JONES SODA CO
Form 10QSB
May 16, 2005
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

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

For the Quarterly Period Ended March 31, 2005

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

For the Transition Period From __________ to __________

Commission File Number 0-28820

Jones Soda Co.

(Exact name of registrant as specified in its charter)

Washington	**91-1696175**
(State or other jurisdiction of	**(I.R.S. Employer**

incorporation or organization)	**Identification Number)**
234 9th Avenue North	
Seattle, Washington 98109	**(206) 624-3357**
(Address of principal executive office)	**(Registrant s telephone number,**
	including area code)

Check whether the issuer: (1) 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 for such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

As of March 31, 2005, the issuer had 21,387,596 shares of common stock outstanding.

Transitional Small Business Disclosure Format: Yes ¨ No x

Table of Contents

JONES SODA CO.

FORM 10-QSB

Index		Page
EXPLANATORY NOTE		3
CAUTIONARY NOTICE REGARDING FORWARD LOOKING STATEMENTS		3
CURRENCY TRANSLATION		3
PART I. FINANCIAL INFORMATION		
Item 1	Financial Statements	
	a) Consolidated Balance Sheets as of March 31, 2005 (Unaudited) and December 31, 2004	4
	b) Consolidated Statements of Operations for the three months ended March 31, 2005 and 2004 (Unaudited)	5
	c) Consolidated Statements of Shareholders Equity and Comprehensive Income for the three months ended March 31, 2005 (Unaudited) and year ended December 31, 2004 and 2003	6
	d) Consolidated Statements of Cash Flows for the three months ended March 31, 2005 and 2004 (Unaudited)	7
	e) Notes to Interim Consolidated Financial Statements	8
Item 2	Management s Discussion and Analysis or Plan of Operation	15
Item 3	Controls and Procedures	21
PART II. OTHER INFORMATION		
Item 5	Other Information	21
Item 6	Exhibits	21

Table of Contents

EXPLANATORY NOTE

Unless otherwise indicated or the context otherwise requires, all references in this Report on Form 10-QSB to we, us, our, and the Company are to Jones Soda Co., a Washington corporation, and its wholly owed subsidiaries Jones Soda Co. (USA) Inc., Jones Soda (Canada) Inc., myJones.com Inc. and Whoopass USA Inc.

CAUTIONARY NOTICE REGARDING FORWARD LOOKING STATEMENTS

We desire to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. This Report on Form 10-QSB contains a number of forward-looking statements that reflect management s current views and expectations with respect to our business, strategies, products, future results and events and financial performance. All statements made in this Report other than statements of historical fact, including statements that address operating performance, events or developments that management expects or anticipates will or may occur in the future, including statements related to distributor channels, volume growth, revenues, profitability, new products, adequacy of funds from operations, statements expressing general optimism about future operating results and non-historical information, are forward looking statements. In particular, the words believe, expect, intend, anticipate, estimate, may, will, variations of such words, and similar expres identify forward-looking statements, but are not the exclusive means of identifying such statements and their absence does not mean that the statement is not forward-looking. These forward-looking statements are subject to certain risks and uncertainties, including those discussed below. Our actual results, performance or achievements could differ materially from historical results as well as those expressed in, anticipated or implied by these forward-looking statements. We do not undertake any obligation to revise these forward-looking statements to reflect any future events or circumstances.

Readers should not place undue reliance on these forward-looking statements, which are based on management s current expectations and projections about future events, are not guarantees of future performance, are subject to risks, uncertainties and assumptions (including those described below) and apply only as of the date of this Report. Our actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below in Other Factors that May Affect Operating Results as well as those discussed elsewhere in this Report, and the risks discussed in our most recently filed Annual Report on Form 10-KSB and in the press releases and other communications to shareholders issued by us from time to time which attempt to advise interested parties of the risks and factors that may affect our business. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

CURRENCY TRANSLATION

Unless otherwise stated, all dollar figures stated in this Report are in United States dollars. Our financial statements are reported in United States dollars.

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

JONES SODA CO. AND SUBSIDIARIES

Consolidated Balance Sheets

(Expressed in U.S. dollars)

March 31, 2005 with comparative figures for December 31, 2004

	March 31, 2005	December 31, 2004
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents (note 4)	$ 595,780	$ 333,533
Accounts receivable	3,619,393	2,834,882
Inventory (note 3)	3,448,128	3,550,595
Prepaid expenses	319,655	399,779
	7,982,956	7,118,789
Capital assets	660,360	682,439
Intangible assets	46,128	49,444
	$ 8,689,444	$ 7,850,672
Liabilities and Shareholders Equity		
Current liabilities:		
Bank indebtedness	$	$ 480,285
Accounts payable and accrued liabilities	3,661,181	2,745,602
Current portion of capital lease obligations	63,549	63,549
Current portion of deferred revenue	50,000	50,000
	3,774,730	3,339,436
Capital lease obligations, less current portion	96,813	113,509
Deferred revenue	37,500	50,000
Shareholders equity		
Common stock:		
Authorized: 100,000,000 common stock, no par value Issued and outstanding: 21,387,596 common shares (2004 20,956,346)	12,191,858	11,780,996
Additional paid-in capital	763,761	758,877
Accumulated other comprehensive income	107,752	107,752
Deficit	(8,282,970)	(8,299,898)

	4,780,401	4,347,727
	$ 8,689,444	$ 7,850,672

See accompanying notes to interim consolidated financial statements

-4-

Table of Contents

JONES SODA CO. AND SUBSIDIARIES

Consolidated Statements of Operations

(Expressed in U.S. dollars)

(Unaudited)

Three months ended March 31, 2005 and 2004

	Three months ended March 31, 2005	Three months ended March 31, 2004
Revenue	$ 6,874,176	$ 5,802,247
Cost of goods sold	4,643,185	3,888,661
Gross profit	2,230,991	1,913,586
Licensing Revenue	103,548	
Operating expenses:		
Promotion and selling	1,581,272	1,108,411
General and administrative	738,899	517,970
Non-cash stock compensation	4,884	3,305
	2,325,056	1,629,686
Earnings from operations	9,483	283,900
Other income (expense):		
Interest expense, net	(8,050)	(2,997)
Other income	15,495	6,154
	7,445	3,157
Earnings for the period	$ 16,928	$ 287,057
Earnings per share, basic	$ 0.00	$ 0.01
Earnings per share, diluted	0.00	0.01
Weighted average common stock, basic	21,124,970	20,322,707
Weighted average common stock, diluted	22,324,486	21,885,412

See accompanying notes to interim consolidated financial statements.

Table of Contents

JONES SODA CO. AND SUBSIDIARIES

Consolidated Statements of Shareholders Equity and Comprehensive Income

(Expressed in U.S. dollars)

Three months ended March 31, 2005 (Unaudited)

Years ended December 31, 2004 and 2003

	Common stock		Additional paid-in	Accumulated other comprehensive	Accumulated	Comprehensive	Total shareholders
	Number	Amount	capital	income (loss)	Income (deficit)	Income	equity
Balance, December 31, 2003	20,089,096	11,178,475	739,140	107,752	(9,630,258)		2,395,109
Options exercised	867,250	602,521					602,521
Stock-based compensation			19,737				19,737
Comprehensive Income:							
Earnings for the period					1,330,360	$ 1,330,360	1,330,360
Balance, December 31, 2004	20,956,346	11,780,996	758,877	107,752	(8,299,898)		4,347,727
Options exercised	441,250	410,862					410,862
Stock-based compensation			4,884				4,884
Comprehensive Income:							
Earnings for the period					16,928	$ 16,928	16,928
Balance, March 31, 2005	21,397,596	12,191,858	763,761	107,752	(8,282,970)		4,780,401

See accompanying notes to interim consolidated financial statements.

Table of Contents

JONES SODA CO. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Expressed in U.S. dollars)

(Unaudited)

Three months ended March 31, 2005 (Unaudited)

	2005	2004
Cash flows from (used in) operating activities:		
Earnings for the period	$ 16,928	$ 287,057
Items not involving cash:		
Depreciation and amortization	49,399	41,850
Non-cash stock based compensation	4,884	3,304
Changes in assets and liabilities:		
Accounts receivable	(784,511)	(1,079,354)
Inventory	102,467	85,534
Prepaid expenses	80,124	242
Accounts payable and accrued liabilities	915,579	974,113
Net cash from operating activities	384,870	312,746
Cash flows from (used in) investing activities:		
Purchase of capital assets	(19,510)	(62,530)
Purchase of intangible assets	(4,494)	(585)
Proceed on disposition of capital asset		1,200
Net cash used in investing activities	(24,004)	(61,915)
Cash flows from (used in) financing activities:		
Net repayment under line of credit	(480,285)	
Net repayment of capital lease obligations	(16,696)	(9,975)
Deferred Revenue	(12,500)	(12,500)
Proceeds from exercise of options	410,862	216,695
Net cash from (used in) financing activities	(98,619)	194,220
Net increase in cash and cash equivalents	262,247	445,051
Cash and cash equivalents, beginning of period	333,533	315,988
Cash and cash equivalents, end of period	$ 595,780	$ 761,039
Supplemental disclosure of non-cash financing and investing activities:		
Increase in Capital lease obligation		3,304
Cash paid during the period:		
Interest payments	8,050	3,082

See accompanying notes to interim consolidated financial statements.

JONES SODA CO. AND SUBSIDIARIES

Notes to Interim Consolidated Financial Statements

(Expressed in U.S. dollars)

Three months ended March 31, 2005 and 2004 (Unaudited)

1. Nature of operations:

Jones Soda Co. (the Company or Jones Soda) develops, produces, markets, and distributes alternative or new age beverages. The Company s main product lines include the brands: Jones Soda Co.®, Jones Naturals, a non-carbonated juice & tea drink, Jones Energy, a high energy drink, WhoopAss, a high energy drink. Urban Juice and Soda Company Limited, the Company s predecessor, was incorporated in 1986 under the Company Act (British Columbia). The Company has three operating subsidiaries, Jones Soda Co. (USA) Inc., Jones Soda (Canada) Inc., and myJones.com Inc., as well as one non-operating subsidiary, Whoopass USA Inc.

2. Significant accounting policies:

(a) Basis of presentation:

These interim consolidated financial statements have been prepared using generally accepted accounting principles in the United States of America.

The financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant inter-company accounts and transactions have been eliminated on consolidation.

The accompanying unaudited interim consolidated financial statements are prepared in accordance with United States generally accepted accounting principles but do not include all information and footnotes required by United States generally accepted accounting principles for annual financial statements. However, in the opinion of management, all adjustments (which consist only of normal recurring adjustments) necessary for a fair presentation of the results of operations for the relevant periods have been made. Results for the interim period are not necessarily indicative of the results to be expected for the year or for any other period. These financial statements should be read in conjunction with the summary of accounting policies and the notes to the consolidated financial statements for the year ended December 31, 2004 included in the Company s annual report on Form 10-KSB.

(b) Use of estimates:

The preparation of financial statements in accordance with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Areas of significant estimate include the assessment of collectibility of accounts receivable, net realizable value of inventory, and valuation allowance against deferred income tax assets. Accordingly, actual results may differ from these estimates.

(c) Foreign currency translation:

All foreign exchange gains or losses, including those arising from translating the net monetary assets of the Company s Canadian operations to the Company s functional currency of US dollars, have been included in income. For the three-month period ended March 31, 2005, the Company incurred a foreign exchange gain of $15,495 (2004 gain $6,154).

(d) Cash and cash equivalents:

The Company considers all short-term investments with a term to maturity at purchase of three months or less to be cash equivalents.

(e) Inventory:

Inventory has been stated at the lower of cost and estimated net realizable value and includes adjustments for estimated obsolescence. Cost includes laid-down cost and is determined principally using actual cost on a first-in first-out basis. Inventory that is older than 12 months is considered to be obsolete and is expensed as part of cost of goods sold.

Table of Contents

JONES SODA CO. AND SUBSIDIARIES

Notes to Interim Consolidated Financial Statements

(Expressed in U.S. dollars)

Three months ended March 31, 2005 and 2004 (Unaudited)

(f) Capital assets:

Capital assets are recorded at cost and are depreciated on the declining balance basis over the estimated useful lives of the assets as follows:

Asset	Rate
Equipment	20% to 50%
Automobile and computers	30%
Equipment under capital lease	Lease term

(g) Intangible assets:

The Company s intangible assets include costs associated with attaining trademarks and patents for the Company s products and are amortized on a straight-line basis over 5 years.

(h) Impairment of long-lived assets and long-lived assets to be disposed of:

Long-lived assets, which include fixed assets and intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(i) Revenue recognition:

Sales are recorded when title passes, which is when goods are received by the customer, and represent amounts realized net of provisions for sales returns, discounts and allowances which are recognized at the time of sale. The Company s sales arrangements are not subject to warranty. Cash received in advance of delivery is recorded as deferred revenue in the consolidated balance sheet.

Licensing revenue is recorded when confirmation of the sale to third parties is received from the customer, and represents amounts realized net of provisions for sales returns.

The Company recognizes sale of concentrate relating to licensing agreement, in accordance with EITF 99-19 on Reporting Revenue Gross as a Principal versus Net as an Agent . As a result, the sale of the concentrate and associated costs are recorded on a net basis. As concentrate is sold at cost, there is no impact on the Company s statement of operations.

For sales returns, the Company issues a credit note to the customer once it has obtained the returned goods. Discounts are offered to customers via promotional events. Discounts are recorded at the time of sale by issuing a credit note for the discount relating to the shipment.

Consideration given by the Company to a customer (including a reseller of the Company s products) is accounted for as a reduction of revenue when recognized in the Company s income statement. For the three-month period ended March 31, 2005, revenue was reduced by $87,329 (2004 $79,035).

(j) Research and development:

Research and development costs, which consist primarily of product development costs, are expensed in the period incurred and are included in general and administrative expenses. During the periods ended March 31, 2005 and 2004, the Company incurred no research and development costs.

Table of Contents

JONES SODA CO. AND SUBSIDIARIES

Notes to Interim Consolidated Financial Statements

(Expressed in U.S. dollars)

Three months ended March 31, 2005 and 2004 (Unaudited)

(k) Stock-based compensation:

The Company accounts for its stock-based compensation arrangements with employees in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees , and related interpretations. As such, compensation expense under fixed plans is recorded on the date of grant only if the market value of the underlying stock at that date exceeds the exercise price.

SFAS No. 123, Accounting for Stock Based Compensation , requires entities that continue to apply the provisions of APB Opinion No. 25 for transactions with employees to provide pro forma earnings and pro forma earnings per share disclosures for employee stock option grants as if the fair-value-based method in SFAS No. 123 had been applied to these transactions.

The Company recognizes compensation expense for stock options, common stock and other equity instruments issued to non-employees for services received based upon the fair value of the equity instruments issued at the date of performance completion.

Under APB 25, compensation expense is measured as the excess, if any, of the market price of the underlying stock over the exercise price on the measurement date of the grant. Had stock compensation expense for grants to employees under the Company s stock option plan been determined based on the fair value methodology under SFAS 123, the Company s net earnings (loss) for the periods ended March 31, 2005 and 2004 are presented as follows:

	Three Months ended March 31	
	2005	**2004**
Earnings as reported	$ 16,928	$ 287,057
Add: Stock-based employee compensation expenses included in reported earnings	4,884	3,305
Deduct: Total stock-based employee compensation expenses determined under fair value method for all awards	(363,843)	(139,567)
Pro forma earnings (loss)	$ (342,031)	$ 150,794
Earnings (loss) per share		

Basic - as reported	0.00	0.01
Basic - pro forma	(0.02)	0.01
Diluted - as reported	0.00	0.01
Diluted - pro forma	(0.02)	0.01

The fair value of these options was estimated at the date of grant using the Black-Scholes option pricing model, which takes into account (1) the market price of the underlying stock at the grant date, (2) the exercise price, (3) an expected life ranging from one to five years, (4) 0% dividend yield, (5) a risk-free interest rate of 3.26% (2004 1.63% to 1.95%), and (6) an estimated volatility of 82% (2004 86%)

The weighted average fair value of options granted in the first quarter 2005 and 2004 was $1.82 and $0.96, respectively.

(l) Advertising:

The Company expenses advertising costs as incurred. During the three-month period ended March 31, 2005, the Company incurred advertising costs of $948,329 (2004 - $748,440).

