COMMUNITY HEALTH SYSTEMS INC
Form 10-Q
August 05, 2008

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

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2008

Commission file number 001-15925

COMMUNITY HEALTH SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

Delaware *(State or other jurisdiction of incorporation or organization)*	**13-3893191** *(I.R.S. Employer Identification Number)*
4000 Meridian Boulevard **Franklin, Tennessee** *(Address of principal executive offices)*	**37067** *(Zip Code)*

615-465-7000
(Registrant s telephone number)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o

(Do not check if a smaller reporting company)

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

As of July 25, 2008, there were outstanding 95,884,621 shares of the Registrant s Common Stock, $.01 par value.

Community Health Systems, Inc.

Form 10-Q

For the Three and Six Months Ended June 30, 2008

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PART I FINANCIAL INFORMATION

Item 1. ***Financial Statements***

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2008	December 31, 2007
	(Unaudited) (In thousands, except share data)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 264,072	$ 132,874
Patient accounts receivable, net of allowance for doubtful accounts of $1,052,811 and $1,033,516 at June 30, 2008, and December 31, 2007, respectively	1,603,702	1,533,798
Supplies	266,403	262,903
Prepaid income taxes		99,417
Deferred income taxes	88,531	113,741
Prepaid expenses and taxes	89,724	70,339
Other current assets	191,226	339,826
Total current assets	2,503,658	2,552,898
Property and equipment	6,639,690	6,310,240
Less accumulated depreciation and amortization	(1,017,936)	(797,666)
Property and equipment, net	5,621,754	5,512,574
Goodwill	4,165,041	4,247,714
Other assets, net	1,069,055	1,180,457
Total assets	$ 13,359,508	$ 13,493,643
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Current maturities of long-term debt	$ 24,279	$ 20,710
Accounts payable	438,518	492,693
Current income taxes payable	12,224	
Accrued interest	147,451	153,832
Accrued liabilities	691,406	780,700

Total current liabilities	1,313,878	1,447,935
Long-term debt	8,889,915	9,077,367
Deferred income taxes	429,934	407,947
Other long-term liabilities	571,085	483,459
Minority interests in equity of consolidated subsidiaries	320,587	366,131
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; 96,944,770 shares issued and 95,969,221 shares outstanding at June 30, 2008, and 96,611,085 shares issued and 95,635,536 shares outstanding at December 31, 2007	969	966
Additional paid-in capital	1,251,746	1,240,308
Treasury stock, at cost, 975,549 shares at June 30, 2008 and December 31, 2007	(6,678)	(6,678)
Accumulated other comprehensive income	(77,893)	(81,737)
Retained earnings	665,965	557,945
Total stockholders equity	1,834,109	1,710,804
Total liabilities and stockholders equity	$ 13,359,508	$ 13,493,643

See accompanying notes to the condensed consolidated financial statements.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
	(Unaudited)			
	(In thousands, except share and per share data)			
Net operating revenues	$ 2,690,600	$ 1,197,865	$ 5,418,154	$ 2,352,143
Operating costs and expenses:				
Salaries and benefits	1,079,376	472,846	2,167,146	935,611
Provision for bad debts	291,045	141,820	588,125	269,874
Supplies	377,586	140,348	763,995	274,642
Other operating expenses	526,098	246,980	1,052,265	481,145
Rent	58,479	26,966	118,336	51,722
Depreciation and amortization	124,942	51,982	247,657	100,479
Total operating costs and expenses	2,457,526	1,080,942	4,937,524	2,113,473
Income from operations	233,074	116,923	480,630	238,670
Interest expense, net	154,361	29,184	320,063	57,617
Loss from early extinguishment of debt			1,328	
Minority interest in earnings	8,317	625	17,999	818
Equity in earnings of unconsolidated affiliates	(10,508)		(23,392)	
Income from continuing operations before income taxes	80,904	87,114	164,632	180,235
Provision for income taxes	31,148	33,556	63,383	69,388
Income from continuing operations	49,756	53,558	101,249	110,847
Discontinued operations, net of taxes:				
Income (loss) from operations of hospitals sold and hospital held for sale	(1,854)	205	(2,837)	(2,760)
Gain (loss) on sale of hospitals, net	(9)		9,608	
Income (loss) on discontinued operations	(1,863)	205	6,771	(2,760)
Net income	$ 47,893	$ 53,763	$ 108,020	$ 108,087
Income from continuing operations per common share:				
Basic	$ 0.53	$ 0.57	$ 1.08	$ 1.19

Diluted	$	0.52	$	0.57	$	1.06	$	1.17
Net income per common share:								
Basic	$	0.51	$	0.57	$	1.15	$	1.16
Diluted	$	0.50	$	0.57	$	1.14	$	1.14
Weighted-average number of shares outstanding:								
Basic		94,192,295		93,518,991		94,017,435		93,373,357
Diluted		95,513,127		94,647,870		95,127,523		94,422,000

See accompanying notes to the condensed consolidated financial statements.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
	(Unaudited) (In thousands)	
Cash flows from operating activities		
Net income	$ 108,020	$ 108,087
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	247,426	104,619
Minority interest in earnings	17,999	818
Stock-based compensation expense	26,681	14,295
Gain on sale of hospitals, net	(13,211)	
Excess tax benefits relating to stock-based compensation	947	(2,295)
Loss on early extinguishment of debt	1,328	
Other non-cash expenses (gains), net	2,041	(1,542)
Changes in operating assets and liabilities, net of effects of acquisitions and divestitures:		
Patient accounts receivable	(74,786)	(47,415)
Supplies, prepaid expenses and other current assets	13,570	(13,458)
Accounts payable, accrued liabilities and income taxes	83,868	46,353
Other	2,900	6,526
Net cash provided by operating activities	416,783	215,988
Cash flows from investing activities		
Acquisitions of facilities and other related equipment	(6,646)	(187,955)
Purchases of property and equipment	(275,605)	(108,849)
Proceeds from disposition of hospitals and other ancillary operations	365,913	12,662
Proceeds from sale of property and equipment	12,889	234
Increase in other assets	(144,380)	(25,362)
Net cash used in investing activities	(47,829)	(309,270)
Cash flows from financing activities		
Proceeds from exercise of stock options	1,357	6,693
Excess tax benefits relating to stock-based compensation	(947)	2,295
Stock buy-back	(10,194)	
Deferred financing costs	(2,444)	(367)
Proceeds from minority investors in joint ventures	11,214	1,105
Redemption of minority investments in joint ventures	(53,485)	(1,369)
Distributions to minority investors in joint ventures	(14,916)	(1,705)
Borrowings under credit agreement	22,657	132,000
Repayments of long-term indebtedness	(190,998)	(64,579)

