

COMMUNITY HEALTH SYSTEMS INC

Form 10-K/A

December 22, 2008

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Form 10-K/A  
Amendment No. 2**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the year ended December 31, 2007**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the transition period from        to**

**Commission file number 001-15925**

**COMMUNITY HEALTH SYSTEMS, INC.**

*(Exact name of registrant as specified in its charter)*

**Delaware**

*(State of incorporation)*

**4000 Meridian Boulevard  
Franklin, Tennessee**

*(Address of principal executive offices)*

**13-3893191**

*(IRS Employer  
Identification No.)*

**37067**

*(Zip Code)*

**Registrant's telephone number, including area code:**

**(615) 465-7000**

**Securities registered pursuant to Section 12(b) of the Act:**

<b>Title of Each Class</b>	<b>Name of Each Exchange on Which Registered</b>
Common Stock, \$.01 par value	New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES  NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES  NO

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to the Form 10-K.

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)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES  NO

The aggregate market value of the voting stock held by non-affiliates of the Registrant was \$3,838,926,302. Market value is determined by reference to the closing price on June 30, 2007 of the Registrant's Common Stock as reported by the New York Stock Exchange. The Registrant does not (and did not at June 30, 2007) have any non-voting common stock outstanding. As of February 1, 2008, there were 96,618,751 shares of common stock, par value \$.01 per share, outstanding.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

The information required for Part III of this annual report is incorporated by reference from portions of the Registrant's definitive proxy statement for its 2008 annual meeting of stockholders to be filed with the Securities and Exchange Commission within 120 days after the end of the Registrant's fiscal year ended December 31, 2007.

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**Community Health Systems, Inc.**

**Form 10-K/A**

**Year ended December 31, 2007**

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**EXPLANATORY NOTE**

The Company is filing this Amendment No. 2 to its Annual Report on Form 10-K/A for the year ended December 31, 2007 that was originally filed on February 29, 2008 and amended on April 4, 2008 (the original Form 10-K ) to conform Part II, Item 8 (Financial Statements and Supplementary Data) of the original Form 10-K to reflect revisions previously made in the Company s quarterly filings on Form 10-Q for the periods ended June 30, 2008 and September 30, 2008. This Amendment No. 2 will subsequently be incorporated by reference into a Registration Statement on Form S-3ASR. Absent the filing of a registration statement under the Securities Act of 1933, the revisions were deemed to be immaterial and would not otherwise have required an amendment to the original Form 10-K, and would have instead been reflected in the Company s Annual Report on Form 10-K for the year ending December 31, 2008.

Other than as specified above, this Amendment No. 2 on Form 10-K/A does not modify, update or affect any other disclosures or financial statements set forth in the original Form 10-K. Furthermore, this Amendment No. 2 on Form 10-K/A does not purport to provide a general update or discussion of any developments of the Company subsequent to the filing of the original Form 10-K. Accordingly, the original Form 10-K as amended by this Amendment No. 2 on Form 10-K/A, should be read in conjunction with the Company s filings made with the Securities and Exchange Commission subsequent to the date of the original Form 10-K.

On April 4, 2008, the Company filed Amendment No. 1 to its Annual Report on Form 10-K for the fiscal year ended December 31, 2007 to amend the Exhibit List set forth in Part IV, Item 15.

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**Item 8. *Financial Statements and Supplementary Data.***

**Index to Financial Statements**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of  
Community Health Systems, Inc.  
Franklin, Tennessee

We have audited the accompanying consolidated balance sheets of Community Health Systems, Inc. and subsidiaries (the Company ) as of December 31, 2007 and 2006, and the related consolidated statements of income, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2007. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Community Health Systems, Inc. and subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123 (Revised 2004), *Share Based Payment* effective January 1, 2006, which resulted in the Company changing the method in which it accounts for share-based compensation.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2007, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2008 expressed an unqualified opinion on the Company s internal control over financial reporting.

/s/ Deloitte & Touche LLP

Nashville, Tennessee  
February 28, 2008  
(December 19, 2008 as to the effects of the  
restatement discussed on Notes 1 and 17)

**Table of Contents****COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME**

	<b>Year Ended December 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<b>(In thousands, except share and per share data)</b>		
Net operating revenues	\$ 7,127,494	\$ 4,180,136	\$ 3,576,117
Operating costs and expenses:			
Salaries and benefits	2,894,977	1,661,619	1,421,145
Provision for bad debts	897,285	518,861	356,120
Supplies	944,768	487,778	429,846
Rent	155,566	91,943	82,257
Other operating expenses	1,432,998	855,596	731,024
Depreciation and amortization	316,215	179,282	157,262
Total operating costs and expenses	6,641,809	3,795,079	3,177,654
Income from operations	485,685	385,057	398,463
Interest expense, net of interest income of \$8,181, \$1,779, and \$5,742 in 2007, 2006 and 2005, respectively	364,533	94,411	87,185
Loss from early extinguishment of debt	27,388	4	
Minority interest in earnings	15,996	2,795	3,104
Equity in earnings of unconsolidated affiliates	(25,132)		
Income from continuing operations before income taxes	102,900	287,847	308,174
Provision for income taxes	43,003	110,152	119,804
Income from continuing operations	59,897	177,695	188,370
Discontinued operations, net of taxes:			
Loss from operations of hospitals sold or held for sale	(11,067)	(6,873)	(8,737)
Net loss on sale of hospitals and partnership interests	(2,594)	(2,559)	(7,618)
Impairment of long-lived assets of hospitals held for sale	(15,947)		(4,471)
Loss on discontinued operations	(29,608)	(9,432)	(20,826)
Net income	\$ 30,289	\$ 168,263	\$ 167,544
Earnings per common share basic:			
Income from continuing operations	\$ 0.64	\$ 1.87	\$ 2.13
Loss on discontinued operations	\$ (0.32)	\$ (0.10)	\$ (0.24)
Net income	\$ 0.32	\$ 1.77	\$ 1.89
Earnings per common share diluted:			
Income from continuing operations	\$ 0.63	\$ 1.85	\$ 2.00



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Loss on discontinued operations	\$	(0.31)	\$	(0.10)	\$	(0.21)
Net income	\$	0.32	\$	1.75	\$	1.79
Weighted average number of shares outstanding:						
Basic		93,517,337		94,983,646		88,601,168
Diluted		94,642,294		96,232,910		98,579,977

See notes to consolidated financial statements.

**Table of Contents****COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

	<b>December 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>(In thousands, except share data)</b>	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 132,874	\$ 40,566
Patient accounts receivable, net of allowance for doubtful accounts of \$1,033,516 and \$478,565 in 2007 and 2006, respectively	1,533,798	773,984
Supplies	262,903	113,320
Prepaid income taxes	99,417	
Deferred income taxes	113,741	13,249
Prepaid expenses and taxes	70,339	32,385
Other current assets (including assets of hospitals held for sale of \$118,893 at December 31, 2007)	339,826	47,880
Total current assets	2,552,898	1,021,384
Property and equipment:		
Land and improvements	463,373	163,988
Buildings and improvements	4,166,888	1,634,893
Equipment and fixtures	1,679,979	831,485
	6,310,240	2,630,366
Less accumulated depreciation and amortization	(797,666)	(643,789)
Property and equipment, net	5,512,574	1,986,577
Goodwill	4,247,714	1,336,525
Other assets, net of accumulated amortization of \$100,556 and \$92,921 in 2007 and 2006, respectively (including assets of hospitals held for sale of \$362,546 at December 31, 2007)	1,180,457	162,093
Total assets	\$ 13,493,643	\$ 4,506,579

**LIABILITIES AND STOCKHOLDERS EQUITY**

Current liabilities:		
Current maturities of long-term debt	\$ 20,710	\$ 35,396
Accounts payable	492,693	247,747
Current income taxes payable		7,626
Accrued liabilities:		

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Employee compensation	403,598	162,188
Interest	153,832	7,122
Other (including liabilities of hospitals held for sale of \$67,606 at December 31, 2007)	377,102	115,204
Total current liabilities	1,447,935	575,283
Long-term debt	9,077,367	1,905,781
Deferred income taxes	407,947	141,472
Other long-term liabilities	483,459	136,811
Minority interests in equity of consolidated subsidiaries	366,131	23,559
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.01 par value per share, 100,000,000 shares authorized; none issued		
Common stock, \$.01 par value per share, 300,000,000 shares authorized; 96,611,085 shares issued and 95,635,536 shares outstanding at December 31, 2007 and 95,026,494 shares issued and 94,050,945 shares outstanding at December 31, 2006	966	950
Additional paid-in capital	1,240,308	1,195,947
Treasury stock, at cost, 975,549 shares at December 31, 2007 and 2006	(6,678)	(6,678)
Unearned stock compensation		
Accumulated other comprehensive income	(81,737)	5,798
Retained earnings	557,945	527,656
Total stockholders' equity	1,710,804	1,723,673
Total liabilities and stockholders' equity	\$ 13,493,643	\$ 4,506,579

See notes to consolidated financial statements.

**Table of Contents****COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

	Common Stock		Additional	Treasury Stock		Unearned	Accumulated	Retained	Total
	Shares	Amount	Paid-in Capital	Shares	Amount	Stock Compensation	Other Comprehensive Income (Loss)	Earnings (Accumulated Deficit)	
December 31,									
	88,591,733	\$ 886	\$ 1,047,888	(975,549)	\$ (6,678)	\$	\$ 6,046	\$ 191,849	\$ 1,239,849
ive Income:								167,544	167,544
n fair value of swaps, net of of \$5,019							8,923		8,923
n fair value of sale securities							222		222
prehensive							9,145	167,544	176,689
of common	(2,239,700)	(22)	(79,830)						(79,852)
ommon stock n with the ptions	3,134,721	31	49,543						49,574
ommon stock n with the f convertible	4,495,083	44	148,576						148,620
ock grant rom exercise	558,000	6	18,160			(18,160)			24,453
compensation							4,956		4,956
as			140						140
December 31,									
	94,539,837	\$ 945	\$ 1,208,930	(975,549)	\$ (6,678)	\$ (13,204)	\$ 15,191	\$ 359,393	\$ 1,566,842
ive Income:								168,263	168,263
n fair value of swaps, net of f \$931							(1,654)		(1,654)
n fair value of sale securities							562		562

Comprehensive							(1,092)	168,263	16
to adopt FASB							(8,301)		(8)
158, net of									
\$5,465									
of common	(5,000,000)	(50)	(176,265)						(17)
Common stock									
with the									
ptions	867,833	9	14,564						1
Common stock									
with the									
f convertible	4,074,510	41	137,157						13
from exercise									
compensation	544,314	5	20,068						2
ion of									
ck									
n			(13,257)			13,204			
December 31,	95,026,494	\$ 950	\$ 1,195,947	(975,549)	\$ (6,678)	\$	\$ 5,798	\$ 527,656	\$ 1,72
ive Income:								30,289	3
n fair value of									
swaps, net of									
\$51,223							(91,063)		(9)
n fair value of									
sale securities							237		
o pension									
of tax benefit							3,291		
Comprehensive							(87,535)	30,289	(5)
Common stock									
with the									
ptions	321,535	3	8,362						
from exercise									
compensation	1,263,056	13	(2,760)						(3)
			38,759						3
December 31,	96,611,085	\$ 966	\$ 1,240,308	(975,549)	\$ (6,678)	\$	\$ (81,737)	\$ 557,945	\$ 1,71

See notes to consolidated financial statements.

**Table of Contents****COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Year Ended December 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<b>(In thousands)</b>		
Cash flows from operating activities:			
Net income	\$ 30,289	\$ 168,263	\$ 167,544
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	332,580	188,771	166,162
Deferred income taxes	(39,894)	(25,228)	9,889
Stock compensation expense	38,771	20,073	4,957
Excess tax benefits relating to stock-based compensation	(1,216)	(6,819)	
Loss on early extinguishment of debt	27,388		
Minority interest in earnings	15,996	2,795	3,104
Impairment on hospital held for sale	19,044		6,718
Loss on sale of hospitals	3,954	3,937	6,295
Other non-cash expenses, net	19,017	500	740
Changes in operating assets and liabilities, net of effects of acquisitions and divestitures:			
Patient accounts receivable	131,300	(71,141)	(47,455)
Supplies, prepaid expenses and other current assets	(31,977)	(4,544)	(16,838)
Accounts payable, accrued liabilities and income taxes	125,959	52,151	84,956
Other	16,527	21,497	24,977
Net cash provided by operating activities	687,738	350,255	411,049
Cash flows from investing activities:			
Acquisitions of facilities and other related equipment	(7,018,048)	(384,618)	(158,379)
Purchases of property and equipment	(522,785)	(224,519)	(188,365)
Disposition of hospitals and other ancillary operations	109,996	750	51,998
Proceeds from sale of equipment	4,650	4,480	2,325
Increase in other non-operating assets	(72,671)	(36,350)	(34,851)
Net cash used in investing activities	(7,498,858)	(640,257)	(327,272)
Cash flows from financing activities:			
Proceeds from exercise of stock options	8,214	14,573	49,580
Stock buy-back		(176,316)	(79,853)
Deferred financing costs	(182,954)	(2,153)	(1,259)
Excess tax benefits relating to stock-based compensation	1,216	6,819	
Redemption of convertible notes		(128)	(298)
Proceeds from minority investors in joint ventures	2,351	6,890	1,383
Redemption of minority investments in joint ventures	(1,356)	(915)	(3,242)
Distribution to minority investors in joint ventures	(6,645)	(3,220)	(1,939)

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Borrowings under Credit Agreement	9,221,627	1,031,000	
Repayments of long-term indebtedness	(2,139,025)	(650,090)	(26,539)
Net cash (used in) provided by financing activities	6,903,428	226,460	(62,167)
Net change in cash and cash equivalents	92,308	(63,542)	21,610
Cash and cash equivalents at beginning of period	40,566	104,108	82,498
Cash and cash equivalents at end of period	\$ 132,874	\$ 40,566	\$ 104,108

See notes to consolidated financial statements.

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**COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Business and Summary of Significant Accounting Policies**

*Business.* Community Health Systems, Inc., through its subsidiaries (collectively the Company), owns, leases and operates acute care hospitals in non-urban and select urban markets. As of December 31, 2007, included in our continuing operations, the Company owned, leased or operated 115 hospitals, licensed for 16,971 beds in 27 states. Pennsylvania and Texas represent the only areas of geographic concentration. Net operating revenues generated by the Company's hospitals in Pennsylvania, as a percentage of consolidated net operating revenues, were 13.1% in 2007, 22.0% in 2006 and 23.1% in 2005. Net operating revenues generated by the Company's hospitals in Texas, as a percentage of consolidated net operating revenues, were 13.0% in 2007, 10.4% in 2006 and 11.6% in 2005.

*Use of Estimates.* The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates under different assumptions or conditions.

*Principles of Consolidation.* The consolidated financial statements include the accounts of the Company, its subsidiaries, all of which are controlled by the Company through majority voting control, and variable interest entities for which the Company is the primary beneficiary. All significant intercompany accounts and transactions have been eliminated. Certain of the subsidiaries have minority stockholders. The amount of minority interest in equity is disclosed separately on the consolidated balance sheets and minority interest in earnings is disclosed separately on the consolidated statements of income.

*Cost of Revenue.* The majority of the Company's operating expenses are cost of revenue items. Operating costs that could be classified as general and administrative by the Company would include the Company's corporate office costs at the Company's Franklin, Tennessee and Plano, Texas offices, which were \$133.4 million, \$88.9 million and \$67.5 million for the years ended December 31, 2007, 2006 and 2005, respectively. Included in these amounts is stock-based compensation of \$38.8 million, \$20.1 million and \$5.0 million for the years ended December 31, 2007, 2006 and 2005, respectively.

*Cash Equivalents.* The Company considers highly liquid investments with original maturities of three months or less to be cash equivalents.

*Supplies.* Supplies, principally medical supplies, are stated at the lower of cost (first-in, first-out basis) or market.

*Marketable Securities.* The Company accounts for marketable securities in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities. The Company's marketable securities are classified as trading or available-for-sale. Available-for-sale securities are carried at fair value as determined by quoted market prices, with unrealized gains and losses reported as a separate component of stockholders' equity. Trading securities are reported at fair value with unrealized gains and losses included in earnings. Interest and dividends on securities classified as available-for-sale or trading are included in net revenue and were not material in all periods presented. Accumulated other comprehensive income included an unrealized gain of \$0.2 million and \$0.6 million at December 31, 2007 and December 31, 2006, respectively, related to these available-for-sale securities.



