed all claims in the case on December 13, 2005. On January 9, 2006, the relator filed a notice of appeal to the U.S. Court of Appeals for the Sixth Circuit and on September 6, 2007, the Court of Appeals issued its opinion affirming in part, reversing in part (and in doing so, reinstating a number of the allegations claimed by the relator), and remanding the case to the District Court for further proceedings. The relator filed a motion for rehearing. That motion for rehearing was denied. The relator amended his complaint to conform to the decision of the Court of Appeals and we filed an answer. A case management conference was held August 18, 2008. The parties have exchanged initial written discovery. Relator has filed a pleading stating Relator Sean Bledsoe has a potentially fatal brain tumor that has severely affected Relator s long-term and short-term memory... The court has now ordered that all discovery be stayed until Relator and wife are deposed. We will continue to vigorously defend this case.

In August 2004, we were served a complaint in Arleana Lawrence and Robert Hollins v. Lakeview Community Hospital and Community Health Systems, Inc. (now styled Arleana Lawrence and Lisa Nichols vs. Eufaula Community Hospital, Community Health Systems, Inc., South Baldwin Regional Medical Center and Community Health Systems Professional Services Corporation) in the Circuit Court of Barbour County, Alabama (Eufaula Division). This alleged class action was brought by the plaintiffs on behalf of themselves and as the representatives of similarly situated uninsured individuals who were treated at our Lakeview Hospital or any of our other Alabama

Table of Contents

hospitals. The plaintiffs allege that uninsured patients who do not qualify for Medicaid, Medicare or charity care are charged unreasonably high rates for services and materials and that we use unconscionable methods to collect bills. The plaintiffs seek restitution of overpayment, compensatory and other allowable damages and injunctive relief. In October 2005, the complaint was amended to eliminate one of the named plaintiffs and to add our management company subsidiary as a defendant. In November 2005, the complaint was again amended to add another plaintiff, Lisa Nichols and another defendant, our hospital in Foley, Alabama, South Baldwin Regional Medical Center. After a hearing held on June 13, 2007, on October 29, 2007 the Circuit Court ruled in favor of the plaintiffs class action certification request. On summary judgment, the Circuit Court dismissed the case against Community Health Systems, Inc. only. All other parties remain. We disagree with the certification ruling and pursued our automatic right of appeal to the Alabama Supreme Court. Briefs have now been filed and oral argument requested but not yet scheduled. We are vigorously defending this case.

On March 3, 2005, we were served with a complaint in Sheri Rix v. Heartland Regional Medical Center and Health Care Systems, Inc. in the Circuit Court of Williamson County, Illinois. This alleged class action was brought by the plaintiff on behalf of herself and as the representative of similarly situated uninsured individuals who were treated at our Heartland Regional Medical Center. The plaintiff alleges that uninsured patients who do not qualify for Medicaid, Medicare or charity care are charged unreasonably high rates for services and materials and that we use unconscionable methods to collect bills. The plaintiff seeks recovery for breach of contract and the covenant of good faith and fair dealing, violation of the Illinois Consumer Fraud and Deceptive Practices Act, restitution of overpayment, and for unjust enrichment. The plaintiff class seeks compensatory and other damages and equitable relief. The Circuit Court Judge granted our motion to dismiss the case, but allowed the plaintiff to re-plead her case. The plaintiff elected to appeal the Circuit Court s decision in lieu of amending her case. Oral argument was heard on this case on January 9, 2008. On June 16, 2008, the Appellate Court upheld the dismissal of the consumer fraud claim but reversed dismissal of the contract claim. We filed a Petition for Leave of Appeal to the Illinois Supreme Court which was denied. The case has now been remanded and on March 10, 2009, we filed a motion for summary judgment. We are vigorously defending this case.

On February 10, 2006, we received a letter from the Civil Division of the Department of Justice requesting documents in an investigation it was conducting involving the Company. The inquiry related to the way in which different state Medicaid programs apply to the federal government for matching or supplemental funds that are ultimately used to pay for a small portion of the services provided to Medicaid and indigent patients. These programs are referred to by different names, including intergovernmental payments, upper payment limit programs, and Medicaid disproportionate share hospital payments. The February 2006 letter focused on our hospitals in three states: Arkansas, New Mexico, and South Carolina. On August 31, 2006, we received a follow up letter from the Department of Justice requesting additional documents relating to the programs in New Mexico and the payments to the Company s three hospitals in that state. Through the beginning of 2009, we provided the Department of Justice with requested documents, met with them on numerous occasions, and otherwise cooperated in its investigation. During the course of the investigation, the Civil Division notified us that it believed that we and these three New Mexico hospitals caused the State of New Mexico to submit improper claims for federal funds, in violation of the Federal False Claims Act. At one point, the Civil Division calculated that the three hospitals received ineligible federal participation payments from August 2000 to June 2006 of approximately $27.5 million and said that if it proceeded to trial, it would seek treble damages plus an appropriate penalty for each of the violations of the Federal False Claims Act. This investigation has culminated in the federal government s intervention in a qui tam lawsuit styled U.S. ex rel. Baker vs. Community Health Systems, Inc., pending in the United States District Court for the District of New Mexico. The federal government filed its complaint in intervention on June 30, 2009. The relator filed a second amended complaint on July 1, 2009. Our responses are due within 60 days. We are vigorously defending this action.