Net cash (used in) provided by financing activities	(237,756)	74,073
Net change in cash and cash equivalents	131,198	(19,209)
Cash and cash equivalents at beginning of period	132,874	40,566
Cash and cash equivalents at end of period	$ 264,072	$ 21,357

See accompanying notes to the condensed consolidated financial statements.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION

The unaudited condensed consolidated financial statements of Community Health Systems, Inc. and its subsidiaries (the Company) as of June 30, 2008 and for the three and six month periods ended June 30, 2008 and June 30, 2007, have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). In the opinion of management, such information contains all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for such periods. All intercompany transactions and balances have been eliminated. The results of operations for the three and six months ended June 30, 2008, are not necessarily indicative of the results to be expected for the full fiscal year ending December 31, 2008. Certain information and disclosures normally included in the notes to consolidated financial statements have been condensed or omitted as permitted by the rules and regulations of the Securities and Exchange Commission (SEC). The Company believes the disclosures are adequate to make the information presented not misleading. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2007, contained in the Company s Annual Report on Form 10-K.

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 Hospitals, Inc. (Triad). This correction increased both gross property and equipment and accumulated depreciation and amortization by the same amount and did not impact the net balance of property and equipment as previously presented on the balance sheet.

2. ACCOUNTING FOR STOCK-BASED COMPENSATION

Stock-based compensation awards are granted under the Community Health Systems, Inc. Amended and Restated 2000 Stock Option and Award Plan (the 2000 Plan). The 2000 Plan allows for the grant of incentive stock options intended to qualify under Section 422 of the Internal Revenue Code, as well as stock options which do not so qualify, stock appreciation rights, restricted stock, performance units and performance shares, phantom stock awards and share awards. Persons eligible to receive grants under the 2000 Plan include the Company s directors, officers, employees and consultants. To date, the options granted under the 2000 Plan have all been nonqualified stock options for tax purposes. Generally, vesting of these granted options occurs in one-third increments on each of the first three anniversaries of the award date. Options granted prior to 2005 have a 10 year contractual term, options granted in 2005 through 2007 have an 8 year contractual term and options granted in 2008 have a 10 year contractual term. The exercise price of all options granted to employees under the 2000 Plan is equal to the fair value of the Company s common stock on the option grant date. As of June 30, 2008, 3,529,664 shares of unissued common stock remain reserved for future grants under the 2000 Plan.

The Company has also awarded restricted stock under the 2000 Plan to its directors and employees. 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 contain a performance objective that must be met in addition to any vesting requirements. If the performance objective is not attained, the awards will be forfeited in their entirety. Once the performance objective has been attained, restrictions will lapse in one-third increments on each of the first three anniversaries of the award date with the exception of the July 25, 2007 restricted stock awards, which have no additional time vesting restrictions once the performance restrictions are met. Notwithstanding the above mentioned performance objectives and vesting requirements, the restrictions will lapse earlier in the event of death, disability, or termination of employment of the holder of the restricted stock by the Company for any reason other than for cause or change in control of the Company. Restricted stock awards subject to

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

performance standards are not considered outstanding for purposes of determining earnings per share until the performance objectives have been satisfied.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Effect on income from continuing operations before income taxes	$ (13,435)	$ (7,965)	$ (26,681)	$ (14,295)
Effect on net income	$ (8,162)	$ (4,839)	$ (16,209)	$ (8,684)
Effect on net income per share-diluted	$ (0.09)	$ (0.05)	$ (0.17)	$ (0.09)

At June 30, 2008, $84.2 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 19 months.

The fair value of stock options was estimated using the Black Scholes option pricing model during the three and six months ended June 30, 2008 and 2007, with the following assumptions:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Expected volatility	24.5%	24.6%	24.1%	25.5%
Expected dividends	0	0	0	0
Expected term	4 years	4 years	4 years	4 years
Risk-free interest rate	2.80%	4.77%	2.59%	4.50%

In determining expected return, the Company examined concentrations of option holdings, 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.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

Options outstanding and exercisable under the 2000 Plan as of June 30, 2008, and changes during the three and six months then ended were as follows (in thousands, except share and per share data):

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value as of June 30, 2008
Outstanding at December 31, 2007	8,439,015	$ 30.90		
Granted	996,500	32.28		
Exercised	(11,666)	23.26		
Forfeited and cancelled	(172,600)	35.02		
Outstanding at March 31, 2008	9,251,249	30.98		
Granted	95,500	35.75		
Exercised	(36,998)	29.69		
Forfeited and cancelled	(142,836)	33.98		
Outstanding at June 30, 2008	9,166,915	$ 30.99	6.1 years	$ 40,150
Exercisable at June 30, 2008	4,794,980	$ 25.68	5.2 years	$ 39,446

The weighted-average grant date fair value of stock options granted during the six months ended June 30, 2008 and 2007, was $7.64 and $10.36, 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 ($32.98) 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 June 30, 2008. This amount changes based on the market value of the Company s common stock. The aggregate intrinsic value of options exercised during the three months ended June 30, 2008 and 2007 was $0.3 million and $1.5 million, respectively, and the aggregate intrinsic value of options exercised during the six months ended June 30, 2008 and 2007 was $0.4 million and $2.9 million, respectively. The aggregate intrinsic value of options vested and expected to vest approximates that of the outstanding options.

Restricted stock outstanding under the 2000 Plan as of June 30, 2008, and changes during the three and six months then ended are as follows:

Weighted-

	Shares	Average Fair Value
Unvested at December 31, 2007	1,956,543	$ 38.04
Granted	748,500	32.38
Vested	(592,505)	36.09
Forfeited	(3,000)	37.20
Unvested at March 31, 2008	2,109,538	36.58
Granted	25,000	35.33
Vested	(17,832)	38.81
Forfeited	(3,500)	32.88
Unvested at June 30, 2008	2,113,206	36.55

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) (Continued)

As of June 30, 2008, there was $55.8 million of unrecognized stock-based compensation expense related to unvested restricted stock expected to be recognized over a weighted-average period of 18 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 directors fee. Share equivalent units are calculated by dividing the deferred directors fees by the closing market price of the Company s common stock on the last trading day of the reporting period. These units are held in the plan until the director electing to receive the share equivalent units retires or otherwise terminates his/her directorship with the Company. Share equivalent units are converted to shares of common stock of the Company at the time of distribution. The following table represents the amount of directors fees which were deferred and the equivalent units into which they converted for each of the respective periods:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Directors fees earned and deferred into plan	$ 17,000	$ 29,375	$ 57,875	$ 65,250
Equivalent units	515.464	726.205	1,733.069	1,743.936

At June 30, 2008, there are a total of 15,141.601 units deferred in the plan with an aggregate fair value of $0.5 million, based on the closing market price of the Company s common stock on the last trading day of the reporting period of $32.98.