Table of Contents

JONES SODA CO. AND SUBSIDIARIES

Notes to Interim Consolidated Financial Statements

(Expressed in U.S. dollars)

Three months ended March 31, 2005 and 2004 (Unaudited)

(m) Income taxes:

The Company follows the asset and liability method of accounting for income taxes. Under this method, current taxes are recognized for the estimated income taxes payable for the current period. Deferred income taxes are provided based on the estimated future tax effects of temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases as well as the benefits of losses available to be carried forward to future years for tax purposes.

Deferred tax assets and liabilities are measured using enacted tax rates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in operations in the period that includes the enactment date. A valuation allowance is recorded for deferred tax assets when it is not more likely than not that such deferred tax assets will be realized.

(n) Earnings per share:

Basic earnings per share is computed using the weighted average number of common shares outstanding during the periods, excluding reacquired stock and common stock held in escrow that is subject to cancellation if certain criteria are not achieved. Diluted earnings per share is computed by adjusting the weighted average number of common shares by the effective net exercise or conversion of all dilutive securities.

(o) Comprehensive income (loss):

SFAS No. 130, Reporting Comprehensive Income , establishes standards for reporting and disclosure of comprehensive income and its components in a full set of general-purpose financial statements. The Company discloses the comprehensive income (loss) in the Consolidated Statements of Shareholders Equity.

(p) Volume rebates from vendors:

In the current year, the Company adopted EITF 02-16 on Accounting by a Customer for Certain Consideration Received from a Vendor . As a result, consideration received by the Company from the vendor is accounted for as a reduction of cost of sales if sold or inventory if the associated product has yet to be sold. For the three months ended March 31, 2005, the reduction against cost of goods sold is $43,129 (2004

nil).

(q) Recent accounting pronouncements:

In December 2004, the Financial Accounting Standards Board (FASB) issued revised Statement of Financial Accounting Standards No 123 entitled Share Based Payment (FAS No. 123R), amended in April 2005. This revised statement addresses accounting for stock-based compensation and results in the fair value of all stock-based compensation arrangements, including options, being recognized as an expense in a company s financial statements as opposed to supplemental disclosure in the notes to financial statements. The revised Statement eliminates the ability to account for stock-based compensation transactions using APB Opinion No. 25. FAS No. 123 is effective for public entities that file as small business issuers as of the beginning of the first annual reporting period that begins after June 15, 2005. The Company is currently assessing the implications of FAS 123R to its consolidated financial statements.

In November 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 151 entitled Inventory Costs an amendment of ARB No. 43, Chapter 4 (FAS No. 151). This statement amends the guidance in ARB No. 43 to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and spoilage. FAS No. 151 requires that these items be recognized as current period charges. The Company has adopted FAS No. 151 in the year ended December 31, 2004, which had no effect on our consolidated financial statements.

Table of Contents

JONES SODA CO. AND SUBSIDIARIES

Notes to Interim Consolidated Financial Statements

(Expressed in U.S. dollars)

Three months ended March 31, 2005 and 2004 (Unaudited)

In December 2003, the FASB issued a revised Interpretation of FIN No. 46. FIN No. 46R, Consolidation of Variable Interest Entities clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements , to require consolidation of business entities under certain circumstances particularly with respect to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. To the extent that one party holds the majority of the residual risks or estimated returns of the variable interest entity, they are defined to be the primary beneficiary and are required to consolidate said entity, and is effective in the Company s 2004 fiscal year. Application of FIN 46R in 2004 did not impact the Company s financial position or results of operations.

(r) Comparative figures:

Certain comparative figures have been reclassified to conform to the presentation adopted in the current period.

3. Inventory:

	March 31 2005	**December 31 2004**
Finished goods	$ 2,536,986	$ 1,964,875
Raw materials	911,142	1,585,720
	$ 3,448,128	$ 3,550,595

4. Bank indebtedness:

On June 25, 2004, the existing credit facility granted to the Company by Capco Financial Company, a division of Greater Bay Bank N.A, was renewed for a further one-year revolving line of credit of up to $3,000,000. The amount available for borrowing from time to time under the revolving line of credit is dependent upon the levels of certain accounts receivable and inventory of the Company. This revolving line of credit is secured by all of the Company s assets, including accounts receivable, inventory, trademarks and other intellectual property, and certain equipment. Borrowings under the credit facility bear interest at prime plus 1.5% per annum (7.25% at March 31, 2005). The credit facility does not impose any financial covenants. As of March 31, 2005, the Company had nil outstanding under the line of credit, out of a total of $2,168,410 available for borrowing based on eligible accounts receivable and inventory at that time. In addition, as part of the agreement, all receivables

collected are submitted to Capco as collateral on the line of credit, if no amounts are outstanding on the line of credit, the payments received by Capco are subject to a 1 day hold to allow for the application of funds. As of March 31, 2005, $40,412 included in cash and cash equivalents is subject to this 1 day hold.

5. Segmented information and export sales:

The Company operates in one industry segment, with operations in the United States, Canada, Guam, the United Kingdom and Bermuda. During the three-month period ended March 31, 2005 sales in the United States were approximately $5,948,284 (2004 - $5,105,457), sales in Canada were approximately $782,846 (2004 - $680,392), and sales in Guam, the United Kingdom and Bermuda were approximately $27,850 (2004 $16,398).

JONES SODA CO. AND SUBSIDIARIES

Notes to Interim Consolidated Financial Statements

(Expressed in U.S. dollars)

Three months ended March 31, 2005 and 2004 (Unaudited)

6. Earnings per share:

The computation for basic and diluted earnings per share is a follows:

	Three months ended March 31	
	2005	**2004**
Earnings for the period	$ 16,928	$ 287,057
Weighted average number of common stock outstanding:		
Basic	21,124,970	20,322,707
Dilutive stock options	1,199,516	1,562,705
Diluted	22,324,486	21,885,412
Earnings per share:		
Basic	$ 0.00	$ 0.01
Diluted	$ 0.00	$ 0.01

7. Shareholders equity:

(a) Stock options:

In 1996, the Company adopted a stock option plan (the 1996 Plan) that provides for the issuance of incentive and non-qualified stock options to officers, directors, employees and consultants. In addition, in 2002 the Company adopted another stock option plan for the issuance of incentive and non-qualified stock options to officers, directors, employees and consultants (the 2002 Plan). (The 1996 Plan and 2002 Plan are collectively referred to as the Plans.)

The Board of Directors determines the terms and conditions of the options granted under the Plans, including the exercise price and vesting schedule. The exercise price for qualified incentive stock options cannot be less than the fair market value of the underlying stock at the date of grant, and the maximum term is five years from the date of grant. Options granted generally vest over a period of 18 months.

Where options issued after January 18, 2001 have an exercise price in currency that is not either the (a) functional currency of the Company or (b) the currency in which the employee is paid, the options are to be accounted for as variable plan options and compensation expense will be recorded equal to changes in the market value of the underlying common shares at each reporting period.

During the year ended December 31, 2001, the Company granted options in Canadian dollars when the functional currency of the Company and the currency in which employees were paid was the US dollar. Accordingly, these employee options are considered to be variable options. In addition, compensation expense is recognized to the extent that options are granted having an exercise price less than the market price of the underlying share on the date of grant. During the year ended December 31, 2003 these options were amended to change the exercise currency of these options to the functional currency of the Company. As a result of the amendment, these employee options are no longer considered as variable options and no further compensation expense will be recognized.

For the three-month period ended March 31, 2005, the Company granted all options in US dollars. Included in general and administrative expenses for the three-month period ended March 31, 2005 is stock-based compensation of $4,884 (2004 $3,305).

JONES SODA CO. AND SUBSIDIARIES

Notes to Interim Consolidated Financial Statements

(Expressed in U.S. dollars)

Three months ended March 31, 2005 and 2004 (Unaudited)

A summary of the Company s stock option activity is as follows:

	Outstanding options		
	Number	Average exercise price	
	of shares	US	CDN
Balance at December 31, 2003	2,404,500	$ 0.58	$ 0.76
Option granted	560,500	2.39	2.88
Options exercised	(867,250)	(0.69)	(0.90)
Options cancelled	(65,500)	(0.44)	(0.54)
Balance at December 31, 2004	2,032,250	$ 1.06	$ 1.27
Option granted	562,500	4.00	4.86
Options exercised	(441,250)	(0.93)	(1.13)
Options cancelled	(122,500)	(2.85)	(3.46)
Balance at March 31, 2005	2,031,000	$ 1.78	$ 2.17

The following table summarizes information about stock options outstanding and exercisable under the Plans at March 31, 2005:

Range of exercise	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price US	Weighted average exercise price CDN	Number exercisable	Weighted average exercise prices US	Weighted average exercise prices CDN
$0.70 to $0.86	308,000	0.86	$ 0.77	$ 0.93	308,000	$ 0.77	$ 0.93
$0.25 to $0.50	742,500	2.50	0.40	0.49	742,500	0.40	0.49

$1.10 to $2.99	422,500	3.75	2.10	2.55	316,875	2.08	2.52
$3.00 to $4.00	558,500	4.52	3.94	4.79	139,625	3.90	4.73
	2,031,000		$ 1.78	$ 2.17	1,507,000	$ 1.15	$ 1.40

8. Commitments and contingencies:

In April, 2004, the Company entered into a memorandum of understanding with a major retailer. The agreement requires the Company to pay $30,000 on April 12, 2005, in exchange for a non-exclusive presence for Jones coolers and products for a one year period commencing April 12, 2005 to March 31, 2006, at all locations owned by the major retailer.

-14-

Table of Contents

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

You should read the following discussion and analysis in conjunction with our consolidated financial statements and related notes included elsewhere in this Report. Except for historical information, the following discussion contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. See Cautionary Notice Regarding Forward Looking Statements above.

Overview

We develop, produce, market and distribute alternative or New Age beverages. We currently produce, market and distribute four unique beverage brands:

Jones Soda Co.®, a premium soda;

Jones Naturals , a non-carbonated juice & tea;

Jones Energy , a citrus energy drink; and

WhoopAss, a citrus energy drink,

and, as announced in February 2005, we will be launching *Jones Organic Teas* in the second quarter of 2005.

We currently sell and distribute our products throughout the United States and Canada through our network of independent distributors (DSD) and our national retail accounts (DTR), as well as through licensing and distribution arrangements.

With respect to our distributors (DSD), during the past two years, we have focused our sales and marketing resources on the expansion and penetration of our products through our independent distributor network in our core markets consisting of the U.S. Northwest, U.S. Southwest, U.S. Midwest and Western Canada. In 2004, we continued to focus on our four core markets, although in certain limited instances we re-expanded into the U.S. Northeast, U.S. Southeast and Eastern Canada. In addition, in the fourth quarter of 2004, we added sales personnel in Eastern Canada and the U.S. Northeast.

We launched our direct to retail (DTR) business strategy in 2003 as a complementary channel of distribution to our DSD channel, targeting large national retail accounts. Through these programs, we negotiate directly with large national retailers, primarily premier food-service based businesses, to carry our products, and which are serviced by the retailer s appointed distribution system. During 2003, we entered into distribution arrangements with Barnes & Noble, Panera Bread Company and Cost Plus World Markets to carry certain of our products in their stores nationwide in the United States. In March 2004 we entered into a distribution arrangement with Starbucks Coffee Company for two flavors of our *Jones Soda* product in all of its stores in the United States. This distribution arrangement with Starbucks in the United States was in addition to our existing arrangement for their stores in Canada that has been in place since 1999. In addition, in October, 2004, in connection with our licensing arrangement with Target Corporation for our new 12-ounce cans, we began selling *Jones Soda* (in 12-ounce bottles) and

Jones Energy (in our new 8.4 ounce four-pack format) to Target for distribution through their stores in the United States.

Beginning in 2004, we launched our licensing business strategy as a method to extend our brand into non-alternative beverage products and non-beverage products. In July 2004, we entered into a two-year licensing and distribution agreement with Target Corporation which provides Target with the exclusive rights in the United States to market and sell new 12-ounce cans of *Jones Soda*. We launched our 12-ounce cans in a fridge pack format into Target Corporation in October 2004. In September 2004, we entered into an agreement with Lime-Lite Marketing Corporation to manufacture and distribute Jones Soda lip balms. In March 2005, we also announced a licensing and distribution agreement with The Kroger Corporation, providing Kroger exclusive rights to manufacture and distribute Jones Soda Frozen Pops through all Kroger and Kroger affiliated grocery stores in the United States.

Critical Accounting Estimates and Policies

The discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates including, among others, those affecting revenues, the allowance for doubtful accounts, the salability of inventory and the useful lives of tangible and intangible assets. The discussion below is intended as a brief discussion of some of the judgments and uncertainties that can impact the application of these policies and the specific dollar amounts reported on our financial statements. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form our basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions, or if management made different judgments or utilized different estimates. Many of our estimates or judgments are based on anticipated future events or performance, and as such are

Table of Contents

forward-looking in nature, and are subject to many risks and uncertainties, including those discussed below and elsewhere in this Report. We do not undertake any obligation to update or revise this discussion to reflect any future events or circumstances.

We have identified below some of our accounting policies that we consider critical to our business operations and the understanding of our results of operations. This is not a complete list of all of our accounting policies, and there may be other accounting policies that are significant to us. For a detailed discussion on the application of these and our other accounting policies, see Note 2 to the Consolidated Financial Statements included in this Report.

Revenue Recognition

Our products are sold to distributors and various customers and retailers for cash or on credit terms. Our credit terms, which are established in accordance with local and industry practices, typically require payment within 30 days of delivery. We recognize revenue upon receipt by our customers of our products, in accordance with written sales terms, net of provisions for discounts and allowances. All sales to distributors and customers are final sales and we have a no return policy; however, in limited instances, due to credit issues or distributor changes, we may take back product.

Licensing revenue are recorded when the sale confirmation from the third party is received by the company, and represents amounts realized net of provisions for sales returns. We recognize sale of concentrate relating to the licensing agreement, and as a result, the sale of concentrate and associated costs are recorded on a net basis resulting in no impact to our statement of operations.

We also pay lump sum slotting fees to certain of our retailers for shelf space in their stores. Effective January 1, 2002, these slotting fees have been recorded as a reduction of revenue (which resulted in a reduction in revenue of approximately $87,329 for the three-month period ended March 31, 2005) compared to a reduction in revenue of approximately $79,035 for the three-month period ended March 31, 2004. We amortize the lump sum payment over a 1-year period, which is based on current data of product maintenance on retail shelves for that period of time.

Allowance for Doubtful Accounts; Bad Debt Reserve

Our management must estimate the collectibility of our accounts receivable. Management analyzes accounts receivable and analyzes historical bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in our customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. In general, we have historically and continue today to provide an allowance for doubtful accounts equal to 100% of any unpaid balance outstanding greater than 60 days since invoice, unless considered collectible. We believe that in general bad debt reserves for other companies in the beverage industry represent approximately 2% of total sales. Historically, our bad debt reserve has represented approximately 0.3% of total sales. Bad debt expense is classified within general and administrative expenses in our Consolidated Statements of Operations.

Additionally, if we receive notice of a disputed receivable balance, we accrue such additional amount as management determines is reflective of the risk of non-collection. To date, other than as a result of specific customer bankruptcies in 2001, we have not incurred material write offs of accounts receivable. In considering the amount of bad debt allowance we rely heavily on our history of no material write-offs and that our revenue is not dependent on one or a few customers, but is spread among a number of customers. However, other factors which could cause management to change its estimates would be a downturn in the economy that management determines has the potential to affect collections if

we see a greater concentration of our receivables from fewer customers. In such events, we may be required to record additional charges to cover this exposure. Material differences may result in the amount and timing of our bad debt expenses for any period if management made different judgments or utilized different estimates.

Inventory

We hold raw materials and finished goods inventories, which are manufactured and procured based on our sales forecasts. We value inventory at the lower of cost and estimated net realizable value, and include adjustments for estimated obsolescence, on a first in-first out basis. These valuations are subject to customer acceptance and demand for the particular products, and our estimates of future realizable values based on these forecasted demands. We regularly review inventory detail to determine whether a write-down is necessary. We consider various factors in making this determination, including recent sales history and predicted trends, industry market conditions and general economic conditions. Differences could result in the amount and timing of write-downs for any period if we make different judgments or use different estimates. We also determine an allowance for obsolescence based on products that are over 12 months from production date.

Deferred Income Taxes

At December 31, 2004, we had net operating loss carryforwards for federal income tax purposes of approximately $5,658,000 in the U.S., which are available to offset future federal taxable income, if any. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The

ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. As of March 31, 2005, we do not believe we meet the criteria to recognize the deferred tax asset, and we have accordingly provided a full valuation allowance.

