COMMUNITY HEALTH SYSTEMS INC
Form 10-Q
November 01, 2012
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2012

Commission file number 001-15925

COMMUNITY HEALTH SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

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

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 ¨

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ

As of October 25, 2012, there were outstanding 91,196,196 shares of the registrant s Common Stock, $0.01 par value.

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Community Health Systems, Inc.

Form 10-Q

For the Three and Nine Months Ended September 30, 2012

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PART I FINANCIAL INFORMATION

Item 1. ***Financial Statements***

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

(Unaudited)

	September 30, 2012	December 31, 2011
ASSETS		
Current assets		
Cash and cash equivalents	$ 240,650	$ 129,865
Patient accounts receivable, net of allowance for doubtful accounts of $2,199,088 and $1,891,334 at September 30, 2012 and December 31, 2011, respectively	2,091,217	1,834,167
Supplies	364,972	346,611
Prepaid income taxes	20,233	101,389
Deferred income taxes	89,797	89,797
Prepaid expenses and taxes	132,807	112,613
Other current assets	267,735	231,647
Total current assets	3,207,411	2,846,089
Property and equipment	9,981,776	9,369,528
Less accumulated depreciation and amortization	(2,875,982)	(2,513,552)
Property and equipment, net	7,105,794	6,855,976
Goodwill	4,397,473	4,264,845
Other assets, net	1,530,477	1,241,930
Total assets	$ 16,241,155	$ 15,208,840
LIABILITIES AND EQUITY		
Current liabilities		
Current maturities of long-term debt	$ 99,194	$ 63,706
Accounts payable	809,255	748,997
Accrued interest	110,864	110,121
Accrued liabilities	961,910	988,315
Total current liabilities	1,981,223	1,911,139
Long-term debt	9,472,869	8,782,798
Deferred income taxes	704,725	704,725
Other long-term liabilities	999,080	949,990

Total liabilities		13,157,897		12,348,652
Redeemable noncontrolling interests in equity of consolidated subsidiaries		370,514		395,743
EQUITY				
Community Health Systems, Inc. stockholders equity				
Preferred stock, $.01 par value per share, 100,000,000 shares authorized; none issued		-		-
Common stock, $.01 par value per share, 300,000,000 shares authorized; 92,161,852 shares issued and 91,186,303 shares outstanding at September 30, 2012, and 91,547,079 shares issued and 90,571,530 shares outstanding at December 31, 2011		922		915
Additional paid-in capital		1,104,570		1,086,008
Treasury stock, at cost, 975,549 shares at September 30, 2012 and December 31, 2011		(6,678)		(6,678)
Accumulated other comprehensive loss		(148,721)		(184,479)
Retained earnings		1,704,396		1,501,330
Total Community Health Systems, Inc. stockholders equity		2,654,489		2,397,096
Noncontrolling interests in equity of consolidated subsidiaries		58,255		67,349
Total equity		2,712,744		2,464,445
Total liabilities and equity	$	16,241,155	$	15,208,840

See accompanying notes to the condensed consolidated financial statements.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share and per share data)

(Unaudited)

	Three Months Ended September 30, 2012		Nine Months Ended September 30, 2012	
	2012	**2011**	**2012**	**2011**
Operating revenues (net of contractual allowances and discounts)	$ 3,696,661	$ 3,395,773	$ 11,226,580	$ 10,183,654
Provision for bad debts	484,631	450,296	1,474,541	1,283,267
Net operating revenues	3,212,030	2,945,477	9,752,039	8,900,387
Operating costs and expenses:				
Salaries and benefits	1,525,111	1,393,151	4,547,532	4,156,614
Supplies	484,212	459,146	1,472,520	1,366,242
Other operating expenses	694,857	623,608	2,140,025	1,893,138
Electronic health records incentive reimbursement	(30,622)	(40,227)	(73,592)	(40,227)
Rent	68,637	64,481	202,324	190,082
Depreciation and amortization	182,207	161,515	536,362	481,046
Total operating costs and expenses	2,924,402	2,661,674	8,825,171	8,046,895
Income from operations	287,628	283,803	926,868	853,492
Interest expense, net	158,565	159,480	462,347	485,928
Loss from early extinguishment of debt	52,024	-	115,453	-
Equity in earnings of unconsolidated affiliates	(7,419)	(8,194)	(32,613)	(38,345)
Income from continuing operations before income taxes	84,458	132,517	381,681	405,909
Provision for income taxes	25,700	36,717	121,038	125,630
Income from continuing operations	58,758	95,800	260,643	280,279
Discontinued operations, net of taxes:				
Loss from operations of entities sold	-	(3,103)	(466)	(4,546)
Impairment of hospitals sold	-	-	-	(47,930)
Loss on sale, net	-	(66)	-	(3,300)
Loss from discontinued operations, net of taxes	-	(3,169)	(466)	(55,776)
Net income	58,758	92,631	260,177	224,503
Less: Net income attributable to noncontrolling interests	14,525	18,327	57,111	53,486
Net income attributable to Community Health Systems, Inc. stockholders	$ 44,233	$ 74,304	$ 203,066	$ 171,017

Basic earnings (loss) per share attributable to Community Health Systems, Inc. common stockholders:								
Continuing operations	$	0.50	$	0.87	$	2.29	$	2.51
Discontinued operations		-		(0.04)		(0.01)		(0.62)
Net income	$	0.50	$	0.83	$	2.28	$	1.89
Diluted earnings (loss) per share attributable to Community Health Systems, Inc. common stockholders(1):								
Continuing operations	$	0.49	$	0.86	$	2.27	$	2.49
Discontinued operations		-		(0.04)		(0.01)		(0.61)
Net income	$	0.49	$	0.83	$	2.27	$	1.87
Weighted-average number of shares outstanding:								
Basic		89,259,950		89,412,310		89,028,249		90,513,665
Diluted		90,009,113		89,857,583		89,464,987		91,256,469

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

See accompanying notes to the condensed consolidated financial statements.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Net income	$ 58,758	$ 92,631	$ 260,177	$ 224,503
Other comprehensive income (loss), net of income taxes:				
Net change in fair value of interest rate swaps	8,254	2,722	28,766	30,199
Net change in fair value of available-for-sale securities	1,370	(4,029)	3,509	(2,692)
Amortization and recognition of unrecognized pension cost components	1,202	790	3,483	2,369
Other comprehensive income (loss)	10,826	(517)	35,758	29,876
Comprehensive income	69,584	92,114	295,935	254,379
Less: Comprehensive income attributable to noncontrolling interests	14,525	18,327	57,111	53,486
Comprehensive income attributable to Community Health Systems, Inc. stockholders	$ 55,059	$ 73,787	$ 238,824	$ 200,893