3. COST OF REVENUE

The majority of the Company s operating costs and expenses are cost of revenue items. Operating costs that could be classified as general and administrative by the Company would include the Company s corporate office costs at the Company s Franklin, Tennessee office, which were $43.0 million and $23.9 million for the three months ended June 30, 2008 and 2007, respectively, and $81.1 million and $47.0 million for the six months ended June 30, 2008 and 2007, respectively. Included in these amounts is stock-based compensation expense of $13.4 million and $8.0 million for the three months ended June 30, 2008 and 2007, respectively, and $26.7 million and $14.3 million for the six months ended June 30, 2008 and 2007, respectively.

4. USE OF ESTIMATES

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

5. ACQUISITIONS AND DIVESTITURES

Triad Acquisition

On July 25, 2007, the Company completed its acquisition of Triad. Triad owned and operated 50 hospitals in non-urban and middle market communities in 17 states, as well as the Republic of Ireland. 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 had been sold and six hospitals acquired from Triad were classified as held for sale. During the six months ended June 30, 2008, the Company completed the sale of five of the six former Triad hospitals held for sale at December 31, 2007. The Company also provides management and consulting services on a contract basis to independent hospitals, through its subsidiary, Quorum Health Resources, LLC, which was acquired as part of the

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

acquisition of Triad. The Company acquired Triad for approximately $6.857 billion, including the assumption of $1.686 billion of existing indebtedness.

In connection with the consummation of the acquisition of Triad, the Company 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) 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 $300 million delayed draw term loan facility for future acquisitions, working capital and general corporate purposes. The delayed draw term loan was reduced from $400 million to $300 million at the request of the Company in the fourth quarter of 2007.

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. 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 of property and equipment, valuation of equity investments, valuation of contractual commitments, 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 third quarter of 2008. Material adjustments to goodwill may result upon the completion of these matters.

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 $49.4 million, of which $44.7 million was paid in cash and $4.7 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 $113.2 million, of which $88.9 million was paid in cash and $24.3 million was assumed in

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) (Continued)

liabilities. The Company s purchase price allocation relating to these acquisitions resulted in approximately $8.1 million of goodwill being recorded.

Effective June 30, 2008, the Company acquired the 35% minority interest in Affinity Health Systems, LLC which indirectly owns and operates Trinity Medical Center (560 licensed beds) in Birmingham, Alabama, from Baptist Health Systems, Inc. of Birmingham, Alabama (Baptist), giving the Company 100% ownership of that facility. The purchase price for this minority interest was $51.5 million in cash and the cancellation of a promissory note issued by Baptist and held by Affinity Health Systems, LLC in the original principal amount of $32.8 million.

Discontinued Operations

Effective March 1, 2008, the Company sold Woodland Medical Center (100 licensed beds) located in Cullman, Alabama; Parkway Medical Center (108 licensed beds) located in Decatur, Alabama; Hartselle Medical Center (150 licensed beds) located in Hartselle, Alabama; Jacksonville Medical Center (89 licensed beds) located in Jacksonville, Alabama; National Park Medical Center (166 licensed beds) located in Hot Springs, Arkansas; St. Mary s Regional Medical Center (170 licensed beds) located in Russellville, Arkansas; Mineral Area Regional Medical Center (135 licensed beds) located in Farmington, Missouri; Willamette Valley Medical Center (80 licensed beds) located in McMinnville, Oregon; and White County Community Hospital (60 licensed beds) located in Sparta, Tennessee, to Capella Healthcare, Inc., headquartered in Franklin, Tennessee. The proceeds from this sale were $315 million in cash.

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

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

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 in cash.

Effective October 31, 2007, the Company sold its 60% membership interest in Northeast Arkansas Medical Center, 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 in cash.

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

As of June 30, 2008, the Company had one hospital classified as held for sale.

In connection with the above actions and in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the Company has classified the results of operations of the above mentioned hospitals as discontinued operations in the accompanying condensed consolidated statements of income.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
Net operating revenues	$ 18,485	$ 51,263	$ 125,118	$ 100,982
Income (loss) from operations of hospitals sold or held for sale before income taxes	(3,422)	306	(4,211)	(4,483)
Gain (loss) on sale of hospitals, net	(9)		17,715	
Income (loss) from discontinued operations, before taxes	(3,431)	306	13,504	(4,483)
Income tax expense (benefit)	1,568	(101)	(6,733)	1,723
Income (loss) from discontinued operations, net of tax	$ (1,863)	$ 205	$ 6,771	$ (2,760)

The computation of income (loss) from discontinued operations, before taxes, for the three months and six months ended June 30, 2008 includes the net write-off of $96.3 million of tangible assets and $32.5 million of goodwill (including $21.3 million of goodwill included in non-current assets held for sale at December 31, 2007) at the hospitals sold during the six months ended June 30, 2008.

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

The assets and liabilities of one hospital held for sale as of June 30, 2008 are included in the accompanying condensed consolidated balance sheet as follows: current assets of $17.1 million, included in other current assets; net property and equipment of $33.9 million and other long-term assets of $0.1 million, included in other assets; and current liabilities of $22.1 million, included in other accrued liabilities.

The assets and liabilities of the hospitals held for sale as of December 31, 2007 are included in the accompanying condensed consolidated balance sheet as follows: current assets of $118.9 million, included in other current assets; net property and equipment of $331.1 million and other long-term assets of $31.4 million, included in other assets; and current liabilities of $67.6 million, included in accrued liabilities.

6. INCOME TAXES

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), on January 1, 2007. The total amount of unrecognized benefit that would affect the effective tax rate, if recognized, is approximately $6.2 million as of June 30, 2008. It is the Company s policy to recognize interest and penalties accrued related to unrecognized benefits in its condensed consolidated statements of income as income tax expense. During the three months ended June 30, 2008, the Company recorded approximately $0.2 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 June 30, 2008. A total of approximately $2.2 million of interest and penalties is included in the amount of FIN 48 liability at June 30, 2008.