*Property and Equipment.* Property and equipment are recorded at cost. Depreciation is recognized using the straight-line method over the estimated useful lives of the land and improvements (2 to 15 years; weighted average useful life is 14 years), buildings and improvements (5 to 40 years; weighted average useful life is 24 years) and equipment and fixtures (4 to 18 years; weighted average useful life is 8 years). Costs capitalized as construction in progress were \$457.5 million and \$61.2 million at December 31, 2007 and 2006,

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**COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

respectively. Expenditures for renovations and other significant improvements are capitalized; however, maintenance and repairs which do not improve or extend the useful lives of the respective assets are charged to operations as incurred. Interest capitalized in accordance with SFAS No. 34, Capitalization of Interest Cost, was \$19.0 million, \$3.0 million and \$2.1 million for the years ended December 31, 2007, 2006 and 2005, respectively. Net property and equipment additions included in accounts payable were \$21.4 million, \$16.9 million and \$0.1 million for the years ended December 31, 2007, 2006 and 2005, respectively.

The Company also leases certain facilities and equipment under capital leases (see Notes 3 and 8). Such assets are amortized on a straight-line basis over the lesser of the term of the lease or the remaining useful lives of the applicable assets.

*Goodwill.* Goodwill represents the excess cost over the fair value of net assets acquired. Goodwill arising from business combinations is accounted for under the provisions of SFAS No. 141, Business Combinations ( SFAS No. 141 ), and SFAS No. 142, Goodwill and Other Intangible Assets ( SFAS No. 142 ), 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 such that it is reasonably possible that an impairment may exist. The Company has selected September 30th as its annual testing date.

*Other Assets.* Other assets consist of costs associated with the issuance of debt, which are included in interest expense over the life of the related debt using the effective interest method, and costs to recruit physicians to the Company's markets, which are deferred and amortized in amortization expense over the term of the respective physician recruitment contract, which is generally three years. Long-term assets held for sale at December 31, 2007 are also included in other assets.

*Third-Party Reimbursement.* Net patient service revenue is reported at the estimated net realizable amount from patients, third party payors and others for services rendered. Net operating revenues include amounts estimated by management to be reimbursable by Medicare and Medicaid under prospective payment systems, provisions of cost-reimbursement and other payment methods. Approximately 39.3% of net operating revenues for the year ended December 31, 2007, 41.5% of net operating revenues for the year ended December 31, 2006 and 43.0% of net operating revenues for the year ended December 31, 2005, are related to services rendered to patients covered by the Medicare and Medicaid programs. Revenues from Medicare outlier payments are included in the amounts received from Medicare and are approximately 0.42% of net operating revenues for 2007, 0.44% of net operating revenues for 2006, and 0.47% for 2005. In addition, the Company is reimbursed by non-governmental payors using a variety of payment methodologies. Amounts received by the Company for treatment of patients covered by such programs are generally less than the standard billing rates. The differences between the estimated program reimbursement rates and the standard billing rates are accounted for as contractual adjustments, which are deducted from gross revenues to arrive at net operating revenues. These net operating revenues are an estimate of the net realizable value due from these payors. Final settlements under certain of these programs are subject to adjustment based on administrative review and audit by third parties. Adjustments to the estimated billings are recorded in the periods that such adjustments become known. Adjustments to previous program reimbursement estimates are accounted for as contractual allowance adjustments and reported in the periods in which final settlements are determined. Adjustments related to final settlements or appeals increased revenue by an insignificant amount in each of the years ended December 31, 2007, 2006 and 2005. Amounts due to third-party payors were \$73 million as of December 31, 2007 and \$55 million as of December 31, 2006 and are included in accrued liabilities-other in the accompanying

consolidated balance sheets. Substantially all Medicare and Medicaid cost reports are final settled through 2005.

*Net Operating Revenues.* Net operating revenues are recorded net of provisions for contractual allowance of approximately \$16.839 billion, \$10.024 billion and \$8.401 billion in 2007, 2006 and 2005, respectively. Net operating revenues are recognized when services are provided and are reported at the estimated net realizable amount from patients, third party payors and others for services rendered. Also

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**COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

included in the provision for contractual allowance shown above is the value of administrative and other discounts provided to self-pay patients eliminated from net operating revenues which was \$282.5 million, \$100.3 million and \$77.9 million for the years ended December 31, 2007, 2006 and 2005, respectively. In the ordinary course of business the Company renders services to patients who are financially unable to pay for hospital care. Included in the provision for contractual allowance shown above, is the value (at the Company's standard charges) of these services to patients who are unable to pay that is eliminated from net operating revenues when it is determined they qualify under the Company's charity care policy. The value of these services was \$354.8 million, \$214.2 million and \$174.2 million for the years ended December 31, 2007, 2006 and 2005, respectively. In the fourth quarter of 2007, in conjunction with an analysis of the net realizable value of accounts receivable, which included updating the Company's analysis of historical cash collections, as well as conforming estimation methodologies with those of the former Triad hospitals, the Company revised its methodology whereby the Company has revised its estimate of contractual allowances for estimated amounts of self-pay accounts receivable that will ultimately qualify as charity care, or that will ultimately qualify for Medicaid, indigent care or other specific governmental reimbursement. Previous estimates of uncollectible amounts for such receivables were included in the Company's bad debt reserves for each period. The impact of these changes in estimates decreased net operating revenue approximately \$96.3 million for the year ended December 31, 2007.

*Allowance for Doubtful Accounts.* Accounts receivable are reduced by an allowance for amounts that could become uncollectible in the future. Substantially all of the Company's receivables are related to providing healthcare services to its hospitals' patients.

The Company experienced a significant increase in self-pay volume and related revenue, combined with lower cash collections during the quarter ended September 30, 2006. The Company believes this trend reflected an increased collection risk from self-pay accounts, and as a result the Company performed a review and an alternative analysis of the adequacy of its allowance for doubtful accounts. Based on this review, the Company recorded a \$65.0 million increase to its allowance for doubtful accounts to maintain an adequate allowance for doubtful accounts as of September 30, 2006. The Company believed that the increase in self-pay accounts is a result of current economic trends, including an increase in the number of uninsured patients, reduced enrollment under Medicaid programs such as TennCare, and higher deductibles and co-payments for patients with insurance.

In conjunction with recording the \$65.0 million increase to the allowance for doubtful accounts, the Company changed its methodology for estimating its allowance for doubtful accounts effective September 30, 2006, as follows: The Company reserved a percentage of all self-pay accounts receivable without regard to aging category, based on collection history adjusted for expected recoveries and, if present, other changes in trends. For all other payor categories the Company reserved 100% of all accounts aging over 365 days from the date of discharge. Previously, the Company estimated its allowance for doubtful accounts by reserving all accounts aging over 150 days from the date of discharge without regard to payor class. The Company believes its revised methodology provided a better approach to reflect changes in payor mix and historical collection patterns and to respond to changes in trends.

During the quarter ended December 31, 2007, in conjunction with the Company's ongoing process of monitoring the net realizable value of its accounts receivable, as well as integrating the methodologies, data and assumptions used by the former Triad management, the Company performed various analyses including updating a review of historical cash collections. As a result of these analyses, the Company noted a deterioration in certain key cash collection indicators. The acquisition of Triad also provided additional data and a comparative and larger population on which to

base the Company's estimates. As a result of the lower estimated collectability indicated by the updated analyses, the Company has recorded an increase to its contractual reserves of \$96.3 million (as described above) and an increase to its allowance for doubtful accounts as of December 31, 2007 of approximately \$70.1 million. The Company believes this lower

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**COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

collectability is primarily the result of an increase in the number of patients qualifying for charity care, reduced enrollment in certain state Medicaid programs and an increase in the number of indigent non-resident aliens.

The Company believes the revised methodology provides a better approach to estimating changes in payor mix, continued increases in charity and indigent care as well as the monitoring of historical collection patterns. The revised accounting methodology and the adequacy of resulting estimates will continue to be reviewed by monitoring accounts receivable write-offs, monitoring cash collections as a percentage of trailing net revenues less provision for bad debts, monitoring historical cash collection trends, as well as 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.

*Concentrations of Credit Risk.* The Company grants unsecured credit to its patients, most of whom reside in the service area of the Company's facilities and are insured under third-party payor agreements. Because of the economic diversity of the Company's facilities and non-governmental third-party payors, Medicare represents the only significant concentration of credit risk from payors. Accounts receivable, net of contractual allowances, from Medicare were \$302.1 million and \$116.8 million as of December 31, 2007 and 2006, respectively, representing 11.8% and 9.3% of consolidated net accounts receivable, before allowance for doubtful accounts, as of December 31, 2007 and 2006, respectively.

*Professional Liability Insurance Claims.* The Company accrues for estimated losses resulting from professional liability. The accrual, which includes an estimate for incurred but not reported claims, is based on historical loss patterns and actuarially-determined projections and is discounted to its net present value. To the extent that subsequent claims information varies from management's estimates, the liability is adjusted currently.

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

*Income Taxes.* The Company accounts for income taxes under the asset and liability method, in which deferred income tax assets and liabilities are recognized for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The effect on deferred taxes of a change in tax rates is recognized in the consolidated statement of income during the period in which the tax rate change becomes law.

*Comprehensive Income.* Comprehensive income is the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources.

**Table of Contents****COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Accumulated Other Comprehensive Income consists of the following (in thousands):

	<b>Change in Fair Value of Interest Rate Swaps</b>	<b>Change in Fair Value of Available for Sale Securities</b>	<b>Adjustment to Pension Liability</b>	<b>Accumulated Other Comprehensive Income</b>
Balance as of December 31, 2005	\$ 14,969	\$ 222	\$	\$ 15,191
2006 Activity, net of tax	(1,654)	562	(8,301)	(9,393)
Balance as of December 31, 2006	\$ 13,315	\$ 784	\$ (8,301)	\$ 5,798
2007 Activity, net of tax	(91,063)	237	3,291	(87,535)
Balance as of December 31, 2007	\$ (77,748)	\$ 1,021	\$ (5,010)	\$ (81,737)

*Segment Reporting.* SFAS No. 131, Disclosures About Segments of an Enterprise and Related Information ( SFAS No. 131 ), requires that a public company report annual and interim financial and descriptive information about its reportable operating segments. Operating segments, as defined, are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. SFAS No. 131 allows aggregation of similar operating segments into a single reportable operating segment if the businesses have similar economic characteristics and are considered similar under the criteria established by SFAS No. 131.

Prior to the acquisition of Triad Hospitals, Inc. ( Triad ), the Company aggregated its operating segments into one reportable segment as all of its operating segments had similar services, had similar types of patients, operated in a consistent manner and had similar economic and regulatory characteristics. In connection with the Triad acquisition, certain aspects of the Company's organizational structure and the information that is reviewed by the chief operating decision maker have changed. As a result, management has determined that the Company now operates in three distinct operating segments, represented by the hospital operations (which includes our acute care hospitals and related healthcare entities that provide inpatient and outpatient health care services), the home health agencies operations (which provide outpatient care generally in the patient's home), and the hospital management services business (which provides executive management and consulting services to independent acute care hospitals). SFAS No. 131 requires (1) that financial information be disclosed for operating segments that meet a 10% quantitative threshold of the consolidated totals of net revenue, profit or loss, or total assets; and (2) that the individual reportable segments disclosed contribute at least 75% of total consolidated net revenue. Based on these measures, only the hospital operations segment meets the criteria as a separate reportable segment. Financial information for the home health agencies and management services segments do not meet the quantitative thresholds defined in SFAS No. 131 and are therefore combined with corporate into the all other reportable segment.

The financial information from prior years has been presented in Note 13 to reflect this change in the composition of our reportable operating segments.

*Derivative Instruments and Hedging Activities.* In accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities ( SFAS No. 133 ), as amended, the Company records derivative instruments (including certain derivative instruments embedded in other contracts) on the consolidated balance sheet as either an asset or liability measured at its fair value. Changes in a derivative's fair value are recorded each period in earnings or other comprehensive income ( OCI ), depending on whether the derivative is designated and is effective as a hedged transaction, and on the type of hedge transaction. Changes in the fair value of derivative instruments recorded to OCI are reclassified to earnings in the period affected by the underlying hedged item. Any portion of the fair value of a derivative instrument determined to be ineffective under the standard is recognized in current earnings.



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**COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company has entered into several interest rate swap agreements subject to the scope of this pronouncement. See Note 6 for further discussion about the swap transactions.

*New Accounting Pronouncements.* In June 2006, the Financial Accounting Standards Board ( FASB ) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 ( FIN 48 ), which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company adopted FIN 48 as of January 1, 2007. The adoption of this interpretation has not had a material effect on the Company s consolidated results of operations or consolidated financial position.

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 the 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 is effective for fiscal years beginning after November 15, 2007, and is required to be adopted by the Company beginning in the first quarter of 2008. Although we will continue to evaluate the application of SFAS No. 157, management does not currently believe adoption will have a material impact on the Company s consolidated results of operations or consolidated financial position.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 ( SFAS No. 159 ). SFAS No. 159 expands the use of fair value accounting but does not affect existing standards that require assets or liabilities to be carried at fair value. SFAS No. 159 permits an entity, on a contract-by-contract basis, to make an irrevocable election to account for certain types of financial instruments and warranty and insurance contracts at fair value, rather than historical cost, with changes in the fair value, whether realized or unrealized, recognized in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company adopted SFAS No. 159 as of January 1, 2008. The adoption of this statement is not expected to have a material effect on the Company s consolidated results of operations or consolidated financial position.

In December 2007, 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 will require more assets and liabilities be recorded at fair value and will require expense recognition (rather than capitalization) of certain pre-acquisition costs. This standard also will require 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. SFAS No. 141(R) will be adopted by the Company in the first quarter of 2009. The Company is currently assessing the potential impact that SFAS No. 141(R) will have on its consolidated results of operations or financial position.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements ( SFAS No. 160 ). 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 and that require minority ownership interests be presented separately within equity in the consolidated financial statements. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008, and will be adopted by the Company in the first quarter of 2009. The Company is

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currently assessing the potential impact that SFAS No. 160 will have on its consolidated results of operations or financial position.

*Reclassifications.* The Company disposed of one hospital in August 2007, disposed of one hospital in October 2007, disposed of one hospital in November 2007, and designated twelve hospitals as being held for sale in the fourth quarter of 2007. The operating results of those hospitals have been classified as discontinued operations on the consolidated statements of income for all periods presented. There is no effect on net income for all periods presented related to the reclassifications made for the discontinued operations. The presentation of gross property and equipment and accumulated depreciation and amortization at December 31, 2007 has been corrected to reflect certain assets acquired from Triad. This correction increased both gross property and equipment and accumulated depreciation and amortization by \$108.3 million and did not impact the net balance of property and equipment as previously presented on the accompanying consolidated balance sheet. The correction to the parenthetical disclosure of assets of hospitals held for sale at December 31, 2007 on the accompanying consolidated balance sheet decreased the assets held for sale by \$54.6 million and increased investments in unconsolidated affiliates by \$54.6 million, related to those hospitals sold during the first quarter of 2008. This correction did not change the consolidated total of Other assets, net as presented in the accompanying consolidated balance sheet. Note 3 (Long-Term Leases, Acquisitions and Divestitures of Hospitals) and Note 12 (Equity Investments) were revised accordingly to reflect this correction. The presentation of certain other prior year amounts have been changed. These changes in presentation are immaterial to the Company's consolidated financial statements.

**2. Accounting for Stock-Based Compensation**

The Company adopted the provisions of SFAS No. 123(R), *Share-Based Payments* ( SFAS No. 123(R) ) on January 1, 2006, electing to use the modified prospective method for transition purposes. The modified prospective method requires that compensation expense be recorded for all unvested stock options and share awards that subsequently vest or are modified, without restatement of prior periods. Prior to January 1, 2006, the Company accounted for stock-based compensation using the recognition and measurement principles of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* and related interpretations ( APB No. 25 ), and provided the pro-forma disclosure requirements of SFAS No. 123 *Accounting for Stock-Based Compensation* and SFAS No. 148 *Accounting for Stock-Based Compensation Transition and Disclosures* an Amendment of FASB Statement No. 123 ( SFAS No. 148 ). Under APB No. 25, when the exercise price of the Company's stock was equal to the market price of the underlying stock on the date of grant, no compensation expense was recognized.