See accompanying notes to the condensed consolidated financial statements.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended September 30, 2012	2011
Cash flows from operating activities		
Net income	$ 260,177	$ 224,503
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	536,362	485,917
Stock-based compensation expense	30,708	31,588
Loss on sale, net	-	3,300
Impairment of hospitals sold	-	47,930
Loss from early extinguishment of debt	115,453	-
Excess tax benefit relating to stock-based compensation	(1,545)	(4,616)
Other non-cash expenses, net	22,482	14,279
Changes in operating assets and liabilities, net of effects of acquisitions and divestitures:		
Patient accounts receivable	(227,814)	(90,805)
Supplies, prepaid expenses and other current assets	(68,247)	(31,455)
Accounts payable, accrued liabilities and income taxes	103,156	146,166
Other	7,133	(6,572)
Net cash provided by operating activities	777,865	820,235
Cash flows from investing activities		
Acquisitions of facilities and other related equipment	(312,927)	(209,451)
Purchases of property and equipment	(557,469)	(532,845)
Proceeds from disposition of hospitals and other ancillary operations	-	172,578
Proceeds from sale of property and equipment	4,808	9,251
Increase in other investments	(222,164)	(130,980)
Net cash used in investing activities	(1,087,752)	(691,447)
Cash flows from financing activities		
Proceeds from exercise of stock options	5,750	18,880
Repurchase of restricted stock shares for payroll tax withholding requirements	(9,165)	-
Deferred financing costs	(135,647)	(100)
Excess tax benefit relating to stock-based compensation	1,545	4,616
Stock buy-back	-	(85,790)
Proceeds from noncontrolling investors in joint ventures	535	1,229
Redemption of noncontrolling investments in joint ventures	(39,709)	(4,784)
Distributions to noncontrolling investors in joint ventures	(60,676)	(49,928)
Borrowings under credit agreements	5,924,377	83,000
Issuance of long-term debt	3,825,000	-
Proceeds from receivables facility	300,000	-
Repayments of long-term indebtedness	(9,391,338)	(128,768)

Net cash provided by (used in) financing activities		420,672		(161,645)
Net change in cash and cash equivalents		110,785		(32,857)
Cash and cash equivalents at beginning of period		129,865		299,169
Cash and cash equivalents at end of period	$	240,650	$	266,312
Supplemental disclosure of cash flow information:				
Interest payments	$	461,604	$	548,359
Income tax paid (refunds received), net	$	55,404	$	(2,708)

See accompanying notes to the condensed consolidated financial statements.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements of Community Health Systems, Inc. and its subsidiaries (the Company) as of September 30, 2012 and December 31, 2011 and for the three-month and nine-month periods ended September 30, 2012 and September 30, 2011, have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). In the opinion of management, such information contains all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for such periods. All intercompany transactions and balances have been eliminated. The results of operations for the three and nine months ended September 30, 2012, are not necessarily indicative of the results to be expected for the full fiscal year ending December 31, 2012. 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 (the 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, 2011, contained in the Company s Annual Report on Form 10-K.

Noncontrolling interests in less-than-wholly-owned consolidated subsidiaries of the parent are presented as a component of total equity on the condensed consolidated balance sheets to distinguish between the interests of the parent company and the interests of the noncontrolling owners. Noncontrolling interests that are redeemable or may become redeemable at a fixed or determinable price at the option of the holder or upon the occurrence of an event outside of the control of the Company are presented in mezzanine equity on the condensed consolidated balance sheets.

Allowance for Doubtful Accounts. In July 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-07, which requires healthcare organizations that perform services for patients for which the ultimate collection of all or a portion of the amounts billed or billable cannot be determined at the time services are rendered to present all bad debt expense associated with patient service revenue as an offset to the patient service revenue line item in the statement of operations. The ASU also requires qualitative disclosures about the Company s policy for recognizing revenue and bad debt expense for patient service transactions and quantitative information about the effects of changes in the assessment of collectibility of patient service revenue. This ASU was adopted by the Company on January 1, 2012. Upon adoption, the Company s provision for bad debts was presented as a reduction of operating revenues after contractual adjustments and discounts. The condensed consolidated statement of income for the three and nine months ended September 30, 2011 has been retrospectively revised to present the provision for bad debts as a reduction of operating revenues for comparative purposes with the September 30, 2012 presentation.

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

The Company estimates the allowance for doubtful accounts by reserving a percentage of all self-pay accounts receivable without regard to aging category, based on collection history, adjusted for expected recoveries and, if present, anticipated changes in trends. For all other non-self-pay payor categories, the Company reserves 100% of all accounts aging over 365 days from the date of discharge. The percentage used to reserve for all self-pay accounts is based on the Company s collection history. The Company collects substantially all of its third-party insured receivables, which include receivables from governmental agencies.

Collections are impacted by the economic ability of patients to pay and the effectiveness of the Company s collection efforts. Significant changes in payor mix, business office operations, economic conditions or trends in federal and state governmental healthcare coverage could affect the Company s collection of accounts receivable and the estimates of the collectability of future accounts receivable. The process of estimating the allowance for doubtful accounts requires the Company to estimate the collectability of self-pay accounts receivable, which is primarily based on its collection history, adjusted for expected recoveries and, if available, anticipated changes in collection trends. The Company also continually reviews its overall reserve adequacy by monitoring historical cash collections as a percentage of trailing net revenue less provision for bad debts, as well as by analyzing current period net revenue and admissions by payor classification, aged accounts receivable by payor, days revenue outstanding, and the impact of recent acquisitions and dispositions.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

Operating revenues, net of contractual allowances and discounts (but before the provision for bad debts), recognized during the three and nine months ended September 30, 2012 and 2011, were as follows (in thousands):

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Medicare	$ 953,603	$ 893,680	$ 2,968,647	$ 2,736,213
Medicaid	387,034	325,901	1,098,691	995,658
Managed Care and other third-party payors	1,862,657	1,753,101	5,681,006	5,204,778
Self-pay	493,367	423,091	1,478,236	1,247,005
Total	$ 3,696,661	$ 3,395,773	$ 11,226,580	$ 10,183,654

Electronic Health Records Incentive Reimbursement. The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act (HITECH). These provisions were designed to increase the use of electronic health records (EHR) technology and establish the requirements for a Medicare and Medicaid incentive payments program beginning in 2011 for eligible hospitals and providers that adopt and meaningfully use certified EHR technology. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. Initial Medicaid incentive payments are available to providers that adopt, implement or upgrade certified EHR technology; but providers must demonstrate meaningful use of such technology in subsequent years to qualify for additional incentive payments. Medicaid EHR incentive payments are fully funded by the federal government and administered by the states; however, the states are not required to offer EHR incentive payments to providers.