The Company s unrecognized tax benefits consist primarily of state exposure items. The Company believes that it is reasonably possible that approximately $1.2 million of its current unrecognized tax benefit may decrease within the next twelve months as a result of a lapse of the statute of limitations and settlements with taxing authorities.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

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.

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. The Company has received a closing letter from the IRS with respect to the examination for those tax years. The settlement was not material to the Company s consolidated results of operations or consolidated financial position.

Cash paid for income taxes, net of refunds received, resulted in a net cash refund of $46.5 million and $49.3 million for the three and six months ended June 30, 2008, respectively, and net cash paid of $16.2 million and $29.4 million for the three and six months ended June 30, 2007, respectively.

7. GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill for the six months ended June 30, 2008, are as follows (in thousands):

Balance as of December 31, 2007	$ 4,247,714
Goodwill acquired as part of acquisitions during 2008	4,109
Consideration adjustments and purchase price allocation adjustments for acquisitions in 2007	(75,441)
Goodwill written-off as part of disposals	(11,341)
Balance as of June 30, 2008	$ 4,165,041

Goodwill related to the former Triad hospitals of $2.825 billion has not been allocated to the reporting unit level (hospital operations, home health and management services) as of June 30, 2008 because the final purchase price allocation has not been completed (see Note 5).

The Company completed its most recent annual goodwill impairment test as required by SFAS No. 142, Goodwill and Other Intangible Assets, during 2007, using a measurement date of September 30, 2007. Based on the results of the impairment test, the Company was not required to recognize an impairment of goodwill in 2007.

The gross carrying amount of the Company s other intangible assets was $207.9 million at June 30, 2008 and $194.6 million at December 31, 2007, and the net carrying amount was $195.4 million at June 30, 2008 and $181.0 million at December 31, 2007. Other intangible assets are included in other assets, net on the Company s condensed consolidated balance sheets.

The weighted-average amortization period for the intangible assets subject to amortization is approximately ten years. There are no expected residual values related to these intangible assets. Amortization expense on these intangible assets during the three months ended June 30, 2008 and 2007 was $0.8 million and $0.5 million, respectively. Amortization expense on these intangible assets during the six months ended June 30, 2008 and 2007 was $3.2 million and $1.0 million, respectively. Amortization expense on intangible assets is estimated to be $5.4 million for the remainder of 2008, $14.0 million in 2009, $12.2 million in 2010, $7.0 million in 2011, $6.6 million in 2012, and $22.7 million in 2013 and thereafter.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

8. EARNINGS PER SHARE

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Numerator:				
Numerator for basic earnings per share				
Income from continuing operations available to common stockholders basic	$ 49,756	$ 53,558	$ 101,249	$ 110,847
Numerator for diluted earnings per share				
Income from continuing operations available to common stockholders diluted	$ 49,756	$ 53,558	$ 101,249	$ 110,847
Denominator:				
Weighted-average number of shares outstanding basic	94,192,295	93,518,991	94,017,435	93,373,357
Effect of dilutive securities:				
Non-employee director options				5,913
Restricted stock awards	399,975	181,183	871,373	111,539
Employee options	920,857	947,696	238,715	931,191
Weighted-average number of shares outstanding diluted	95,513,127	94,647,870	95,127,523	94,422,000
Dilutive securities outstanding not included in the computation of earning per share because their effect is antidilutive:				
Employee options	3,540,068	1,032,071	3,950,600	1,479,319

9. STOCKHOLDERS EQUITY

Authorized capital shares of the Company include 400,000,000 shares of capital stock consisting of 300,000,000 shares of common stock and 100,000,000 shares of preferred stock. Each of the aforementioned classes of capital stock has a par value of $0.01 per share. Shares of preferred stock, none of which are outstanding as of June 30, 2008, 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 has been repurchased.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

During the period from June 1, 2008 to June 30, 2008, the Company repurchased 305,400 shares at a weighted-average price of $33.34 per share under this program.

10. COMPREHENSIVE INCOME

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Net income	$ 47,893	$ 53,763	$ 108,020	$ 108,087
Net change in fair value of interest rate swaps	109,368	13,670	4,814	9,800
Net change in fair value of available for sale securities	(105)	237	(858)	24
Amortization of unrecognized pension components	880		(112)	
Comprehensive income	$ 158,036	$ 67,670	$ 111,864	$ 117,911

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

11. 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 three hospitals 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. During the three months ended June 30, 2008, the Company adjusted the carrying amount of these equity investments based on the preliminary Triad asset valuations. The difference between the fair value of these equity investments and the estimated underlying equity in net assets is approximately $128.1 million and represents goodwill under the equity method of accounting. The Company s investment in unconsolidated affiliates is $419.2 million and $267.8 million at June 30, 2008 and December 31, 2007, respectively, and is included in other assets in the accompanying condensed consolidated balance sheets. The Company s investment in unconsolidated affiliates at December 31, 2007 has been corrected from amounts previously disclosed to eliminate amounts related to discontinued operations; the correction did not affect the amounts reported in other assets in the accompanying condensed consolidated balance sheet. Included in the Company s results of operations for the three and six months ended June 30, 2008, is $10.5 million and $23.4 million, respectively, representing the Company s equity in pre-tax earnings from investments in unconsolidated affiliates.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

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

	For the Three Months Ended June 30, 2008	For the Six Months Ended June 30, 2008
Revenues	$ 359,695	$ 723,362
Operating costs and expenses	322,151	641,914
Net income	37,578	88,277

12. LONG-TERM DEBT

Terminated Credit Facility and Notes

On August 19, 2004, CHS 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 Terminated 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 6.50% 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). The debt was repaid in 2007.

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. As of December 31, 2007, the $400 million delayed draw term loan had been reduced to $300 million at the

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

request of the Company. 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 6.50% Notes and certain of Triad s existing indebtedness. During the third quarter of 2007, the Company recorded a pre-tax write-off of approximately $13.9 million in deferred loan costs relative to the early extinguishment of the debt under the 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 6.50% Senior Subordinated Notes due 2012 through a cash tender offer and consent solicitation.

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

The term loan facility must be prepaid in an amount equal to (1) 100% of the net cash proceeds of certain asset sales and dispositions by the Company and its subsidiaries, subject to certain exceptions and reinvestment rights, (2) 100% of the net cash proceeds of issuances of certain debt obligations or receivables based financing by the Company and its subsidiaries, subject to certain exceptions, and (3) 50%, subject to reduction to a lower percentage based on the Company s leverage ratio (as defined in the 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. 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 and each subsidiary guarantor, including equity interests held by the Company, CHS or any subsidiary guarantor, but excluding, among others, the equity interests of non-significant subsidiaries, syndication subsidiaries, securitization subsidiaries and joint venture subsidiaries.