On June 12, 2008, two of our hospitals received letters from the U.S. Attorney s Office for the Western District of New York requesting documents in an investigation it was conducting into billing practices with respect to kyphoplasty

procedures performed during the period January 1, 2002, through June 9, 2008. On September 16, 2008, one of our hospitals in South Carolina also received an inquiry. Kyphoplasty is a surgical spine procedure that returns a compromised vertebrae (either from trauma or osteoporotic disease process) to its previous height, reducing or eliminating severe pain. We have been informed that similar investigations have been initiated at

Table of Contents

unaffiliated facilities in Alabama, South Carolina, Indiana and other states. We believe that this investigation is related to a recent qui tam settlement between the same U.S. Attorney s office and the manufacturer and distributor of the Kyphon product, which is used in performing the kyphoplasty procedure. We are cooperating with the investigation by collecting and producing material responsive to the requests. At this early stage, we do not have sufficient information to determine whether our hospitals have engaged in inappropriate billing for kyphoplasty procedures. We are continuing to evaluate and discuss this matter with the federal government.

Triad Hospitals, Inc. Legal Proceedings

Triad, and its subsidiary, Quorum Health Resources, Inc. are defendants in a qui tam case styled U.S. ex rel. Whitten vs. Quorum Health Resources, Inc. et al., which is pending in the Southern District of Georgia, Brunswick Division. Whitten, a long-term employee of a two hospital system in Brunswick and Camden, Georgia sued both his employer and Quorum Health Resources, Inc. and its predecessors, which had managed the facility from 1989 through September 2000; upon his termination of employment, Whitten signed a release and was paid $124,000. Whitten s original qui tam complaint was filed under seal in November 2002 and the case was unsealed in 2004. Whitten alleges various charging and billing infractions, including charging for routine equipment supplies and services not separately billable, billing for observation services that were not medically necessary or for which there was no physician order, billing labor and delivery patients for durable medical equipment that was not separately billable, inappropriate preparation of patients histories and physicals, billing for cardiac rehabilitation services without physician supervision, performing outpatient dialysis without Medicare certification, and performing mental health services without the proper staff assignments. In October 2005, the district court granted Quorum s motion for summary judgment on the grounds that his claims were precluded under his severance agreement with the hospital, without reaching two other arguments made by Quorum, which included that a prior settlement agreement between the hospital and the federal government precluded the claims brought by Whitten as well as the doctrine of prior public disclosure. On appeal to the 11th Circuit Court of Appeals, the court reversed the findings of the district court regarding the severance agreement, but remanded the case to the district court for findings on Quorum s other two defenses. Limited discovery has been conducted and renewed motions by Quorum to dismiss the action and to stay further discovery were filed in September 2007. On August 5, 2008, our motion to dismiss was denied. At the conclusion of discovery, a motion for summary judgment was filed on February 13, 2009, and set for a hearing on June 5, 2009. Our motion for summary judgment was granted on July 1, 2009. On July 7, 2009, the relator filed a notice of appeal.

In a case styled U.S. ex rel. Bartlett vs. Quorum Health Resources, Inc., et al., pending in the Western District of Pennsylvania, Johnstown Division, the relator alleges in his second amended complaint, filed in January 2006 (the first amended complaint having been dismissed), that Quorum conspired with an unaffiliated hospital to pay an illegal remuneration in violation of the anti-kickback statute and the Stark laws, thus causing false claims to be filed. A renewed motion to dismiss that was filed in March 2006 asserting that the second amended complaint did not cure the defects contained in the first amended complaint. In September 2006, the hospital and one of the other defendants affiliated with the hospital filed for protection under Chapter 11 of the federal bankruptcy code, which imposed an automatic stay on proceedings in the case. Relators entered into a settlement agreement with the hospital, subject to confirmation of the hospital s reorganization plan. The District Court conducted a status conference on January 30, 2009 and later convened another conference on March 30, 2009 and heard arguments on whether to proceed with a motion to dismiss, but did not make a ruling. We believe that this case is without merit and should the stay be lifted, will continue to vigorously defend it.

Item 1A. ***Risk Factors***

There have been no material changes with regard to risk factors previously disclosed in our most recent annual report on Form 10-K.

