

COMMUNITY HEALTH SYSTEMS INC

Form 10-Q

October 30, 2009

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**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 September 30, 2009  
Commission file number 001-15925  
COMMUNITY HEALTH SYSTEMS, INC.  
(Exact name of registrant as specified in its charter)**

**Delaware**  
*(State or other jurisdiction of  
incorporation or organization)*

**13-3893191**  
*(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  No

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  No

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  Accelerated filer  Non-accelerated filer  Smaller reporting company

(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  No

As of October 20, 2009, there were outstanding 92,955,740 shares of the Registrant's Common Stock, \$0.01 par value.

**Community Health Systems, Inc.**  
**Form 10-Q**  
**For the Three and Nine Months Ended September 30, 2009**

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**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)*

	<b>September 30, 2009</b>	<b>December 31, 2008</b>
<b>ASSETS</b>		
<i>Current assets</i>		
Cash and cash equivalents	\$ 432,815	\$ 220,655
Patient accounts receivable, net of allowance for doubtful accounts of \$1,367,290 and \$1,111,131 at September 30, 2009 and December 31, 2008, respectively	1,676,345	1,625,470
Supplies	289,145	275,696
Prepaid income taxes		92,710
Deferred income taxes	91,875	91,875
Prepaid expenses and taxes	91,192	73,792
Other current assets	213,260	224,852
Total current assets	2,794,632	2,605,050
<i>Property and equipment</i>		
Less accumulated depreciation and amortization	7,593,143	7,110,357
Property and equipment, net	(1,539,796)	(1,215,952)
Goodwill	6,053,347	5,894,405
Other assets, net	4,187,677	4,166,091
Total assets	\$ 14,043,683	\$ 13,818,254
<b>LIABILITIES AND EQUITY</b>		
<i>Current liabilities</i>		
Current maturities of long-term debt	\$ 62,265	\$ 33,904
Accounts payable	495,377	532,595
Current income taxes payable	48,251	
Deferred income taxes	6,740	6,740
Accrued interest	83,562	153,234
Accrued liabilities	863,903	782,944
Total current liabilities	1,560,098	1,509,417
Long-term debt	8,864,698	8,938,185

<i>Deferred income taxes</i>	461,098	460,793
<i>Other long-term liabilities</i>	873,587	888,557
<i>Total liabilities</i>	11,759,481	11,796,952
<i>Redeemable noncontrolling interests in equity of consolidated subsidiaries</i>	335,019	320,171
<b>EQUITY</b>		
<i>Community Health Systems, Inc. stockholders' equity</i>		
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; 93,910,591 shares issued and 92,935,042 shares outstanding at September 30, 2009, and 92,483,166 shares issued and 91,507,617 shares outstanding at December 31, 2008	939	925
Additional paid-in capital	1,164,238	1,151,119
Treasury stock, at cost, 975,549 shares at September 30, 2009 and December 31, 2008	(6,678)	(6,678)
Accumulated other comprehensive loss	(242,242)	(295,575)
Retained earnings	954,311	776,249
<i>Total Community Health Systems, Inc. stockholders' equity</i>	1,870,568	1,626,040
<i>Noncontrolling interests in equity of consolidated subsidiaries</i>	78,615	75,091
<i>Total equity</i>	1,949,183	1,701,131
<i>Total liabilities and equity</i>	\$ 14,043,683	\$ 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)*