The pro-forma table below reflects net income and earnings per share had the Company applied the fair value recognition provisions of SFAS No. 123 for the year ended December 31, 2005, prior to the adoption of SFAS No. 123(R) (in thousands, except per share data):

	<b>Year Ended December 31, 2005</b>
Net Income:	\$ 167,544
Add: Stock-Based compensation expense recognized under APB No. 25, net of tax	3,493
Deduct: Total stock-based compensation under fair value based method for all awards, net of tax	\$ 14,232
Pro-forma net income	\$ 156,805
Net income per share:	

Basic	as reported	\$	1.89
Basic	proforma	\$	1.77
Diluted	as reported	\$	1.79
Diluted	proforma	\$	1.68

On September 22, 2005, the Compensation Committee of the Board of Directors of the Company approved an immediate acceleration of the vesting of unvested stock options awarded to employees and officers, including executive officers, on each of three grant dates, December 10, 2002, February 25, 2003, and May 22, 2003. Each of the grants accelerated had a three-year vesting period and would have otherwise become fully vested on their respective anniversary dates no later than May 22, 2006. All other terms and

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conditions applicable to the outstanding stock option grants remain in effect. A total of 1,235,885 stock options, with a weighted exercise price of \$20.26 per share, were accelerated.

The accelerated options were issued under the Community Health Systems, Inc. Amended and Restated 2000 Stock Option and Award Plan (the 2000 Plan ). No performance shares or units or incentive stock options have been granted under the 2000 Plan. Options granted to non-employee directors of the Company and restricted shares were not affected by this action. The Compensation Committee's decision to accelerate the vesting of the affected options was based primarily on the relatively short period of time until such stock options otherwise become fully vested making them no longer a significant motivator for retention and the fact the Company anticipated that up to approximately \$3.8 million of compensation expense (\$2.3 million, net of tax) associated with certain of these stock options would have otherwise been recognized in the first two quarters of 2006 pursuant to SFAS No. 123(R) would be avoided.

Since the Company accounted for its stock options prior to January 1, 2006 using the intrinsic value method of accounting prescribed in APB No. 25, the accelerated vesting did not result in the recognition of compensation expense in net income for the year ended December 31, 2005. However, in accordance with the disclosure requirements of SFAS No. 148, the pro-forma results presented in the table above include approximately \$5.9 million (\$3.6 million, net of tax) of compensation expense for the year ended December 31, 2005, resulting from the vesting acceleration.

Stock-based compensation awards are granted under the 2000 Plan. The 2000 Plan allows for the grant of incentive stock options intended to qualify under Section 422 of the Internal Revenue Code as well as stock options which do not so qualify, stock appreciation rights, restricted stock, performance units and performance shares, phantom stock awards and share awards. Persons eligible to receive grants under the 2000 Plan include the Company's directors, officers, employees and consultants. To date, the options granted under the 2000 Plan are nonqualified stock options for tax purposes. Generally, vesting of these granted options occurs in one-third increments on each of the first three anniversaries of the award date, except for options granted on July 25, 2007, which vests equally on the first two anniversaries of the award date. Options granted prior to 2005 have a 10 year contractual term and options granted in 2005, 2006 and 2007 have an 8 year contractual term. The exercise price of options granted to employees under the 2000 Plan were equal to the fair value of the Company's common stock on the option grant date. As of December 31, 2007, 5,849,771 shares of unissued common stock remain reserved for future grants under the 2000 Plan. The Company also has options outstanding under its Employee Stock Option Plan (the 1996 Plan ). These options are fully vested and exercisable and no additional grants of options will be made under the 1996 Plan.

The following table reflects the impact of total compensation expense related to stock-based equity plans under SFAS No. 123(R) for periods beginning January 1, 2006, and under APB No. 25 for the year ended December 31, 2005, on the reported operating results for the respective periods (in thousands, except per share data):

	<b>2007</b>	<b>Year Ended December 31, 2006</b>	<b>2005</b>
Effect on income from continuing operations before income taxes	\$ (38,771)	\$ (20,073)	\$ (4,957)

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Effect on net income	\$ (23,541)	\$ (12,762)	\$ (3,493)
Effect on net income per share-diluted	\$ (0.25)	\$ (0.13)	\$ (0.04)

SFAS No. 123(R) also requires the benefits of tax deductions in excess of the recognized tax benefit on compensation expense to be reported as a financing cash flow, rather than as an operating cash flow as required under APB No. 25 and related interpretations. This requirement reduced the Company's net operating cash flows and increased the Company's financing cash flows by \$1.2 million and \$6.8 million for the years

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ended December 31, 2007 and 2006. In addition, the Company's deferred compensation cost at December 31, 2005, of \$13.2 million, arising from the issuance of restricted stock in 2005 and recorded as a component of stockholders equity as required under APB No. 25, was reclassified into additional paid-in capital upon the adoption of SFAS No. 123(R).

At December 31, 2007, \$80.4 million of unrecognized stock-based compensation expense from all outstanding unvested stock options and restricted stock is expected to be recognized over a weighted-average period of 18.4 months. There were no modifications to awards during 2007 or 2006.

The fair value of stock options was estimated using the Black Scholes option pricing model with the assumptions and weighted-average fair values during the years ended December 31, 2007 and 2006, as follows:

	<b>Year Ended December 31,</b>	
	<b>2007</b>	<b>2006</b>
Expected volatility	24.4%	24.2%
Expected dividends	0	0
Expected term	4 years	4 years
Risk-free interest rate	4.48%	4.67%

In determining expected term, the Company examined concentrations of holdings, its 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.

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Options outstanding and exercisable under the 1996 Plan and 2000 Plan as of December 31, 2007, and changes during each of the years in the three-year period ended December 31, 2007 were as follows (in thousands, except share and per share data):

	<b>Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Term (In Years)</b>	<b>Aggregate Intrinsic Value as of December 31, 2007</b>
Outstanding at December 31, 2004	7,456,279	\$ 18.03		
Granted	1,325,700	33.02		
Exercised	(3,134,721)	15.81		
Forfeited and cancelled	(276,984)	26.02		
Outstanding at December 31, 2005	5,370,274	22.63		
Granted	1,151,000	38.07		
Exercised	(865,833)	16.47		
Forfeited and cancelled	(172,913)	34.02		
Outstanding at December 31, 2006	5,482,528	26.48		
Granted	3,544,000	37.79		
Exercised	(295,854)	26.89		
Forfeited and cancelled	(291,659)	35.70		
Outstanding at December 31, 2007	8,439,015	\$ 30.90	6.5 years	\$ 57,992
Exercisable at December 31, 2007	4,024,138	\$ 23.63	5.5 years	\$ 53,726

The weighted-average grant date fair value of stock options granted during the year ended December 31, 2007 and 2006, was \$10.24 and \$10.38, 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 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 December 31, 2007. This amount changes based on the market value of the Company's common stock. The aggregate intrinsic value of options exercised during the year ended December 31, 2007 and 2006 was \$3.5 million and \$18.2 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 various employees and its directors. The restrictions on these shares generally lapse in one-third increments on each of the first three anniversaries of the award date, except for restricted stock granted on July 25, 2007, which restrictions lapse equally on the first two



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

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Restricted stock outstanding under the 2000 Plan as of December 31, 2007, and changes during each of the years in the three-year period ended December 31, 2007 were as follows:

	Shares	Weighted Average Fair Value
Unvested at December 31, 2004		\$
Granted	563,000	32.37
Vested		
Forfeited	(5,000)	32.37
Unvested at December 31, 2005	558,000	32.37
Granted	606,000	38.26
Vested	(185,975)	32.43
Forfeited	(8,334)	35.93
Unvested at December 31, 2006	969,691	36.05
Granted	1,392,000	38.70
Vested	(384,646)	35.47
Forfeited	(20,502)	36.73
Unvested at December 31, 2007	1,956,543	38.04

As of December 31, 2007, there was \$50.3 million of unrecognized stock-based compensation expense related to unvested restricted stock expected to be recognized over a weighted-average period of 17.2 months.

Under the Director's Fee Deferral Plan, the Company's outside directors may elect to receive share equivalent units in lieu of cash for their director's fee. 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:

	Year Ended December 31,	
	2007	2006
Directors' fees earned and deferred into plan	\$ 129,000	\$ 177,500

Equivalent units	3,622.531	4,843.449
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At December 31, 2007, there are a total of 13,408.532 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 at December 31, 2007 of \$36.86.

### **3. Long-Term Leases, Acquisitions and Divestitures of Hospitals**

#### ***Triad Acquisition***

On July 25, 2007, the Company completed its acquisition of Triad. Triad owned and operated 50 hospitals in 17 states as well as the Republic of Ireland in non-urban and middle market communities. Immediately following the acquisition, on a combined basis the Company owned and operated 128 hospitals in 28 states as well as the Republic of Ireland. As of December 31, 2007, two hospitals acquired from Triad have been sold and six hospitals acquired from Triad were classified as held for sale. As a result of its acquisition of Triad,

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**COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES**

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the Company also provides management and consulting services to independent hospitals, through its subsidiary, Quorum Health Resources, LLC, on a contract basis. The Company acquired Triad for approximately \$6.836 billion, including the assumption of \$1.686 billion of existing indebtedness. Prior to entering the merger agreement, Triad terminated an Agreement and Plan of Merger that it had entered into on February 4, 2007 (the Prior Merger Agreement ) with Panthera Partners, LLC, Panthera Holdco Corp. and Panthera Acquisition Corporation (collectively, Panthera ). Concurrent with the termination of the Prior Merger Agreement and pursuant to the terms thereof, Triad paid a termination fee of \$20 million and out-of-pocket expenses of \$18.8 million to Panthera. The Company reimbursed Triad for the termination fee and the advance for expense reimbursement paid to Panthera. These amounts are included in the allocated purchase price of Triad.

In connection with the consummation of the acquisition of Triad, the Company obtained \$7.215 billion of senior secured financing under a new credit facility (the New Credit Facility ) and its wholly-owned subsidiary CHS/Community Health Systems, Inc. ( CHS/Community Health ) issued \$3.021 billion aggregate principal amount of 8.875% senior notes due 2015 (the Notes ). The Company used the net proceeds of \$3.000 billion from the Notes offering and the net proceeds of \$6.065 billion of term loans under the New Credit Facility to acquire the outstanding shares of Triad, to refinance certain of Triad's indebtedness and the Company's indebtedness, to complete certain related transactions, to pay certain costs and expenses of the transactions and for general corporate uses. This New Credit Facility also provides an additional \$750 million revolving credit facility and 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 had been reduced to \$300 million at the request of the Company.

The total cost of the Triad acquisition has been allocated to the assets acquired and liabilities assumed based upon their respective preliminary estimated 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 will be centralized; and
- duplicate corporate functions will be eliminated.

The allocation process requires the analysis of acquired fixed assets, contracts, contractual commitments, and legal contingencies to identify and record the fair value of all assets acquired and liabilities assumed. Because of the significance of the transaction and proximity to the end of the current year, the values of certain assets and liabilities are based on preliminary valuations and are subject to adjustment as additional information is obtained. Such additional information includes, but is not limited to: valuations and physical counts of property and equipment, valuation of equity investments and intangible assets, valuation of contractual commitments, finalization of involuntary termination of employees, and review of open cost report settlement periods. The Company is also negotiating the termination of certain assumed contracts it deems unfavorable, such as various physician and service contracts. Under GAAP, the Company has up to twelve months from the closing of the acquisition to complete its valuations and complete contract terminations in order for these terminations to be considered in the allocation process. The Company expects to complete the allocation of the total cost of the Triad acquisition in the second

quarter of 2008. Material adjustments to goodwill may result upon the completion of these matters.

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**COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Other Acquisitions***

Effective April 1, 2007, the Company completed its acquisition of Lincoln General Hospital (157 licensed beds), located in Ruston, Louisiana. The total consideration for this hospital was approximately \$48.7 million, of which \$44.8 million was paid in cash and \$3.9 million was assumed in liabilities. On May 1, 2007, the Company completed its acquisition of Porter Health, (301 licensed beds), located in Valparaiso, Indiana, with a satellite campus in Portage, Indiana and outpatient medical campuses located in Chesterton, Demotte, and Hebron, Indiana. As part of this acquisition, the Company has agreed to construct a 225-bed replacement facility for the Valparaiso hospital no later than April 2011. The total consideration for Porter Health was approximately \$110.1 million, of which \$88.9 million was paid in cash and \$21.2 million was assumed in liabilities. The Company has estimated its purchase price allocation relating to these acquisitions resulting in approximately \$1.5 million of goodwill being recorded. These allocations are preliminary pending, among other things, finalization of valuation of tangible and intangible assets. These acquisition transactions were accounted for using the purchase method of accounting. The allocation of the purchase price has been determined by the Company based upon available information and is subject to settling amounts related to purchased working capital and in some instances final appraisals. Adjustments to the purchase price allocation are not expected to be material.

During 2006, the Company acquired through 7 separate purchase transactions and three capital lease transactions, substantially all of the assets and working capital of eight hospitals and three home health agencies. On March 1, 2006, the Company acquired, through a combination of purchasing certain assets and entering into a capital lease for other related assets, Forrest City Hospital, a 118 bed hospital located in Forrest City, Arkansas. On April 1, 2006, the Company completed the acquisition of two hospitals from Baptist Health System, Birmingham, Alabama: Baptist Medical Center DeKalb (134 beds) and Baptist Medical Center Cherokee (60 beds). On May 1, 2006, the Company acquired Via Christi Oklahoma Regional Medical Center, a 140 bed hospital located in Ponca City, Oklahoma. On June 1, 2006, the Company acquired Mineral Area Regional Medical Center, a 135 bed hospital located in Farmington, Missouri. On June 30, 2006 the Company acquired Cottage Home Options, a home health agency and related business, located in Galesburg, Illinois. On July 1, 2006, the Company acquired the healthcare assets of Vista Health, which included Victory Memorial Hospital (336 beds) and St. Therese Medical Center (71 non-acute care beds), both located in Waukegan, Illinois. On September 1, 2006, the Company acquired Humble Texas Home Care, a home health agency located in Humble, Texas. On October 1, 2006, the Company acquired Helpsource Home Health, a home health agency located in Wichita Falls, Texas. On November 1, 2006 the Company acquired through two separate capital lease transactions, Campbell Memorial Hospital, a 99 bed hospital located in Weatherford, Texas and Union County Hospital, a 25 bed hospital located in Anna, Illinois. The aggregate consideration for these eight hospitals and three home health agencies totaled approximately \$385.7 million, of which \$353.8 million was paid in cash and \$31.9 million was assumed in liabilities. Goodwill recognized in these transactions totaled \$65.6 million, which is expected to be fully deductible for tax purposes.

During 2005, the Company acquired through four separate purchase transactions and one capital lease transaction, substantially all of the assets and working capital of five hospitals. On March 1, 2005, the Company acquired an 85% controlling interest in Chestnut Hill Hospital, a 222 bed hospital located in Philadelphia, Pennsylvania. On June 30, 2005, the Company acquired, through a capital lease, Bedford County Medical Center, a 104 bed hospital located in Shelbyville, Tennessee. On September 30, 2005, the Company acquired the assets of Newport Hospital and Clinic located in Newport, Arkansas. This facility, which was previously operated as an 83 bed acute care general hospital, was closed by its former owner simultaneous with this transaction. The operations of this hospital were consolidated

with Harris Hospital, also located in Newport, which is owned and operated by a wholly owned subsidiary of the Company. On October 1, 2005, the Company acquired Sunbury Community Hospital, a 123 bed hospital located in Sunbury, Pennsylvania, and Bradley Memorial Hospital, a 251 bed hospital located in Cleveland, Tennessee. The aggregate consideration for the five hospitals totaled approximately \$176 million, of which \$138 million was paid in cash and

**Table of Contents****COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

\$38 million was assumed in liabilities. Goodwill recognized in these transactions totaled approximately \$51 million, which is expected to be fully deductible for tax purposes.

The 2006 and 2005 acquisition transactions were accounted for using the purchase method of accounting. The final allocation of the purchase price for these acquisitions was determined by the Company within one year of the date of acquisition.