Item 2. ***Unregistered Sales of Equity Securities and Use of Proceeds***

We have not paid any cash dividends since our inception, and do not anticipate the payment of cash dividends in the foreseeable future. As of June 30, 2009, our Credit Facility limits our ability to pay dividends and/or repurchase stock to an amount not to exceed $400 million in the aggregate (but not in excess of $200 million unless

Table of Contents

we receive confirmation from Moody s and S&P that dividends or repurchases would not result in a downgrade, qualification or withdrawal of the then corporate credit rating). The indenture governing our Notes also limits our ability to pay dividends and/or repurchase stock in an amount higher than permitted by our Credit Facility.

Item 3. ***Defaults Upon Senior Securities***

None

Item 4. ***Submission of Matters to a Vote of Security Holders***

(a) The annual meeting of the stockholders of Community Health Systems, Inc., was held in New York, New York on May 19, 2009, for the purpose of voting on the proposals described below.

(b) Proxies for the meeting were solicited pursuant to Section 14(a) of the Securities and Exchange Act of 1934 and there was no solicitation in opposition to the Governance and Nominating Committee s nominees for directors. All of the Governance and Nominating Committee s nominees for directors were elected as set forth in clause (c) below. In addition, the terms of office as a director of W. Larry Cash, John A. Fry, William N. Jennings, Harvey Klein, M.D. and H. Mitchell Watson, Jr. continued after the meeting.

(c) Five proposals were submitted to a vote of stockholders as follows:

(1) The stockholders approved the election of the following persons as directors of the Company:

Name	For	Withheld	Abstain	Broker Non-Votes
John A. Clerico	81,685,129	3,785,165	179,342	
James S. Ely III	84,609,379	867,715	172,542	
Julia B. North	81,576,018	3,917,250	156,368	
Wayne T. Smith	82,117,132	3,372,938	159,566	

(2) The stockholders approved the Community Health Systems, Inc. 2000 Stock Option and Award Plan, amended and restated as of March 24, 2009:

For	Withheld	Abstain	Broker Non-Votes
47,515,852	34,996,479	140,638	2,996,667

(3) The stockholders approved the Community Health Systems, Inc. 2004 Employee Performance Incentive Plan, amended and restated as of March 24, 2009:

For	Withheld	Abstain	Broker Non-Votes
81,672,105	3,841,262	136,269	

(4)

The stockholders approved the Community Health Systems, Inc. 2009 Stock Option and Award Plan, adopted as of March 24, 2009:

For	Withheld	Abstain	Broker Non-Votes
73,443,413	9,069,247	140,311	2,996,665

(5) The Board of Directors appointment of Deloitte & Touche, LLP, as the Company s independent accountants for 2009 was ratified by the affirmative votes of stockholders:

For	Withheld	Abstain	Broker Non-Votes
85,403,051	73,678	172,907	

Item 5. ***Other Information***

None

Table of Contents

Item 6. ***Exhibits***

No.	Description
4.1	Seventh Supplemental Indenture relating to CHS/Community Health Systems, Inc. s 87/8% Senior Notes due 2015, dated as of June 30, 2009, by and among CHS/Community Health Systems, Inc., the guarantors party thereto and U.S. Bank National Association
4.2	Release of Certain Guarantors relating to CHS/Community Health Systems, Inc. s 87/8% Senior Notes due 2015, dated as of June 30, 2009, by and among CHS/Community Health Systems, Inc., the guarantors party thereto and U.S. Bank National Association
10.1	Credit Agreement, dated as of July 25, 2007, by and among CHS/Community Health Systems, Inc., Community Health Systems, Inc., the lender parties thereto and Credit Suisse, as Administrative Agent and Collateral Agent, Credit Suisse Securities (USA) LLC and Wachovia Capital Markets, LLC as Joint Bookrunner and Co-Lead Arrangers, Wachovia Bank, N.A. as Syndication Agent, JPMorgan Chase Bank and Merrill Lynch Capital Corporation as Co-Documentation Agents
10.2	Guarantee and Collateral Agreement, dated as of July 25, 2007, by and among CHS/Community Health Systems, Inc., Community Health Systems, Inc., the Subsidiaries from time to time party thereto and Credit Suisse, as collateral agent
10.3	Community Health Systems, Inc. 2004 Employee Performance Incentive Plan, as amended and restated on March 24, 2009
10.4	Community Health Systems, Inc. 2000 Stock Option and Award Plan, as amended and restated on March 24, 2009
10.5	Community Health Systems, Inc. 2009 Stock Option and Award Plan, effective as of March 24, 2009
12	Computation of Ratio of Earnings to Fixed Charges
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
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Indicates a management contract or compensatory plan or arrangement.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

COMMUNITY HEALTH SYSTEMS, INC.
(Registrant)

By: /s/ Wayne T. Smith

Wayne T. Smith
Chairman of the Board,
President and Chief Executive Officer
(principal executive officer)

By: /s/ W. Larry Cash

W. Larry Cash
Executive Vice President, Chief Financial
Officer and Director
(principal financial officer)

By: /s/ T. Mark Buford

T. Mark Buford
Vice President and Chief Accounting Officer
(principal accounting officer)

Date: July 31, 2009

Table of Contents

Index to Exhibits

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