The Company recognized approximately $30.6 million and $40.2 million during the three months ended September 30, 2012 and 2011, respectively, and $73.6 million and $40.2 million during the nine months ended September 30, 2012 and 2011, respectively, of incentive reimbursement for HITECH incentives from Medicare and Medicaid related to certain of the Company s hospitals and for certain of the Company s employed physicians that have demonstrated meaningful use of certified EHR technology or have completed attestations to their adoption or implementation of certified EHR technology. These incentive reimbursements are presented as a reduction of operating expenses on the condensed consolidated statement of income. Net operating revenues for the three and nine months ended September 30, 2011 have been restated for the reclassification of incentive reimbursements to reflect the change in presentation for such incentives during the fourth quarter of 2011 from a component of net operating revenues to a reduction of operating expenses. This reclassification decreased net operating revenues and operating expenses for the three and nine months ended September 30, 2011 by $40.2 million, and had no impact on income from continuing operations or net income as previously reported. Management does not consider this change in classification to be material. The Company received cash related to the incentive reimbursement for HITECH incentives of approximately $12.8 million and $6.5 million for the three months ended September 30, 2012 and 2011, respectively, and $41.6 million and $6.5 million for the nine months ended September 30, 2012 and 2011, respectively.

Reimbursement Settlements. Included in net operating revenues for the nine months ended September 30, 2012 is approximately $101.8 million of net operating revenues from an industry-wide settlement with the United States Department of Health and Human Services and Centers for Medicare and Medicaid Services, based on a claim that acute-care hospitals in the U.S. were underpaid from the Medicare inpatient prospective payment system in federal fiscal years 1999 through 2011. The underpayments resulted from calculations related to the rural floor budget neutrality adjustments implemented in connection with the Balanced Budget Act of 1997. Also included in net operating revenues for the nine months ended September 30, 2012 is an unfavorable adjustment of approximately $21.0 million related to the newly issued Supplemental Security Income ratios for federal fiscal years 2006 through 2009 utilized for calculating Medicare Disproportionate Share Hospital reimbursements.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

Throughout these notes to the condensed consolidated financial statements, Community Health Systems, Inc. (the Parent), and its consolidated subsidiaries are referred to on a collective basis as the Company. This drafting style is not meant to indicate that the publicly-traded Parent or any subsidiary of the Parent owns or operates any asset, business, or property. The hospitals, operations and businesses described in this filing are owned and operated, and management services provided, by distinct and indirect subsidiaries of Community Health Systems, Inc.

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, amended and restated as of March 24, 2009 (the 2000 Plan), and the Community Health Systems, Inc. 2009 Stock Option and Award Plan, amended and restated as of March 18, 2011 (the 2009 Plan).

The 2000 Plan allows for the grant of incentive stock options intended to qualify under Section 422 of the Internal Revenue Code (the IRC), as well as stock options which do not so qualify, stock appreciation rights, restricted stock, restricted stock units, performance-based shares or units and other share awards. Prior to being amended in 2009, the 2000 Plan also allowed for the grant of phantom stock. Persons eligible to receive grants under the 2000 Plan include the Company s directors, officers, employees and consultants. To date, all options granted under the 2000 Plan have been nonqualified stock options for tax purposes. Generally, vesting of these granted options occurs in one-third increments on each of the first three anniversaries of the award date. Options granted prior to 2005 have a 10-year contractual term, options granted in 2005 through 2007 have an eight-year contractual term and options granted in 2008 or later have a 10-year contractual term. As of September 30, 2012, 707,767 shares of unissued common stock were reserved for future grants under the 2000 Plan.

The 2009 Plan provides for the grant of incentive stock options intended to qualify under Section 422 of the IRC and for the grant of stock options which do not so qualify, stock appreciation rights, restricted stock, restricted stock units, performance-based shares or units and other share awards. Persons eligible to receive grants under the 2009 Plan include the Company s directors, officers, employees and consultants. To date, all options granted under the 2009 Plan have been nonqualified stock options for tax purposes. Generally, vesting of these granted options occurs in one-third increments on each of the first three anniversaries of the award date. Options granted in 2011 or later have a 10-year contractual term. As of September 30, 2012, 1,525,791 shares of unissued common stock were reserved for future grants under the 2009 Plan.

The exercise price of all options granted is equal to the fair value of the Company s common stock on the option grant date.

The following table reflects the impact of total compensation expense related to stock-based equity plans on the reported operating results for the respective periods (in thousands):

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Effect on income from continuing operations before income taxes	$ (10,084)	$ (10,855)	$ (30,708)	$ (31,588)
Effect on net income	$ (6,403)	$ (6,893)	$ (19,500)	$ (20,059)

At September 30, 2012, $45.0 million of unrecognized stock-based compensation expense was expected to be recognized over a weighted-average period of 19 months. Of that amount, $9.0 million related to outstanding unvested stock options was expected to be recognized over a weighted-average period of 18 months and $36.0 million related to outstanding unvested restricted stock and restricted stock units was expected to be recognized over a weighted-average period of 19 months. There were no modifications to awards during the three-month and nine-month periods ended September 30, 2012.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

The fair value of stock options was estimated using the Black Scholes option pricing model with the following assumptions and weighted-average fair values during the three and nine months ended September 30, 2012 and 2011:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Expected volatility	59.8 %	57.8 %	57.8 %	32.8 %
Expected dividends	-	-	-	-
Expected term	4 years	4 years	4.1 years	4 years
Risk-free interest rate	0.5 %	0.6 %	0.7 %	1.7 %

In determining the expected term, the Company examined concentrations of option holdings and historical patterns of option exercises and forfeitures, as well as forward-looking factors, in an effort to determine if there were any discernable employee populations. From this analysis, the Company identified two primary employee populations, one consisting of certain senior executives and the other one consisting of substantially 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 utilized to estimate the expected volatility rate did not differ significantly from the implied volatility.

The expected term computation is based on historical exercise and cancellation patterns and forward-looking factors, where present, for each population identified. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of the grant. The pre-vesting forfeiture rate is based on historical rates and forward-looking factors for each population identified. The Company adjusts the estimated forfeiture rate to its actual experience.

Options outstanding and exercisable under the 2000 Plan and the 2009 Plan as of September 30, 2012, and changes during each of the three-month periods following December 31, 2011, were as follows (in thousands, except share and per share data):

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value as of September 30, 2012
Outstanding at December 31, 2011	8,389,142	$ 32.83		
Granted	246,500	21.07		
Exercised	(17,244)	17.88		
Forfeited and cancelled	(130,475)	32.27		
Outstanding at March 31, 2012	8,487,923	32.53		
Granted	4,000	21.91		
Exercised	(50,018)	19.20		
Forfeited and cancelled	(103,448)	33.38		
Outstanding at June 30, 2012	8,338,457	32.59		
Granted	3,000	27.44		

Exercised	(227,737)		19.67			
Forfeited and cancelled	(159,831)		35.10			
Outstanding at September 30, 2012	7,953,889	$	32.91	4.6 years	$	15,739
Exercisable at September 30, 2012	6,437,632	$	33.01	3.7 years	$	12,527

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

The weighted-average grant date fair value of stock options granted during the three months ended September 30, 2012 and 2011 was $12.51 and $7.97, respectively, and $9.19 and $10.18 during the nine months ended September 30, 2012 and 2011, 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 ($29.14) and the exercise price of the respective stock options) in the table above represents the amount that would have been received by the option holders had all option holders exercised their options on September 30, 2012. This amount changes based on the market value of the Company s common stock. The aggregate intrinsic value of options exercised during the three months ended September 30, 2012 was $1.8 million. There was substantially no aggregate intrinsic value of options exercised during the three months ended September 30, 2011. The aggregate intrinsic value of options exercised during the nine months ended September 30, 2012 and 2011 was $2.2 million and $6.1 million, respectively. The aggregate intrinsic value of options vested and expected to vest approximates that of the outstanding options.