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<i>Net operating revenues</i>	\$ 3,086,757	\$ 2,754,509	\$ 9,016,467	\$ 8,138,017
<i>Operating costs and expenses:</i>				
Salaries and benefits	1,239,147	1,090,037	3,614,267	3,255,287
Provision for bad debts	378,357	321,570	1,078,587	899,236
Supplies	428,120	379,913	1,253,713	1,139,220
Other operating expenses	567,624	527,778	1,680,414	1,577,172
Rent	62,683	58,155	184,211	175,486
Depreciation and amortization	143,558	128,663	421,566	373,513
Total operating costs and expenses	2,819,489	2,506,116	8,232,758	7,419,914
<i>Income from operations</i>	267,268	248,393	783,709	718,103
<i>Interest expense, net</i>	161,823	166,773	487,209	484,836
<i>Loss (gain) from early extinguishment of debt</i>	21		(2,385)	1,328
<i>Equity in earnings of unconsolidated affiliates</i>	(7,001)	(8,695)	(31,701)	(32,078)
<i>Income from continuing operations before income taxes</i>	112,425	90,315	330,586	264,017
<i>Provision for income taxes</i>	37,064	31,209	109,907	92,263
<i>Income from continuing operations</i>	75,361	59,106	220,679	171,754
<i>Discontinued operations, net of taxes:</i>				
(Loss) income from operations of hospitals sold and hospitals held for sale		(608)	1,977	1,044
(Loss) gain on sale of hospitals, net			(405)	9,580
<i>(Loss) income from discontinued operations</i>		(608)	1,572	10,624
<i>Net income</i>	75,361	58,498	222,251	182,378
Less: Net income attributable to noncontrolling interests	15,649	8,114	44,189	23,974
Net income attributable to Community Health Systems, Inc.	\$ 59,712	\$ 50,384	\$ 178,062	\$ 158,404

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*Income from continuing operations  
attributable to Community Health Systems,  
Inc. common stockholders per share (1):*

Basic	\$	0.66	\$	0.53	\$	1.96	\$	1.56
Diluted	\$	0.65	\$	0.52	\$	1.94	\$	1.54

*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	\$	0.54	\$	1.97	\$	1.69
Diluted	\$	0.65	\$	0.53	\$	1.95	\$	1.67

*Weighted-average number of shares  
outstanding:*

Basic	90,923,052	94,044,564	90,423,600	93,995,343
Diluted	92,010,742	95,159,619	91,117,013	95,106,115

(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)*

	<b>Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>
<i>Cash flows from operating activities</i>		
Net income attributable to Community Health Systems, Inc.	\$ 178,062	\$ 158,404
Plus: Net income attributable to noncontrolling interests	44,189	23,974
Net income	222,251	182,378
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	421,898	378,107
Stock-based compensation expense	35,121	39,812
Loss (gain) on sale of hospitals and partnership interest, net	405	(17,687)
Income tax payable increase (excess tax benefit) relating to stock-based compensation	3,544	(1,278)
(Gain) loss on early extinguishment of debt	(2,385)	1,328
Other non-cash expenses, net	13,410	7,578
Changes in operating assets and liabilities, net of effects of acquisitions and divestitures:		
Patient accounts receivable	(10,235)	(117,193)
Supplies, prepaid expenses and other current assets	18,278	3,099
Accounts payable, accrued liabilities and income taxes	194,955	184,995
Other	3,518	23,917
Net cash provided by operating activities	900,760	685,056
<i>Cash flows from investing activities</i>		
Acquisitions of facilities and other related equipment	(211,941)	(7,274)
Purchases of property and equipment	(398,138)	(451,409)
Proceeds from disposition of hospitals and other ancillary operations	89,514	365,635
Proceeds from sale of property and equipment	2,521	13,964
Increase in other non-operating assets	(111,476)	(152,168)
Net cash used in investing activities	(629,520)	(231,252)
<i>Cash flows from financing activities</i>		
Proceeds from exercise of stock options	9,952	1,688
(Income tax payable increase) excess tax benefit relating to stock-based compensation	(3,544)	1,278
Deferred financing costs	(82)	(2,569)
Stock buy-back		(17,096)
Proceeds from noncontrolling investors in joint ventures	26,314	11,652

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Redemption of noncontrolling investments in joint ventures	(2,387)	(53,485)
Distributions to noncontrolling investors in joint ventures	(43,744)	(24,351)
Borrowings under credit agreement	200,000	30,596
Repayments of long-term indebtedness	(245,589)	(192,507)
Net cash used in financing activities	(59,080)	(244,794)
<i>Net change in cash and cash equivalents</i>	212,160	209,010
<i>Cash and cash equivalents at beginning of period</i>	220,655	132,874
<i>Cash and cash equivalents at end of period</i>	\$ 432,815	\$ 341,884

See accompanying notes to the condensed consolidated financial statements.

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

**1. BASIS OF PRESENTATION**

The unaudited condensed consolidated financial statements of Community Health Systems, Inc. and its subsidiaries (the Company) as of September 30, 2009 and December 31, 2008 and for the three-month and nine-month periods ended September 30, 2009 and September 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 nine months ended September 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.