The table below summarizes the allocations of the purchase price (including assumed liabilities) for these acquisitions (in thousands):

	2007	2006	2005
Current assets	\$ 1,675,392	\$ 56,896	\$ 19,144
Property and equipment	3,699,200	262,335	110,854
Goodwill and other intangibles	3,111,711	66,490	43,619
Liabilities	1,479,462	27,247	30,786

The operating results of the foregoing hospitals have been included in the consolidated statements of income from their respective dates of acquisition. The following pro forma combined summary of operations of the Company gives effect to using historical information of the operations of the hospitals purchased in 2007 and 2006 as if the acquisitions had occurred as of January 1, 2006 (in thousands except per share data):

	<b>Year Ended December 31,</b>	
	<b>2007</b>	<b>2006</b>
Pro forma net operating revenues	\$ 9,623,221	\$ 9,245,489
Pro forma net income (loss)	(95,598)	150,626
Pro forma net income per share:		
Basic	\$ (1.02)	\$ 1.59
Diluted	\$ (1.01)	\$ 1.57

Pro forma adjustments to net income (loss) include adjustments to depreciation and amortization expense, net of the related tax effect, based on the estimated fair value assigned to the long-lived assets acquired, and to interest expense, net of the related tax effect, assuming the increase in long-term debt used to fund the acquisitions had occurred as of January 1, 2006. The pro forma net income for the year ended December 31, 2007, includes a charge for the early extinguishment of debt of \$27.3 million before taxes and \$17.5 million after tax, or \$0.19 per share (diluted). The pro forma results do not include transaction costs incurred by Triad prior to the date of acquisitions related to cost savings or other synergies that are anticipated as a result of this acquisition. These pro forma results are not necessarily indicative of the actual results of operations.

***Discontinued Operations***



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Effective November 30, 2007, the Company sold Barberton Citizens Hospital (312 licensed beds) located in Barberton, Ohio to Summa Health System of Akron, Ohio. The proceeds from this sale were \$53.8 million.

Effective October 31, 2007, the Company sold its 60% membership interest in Northeast Arkansas Medical Center ( NEA ), a 104 bed facility in Jonesboro, Arkansas to Baptist Memorial Health Care ( Baptist ), headquartered in Memphis, Tennessee for \$16.8 million. In connection with this transaction, the Company also sold real estate and other assets to a subsidiary of Baptist for \$26.2 million.

Effective September 1, 2007, the Company sold its partnership interest in River West L.P., which owned and operated River West Medical Center (an 80 bed facility located in Plaquemine, Louisiana) to an affiliate of Shiloh Health Services, Inc. of Lubbock, Texas. The proceeds from this sale were \$0.3 million.

**Table of Contents****COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Effective March 18, 2006, the Company sold Highland Medical Center, a 123-bed facility located in Lubbock, Texas, to Shiloh Health Services, Inc. of Louisville, Kentucky. The proceeds from this sale were \$0.5 million. This hospital had previously been classified as held for sale.

Effective January 31, 2005, the Company's lease of Scott County Hospital, a 99 bed facility located in Oneida, Tennessee, expired pursuant to its terms.

Effective March 31, 2005, the Company sold The King's Daughters Hospital, a 137 bed facility located in Greenville, Mississippi, to Delta Regional Medical Center, also located in Greenville, Mississippi. In a separate transaction, also effective March 31, 2005, the Company sold Troy Regional Medical Center, a 97 bed facility located in Troy, Alabama, Lakeview Community Hospital, a 74 bed facility located in Eufaula, Alabama and Northeast Medical Center, a 75 bed facility located in Bonham, Texas to Attentus Healthcare Company of Brentwood, Tennessee. The aggregate sales price for these four hospitals was approximately \$52.0 million and was received in cash.

As of December 31, 2007, the Company had classified as held for sale 12 hospitals with an aggregate total of 1,690 licensed beds.

In connection with management's decision to sell the previously mentioned facilities and in accordance with SFAS No. 144, the Company has classified the results of operations of the above mentioned hospitals as discontinued operations in the accompanying consolidated statements of income.

Net operating revenues and loss reported for the fifteen hospitals in discontinued operations are as follows:

	<b>Year Ended December 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<b>(In thousands)</b>		
Net operating revenues	\$ 417,677	\$ 189,734	\$ 212,723
Loss from operations of hospitals sold or held for sale before income taxes	(14,735)	(10,694)	(13,395)
Loss on sale of hospitals and partnership interests	(3,954)	(3,938)	(6,295)
Impairment of long-lived assets of hospital held for sale	(19,044)		(6,718)
Loss from discontinued operations, before taxes	(37,733)	(14,632)	(26,408)
Income tax benefit	8,125	5,200	5,582
Loss from discontinued operations, net of tax	\$ (29,608)	\$ (9,432)	\$ (20,826)

Included in the computation of the loss from discontinued operations, before taxes for the year ended December 31, 2007, is a write-off of \$4.0 million of tangible assets and \$0.1 million of goodwill for the partnership and membership interests sold and the two hospitals sold and an estimated impairment of \$19.0 million on long-lived assets at the

hospitals held for sale (see Note 4 Goodwill and Other Intangible Assets).

The computation of loss from discontinued operations, before taxes, for the year ended December 31, 2006, includes the net write-off of \$4.4 million of tangible assets at the one hospital sold during the year ended December 31, 2006. Interest expense was allocated to discontinued operations based on estimated sales proceeds available for debt repayment.

The computation of loss from discontinued operations, before taxes, for the year ended December 31, 2005, includes the net write-off of \$51.5 million of tangible assets and \$17.1 million of goodwill of the four hospitals sold and one hospital designated as held for sale in the second quarter of 2005.

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The assets and liabilities of the hospitals held for sale as of December 31, 2007 are included in the accompanying consolidated balance sheet as follows (in thousands): current assets of \$118,893, included in other current assets; net property and equipment of \$331,139 and other long-term assets of \$31,407, included in other assets; and current liabilities of \$67,606, included in other accrued liabilities. The assets and liabilities of hospitals classified as held for sale at December 31, 2007 have not been reclassified as of December 31, 2006 in the accompanying consolidated balance sheet.

**4. Goodwill and Other Intangible Assets**

The changes in the carrying amount of goodwill are as follows (in thousands):

	<b>Year Ended December 31,</b>	
	<b>2007</b>	<b>2006</b>
Balance, beginning of year	\$ 1,336,525	\$ 1,259,816
Goodwill acquired as part of acquisitions during the year	2,912,392	67,550
Consideration adjustments and finalization of purchase price allocations for prior year s acquisitions	22,053	9,159
Goodwill related to hospital operations segment written off as part of disposals	(1,913)	
Goodwill related to hospital operations segment assigned to disposal group classified as held for sale	(21,343)	
Balance, end of year	\$ 4,247,714	\$ 1,336,525

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). As a result of the change in the Company s operating segments as discussed in Note 1, management has re-evaluated the determination of our reporting units identified for allocation of goodwill in accordance with SFAS No. 142 and determined that the operating segments meet the criteria to be classified as reporting units. At September 30, 2007, goodwill, except for the amount related to the former Triad hospitals, was reallocated among the hospital operations and home health agencies operations reporting units. At December 31, 2007, the hospital operations reporting unit had \$1.309 billion and the home health agencies reporting unit had \$32.2 million of goodwill. No goodwill has been allocated to the hospital management services segment as of December 31, 2007 because that business relates entirely to the Triad acquisition. Goodwill related to the former Triad hospitals of \$2.907 billion has not been allocated to the reporting unit level as of December 31, 2007 because the final purchase price allocation has not been completed (see Note 3).

The Company performed its annual goodwill evaluation, as required by SFAS No. 142 as of September 30, 2007, using the new segment and reporting units. No impairment was indicated by this evaluation. The Company will continue to perform its goodwill evaluation analysis as of September 30th.

Approximately \$180.9 million of intangible assets were acquired during the year ended December 31, 2007. The gross carrying amount of the Company s other intangible assets was \$194.6 million and \$13.7 million as of December 31, 2007 and 2006, respectively, and the net carrying amount was \$181.0 million and \$7.4 million as of December 31, 2007 and 2006, respectively. Substantially all of the other intangible assets are finite lived and subject to amortization. Other intangible assets are included in other assets on the Company s consolidated balance sheets.

The weighted average amortization period for the intangible assets subject to amortization is approximately 8 years. There are no expected residual values related to these intangible assets. Amortization expense for these intangible assets was \$2.7 million, \$1.9 million and \$1.3 million during the years ended December 31, 2007, 2006 and 2005, respectively. Amortization expense on intangible assets is estimated to be \$14.8 million

**Table of Contents****COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

in 2008, \$13.9 million in 2009, \$13.3 million in 2010, \$11.9 million in 2011, \$8.4 million in 2012 and \$0.3 million thereafter.

**5. Income Taxes**

The provision for income taxes for income from continuing operations consists of the following (in thousands):

	<b>Year Ended December 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
Current			
Federal	\$ 27,416	\$ 120,209	\$ 101,371
State	11,411	13,555	12,746
	38,827	133,764	114,117
Deferred			
Federal	6,944	(21,793)	3,987
State	(2,768)	(1,819)	1,700
	4,176	(23,612)	5,687
Total provision for income taxes for income from continuing operations	\$ 43,003	\$ 110,152	\$ 119,804

The following table reconciles the differences between the statutory federal income tax rate and the effective tax rate (dollars in thousands):

	<b>Year Ended December 31,</b>					
	<b>2007</b>		<b>2006</b>		<b>2005</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Provision for income taxes at statutory federal rate	\$ 36,015	35.0%	\$ 100,746	35.0%	\$ 107,861	35.0%
State income taxes, net of federal income tax benefit	5,618	5.5	7,628	2.7	9,390	3.0
Change in valuation allowance	3,825	3.7				
Federal and state tax credits	(2,625)	(2.6)				
Other	170	0.2	1,778	0.6	2,553	0.8
Provision for income taxes and effective tax rate for income from continuing operations	\$ 43,003	41.8%	\$ 110,152	38.3%	\$ 119,804	38.8%



**Table of Contents****COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Deferred income taxes are based on the estimated future tax effects of differences between the financial statement and tax bases of assets and liabilities under the provisions of the enacted tax laws. Deferred income taxes as of December 31, consist of (in thousands):

	2007		2006	
	Assets	Liabilities	Assets	Liabilities
Net operating loss and credit carryforwards	\$ 75,879	\$	\$ 26,709	\$
Property and equipment		464,753		136,249
Self-insurance liabilities	100,642		35,607	
Intangibles		139,757		101,569
Other liabilities		19,076		2,879
Long-term debt and interest		42,447	989	
Accounts receivable	104,727		33,535	
Accrued expenses	21,928		20,362	
Other comprehensive income	58,933			1,952
Stock-Based compensation	54,464		6,353	
Other	23,812		12,078	
	440,385	666,033	135,633	242,649
Valuation allowance	(68,558)		(21,207)	
Total deferred income taxes	\$ 371,827	\$ 666,033	\$ 114,426	\$ 242,649

Management believes that the net deferred tax assets will ultimately be realized, except as noted below. Management's conclusion is based on its estimate of future taxable income and the expected timing of temporary difference reversals. The Company has state net operating loss carry forwards of approximately \$1.223 billion, which expire from 2008 to 2027. With respect to the deferred tax liability pertaining to intangibles, as included above, goodwill purchased in connection with certain of the Company's business acquisitions is amortizable for income tax reporting purposes. However, for financial reporting purposes, there is no corresponding amortization allowed with respect to such purchased goodwill.

The valuation allowance increased by \$47.4 million and \$0.1 million during the years ended December 31, 2007 and 2006, respectively. In addition to amounts previously discussed, the change in valuation allowance relates to a redetermination of the amount of, and realizability of, net operating losses in certain state and foreign income tax jurisdictions. In addition, as a result of the additional interest expense to be incurred resulting from the Triad acquisition, the Company determined that certain of its state net operating losses will expire before being utilized resulting in the recording of a valuation allowance of approximately \$16.4 million. The results of this change in the valuation allowance impacted goodwill from the acquisition.

The Company adopted the provisions of FIN 48, on January 1, 2007. The total amount of unrecognized benefit that would affect the effective tax rate, if recognized, is approximately \$5.7 million as of December 31, 2007. It is the



Company's policy to recognize interest and penalties accrued related to unrecognized benefits in its statement of operations as income tax expense. During the year ended December 31, 2007, the Company recorded approximately \$2.4 million in liabilities and \$0.6 million in interest and penalties related to prior state income tax returns through its income tax provision from continuing operations and which are included in its FIN 48 liability at December 31, 2007. A total of approximately \$1.8 million of interest and penalties is included in the amount of FIN 48 liability at December 31, 2007. During the year ended December 31, 2007, the Company released \$5.2 million plus accrued interest of \$0.8 million of its FIN 48 liability, as a result of the expiration of the statute of limitations pertaining to tax positions taken in prior years relative to legal settlements and \$1.5 million relative to state tax positions. During the year ending December 31, 2007, the

**Table of Contents****COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Company's FIN 48 liability decreased approximately \$3.5 million due to an income tax examination settlement of the federal tax returns of the former Triad hospitals for the short taxable years ended April 27, 2001, June 30, 2001 and December 31, 2001, and the taxable years ended December 31, 2002 and 2003. The financial statement impact of this settlement impacted goodwill.

The Company's unrecognized tax benefits consist primarily of state exposure items. The Company believes that it is reasonably possible that approximately \$1.1 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 following is a tabular reconciliation of the total amount of unrecognized tax benefit for the year ended December 31, 2007 (in thousands):

	<b>Year Ended December 31, 2007</b>	
Unrecognized Tax Benefit at January 1, 2007	\$	10,510
Gross increases purchase business combination		10,160
Gross increases tax positions in current period		1,930
Gross increases tax positions in prior period		1,820
Lapse of statute of limitations		(6,700)
Settlements		(2,840)
Unrecognized Tax Benefit at December 31, 2007	\$	14,880

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

The IRS has concluded an examination of the federal income tax returns of Triad for the short taxable years ended April 27, 2001, June 30, 2001 and December 31, 2001, and the taxable years ended December 31, 2002 and 2003. On May 10, 2006, the IRS issued an examination report with proposed adjustments. Triad filed a protest on June 9, 2006 and the matter was referred to the IRS Appeals Office. Representatives of the former Triad hospitals met with the IRS Appeals Office in April 2007 and reached a tentative settlement. Triad has since received a closing letter with respect to the examination for those tax years. The settlement was not material to the Company's results of operations or financial position.

The Company paid income taxes, net of refunds received, of \$85.2 million, \$128.1 million and \$68.1 million during 2007, 2006, and 2005, respectively.



**Table of Contents****COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****6. Long-Term Debt**

Long-term debt consists of the following (in thousands):

	<b>As of December 31,</b>	
	<b>2007</b>	<b>2006</b>
Credit Facilities:		
Term loans	\$ 5,965,000	\$ 1,572,000
Revolving credit loans		
Tax-exempt bonds	8,000	8,000
Senior subordinated notes	3,021,331	300,000
Capital lease obligations (see Note 8)	35,136	44,670
Other	68,610	16,507
Total debt	9,098,077	1,941,177
Less current maturities	(20,710)	(35,396)
Total long-term debt	\$ 9,077,367	\$ 1,905,781

***Terminated Credit Facility and Notes***

On August 19, 2004, the Company entered into a \$1.625 billion senior secured credit facility with a consortium of lenders which was subsequently amended on December 16, 2004, July 8, 2005 and December 13, 2006 (the Terminated Credit Facility). The purpose of the Terminated Credit Facility was to refinance and replace the Company's previous credit agreement, repay specified other indebtedness, and fund general corporate purposes, including amending the credit facility to permit declaration and payment of cash dividends, to repurchase shares or make other distributions, subject to certain restrictions. The Terminated Credit Facility consisted of a \$1.2 billion term loan that was due to mature in 2011 and a \$425 million revolving credit facility that was due to mature in 2009. The First Incremental Facility Amendment, dated as of December 13, 2006, increased the Company's term loans by \$400 million (the Incremental Term Loan Facility) and also gave the Company the ability to add up to \$400 million of additional term loans. The full amount of the Incremental Term Loan Facility was funded on December 13, 2006, and the proceeds were used to repay the full outstanding amount (approximately \$326 million) of the revolving credit facility under the credit agreement and the balance was available to be used for general corporate purposes. The Company was able to elect from time to time an interest rate per annum for the borrowings under the term loan, including the incremental term loan, and revolving credit facility equal to (a) an alternate base rate, which would have been equal to the greatest of (i) the Prime Rate (as defined) in effect and (ii) the Federal Funds Effective Rate (as defined), plus 50 basis points, plus (1) 75 basis points for the term loan and (2) the Applicable Margin (as defined) for revolving credit loans or (b) the Eurodollar Rate (as defined) plus (1) 175 basis points for the term loan and (2) the Applicable Margin for Eurodollar revolving credit loans. The Company also paid a commitment fee for the daily average unused commitments under the revolving credit facility. The commitment fee was based on a pricing grid depending on the Applicable Margin for Eurodollar revolving credit loans and ranged from 0.250% to 0.500%. The

commitment fee was payable quarterly in arrears and on the revolving credit termination date with respect to the available revolving credit commitments. In addition, the Company paid fees for each letter of credit issued under the credit facility.