The Company has also awarded restricted stock under the 2000 Plan and the 2009 Plan to its directors and employees of certain subsidiaries. The restrictions on these shares generally lapse in one-third increments on each of the first three anniversaries of the award date. 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. Notwithstanding the above-mentioned performance objectives and vesting requirements, the restrictions will lapse earlier in the event of death, disability or termination of employment by the Company for any reason other than for cause of the holder of the restricted stock, or change in control of the Company. Restricted stock awards subject to performance standards are not considered outstanding for purposes of determining earnings per share until the performance objectives have been satisfied.

Restricted stock outstanding under the 2000 Plan and the 2009 Plan as of September 30, 2012, and changes during each of the three-month periods following December 31, 2011, were as follows:

	Shares	Weighted-Average Grant Date Fair Value
Unvested at December 31, 2011	2,207,612	$ 32.95
Granted	660,500	21.07
Vested	(1,082,821)	29.67
Forfeited	(1,000)	37.96
Unvested at March 31, 2012	1,784,291	30.54
Granted	8,000	21.91
Vested	(7,001)	29.78
Forfeited	(7,000)	31.39
Unvested at June 30, 2012	1,778,290	30.50
Granted	9,000	27.44
Vested	(10,667)	28.73
Forfeited	(10,334)	30.64
Unvested at September 30, 2012	1,766,289	30.49

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

Phantom stock and restricted stock units (RSUs) have been granted to the Company s outside directors under the 2000 Plan and the 2009 Plan. On February 25, 2009, each of the Company s outside directors received a grant under the 2000 Plan of 7,151 shares of phantom stock. On May 19, 2009, the newly elected outside director received a grant under the 2000 Plan of 7,151 RSUs. On February 24, 2010, six of the Company s seven outside directors each received a grant under the 2000 Plan of 4,130 RSUs and one outside director, who did not stand for reelection in 2010, did not receive such a grant. On February 23, 2011, each of the Company s outside directors received a grant under the 2009 Plan of 3,688 RSUs. On February 16, 2012, each of the Company s outside directors received a grant under the 2009 Plan of 6,645 RSUs. Vesting of these shares of phantom stock and RSUs occurs in one-third increments on each of the first three anniversaries of the award date. Restricted stock units and phantom stock outstanding under the 2000 Plan and the 2009 Plan as of September 30, 2012, and changes during each of the three-month periods following December 31, 2011, were as follows:

	Shares	Weighted-Average Grant Date Fair Value
Unvested at December 31, 2011	52,956	$ 31.67
RSUs Granted February 16, 2012	39,870	21.07
Vested	(27,556)	28.19
Forfeited	-	-
Unvested at March 31, 2012	65,270	26.67
RSUs Granted	-	-
Vested	(2,384)	25.27
Forfeited	-	-
Unvested at June 30, 2012	62,886	26.72
RSUs Granted	-	-
Vested	-	-
Forfeited	-	-
Unvested at September 30, 2012	62,886	26.72

Under the Directors Fees Deferral Plan, the Company s outside directors may elect to receive share equivalent units in lieu of cash for their directors fees. These share equivalent 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 based on the closing market price of the Company s common stock on that date. The following table represents the amount of directors fees which were deferred during each of the respective periods, and the number of share equivalent units into which such directors fees would have converted had each of the directors who had deferred such fees retired or terminated his/her directorship with the Company as of the end of the respective periods (in thousands, except share equivalent units):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	**2011**	**2012**	**2011**
Directors fees earned and deferred into plan	$ 28	$ 55	$ 83	$ 165
Share equivalent units	944	3,305	3,161	6,822

At September 30, 2012, a total of 26,949 share equivalent units were deferred in the plan with an aggregate fair value of $0.8 million, based on the closing market price of the Company s common stock at September 30, 2012 of $29.14.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

3. COST OF REVENUE

Substantially all 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 its Franklin, Tennessee office, which were $49.4 million and $45.6 million for the three months ended September 30, 2012 and 2011, respectively, and $153.6 million and $135.1 million for the nine months ended September 30, 2012 and 2011, respectively. Included in these amounts is stock-based compensation expense of $10.1 million and $10.9 million for the three months ended September 30, 2012 and 2011, respectively, and $30.7 million and $31.6 million for the nine months ended September 30, 2012 and 2011, respectively.

4. USE OF ESTIMATES

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

5. ACQUISITIONS AND DIVESTITURES

Acquisitions

The Company accounts for all transactions that represent business combinations using the acquisition method of accounting, where the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquired entity are recognized and measured at their fair values on the date the Company obtains control in the acquiree. Such fair values that are not finalized for reporting periods following the acquisition date are estimated and recorded as provisional amounts. Adjustments to these provisional amounts during the measurement period (defined as the date through which all information required to identify and measure the consideration transferred, the assets acquired, the liabilities assumed and any noncontrolling interests has been obtained, limited to one year from the acquisition date) are recorded as of the date of acquisition. Any material impact to comparative information for periods after acquisition, but before the period in which adjustments are identified, is reflected in those prior periods as if the adjustments were considered as of the acquisition date. Goodwill is determined as the excess of the fair value of the consideration conveyed in the acquisition over the fair value of the net assets acquired.

Effective July 1, 2012, one or more subsidiaries of the Company completed the acquisition of Memorial Health Systems in York, Pennsylvania. This healthcare system includes Memorial Hospital (100 licensed beds), the Surgical Center of York, and other outpatient and ancillary services. As part of this purchase agreement, the Company has agreed to spend at least $75.0 million to build a replacement hospital within five years of the closing date. The total cash consideration paid for fixed assets and working capital was approximately $45.0 million and $2.6 million, respectively, with additional consideration of $12.5 million assumed in liabilities, for a total consideration of $60.1 million. Based upon the Company s preliminary purchase price allocation relating to this acquisition as of September 30, 2012, approximately $9.9 million of goodwill has been recorded. The preliminary allocation of the purchase price has been determined by the Company based on available information and is subject to settling amounts related to purchased working capital and final appraisals of tangible and intangible assets. Adjustments to the purchase price allocation are not expected to be material.