Noncontrolling interests in less-than-wholly-owned consolidated subsidiaries of the parent are presented as a component of total equity to distinguish between the interests of the parent company and the interests of the noncontrolling owners. Revenues, expenses and income from continuing operations from these subsidiaries are included in the consolidated balances as presented on the condensed consolidated statements of income, along with a net income measure that separately presents the amounts attributable to the controlling interests and the amounts attributable to the noncontrolling interests for each of the periods presented. Noncontrolling 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 are presented in mezzanine equity on the condensed consolidated balance sheets.

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 present the assets and liabilities previously reported as held for sale in the applicable financial statement line items.

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.

**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 September 30, 2009,

4,048,856 shares of unissued common stock remain available for future grants under the 2000 Plan.

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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 September 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 on the reported operating results for the respective periods (in thousands):

	Three months ended September 30, 2009		Nine months ended September 30, 2009	
	2009	2008	2009	2008
Effect on income from continuing operations before income taxes	\$ (10,316)	\$ (13,129)	\$ (35,121)	\$ (39,812)
Effect on net income	\$ (6,267)	\$ (7,976)	\$ (21,336)	\$ (24,185)

At September 30, 2009, \$48.8 million of unrecognized stock-based compensation expense was expected to be recognized over a weighted-average period of 21 months. Of that amount, \$16.5 million related to outstanding unvested stock options expected to be recognized over a weighted-average period of 18 months and \$32.3 million related to outstanding unvested restricted stock, restricted stock units and phantom shares expected to be recognized over a weighted-average period of 23 months.

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 nine months ended September 30, 2009 and 2008:

	Three months ended September 30, 2009		Nine months ended September 30, 2009	
	2009	2008	2009	2008
Expected volatility	45.4%	25.4%	40.5%	24.2%
Expected dividends	0	0	0	0
Expected term	4 years	4 years	4 years	4 years
Risk-free interest rate	1.83%	2.67%	1.64%	2.59%

In determining the expected term, 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 term 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.

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Options outstanding and exercisable under the 2000 Plan as of September 30, 2009, and changes during each of the three month periods following December 31, 2008 were as follows (in thousands, except share and per share data):

	Shares	Weighted average exercise price	Weighted remaining contractual term (in years)	Aggregate intrinsic value as of September 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		
Granted	66,000	29.22		
Exercised	(315,819)	20.44		
Forfeited and cancelled	(122,329)	33.19		
Outstanding at September 30, 2009	9,082,094	\$ 30.16	5.9 years	\$ 40,828
Exercisable at September 30, 2009	6,160,836	\$ 30.95	4.9 years	\$ 24,362

The weighted-average grant date fair value of stock options granted during the nine months ended September 30, 2009 and 2008, was \$6.39 and \$7.71, 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 (\$31.93) 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 September 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 September 30, 2009 and 2008 was \$3.4 million and \$3.0 million, respectively, and the aggregate intrinsic value of options exercised during the nine months ended September 30, 2009 and 2008 was \$6.9 million and \$3.4 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 lapsed 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 had 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.

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Restricted stock outstanding under the 2000 Plan as of September 30, 2009, and changes during each of the three month periods following December 31, 2008 were as follows:

	Shares	Weighted - average 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	12,000	25.27
Vested	(6,498)	36.82
Forfeited	(3,335)	35.11
Unvested at June 30, 2009	2,215,395	26.40
Granted	11,000	29.22
Vested	(325,502)	40.30
Forfeited	(1,000)	18.18
Unvested at September 30, 2009	1,899,893	24.05

Also, under the 2000 Plan, on February 25, 2009, each of the Company's outside directors received a grant of shares of phantom stock 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). Pursuant to a March 24, 2009 amendment to the 2000 Plan, future grants of this type will be denominated as restricted stock unit awards. On May 19, 2009, the newly elected outside director received a grant of 7,151 restricted stock units under the 2000 Plan, having a value at the time of grant of \$180,706 based upon the closing price of the Company's common stock on that date of \$25.27. Vesting of these shares of phantom stock and restricted stock units occurs in one-third increments on each of the first three anniversaries of the award date. As of September 30, 2009, there were 50,057 shares of phantom stock and restricted stock units unvested at a weighted-average grant date fair value of \$19.19. None of these grants were vested or canceled during the nine months ended September 30, 2009.