Results of Operations for the Three Months Ended March 31, 2005

Revenue

	Three Months Ended March 31,		
(Dollars in Thousands)	2005	2004	Change
Revenue	$ 6,874	$ 5,802	18.5%

For the three months ended March 31, 2005, revenues were approximately $6,874,000, an increase of $1,072,000, or 18.5% over the $5,802,000 in revenues for the three months ended March 31, 2004. The increase in revenues in the first quarter of 2005 over the first quarter of 2004 was primarily attributable to higher case sales of Jones Soda and Jones Energy, partially offset by small decreases in both Jones Naturals and Whoopass.

The overall increase in revenues for the comparable periods was due primarily to increased case sales of *Jones Soda* through our distributor network in our core markets of the Northwest, Southwest and Western Canada, as well as in our non-core markets of the Northeast, Southeast and Eastern Canada. We also launched our Jones Energy 8.4 ounce 4pack product to our distributor network in the period. In addition, we also had sales of Jones Soda and Jones Energy 8.4 ounce 4pack into Target in the three months ended March 31, 2005 compared to nil in the same period in 2004.

The increase in revenues was also due to our strategy of adding certain national accounts as part of our DTR business strategy. In October 2004 we added the Target account (Jones Soda 12-ounce bottles and Jones Energy 8.4 ounce) in the U.S., which provided revenue to us for the three-month period ended March 31, 2005 and not in the comparable quarter of 2004. During the three months ended March 31, 2005, we also had increased revenues over the comparable period of 2004 from certain of our existing national accounts such as Panera Bread Company (Jones Soda and Jones Naturals) which has continued to grow in number of bakery-cafes year over year and Barnes & Noble (Jones Naturals). Our sales through Starbucks decreased between the comparable quarters solely due to the fact that we launched into the Starbucks national account in the first quarter of 2004 and it included pipeline fill volume to launch the product within the Starbucks network of stores, for which there was no similar launch volume in 2005.

Revenues for the three months ended March 31, 2005 also reflect certain increased selling prices on Jones Soda implemented in February 2005 to our distributor network.

Consolidated case sales for the three months ended March 31, 2005 were 526,000, an increase of 16.1% from case sales of 453,000 for the three months ended March 31, 2004. The increase in case sales between comparable three-month periods reflects higher case sales of Jones Soda (up 13.9% from the same period of 2004) and Jones Energy, combined 16 ounce and 8.4 ounce, (up 211.5% from the same period of 2004). This year to date increase in case sales of Jones Soda and Jones Energy more than offset decreased case sales for Jones Naturals (down 7.0% from the same period of 2004), and Whoopass (down 1.1% from the same period in 2004). Consolidated case sales with a translation to 288-ounce equivalent cases for the three-months ended March 31, 2005 were 549,091, an increase of 13.1% from 288-ounce equivalent case sales for the three months ended March 31, 2004 of 485,705. Consolidated case sales do not include sales of 12-ounce cans of *Jones Soda* in Target stores for which we receive licensing revenue as described below.

Gross Profit

	Three Months Ended March 31,		
(Dollars in Thousands)	**2005**	**2004**	**Change**
Gross profit	$ 2,231	$ 1,914	16.6%
Percentage of revenue	32.5%	33.0%	

For the three-month period ended March 31, 2005, gross profit increased by approximately $317,000 or 16.6% over the $1,914,000 in gross profit for the three-month period ended March 31, 2004. For the three-month period ended March 31, 2005, gross profit as a percentage of revenue decreased to 32.5% from 33.0% for the three-month period ended March 31, 2004. The increase in gross profit was primarily attributable to increased revenues, partially offset by a slightly lower gross margin. The decrease in gross profit as a percentage of revenue for the three-month period ended March 31 2005 was attributable primarily to a higher cost of product on Jones Soda and Jones Naturals due to higher freight and fuel costs and the strengthening of the Canadian dollar year over year. In February 2005, we implemented a minimal price increase on our Jones Soda product to our DSD network to assist in

Table of Contents

offsetting these rising costs. We have experienced higher co-packing costs in Canada due to the strengthening of the Canadian dollar against the U.S. dollar in 2004. In an effort to mitigate the impact of a rising Canadian dollar, we established a new bottling relationship in the U.S. and shifted a portion of our bottling requirements to this facility beginning in the third quarter of fiscal 2004. The decrease in gross profit as a percentage of revenue was partially offset by certain cost decreases, primarily the Jones Soda and Jones Naturals products, due to annual rebates from 2004 that carried forward to our inventory and therefore sales in the three months ended March 31, 2005.

Licensing Revenue

(Dollars in Thousands)	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004	Change
Licensing revenue	$ 104	$ 0	n/a

During the fourth quarter of 2004, we launched Jones Soda in a 12-ounce can fridge pack format in Target Corporation. Under this exclusive arrangement, Target Corporation arranges for the production of our product under license from us, and we receive royalty payments from Target Corporation based on case sales throughout the chain. For the three months ended March 31, 2005, we received licensing revenue of approximately $104,000. We did not have comparable revenue in the three months ended March 31, 2004.

Total Operating Expenses

xpect that these competitive trends will continue. Our inability to compete effectively with other hospitals and other healthcare provider cause local residents to use other hospitals.

ailure to obtain our medical supplies at favorable prices could cause our operating results to decline.

ave a five-year participation agreement with a GPO. This agreement extends to March 2010, with automatic renewal terms of one year, s either party terminates by giving notice of non-renewal, which

of Contents

ced a similar arrangement with another GPO. GPOs attempt to obtain favorable pricing on medical supplies with manufacturers and ven sometimes negotiate exclusive supply arrangements in exchange for the discounts they give. Recently some vendors who are not GPO bers have challenged these exclusive supply arrangements. In addition, the U.S. Senate has held hearings with respect to GPOs and thes sive supply arrangements. To the extent these exclusive supply arrangements are challenged or deemed unenforceable, we could incur r costs for our medical supplies obtained through HealthTrust. These higher costs could cause our operating results to decline.

can be no assurance that our arrangement with HealthTrust will provide the discounts we expect to achieve.

fair value of our reporting units declines, a material non-cash charge to earnings from impairment of our goodwill could result.

ecember 31, 2007, we had approximately $4.248 billion of goodwill recorded on our books. We expect to recover the carrying value of will through our future cash flows. On an ongoing basis, we evaluate, based on the fair value of our reporting units, whether the carrying of our goodwill is impaired. If the carrying value of our goodwill is impaired, we may incur a material non-cash charge to earnings.

s related to our industry

eral or state healthcare programs or managed care companies reduce the payments we receive as reimbursement for services we pro et operating revenues may decline.

07, 39.3% of our net operating revenues came from the Medicare and Medicaid programs. In recent years, federal and state government significant changes in the Medicare and Medicaid programs, including the Medicare Prescription Drug, Improvement and Modernizati f 2003. Some of these changes have decreased the amount of money we receive for our services relating to these programs.

ent years, Congress and some state legislatures have introduced an increasing number of other proposals to make major changes in the hcare system including an increased emphasis on the linkage between quality of care criteria and payment levels such as the submission nt quality data to the Secretary of Health and Human Services. In addition, CMS conducts ongoing reviews of certain state reimburseme ams. Federal funding for existing programs may not be approved in the future. Future federal and state legislation may further reduce th ents we receive for our services. For example, the Governor of the State of Tennessee implemented cuts in the second half of 2005 in Care by restricting eligibility and capping specified services.

dition, insurance and managed care companies and other third parties from whom we receive payment for our services increasingly are pting to control healthcare costs by requiring that hospitals discount payments for their services in exchange for exclusive or preferred ipation in their benefit plans. We believe that this trend may continue and may reduce the payments we receive for our services.

fail to comply with extensive laws and government regulations, including fraud and abuse laws, we could suffer penalties or be requ ke significant changes to our operations.

ealthcare industry is required to comply with many laws and regulations at the federal, state, and local government levels. These laws a ations require that hospitals meet various requirements, including those relating to the adequacy of medical care, equipment, personnel, ting policies and procedures, maintenance of adequate records, compliance with building codes, environmental protection and privacy. laws include the Health Insurance Portability and Accountability Act of 1996 and a section of the Social Security Act, known as the -kickback statute. If we fail to comply with applicable laws and regulations, including fraud and abuse laws, we could suffer civil or c ties, including the loss of our licenses to operate and our ability to participate in the Medicare, Medicaid, and other federal and state hcare programs.

dition, there are heightened coordinated civil and criminal enforcement efforts by both federal and state government agencies relating to
hcare industry, including the hospital segment. The ongoing investigations relate to various referral, cost reporting, and billing practices
atory and home healthcare services, and physician ownership and joint ventures involving hospitals. The Department of Justice has alleg
ve and three of our New Mexico hospitals have caused the state of New Mexico to submit improper claims for federal funds in violation
ivil False Claims Act. See Item 3. Legal Proceedings.

future, different interpretations or enforcement of these laws and regulations could subject our current practices to allegations of
opriety or illegality or could require us to make changes in our facilities, equipment, personnel, services, capital expenditure programs, a
ting expenses.

rtage of qualified nurses could limit our ability to grow and deliver hospital healthcare services in a cost-effective manner.

itals are currently experiencing a shortage of nursing professionals, a trend which we expect to continue for some time. If the supply of
fied nurses declines in the markets in which our hospitals operate, it may result in increased labor expenses and lower operating margins
hospitals. In addition, in some markets like California, there are requirements to maintain specified nurse-staffing levels. To the extent
t meet those levels, the healthcare services that we provide in these markets may be reduced.

become subject to significant legal actions, we could be subject to substantial uninsured liabilities or increased insurance costs.

ent years, physicians, hospitals, and other healthcare providers have become subject to an increasing number of legal actions alleging
ractice, product liability, or related legal theories. Even in states that have imposed caps on damages, litigants are seeking recoveries und
heories of liability that might not be subject to the caps on damages. Many of these actions involve large claims and significant defense
To protect us from the cost of these claims, we maintain professional malpractice liability insurance and general liability insurance
age in excess of those amounts for which we are self-insured, in amounts that we believe to be sufficient for our operations. However, o
ance coverage does not cover all claims against us or may not continue to be available at a reasonable cost for us to maintain adequate le
urance. The cost of malpractice and other professional liability insurance decreased in 2005 by 0.2%, increased in 2006 by 0.1% and
ased in 2007 by 0.1% as a percentage of net operating revenue. If these costs rise rapidly, our profitability could decline. For a further
ssion of our insurance coverage, see our discussion of professional liability insurance claims in Management s discussion and analysi
cial condition and results of operations.

experience growth in self-pay volume and revenue, our financial condition or results of operations could be adversely affected.

others in the hospital industry, we have experienced an increase in our provision for bad debts as a percentage of net operating revenue d
rowth in self-pay volume and revenue. Although we continue to seek ways of improving point of service collection efforts and
menting appropriate payment plans with our patients, if we experience growth in self-pay volume and revenue, our results of operations
be adversely affected. Further, our ability to improve collections for self-pay patients may be limited by statutory, regulatory and
tigatory initiatives, including private lawsuits directed at hospital charges and collection practices for uninsured and underinsured patien

Report includes forward-looking statements which could differ from actual future results.

of the matters discussed in this Report include forward-looking statements. Statements that are predictive in nature, that depend upon o
to future events or conditions or that include words such as expects, anticipates, intends, plans, believes, estimates, t
ssions are forward-looking statements. These statements involve known and unknown risks, uncertainties, and other

rs that may cause our actual results and performance to be materially different from any future results or performance expressed or impl
ese forward-looking statements. These factors include the following:

general economic and business conditions, both nationally and in the regions in which we operate;

our ability to successfully integrate any acquisitions or to recognize expected synergies from such acquisitions, including the recentl acquired former Triad hospitals;

risks associated with our substantial indebtedness, leverage and debt service obligations;

demographic changes;

existing governmental regulations and changes in, or the failure to comply with, governmental regulations;

legislative proposals for healthcare reform;

the impact of the Medicare Prescription Drug, Improvement and Modernization Act of 2003, which includes specific reimbursemen changes for small urban and non-urban hospitals;

potential adverse impact of known and unknown government investigations;

our ability, where appropriate, to enter into managed care provider arrangements and the terms of these arrangements;

changes in inpatient or outpatient Medicare and Medicaid payment levels;

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

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

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

competition;

our ability to attract and retain qualified personnel, key management, physicians, nurses and other healthcare workers;

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

changes in medical or other technology;

changes in generally accepted accounting principles;

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

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

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

timeliness of reimbursement payments received under government programs.

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

1B. ***Unresolved Staff Comments***

of Contents

2. *Properties*

orate Headquarters

ant to our lease agreement with a developer, construction was completed on our corporate headquarters, located in Franklin, Tennessee ry 2007, we exercised our purchase option with the developer and acquired the building by purchasing the equity interests of the previo r.

itals

ospitals are general care hospitals offering a wide range of inpatient and outpatient medical services. These services generally include al medicine, surgery, cardiology, oncology, orthopedics, OB/GYN, diagnostic and emergency room services, laboratory, radiology, ratory therapy, physical therapy, and rehabilitation services. In addition, some of our hospitals provide skilled nursing and home health ces based on individual community needs.

ach of our hospitals owned or leased as of December 31, 2007, including those twelve hospitals classified as held for sale and included ntinued operations, the following table shows its location, the date of its acquisition or lease inception and the number of licensed beds:

ital	City	Licensed Beds(1)	Date of Acquisition/Lease Inception	Owners Typ
ma				
lland Community Hospital	Cullman	100	October, 1994	Owned
vay Medical Center Hospital	Decatur	108	October, 1994	Owned
tabler Memorial Hospital	Greenville	72	October, 1994	Owned
elle Medical Center	Hartselle	150	October, 1994	Owned
Baldwin Regional Center	Foley	112	June, 2000	Leased
okee Medical Center	Centre	60	April, 2006	Owned
lb Regional Medical Center	Fort Payne	134	April, 2006	Owned
y Medical Center	Birmingham	560	July, 2007	Owned
ers Hospital	Dothan	235	July, 2007	Owned
cal Center Enterprise	Enterprise	131	July, 2007	Owned
den Regional Medical Center	Gadsden	346	July, 2007	Owned
wood Medical Center	Huntsville	150	July, 2007	Owned
onville Medical Center	Jacksonville	89	July, 2007	Owned
a				
Su Regional Medical Center	Palmer	74	July, 2007	Owned
na				
on Regional Medical Center	Payson	44	August, 1997	Leased
ern Arizona Regional Medical Center	Bullhead City	139	July, 2000	Owned
west Medical Center	Tucson	300	July, 2007	Owned
west Medical Center Oro Valley	Tucson	96	July, 2007	Owned
sas				
s Hospital	Newport	133	October, 1994	Owned
a Regional Medical Center	Helena	155	March, 2002	Leased
st City Medical Center	Forrest City	118	March, 2006	Leased
west Medical Center Bentonville	Bentonville	128	July, 2007	Owned

nal Park Medical Center	Hot Springs	166	July, 2007	Owned
ary s Regional Medical Center	Russellville	170	July, 2007	Owned