Effective March 5, 2012, one or more subsidiaries of the Company completed a merger with Diagnostic Clinic of Longview, P.A., which is a multi-specialty clinic serving residents of Longview, Texas and surrounding East Texas communities. This merger was accounted for as a purchase business combination. The total cash consideration paid for the business, including net working capital, was approximately $52.3 million, with additional consideration of $6.9 million assumed in liabilities, for a total consideration of $59.2 million. Based upon the Company s preliminary purchase price allocation relating to this acquisition as of September 30, 2012, approximately $41.8 million of goodwill has been recorded. The preliminary allocation of the purchase price has been determined by the Company based on available information and is subject to settling amounts related to purchased working capital. Adjustments to the purchase price allocation are not expected to be material.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

Effective March 1, 2012, one or more subsidiaries of the Company completed the acquisition of MetroSouth Medical Center (330 licensed beds) located in Blue Island, Illinois. The total cash consideration paid for fixed assets was approximately $39.3 million with additional consideration of $6.2 million assumed in liabilities as well as a credit applied at closing of $0.9 million for negative acquired working capital, for a total consideration of $44.6 million. Based upon the Company s preliminary purchase price allocation relating to this acquisition as of September 30, 2012, no goodwill has been recorded. The preliminary allocation of the purchase price has been determined by the Company based on available information and is subject to settling amounts related to purchased working capital and final appraisals of tangible and intangible assets. Adjustments to the purchase price allocation are not expected to be material.

Effective January 1, 2012, one or more subsidiaries of the Company completed the acquisition of Moses Taylor Healthcare System based in Scranton, Pennsylvania, which is a healthcare system comprised of two acute care hospitals and other healthcare providers. This healthcare system includes Moses Taylor Hospital (217 licensed beds) located in Scranton, Pennsylvania, and Mid-Valley Hospital (25 licensed beds) located in Peckville, Pennsylvania. The total cash consideration paid for fixed assets and working capital was approximately $151.1 million and $9.2 million, respectively, with additional consideration of $13.2 million assumed in liabilities, for a total consideration of $173.5 million. Based upon the Company s preliminary purchase price allocation relating to this acquisition as of September 30, 2012, approximately $54.6 million of goodwill has been recorded. The preliminary allocation of the purchase price has been determined by the Company based on available information and is subject to settling amounts related to purchased working capital and final appraisals of tangible and intangible assets. Adjustments to the purchase price allocation are not expected to be material.

Effective October 1, 2011, one or more subsidiaries of the Company completed the acquisition of Tomball Regional Hospital (358 licensed beds) located in Tomball, Texas. The total cash consideration paid for fixed assets and working capital was approximately $192.0 million and $17.5 million, respectively, with additional consideration of $15.9 million assumed in liabilities, for a total consideration of $225.4 million. Based upon the Company s final purchase price allocation relating to this acquisition, as of September 30, 2012, approximately $32.4 million of goodwill has been recorded.

Effective May 1, 2011, one or more subsidiaries of the Company completed the acquisition of Mercy Health Partners based in Scranton, Pennsylvania, which is a healthcare system comprised of two acute care hospitals, a long-term acute care facility and other healthcare providers. This healthcare system includes Regional Hospital of Scranton (198 licensed beds) located in Scranton, Pennsylvania, and Tyler Memorial Hospital (48 licensed beds) located in Tunkhannock, Pennsylvania. This healthcare system also includes a long-term acute care facility, Special Care Hospital (67 licensed beds) located in Nanticoke, Pennsylvania, as well as several outpatient clinics and other ancillary facilities. The total cash consideration paid for fixed assets was approximately $150.8 million, with additional consideration of $12.3 million assumed in liabilities as well as a credit applied at closing of $2.1 million for negative acquired working capital, for a total consideration of $161.0 million. Based upon the Company s final purchase price allocation relating to this acquisition, as of September 30, 2012, approximately $43.1 million of goodwill has been recorded.

Additionally, during the nine months ended September 30, 2012, the Company paid approximately $34.6 million to acquire the operating assets and related businesses of certain physician practices, clinics and other ancillary businesses that operate within the communities served by its hospitals. In connection with these acquisitions, the Company allocated approximately $9.1 million of the consideration paid to property and equipment, $1.1 million to net working capital, and the remainder, approximately $24.4 million consisting of intangible assets that do not qualify for separate recognition, was allocated to goodwill. These acquisition transactions were accounted for as purchase business combinations.

Approximately $2.5 million and $2.4 million of acquisition costs related to prospective and closed acquisitions were expensed during the three months ended September 30, 2012 and 2011, respectively, and $9.1 million and $11.0 million for the nine months ended September 30, 2012 and 2011, respectively.

Discontinued Operations

Effective February 1, 2011, the Company sold Willamette Community Medical Group, which is a physician clinic operating as Oregon Medical Group, located in Springfield, Oregon, to Oregon Healthcare Resources, LLC, for $14.6 million in cash; this business had a carrying amount of net assets, including an allocation of reporting unit goodwill, of $19.7 million.

Effective September 1, 2011, the Company sold SouthCrest Hospital, located in Tulsa, Oklahoma, Claremore Regional Hospital, located in Claremore, Oklahoma, and other related healthcare assets affiliated with those hospitals to Hillcrest Healthcare System, part of Ardent Health Services, for approximately $154.2 million in cash. The carrying amount of the net assets sold in this transaction, including an allocation of reporting unit goodwill, was approximately $193.0 million.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

Effective October 22, 2011, the Company sold Cleveland Regional Medical Center, located in Cleveland, Texas, and other related healthcare assets affiliated with the hospital to New Directions Health Systems, LLC for approximately $0.9 million in cash. The carrying amount of the net assets sold in this transaction, including an allocation of reporting unit goodwill, was approximately $14.2 million.

The Company has classified the results of operations for Oregon Medical Group, SouthCrest Hospital, Claremore Regional Hospital and Cleveland Regional Hospital as discontinued operations in the accompanying condensed consolidated statements of income for the three and nine months ended September 30, 2012 and 2011.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net operating revenues	$ -	$ 47,855	$ -	$ 188,418
Loss from operations of entities sold before income taxes	-	(5,120)	(729)	(7,401)
Impairment of hospitals sold	-	-	-	(51,695)
Loss on sale, net	-	(337)	-	(5,398)
Loss from discontinued operations, before taxes	-	(5,457)	(729)	(64,494)
Income tax benefit	-	(2,288)	(263)	(8,718)
Loss from discontinued operations, net of taxes	$ -	$ (3,169)	$ (466)	$ (55,776)

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

6. INCOME TAXES

The total amount of unrecognized benefit that would affect the effective tax rate, if recognized, was approximately $0.8 million as of September 30, 2012. During the nine months ended September 30, 2012, the Company increased interest and penalties by approximately $0.1 million. A total of approximately $0.3 million of interest and penalties is included in the amount of the liability for uncertain tax positions at September 30, 2012. It is the Company s policy to recognize interest and penalties related to unrecognized benefits in its condensed consolidated statements of income as income tax expense.

It is possible the amount of unrecognized tax benefit could change in the next twelve months as a result of a lapse of the statute of limitations and settlements with taxing authorities; however, the Company does not anticipate the change will have a material impact on its consolidated results of operations or consolidated financial position.