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 September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Directors' fees earned and deferred into plan	\$ 20	\$ 17	\$ 60	\$ 75
Equivalent units	626.370	580.007	2,722.230	2,213.076



At September 30, 2009, a total of 19,541.232 units were deferred in the plan with an aggregate fair value of \$0.6 million, based on the closing market price of the Company's common stock on the last trading day of the reporting period of \$31.93.

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**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 \$39.4 million and \$42.3 million for the three months ended September 30, 2009 and 2008, respectively, and \$120.2 million and \$125.5 million for the nine months ended September 30, 2009 and 2008, respectively. Included in these amounts is stock-based compensation expense of \$10.3 million and \$13.1 million for the three months ended September 30, 2009 and 2008, respectively, and \$35.1 million and \$39.8 million for the nine months ended September 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**

***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 September 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. 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.



**Table of Contents*****Other Acquisitions***

Effective June 1, 2009, one or more subsidiaries of the Company acquired from Akron General Medical Center the remaining 20% joint venture interest in Massillon Community Health System, LLC not then owned by one or more subsidiaries of the Company. This entity 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 \$178.9 million, of which \$153.7 million was paid in cash, net of \$14.2 million of cash in acquired bank accounts, and \$25.2 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 valuation 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% unconsolidated noncontrolling interest. One or more subsidiaries of the Company provided MCSA L.L.C. with certain management services. This acquisition resulted in these subsidiaries of the Company owning a 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 \$0.1 million paid in cash for working capital and approximately \$1.0 million of assumed liabilities. In connection with this acquisition, a subsidiary of the Company entered into a lease agreement for the existing hospital and agreed to build a replacement facility at this location, with construction required to commence by February 2011 and be completed by February 2013. As security for this obligation, a subsidiary of the Company deposited \$1.6 million into an escrow account and agreed to deposit an additional \$1.6 million by February 1, 2010. 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. If the construction of the replacement facility is completed within the agreed time frame, the escrow balance will be returned to the subsidiary of the Company.

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 \$184.1 million, of which \$149.2 million was paid in cash and \$34.9 million was assumed in liabilities. Based upon the Company's purchase price allocation relating to this acquisition as of September 30, 2009, no goodwill has been recorded. The acquisition transaction was accounted for using the purchase method of accounting.

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.

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Prior to January 1, 2009, U.S. GAAP for business combinations required certain acquisition-related costs be recognized as part of the consideration paid for a business, resulting in adjustments to the value of the acquired assets when recorded. As a result of updates to U.S. GAAP, such acquisition-related costs must be expensed for business combinations that close subsequent to December 31, 2008. Approximately \$0.6 million and \$3.6 million of acquisition costs related to prospective and closed acquisitions were expensed during the three and nine months ended September 30, 2009, respectively. The impact of this change in U.S. GAAP 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 that such impact will be material.

**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, 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 (loss) income from discontinued operations for the respective periods are as follows (in thousands):

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Net operating revenues	\$	\$ 38,019	\$ 42,113	\$ 197,783
Income (loss) from operations of hospitals sold or held for sale before income taxes		348	3,024	2,954
(Loss) gain on sale of hospitals, net			(644)	17,687
Income (loss) from discontinued operations, before taxes		348	2,380	20,641
Income tax expense		956	808	10,017
(Loss) income from discontinued operations, net of tax	\$	\$ (608)	\$ 1,572	\$ 10,624

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

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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 condensed consolidated balance sheets for each of the periods presented have been restated to present the assets and liabilities previously reported as held for sale in the applicable financial statement line items.

**6. INCOME TAXES**

The total amount of unrecognized benefit that would affect the effective tax rate, if recognized, was approximately \$13.7 million as of September 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 nine months ended September 30, 2009, the Company decreased liabilities by approximately \$0.1 million and recorded \$0.6 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 liability for uncertain tax positions at September 30, 2009. A total of approximately \$2.0 million of interest and penalties is included in the amount of the liability for uncertain tax positions at September 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 regarding 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 2005 and federal income tax examinations with respect to Community Health Systems, Inc. federal returns for years prior to 2006.