28

of Contents

ital	City	Licensed Beds(1)	Date of Acquisition/Lease Inception	Owners Typ
nwest Medical Center Springdale	Springdale	252	July, 2007	Owned
ornia				
ow Community Hospital	Barstow	56	January, 1993	Leased
rook Hospital	Fallbrook	47	November, 1998	Operated
onville Community Hospital	Watsonville	106	September, 1998	Owned
da				
Wales Medical Center	Lake Wales	154	December, 2002	Owned
Okaloosa Medical Center	Crestview	110	March, 1996	Owned
gia				
n Regional Hospital	Blue Ridge	50	January, 1986	Owned
y Hospital of Augusta	Augusta	231	July, 2007	Owned
is				
roads Community Hospital	Mt. Vernon	55	October, 1994	Owned
way Regional Medical Center	Granite City	406	January, 2002	Owned
land Regional Medical Center	Marion	92	October, 1996	Owned
Bud Regional Hospital	Red Bud	31	September, 2001	Owned
burg Cottage Hospital	Galesburg	173	July, 2004	Owned
Medical Center East/West	Waukegan	407	July, 2006	Owned
n County Hospital	Anna	25	November, 2006	Leased
na				
r Hospital	Valparaiso	301	May, 2007	Owned
ton Regional Medical Center	Bluffton	79	July, 2007	Owned
nt Hospital	Fort Wayne	122	July, 2007	Owned
eran Hospital	Fort Wayne	471	July, 2007	Owned
seph s Hospital	Fort Wayne	191	July, 2007	Owned
s Memorial Hospital	Peru	38	July, 2007	Owned
usko Community Hospital	Warsaw	72	July, 2007	Owned
ucky				
way Regional Hospital	Fulton	70	May, 1992	Owned
e Rivers Medical Center	Louisa	90	May, 1993	Owned
ucky River Medical Center	Jackson	55	August, 1995	Leased
iana				
Regional Hospital	Leesville	60	October, 1994	Owned
hern Louisiana Medical Center	Ruston	159	April, 2007	Leased
en & Children s Hospital	Lake Charles	88	July, 2007	Owned
ssippi				
ey Medical Center	Hattiesburg	211	July, 2007	Owned
Region Health System	Vicksburg	341	July, 2007	Owned
ouri				
erly Regional Medical Center	Moberly	103	November, 1993	Owned
heast Regional Medical Center	Kirksville	115	December, 2000	Leased
ral Area Regional Medical Center	Farmington	135	June, 2006	Owned
da				

of Contents

ital	City	Licensed Beds(1)	Date of Acquisition/Lease Inception	Owners Typ
View Regional Hospital	Mesquite	25	July, 2007	Owned
Jersey				
orial Hospital of Salem County	Salem	140	September, 2002	Owned
Mexico				
ores Memorial Hospital	Deming	49	March, 1996	Owned
rn New Mexico Medical Center	Roswell	162	April, 1998	Owned
heastern Regional Hospital	Las Vegas	54	April, 2000	Owned
bad Medical Center	Carlsbad	112	July, 2007	Owned
Regional Medical Center	Hobbs	234	July, 2007	Owned
ntain View Regional Medical Center	Las Cruces	168	July, 2007	Owned
Carolina				
n General Hospital	Williamston	49	November, 1998	Leased
ity Medical Center	Massillon	432	July, 2007	Owned
homa				
a City Medical Center	Ponca City	140	May, 2006	Owned
more Regional Hospital	Claremore	81	July, 2007	Owned
oness Hospital	Oklahoma City	313	July, 2007	Owned
Crest Hospital	Tulsa	180	July, 2007	Owned
dward Regional Hospital	Woodward	87	July, 2007	Owned
on				
mette Valley Medical Center	McMinnville	80	July, 2007	Owned
enzie-Willamette Medical Center	Springfield	114	July, 2007	Owned
sylvania				
ick Hospital	Berwick	101	March, 1999	Owned
dywine Hospital	Coatesville	175	June, 2001	Owned
rsville Regional Hospital	West Grove	59	October, 2001	Owned
n Hospital	Easton	254	October, 2001	Owned
Haven Hospital	Lock Haven	59	August, 2002	Owned
own Memorial Medical Center	Pottstown	226	July, 2003	Owned
nixville Hospital	Phoenixville	136	August, 2004	Owned
nut Hill Hospital	Philadelphia	179	February, 2005	Owned
ury Community Hospital	Sunbury	92	October, 2005	Owned
Carolina				
boro Park Hospital	Bennettsville	102	August, 1996	Leased
erfield General Hospital	Cheraw	59	August, 1996	Leased
gs Memorial Hospital	Lancaster	200	November, 1994	Owned
inas Hospital System Florence	Florence	420	July, 2007	Owned
Black Memorial Hospital	Spartanburg	209	July, 2007	Owned
essee				
way Regional Hospital	Morristown	135	May, 1993	Owned
e County Community Hospital	Sparta	60	October, 1994	Owned
onal Hospital Of Jackson	Jackson	154	January, 2003	Owned

of Contents

ital	City	Licensed Beds(1)	Date of Acquisition/Lease Inception	Owners Typ
sburg Regional Medical Center	Dyersburg	225	January, 2003	Owned
wood Park Community Hospital	Brownsville	62	January, 2003	Owned
erson County Community Hospital	Lexington	45	January, 2003	Owned
enzie Regional Hospital	McKenzie	45	January, 2003	Owned
airy Regional Hospital	Selmer	45	January, 2003	Owned
nteer Community Hospital	Martin	100	January, 2003	Owned
ord County Medical Center	Shelbyville	104	July, 2005	Leased
Ridge Medical Center	Cleveland	351	October, 2005	Owned
way Medical Center	Clarksville	206	July, 2007	Owned
Bend Regional Medical Center	Alpine	25	October, 1999	Owned
eland Regional Medical Center	Cleveland	107	August, 1996	Leased
c Mountain Medical Center	Big Spring	150	October, 1994	Owned
Regional Hospital	Hillsboro	92	October, 1994	Owned
Granbury Medical Center	Granbury	59	January, 1997	Owned
Texas Regional Medical Center	Jourdanton	67	November, 2001	Owned
lo Medical Center	Laredo	326	October, 2003	Owned
herford Regional Medical Center	Weatherford	99	November, 2006	Leased
ne Regional Medical Center	Abilene	231	July, 2007	Owned
nwood Regional Medical Center	Brownwood	196	July, 2007	Owned
ge Station Medical Center	College Station	150	July, 2007	Owned
rro Regional Hospital	Corsicana	162	July, 2007	Owned
yterian Hospital of Denton	Denton	255	July, 2007	Owned
view Regional Medical Center	Longview	131	July, 2007	Owned
lland Heights Medical Center	Lufkin	149	July, 2007	Owned
Angelo Community Medical Center	San Angelo	171	July, 2007	Owned
r Healthcare System	Victoria	308	July, 2007	Owned
r Park Regional Medical Center	Cedar Park	77	December, 2007	Owned
tain West Medical Center	Tooele	35	October, 2000	Owned
nia				
hern Virginia Regional Medical Center	Emporia	80	March, 1999	Owned
ell County Medical Center	Lebanon	78	September, 1986	Owned
hampton Memorial Hospital	Franklin	105	March, 2000	Owned
nside Regional Medical Center	Petersburg	408	August, 2003	Leased
Virginia				
au Medical Center	Oak Hill	25	July, 2002	Owned
nbrier Valley Medical Center	Ronceverte	122	July, 2007	Owned
ning				
ston Regional Hospital	Evanston	42	November, 1999	Owned
blic of Ireland				
on Hospital	Sandyford, Dublin	122	July, 2007	Leased

ital	City	Licensed Beds(1)	Date of Acquisition/Lease Inception	Owners Typ
Licensed Beds at December 31, 2007		18,661		

) Licensed beds are the number of beds for which the appropriate state agency licenses a facility regardless of whether the beds are actually available for patient use.

) We operate this hospital under a lease-leaseback and operating agreement. We recognize all operating statistics, revenue and expense associated with this hospital in our consolidated financial statements.

ollowing table lists the hospitals owned by joint venture entities in which we do not have a consolidating ownership interest, along with ntage ownership interest in the joint venture entity as of December 31, 2007. Information on licensed beds was provided by the majority r and manager of each joint venture. A subsidiary of HCA Inc. is the majority owner of Macon Healthcare LLC, a subsidiary of Univers h Systems Inc. is the majority owner of Summerlin Hospital Medical Center LLC and Valley Health System LLC and the Share Founda other 50% owner of MCSA LLC.

Venture	Facility Name	City	State	Licensed B
n Healthcare LLC	Coliseum Medical Center (38%)	Macon	GA	
n Healthcare LLC	Coliseum Psychiatric Center (38%)	Macon	GA	
n Healthcare LLC	Macon Northside Hospital (38%)	Macon	GA	
merlin Hospital Medical Center LLC	Summerlin Hospital Medical Center (26.1%)	Las Vegas	NV	
y Health System LLC	Desert Springs Hospital (27.5%)	Las Vegas	NV	
y Health System LLC	Valley Hospital Medical Center (27.5%)	Las Vegas	NV	
y Health System LLC	Spring Valley Hospital Medical Center (27.5%)	Las Vegas	NV	
y Health Systems LLC	Centennial Hills Medical Center (27.5%)	Las Vegas	NV	
A LLC	Medical Center of South Arkansas (50%)	El Dorado	AR	

3. ***Legal Proceedings***

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

munity Health Systems, Inc. Legal Proceedings

ay 1999, we were served with a complaint in *U.S. ex rel. Bledsoe v. Community Health Systems, Inc.,* subsequently moved to the Middle
ct of Tennessee, Case No. 2-00-0083. This qui tam action sought treble damages and penalties under the False Claims Act against us. T
rtment of Justice did not intervene in this action. The allegations in the amended complaint were extremely general, but involved

32

care billing at our White County Community Hospital in Sparta, Tennessee. By order entered on September 19, 2001, the U.S. District
ed our motion for judgment on the pleadings and dismissed the case, with prejudice. The qui tam whistleblower (also referred to as a r
aled the district court s ruling to the U.S. Court of Appeals for the Sixth Circuit. On September 10, 2003, the Sixth Circuit Court of App
red its decision in this case, affirming in part and reversing in part the district court s decision to dismiss the case with prejudice. The c
ned the lower court s dismissal of certain of plaintiff s claims on the grounds that his allegations had been previously publicly disclose
on, the appeals court agreed that, as to all other allegations, the relator had failed to include enough information to meet the special plea
rements for fraud under the False Claims Act and the Federal Rules of Civil Procedure. However, the case was returned to the district co
ow the relator another opportunity to amend his complaint in an attempt to plead his fraud allegations with particularity. In May 2004, t
r in *U.S. ex rel. Bledsoe* filed an amended complaint alleging fraud involving Medicare billing at White County Community Hospital. V
filed a renewed motion to dismiss the amended complaint. On January 6, 2005, the District Court dismissed with prejudice the bulk of t
r s allegations. The only remaining allegations involve a small number of 1997-98 charges at White County. After further motion prac
een the relator and the United States Government regarding the relator s right to participate in a previous settlement with the Company,
ct Court again dismissed all claims in the case on December 13, 2005. On January 9, 2006, the relator filed a notice of appeal to the
Court of Appeals for the Sixth Circuit and on September 6, 2007, the Court of Appeals issued its 25 page opinion affirming in part, reve
t (and in doing so, reinstating a number of the allegations claimed by the relator), and remanding the case to the District Court for furth
edings. The relator has filed a motion for rehearing. That motion for rehearing was denied and we are in the process of evaluating our n
with respect to this case.

gust 2004, we were served a complaint in *Arleana Lawrence and Robert Hollins v. Lakeview Community Hospital and Community Hea
ns, Inc. (now styled Arleana Lawrence and Lisa Nichols vs. Eufaula Community Hospital, Community Health Systems, Inc., South Bald
nal Medical Center and Community Health Systems Professional Services Corporation)* in the Circuit Court of Barbour County, Alaba
ula Division). This alleged class action was brought by the plaintiffs on behalf of themselves and as the representatives of similarly situ
ured individuals who were treated at our Lakeview Hospital or any of our other Alabama hospitals. The plaintiffs allege that uninsured
nts who do not qualify for Medicaid, Medicare or charity care are charged unreasonably high rates for services and materials and that w
nscionable methods to collect bills. The plaintiffs seek restitution of overpayment, compensatory and other allowable damages and injur
. In October 2005, the complaint was amended to eliminate one of the named plaintiffs and to add our management company subsidiary
dant. In November 2005, the complaint was again amended to add another plaintiff, Lisa Nichols and another defendant, our hospital in
, Alabama, South Baldwin Regional Medical Center. After a hearing held on June 13, 2007, on October 29, 2007 the Circuit Court rule
of the plaintiffs class action certification request. We disagree with that ruling and have pursued our automatic right of appeal to the
ma Supreme Court. We are vigorously defending this case.

arch 3, 2005, we were served with a complaint in *Sheri Rix v. Heartland Regional Medical Center and Health Care Systems, Inc.* in the
it Court of Williamson County, Illinois. This alleged class action was brought by the plaintiff on behalf of herself and as the representat
ilarly situated uninsured individuals who were treated at our Heartland Regional Medical Center. The plaintiff alleges that uninsured
nts who do not qualify for Medicaid, Medicare or charity care are charged unreasonably high rates for services and materials and that w
nscionable methods to collect bills. The plaintiff seeks recovery for breach of contract and the covenant of good faith and fair dealing,
ion of the Illinois Consumer Fraud and Deceptive Practices Act, restitution of overpayment, and for unjust enrichment. The plaintiff cla
compensatory and other damages and equitable relief. The Circuit Court Judge recently granted our motion to dismiss the case, but allo
aintiff to re-plead her case. The plaintiff elected to appeal the Circuit Court s decision in lieu of amending her case. Oral argument was
s case on January 9, 2008 and we await the ruling of the District Appellate Court. We are vigorously defending this case.

pril 8, 2005, we were served with a first amended complaint, styled *Chronister, et al. v. Granite City Illinois Hospital Company, LLC d* *way Regional Medical Center*, in the Circuit Court of Madison County, Illinois. The complaint seeks class action status on behalf of the ured patients treated at Gateway Regional Medical Center and alleges statutory, common law, and consumer fraud in the manner in whi ospital bills and collects for the services rendered to uninsured patients. The plaintiff seeks compensatory and punitive damages and ratory and injunctive relief. Our motion to dismiss has been granted in part and denied in part and discovery has commenced. *Gateway* *onal Medical Center v. Holman* is a companion case to the *Chronister* action, seeking counterclaim recovery on a collections case. *Holm* een stayed pending the outcome of the *Chronister* action. We are vigorously defending these cases.

ebruary 10, 2006, we received a letter from the Civil Division of the Department of Justice requesting documents in an investigation the ucting involving the Company. The inquiry relates to the way in which different state Medicaid programs apply to the federal governme atching or supplemental funds that are ultimately used to pay for a small portion of the services provided to Medicaid and indigent patie e programs are referred to by different names, including intergovernmental payments, upper payment limit programs, and Medic oportionate share hospital payments. The February 10th letter focused on our hospitals in 3 states: Arkansas, New Mexico, and South ina. On August 31, 2006, we received a follow up letter from the Department of Justice requesting additional documents relating to the ams in New Mexico and the payments to the Company s three hospitals in that state. We have provided the Department of Justice with sted documents. In a letter dated October 4, 2007, the Civil Division notified us that, based on its investigation to date, it preliminarily ves that we and these three New Mexico hospitals have caused the State of New Mexico to submit improper claims for federal funds, in ion of the Civil False Claims Act. The DOJ asserted that these allegedly improper claims and payments began in 2000 and may be ongo rovided no information about the amount of any improper claims or the possible damages or penalties it make seek. After a meeting bet d the DOJ held in November 2007, by letter dated January 22, 2008, the Civil Division notified us that they continued to believe that th Claims Act had been violated and had calculated that the three hospitals received ineligible federal participation payments from Augus to June 2006 of approximately $27.5 million. The Civil Division advised us that if they proceeded to trial, they would seek treble dama n appropriate penalty for each of the violations of the False Claims Act. Discussions are continuing with the Civil Division in an effort ve this matter. The Company continues to believe that it has not violated the Federal False Claims Act in the manner described in the nment s letter of January 22, 2008.

gust 2006, our facility in Petersburg, Virginia (Southside Regional Medical Center) was notified of the pendency of a federal False Cla ase styled *U.S. ex rel. Vuyyuru v. Jadhav et al.* filed in the Eastern District of Virginia. In addition to naming the hospital, Community h Systems Professional Services Corporation, our management subsidiary, has also been named. The suit alleges that Dr. Jadhav, South nal Medical Center, and other healthcare providers performed medically unnecessary procedures and billed federal healthcare program lleges that the defendants defamed Dr. Vuyyuru in the process of terminating his medical staff privileges. Almost all of the allegations ate our acquisition of this facility and the seller s successor-in-interest has agreed to indemnify the Company and its affiliates. We belie he allegations in this case are without merit and are vigorously defending the case. A motion to dismiss the case has been granted and th r has appealed the ruling to the U.S. Court of Appeals for the Fourth Circuit.

ugust 28, 2007, Texas Health Resources of Arlington, Texas, or THR, notified us of its decision to exercise a call right to acquire our 8 st in the limited partnership that owns Presbyterian Hospital of Denton, Texas, together with certain land and buildings that we own in on (including rights under a lease for such land and buildings). We acquired these interests in connection with the Triad acquisition. Thi became exercisable under the terms of the limited partnership agreement by reasons of our acquisition of Triad. Shortly after we initiate s to set the purchase price, which is determined by various formulas set forth in the limited partnership agreement and related documen filed suit in Texas state court seeking injunctive and declaratory relief to extend the 90-day closing date and to set the purchase price. W ved the case to Federal District Court and proceedings are underway in that court with respect to THR s renewed motions for relief. Pu limited partnership agreement, the closing was to occur on or before