The loans under the 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 Alternate Base Rate loans under the revolving credit facility.

CHS has agreed to pay letter of credit fees equal to the applicable percentage then in effect with respect to Eurodollar rate loans under the revolving credit facility times the maximum aggregate amount available to be drawn under all letters of credit outstanding under the subfacility for letters of credit. The issuer of any letter of credit issued under the subfacility for letters of credit will also receive a customary fronting fee and other customary processing charges. CHS is initially obligated to pay commitment fees of 0.50% per annum (subject to reduction based upon the Company s leverage ratio) on the unused portion of the revolving credit facility. For purposes of this calculation, swingline loans are not treated as usage of the revolving credit facility. CHS is also obligated to pay commitment fees of 0.50% per annum for the first six months after the

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

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 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 is not entitled to redeem the Notes prior to July 15, 2011.

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

Period	**Redemption Price**
2011	104.438%
2012	102.219%

2013 and thereafter	100.000%

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

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

Company, a portion of the Net Cash Proceeds thereof equal to the amount required to redeem any such Notes is contributed to the equity capital of CHS); provided, however, that:

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

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

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

Pursuant to a registration rights agreement entered into at the time of the issuance of the Notes, as a result of an exchange offer made by CHS, substantially all of the Notes issued in July 2007 were exchanged in November 2007 for new notes (the Exchange Notes) having terms substantially identical in all material respects to the Notes (except that the Exchange Notes were issued under a registration statement pursuant to the 1933 Act). References to the Notes shall also be deemed to include Exchange Notes unless the context provides otherwise.

During the six months ended June 30, 2008, the Company repurchased on the open market and cancelled $62.7 million of principal amount of the Notes. This resulted in a loss from early extinguishment of debt of $1.3 million with an after-tax impact of $0.9 million.

As of June 30, 2008, the availability for additional borrowings under the 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 $78.8 million was set aside for outstanding letters of credit. CHS also has the ability to add up to $300 million of borrowing capacity from receivable transactions (including securitizations) under the New Credit Facility which has not yet been accessed. CHS 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 CHS has not yet accessed. As of June 30, 2008, the weighted-average interest rate under the New Credit Facility was 5.2%.

Cash paid for interest, net of interest income, was $97.4 million and $34.6 million during the three months ended June 30, 2008 and 2007, respectively, and $326.4 million and $60.3 million during the six months ended June 30, 2008 and 2007, respectively.

13. RECENT ACCOUNTING PRONOUNCEMENTS

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 and did not elect to re-measure any assets or liabilities. The adoption of this statement has not had 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

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(UNAUDITED) (Continued)

acquired, liabilities assumed, and noncontrolling interests in business combinations. This standard will require more assets and liabilities to 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 and consolidated 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 currently assessing the potential impact that SFAS No. 160 will have on its consolidated results of operations and consolidated financial position.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS No. 161). SFAS No. 161 expands the disclosure requirements for derivative instruments and for hedging activities in order to provide additional understanding of how an entity uses derivative instruments and how they are accounted for and reported in an entity s financial statements. The new disclosure requirements for SFAS No. 161 are effective for fiscal years beginning after November 15, 2008, and will be adopted by the Company in the first quarter of 2009.

14. SEGMENT INFORMATION

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Revenues:				
Hospital operations	$ 2,630,281	$ 1,153,583	$ 5,294,297	$ 2,283,790
Corporate and all other	60,319	44,282	123,857	68,353
	$ 2,690,600	$ 1,197,865	$ 5,418,154	$ 2,352,143
Income from continuing operations before income taxes:				
Hospital operations	$ 118,572	$ 105,824	$ 236,464	$ 219,354
Corporate and all other	(37,668)	(18,710)	(71,832)	(39,119)
	$ 80,904	$ 87,114	$ 164,632	$ 180,235

15. FAIR VALUE

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

In February 2008, the FASB issued FASB Statement of Position No. 157-2, Effective Date of FASB Statement No. 157, (FSP 157-2). FSP 157-2 deferred the effective date of the provisions of SFAS No. 157 for all non-financial assets and non-financial liabilities to fiscal years beginning after November 15, 2008, and will be adopted by the Company in the first quarter of 2009. The Company is currently assessing the potential impact of SFAS No. 157 for non-financial assets and non-financial liabilities on its consolidated statements of financial position and consolidated results of operations.

Fair Value Hierarchy

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

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

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

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

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

The following table sets forth, by level within the fair value hierarchy, the financial assets and liabilities recorded at fair value on a recurring basis as of June 30, 2008 (in thousands):

	June 30, 2008	Level 1	Level 2	Level 3
Available-for-sale securities	$ 8,081	$ 8,081	$	$
Trading securities	32,317	32,317		
Total assets	$ 40,398	$ 40,398	$	$
Fair value of interest rate swap agreements	$ 121,598	$	$ 121,598	$
Total liabilities	$ 121,598	$	$ 121,598	$

Available-for-sale securities and trading securities classified as Level 1 are measured using quoted market prices. The fair value of the Company s interest rate swap agreements are classified as Level 2, and are estimated using an income approach based on the LIBOR swap rate, which is observable at commonly quoted intervals for the full term of the swap.

16. CONTINGENCIES

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

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. On May 28, 2008, the Company received a letter from the Office of the U.S. Attorney for the State of New Mexico requesting additional information. The Company is in the process of providing the requested information. 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.

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

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

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 and intends, for those prior period supplemental condensed consolidating financial statements not presented as part of this footnote, to reflect these corrections in future filings whenever such supplemental condensed consolidating financial statements are included.

The tables on pages 23 to 28 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 March 31, 2008, June 30, 2007, and December 31, 2007, 2006 and 2005 (in thousands).