The Company, or one of its subsidiaries, files income tax returns in the United States federal jurisdiction and various state jurisdictions. The Company has extended the federal statute of limitations for Triad Hospitals, Inc. (Triad) for the tax periods ended December 31, 1999, December 31, 2000, April 30, 2001, June 30, 2001, December 31, 2001, December 31, 2002 and December 31, 2003. The Internal Revenue Service (the IRS) has concluded its examination of the federal tax return of Triad for the tax periods ended December 31, 2004, December 31, 2005, December 31, 2006 and July 25, 2007, and the statutes of limitations for those years will close on December 31, 2012. With few exceptions, the Company is no longer subject to state income tax examinations for years prior to 2008 and federal income tax examinations with respect to Community Health Systems, Inc. federal returns for years prior to 2007. The Company s federal income tax returns for the 2007, 2008, 2009 and 2010 tax years are currently under examination by the IRS. The Company believes the results of this examination will not be material to its consolidated results of operations or consolidated financial position. In connection with the Company s 2007 and 2008 IRS examinations, the IRS has taken exception to the timing of the Company s malpractice expense deductions. Management believes that the Company s deduction timing is appropriate, and will work to resolve this item over the next 12 months. If management is unable to sustain the current timing of the Company s deduction, then it would be subject to interest and penalty costs. Management does not consider this matter to have met the recognition criteria to be considered an uncertain tax position for which a reserve is necessary.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

Cash paid for income taxes, net of refunds received, resulted in net cash paid of $33.4 million and $23.0 million for the three months ended September 30, 2012 and 2011, respectively. Cash paid for income taxes, net of refunds received, resulted in net cash paid of $55.4 million and a net cash refund of $2.7 million for the nine months ended September 30, 2012 and 2011, respectively.

7. GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill for the nine months ended September 30, 2012, are as follows (in thousands):

Balance as of December 31, 2011	$	4,264,845
Goodwill acquired as part of acquisitions during 2012		130,661
Consideration adjustments and purchase price allocation adjustments for prior year s acquisitions		1,967
Balance as of September 30, 2012	$	4,397,473

Goodwill is allocated to each identified reporting unit, which is defined as an operating segment or one level below the operating segment (referred to as a component of the entity). Management has determined that the Company s operating segments meet the criteria to be classified as reporting units. At September 30, 2012, the hospital operations reporting unit, the home care agency operations reporting unit, and the hospital management services reporting unit had approximately $4.3 billion, $40.5 million and $33.3 million, respectively, of goodwill.

Goodwill is evaluated for impairment at the same time every year and when an event occurs or circumstances change that, more likely than not, reduce the fair value of the reporting unit below its carrying value. There is a two-step method for determining goodwill impairment. Step one is to compare the fair value of the reporting unit with the unit s carrying amount, including goodwill. If this test indicates the fair value is less than the carrying value, then step two is required to compare the implied fair value of the reporting unit s goodwill with the carrying value of the reporting unit s goodwill. The Company performed its last annual goodwill evaluation during the fourth quarter of 2011. No impairment was indicated by this evaluation. The next annual goodwill evaluation will be performed during the fourth quarter of 2012.

The Company estimates the fair value of the related reporting units using both a discounted cash flow model as well as an EBITDA multiple model. The cash flow forecasts are adjusted by an appropriate discount rate based on the Company s estimate of a market participant s weighted-average cost of capital. These models are both based on the Company s best estimate of future revenues and operating costs and are reconciled to the Company s consolidated market capitalization, with consideration of the amount a potential acquirer would be required to pay, in the form of a control premium, in order to gain sufficient ownership to set policies, direct operations and control management decisions.

The gross carrying amount of the Company s other intangible assets subject to amortization was $62.0 million at September 30, 2012 and $60.0 million at December 31, 2011, and the net carrying amount was $28.1 million at September 30, 2012 and $30.6 million at December 31, 2011. The carrying amount of the Company s other intangible assets not subject to amortization was $47.6 million at September 30, 2012 and $46.9 million at December 31, 2011. Other intangible assets are included in other assets, net on the Company s condensed consolidated balance sheets. Substantially all of the Company s intangible assets are contract-based intangible assets related to operating licenses, management contracts, or non-compete agreements entered into in connection with prior acquisitions.

The weighted-average amortization period for the intangible assets subject to amortization is approximately eight years. There are no expected residual values related to these intangible assets. Amortization expense on these intangible assets was $2.0 million for both of the three month periods ended September 30, 2012 and 2011, and $5.7 million and $6.2 million during the nine months ended September 30, 2012 and 2011, respectively. Amortization expense on intangible assets is estimated to be $2.1 million for the remainder of 2012, $5.8 million in 2013, $3.7 million in 2014, $3.2 million in 2015, $2.4 million in 2016, $2.2 million in 2017 and $8.7 million thereafter.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

The gross carrying amount of capitalized software for internal use was approximately $613.2 million and $451.0 million at September 30, 2012 and December 31, 2011, respectively, and the net carrying amount considering accumulated amortization was approximately $339.4 million and $241.3 million at September 30, 2012 and December 31, 2011, respectively. The estimated amortization period for capitalized internal-use software is generally three years, except for capitalized costs related to significant system conversions, which is generally eight years. There is no expected residual value for capitalized internal-use software. At September 30, 2012, there was approximately $147.5 million of capitalized costs for internal-use software that is currently in the development stage and will begin amortization once the software project is complete and ready for its intended use. Amortization expense on capitalized internal-use software was $22.8 million and $17.8 million during the three months ended September 30, 2012 and 2011, respectively, and $64.2 million and $52.4 million during the nine months ended September 30, 2012 and 2011, respectively. Amortization expense on capitalized internal-use software is estimated to be $25.7 million for the remainder of 2012, $102.6 million in 2013, $78.4 million in 2014, $41.7 million in 2015, $26.2 million in 2016, $21.8 million in 2017 and $43.0 million thereafter.

8. EARNINGS PER SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Numerator:				
Income from continuing operations, net of taxes	$ 58,758	$ 95,800	$ 260,643	$ 280,279
Less: Income from continuing operations attributable to noncontrolling interests, net of taxes	14,525	18,327	57,111	53,486
Income from continuing operations attributable to Community Health Systems, Inc. common stockholders basic and diluted	$ 44,233	$ 77,473	$ 203,532	$ 226,793
Loss from discontinued operations, net of taxes	$ -	$ (3,169)	$ (466)	$ (55,776)
Less: Loss from discontinued operations attributable to noncontrolling interests, net of taxes	-	-	-	-
Loss from discontinued operations attributable to Community Health Systems, Inc. common stockholders basic and diluted	$ -	$ (3,169)	$ (466)	$ (55,776)
Denominator:				
Weighted-average number of shares outstanding basic	89,259,950	89,412,310	89,028,249	90,513,665
Effect of dilutive securities:				
Restricted stock awards	449,811	307,631	210,418	275,561
Employee stock options	280,495	128,371	214,082	458,685

Other equity-based awards	18,857	9,271	12,238	8,558
Weighted-average number of shares outstanding diluted	90,009,113	89,857,583	89,464,987	91,256,469

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	**2011**	**2012**	**2011**
Dilutive securities outstanding not included in the computation of earnings per share because their effect is antidilutive:				
Employee stock options	6,529,182	6,909,075	6,776,487	6,010,261

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

9. STOCKHOLDERS EQUITY

Authorized capital shares of the Company include 400,000,000 shares of capital stock consisting of 300,000,000 shares of common stock and 100,000,000 shares of preferred stock. Each of the aforementioned classes of capital stock has a par value of $0.01 per share. Shares of preferred stock, none of which were outstanding as of September 30, 2012, may be issued in one or more series having such rights, preferences and other provisions as determined by the Board of Directors without approval by the holders of common stock.