34

mber 26, 2007. The closing did not occur on November 26, 2007, as THR failed to properly tender adequate closing consideration. The
roceed and trial is set for August 2008.

l Hospitals, Inc. Legal Proceedings

, and its subsidiary, Quorum Health Resources, Inc. are defendants in a qui tam case styled *U.S. ex rel. Whitten vs. Quorum Health
urces, Inc. et al.*, which is pending in the Southern District of Georgia, Brunswick Division. Whitten, a long-term employee of a two hos
m in Brunswick and Camden, Georgia sued both his employer and Quorum Health Resources, Inc. and its predecessors, which had man
cility from 1989 through September 2000; upon his termination of employment, Whitten signed a release and was paid $124,000. Whit
al qui tam complaint was filed under seal in November 2002 and the case was unsealed in 2004. Whitten alleges various charging and
g infractions, including charging for routine equipment supplies and services not separately billable, billing for observation services tha
not medically necessary or for which there was no physician order, billing labor and delivery patients for durable medical equipment th
ot separately billable, inappropriate preparation of patients histories and physicals, billing for cardiac rehabilitation services without
cian supervision, performing outpatient dialysis without Medicare certification, and performing mental health services without the prop
assignments. In October 2005, the district court granted Quorum s motion for summary judgment on the grounds that his claims were
uded under his severance agreement with the hospital, without reaching two other arguments made by Quorum, which included that a pr
ment agreement between the hospital and the federal government precluded the claims brought by Whitten as well as the doctrine of pri
c disclosure. On appeal to the 11th Circuit Court of Appeals, the court reversed the findings of the district court regarding the severance
ment, but remanded the case to the district court for findings on Quorum s other two defenses. Limited discovery has been conducted a
ved motions by Quorum to dismiss the action and to stay further discovery were filed in September 2007. We await the district court s r
r motion to dismiss. We continue to believe that the relator s claims are without merit and will continue to vigorously defend this case.

ase styled *U.S. ex rel. Bartlett vs. Quorum Health Resources, Inc., et al.*, pending in the Western District of Pennsylvania, Johnstown
ion, the relator alleges in his second amended complaint, filed in January 2006 (the first amended complaint having been dismissed), al
Quorum conspired with an unaffiliated hospital to pay a illegal remuneration in violation of the anti-kickback statute and the Stark laws,
ng false claims to be filed. A renewed motion to dismiss that was filed in March 2006 asserting that the second amended complaint did r
he defects contained in the first amended complaint. In September 2006, the hospital and one of the other defendants affiliated with the
tal filed for protection under Chapter 11 of the federal bankruptcy code, which imposed an automatic stay on proceedings in the case. W
ve that this case is without merit and should the stay be lifted, will continue to vigorously defend it.

um is a defendant in a qui tam case styled *U.S. ex rel. Mosby vs. Quorum Health Resources, Inc., et al*, pending in the Western District o
ssippi, Western Division. Mosby was a long time medical records employee at a Quorum managed facility. She alleges wrongful
nation for being a whistleblower and because of her race. Mosby s first amended complaint was filed in May 2003 and contains allegat
claims related to non-allowable costs and cost reports. In October 2003, Quorum filed a motion to dismiss, asserting that Mosby s subs
ations were lifted from the 1997 Alderson case filed in Tampa against Quorum, which was resolved in a settlement with the federal
nment in 2001. Without any predicate false claims being asserted, we believe that Mosby s retaliatory discharge allegations are unsupp
nuary 16, 2008, at the request of the relator, with the joinder of the defendants, the district court dismissed the case.

4. Submission of Matters to a Vote of Security Holders

atters were submitted to a vote of security holders during the fourth quarter of the year ended December 31, 2007.

of Contents

PART II

5. *Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

ompleted an initial public offering of our common stock on June 14, 2000. Our common stock began trading on June 9, 2000 and is list ew York Stock Exchange under the symbol CYH. At February 1, 2008, there were approximately 48 record holders of our common sto ollowing table sets forth, for the periods indicated, the high and low sale prices per share of our common stock as reported by the New Exchange.

	High	Lo
Ended December 31, 2006		
Quarter	$ 39.96	$ 3
nd Quarter	38.39	3
Quarter	39.18	3
h Quarter	37.26	3
Ended December 31, 2007		
Quarter	$ 39.05	$ 3
nd Quarter	41.72	3
Quarter	44.50	3
h Quarter	37.50	2

36

of Contents

orate Performance Graph

ollowing graph sets forth the cumulative return of the Company s common stock during the five year period ended December 31, 2007 ared to the cumulative return of the Standard & Poor s 500 Stock Index (S&P 500) and the cumulative return of the Dow Jones Health . The graph assumes an initial investment of $100 in our common stock and in each of the foregoing indices and the reinvestment of ends where applicable.

	12/31/2002	12/31/2003	12/31/2004	12/31/2005	12/31/2006	12/31/2
munity Health Systems	$ 100.00	$ 129.09	$ 135.41	$ 186.21	$ 177.37	$ 179.
Jones Health Care Index	$ 100.00	$ 117.77	$ 121.55	$ 129.90	$ 136.86	$ 146.
500	$ 100.00	$ 126.38	$ 137.75	$ 141.88	$ 161.20	$ 166.

ave not paid any cash dividends since our inception, and do not anticipate the payment of cash dividends in the foreseeable future. Our t Facility limits our ability to pay dividends and/or repurchase stock to an amount not to exceed $400 million in the aggregate (but not i s of $200 million unless we receive confirmation from Moody s and S&P that dividends or repurchases would not result in a downgrad fication or withdrawal of the then corporate credit rating). The indenture governing our Notes also limits our ability to pay dividends and chase stock. As of December 31, 2007, the amount of permitted dividends and/or stock repurchases permitted under the indenture was 7 million.

ecember 13, 2006, we announced an open market repurchase program for up to five million shares of our common stock not to exceed million in purchases. This purchase program commenced December 13, 2006 and will conclude at the earlier of three years or when the mum number of shares have been repurchased. As of December 31, 2007, the Company has not repurchased any shares under this chase plan. This repurchase plan follows a prior repurchase plan for up to five million shares which concluded on November 8, 2006. W chased 5,000,000 shares at a weighted average price of $35.23 per share under this earlier program. We did not repurchase any shares o non stock during the year ended December 31, 2007.

ovember 14, 2005, we elected to call for the redemption of $150 million in principal amount of our 4.25% Convertible Subordinated No 008 (the 2008 Notes) on December 14, 2005. At the conclusion of this call for redemption, $0.3 million in principal amount of the 20 were redeemed. Prior to the redemption date, $149.7 million of the 2008 Notes called for redemption, plus an additional $0.9 million o

of Contents

008 Notes not called for redemption, were converted by the holders into an aggregate of 4,495,083 shares of our common stock.

ecember 15, 2005, we elected to call for redemption all of the remaining outstanding 2008 Notes. As of December 15, 2005, there was 6 million in aggregate principal amount outstanding. On January 17, 2006, at the conclusion of the second call for redemption of 2008 , $0.1 million in principal amount of the 2008 Notes were redeemed and $136.5 million of the 2008 Notes were converted by the holde ,074,510 shares of our common stock prior to the redemption date.

6. *SELECTED FINANCIAL DATA*

ollowing table summarizes specified selected financial data and should be read in conjunction with our related Consolidated Financial ments and accompanying Notes to Consolidated Financial Statements. The amounts shown below have been adjusted for discontinued tions.

Community Health Systems, Inc.
Five Year Summary of Selected Financial Data

	Year Ended December 31,				
	2007(1)	2006	2005	2004	2003
	(In thousands, except share and per share data)				
olidated Statement of ations Data					
perating revenues	$ 7,127,494	$ 4,180,136	$ 3,576,117	$ 3,042,880	$ 2,514,81
ne from operations	485,685	385,057	398,463	332,767	282,47
ne from continuing operations	59,897	177,695	188,370	158,009	129,49
ncome	30,289	168,263	167,544	151,433	131,47
ngs per common share Basic:					
ne from continuing operations	$ 0.64	$ 1.87	$ 2.13	$ 1.65	$ 1.3
) Income on discontinued tions	(0.32)	(0.10)	(0.24)	(0.07)	0.0
ncome	$ 0.32	$ 1.77	$ 1.89	$ 1.58	$ 1.3
ngs per common share Diluted:					
ne from continuing operations	$ 0.63	$ 1.85	$ 2.00	$ 1.58	$ 1.2
) Income on discontinued tions	(0.31)	(0.10)	(0.21)	(0.07)	0.0
ncome	$ 0.32	$ 1.75	$ 1.79	$ 1.51	$ 1.3
hted-average number of shares nding					
	93,517,337	94,983,646	88,601,168	95,643,733	98,391,84
ed(2)	94,642,294	96,232,910	98,579,977(4)	105,863,790(3)	108,094,95
and cash equivalents	$ 132,874	$ 40,566	$ 104,108	$ 82,498	$ 16,33
assets	13,493,643	4,506,579	3,934,218	3,632,608	3,350,21
-term obligations	10,334,904	2,207,623	1,932,238	2,030,258	1,601,55
holders equity	1,710,804	1,723,673	1,564,577	1,239,991	1,350,58

38

) Includes the results of operations of the former Triad hospitals from July 25, 2007, the date of acquisition.

) See Note 11 to the Consolidated Financial Statements, included in item 8 of this Form 10-K.

) Included 8,582,076 shares related to the convertible notes under the if-converted method of determining weighted average shares outstanding.

) Included 8,385,031 shares related to the convertible notes under the if-converted method of determining weighted average shares outstanding.

7. *MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS*

should read this discussion together with our consolidated financial statements and the accompanying notes to consolidated financial nents and Selected Financial Data included elsewhere in this Form 10-K.

utive Overview

re the largest publicly traded operator of hospitals in the United States and provide healthcare services through these hospitals that we o perate in non-urban and selected urban markets. We generate revenue primarily by providing a broad range of general hospital healthca ces to patients in the communities in which we are located. Our hospital facilities included in continuing operations consist of 115 gener care hospitals. In addition, we own four home health agencies, located in markets where we do not operate a hospital and through our y-owned subsidiary, QHR, we provide management and consulting services to non-affiliated general acute care hospitals located throug nited States. We are paid for our services by governmental agencies, private insurers and directly by the patients we serve. Effective Jul we completed our acquisition of Triad Hospitals Inc., or Triad, for an aggregate consideration of $6.836 billion, including $1.686 bi ned indebtedness. In connection with this acquisition, one of our subsidiaries issued $3.021 billion principal amount of 8.875% senior n 015 (the Notes) and we entered into a new $7.215 billion credit facility (the New Credit Facility) consisting of a $6.065 billion ter million revolving credit facility and a $400 million delayed draw term loan facility. The proceeds of these financings were used to pay consideration under the merger agreement and to refinance substantially all of both the assumed indebtedness and our existing indebted o pay related fees and expenses. The revolving credit facility and the delayed draw term loan facility remain available to us for future sitions, working capital, and general corporate purposes. The delayed draw term loan facility was subsequently reduced per our request million in the fourth quarter of 2007. We believe the acquisition of Triad will benefit us since it expanded the number of markets we se nded our operations into five states where we previously did not operate, and reduced our concentration of credit risk in any one state. W elieve that synergies obtained from eliminating duplicate corporate functions and centralizing many support functions will allow us to ove Triad s margins. Subsequent to the acquisition of Triad, two of the former Triad hospitals were sold and 12 other hospitals, six of w formerly owned by Triad, have been identified as available for sale. Accordingly, these hospitals have been classified in discontinued tions in the 2007 statement of income.

the Triad acquisition, we have not pursued additional acquisition targets, in order to focus on the integration of the Triad acquisition. W pate this focus on integration will continue throughout 2008. Through December 31, 2007, we have realized approximately $25 million stimated synergies related to this acquisition. We continue to believe our integration is on track and we anticipate fully recognizing all o pated synergies.

njunction with our ongoing process of monitoring the net realizable value of our accounts receivable, as well as integrating the odologies, data and assumptions used by the former Triad management, we performed various analyses including updating a review of rical cash collections. The acquisition of Triad also provided additional data and a comparative and larger population of data on which t our estimates. The results of these analyses indicated a lower rate of collectability than had previously been indicated. Therefore, we hav ded an increase to both our contractual allowances and bad debt allowances. We

ve this lower collectability is primarily the result of an increase in the number of patients qualifying for charity care, reduced enrollment
n state Medicaid programs and an increase in the number of indigent non-resident aliens. The impact of this change in estimate reduced
nts receivable in the fourth quarter of 2007 by $166.4 million, reduced net operating revenues for 2007 by $96.3 million and increased
sion for bad debts as of December 31, 2007 by $70.1 million. The resulting impact, net of taxes is a decrease to income from continuing
tions for 2007 of $105.4 million. Upon giving effect to this change in estimate, the aggregate of our allowance for doubtful accounts an
related allowances represents approximately 76% of self-pay accounts receivables at December 31, 2007, compared to 65% at
mber 31, 2006.

pay revenues represented approximately 10.0% of our net operating revenues in 2007 compared 11.8% in 2006. The value of charity car
ces relative to total net operating revenues decreased to 5.0% in 2007 from 5.1% in 2006. Uninsured and underinsured patients continue
dustry-wide issue, and we anticipate this trend will continue into the foreseeable future. However, we do not anticipate a significant amo
ntinuing deterioration in our self-pay business as evidenced by the lack of relative growth in business from self-pay patients over the pri

ating results and statistical data for the year ended December 31, 2007, include comparative information for the operations of the acquir
hospitals from July 25, 2007, the date of its acquisition. Same-store operating results and statistical data include the hospitals acquired
acquisition as if they were owned August 1 through December 31 of both 2007 and 2006 and all other hospitals owned throughout both
ds. For the year ended December 31, 2007, we generated $7.127 billion in net operating revenues, a growth of 70.5% over the year ende
mber 31, 2006, and $30.3 million of net income, a decrease of 82.0% over the year ended December 31, 2006. For the year ended
mber 31, 2007, admissions at hospitals owned throughout both periods decreased 1.1% and adjusted admissions increased 0.4%.

elieve there continues to be ample opportunity for growth in substantially all of our markets by decreasing the need for patients to travel
de their communities for health care services. Furthermore, we continue to strive to improve operating efficiencies and procedures in ord
ove our profitability at all of our hospitals.

isitions and Dispositions

ly 25, 2007, we completed our acquisition of Triad. Triad owned and operated 50 hospitals in 17 states as well as the Republic of Irelan
rban and middle market communities with a total of 9,585 licensed beds. Triad s subsidiary, QHR, acquired as part of the Triad acquis
des management and consulting services to independent hospitals. We acquired Triad for approximately $6.836 billion, including the
nption of $1.686 billion of existing indebtedness.

dition to the Triad acquisition, effective April 1, 2007, we completed our acquisition of Lincoln General Hospital (157 licensed beds),
ed in Ruston, Louisiana. The total consideration for this hospital was approximately $48.7 million, of which $44.8 million was paid in c
3.9 million was assumed in liabilities.

tive May 1, 2007, we completed our acquisition of Porter Memorial Hospital (301 licensed beds), located in Valparaiso, Indiana, with a
ite campus in Portage, Indiana and outpatient medical campuses located in Chesterton, Demotte, and Hebron, Indiana. As part of this
sition, we agreed to construct a 225-bed replacement facility for the Valparaiso hospital by April 2011. The total consideration for Porte
orial Hospital was approximately $110.1 million, of which $88.9 million was paid in cash and $21.2 million was assumed in liabilities.

tive September 1, 2007, we sold our partnership interest in River West L.P., which owned and operated River West Medical Center (an
acility located in Plaquemine, Louisiana) to an affiliate of Shiloh Health Services, Inc. of Lubbock, Texas. The proceeds received from t
vere $0.3 million in cash.

of Contents

tive October 31, 2007, we sold our 60% membership interest in Northeast Arkansas Medical Center, or NEA, a 104 bed facility in boro, Arkansas to Baptist Memorial Health Care (Baptist), headquartered in Memphis, Tennessee for $16.8 million in cash. In conne this transaction, we also sold real estate and other assets previously leased by us to NEA to a subsidiary of Baptist. Proceeds received fr ale were $26.2 million in cash.

tive November 30, 2007, we sold Barberton Citizens Hospital (312 licensed beds) located in Barberton, Ohio to Summa Health System n, Ohio. The proceeds received from this sale were $53.8 million in cash.

for Sale

December 31, 2007, we have classified as held for sale 12 hospitals with an aggregate bed count of 1,690 licensed beds. Included in the tals is Russell County Medical Center (78 licensed beds) located in Lebanon, Virginia, which was sold effective February 1, 2008, to tain States Health Alliance, headquartered in Johnson City, Tennessee, for $48.6 million in cash.

ces of Revenue

ollowing table presents the approximate percentages of net operating revenue derived from Medicare, Medicaid, managed care and othe party payors, and self-pay for the periods indicated. The data for the years presented are not strictly comparable due to the significant ef ospital acquisitions have had on these statistics.