Prior to January 1, 2009, income attributable to noncontrolling interests was deducted from earnings before arriving at income from continuing operations. With the adoption of certain updates to the U.S. GAAP related to consolidations effective January 1, 2009, 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 33.0% and 34.6% for the three months ended September 30, 2009 and 2008, respectively, and 33.2% and 34.9% for the nine months ended September 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 \$15.6 million and \$9.4 million for the three months ended September 30, 2009 and 2008, respectively, and \$43.8 million and \$25.0 million for the nine months ended September 30, 2009 and 2008, respectively) is 38.3% for the three and nine months ended September 30, 2009 and 38.6% for the three and nine months ended September 30, 2008.

Cash paid for income taxes, net of refunds received, resulted in net cash paid of \$1.8 million for the three months ended September 30, 2009 and a net cash refund of \$3.2 million for the three months ended September 30, 2008. Cash paid for income taxes, net of refunds received, resulted in a net cash paid of \$1.1 million and \$52.4 million for the nine months ended September 30, 2009 and 2008, respectively.



**Table of Contents****7. GOODWILL AND OTHER INTANGIBLE ASSETS**

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

Balance as of December 31, 2008	\$ 4,166,091
Goodwill acquired as part of acquisitions during 2009	16,251
Consideration adjustments and purchase price allocation adjustments for prior year's acquisitions	5,335
Balance as of September 30, 2009	\$ 4,187,677

Goodwill is 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 September 30, 2009, the hospital operations reporting unit, the home care agency operations reporting unit, and the hospital management services reporting unit had \$4.120 billion, \$34.3 million and \$33.3 million, respectively, of goodwill.

Goodwill is 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. There is 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 last annual goodwill evaluation as of September 30, 2008, which evaluation took place during the fourth quarter of 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 \$74.6 million at September 30, 2009 and \$68.6 million at December 31, 2008, and the net carrying amount was \$48.5 million at September 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 \$35.3 million and \$35.2 million at September 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 September 30, 2009 and 2008 was \$3.0 million and \$0.7 million, respectively, and \$9.7 million and \$3.9 million for the nine months ended September 30, 2009 and 2008, respectively. Amortization expense on intangible assets is estimated to be \$3.4 million for the remainder of 2009, \$11.8 million in 2010, \$5.9 million in 2011, \$4.9 million in 2012, \$4.1 million in 2013, and \$18.4 million in 2014 and thereafter.

**Table of Contents****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 September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Numerator for basic and diluted earnings per share:				
Income from continuing operations, net of tax	\$ 75,361	\$ 59,106	\$ 220,679	\$ 171,754
Less: Income from continuing operations attributable to noncontrolling interests, net of taxes	15,649	9,424	43,834	25,026
Income from continuing operations attributable to Community Health Systems, Inc. common stockholders basic and diluted	\$ 59,712	\$ 49,682	\$ 176,845	\$ 146,728
(Loss) income from discontinued operations, net of tax	\$	\$ (608)	\$ 1,572	\$ 10,624
Less: (Loss) income from discontinued operations attributable to noncontrolling interests, net of taxes		(1,310)	355	(1,052)
Income from discontinued operations attributable to Community Health Systems, Inc. common stockholders basic and diluted	\$	\$ 702	\$ 1,217	\$ 11,676
Denominator:				
Weighted-average number of shares outstanding basic	90,923,052	94,044,564	90,423,600	93,995,343
Effect of dilutive securities:				
Restricted stock awards	464,808	318,447	413,503	265,091
Employee options	608,289	796,608	271,966	845,681
Other equity based awards	14,593		7,944	
Weighted-average number of shares outstanding diluted	92,010,742	95,159,619	91,117,013	95,106,115
Dilutive securities outstanding not included in the computation of earnings per share because their effect is antidilutive:				
Employee options	5,609,459	3,677,807	7,047,674	3,859,669

**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 September 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.

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 nine months ended September 30, 2009, the Company did not repurchase any shares under this program.