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

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**COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***New Credit Facility and Notes***

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

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

The term loan facility must be prepaid in an amount equal to (1) 100% of the net cash proceeds of certain asset sales and dispositions by the Company and its subsidiaries, subject to certain exceptions and reinvestment rights, (2) 100% of the net cash proceeds of issuances of certain debt obligations or receivables based financing by the Company and its subsidiaries, subject to certain exceptions, and (3) 50%, subject to reduction to a lower percentage based on the Company's leverage ratio (as defined in the New Credit Facility, generally as the ratio of total debt on the date of determination to the Company's EBITDA, as defined, for the four quarters most recently ended prior to such date) of excess cash flow (as defined) for any year, commencing in 2008, subject to certain exceptions. Voluntary prepayments and commitment reductions are permitted in whole or in part, without any premium or penalty, subject to minimum prepayment or reduction requirements.

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

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

rate loans under the revolving credit facility.

The Company has agreed to pay letter of credit fees equal to the applicable percentage then in effect with respect to Eurodollar rate loans under the revolving credit facility times the maximum aggregate amount available to be drawn under all letters of credit outstanding under the subfacility for letters of credit. The

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**COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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

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

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

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

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

**Redemption**



<b>Period</b>	<b>Price</b>
2011	104.438%
2012	102.219%
2013 and thereafter	100.000%

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**COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

- 1) at least 65% of such aggregate principal amount of Notes originally issued remains outstanding immediately after the occurrence of each such redemption (other than the Notes held, directly or indirectly, by the Company or its subsidiaries); and
- 2) each such redemption occurs within 90 days after the date of the related Public Equity Offering.

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

Pursuant to a registration rights agreement entered into at the time of the issuance of the Notes, CHS/Community Health commenced an offer (the Exchange Offer) on October 9, 2007, to exchange the Notes for new notes (the Exchange Notes) having terms substantially identical in all material respects to the Notes (except that the Exchange Notes will be issued under a registration statement pursuant to the 1933 Act.) This registration statement was declared effective by the SEC on October 9, 2007. The Exchange Offer expired on November 13, 2007. The Exchange Offer was consummated on November 19, 2007.

As of December 31, 2007, the Company's availability for additional borrowings under its New Credit Facility was \$1.050 billion (consisting of a \$750 million revolving credit facility and a \$300 million delayed draw term loan facility), of which \$36 million was set aside for outstanding letters of credit. The Company also has the ability to add up to \$300 million of borrowing capacity from receivable transactions (including securitizations) under the New Credit Facility which has not yet been accessed. The Company also has the ability to amend the New Credit Facility to provide for one or more tranches of term loans in an aggregate principal amount of \$600 million, which the Company has not yet accessed. As of December 31, 2007, the Company's weighted-average interest rate under the New Credit Facility was 7.78%.

The Term Loans are scheduled to be paid with principal payments for future years as follows (in thousands):

	<b>Term Loans</b>
2008	\$

2009	36,463
2010	60,650
2011	60,650
2012	60,650
Thereafter	5,746,587
Total	\$ 5,965,000

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**COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

As of December 31, 2007 and 2006, the Company had letters of credit issued, primarily in support of potential insurance related claims and certain bonds of approximately \$36 million and \$21 million, respectively.

*Tax-Exempt Bonds.* Tax-Exempt Bonds bore interest at floating rates, which averaged 3.69% and 3.51% during 2007 and 2006, respectively.

*Senior Subordinated Notes.* On December 16, 2004, the Company completed a private placement offering of \$300 million aggregate principal amount of 6.5% senior subordinated notes due 2012. The senior subordinated notes were sold in an offering pursuant to Rule 144A and Regulation S under the 1933 Act. The senior subordinated notes when issued were registered under the 1933 Act or the securities laws of any state and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements under the 1933 Act and any applicable state securities laws. On February 24, 2005, the Company filed a registration statement to exchange these notes for registered notes. This exchange was completed during the first quarter of 2005.

In connection with the consummation of the acquisition of Triad, the Company completed an early repayment of the \$300 million aggregate principal amount of 6 1/2% Senior Subordinated Notes due 2012 through a cash tender offer and consent solicitation.

As previously described, in connection with the Triad acquisition, the Company issued \$3.021 billion principal amount of Notes. These Notes bear interest at 8.875% interest and mature on July 15, 2015.

*Other Debt.* As of December 31, 2007, other debt consisted primarily of an industrial revenue bond, the mortgage obligation on the Company's corporate headquarters and other obligations maturing in various installments through 2017.

The Company is currently a party to 29 separate interest swap agreements with an aggregate notional amount of \$4.050 billion, to limit the effect of changes in interest rates on a portion of the Company's long-term borrowings. On each of these swaps, the Company receives a variable rate of interest based on the three-month London Inter-Bank Offer Rate ( LIBOR ) in exchange for the payment of a fixed rate of interest. The Company currently pays, on a quarterly basis, a margin above LIBOR of 225 basis points for revolver loans and term loans under the senior secured credit facility. See footnote 7 for additional information regarding these swaps.

As of December 31, 2007, the scheduled maturities of long-term debt outstanding, including capital leases for each of the next five years and thereafter are as follows (in thousands):

2008	\$ 20,710
2009	53,887
2010	79,331
2011	70,316
2012	66,517
Thereafter	8,807,316
Total	\$ 9,098,077

The Company paid interest of \$218 million, \$96 million and \$90 million on borrowings during the years ended December 31, 2007, 2006 and 2005, respectively.

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## COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**7. Fair Values of Financial Instruments**

The fair value of financial instruments has been estimated by the Company using available market information as of December 31, 2007 and 2006, 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):

	As of December 31,			
	2007		2006	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<b>Assets:</b>				
Cash and cash equivalents	\$ 132,874	\$ 132,874	\$ 40,566	\$ 40,566
Available-for-sale securities	8,352	8,352	7,620	7,620
Trading securities	38,075	38,075	17,714	17,714
<b>Liabilities:</b>				
Credit facilities	5,965,000	5,733,856	1,572,000	1,573,540
Tax-exempt bonds	8,000	8,000	8,000	8,000
Senior subordinated notes	3,021,331	3,074,204	300,000	295,500
Other debt	68,610	68,610	4,344	4,344

*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.

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

*Interest Rate Swaps.* The fair value of interest rate swap agreements is the amount at which they could be settled, based on 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 years ended December 31, 2007 and 2006, 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 counterparty to the interest rate swap agreements exposes the Company to credit risk in the event of non-performance. However, the Company does not anticipate non-performance by the counterparty. The Company does not hold or issue derivative financial instruments for trading purposes.

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

Table of Contents**COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Interest rate swaps consisted of the following at December 31, 2007:

Swap #	Notional Amount (In 000 s)	Fixed Interest Rate	Termination Date	Fair Value (000 s)
1	100,000	4.0610%	May 30, 2008	\$ 234
2	100,000	2.4000%	June 13, 2008	989
3	100,000	3.5860%	August 29, 2008	493
4	100,000	3.9350%	June 6, 2009	(119)
5	100,000	4.3375%	November 30, 2009	(1,052)
6	100,000	4.9360%	October 4, 2010	(2,948)
7	100,000	4.7090%	January 24, 2011	(2,479)
8	300,000	5.1140%	August 8, 2011	(12,012)
9	100,000	4.7185%	August 19, 2011	(2,668)
10	100,000	4.7040%	August 19, 2011	(2,353)
11	100,000	4.6250%	August 19, 2011	(2,321)
12	200,000	4.9300%	August 30, 2011	(6,755)
13	200,000	4.4815%	October 26, 2011	(3,706)
14	200,000	4.0840%	December 3, 2011	(907)
15	250,000	5.0185%	May 30, 2012	(9,939)
16	150,000	5.0250%	May 30, 2012	(6,020)
17	200,000	4.6845%	September 11, 2012	(5,255)
18	125,000	4.3745%	November 23, 2012	(1,514)
19	75,000	4.3800%	November 23, 2012	(713)
20	150,000	5.0200%	November 30, 2012	(6,172)
21	100,000	5.0230%	May 30, 2013(1)	(4,043)
22	300,000	5.2420%	August 6, 2013	(15,970)
23	100,000	5.0380%	August 30, 2013(2)	(4,123)
24	100,000	5.0500%	November 30, 2013(3)	(3,871)
25	100,000	5.2310%	July 25, 2014	(5,423)
26	100,000	5.2310%	July 25, 2014	(4,440)
27	200,000	5.1600%	July 25, 2014	(9,965)
28	75,000	5.0405%	July 25, 2014	(3,213)
29	125,000	5.0215%	July 25, 2014	(5,217)

(1) This swap agreement becomes effective May 30, 2008, concurrent with the termination of agreement #1 listed above.

(2) This swap agreement becomes effective June 13, 2008, concurrent with the termination of agreement #2 listed above.



(3) This swap agreement becomes effective September 2, 2008, after the termination of agreement #3 listed above.

Assuming no change in December 31, 2007 interest rates, approximately \$2.8 million will be recognized in earnings through interest expense during the year ending December 31, 2008 pursuant to the interest rate swap agreements. If interest rate swaps do not remain highly effective as a cash flow hedge, the derivatives gains or losses reported through other comprehensive income will be reclassified into earnings.

**Table of Contents****COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****8. Leases**

The Company leases hospitals, medical office buildings, and certain equipment under capital and operating lease agreements. During 2007, the Company entered into \$10.8 million of capital leases and assumed \$10.0 million of capital leases in the acquisition of the former Triad hospitals. All lease agreements generally require the Company to pay maintenance, repairs, property taxes and insurance costs. Commitments relating to noncancellable operating and capital leases for each of the next five years and thereafter are as follows (in thousands):

<b>Year Ended December 31,</b>	<b>Operating(1)</b>	<b>Capital</b>
2008	\$ 146,084	\$ 9,290
2009	124,159	5,854
2010	102,242	4,586
2011	81,083	3,475
2012	65,190	2,755
Thereafter	249,945	21,049
Total minimum future payments	\$ 768,703	\$ 47,009
Less imputed interest		(11,873)
		35,136
Less current portion		(5,967)
Long-term capital lease obligations		\$ 29,169

(1) Minimum lease payments have not been reduced by minimum sublease rentals due in the future of \$48.5 million.

Assets capitalized under capital leases as reflected in the accompanying consolidated balance sheets were \$23.5 million of land and improvements, \$140.1 million of buildings and improvements, and \$61.8 million of equipment and fixtures as of December 31, 2007 and \$19.2 million of land and improvements, \$167.8 million of buildings and improvements and \$52.4 million of equipment and fixtures as of December 31, 2006. The accumulated depreciation related to assets under capital leases was \$79.9 million and \$63.7 million as of December 31, 2007 and 2006, respectively. Depreciation of assets under capital leases is included in depreciation and amortization and amortization of debt discounts on capital lease obligations is included in interest expense in the consolidated statements of income.

**9. Employee Benefit Plans**

The Company maintains various benefit plans, including defined contribution plans, defined benefit plans and deferred compensation plans. The Company's defined contribution plans consist of one plan that covers substantially all corporate office employees and employees at the Company's hospitals and clinics owned prior to the acquisition of Triad. The other defined contribution plan covers substantially all employees at the former Triad hospitals, clinics and QHR. These plans are qualified under Section 401(k) of the Internal Revenue Code. Participants may contribute a portion of their compensation not exceeding a limit set annually by the Internal Revenue Service. These plans include a provision for the Company to match a portion of employee contributions. In addition, the plan covering the former Triad hospitals provides for a supplementary contribution, determined primarily as a percentage of participants' annual wages. The Company is required to maintain the former Triad plan, including this supplementary contribution benefit, through December 31, 2008. Total expense to the Company under the 401(k) plans was \$39.8 million, \$10.7 million and \$8.8 million for the years ended December 31, 2007, 2006 and 2005, respectively.

**Table of Contents****COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In 2007, the Company merged its three defined benefit, non-contributory pension plans, which covered certain employees at three of its hospitals, into one plan ( Pension plan ). The Pension plan provides benefits to covered individuals satisfying certain age and service requirements. Employer contributions to the Pension plan are in accordance with the minimum funding requirements of the Employee Retirement Income Security Act of 1974, as amended. The Company expects to contribute \$3.7 million to the Pension plan in fiscal 2008. The Company also provides an unfunded supplemental executive retirement plan ( SERP ) for certain members of its executive management. The Company uses a December 31 measurement date for the benefit obligations and a January 1 measurement date for its net periodic costs for both the Pension plan and SERP. Variances from actuarially assumed rates will result in increases or decreases in benefit obligations, net periodic cost and funding requirements in future periods.

The Company's unfunded deferred compensation plans allow participants to defer receipt of a portion of their compensation. The liability under the deferred compensation plans was \$59.4 million as of December 31, 2007 and \$17.7 million as of December 31, 2006. The Company had trading securities either restricted or generally designated to pay benefits of the deferred compensation plans in the amounts of \$38.1 million and \$17.7 million as of December 31, 2007 and 2006, respectively, and available-for-sale securities either restricted or generally designated to pay benefits of the SERP in the amounts of \$8.4 million and \$7.6 million as of December 31, 2007 and 2006, respectively.

A summary of the benefit obligations and funded status for the Company's pension and SERP plans follows (in thousands):

	<b>Pension Plans</b>		<b>SERP</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Change in benefit obligation:				
Benefit obligation, beginning of year	\$ 26,220	\$ 27,467	\$ 23,293	\$ 22,280
Service cost	3,772	3,757	2,810	3,023
Interest cost	1,587	1,601	1,340	1,225
Plan amendment		(5,769)		
Actuarial (gain)/loss	(2,812)	(792)	1,155	(3,235)
Benefits paid	(112)	(44)		
Benefit obligation, end of year	28,655	26,220	28,598	23,293
Change in plan assets:				
Fair value of assets, beginning of year	13,670	12,452		
Actual return on plan assets	834	1,262		
Employer contributions	1,087			
Benefits paid	(112)	(44)		
Fair value of assets, end of year	15,479	13,670		
Unfunded status	\$ (13,176)	\$ (12,550)	\$ (28,598)	\$ (23,293)



**Table of Contents****COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

A summary of the amounts recognized in the accompanying consolidated balance sheets follows (in thousands):

	<b>Pension Plans</b>		<b>SERP</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Noncurrent Asset	\$	\$	\$	\$
Current Liability				
Noncurrent Liability	(13,176)	(12,550)	(28,598)	(23,293)
Net amount recognized in the consolidated balance sheets	\$ (13,176)	\$ (12,550)	\$ (28,598)	\$ (23,293)

A summary of the plans' benefit obligation in excess of the fair value of plan assets as of the end of the year follows (in thousands):

	<b>Pension Plans</b>		<b>SERP</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Projected benefit obligation	\$ 28,655	\$ 26,220	\$ 28,598	\$ 23,293
Accumulated benefit obligation	20,587	17,127	18,546	18,214
Fair value of plan assets	15,479	13,670		

A summary of the weighted-average assumptions used by the Company to determine benefit obligations as of December 31 follows:

	<b>Pension Plans</b>		<b>SERP</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Discount Rate	6.55%	5.73% - 5.95%	6.00%	5.75%
Annual Salary Increases	4.00%	4.00% - 5.00%	5.00%	5.00%

A summary of the amounts recognized in Accumulated Other Comprehensive Income ( AOCI ) due to the adoption of SFAS No. 158 Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of SFAS No. 87, 88, 106 and 132(R) ( SFAS No. 158 ) as of December 31, 2006 follows (in thousands):

	<b>Pension Plans</b>	<b>SERP</b>
	<b>2006</b>	<b>2006</b>
Amount recognized in AOCI prior to SFAS 158	\$	\$
Amount recognized in AOCI due to adoption of SFAS 158:		

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Prior service cost (credit)	3,583	6,586
Net actuarial (gain) loss	141	2,937
Total amount recognized in AOCI	\$ 3,724	\$ 9,523

**Table of Contents****COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

A summary of net periodic cost and other amounts recognized in Other Comprehensive Income follows (in thousands):

	<b>Pension Plans</b>			<b>SERP</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Service cost	\$ 3,772	\$ 3,757	\$ 3,043	\$ 2,810	\$ 3,023	\$ 2,113
Interest cost	1,586	1,601	1,364	1,339	1,225	846
Expected return on plan assets	(1,179)	(1,054)	(706)			
Amortization of unrecognized prior service cost	689	1,336	1,336	884	884	884
Amortization of net (gain)/loss	(13)		(17)	60	407	55
Net periodic cost	4,855	5,640	5,020	5,093	5,539	3,898
Change in OCI	(3,142)	N/A	N/A	212	N/A	N/A
Total recognized in Net periodic cost and OCI	\$ 1,713	\$ 5,640	\$ 5,020	\$ 5,305	\$ 5,539	\$ 3,898

A summary of the expected amortization amounts to be included in net periodic cost for 2008 are as follows (in thousands):

	<b>Pension Plans</b>	<b>SERP</b>
Prior service cost	\$ 689	\$ 884
Actuarial (gain)/loss		122

A summary of the weighted-average assumptions used by the Company to determine net periodic cost follows:

	<b>2007</b>	<b>Pension Plans 2006</b>	<b>2005</b>	<b>2007</b>	<b>SERP 2006</b>	<b>2005</b>
Discount rate	5.94%	5.40% - 5.80%	6.00%	5.75%	5.50%	5.75%
Rate of compensation increase	4.00%	4.00% - 5.00%	4.00%	5.00%	5.00%	5.00%
Expected long term rate of return on assets	8.50%	8.50%	8.50%	N/A	N/A	N/A

The Company's weighted-average asset allocations by asset category for its pension plans as of the end of the year follows:



	<b>Pension Plans</b>		<b>SERP</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Equity securities	100%	100%	N/A	N/A
Debt securities	0%	0%	N/A	N/A
Total	100%	100%	N/A	N/A

The Company's pension plan assets are invested in mutual funds with an underlying investment allocation of 60% equity securities and 40% debt securities. The expected long-term rate of return for the Company's pension plan assets is based on current expected long-term inflation and historical rates of return on equities and fixed income securities, taking into account the investment policy under the plan. The expected long-term rate of return is weighted based on the target allocation for each asset category. Equity securities are expected to return between 8% and 12% and debt securities are expected to return between 4% and 7%. The Company expects its pension plan asset managers will provide a premium of approximately 0.5% to 1.5% per annum to the respective market benchmark indices.