	Year Ended December 31,		
	2007	2006	200
care	29.0%	30.4%	3
caid	10.3%	11.1%	1
ged care and other third party payors	50.7%	46.7%	4
ay	10.0%	11.8%	1
	100.0%	100.0%	10

perating revenues include amounts estimated by management to be reimbursable by Medicare and Medicaid under prospective paymen ms and provisions of cost-based reimbursement and other payment methods. In addition, we are reimbursed by non-governmental payor a variety of payment methodologies. Amounts we receive for treatment of patients covered by these programs are generally less than th ard billing rates. We account for the differences between the estimated program reimbursement rates and the standard billing rates as actual adjustments, which we deduct from gross revenues to arrive at net operating revenues. Final settlements under some of these ams are subject to adjustment based on administrative review and audit by third parties. We account for adjustments to previous progra bursement estimates as contractual adjustments and report them in the periods that such adjustments become known. Adjustments relate settlements or appeals that increased revenue were insignificant in the years ended December 31, 2007, 2006 and 2005. In the future, w t the percentage of revenues received from the Medicare program to increase due to the general aging of the population.

ayment rates under the Medicare program for inpatient acute services are based on a prospective payment system, depending upon the osis of a patient s condition. While these rates are indexed for inflation annually, the increases have historically been less than actual ion. Reductions in the rate of increase in Medicare reimbursement may cause our net operating revenue growth to decline. The Medicar ription Drug, Improvement and Modernization Act of 2003 provides a broad range of provider payment benefits; however, federal nment spending in excess of federal budgetary provisions considered in passage of the Medicare Prescription Drug, Improvement and ernization Act of 2003 could result in future deficit spending for the Medicare system, which could cause future payments under the care system to decline.

of Contents

dition, specified managed care programs, insurance companies, and employers are actively negotiating the amounts paid to hospitals. Th toward increased enrollment in managed care may adversely effect our net operating revenue growth.

lts of Operations

ospitals offer a variety of services involving a broad range of inpatient and outpatient medical and surgical services. These include pedics, cardiology, occupational medicine, diagnostic services, emergency services, rehabilitation treatment, and skilled nursing. The gest demand for hospital services generally occurs during January through April and the weakest demand for these services occurs durin her months. Accordingly, eliminating the effect of new acquisitions, our net operating revenues and earnings are historically highest dur rst quarter and lowest during the third quarter.

ollowing tables summarize, for the periods indicated, selected operating data.

	Year Ended December 31,		
	2007	2006	20
	(Expressed as a percentage of operating revenues)		
olidated(a)			
perating revenues	100.0	100.0	10
ating expenses(b)	(88.8)	(86.5)	(8
eciation and amortization	(4.4)	(4.3)	
ne from operations	6.8	9.2	1
est expense, net	(5.1)	(2.2)	
from early extinguishment of debt	(0.4)		
rity interest in earnings	(0.3)	(0.1)	
y in earnings of unconsolidated affiliates	0.4		
ne from continuing operations before income taxes	1.4	6.9	
sion for income taxes	(0.6)	(2.6)	
ne from continuing operations	0.8	4.3	
on discontinued operations	(0.4)	(0.3)	
ncome	0.4	4.0	

	Year Ended December 31,	
	2007	200
	(Expressed in percentages)	
entage increase from prior year(a):		
perating revenues	70.5%	16
ssions	50.4	12

sted admissions(c)	48.6	12
age length of stay	2.4	
ncome(d)	(82.0)	(
e-store percentage increase from prior year(a)(e):		
perating revenues	4.2%	7
ssions	(1.1)	1
sted admissions(c)	0.4	1

42

Pursuant to Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-I Assets, we have restated our 2006 and 2005 financial statements and statistical results to reflect the reclassification as discontinued operations of one hospital which was sold and five hospitals held for sale which were owned by us during these periods.

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

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

Includes loss on discontinued operations.

Includes former Triad hospitals during August through December of the comparable periods and other acquired hospitals to the exten we operated them during comparable periods in both years.

Ended December 31, 2007 Compared to Year Ended December 31, 2006

perating revenues increased by 70.5% to $7.127 billion in 2007, from $4.180 billion in 2006. This increase was net of a $96.3 million tion to net operating revenues as a result of the change in estimate to increase contractual allowances recorded in the fourth quarter of 2 4 billion of this increase was contributed by hospitals acquired in the Triad acquisition that remain in continuing operations, $426.1 mil ontributed by other recently acquired hospitals and $117.2 million, an increase of 2.8%, was contributed by hospitals that we owned ghout both periods. The increase from those hospitals that we owned throughout both periods was attributable to rate increases, payor m cuity level of services provided.

consolidated basis inpatient admissions increased by 50.4% and adjusted admissions increased by 48.6%. With respect to consolidated ssions, approximately 35% were contributed from newly acquired hospitals, including those hospitals acquired from Triad, and 65% we buted by hospitals we owned throughout both periods. On a same-store basis, which includes the hospitals acquired from Triad, as if w d them from August 1 through December 31 of both periods, admissions decreased by 1.1% during the year ended December 31, 2007.

ating expenses, excluding depreciation and amortization, as a percentage of net operating revenues, increased from 86.5% in 2006 to 88 07. Salaries and benefits, as a percentage of net operating revenues, increased from 39.8% in 2006 to 40.6% in 2007, primarily as a resu crease in stock compensation expense, incurring duplicate salary costs related to the acquisition of Triad for certain corporate overhead ons not yet eliminated and an increase in the number of employed physicians. These increases have offset improvements realized at tals owned throughout both periods. Provision for bad debts, as a percentage of net revenues, increased from 12.4% in 2006 to 12.6% in due primarily to $70.1 million of additional bad debt expense recorded as a change in estimate to increase the allowance for doubtful nts. Supplies, as a percentage of net operating revenues, increased from 11.7% in 2006 to 13.3% in 2007, primarily from the acquisition tals from Triad whose higher acuity of services and lower purchasing program utilization resulted in higher supply costs than our other tals taken collectively and from other recent acquisitions for whom we have yet to fully integrate into our purchasing program, offsettin ovements at hospitals owned throughout both periods from greater utilization of and improved pricing under our purchasing program. R ther operating expenses, as a percentage of net operating revenues, decreased from 22.6% in 2006 to 22.3% in 2007, primarily as a resu ospitals acquired from Triad having lower rent expense as a percentage of net operating revenues. As part of our acquisition of Triad, w red minority investments in certain joint ventures. These investments provided earnings of 0.4% of net operating revenues. Prior to the sition, we did not have any material minority investments in joint ventures.

ne from continuing operations margin decreased from 4.3% in 2006 to 0.8% in 2007. Net income margins decreased from 4.0% in 2006 in 2007. The decrease in these margins is reflective of the impact of the net increase in expenses, as a percentage of net revenue, discus and the increase in interest expense and loss on early extinguishment of debt associated with the acquisition of Triad.

of Contents

eciation and amortization increased from 4.3% of net operating revenues in 2006 to 4.4% of net operating revenues in 2007.

est expense, net, increased by $270.1 million from $94.4 million in 2006, to $364.5 million in 2007. An increase in the average debt bal
07 as compared to 2006 of $3.583 billion, due primarily to the additional borrowings to fund the Triad acquisition and repay our previo
nding debt, accounted for a $247.7 million increase in interest expense. An increase in interest rates due to an increase in LIBOR durin
as compared to 2006, accounted for $22.4 million of the increase.

et results of the above mentioned changes plus a $27.3 million loss from early extinguishment of debt incurred in connection with the
cing of the Triad acquisition, resulted in income from continuing operations before income taxes decreasing $184.9 million from
8 million in 2006 to $102.9 million for 2007.

sion for income taxes from continuing operations decreased from $110.2 million in 2006 to $43.0 million in 2007 due to the decrease i
e from continuing operations before income taxes. Our effective tax rates were 41.8% and 38.3% for the years ended December 31, 20
006, respectively. The increase in our effective tax rate is primarily a result of an increase in valuation allowances. As a result of the
onal interest expense expected to be incurred, we determined that certain of our state net operating losses will expire before being utiliz
ccordingly established appropriate valuation allowances.

ncome was $30.3 million in 2007 compared to $168.3 million for 2006, a decrease of 82%.

Ended December 31, 2006 Compared to Year Ended December 31, 2005

perating revenues increased by 16.9% to $4.180 billion in 2006, from $3.576 billion in 2005. Of the $604.0 million increase in net oper
ues, the hospitals we acquired in 2005 and 2006, which we did not own throughout both periods, contributed approximately $336.3 mil
ospitals we owned throughout both periods contributed approximately $267.7 million, an increase of 7.5%. The increase from hospitals
vned throughout both periods was attributable to rate increase, payor mix and the acuity level of services provided, offset by a decrease
e.

ent admissions increased by 12.0%. Adjusted admissions increased by 12.4%. On a same-store basis, inpatient admissions increased by
and same-store adjusted admissions increased by 1.0%. Increases in admissions in 2006 were offset by 2006 having fewer flu and
atory admissions than 2005 and a reduction in admissions from service closures and a change in the classification of one day stays from
ent admission to an outpatient procedure. With respect to consolidated admissions, approximately 10.8 percentage points of the increas
ssions were from newly acquired hospitals. On a same-store basis, net inpatient revenues increased by 6.0% and net outpatient revenues
sed by 9.2%. Consolidated and same-store average length of stay remained unchanged at 4.1 days.

ating expenses, excluding depreciation and amortization, as a percentage of net operating revenues, increased from 84.5% in 2005 to 86
06. Salaries and benefits, as a percentage of net operating revenues, increased from 39.7% in 2005 to 39.8% in 2006 as the impact of re
sitions, an increase in the number of employed physicians and the recognition of additional stock-based compensation from the adoptio
No. 123(R) offset efficiencies gained since the prior year period. Provision for bad debts, as a percentage of net revenues, increased fr
in 2005 to 12.4% in 2006 due to an increase in self-pay revenue and the $65.0 million change in estimate, recorded in the third quarte
increased the provision for bad debt. Supplies, as a percentage of net operating revenues, decreased from 12.0% in 2005 to 11.7% in 2
and other operating expenses, as a percentage of net operating revenues, decreased from 22.7% in 2005 to 22.6% in 2006. Income from
nuing operations margin decreased from 5.3% in 2005 to 4.3% in 2006. For hospitals that we owned throughout both periods, income fr
tions as a percentage of net operating revenues decreased from 10.9% in 2005 to 9.1% in 2006. The decrease in income from continuin
tions, and income from operations on a same-store basis is primarily due to the increase in the provision for bad debts, offset by the
vements realized and efficiencies gained since the prior year at hospitals owned throughout both periods in the areas of salaries and be
upplies. Net income margins

ased from 4.7% in 2005 to 4.0% in 2006, as the decrease in income from continuing operations was offset by a decrease in both the loss ntinued operations and the loss on sale and impairment of assets associated with those discontinued operations.

eciation and amortization decreased from 4.4% of net operating revenues for the year ended December 31, 2005 to 4.3% of net operatin ues for the year ended December 31, 2006.

est expense, net, increased by $7.2 million from $87.2 million in 2005, to $94.4 million in 2006. An increase in interest rates due to an ase in LIBOR during 2006, as compared to 2005 accounted for $14.8 million of the increase. This increase was offset by a decrease of million as a result of a decrease in our average outstanding debt during 2006 as compared to 2005 and a decrease of $0.5 million related ospitals in discontinued operations.

ne from continuing operations before income taxes decreased $20.4 million from $308.2 million in 2005 to $287.8 million for 2006, rily as a result of the change in estimate of the allowance for doubtful accounts which increased the provision for bad debt expense offs operating improvements.

sion for income taxes from continuing operations decreased from $119.8 million in 2005 to $110.2 million in 2006 due to the decrease ne from continuing operations, before income taxes. Our effective tax rates were 38.3% and 38.8% for the years ended December 31, 20 005, respectively. The decrease in our effective tax rate is primarily a result of our current year growth in lower tax rate jurisdictions.

ncome was $168.3 million in 2006 compared to $167.5 million for 2005, an increase of 0.4%. The increase is due to the decrease in loss ntinued operations in 2006 offset by the decrease in income from continuing operations.

idity and Capital Resources

Compared to 2006

ash provided by operating activities increased $337.4 million from $350.3 million for the year ended December 31, 2006 compared to 7 million for the year ended December 31, 2007. This increase is due to an increase in cash flow from changes in accounts receivable o 4 million, increases in cash flows from accounts payable, accrued liabilities and income taxes of $73.8 million, and an increase in non-c nses of $231.6 million, of which $143.8 million was related to depreciation. These cash flow increases were offset by decreases in cash supplies, prepaid expenses and other current assets of $27.4 million, decreases in cash flows from other assets and liabilities of $5.0 mil decrease in net income of $138.0 million.

se of cash in investing activities increased $6.859 billion from $640.3 million in 2006 to $7.499 billion in 2007, as a result of the acquis ad for $6.836 billion.

07, our net cash provided by financing activities increased $6.677 billion from $226.5 million in 2006 to $6.903 billion in 2007 from ou Credit Facility and issuance of Notes in connection with the acquisition of Triad.

of Contents

scribed previously in our discussion of Liquidity and Capital Resources further and in Notes 6, 8 and 14 of the Notes to Consolidated cial Statements, at December 31, 2007, we had certain cash obligations, which are due as follows *(in thousands)*:

	Total	2008	2009-2011	2012-2013	2014 and therea
Term Debt	$ 6,041,610	$ 14,743	$ 192,667	$ 127,214	$ 5,706,
r Subordinated Notes	3,021,331				3,021,
st on Bank Facility and Notes(1)	4,729,179	689,772	2,052,729	1,347,496	639,
al Leases, including interest	47,009	9,290	13,915	5,503	18,
Long-Term Debt	13,839,129	713,805	2,259,311	1,480,213	9,385,
ating Leases	768,703	146,084	307,484	120,638	194,
cement Facilities and Other Capital mittments(2)	676,264	267,658	408,606		
Purchase Orders(3)	211,119	211,119			
pretation 48 obligations, including st and penalties	17,530	1,754	15,776		
	$ 15,512,745	$ 1,340,420	$ 2,991,177	$ 1,600,851	$ 9,580,

) Estimate of interest payments assumes the interest rates at December 31, 2007 remain constant during the period presented for the New Credit Facility, which is variable rate debt. The interest rate used to calculate interest payments for the New Credit Facility was LIBOR as of December 31, 2007 plus the spread. The Notes are fixed at an interest rate of 8.875% per annum.

) Pursuant to purchase agreements in effect as of December 31, 2007 and where certificate of need approval has been obtained, we hav commitments to build the following replacement facilities and the following capital commitments. As part of an acquisition in 2003, we agreed to build a replacement hospital in Petersburg, Virginia by August 2008. As part of an acquisition in 2005, we agreed to build a replacement hospital in Shelbyville, Tennessee by June 30, 2009. As required by an amendment to our lease agreement entere into in 2005, we agreed to build a replacement hospital at our Barstow, California location. As part of an acquisition in 2007, we agreed to build a replacement hospital in Valparaiso, Indiana by April 2011. In conjunction with the acquisition of Triad, we assumed the commitment to build a replacement hospital in Clarksville, Tennessee by June 2009 and a de novo hospital in Cedar Park, TX, which opened in December 2007. Construction costs, including equipment costs, for these five replacement facilities and one de novo hospital are currently estimated to be approximately $761.4 million of which approximately $362.1 million has been incurred to date including costs incurred by Triad prior to our acquisition. In addition as a part of an acquisition in 2004, we committed to spend $90 million in capital expenditures within eight years in Phoenixville, Pennsylvania, and as part of an acquisition in 2005 we committed to spend approximately $41 million within seven years related to capital expenditures at Chestnut Hill Hospital in Philadelphia, Pennsylvania.