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

	Parent Guarantor	Issuer	Other Guarantors	Non-Guarantors	Eliminations	Consolidated
Condensed Consolidating Balance Sheet As of March 31, 2008						
As reported						
Prepaid expenses and taxes	$	$ 58	$ 180,024	$ 13,930	$	$ 194,012
Total current assets	113,741	448	1,709,370	832,359	(49,526)	2,606,392
Intercompany receivables (non-current)						
Goodwill	21,126		2,435,773	1,918,394		4,375,293
Net investment in subsidiaries	1,506,013	1,234,270	3,680,406		(6,420,689)	
Total Assets	1,640,880	1,420,794	11,656,624	5,084,266	(6,470,215)	13,332,349
Long-term debt	4	4,325,296	4,509,849	51,206		8,886,355
Intercompany payables (non-current)	(438,836)	(4,698,000)	4,841,662	4,101,680	(3,806,506)	
Additional paid-in capital	1,247,241					1,247,241
Retained earnings	618,072	1,694,047	1,232,700	(118,796)	(2,807,951)	618,072
Total stockholders equity	1,671,570	1,506,010	1,226,967	(118,794)	(2,614,183)	1,671,570
Total liabilities and stockholders equity	1,640,880	1,420,794	11,656,624	5,084,266	(6,470,215)	13,332,349
As adjusted						
Prepaid expenses and taxes	110,160	58	69,864	13,930		194,012
Total current assets	223,901	448	1,599,210	832,359	(49,526)	2,606,392
Intercompany receivables (non-current)	928,673	9,198,002	10,361,699	1,937,602	(22,425,976)	
Goodwill			2,456,899	1,918,394		4,375,293
	1,473,779	4,194,870	2,380,982		(8,049,631)	

Net investment in subsidiaries						
Total Assets	2,626,352	13,579,396	20,629,866	7,021,868	(30,525,133)	13,332,349
Long-term debt	4	8,825,296	54,667	6,388		8,886,355
Intercompany payables (non-current)	546,636	2,992,839	18,370,619	6,084,099	(27,994,193)	
Additional paid-in capital	1,247,241	639,797	435,885		(1,075,682)	1,247,241
Retained earnings	618,072	1,022,014	696,282	(118,796)	(1,599,500)	618,072
Total stockholders equity	1,671,570	1,473,774	1,126,434	(118,794)	(2,481,414)	1,671,570
Total liabilities and stockholders equity	2,626,352	13,579,396	20,629,866	7,021,868	(30,525,133)	13,332,349

Condensed Consolidating Statement of Cash Flows For the three months ended March 31, 2008						
As reported						
Net cash provided by (used in) operating activities	853	164,026	321,361	(427,836)	(49,526)	8,878
Changes in intercompany balances with affiliates, net						
Net cash provided by (used in) financing activities	(853)	(164,026)	(123,280)	126,688		(161,471)
As adjusted						
Net cash provided by (used in) operating activities	(45,719)	(102,699)	319,923	(113,101)	(49,526)	8,878
Changes in intercompany balances with affiliates, net	46,572	266,725	(43,381)	(269,916)		
Net cash provided by (used in) financing activities	45,719	102,699	(121,843)	(188,046)		(161,471)

Condensed Consolidating Statement of Income For the three months ended March 31, 2008						
As reported						
Interest expense, net		72,577	75,937	17,188		165,702
Equity in earnings of unconsolidated affiliates	(92,362)	(166,267)	(20,967)		266,712	(12,884)
Income (loss) from continuing operations before income taxes	92,362	92,362	166,029	(313)	(266,712)	83,728
Provision for income taxes	32,235					32,235
Income (loss) from continuing operations	60,127	92,362	166,029	(313)	(266,712)	51,493
Net income	60,127	92,362	166,029	8,321	(266,712)	60,127
As adjusted						
Interest expense, net		12,924	135,590	17,188		165,702
Equity in earnings of unconsolidated affiliates	(60,127)	(65,733)	(21,088)		134,064	(12,884)
Income (loss) from continuing operations before income taxes	60,127	51,481	106,496	(312)	(134,064)	83,728
Provision for income taxes		(8,646)	41,001	(120)		32,235
Income (loss) from continuing operations	60,127	60,127	65,495	(192)	(134,064)	51,493
Net income	$ 60,127	$ 60,127	$ 65,495	$ 8,442	$ (134,064)	$ 60,127

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

	Parent Guarantor	Issuer	Other Guarantors	Non-Guarantors	Eliminations	Consolidated
Condensed Consolidating Balance Sheet As of June 30, 2007						
As reported						
Prepaid expenses and taxes	$	$	$ 44,099	$ (7,812)	$	$ 36,287
Total current assets	13,249	1,000	875,500	242,564		1,132,313
Intercompany receivables (non-current)						
Goodwill			1,184,171	160,785		1,344,956
Net investment in subsidiaries	1,265,254	1,242,139	415,423		(2,922,816)	
Total Assets	1,278,503	1,279,256	4,356,882	801,286	(2,922,816)	4,793,111
Income taxes payable			49,010			49,010
Total current liabilities	867	22,971	486,955	100,231		611,024
Long-term debt	300,000	1,626,000	47,886	354		1,974,240
Intercompany payables (non-current)	(1,024,803)	(1,634,966)	2,420,325	722,874	(483,430)	
Additional paid-in capital	1,215,321					1,215,321
Retained earnings	635,743	1,249,629	1,244,075	(62,450)	(2,431,254)	635,743
Total stockholders equity	1,860,967	1,265,251	1,236,583	(62,448)	(2,439,386)	1,860,967
Total liabilities and stockholders equity	1,278,503	1,279,256	4,356,882	801,286	(2,922,816)	4,793,111
As adjusted(1)						
Prepaid expenses and taxes			32,150	4,137		36,287
Total current assets	13,249	1,000	821,752	296,311		1,132,312

Intercompany receivables (non-current)	1,235,247	2,165,424	3,654,627	291,969	(7,347,267)	
Goodwill			1,165,653	179,303		1,344,956
Net investment in subsidiaries	1,197,054	1,790,793	469,040		(3,456,887)	
Total Assets	2,445,550	3,993,334	7,904,544	1,253,837	(10,804,154)	4,793,111
Income taxes payable	49,010					49,010
Total current liabilities	49,877	23,322	416,758	121,067		611,024
Long-term debt	300,000	1,627,000	22,937	24,303		1,974,240
Intercompany payables (non-current)	88,494	1,145,962	6,129,544	1,131,143	(8,495,143)	
Additional paid-in capital	1,215,321	452,487	451,060		(903,547)	1,215,321
Retained earnings	640,484	728,941	726,642	(62,993)	(1,397,331)	635,743
Total stockholders equity	1,865,708	1,197,050	1,170,211	(62,991)	(2,309,011)	1,860,967
Total liabilities and stockholders equity	2,445,550	3,993,334	7,904,544	1,253,837	(10,804,154)	4,793,111
Condensed Consolidating Statement of Cash Flows For the six months ended June 30, 2007						
As reported						
Net cash provided by (used in) operating activities	(9,039)	(71,000)	188,772	107,255		215,988
Changes in intercompany balances with affiliates, net						
Net cash provided by (used in) financing activities	9,039	71,000	(2,628)	(3,338)		74,073
As adjusted(1)						
Net cash provided by (used in) operating activities	(31,955)	(4,182)	269,777	(17,652)		215,988
	22,916	(57,951)	(83,304)	118,339		