**Table of Contents****COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company's investment policy related to its pension plans is to provide for growth of capital with a moderate level of volatility by investing in accordance with the target asset allocations stated above. The Company reviews its investment policy, including its target asset allocations, on a semi-annual basis to determine whether any changes in market conditions or amendments to its pension plans requires a revision to its investment policy.

The estimated future benefit payments reflecting future service as of the end of 2007 for the Company's pension and SERP plans follows (in thousands):

<b>Years Ending</b>	<b>Pension Plans</b>	<b>SERP</b>
2008	\$ 271	\$
2009	372	91
2010	438	91
2011	508	1,539
2012	651	1,591
2013 - 2016	4,611	14,019

**10. 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 \$.01 per share. Shares of Preferred Stock, none of which are outstanding as of December 31, 2007 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 January 14, 2006, the Company commenced an open market repurchase program for up to 5,000,000 shares of the Company's common stock, not to exceed \$200 million in repurchases. Under this program, the Company repurchased the entire 5,000,000 shares at a weighted average price of \$35.23. This program concluded on November 8, 2006 when the maximum number of shares had been repurchased. This repurchase plan followed a prior repurchase plan for up to 5,000,000 shares which concluded on January 13, 2006. The Company repurchased 3,029,700 shares at a weighted average price of \$31.20 per share under this program. On December 13, 2006, the Company commenced another open market repurchase program for up to 5,000,000 shares of the Company's common stock not to exceed \$200 million in repurchases. This program will conclude at the earlier of three years or when the maximum number of shares have been repurchased. As of December 31, 2007, the Company has not repurchased any shares under this program.

**Table of Contents****11. Earnings Per Share**

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

	<b>Year Ended December 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
Numerator:			
Numerator for basic earnings per share			
Income from continuing operations available to common stockholders basic	\$ 59,897	\$ 177,695	\$ 188,370
Numerator for diluted earnings per share			
Income from continuing operations	\$ 59,897	\$ 177,695	\$ 188,370
Interest, net of tax, on 4.25% convertible notes		135	8,565
Income from continuing operations available to common stockholders diluted	\$ 59,897	\$ 177,830	\$ 196,935
Denominator:			
Weighted-average number of shares outstanding basic	93,517,337	94,983,646	88,601,168
Effect of dilutive securities:			
Non-employee director options	2,957	11,825	11,715
Restricted Stock awards	227,200	140,959	115,411
Employee options	894,800	951,360	1,466,652
4.25% Convertible notes		145,120	8,385,031
Weighted-average number of shares outstanding diluted	94,642,294	96,232,910	98,579,977
Dilutive securities outstanding not included in the computation of earning per share because their effect is antidilutive:			
Employee options	4,398,307	1,261,367	31,100

**12. Equity Investments**

The Company owns 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; an equity interest of 38.0% in a hospital in Macon, Georgia in which HCA Inc. owns the majority interest; and an equity interest of 50.0% in a hospital in El Dorado, Arkansas in which the SHARE Foundation, a not-for-profit foundation, owns the remaining 50.0%. These equity investments were acquired as part of the acquisition of Triad. The Company uses the equity method of accounting for its investments in these entities. The balance of the Company's investment in unconsolidated affiliates is \$267.8 million at December 31, 2007, and is included in other assets in the accompanying consolidated balance sheet. Included in the Company's results of operations for the year ended December 31, 2007, is \$25.1 million representing the Company's equity in pre-tax earnings from investments in unconsolidated affiliates for the period July 25, 2007 through December 31, 2007.



**Table of Contents****COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Summarized combined financial information for the years ended December 31, 2007 and 2006, for the unconsolidated entities in which the Company owns an equity interest is as follows (in thousands):

	<b>December 31, 2007 (Unaudited)</b>
Current assets	\$ 226,458
Noncurrent assets	706,059
	\$ 932,517
Current liabilities	\$ 81,354
Noncurrent liabilities	3,079
Members equity	848,084
	\$ 932,517
	<b>For the Year Ended December 31, 2007 2007 (Unaudited)</b>
Revenues	\$ 1,275,117
Net income	\$ 160,802

**13. Segment Information**

Prior to the acquisition of Triad, the Company aggregated its operating segments into one reportable segment as all of its operating segments had similar services, had similar types of patients, operated in a consistent manner and had similar economic and regulatory characteristics. In connection with the Triad acquisition, management has re-evaluated the information that is reviewed by the chief operating decision maker and segment managers and has determined that the Company now operates in three distinct operating segments, represented by the hospital operations (which includes our acute care hospitals and related healthcare entities that provide acute and outpatient health care services), the home health agencies operations (which provide outpatient care generally at the patient's home), and our hospital management services business (which provides executive management services to non-affiliated acute care hospitals). Only the hospital operations segment meets the criteria in SFAS No. 131 as a separate reportable segment. The financial information for the home health agencies and management services segment do not meet the quantitative thresholds defined in SFAS No. 131 and are combined into the corporate and all other reportable segment.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies in Note 1. Expenditures for segment assets are reported on an accrual basis, which includes amounts that are reflected in accounts payable (See Note 1). Substantially all depreciation and amortization as reflected in the consolidated statements of income relates to the hospital operations segment.

The financial information from prior years has been presented to reflect this change in the composition of our reportable operating segments.

**Table of Contents****COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The distribution between reportable segments of our revenues, income from continuing operations before income taxes, expenditures for segment assets and total assets is summarized in the following tables (in thousands):

	<b>For the Year Ended December 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
Revenues:			
Hospital operations	\$ 6,965,152	\$ 4,101,974	\$ 3,516,856
Corporate and all other	162,342	78,162	59,261
	<b>\$ 7,127,494</b>	<b>\$ 4,180,136</b>	<b>\$ 3,576,117</b>
Income from continuing operations before income taxes:			
Hospital operations	\$ 256,274	\$ 360,576	\$ 360,263
Corporate and all other	(153,374)	(72,729)	(52,089)
	<b>\$ 102,900</b>	<b>\$ 287,847</b>	<b>\$ 308,174</b>
Expenditures for segment assets:			
Hospital operations	\$ 501,671	\$ 232,500	\$ 179,680
Corporate and all other	32,464	39,693	20,564
	<b>\$ 534,135</b>	<b>\$ 272,193</b>	<b>\$ 200,244</b>

	<b>December 31,</b>	
	<b>2007</b>	<b>2006</b>
Total assets:		
Hospital operations	\$ 12,176,957	\$ 4,082,271
Corporate and all other	1,316,686	424,308
	<b>\$ 13,493,643</b>	<b>\$ 4,506,579</b>

**14. Commitments and Contingencies**

*Construction Commitments.* Pursuant to hospital purchase agreements in effect as of December 31, 2007, and where required certificate of need approval has been obtained, the Company is required to build the following replacement facilities. The Company has agreed, as part of the acquisition in 2003 of Southside Regional Medical Center in Petersburg, Virginia, to build a replacement facility with an aggregate estimated construction cost, including equipment, of approximately \$145 million. Of this amount, approximately \$98 million has been expended through

December 31, 2007. The Company expects to spend approximately \$44 million in replacement hospital construction and equipment costs related to this project in 2008. This project is required to be completed in 2008. The Company has agreed, as part of the acquisition in 2004 of Phoenixville Hospital in Phoenixville, Pennsylvania, to spend approximately \$90 million in capital expenditures over eight years to develop and improve the hospital; of this amount approximately \$25 million has been expended through December 2007. The Company expects to spend approximately \$26 million of this commitment in 2008. The Company has agreed as part of the acquisition in 2005 of Chestnut Hill Hospital, in Philadelphia, Pennsylvania to spend approximately \$41 million in capital expenditures over four years to develop and improve the hospital; of this amount approximately \$13 million has been expended through December 2007. The Company expects to spend approximately \$4 million of this commitment in 2008. As part of the acquisition in 2005 of Bedford County Medical Center in Shelbyville, Tennessee, the Company agreed to build a replacement facility with an aggregate estimated construction cost of approximately \$35 million. Of this amount, approximately \$19 million has been expended through December 31, 2007. The



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**COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Company expects to spend approximately \$16 million in replacement hospital construction costs related to this project in 2008. The project is required to be completed by June 30, 2009. As required by an amendment to a lease agreement entered into in 2005, the Company agreed to build a replacement facility at its Barstow, California location. Construction costs for this replacement facility are estimated to be approximately \$60 million. Of this amount, approximately \$2 million has been expended through December 31, 2007. The Company expects to spend approximately \$3 million in replacement hospital construction and equipment costs related to this project in 2008. This project is required to be completed in 2011. The Company has agreed, as part of an acquisition in 2007, to build a replacement hospital in Valparaiso, Indiana with an aggregate estimated construction cost, including equipment costs, of approximately \$210 million. Of this amount, an immaterial amount has been expended through December 31, 2007. The Company expects to spend approximately \$5 million in replacement hospital construction and equipment costs related to this project in 2008. This project is required to be completed in 2011. As part of the Triad acquisition, the Company assumed the commitment to build a replacement hospital in Clarksville, Tennessee, with an aggregate estimated construction cost, including equipment costs, of approximately \$201 million. Of this amount, approximately \$133 million has been expended through December 31, 2007. The Company expects to spend approximately \$68 million in replacement hospital construction and equipment costs related to this project in 2008. This project is required to be completed in 2009. Also, as part of the Triad acquisition, the Company assumed the commitment to build a de novo hospital in Cedar Park, Texas, with an aggregate estimated construction cost, including equipment costs, of approximately \$113 million. Of this amount, approximately \$111 million has been expended through December 31, 2007. The Company expects to spend approximately \$2 million in replacement hospital construction and equipment costs related to this project in 2008. This project is required to be completed in 2008. Also in 2005, the Company entered into an agreement with a developer to build and lease to the Company new corporate headquarters. Construction of the new headquarters was completed in December 2006. In January 2007, the Company exercised a purchase option under that lease agreement and acquired the new headquarters by purchasing the equity interests of the previous owner for a purchase price of \$34.9 million.

*Physician Recruiting Commitments.* As part of its physician recruitment strategy, the Company provides income guarantee agreements to certain physicians who agree to relocate to its communities and commit to remain in practice there. Under such agreements, the Company is required to make payments to the physicians in excess of the amounts they earned in their practice up to the amount of the income guarantee. These income guarantee periods are typically for 12 months. Such payments are recoverable by the Company from physicians who do not fulfill their commitment period, which is typically three years, to the respective community. At December 31, 2007, the maximum potential amount of future payments under these guarantees in excess of the liability recorded is \$49.4 million.

***Professional Liability Risks.***

***Professional Liability Insurance for Former Triad Hospitals***

Substantially all of the professional and general liability risks of the acquired Triad hospitals are subject to a per occurrence deductible. Substantially all losses in periods prior to May 1999 are insured through a wholly-owned insurance subsidiary of HCA, Inc., or HCA, Triad's owner prior to that time, and excess loss policies maintained by HCA. HCA has agreed to indemnify the Triad hospitals in respect of claims covered by such insurance policies arising prior to May 1999. After May 1999, the Triad hospitals obtained insurance coverage on a claims incurred basis from HCA's wholly-owned insurance subsidiary with excess coverage obtained from other carriers that is subject to certain deductibles. Effective for claims incurred after December 31, 2006, Triad began insuring its claims from \$1 million to

\$5 million through its wholly-owned captive insurance company, replacing the coverage provided by HCA. Substantially all claims reported on or after January 2007 are self-insured up to \$10 million per claim. Excess insurance for all hospitals is purchased through commercial insurance companies and generally after the self-insured amount covers up to \$100 million

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**COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

per occurrence. The excess insurance for the Triad hospitals is underwritten on a claims-made basis. The Company accrues an estimated liability for its uninsured exposure and self-insured retention based on historical loss patterns and actuarial projections.

*Professional Liability Insurance Claims for All Other Community Health Systems Hospitals*

The Company accrues for estimated losses resulting from professional liability claims. The accrual, which includes an estimate for incurred but not reported claims, is based on historical loss patterns and actuarially determined projections and is discounted to its net present value using a weighted average risk-free discount rate of 4.1% and 4.6% in 2007 and 2006, respectively. To the extent that subsequent claims information varies from management's estimates, the liability is adjusted currently. The Company's insurance is underwritten on a claims-made basis. Prior to June 1, 2002, substantially all of the Company's professional and general liability risks were subject to a \$0.5 million per occurrence deductible; for claims reported from June 1, 2002 through June 1, 2003, these deductibles were \$2.0 million per occurrence. Additional coverage above these deductibles was purchased through captive insurance companies in which the Company had a 7.5% minority ownership interest in each and to which the premiums paid by the Company represented less than 8% of the total premiums revenues of each captive insurance company. With the formation of the Company's own wholly-owned captive insurance company in June 2003, the Company terminated its minority interest relationships in those entities. Substantially all claims reported after June 1, 2003 and before June 1, 2005 are self-insured up to \$4 million per claim. Substantially all claims reported on or after June 1, 2005 are self-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 was purchased through commercial insurance companies and generally covers the Company for liabilities in excess of the self-insured amount and up to \$100 million per occurrence for claims reported on or after June 1, 2003.

The Company's estimated liability for the self-insured portion of professional and general liability claims was \$300.2 million and \$104.2 million as of December 31, 2007 and 2006, respectively. These estimated liabilities represent the present value of estimated future professional liability claims payments based on expected loss patterns using a weighted-average discount rate of 4.1% and 4.6% in 2007 and 2006, respectively. The weighted-average discount rate is based on an estimate of the risk-free interest rate for the duration of the expected claim payments. The estimated undiscounted claims liability was \$321.5 million and \$119.8 million as of December 31, 2007 and 2006, respectively.

*Legal Matters.* The Company is a party to other 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. In a letter dated January 22, 2008, the Civil Division notified the Company that based on its investigation, it has calculated that these three hospitals received ineligible federal participation payments from August 2000 to June 2006 of

approximately \$27.5 million. The Civil Division also advised the Company that were it to proceed to trial, it would seek treble damages plus an appropriate penalty for each of the violations of the False Claims Act. The Company continues to believe that it has not violated the False Claims Act, and is continuing discussions with the Civil Division in an effort to resolve this matter.

*Other.* The Company has entered into a definitive agreement to acquire Empire Health Services in Spokane, Washington. The health system includes two full-service acute care hospitals, Deaconess Medical Center (388

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licensed beds) and Valley Hospital and Medical Center (123 licensed beds), and other outpatient and ancillary services. The transaction, subject to federal and state approvals, is expected to close in the third quarter of 2008.

**15. Subsequent Events**

Effective February 1, 2008, the Company sold Russell County Medical Center (78 licensed beds) located in Lebanon, Virginia to Mountain States Health Alliance, headquartered in Johnson City, Tennessee, for \$48.6 million.