) Open purchase orders represent our commitment for items ordered but not yet received.

ore fully described in Note 6 of the Notes to Consolidated Financial Statements at December 31, 2007, we had issued letters of credit rily in support of potential insurance related claims and specified outstanding bonds of approximately $36 million.

ional borrowings in 2007, offset by our redemption of $136.6 million of principal amount of convertible notes in 2006 along with net ne for 2006, resulted in our debt as a percentage of total capitalization increasing from 53% at December 31, 2006 to 84% at December

Compared to 2005

ash provided by operating activities decreased by $60.7 million, from $411.0 million for the year ended December 31, 2005 to 3 million for the year ended December 31, 2006. This decrease in comparison to the prior year is primarily the result of an incremental -up in accounts receivable from recently acquired hospitals of $23.7 million, cash paid for income taxes of $60.1 million in excess of nts paid in the prior year period, and the change in cash flow presentation of the tax benefits from stock option exercises, associated wit ion of SFAS No. 123(R), of $24.5 million. The increase in cash paid for income taxes in 2006 as compared to 2005 is primarily the resu eferred nature of the deductibility for tax purposes, of the increase in bad debt expense from our change in estimate of our allowance for ful accounts and increase in stock-based compensation expense. Also, fewer stock options exercised in 2006 compared to 2005, reduce ctions from taxable income. These decreases in cash flow were offset by an increase in depreciation expense of $22.6 million and an inc ck-based compensation expense of $15.1 million, both of which are non-cash expenses, along with an increase of $3.5 million in other ash expenses. In addition, changes from all other operating assets and liabilities, primarily due to our management of our working capit ased net cash flows by $6.4 million in 2006 as compared to 2005.

se of cash in investing activities increased $313.0 million from $327.3 million in 2005 to $640.3 million in 2006. This increase is prima sult of our increased acquisition activity which accounted for $226.2 million of the increase and the prior year cash used in investing ties being offset by $52.0 million proceeds from the sale of four hospitals, as opposed to in 2006 when we received proceeds of $0.8 mi the sale of one hospital and a nursing home.

06, our net cash provided by financing activities increased $288.7 million to $226.5 million from a use of cash in 2005 of $62.2 million ase is primarily the result of our use of borrowings available under our Credit Agreement to fund hospital acquisitions, the repurchase o any stock, and the repayment of amounts previously borrowed under the revolving credit facility portions of our Credit Agreement.

g 2006, we repurchased 5,000,000 shares of our outstanding common stock at an aggregate cost of $176.3 million. Cash flow to fund th chases was derived from borrowings under our credit agreement. Considering the relatively low cost of funds available to us, we believe f these funds to repurchase outstanding shares provides an attractive return on investment.

al Expenditures

expenditures for purchases of facilities were $7.018 billion in 2007, $384.6 million in 2006 and $158.4 million in 2005. Our expenditur included $6.865 billion for the purchase of Triad, $133.7 million for the purchase of two additional hospitals, $3.4 million for the purch ysician practices, $7.7 million for equipment to integrate acquired hospitals and $8.5 million for the settlement of acquired working cap xpenditures in 2006 included $334.5 million for the purchase of the eight hospitals acquired in 2006, $21.8 million for the purchase of t health agencies and physician practices, $21.5 million for information systems and other equipment to integrate the hospitals acquired and $6.8 million for the settlement of acquired working capital. Our capital expenditures in 2005 included $138.1 million for the purcha ospitals $10.7 million for the purchase of an ambulatory surgery center and physician practices and $9.6 million for information system ther equipment to integrate the hospitals acquired in 2005.

ding the cost to construct replacement hospitals and a de novo hospital, our cash expenditures for routine capital for 2007 totaled 1 million compared to $207.7 million in 2006, and $185.6 million in 2005. Costs to construct replacement hospitals and a de novo hosp d $178.7 million in 2007, $16.8 million in 2006 and $2.8 million in 2005.

ant to hospital purchase agreements in effect as of December 31, 2007, as part of the acquisition in August 2003 of the Southside Regic
cal Center in Petersburg, Virginia, we are required to build a replacement facility by August 2008. As part of an acquisition in 2005 of
ord County Medical Center in Shelbyville, Tennessee, we are required to build a replacement facility by June 30, 2009. Also as required
nendment to a lease agreement entered into in 2005, we agreed to build a replacement facility at its Barstow Community Hospital in
ow, California. As part of an acquisition in 2007, we agreed to build a replacement hospital in Valparaiso, Indiana by April 2011. In
nction with the acquisition of Triad, we assumed the commitment to build a replacement hospital in Clarksville, Tennessee by June 200
de novo hospital in Cedar Park, TX, which opened in December 2007. Estimated construction costs, including equipment costs, are
ximately $761.4 million for these five replacement facilities and a de novo hospital. We expect total capital expenditures of approximat
to $800 million in 2008, including approximately $635 to $650 million for renovation, equipment purchases and IT conversion costs
iated with the former Triad hospitals, (which includes amounts which are required to be expended pursuant to the terms of the hospital
ase agreements) and approximately $140 to $150 million for construction and equipment cost of the replacement hospitals.

al Resources

vorking capital was $1.105 billion at December 31, 2007 compared to $446.1 million at December 31, 2006, an increase of $658.9 milli
cquisition of Triad provided additional initial working capital of $721.3 million. An increase of cash of approximately $110.3 million a
ase of deferred taxes of $60.6 million also contributed to the increase in working capital. These increases were offset by increases in acc
ties for employee compensation of approximately $83.7 million and accrued interest of $146.7 million and the net reduction in working
l of all other assets and liabilities of $2.9 million.

ovember 14, 2005, we elected to call for the redemption of $150 million in principal amount of our 4.25% Convertible Subordinated No
008 (the 2008 Notes). At the conclusion of this call for redemption, $0.3 million in principal amount of the 2008 Notes were redeem
and $149.7 million of the 2008 Notes called for redemption, plus an additional $0.9 million of the 2008 Notes, were converted by the ho
,495,083 shares of our common stock.

ecember 15, 2005, we elected to call for redemption all of the remaining outstanding 2008 Notes. As of December 15, 2005, there was
6 million in aggregate principal amount outstanding. On January 17, 2006, at the conclusion of the second call for redemption of 2008
, $0.1 million in principal amount of the 2008 Notes were redeemed for cash and $136.5 million of the 2008 Notes were converted by t
rs into 4,074,510 shares of our common stock prior to the second redemption date.

nnection with the consummation of the Triad acquisition in July 2007, we obtained $7.215 billion of senior secured financing under a N
t Facility with a syndicate of financial institutions led by Credit Suisse, as administrative agent and collateral agent. The New Credit Fa
sts of a $6.065 billion funded term loan facility with a maturity of seven years, a $300 million delayed draw term loan facility, reduced
million with a maturity of seven years and a $750 million revolving credit facility with a maturity of six years. The revolving credit fac
ncludes a subfacility for letters of credit and a swingline subfacility. The New Credit Facility requires us to make quarterly amortizatior
ents of each term loan facility equal to 0.25% of the initial outstanding amount of the term loans, if any, with the outstanding principal
ce of each term loan facility payable on July 25, 2014.

erm loan facility must be prepaid in an amount equal to (1) 100% of the net cash proceeds of certain asset sales and dispositions by us a
ubsidiaries, subject to certain exceptions and reinvestment rights, (2) 100% of the net cash proceeds of issuances of certain debt obligati
eivables based financing by us and our subsidiaries, subject to certain exceptions, and (3) 50%, subject to reduction to a lower percenta
on our leverage ratio (as defined in the New Credit Facility generally as the ratio of total debt on the date of determination to our EBIT
fined, for the four quarters most recently ended prior to such date), of excess cash flow (as defined) for any year, commencing in 2008,
ct to certain exceptions.

ntary prepayments and commitment reductions are permitted in whole or in part, without premium or penalty, subject to minimum yment or reduction requirements.

bligor under the New Credit Facility is CHS/Community Health Systems, Inc., or CHS, a wholly-owned subsidiary of Community Hea ms, Inc. All of our obligations under the New Credit Facility are unconditionally guaranteed by Community Health Systems, Inc. and c ng and subsequently acquired or organized domestic subsidiaries. All obligations under the New Credit Facility and the related guarant cured by a perfected first priority lien or security interest in substantially all of the assets of Community Health Systems, Inc., CHS and diary guarantor, including equity interests held by us or any subsidiary guarantor, but excluding, among others, the equity interests of ignificant subsidiaries, syndication subsidiaries, securitization subsidiaries and joint venture subsidiaries.

oans under the New Credit Facility will bear interest on the outstanding unpaid principal amount at a rate equal to an applicable percent at our option, either (a) an Alternate Base Rate (as defined) determined by reference to the greater of (1) the Prime Rate (as defined) unced by Credit Suisse or (2) the Federal Funds Effective Rate (as defined) plus one-half of 1.0%, or (b) a reserve adjusted London inte ed rate for dollars (Eurodollar rate (as defined)). The applicable percentage for term loans is 1.25% for Alternate Base Rate loans and 2. urodollar rate loans. The applicable percentage for revolving loans will initially be 1.25% for Alternative Base Rate revolving loans and % for Eurodollar revolving loans, in each case subject to reduction based on our leverage ratio. Loans under the swingline subfacility be st at the rate applicable to Alternative Base Rate loans under the revolving credit facility.

ave agreed to pay letter of credit fees equal to the applicable percentage then in effect with respect to Eurodollar rate loans under the ving credit facility times the maximum aggregate amount available to be drawn under all letters of credit outstanding under the subfacil tters of credit. The issuer of any letter of credit issued under the subfacility for letters of credit will also receive a customary fronting fe customary processing charges. We are initially obligated to pay commitment fees of 0.50% per annum (subject to reduction based upon everage ratio), on the unused portion of the revolving credit facility. For purposes of this calculation, swingline loans are not treated as u revolving credit facility. We are also obligated to pay commitment fees of 0.50% per annum for the first six months after the close of t Credit Facility, 0.75% per annum for the next three months thereafter and 1.0% per annum thereafter, in each case on the unused amour elayed draw term loan facility. We also paid arrangement fees on the closing of the New Credit Facility and will pay an annual nistrative agent fee.

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

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

December 31, 2007, there was approximately $1.050 billion of available borrowing capacity under our New Credit Facility, of which illion was set aside for outstanding letters of credit. We believe that

of Contents

funds, along with internally generated cash and continued access to the bank credit and capital markets, will be sufficient to finance fut sitions, capital expenditures and working capital requirements through the next 12 months and into the foreseeable future.

December 31, 2007, we are currently a party to the following interest rate swap agreements to limit the effect of changes in interest rat tion of our long-term borrowings. On each of these swaps, we received a variable rate of interest based on the three-month London Bank Offer Rate (LIBOR), in exchange for the payment by us of a fixed rate of interest. We currently pay, on a quarterly basis, a ma LIBOR of 225 basis points for revolving credit and term loans under the New Credit Facility.

#	Notional Amount (In 000 s)	Fixed Interest Rate	Termination Date
	100,000	4.0610%	May 30, 200
	100,000	2.4000%	June 13, 200
	100,000	3.5860%	August 29, 200
	100,000	3.9350%	June 6, 200
	100,000	4.3375%	November 30, 200
	100,000	4.9360%	October 4, 201
	100,000	4.7090%	January 24, 201
	300,000	5.1140%	August 8, 201
	100,000	4.7185%	August 19, 201
	100,000	4.7040%	August 19, 201
	100,000	4.6250%	August 19, 201
	200,000	4.9300%	August 30, 201
	200,000	4.4815%	October 26, 201
	200,000	4.0840%	December 3, 201
	250,000	5.0185%	May 30, 201
	150,000	5.0250%	May 30, 201
	200,000	4.6845%	September 11, 201
	125,000	4.3745%	November 23, 201
	75,000	4.3800%	November 23, 201
	150,000	5.0200%	November 30, 201
	100,000	5.0230%	May 30, 201
	300,000	5.2420%	August 6, 201
	100,000	5.0380%	August 30, 201
	100,000	5.0500%	November 30, 201
	100,000	5.2310%	July 25, 201
	100,000	5.2310%	July 25, 201
	200,000	5.1600%	July 25, 201
	75,000	5.0405%	July 25, 201
	125,000	5.0215%	July 25, 201

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

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

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

waps that were in effect prior to the Triad acquisition remain in effect after the refinancing for the Triad acquisition and will continue to
to limit the effects of changes in interest rates on portions of our New Credit Facility.

New Credit Facility and/or the Notes contain various covenants that limit our ability to take certain actions including; among other thing
bility to:

- incur, assume or guarantee additional indebtedness;
- issue redeemable stock and preferred stock;
- repurchase capital stock;
- make restricted payments, including paying dividends and making investments;
- redeem debt that is junior in right of payment to the notes;
- create liens without securing the notes;
- sell or otherwise dispose of assets, including capital stock of subsidiaries;
- enter into agreements that restrict dividends from subsidiaries;
- merge, consolidate, sell or otherwise dispose of substantial portions of our assets;
- enter into transactions with affiliates; and
- guarantee certain obligations.

dition, our New Credit Facility contains restrictive covenants and requires us to maintain specified financial ratios and satisfy other fina
tion tests. Our ability to meet these restricted covenants and financial ratios and tests can be affected by events beyond our control, and
ot assure you that we will meet those tests. A breach of any of these covenants could result in a default under our New Credit Facility an
otes. Upon the occurrence of an event of default under our New Credit Facility or the Notes, all amounts outstanding under our New Cr
ty and the Notes may become due and payable and all commitments under the New Credit Facility to extend further credit may be
nated.

elieve that internally generated cash flows, availability for additional borrowings under our New Credit Facility of $1.050 billion (consi
750 million revolving credit facility and a $300 million delayed draw term loan facility) and our ability to add up to $300 million of
wing capacity from receivable transactions (including securitizations) and continued access to the bank credit and capital markets will b
ient to finance acquisitions, capital expenditures and working capital requirements through the next 12 months. We believe these same
es of cash flows, borrowings under our credit agreement as well as access to bank credit and capital markets will be available to us beyo
ext 12 months and into the foreseeable future.

alance sheet arrangements

ding the hospital whose lease terminated in conjunction with our sale of interests in the partnership holding the lease and whose operati
s are included in discontinued operations, our consolidated operating results for the years ended December 31, 2007 and 2006, included
4 million and $255.7 million, respectively, of net operating revenue and $14.4 million and $13.3 million, respectively, of income from
tions, generated from seven hospitals operated by us under operating lease arrangements. In accordance with accounting principles gene

ted in the United States of America, the respective assets and the future lease obligations under these arrangements are not recorded in o
olidated balance sheet. Lease payments under these arrangements are included in rent expense and totaled approximately $15.6 million a
million for the years ended December 31, 2007 and 2006, respectively. The current terms of these operating leases expire between Jun
and December 2019, not including lease extension options. If we allow these leases to expire, we would no longer generate revenue nor
expenses from these hospitals.

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

scribed more fully in Note 14 of the Notes to Consolidated Financial Statements, at December 31, 2007, we have certain cash obligatio placement facilities and other construction commitments of $676.3 million and open purchase orders for $211.1 million.

Ventures

ave sold minority interests in certain of our subsidiaries or acquired subsidiaries with existing minority interest ownership positions. Th nt of minority interest in equity is included in other long-term liabilities and the minority interest in income or loss is recorded separatel nsolidated statements of income. Triad also implemented this strategy to a greater extent than we did. In conjunction with the acquisiti , we acquired 19 hospitals containing minority ownership interests ranging from less than 1% to 35%. As of and for the years ended mber 31, 2007 and 2006, the balance of minority interests included in long-term liabilities was $366.1 million and $23.6 million, ctively, and the amount of minority interest in earnings was $16.0 million and $2.8 million, respectively.

bursement, Legislative and Regulatory Changes

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

tion

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

cal Accounting Policies

iscussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financia ments requires us to make estimates and judgments that affect the reported amount of assets and liabilities, revenues and expenses, and d disclosure of contingent assets and liabilities at the date of our consolidated financial statements. Actual results may differ from these ates under different assumptions or conditions.

al accounting policies are defined as those that are reflective of significant judgments and uncertainties, and potentially result in materi ent results under different assumptions and conditions. We believe that our critical accounting policies are limited to those described be detailed discussion on the application of these and other accounting policies, see Note 1 in the Notes to the Consolidated Financial ments.