Changes in intercompany balances with affiliates, net						
Net cash provided by (used in) financing activities	31,955	11,682	(86,449)	116,885		74,073
Condensed Consolidating Statement of Income For the six months ended June 30, 2007						
As reported						
Interest expense, net			51,995	9,564		61,559
Equity in earnings of unconsolidated affiliates	(175,752)	(175,752)	3,955		347,549	
Income (loss) from continuing operations before income taxes	175,752	175,752	174,939	(3,142)	(347,549)	175,752
Provision for income taxes	67,665					67,665
Income (loss) from continuing operations	108,087	175,752	174,939	(3,142)	(347,549)	108,087
Net income	108,087	175,752	174,939	(3,142)	(347,549)	108,087
As adjusted(1)						
Interest expense, net		3,774	40,410	13,433		57,617
Equity in earnings of unconsolidated affiliates	(108,087)	(114,657)	10,138		212,606	
Income (loss) from continuing operations before income taxes	108,087	110,883	184,511	(10,640)	(212,606)	180,235
Provision for income taxes		2,795	70,668	(4,075)		69,388
Income (loss) from continuing operations	108,087	108,088	113,843	(6,565)	(212,606)	110,847
Net income	$ 108,087	$ 108,088	$ 113,843	$ (9,325)	$ (212,606)	$ 108,087

(1)

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

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

	Parent Guarantor	Issuer	Other Guarantors	Non-Guarantors	Eliminations	Consolidated
Condensed Consolidating Balance Sheet As of December 31, 2007						
As reported						
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
As adjusted						
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	1,085,684	9,129,859	18,854,467	884,296	(29,954,306)	

(non-current)						
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						
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)	85,881	6,728,400	152,038	(62,891)		6,903,428

financing 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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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

	Parent Guarantor	Issuer	Other Guarantors	Non-Guarantors	Eliminations	Consolidated
As adjusted						
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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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

	Parent Guarantor	Issuer	Other Guarantors	Non-Guarantors	Eliminations	Consolidated
Condensed Consolidating Balance Sheet As of December 31, 2006						
As reported						
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
As adjusted						
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
	8,493	21,866	436,125	108,799		575,283

Total current liabilities						
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						
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)	(34,727)	94,956		
Net cash provided by (used in) financing activities	151,205	20,514	(40,460)	95,201		226,460
Condensed Consolidating						

Statement of Income For the year ended December 31, 2006						
As reported						
Interest expense, net			71,797	22,618		94,415
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
As adjusted						
Interest expense, net		14,130	57,667	22,618		94,415
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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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

	Parent Guarantor	Issuer	Other Guarantors	Non-Guarantors	Eliminations	Consolidated
Condensed Consolidating Statement of Cash Flows For the year ended December 31, 2005						
As reported						
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)
As adjusted						
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	98,309	50,924	(135,653)	(13,580)		
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						
As reported						
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
As adjusted						
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 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 (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

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

Condensed Consolidating Balance Sheet June 30, 2008

	Parent Guarantor	Issuer	Other Guarantors	Non-Guarantors	Eliminations	Consolidated
			(In thousands, except share data)			
			ASSETS			
Current assets						
Cash and cash equivalents	$	$	$ 264,514	$	$ (442)	$ 264,072
Patient accounts receivable, net of allowance for doubtful accounts			1,005,103	598,599		1,603,702
Supplies			164,395	102,008		266,403
Deferred income taxes	88,531					88,531
Prepaid expenses and taxes		15	106,088	(16,379)		89,724
Other current assets		610	115,069	75,547		191,226
Total current assets	88,531	625	1,655,169	759,775	(442)	2,503,658
Intercompany receivable	903,283	9,533,225	11,486,044	2,777,775	(24,700,327)	
Property and equipment, net			3,509,232	2,112,522		5,621,754
Goodwill			2,633,866	1,531,175		4,165,041
Other assets, net		183,525	102,849	782,681		1,069,055
Net investment in subsidiaries	1,631,815	4,567,686	2,435,096		(8,634,597)	
Total assets	$ 2,623,629	$ 14,285,061	$ 21,822,256	$ 7,963,928	$ (33,335,366)	$ 13,359,508
			LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities						
	$	$	$ 20,856	$ 3,423	$	$ 24,279

Current maturities of long-term debt						
Accounts payable		92	349,822	88,162	442	438,518
Current income taxes payable	12,224					12,224
Accrued liabilities	12,126		417,221	262,059		691,406
Interest payable (receivable)		146,644	1,984	(1,177)		147,451
Total current liabilities	24,350	146,736	789,883	352,467	442	1,313,878
Long-term debt payable	4	8,825,296	54,969	9,646		8,889,915
Intercompany payable	334,140	3,567,256	19,505,014	7,235,026	(30,641,436)	
Deferred income taxes	429,934					429,934
Other long-term liabilities	1,092	113,960	279,640	176,393		571,085
Minority interests in equity of consolidated subsidiaries			7,067	313,520		320,587
Stockholders equity						
Preferred stock						
Common stock	969		1	2	(3)	969
Additional paid-in capital	1,251,746	658,237	458,396		(1,116,633)	1,251,746
Treasury stock, at cost, 975,549 shares	(6,678)					(6,678)
Accumulated other comprehensive income (loss)	(77,893)	(77,893)	(4,959)		82,852	(77,893)
Retained earnings	665,965	1,051,469	732,245	(123,126)	(1,660,588)	665,965
Total stockholders equity	1,834,109	1,631,813	1,185,683	(123,124)	(2,694,372)	1,834,109
Total liabilities and stockholders equity	$ 2,623,629	$ 14,285,061	$ 21,822,256	$ 7,963,928	$ (33,335,366)	$ 13,359,508

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

Condensed Consolidating Balance Sheet
December 31, 2007

	Parent Guarantor	Issuer	Other Guarantors	Non-Guarantors	Eliminations	Consolidated
			(In thousands, except share data)			
			ASSETS			
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		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
			LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities						
Current maturities of long-term debt	$	$	$ 16,603	$ 4,107	$	$ 20,710