On December 14, 2011, the Company adopted a new open market repurchase program for up to 4,000,000 shares of the Company s common stock, not to exceed $100 million in repurchases. The new repurchase program will conclude at the earliest of three years from the commencement date, when the maximum number of shares has been repurchased, or when the maximum dollar amount of repurchases has been expended. Through September 30, 2012, no shares have been purchased and retired under this program.

On September 15, 2010, the Company commenced an open market repurchase program for up to 4,000,000 shares of the Company s common stock, not to exceed $100 million in repurchases. This program will conclude at the earliest of three years from the commencement date, when the maximum number of shares has been repurchased or when the maximum dollar amount of repurchases has been expended. During the three and nine months ended September 30, 2012, the Company did not repurchase any shares under this program. During the three months ended September 30, 2011, the Company repurchased and retired 1,706,300 shares at a weighted average price of $20.93 under this program. During the nine months ended September 30, 2011, the Company repurchased and retired 3,469,866 shares at a weighted average price of $24.68 under this program. The cumulative number of shares that have been repurchased and retired under this program through September 30, 2012 is 3,921,138 shares at a weighted-average price of $25.39 per share.

The Company s Credit Facility (as discussed below) limits the Company s ability to pay dividends and/or repurchase stock to an amount not to exceed $50 million in the aggregate plus the aggregate amount of proceeds from the exercise of stock options. The indentures governing the 8% Senior Notes due 2019 and the $7\,^{1}/_{8}$% Senior Notes due 2020 (collectively, the Senior Notes) and the $5\,^{1}/_{8}$% Senior Secured Notes due 2018 also limit the Company s ability to pay dividends and/or repurchase stock. As of September 30, 2012, under the most restrictive test under these agreements, the Company has approximately $85.8 million remaining available with which to pay permitted dividends and/or repurchase shares of stock or its Senior Notes.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

The following schedule presents the reconciliation of the carrying amount of total equity, equity attributable to the Company, and equity attributable to the noncontrolling interests for the nine-month period ended September 30, 2012 (in thousands):

		Community Health Systems, Inc. Stockholders						
	Redeemable Noncontrolling Interest	**Common Stock**	**Additional Paid-In Capital**	**Treasury Stock**	**Accumulated Other Comprehensive Income (Loss)**	**Retained Earnings**	**Noncontrolling Interest**	**Total Stockholders Equity**
Balance, December 31, 2011	$ 395,743	$ 915	$ 1,086,008	$ (6,678)	$ (184,479)	$ 1,501,330	$ 67,349	$ 2,464,445
Comprehensive income	40,636	-	-	-	35,758	203,066	16,475	255,299
Distributions to noncontrolling interests, net of contributions	(36,338)	-	-	-	-	-	(23,803)	(23,803)
Purchase of subsidiary shares from noncontrolling interests	(18,603)	-	(19,963)	-	-	-	(1,143)	(21,106)
Other reclassifications of noncontrolling interests	1,626	-	-	-	-	-	(623)	(623)
Adjustment to redemption value of redeemable noncontrolling interests	(12,550)	-	12,550	-	-	-	-	12,550
Issuance of common stock in connection with the exercise of stock options	-	3	5,750	-	-	-	-	5,753
Cancellation of restricted stock for tax withholdings on vested shares	-	(3)	(9,165)	-	-	-	-	(9,168)

Excess tax benefit from exercise of stock options		-		-		(1,318)		-		-		-		-	(1,318)
Share-based compensation		-		7		30,708		-		-		-		-	30,715
Balance, September 30, 2012	**$**	370,514	**$**	922	**$**	1,104,570	**$**	(6,678)	**$**	(148,721)	**$**	1,704,396	**$**	58,255	**$** 2,712,744

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

		Nine Months Ended September 30, 2012
Net income attributable to Community Health Systems, Inc. stockholders	$	203,066
Transfers to the noncontrolling interests:		
Net decrease in Community Health Systems, Inc. paid-in capital for purchase of subsidiary partnership interests		(19,963)
Net transfers to the noncontrolling interests		(19,963)
Change to Community Health Systems, Inc. stockholders equity from net income attributable to Community Health Systems, Inc. stockholders and transfers to noncontrolling interests	$	183,103

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

10. EQUITY INVESTMENTS

As of September 30, 2012, the Company owned equity interests of 27.5% in four hospitals in Las Vegas, Nevada, and 26.1% in one hospital in Las Vegas, Nevada, in which Universal Health Systems, Inc. owns the majority interest, and an equity interest of 38.0% in three hospitals in Macon, Georgia, in which HCA Inc. owns the majority interest.

Summarized combined financial information for the three and nine months ended September 30, 2012 and 2011, for these unconsolidated entities in which the Company owns an equity interest is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues	$ 294,461	$ 299,099	$ 926,886	$ 927,392
Operating costs and expenses	266,012	267,857	817,572	802,870
Income from continuing operations before taxes	28,421	31,211	109,238	124,447

The summarized financial information for the three and nine months ended September 30, 2012 and 2011 was derived from the unaudited financial information provided to the Company by those unconsolidated entities.

The Company s investment in all of its unconsolidated affiliates was $436.5 million and $422.2 million at September 30, 2012 and December 31, 2011, respectively, and is included in other assets, net in the accompanying condensed consolidated balance sheets. Included in the Company s results of operations is the Company s equity in pre-tax earnings from all of its investments in unconsolidated affiliates, which was $7.4 million and $8.2 million for the three months ended September 30, 2012 and 2011, respectively, and $32.6 million and $38.3 million for the nine months ended September 30, 2012 and 2011, respectively.