**16. Quarterly Financial Data (Unaudited)**

	Quarter				Total
	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	
	(In thousands, except share and per share data)				
<b>Year ended December 31, 2007:</b>					
Net operating revenues	\$ 1,154,278	\$ 1,197,865	\$ 2,247,009	\$ 2,528,342	\$ 7,127,494
Income from continuing operations before taxes	93,121	87,114	31,371	(108,706)	102,900
Income from continuing operations	57,289	53,558	19,699	(70,649)	59,897
Loss on discontinued operations	(2,965)	205	(9,239)	(17,609)	(29,608)
Net income	54,324	53,763	10,460	(88,258)	30,289
Income from continuing operations per share:					
Basic	0.61	0.57	0.21	(0.75)	0.64
Diluted	0.61	0.57	0.21	(0.75)	0.63
Net income per share:					
Basic	0.58	0.57	0.11	(0.94)	0.32
Diluted	0.58	0.57	0.11	(0.94)	0.32
Weighted-average number of shares:					
Basic	93,402,545	93,518,991	93,651,645	93,664,355	93,517,337
Diluted	94,365,292	94,647,870	94,841,749	93,664,355	94,642,294
<b>Year ended December 31, 2006:</b>					
Net operating revenues	\$ 986,073	\$ 1,017,337	\$ 1,072,199	\$ 1,104,527	\$ 4,180,136
Income from continuing operations before taxes	95,447	86,106	18,199	88,095	287,847
Income from continuing operations	58,484	52,963	11,344	54,904	177,695
	(4,446)	(594)	(3,103)	(1,289)	(9,432)

Loss on discontinued operations					
Net income	54,038	52,369	8,241	53,615	168,263
Income from continuing operations per share:					
Basic	0.61	0.55	0.12	0.59	1.87
Diluted	0.60	0.55	0.12	0.58	1.85
Net income per share:					
Basic	0.56	0.55	0.09	0.57	1.77
Diluted	0.55	0.54	0.09	0.57	1.75
Weighted-average number of shares:					
Basic	96,552,448	95,769,030	94,119,020	93,538,958	94,983,646
Diluted	98,209,271	96,870,315	95,258,771	94,644,589	96,232,910

Net operating revenues in the third and fourth quarter of the year ended December 31, 2007 include the results of operations of the former Triad hospitals and other operations subsequent to the acquisition date of July 25, 2007. Also, net operating revenues and income from continuing operations in the fourth quarter of the year ended December 31, 2007 give effect to the \$96.3 million increase in contractual reserves and \$70.1 million increase to the allowance for doubtful accounts resulting from management's analysis of the net realizable value of the Company's accounts receivable during the fourth quarter (see Note 1).

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**COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**17. Supplemental Condensed Consolidating Financial Information**

In connection with the consummation of the Triad acquisition in July, 2007, the Company obtained \$7.215 billion of senior secured financing under the New Credit Facility and CHS 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 existing and subsequently acquired or organized 100% owned domestic subsidiaries.

The Notes are fully and unconditionally guaranteed on a joint and several basis. The following condensed consolidating financial statements present the Company (as parent guarantor), CHS (as the issuer), the subsidiary guarantors, the subsidiary non-guarantors and eliminations. These supplemental 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 presentation of intercompany balances and allocated income tax expense in the Company's previously issued supplemental condensed consolidating financial statements is being corrected as follows:

Intercompany receivables and payables are presented gross in the supplemental consolidating balance sheets; the intercompany balances were previously reported net as intercompany (receivable) payable . In addition, a portion of the intercompany (receivable) payable was netted against long-term debt payable (receivable) of the Issuer and other guarantors.

Cash flows from intercompany transactions are presented in cash flows from financing activities, as changes in intercompany balances with affiliates, net; these cash flows were previously reported in cash flows from operating activities as advances to subsidiaries, net of return of investment and other operating cash flows.

Income tax expense is allocated from the parent guarantor to the income producing operations (other guarantors and non-guarantors) and the Issuer through shareholders' equity; income tax expense was previously allocated entirely to the Parent Guarantor, which is the tax paying entity. 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; these interest expense and interest income amounts were previously netted within certain subsidiaries.

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. Therefore, the aforementioned corrections do not impact the Company's consolidated balance sheet, consolidated statement of income or consolidated statement of cash flows for any period presented. Management believes the effects of these corrections are not material to the Company's previously issued consolidated financial statements.

The following tables disclose the impact of these corrections on each of the respective line items of the supplemental condensed consolidating financial statements as of and for the periods ending December 31, 2007, 2006 and 2005 (in

thousands).



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	<b>Parent Guarantor</b>	<b>Issuer</b>	<b>Other Guarantors</b>	<b>Non- Guarantors</b>	<b>Eliminations</b>	<b>Consolidated</b>
Condensed Consolidating Balance Sheet As of December 31, 2007 <b>As reported</b>						
Prepaid expenses and taxes	\$	\$ 102	\$ 156,733	\$ 12,921	\$	\$ 169,756
Total current assets	113,741	102	1,518,022	921,033		2,552,898
Intercompany receivables (non-current)						
Goodwill	96,671		2,162,601	1,988,442		4,247,714
Net investment in subsidiaries	1,519,952	1,464,944	4,968,905		(7,953,801)	
Total Assets	1,730,364	1,654,186	12,593,604	5,469,290	(7,953,801)	13,493,643
Long-term debt	4	4,487,090	4,633,801	(43,528)		9,077,367
Intercompany payables (non-current)	(385,872)	(4,627,439)	5,956,358	4,562,215	(5,505,262)	
Other long-term liabilities	(2,519)	121,482	188,316	176,180		483,459
Additional paid-in capital	1,240,308					1,240,308
Retained earnings	557,945	1,601,686	1,066,671	(134,094)	(2,534,263)	557,945
Total stockholders equity	1,710,804	1,519,949	1,062,682	(134,092)	(2,448,539)	1,710,804
Total liabilities and stockholders equity	1,730,364	1,654,186	12,593,604	5,469,290	(7,953,801)	13,493,643
<b>As adjusted(1)</b>						
Prepaid expenses and taxes	99,417	102	57,316	12,921		169,756
Total current assets	213,158	102	1,418,605	921,033		2,552,898
Intercompany receivables (non-current)	1,085,684	9,129,859	18,854,467	884,296	(29,954,306)	

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Goodwill			2,259,113	1,988,601		4,247,714
Net investment in subsidiaries	957,750	4,168,316	2,485,035		(7,611,101)	
Total Assets	2,256,592	13,487,417	28,961,296	6,353,745	(37,565,407)	13,493,643
Long-term debt	4	8,987,090	62,792	27,481		9,077,367
Intercompany payables (non-current)	137,837	3,267,993	27,008,767	5,378,021	(35,792,618)	
Other long-term liabilities		121,482	188,316	173,661		483,459
Additional paid-in capital	1,240,308	434,505	398,338		(832,843)	1,240,308
Retained earnings	557,945	604,980	554,624	(133,935)	(1,025,669)	557,945
Total stockholders equity	1,710,804	957,748	948,974	(133,933)	(1,772,789)	1,710,804
Total liabilities and stockholders equity	2,256,592	13,487,417	28,961,296	6,353,745	(37,565,407)	13,493,643

Condensed Consolidating Statement of Cash Flows  
For the year ended December 31, 2007

**As reported**

Net cash provided by (used in) operating activities	290,438	(326,264)	707,127	16,437		687,738
Changes in intercompany balances with affiliates, net						
Net cash provided by (used in) financing activities	(290,438)	7,196,560	(137,159)	134,465		6,903,428

**As adjusted(1)**

Net cash provided by (used in) operating activities	(85,881)	141,137	417,930	214,552		687,738
Changes in intercompany balances with affiliates, net	376,319	(468,160)	360,206	(268,365)		
Net cash provided by (used in) financing	85,881	6,728,400	152,038	(62,891)		6,903,428

activities

Condensed  
Consolidating  
Statement of  
Income  
For the year ended  
December 31,  
2007

**As reported**

Interest expense, net		(160,144)	455,541	69,136		364,533
Equity in earnings of unconsolidated affiliates	(73,292)	59,464	74,773		(86,077)	(25,132)
Income (loss) from continuing operations before income taxes	73,292	73,292	(59,464)	(70,297)	86,077	102,900
Provision for income taxes	43,003					43,003
Income (loss) from continuing operations	30,289	73,292	(59,464)	(70,297)	86,077	59,897
Net income	\$ 30,289	\$ 73,292	\$ (59,464)	\$ (99,905)	\$ 86,077	\$ 30,289

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	<b>Parent Guarantor</b>	<b>Issuer</b>	<b>Other Guarantors</b>	<b>Non- Guarantors</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>As adjusted(1)</b>						
Interest expense, net	\$	\$ 67,495	\$ 227,902	\$ 69,136	\$	\$ 364,533
Equity in earnings of unconsolidated affiliates	(30,289)	(114,008)	43,066		76,099	(25,132)
Income (loss) from continuing operations before income taxes	30,289	19,125	199,880	(70,295)	(76,099)	102,900
Provision for income taxes		(11,164)	83,550	(29,383)		43,003
Income (loss) from continuing operations	30,289	30,289	116,330	(40,912)	(76,099)	59,897
Net income	\$ 30,289	\$ 30,289	\$ 116,330	\$ (70,520)	\$ (76,099)	\$ 30,289

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	<b>Parent Guarantor</b>	<b>Issuer</b>	<b>Other Guarantors</b>	<b>Non- Guarantors</b>	<b>Eliminations</b>	<b>Consolidated</b>
Condensed Consolidating Balance Sheet As of December 31, 2006 <b>As reported</b> Intercompany receivables (non-current)	\$	\$	\$	\$	\$	\$
Net investment in subsidiaries	1,085,218	1,071,903	420,246		(2,577,367)	
Total Assets	1,098,467	1,092,707	4,064,626	828,146	(2,577,367)	4,506,579
Current income taxes payable			7,626			7,626
Total current liabilities	867	21,866	443,751	108,799		575,283
Long-term debt	300,000	1,556,000	24,942	24,839		1,905,781
Intercompany payables (non-current)	(1,067,545)	(1,570,373)	2,403,385	709,118	(474,585)	
Additional paid-in capital	1,195,947					1,195,947
Retained earnings	527,656	1,079,416	1,074,675	(49,594)	(2,104,497)	527,656
Total stockholders equity	1,723,673	1,085,214	1,067,160	(49,592)	(2,102,782)	1,723,673
Total liabilities and stockholders equity	1,098,467	1,092,707	4,064,626	828,146	(2,577,367)	4,506,579
<b>As adjusted(1)</b> Intercompany receivables (non-current)	1,360,530	5,620,834	5,590,489	275,417	(12,847,270)	
Net investment in subsidiaries	975,063	1,650,140	415,506		(3,040,709)	
Total Assets	2,348,842	7,291,778	9,650,375	1,103,563	(15,887,979)	4,506,579
Current income taxes payable	7,626					7,626
Total current liabilities	8,493	21,866	436,125	108,799		575,283

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Long-term debt	300,000	1,556,000	24,942	24,839		1,905,781
Intercompany payables (non-current)	175,204	4,738,853	8,083,418	984,535	(13,982,010)	
Additional paid-in capital	1,195,947	371,227	375,072		(746,299)	1,195,947
Retained earnings	527,656	598,034	612,946	(49,594)	(1,161,386)	527,656
Total stockholders equity	1,723,673	975,059	980,502	(49,592)	(1,905,969)	1,723,673
Total liabilities and stockholders equity	2,348,842	7,291,778	9,650,375	1,103,563	(15,887,979)	4,506,579

Condensed Consolidating Statement of Cash Flows  
For the year ended December 31, 2006

**As reported**

Net cash provided by (used in) operating activities	155,052	(387,000)	487,607	94,596		350,255
Changes in intercompany balances with affiliates, net						
Net cash provided by (used in) financing activities	(155,052)	387,000	(5,734)	246		226,460

**As adjusted(1)**

Net cash provided by (used in) operating activities	(151,205)	(20,514)	522,332	(358)		350,255
Changes in intercompany balances with affiliates, net	306,257	(366,486)	(34,725)	94,954		
Net cash provided by (used in) financing activities	151,205	20,514	(40,459)	95,200		226,460

Condensed Consolidating Statement of Income

For the year ended  
December 31,  
2006

**As reported**

Interest expense, net			71,793	22,618		94,411
Equity in earnings of unconsolidated affiliates	(278,415)	(278,415)	53,778		503,052	
Income (loss) from continuing operations before income taxes	278,415	278,415	273,103	(39,034)	(503,052)	287,847
Provision for income taxes	110,152					110,152
Income (loss) from continuing operations	168,263	278,415	273,103	(39,034)	(503,052)	177,695
Net income	168,263	278,415	273,103	(48,466)	(503,052)	168,263
<b>As adjusted(1)</b>						
Interest expense, net		14,130	57,663	22,618		94,411
Equity in earnings of unconsolidated affiliates	(168,263)	(191,759)	38,829		321,193	
Income (loss) from continuing operations before income taxes	168,263	177,629	302,182	(39,034)	(321,193)	287,847
Provision for income taxes		9,366	115,736	(14,950)		110,152
Income (loss) from continuing operations	168,263	168,263	186,446	(24,084)	(321,193)	177,695
Net income	\$ 168,263	\$ 168,263	\$ 186,446	\$ (33,516)	\$ (321,193)	\$ 168,263

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**Table of Contents****COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	<b>Parent Guarantor</b>	<b>Issuer</b>	<b>Other Guarantors</b>	<b>Non- Guarantors</b>	<b>Eliminations</b>	<b>Consolidated</b>
Condensed Consolidating Statement of Cash Flows For the year ended December 31, 2005						
<b>As reported</b>						
Net cash provided by (used in) operating activities	\$ 30,571	\$ 12,000	\$ 333,376	\$ 35,102	\$	\$ 411,049
Changes in intercompany balances with affiliates, net						
Net cash provided by (used in) financing activities	(30,571)	(12,000)	(13,122)	(6,474)		(62,167)
<b>As adjusted(1)</b>						
Net cash provided by (used in) operating activities	(67,739)	(38,924)	469,028	48,684		411,049
Changes in intercompany balances with affiliates, net	98,310	50,924	(135,652)	(13,582)		
Net cash provided by (used in) financing activities	67,739	38,924	(148,774)	(20,056)		(62,167)
Condensed Consolidating Statement of Income For the year ended December 31, 2005						
<b>As reported</b>						
Interest expense, net		(9)	67,927	19,267		87,185
Equity in earnings of unconsolidated affiliates	(287,348)	(287,499)	15,315		559,532	
Income (loss) from continuing operations before income taxes	287,348	287,508	287,499	5,351	(559,532)	308,174
Provision for income taxes	119,804					119,804
Income (loss) from continuing operations	167,544	287,508	287,499	5,351	(559,532)	188,370
Net income	167,544	287,508	287,499	(15,475)	(559,532)	167,544
<b>As adjusted(1)</b>						
Interest expense, net		34,930	32,988	19,267		87,185
Equity in earnings of unconsolidated affiliates	(167,544)	(195,805)	17,143		346,206	
Income (loss) from continuing operations	167,544	160,875	320,610	5,351	(346,206)	308,174



before income taxes							
Provision for income taxes		(6,669)	124,397	2,076			119,804
Income (loss) from continuing operations	167,544	167,544	196,213	3,275	(346,206)		188,370
Net income	\$ 167,544	\$ 167,544	\$ 196,213	\$ (17,551)	\$ (346,206)	\$	\$ 167,544

(1) Includes effects of reclassification for discontinued operations and for conforming corrections as applied to other periods presented.