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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 for the nine-month period ended September 30, 2009 (in thousands):

	<b>Community Health Systems, Inc. Stockholders</b>								
	<b>Redeemable</b>	<b>Additional</b>	<b>Accumulated</b>			<b>Other</b>	<b>Retained</b>	<b>Noncontrolling</b>	<b>Total</b>
	<b>Noncontrolling</b>	<b>Common</b>	<b>Paid-in</b>	<b>Treasur</b>	<b>Comprehensiv</b>	<b>Earnings</b>	<b>Interests</b>	<b>Stockholders</b>	
	<b>Interests</b>	<b>Stock</b>	<b>Capital</b>	<b>Stock</b>	<b>Income</b>	<b>(Loss)</b>	<b>(Loss)</b>	<b>Equity</b>	
<b>Balance, December 31, 2008</b>									
(as previously reported)	\$	\$ 925	\$ 1,197,944	\$ (6,678)	\$ (295,575)	\$ 776,249	\$	\$ 1,672,865	
January 1, 2009 adjustment to non-controlling interests from adoption of updates to U.S. GAAP	320,171		(46,825)				75,091	28,266	
Balance, December 31, 2008 (as adjusted)	320,171	925	1,151,119	(6,678)	(295,575)	776,249	75,091	1,701,131	
Comprehensive income (loss):									
Net income	29,884					178,062	14,305	192,367	
Net change in fair value of interest rate swaps					50,886			50,886	
Net change in fair value of available for sale securities (loss)					283			283	
Adjustment to pension liability					2,164			2,164	
Total comprehensive income	29,884				53,333	178,062	14,305	245,700	
Net distributions to noncontrolling interests	(16,882)						(11,391)	(11,391)	
Purchase of subsidiary shares from noncontrolling interests	(1,086)		3,226				610	3,836	
Sale of less than wholly - owned subsidiaries	(21,691)								
Adjustment to redemption value of redeemable noncontrolling interests	24,623		(24,623)					(24,623)	
Issuance of common stock in connection with the exercise of stock options		6	9,952					9,958	
Cancellation of restricted stock for tax withholdings on vested shares		(2)	(3,605)					(3,607)	
Tax benefit from exercise of options			(6,952)					(6,952)	
Share-based compensation		10	35,121					35,131	
<b>Balance, September 30, 2009</b>	<b>\$ 335,019</b>	<b>\$ 939</b>	<b>\$ 1,164,238</b>	<b>\$ (6,678)</b>	<b>\$ (242,242)</b>	<b>\$ 954,311</b>	<b>\$ 78,615</b>	<b>\$ 1,949,183</b>	



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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:

	Nine Months Ended September 30, 2009
Net income attributable to Community Health Systems, Inc.	\$ 178,062
Transfers from the noncontrolling interests:	
Increase in Community Health Systems, Inc. paid-in capital for purchase of subsidiary partnership interests	3,226
Net transfers from the noncontrolling interests	3,226
Change from net income attributable to Community Health Systems, Inc. and transfers (to) from noncontrolling interests	\$ 181,288

**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		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Net income	\$ 75,361	\$ 58,498	\$ 222,251	\$ 182,378
Net change in fair value of interest rate swaps	(23,163)	(15,528)	50,886	(10,714)
Net change in fair value of available for sale securities	732	(386)	283	(1,244)
Amortization of unrecognized pension components	754	440	2,164	328
Comprehensive income	53,684	43,024	275,584	170,748
Less: Comprehensive income attributable to noncontrolling interests	(15,649)	(8,114)	(44,189)	(23,974)
Comprehensive income attributable to Community Health Systems, Inc.	\$ 38,035	\$ 34,910	\$ 231,395	\$ 146,774

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 September 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% unconsolidated noncontrolling interest. One or more subsidiaries of the Company provided MCSA L.L.C. with 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 in El Dorado, Arkansas. The results of operations for MCSA L.L.C. were included in the consolidated financial statements effective April 1, 2009.

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Revenues	\$340,219	\$351,378	\$1,064,602	\$1,074,740
Operating costs and expenses	316,079	324,536	949,881	966,450
Net income	24,120	29,865	114,700	118,142

The summarized financial information for the three and nine months ended September 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 was \$413.9 million and \$421.6 million at September 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 \$7.0 million and \$8.7 million for the three months ended September 30, 2009 and 2008, respectively, and \$31.7 million and \$32.1 million for the nine months ended September 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 six 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 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





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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