11. LONG-TERM DEBT

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

	September 30, 2012	December 31, 2011
Credit Facility:		
Term loan A	$ 737,500	$ -
Term loan B	3,619,062	5,949,383
Revolving credit loans	-	30,000
8 $^{7}/_{8}$% Senior Notes due 2015	-	1,777,617
8% Senior Notes due 2019	2,023,414	1,000,000
7 $^{1}/_{8}$% Senior Notes due 2020	1,200,000	-
5 $^{1}/_{8}$% Senior Secured Notes due 2018	1,600,000	-
Receivables Facility	300,000	-
Capital lease obligations	49,035	48,361
Other	43,052	41,143
Total debt	9,572,063	8,846,504

Less current maturities		(99,194)		(63,706)
Total long-term debt	$	9,472,869	$	8,782,798

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

Credit Facility

In connection with the consummation of the acquisition of Triad in July 2007, the Company s wholly-owned subsidiary CHS/Community Health Systems, Inc. (CHS) obtained approximately $7.2 billion of senior secured financing under a new credit facility (the Credit Facility) with a syndicate of financial institutions led by Credit Suisse, as administrative agent and collateral agent, and issued approximately $3.0 billion aggregate principal amount of 8 $^{7}/_{8}$% senior notes due 2015 (the 8 $^{7}/_{8}$% Senior Notes). The Company used the net proceeds of $3.0 billion from the 8 $^{7}/_{8}$% Senior Notes offering and the net proceeds of approximately $6.1 billion of term loans under the Credit Facility to acquire the outstanding shares of Triad, to refinance certain of Triad s indebtedness and the Company s indebtedness, to complete certain related transactions, to pay certain costs and expenses of the transactions and for general corporate uses. Specifically, the Company repaid its outstanding debt under the previously outstanding credit facility, the 6.50% senior subordinated notes due 2012 and certain of Triad s existing indebtedness.

The Credit Facility consisted of an approximately $6.1 billion funded term loan facility with a maturity of seven years, a $400 million delayed draw term loan facility with a maturity of seven years and a $750 million revolving credit facility with a maturity of six years. As of December 31, 2007, the $400 million delayed draw term loan facility had been reduced to $300 million at the request of CHS. During the fourth quarter of 2008, $100 million of the delayed draw term loan was drawn by CHS, reducing the delayed draw term loan availability to $200 million at December 31, 2008. In January 2009, CHS drew down the remaining $200 million of the delayed draw term loan. The revolving credit facility also includes a subfacility for letters of credit and a swingline subfacility. The Credit Facility requires quarterly amortization payments of each term loan facility equal to 0.25% of the outstanding amount of the term loans.

On November 5, 2010, CHS entered into an amendment and restatement of the Credit Facility. The amendment extended by two and a half years, until January 25, 2017, the maturity date of $1.5 billion of the existing term loans under the Credit Facility and increased the pricing on these term loans to LIBOR plus 350 basis points. The amendment also increased CHS ability to issue additional indebtedness under the uncommitted incremental facility to $1.0 billion from $600 million, permitted CHS to issue term loan A loans under the incremental facility, and provided up to $2.0 billion of borrowing capacity from receivable transactions, an increase of $0.5 billion, of which $1.7 billion would be required to be used for repayment of existing term loans. On February 2, 2012, CHS completed a second amendment and restatement of the Credit Facility to extend an additional $1.6 billion of the existing non-extended term loans under the Credit Facility to match the maturity date and interest rate margins of the extended term loans due January 25, 2017. On August 3, 2012, CHS entered into a third amendment of the Credit Facility to provide increased flexibility for refinancing and repayment of the existing non-extended term loans and amend certain other terms. On August 17, 2012, the Company made a prepayment of $1.6 billion on the non-extended term loans due July 25, 2014, utilizing the proceeds from the issuance of $1.6 billion of 5 $^{1}/_{8}$% Senior Secured Notes due 2018. On August 22, 2012, CHS entered into a loan modification agreement with respect to the Credit Facility to extend approximately $340 million of the existing non-extended term loans to match the maturity date and interest rate margins of the extended term loans due January 25, 2017. The July 25, 2014 maturity date of the balance of the remaining non-extended term loans at September 30, 2012 of approximately $266.1 million remains unchanged.

Effective March 6, 2012, the Company obtained a new $750 million senior secured revolving credit facility (the Replacement Revolver Facility) and a new $750 million incremental term loan A facility (the Incremental Term Loan) subject to the terms and conditions set forth in the Credit Facility. The Replacement Revolver Facility replaced in full the existing revolving credit facility under the Credit Facility. The net proceeds of the Incremental Term Loan were used to repay the same amount of the existing term loans under the Credit Facility. Both the Replacement Revolver Facility and the Incremental Term Loan have a maturity date of October 25, 2016, subject to customary acceleration events and to the repayment, extension or refinancing with longer maturity debt of substantially all of the Company s then outstanding term loans maturing July 25, 2014 and the now fully redeemed 8 $^{7}/_{8}$% Senior Notes. The pricing on each of the Replacement Revolver Facility and the Incremental Term Loan is initially LIBOR plus a margin of 250 basis points, subject to adjustment based on the Company s leverage ratio. The Incremental Term Loan amortizes at 5% in year one, 10% in years two and three, 15% in year four and 60% in year five.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

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

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

The loans under the Credit Facility bear interest on the outstanding unpaid principal amount at a rate equal to an applicable percentage plus, at CHS option, either (a) an Alternate Base Rate (as defined) determined by reference to the greater of (1) the Prime Rate (as defined) announced by Credit Suisse or (2) the Federal Funds Effective Rate (as defined) plus 0.50% or (3) the adjusted London Interbank Offered Rate (LIBOR) on such day for a three-month interest period commencing on the second business day after such day plus 1%, or (b) a reserve adjusted LIBOR for dollars (Eurodollar rate) (as defined). The applicable percentage for Alternate Base Rate loans is 1.25% for term loans due 2014 and is 2.25% for term loans due 2017 and the Incremental Term Loan. The applicable percentage for Eurodollar rate loans is 2.25% for term loans due 2014 and 3.50% for term loans due 2017 and the Incremental Term Loan. The applicable percentage for revolving loans is 1.50% for Alternate Base Rate revolving loans and 2.50% 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 obligated to pay commitment fees of 0.50% per annum (subject to reduction based upon the Company s leverage ratio) on the unused portion of the revolving credit facility. For purposes of this calculation, swingline loans are not treated as usage of the revolving credit facility. With respect to the delayed draw term loan facility, CHS was also obligated to pay commitment fees of 0.50% per annum for the first nine months after the closing of the Credit Facility, 0.75% per annum for the next three months after such nine-month period and thereafter, 1% per annum. In each case, the commitment fee was paid on the unused amount of the delayed draw term loan facility. After the draw down of the remaining $200 million of the delayed draw term loan in January 2009, CHS no longer pays any commitment fees for the delayed draw term loan facility. CHS paid arrangement fees on the closing of the Credit Facility and pays an annual administrative agent fee.

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

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

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

As of September 30, 2012, the availability for additional borrowings under the Credit Facility was $750 million pursuant to the Replacement Revolver Facility, of which $37.7 million was set aside for outstanding letters of credit. CHS has the ability to amend the Credit Facility to provide for one or more tranches of term loans in an aggregate principal amount of $1.0 billion, which CHS has not yet accessed. As of September 30, 2012, the weighted-average interest rate under the Credit Facility, excluding swaps, was 4.1%.

8 $^{7}/_{8}$% Senior Notes due 2015

The 8 $^{7}/_{8}$% Senior Notes were issued by CHS in connection with the Triad acquisition in the principal amount of approximately $3.0 billion. The 8 $^{7}/_{8}$% Senior Notes were to mature on July 15, 2015. The 8 $^{7}/_{8}$% Senior Notes bore interest at the rate of 8.875% per annum, payab