**Table of Contents****COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2007****Balance Sheet**

	<b>Parent Guarantor</b>	<b>Issuer</b>	<b>Other Guarantors (In thousands, except for share data)</b>	<b>Non- Guarantors</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$	\$	\$ 114,075	\$ 18,799	\$	\$ 132,874
Patient accounts receivable, net of allowance for doubtful accounts			954,106	579,692		1,533,798
Supplies			163,961	98,942		262,903
Deferred income taxes	113,741					113,741
Prepaid expenses and taxes	99,417	102	57,316	12,921		169,756
Other current assets			129,147	210,679		339,826
Total current assets	213,158	102	1,418,605	921,033		2,552,898
Intercompany receivable	1,085,684	9,129,859	18,854,467	884,296	(29,954,306)	
Property and equipment, net			3,667,487	1,845,087		5,512,574
Goodwill			2,259,113	1,988,601		4,247,714
Other assets, net of accumulated amortization		189,140	276,589	714,728		1,180,457
Net investment in subsidiaries	957,750	4,168,316	2,485,035		(7,611,101)	
Total assets	\$ 2,256,592	\$ 13,487,417	\$ 28,961,296	\$ 6,353,745	\$ (37,565,407)	\$ 13,493,643
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>						
Current liabilities:						
Current maturities of long-term debt	\$	\$	\$ 16,603	\$ 4,107	\$	\$ 20,710

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Accounts payable		19	276,503	216,171		492,693
Current income taxes payable						
Deferred income taxes current						
Accrued liabilities						
Employee compensation			231,500	172,098		403,598
Interest payable (receivable)		153,085	8,042	(7,295)		153,832
Other			206,308	170,794		377,102
Total current liabilities		153,104	738,956	555,875		1,447,935
Long-term debt payable	4	8,987,090	62,792	27,481		9,077,367
Intercompany payable	137,837	3,267,993	27,008,767	5,378,021	(35,792,618)	
Deferred income taxes	407,947					407,947
Other long-term liabilities		121,482	188,316	173,661		483,459
Minority interests in equity of consolidated subsidiaries			13,491	352,640		366,131
Stockholders' equity						
Preferred stock						
Common stock	966		1	2	(3)	966
Additional paid-in capital	1,240,308	434,505	398,338		(832,843)	1,240,308
Treasury stock, at cost	(6,678)					(6,678)
Accumulated other comprehensive income	(81,737)	(81,737)	(3,989)		85,726	(81,737)
Retained earnings	557,945	604,980	554,624	(133,935)	(1,025,669)	557,945
Total stockholders' equity	1,710,804	957,748	948,974	(133,933)	(1,772,789)	1,710,804
Total liabilities and stockholders' equity	\$ 2,256,592	\$ 13,487,417	\$ 28,961,296	\$ 6,353,745	\$ (37,565,407)	\$ 13,493,643

**Table of Contents****COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2006  
Balance Sheet**

	<b>Parent Guarantor</b>	<b>Issuer</b>	<b>Other Guarantors</b>	<b>Non- Guarantors</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<b>(In thousands, except for share data)</b>					
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$	\$	\$ 28,560	\$ 12,006	\$	\$ 40,566
Patient accounts receivable, net of allowance for doubtful accounts			607,460	166,524		773,984
Supplies			87,688	25,632		113,320
Deferred income taxes	13,249					13,249
Prepaid expenses and taxes			31,586	799		32,385
Other current assets			25,827	22,053		47,880
Total current assets	13,249		781,121	227,014		1,021,384
Intercompany receivable	1,360,530	5,620,834	5,590,489	275,417	(12,847,270)	
Property and equipment, net			1,580,301	406,276		1,986,577
Goodwill			1,159,545	176,980		1,336,525
Other assets, net of accumulated amortization		20,804	123,413	17,876		162,093
Net investment in subsidiaries	975,063	1,650,140	415,506		(3,040,709)	
Total assets	\$ 2,348,842	\$ 7,291,778	\$ 9,650,375	\$ 1,103,563	\$ (15,887,979)	\$ 4,506,579
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>						
Current liabilities:						
Current maturities of long-term debt	\$	\$ 16,000	\$ 20,065	\$ (669)	\$	\$ 35,396

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Accounts payable			201,340	46,407		247,747
Current income taxes payable	7,626					7,626
Accrued liabilities						
Employee compensation			127,620	34,568		162,188
Interest payable	867	5,866	316	73		7,122
Other			86,784	28,420		115,204
Total current liabilities	8,493	21,866	436,125	108,799		575,283
Long-term debt payable	300,000	1,556,000	24,942	24,839		1,905,781
Intercompany payable	175,204	4,738,853	8,083,418	984,535	(13,982,010)	
Deferred income taxes	141,472					141,472
Other long-term liabilities			124,886	11,925		136,811
Minority interests in equity of consolidated subsidiaries			502	23,057		23,559
Stockholders' equity:						
Preferred stock	950		1	2	(3)	950
Common stock						
Additional paid-in capital	1,195,947	371,227	375,072		(746,299)	1,195,947
Treasury stock, at cost	(6,678)					(6,678)
Accumulated other comprehensive income (loss)	5,798	5,798	(7,517)		1,719	5,798
Retained earnings	527,656	598,034	612,946	(49,594)	(1,161,386)	527,656
Total stockholders' equity	1,723,673	975,059	980,502	(49,592)	(1,905,969)	1,723,673
Total liabilities and stockholders' equity	\$ 2,348,842	\$ 7,291,778	\$ 9,650,375	\$ 1,103,563	\$ (15,887,979)	\$ 4,506,579

**Table of Contents****COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Year Ended December 31, 2007****Statement of Income**

	<b>Parent Guarantor</b>	<b>Issuer</b>	<b>Other Guarantors</b>	<b>Non- Guarantors</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<b>(In thousands)</b>					
Net operating revenues	\$	\$	\$ 4,932,207	\$ 2,195,287	\$	\$ 7,127,494
Operating costs and expenses:						
Salaries and benefits			1,896,340	998,637		2,894,977
Provision for bad debts			664,619	232,666		897,285
Supplies			628,922	315,846		944,768
Other operating expenses			960,096	472,902		1,432,998
Rent			91,836	63,730		155,566
Depreciation and amortization			218,723	97,492		316,215
Total operating costs and expenses			4,460,536	2,181,273		6,641,809
Income from operations			471,671	14,014		485,685
Interest expense, net		67,495	227,902	69,136		364,533
Loss from early extinguishment of debt		27,388				27,388
Minority interest in earnings			823	15,173		15,996
Equity in earnings of unconsolidated affiliates	(30,289)	(114,008)	43,066		76,099	(25,132)
Income (loss) from continuing operations before income taxes	30,289	19,125	199,880	(70,295)	(76,099)	102,900
Provision for income taxes		(11,164)	83,550	(29,383)		43,003
Income from continuing operations	30,289	30,289	116,330	(40,912)	(76,099)	59,897
Discontinued operations, net of taxes:						
Loss from operations of hospitals sold or held for sale				(11,067)		(11,067)
Net loss on sale of hospitals and partnership interests, net				(2,594)		(2,594)
Impairment of long-lived assets of hospitals held for sale				(15,947)		(15,947)
Loss on discontinued operations				(29,608)		(29,608)
Net income	\$ 30,289	\$ 30,289	\$ 116,330	\$ (70,520)	\$ (76,099)	\$ 30,289



**Table of Contents****COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Year Ended December 31, 2006****Statement of Income**

	<b>Parent Guarantor</b>	<b>Issuer</b>	<b>Other Guarantors (In thousands)</b>	<b>Non- Guarantors</b>	<b>Eliminations</b>	<b>Consolidated</b>
Net operating revenues	\$	\$	\$ 3,344,830	\$ 835,306	\$	\$ 4,180,136
Operating costs and expenses:						
Salaries and benefits			1,278,676	382,943		1,661,619
Provision for bad debts			406,095	112,766		518,861
Supplies			390,147	97,631		487,778
Rent			64,544	27,399		91,943
Other operating expenses			658,746	196,850		855,596
Depreciation and amortization			147,885	31,397		179,282
Total operating costs and expenses			2,946,093	848,986		3,795,079
Income from operations			398,737	(13,680)		385,057
Interest expense, net		14,130	57,663	22,618		94,411
Loss from early extinguishment of debt			4			4
Minority interest in earnings			59	2,736		2,795
Equity in earnings of unconsolidated affiliates	(168,263)	(191,759)	38,829		321,193	
Income (loss) from continuing operations before income taxes	168,263	177,629	302,182	(39,034)	(321,193)	287,847
Provision for income taxes		9,366	115,736	(14,950)		110,152
Income from continuing operations	168,263	168,263	186,446	(24,084)	(321,193)	177,695
Discontinued operations, net of taxes:						
Loss from operations of hospitals sold or held for sale				(6,873)		(6,873)
Loss on sale of hospitals and partnership interests, net				(2,559)		(2,559)
Loss on discontinued operations				(9,432)		(9,432)



Net income	\$ 168,263	\$ 168,263	\$ 186,446	\$ (33,516)	\$ (321,193)	\$ 168,263
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**Table of Contents****COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Year Ended December 31, 2005****Statement of Income**

	<b>Parent Guarantor</b>	<b>Issuer</b>	<b>Other Guarantors (In thousands)</b>	<b>Non- Guarantors</b>	<b>Eliminations</b>	<b>Consolidated</b>
Net operating revenues	\$	\$	\$ 2,829,563	\$ 746,554	\$	\$ 3,576,117
Operating costs and expenses:						
Salaries and benefits			1,095,638	325,507		1,421,145
Provision for bad debts			278,743	77,377		356,120
Supplies			341,896	87,950		429,846
Other operating expenses			555,381	175,643		731,024
Rent			58,973	23,284		82,257
Depreciation and amortization			128,062	29,200		157,262
Total operating costs and expenses			2,458,693	718,961		3,177,654
Income from operations			370,870	27,593		398,463
Interest expense, net		34,930	32,988	19,267		87,185
Minority interest in earnings			129	2,975		3,104
Equity in earnings of unconsolidated affiliates	(167,544)	(195,805)	17,143		346,206	
Income from continuing operations before income taxes	167,544	160,875	320,610	5,351	(346,206)	308,174
Provision for income taxes		(6,669)	124,397	2,076		119,804
Income from continuing operations	167,544	167,544	196,213	3,275	(346,206)	188,370
Discontinued operations, net of taxes:						
Loss from operations of hospitals sold or held for sale				(8,737)		(8,737)
Loss on sale of hospitals, net				(7,618)		(7,618)
Impairment of long-lived assets of hospitals held for sale				(4,471)		(4,471)
Loss on discontinued operations				(20,826)		(20,826)
Net income	\$ 167,544	\$ 167,544	\$ 196,213	\$ (17,551)	\$ (346,206)	\$ 167,544



**Table of Contents****COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Year Ended December 31, 2007****Statement of Cash Flows**

	<b>Parent Guarantor</b>	<b>Issuer</b>	<b>Other Guarantors (In thousands)</b>	<b>Non- Guarantors Eliminations</b>	<b>Consolidated</b>
Cash flows from operating activities					
Net cash provided by (used in) operating activities	(85,881)	141,137	417,930	214,552	687,738
Cash flows from investing activities					
Acquisitions of facilities and other related equipment		(6,864,035)	(59,203)	(94,810)	(7,018,048)
Purchases of property and equipment			(366,069)	(156,716)	(522,785)
Sale of facilities				109,996	109,996
Proceeds from sale of equipment			591	4,059	4,650
Investment in other assets		(5,502)	(59,772)	(7,397)	(72,671)
Net cash provided by (used in) investing activities		(6,869,537)	(484,453)	(144,868)	(7,498,858)
Cash flows from financing activities					
Proceeds from exercise of stock options	8,214				8,214
Stock buy-back		(182,954)			(182,954)
Deferred financing costs					
Excess tax benefits relating to stock-based compensation	1,216				1,216
Redemption of convertible notes					
Proceeds from minority investors in joint ventures	128			2,223	2,351
Redemption of minority investments in joint ventures				(1,356)	(1,356)
Distribution to minority investors in joint ventures				(6,645)	(6,645)

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Changes in intercompany balances with affiliates, net	376,319	(468,160)	360,206	(268,365)	
Borrowings under Credit Agreement		9,212,000	(66,068)	75,695	9,221,627
Repayments of long-term indebtedness	(299,996)	(1,832,486)	(142,100)	135,557	(2,139,025)
Net cash provided by (used in) financing activities	85,881	6,728,400	152,038	(62,891)	6,903,428
Net change in cash and cash equivalents			85,515	6,793	92,308
Cash and cash equivalents at beginning of period			28,560	12,006	40,566
Cash and cash equivalents at end of period	\$	\$	\$ 114,075	\$ 18,799	\$ 132,874

**Table of Contents****COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Year Ended December 31, 2006****Statement of Cash Flows**

	<b>Parent Guarantor</b>	<b>Issuer</b>	<b>Other Guarantors (In thousands)</b>	<b>Non- Guarantors Eliminations</b>	<b>Consolidated</b>
Cash flows from operating activities:					
Net cash provided by (used in) operating activities	(151,205)	(20,514)	522,332	(358)	350,255
Cash flows from investing activities:					
Acquisitions of facilities and other related equipment			(340,314)	(44,304)	(384,618)
Purchases of property and equipment			(176,070)	(48,449)	(224,519)
Proceeds from sale of equipment			102	4,378	4,480
Disposition of hospital and other ancillary operations				750	750
Increase in other assets			(20,420)	(15,930)	(36,350)
Net cash provided by (used in) investing activities			(536,702)	(103,555)	(640,257)
Cash flows from financing activities:					
Proceeds from exercise of stock options	14,573				14,573
Stock buy-back	(176,316)				(176,316)
Deferred financing costs			(2,153)		(2,153)
Excess tax benefits relating to stock-based compensation	6,819				6,819
Redemption of convertible notes	(128)				(128)
Proceeds from minority investors in joint ventures				6,890	6,890
Redemption of minority investments in joint ventures			(56)	(859)	(915)
Distribution to minority investors in joint ventures				(3,220)	(3,220)
	306,257	(366,486)	(34,725)	94,954	

Changes in intercompany balances with affiliates, net					
Borrowings under Credit Agreement		1,031,000			1,031,000
Repayments of long-term indebtedness		(644,000)	(3,525)	(2,565)	(650,090)
Net cash provided by (used in) financing activities	151,205	20,514	(40,459)	95,200	226,460
Net change in cash and cash equivalents			(54,829)	(8,713)	(63,542)
Cash and cash equivalents at beginning of period			83,389	20,719	104,108
Cash and cash equivalents at end of period	\$	\$	\$ 28,560	\$ 12,006	\$ 40,566

**Table of Contents****COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Year Ended December 31, 2005****Statement of Cash Flows**

	<b>Parent Guarantor</b>	<b>Issuer</b>	<b>Other Guarantors</b>	<b>Non- Guarantors</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<b>(In thousands)</b>					
Cash flows from operating activities						
Net cash provided by(used in) operating activities	(67,739)	(38,924)	469,028	48,684		411,049
Cash flows from investing activities						
Acquisitions of facilities and other related equipment			(125,493)	(32,886)		(158,379)
Purchases of property and equipment			(153,422)	(34,943)		(188,365)
Sale of facilities			(6,500)	58,498		51,998
Proceeds from sale of equipment			112	2,213		2,325
Investment in other assets			(22,444)	(12,407)		(34,851)
Net cash provided by (used in) investing activities			(307,747)	(19,525)		(327,272)
Cash flows from financing activities						
Proceeds from exercise of stock options	49,580					49,580
Stock buy-back	(79,853)					(79,853)
Deferred financing costs			(1,259)			(1,259)
Excess tax benefits relating to stock-based compensation						
Redemption of convertible notes	(298)					(298)
Proceeds from minority investors in joint ventures				1,383		1,383
Redemption of minority investments in joint ventures				(3,242)		(3,242)
Distribution to minority investors in joint ventures				(1,939)		(1,939)
Change in intercompany balances with affiliates, net	98,310	50,924	(135,652)	(13,582)		
Borrowings under Credit Agreement						



Repayments of long-term indebtedness		(12,000)	(11,863)	(2,676)	(26,539)
Net cash provided by (used in) financing activities	67,739	38,924	(148,774)	(20,056)	(62,167)
Net change in cash and cash equivalents			12,507	9,103	21,610
Cash and cash equivalents at beginning of period			70,882	11,616	82,498
Cash and cash equivalents at end of period	\$	\$	\$ 83,389	\$ 20,719	\$ 104,108

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**PART IV**

**Item 15. Exhibits and Financial Statement Schedules**

Item 15(a)(1). Financial Statements

Reference is made to the index of financial statements and supplementary data previously filed as a part of the Annual Report under Item 8 in Part II.

Item 15(a)(2). Financial Statement Schedules

The following financial statement schedule was previously filed as a part of the Annual Report:

Schedule II Valuation and Qualifying Accounts

All other schedules have been omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and notes thereto.

Item 15(a)(3) and 15(c):

The following exhibits are either filed with this Report or incorporated herein by reference.

	<b>Description</b>
23.1	Consent of Deloitte & Touche LLP*
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*
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*

\* Filed herewith.

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the registrant has duly caused this Form 10-K/A 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 Corporate Controller  
(principal accounting officer)

Date: December 22, 2008

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**Exhibit Index**

**Description**

\* Filed herewith.

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