Accounts payable		19	276,503	216,171		492,693
Current income taxes payable						
Deferred income taxes current						
Accrued liabilities			437,808	342,892		780,700
Interest payable (receivable)		153,085	8,042	(7,295)		153,832
Total current liabilities		153,104	738,956	555,875		1,447,935
Long-term debt payable (receivable)	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, 975,549 shares	(6,678)					(6,678)
Accumulated other comprehensive income (loss)	(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

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

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

	Parent Guarantor	Issuer	Other Guarantors	Non-Guarantors	Eliminations	Consolidated
			(In thousands)			
Net operating revenues	$	$	$ 1,658,492	$ 1,032,108	$	$ 2,690,600
Operating costs and expenses:						
Salaries and benefits			623,124	456,252		1,079,376
Provision for bad debts			184,372	106,673		291,045
Supplies			222,385	155,201		377,586
Other operating expenses			300,853	225,245		526,098
Rent			29,859	28,620		58,479
Depreciation and amortization			77,112	47,830		124,942
			1,437,705	1,019,821		2,457,526
Income from operations			220,787	12,287		233,074
Interest expense, net		14,598	146,962	(7,199)		154,361
Loss from early extinguishment of debt						
Minority interest in earnings			(491)	8,808		8,317
Equity in earnings of subsidiary	(47,893)	(59,313)	(4,164)		100,862	(10,508)
Income (loss) from continuing operations before income taxes	47,893	44,715	78,480	10,678	(100,862)	80,904
Provision for income taxes		(3,178)	30,215	4,111		31,148
Income (loss) from continuing operations	47,893	47,893	48,265	6,567	(100,862)	49,756
Discontinued operations, net of taxes:						
				(1,854)		(1,854)

Income (loss) from operations of hospitals sold and held for sale						
Gain (loss) on sale of hospitals, net				(9)		(9)
Income (loss) on discontinued operations				(1,863)		(1,863)
Net income	$ 47,893	$ 47,893	$ 48,265	$ 4,704	$ (100,862)	$ 47,893

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

Condensed Consolidating Statement of Income
Three Months Ended June 30, 2007

	Parent Guarantor	Issuer	Other Guarantors	Non-Guarantors	Eliminations	Consolidated
			(In thousands)			
Net operating revenues	$	$	$ 931,026	$ 266,839	$	$ 1,197,865
Operating costs and expenses:						
Salaries and benefits			347,753	125,093		472,846
Provision for bad debts			113,264	28,556		141,820
Supplies			107,429	32,919		140,348
Other operating expenses			185,496	61,484		246,980
Rent			18,008	8,958		26,966
Depreciation and amortization			41,837	10,145		51,982
			813,787	267,155		1,080,942
Income from operations			117,239	(316)		116,923
Interest expense, net		3,774	18,729	6,681		29,184
Loss from early extinguishment of debt						
Minority interest in earnings				625		625
Equity in earnings of subsidiary	(53,763)	(65,367)	4,795		114,335	
Income (loss) from continuing operations before income taxes	53,763	61,593	93,715	(7,622)	(114,335)	87,114
Provision for income taxes		582	35,893	(2,919)		33,556
Income (loss) from continuing operations	53,763	61,011	57,822	(4,703)	(114,335)	53,558
Discontinued operations, net of taxes:						
Income (loss) from operations of hospitals sold and held for sale				205		205

Gain (loss) on sale of hospitals, net						
Income (loss) on discontinued operations				205		205
Net income	$ 53,763	$ 61,011	$ 57,822	$ (4,498)	$ (114,335)	$ 53,763

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

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

	Parent Guarantor	Issuer	Other Guarantors	Non-Guarantors	Eliminations	Consolidated
			(In thousands)			
Net operating revenues	$	$	$ 3,347,235	$ 2,070,919	$	$ 5,418,154
Operating costs and expenses:						
Salaries and benefits			1,261,764	905,382		2,167,146
Provision for bad debts			378,262	209,863		588,125
Supplies			448,515	315,480		763,995
Other operating expenses			601,045	451,220		1,052,265
Rent			61,159	57,177		118,336
Depreciation and amortization			154,897	92,760		247,657
			2,905,642	2,031,882		4,937,524
Income from operations			441,593	39,037		480,630
Interest expense, net		27,522	267,683	24,858		320,063
Loss from early extinguishment of debt		1,328				1,328
Minority interest in earnings			(685)	18,684		17,999
Equity in earnings of subsidiary	(108,020)	(124,379)	(26,986)		235,993	(23,392)
Income (loss) from continuing operations before income taxes	108,020	95,529	201,581	(4,505)	(235,993)	164,632
Provision for income taxes		(12,491)	77,608	(1,734)		63,383
Income (loss) from continuing operations	108,020	108,020	123,973	(2,771)	(235,993)	101,249

Discontinued operations, net of taxes:						
Income (loss) from operations of hospitals sold and held for sale				(2,837)		(2,837)
Gain (loss) on sale of hospitals, net				9,608		9,608
Income (loss) on discontinued operations				6,771		6,771
Net income	$ 108,020	$ 108,020	$ 123,973	$ 4,000	$ (235,993)	$ 108,020

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

Condensed Consolidating Statement of Income
Six Months Ended June 30, 2007

	Parent Guarantor	Issuer	Other Guarantors	Non-Guarantors	Eliminations	Consolidated
			(In thousands)			
Net operating revenues	$	$	$ 1,852,257	$ 499,886	$	$ 2,352,143
Operating costs and expenses:						
Salaries and benefits			700,235	235,376		935,611
Provision for bad debts			218,804	51,070		269,874
Supplies			214,545	60,097		274,642
Other operating expenses			365,498	115,647		481,145
Rent			35,687	16,035		51,722
Depreciation and amortization			82,429	18,050		100,479
			1,617,198	496,275		2,113,473
Income from operations			235,059	3,611		238,670
Interest expense, net		3,774	40,410	13,433		57,617
Loss from early extinguishment of debt						
Minority interest in earnings				818		818
Equity in earnings of subsidiary	(108,087)	(114,657)	10,138		212,606	
Income (loss) from continuing operations before income taxes	108,087	110,883	184,511	(10,640)	(212,606)	180,235
Provision for income taxes		2,795	70,668	(4,075)		69,388
Income (loss) from continuing operations	108,087	108,088	113,843	(6,565)	(212,606)	110,847
Discontinued operations, net of taxes:						

Income (loss) from operations of hospitals sold and held for sale	(2,760)	(2,760)
Gain (loss) on sale of hospitals, net		