Party Reimbursement

perating revenues include amounts estimated by management to be reimbursable by Medicare and Medicaid under prospective paymen ms and provisions of cost-reimbursement and other payment methods. In addition, we are reimbursed by non-governmental payors usin y of payment methodologies. Amounts we receive for treatment of patients covered by these programs are generally less than the stand g rates. Excluding the former Triad hospitals, contractual allowances are automatically calculated and recorded through our internally oped automated contractual allowance system . Within the automated system, actual Medicare DRG data, coupled with all payors h claims data, is utilized to calculate the contractual allowances. This data is automatically updated on a monthly basis. For the former Tri tals, contractual allowances are determined through a manual process wherein contractual allowance adjustments, regardless of payor o od of calculation, are reviewed and compared to actual payment experience. The methodology used is similar to the methodology used n our automated contractual allowance system . The former Triad hospitals will be phased in to the automated contractual allowance ospital contractual allowance calculations are subjected to monthly review by management to ensure reasonableness and accuracy. We nt for the differences between the estimated program reimbursement rates and the standard billing rates as contractual allowance tments, which we deduct from gross revenues to arrive at net operating revenues. Final settlements under some of these programs are su ustment based on administrative review and audit by third parties. We record adjustments to the estimated billings in the periods that su tments become known. We account for adjustments to previous program reimbursement estimates as contractual allowance adjustments t them in future periods as final settlements are determined. However, due to the complexities involved in these estimates, actual payme ceive could be different from the amounts we estimate and record. Contractual allowance adjustments related to final settlements or app ased net operating revenue by an insignificant amount in each of the years ended December 31, 2007, 2006 and 2005.

ance for Doubtful Accounts

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

tive September 30, 2006, we began estimating the allowance for doubtful accounts by reserving a percentage of all self-pay accounts vable without regard to aging category, based on collection history, adjusted for expected recoveries and, if present, anticipated changes s. For all other payor categories we began reserving 100% of all accounts aging over 365 days from the date of discharge. The percenta o reserve for all self-pay accounts is based on our collection history. We believe that we collect substantially all of our third-party insur vables which include receivables from governmental agencies. During the quarter ending December 31, 2007, in conjunction with our ng process of monitoring the net realizable value of our accounts receivable, as well as integrating the methodologies, data and assump by the former Triad management, we performed various analyses including updating a review of historical cash collections. As a result analyses, we noted deterioration in certain key cash collection indicators. The acquisition of Triad also provided additional data and a arative and larger population on which to base our estimates. As a result of the lower estimated collectability indicated by the updated ses, we recorded an increase to our contractual reserves of $96.3 million and an increase to our allowance for doubtful accounts of ximately $70.1 million as of December 31, 2007. The resulting impact, net of taxes, is a decrease to income from continuing operations 4 million. We believe this lower collectability is primarily the result of an increase in the number of patients qualifying for charity care, ed enrollment in certain state Medicaid programs and an increase in the number of indigent non-resident aliens. Collections are impacte

53

conomic ability of patients to pay and the effectiveness of our collection efforts. Significant changes in payor mix, business office opera
omic conditions or trends in federal and state governmental healthcare coverage could affect our collection of accounts receivable. We a
w our overall reserve adequacy by monitoring historical cash collections as a percentage of trailing net revenue less provision for bad de
ll as by analyzing current period net revenue and admissions by payor classification, aged accounts receivable by payor, days revenue
nding, and the impact of recent acquisitions and dispositions.

olicy is to write-off gross accounts receivable if the balance is under $10.00 or when such amounts are placed with outside collection
ies. We believe this policy accurately reflects the ongoing collection efforts within the Company and is consistent with industry practic
ad approximately $1.5 billion and $0.8 billion at December 31, 2007 and December 31, 2006, respectively, being pursued by various ou
tion agencies. We expect to collect less than 3%, net of estimated collection fees, of the amounts being pursued by outside collection
ies. As these amounts have been written-off, they are not included in our gross accounts receivable or our allowance for doubtful accou
ctions on amounts previously written-off are recognized in income when received. However, we take into consideration estimated
ctions of these future amounts written-off in evaluating the reasonableness of our allowance for doubtful accounts.

revenue outstanding was 54 days at December 31, 2007 and 62 days at December 31, 2006. The change in estimate of our allowance fo
ful accounts reduced our days revenue outstanding by approximately 5 days. After giving effect to the change in estimate of our allowa
ubtful accounts, our target range for days revenue outstanding is 52 58 days.

gross accounts receivable (prior to allowance for contractual adjustments and doubtful accounts) was approximately $5.111 billion as o
mber 31, 2007 and approximately $2.274 billion as of December 31, 2006. The approximate percentage of total gross accounts receivab
to allowance for contractual adjustments and doubtful accounts) summarized by aging categories is as follows:

		As of December 31,	
	2007	2006	200
0 days	61.2%	63.3%	6
150 days	18.8%	17.7%	1
360 days	15.8%	13.2%	
360 days	4.2%	5.8%	1
	100.0%	100.0%	10

pproximate percentage of total gross accounts receivable (prior to allowances for contractual adjustments and doubtful accounts)
arized by payor is as follows:

		As of December 31,	
	2007	2006	200
ed receivables	65.8%	66.0%	6
ay receivables	34.2%	34.0%	3
	100.0%	100.0%	10

combined basis, as a percentage of self-pay receivables, the combined total allowance for doubtful accounts, as reported in the consolid
cial statements, and related allowances for other self-pay discounts and contractuals, was approximately 76% at December 31, 2007, an

at December 31, 2006. The increase in the percentage of allowances as a percentage of self-pay receivables from December 31, 2006 to mber 31, 2007, is due to the self-pay discounts assumed in the Triad acquisition as well as the change in estimate of the allowance for ful accounts and contractual allowances recorded in 2007.

of Contents

will and Other Intangibles

will represents the excess of cost over the fair value of net assets acquired. Goodwill arising from business combinations is accounted f the provisions of Statement of Financial Accounting Standards (SFAS) No. 141 Business Combinations and SFAS No. 142 Go Intangible Assets and is not amortized. SFAS No. 142 requires goodwill to be evaluated for impairment at the same time every year a an event occurs or circumstances change such that it is reasonably possible that an impairment may exist. We selected September 30th nnual testing date.

FAS No. 142 goodwill impairment model requires a comparison of the book value of net assets to the fair value of the related operation ave goodwill assigned to them. If the fair value is determined to be less than book value, a second step is performed to compute the am impairment. We estimated the fair values of the related operations using both a debt free discounted cash flow model as well as an adj DA multiple model. These models are both based on our best estimate of future revenues and operating costs, and are reconciled to our lidated market capitalization. The cash flow forecasts are adjusted by an appropriate discount rate based on our weighted average cost l. We performed our initial evaluation, as required by SFAS No. 142, during the first quarter of 2002 and the annual evaluation as of ea eding September 30. No impairment has been indicated by these evaluations. In future periods, estimates used to conduct the impairme w, including revenue and profitability projections or fair values, could cause our analysis to indicate that our goodwill is impaired and r rite-off of a portion or all of our goodwill.

irment or Disposal of Long-Lived Assets

cordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets , whenever events or changes in mstances indicate that the carrying values of certain long-lived assets may be impaired, we project the undiscounted cash flows expecte nerated by these assets. If the projections indicate that the reported amounts are not expected to be recovered, such amounts are reduced estimated fair value based on a quoted market price, if available, or an estimate based on valuation techniques available in the circumst

ssional Liability Insurance Claims

ssional Liability Insurance for Former Triad Hospitals

antially all of the professional and general liability risks of the acquired Triad hospitals are subject to a per occurrence deductible. antially all losses in periods prior to May 1999 are insured through a wholly-owned insurance subsidiary of HCA, Inc., or HCA, Triad r prior to that time, and excess loss policies maintained by HCA. HCA has agreed to indemnify the former Triad hospitals in respect of s covered by such insurance policies arising prior to May 1999. After May 1999, the former Triad hospitals obtained insurance coverag ms incurred basis from HCA s wholly-owned insurance subsidiary with excess coverage obtained from other carriers that is subject to tibles. Effective for claims incurred after December 31, 2006, Triad began insuring its claims from $1 million to $5 million through its y-owned captive insurance company, replacing the coverage provided by HCA. Substantially all claims reported on or after January 20 lf-insured up to $10 million per claim. Excess insurance for all hospitals is purchased through commercial insurance companies genera he self-insured amount covers up to $100 million per occurrence. The excess insurance for the former Triad hospitals is underwritten o ms-made basis. We accrue an estimated liability for its uninsured exposure and self-insured retention based on historical loss patterns rial projections.

ssional Liability Insurance Claims for All Other Community Health Systems Hospitals

ccrue for estimated losses resulting from professional liability claims. The accrual, which includes an estimate for incurred but not repo s, is based on historical loss patterns and actuarially determined projections and is discounted to its net present value using a weighted ge risk-free discount rate of 4.1% and 4.6% in 2007 and 2006, respectively. To the extent that subsequent claims information varies fro

of Contents

gement s estimates, the liability is adjusted currently. Our insurance is underwritten on a claims-made basis. Prior to June 1, 2002 , antially all of our professional and general liability risks were subject to a $0.5 million per occurrence deductible; for claims reported fr 1, 2002 through June 1, 2003, these deductibles were $2.0 million per occurrence. Additional coverage above these deductibles was ased through captive insurance companies in which we had a 7.5% minority ownership interest in each and to which the premiums paid presented less than 8% of the total premium revenues of each captive insurance company. With the formation of our own wholly-owned ve insurance company in June 2003, we terminated our minority interest relationships in those entities. Substantially all claims reported 1, 2003 and before June 1, 2005 are self-insured up to $4 million per claim. Substantially all claims reported on or after June 1, 2005 are nsured up to $5 million per claim. Management on occasion has selectively increased the insured risk at certain hospitals based upon ance pricing and other factors and may continue that practice in the future. Excess insurance for all hospitals was purchased through nercial insurance companies and generally covers us for liabilities in excess of the self-insured amount and up to $100 million per occur aims reported on or after June 1, 2003.

ollowing table represents the balance of our liability for the self-insured component of professional liability insurance claims and activit of the respective years listed (excludes premiums for insured coverage) (in thousands):

Beginning of Year	Acquired Balance	Claims and Expenses Paid	Expense(1)	End of Ye
$ 63,849	$	$ 15,544	$ 40,066	$ 88,
88,371		34,464	50,254	104,
104,161	171,144	54,278	79,157	300,

) Total expense, including premiums for insured coverage, was $53.6 million in 2005, $65.7 million in 2006 and $99.7 million in 2007.

ne Taxes

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

nuary 1, 2007, we adopted the provisions of the FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes. The total recognized benefit that would affect the effective tax rate, if recognized, is approximately $5.7 million as of December 31, 2007. It is ou y to recognize interest and penalties accrued related to unrecognized benefits in our consolidated statement of operations as income tax se. During the year ended December 31, 2007, we recorded approximately $2.4 million in liabilities and $0.6 million in interest and ties related to prior state income tax returns through our income tax provision from continuing operations and which are included in our 3 Interpretation No. 48 liability at December 31, 2007. A total of approximately $1.8 million of interest and penalties is included in the nt of FASB Interpretation No. 48 liability at December 31, 2007. During the year ended December 31, 2007, we released $5.2 million p ed interest of $0.8 million of our FASB Interpretation No. 48 liability, as a result of the expiration of the statute of limitations pertaining ositions taken in prior years relative to legal settlements and $1.5 million relative to state tax positions. During the year ended Decembe our FASB Interpretation No. 48 liability decreased approximately $3.5 million due to an income tax examination settlement of the fede turns of the former Triad hospitals for the short taxable years ended April 27, 2001, June 30, 2001 and December 31, 2001, and the taxa ended December 31, 2002 and 2003. The financial statement impact of this settlement impacted goodwill.

of Contents

nrecognized tax benefits consist primarily of state exposure items. We believe it is reasonably possible that approximately $1.1 million urrent unrecognized tax benefit may be recognized within the next twelve months as a result of a lapse of the statute of limitations and ments with taxing authorities.

r one of our subsidiaries file income tax returns in the U.S. federal jurisdiction and various state jurisdictions. With few exceptions, we nger subject to U.S. federal or state income tax examinations for years prior to 2003. During 2006, we agreed to a settlement at the Inter nue Service (the IRS) Appeals Office with respect to the 2003 tax year. We have since received a closing letter with respect to the ination for that tax year. The settlement was not material to our results of operations or consolidated financial position.

RS has concluded an examination of the federal income tax returns of Triad for the short taxable years ended April 27, 2001, June 30, 2 December 31, 2001, and the taxable years ended December 31, 2002 and 2003. On May 10, 2006, the IRS issued an examination report osed adjustments. Triad filed a protest on June 9, 2006 and the matter was referred to the IRS Appeals Office. Representatives of the for hospitals met with the IRS Appeals Office in April 2007 and reached a tentative settlement. Triad has since received a closing letter wi ct to the examination for those tax years. The settlement was not material to our results of operations or consolidated financial position.

nt Accounting Pronouncements

ptember 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157), which defines fair value, provides a easuring fair value, and expands the disclosures required for fair value measurements. SFAS No. 157 applies to other accounting ouncements that require fair value measurement; it does not require any new fair value measurements. SFAS No. 157 is effective for fisc beginning after November 15, 2007, and is required to be adopted by us beginning in the first quarter of 2008. Although we will contin ate the application of SFAS No. 157, management does not currently believe adoption will have a material impact on our consolidated s of operations or consolidated financial position.

bruary 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an ndment of FASB Statement No. 115 (SFAS No. 159). SFAS No. 159 expands the use of fair value accounting but does not affect ex ards 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 ocable election to account for certain types of financial instruments and warranty and insurance contracts at fair value, rather than histor with changes in the fair value, whether realized or unrealized, recognized in earnings. SFAS No. 159 is effective for fiscal years beginn November 15, 2007. We adopted SFAS No. 159 as of January 1, 2008. The adoption of this statement is not expected to have a materia on our consolidated results of operations or consolidated financial position.

cember 2007, the FASB issued SFAS No. 141(R), Business Combinations (SFAS No. 141(R)). SFAS No. 141(R) replaces SFAS ddresses the recognition and accounting for identifiable assets acquired, liabilities assumed, and noncontrolling interests in business inations. This standard will require more assets and liabilities be recorded at fair value and will require expense recognition (rather than alization) of certain pre-acquisition costs. This standard will also require any adjustments to acquired deferred tax assets and liabilities ring after the related allocation period to be made through earnings. Furthermore, this standard requires this treatment of acquired defer ssets and liabilities also be applied to acquisitions occurring prior to the effective date of this standard. SFAS No. 141(R) is effective for years beginning after December 15, 2008 and is required to be adopted prospectively with no early adoption permitted. We will begin ing SFAS No. 141(R) in the first quarter of 2009. We are currently assessing the potential impact that SFAS No. 141(R) will have on ou olidated results of operations and financial position.

cember 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS No. 160). S No. 160 addresses the accounting and reporting framework for noncontrolling ownership interests in consolidated subsidiaries of the t. SFAS No. 160 also establishes

osure requirements that clearly identify and distinguish between the interests of the parent company and the interests of the noncontrolli
rs and that require minority ownership interests to be presented separately within equity in the consolidated financial statements.
 No. 160 is effective for fiscal years beginning after December 15, 2008, and will be adopted by us in the first quarter of 2009. We are
ntly assessing the potential impact that SFAS No. 160 will have on our consolidated results of operations and consolidated financial pos

7A. ***Quantitative and Qualitative Disclosures about Market Risk***

re exposed to interest rate changes, primarily as a result of our New Credit Facility which bears interest based on floating rates. In order
ge the volatility relating to the market risk, we entered into interest rate swap agreements described under the heading Liquidity and C
urces . We do not anticipate any material changes in our primary market risk exposures in 2008. We utilize risk management procedure
ols in executing derivative financial instrument transactions. We do not execute transactions or hold derivative financial instruments for
g purposes. Derivative financial instruments related to interest rate sensitivity of debt obligations are used with the goal of mitigating a
on of the exposure when it is cost effective to do so.

change in interest rates on variable rate debt in excess of that amount covered by interest rate swaps would have resulted in interest exp
ating approximately $14 million in 2007, $4 million for 2006 and $7 million for 2005.

of Contents

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

Index to Financial Statements

Pa

munity Health Systems, Inc. Consolidated Financial Statements:
rt of Independent Registered Public Accounting Firm
olidated Statements of Income for the Years Ended December 31, 2007, 2006 and 2005
olidated Balance Sheets as of December 31, 2007 and 2006
olidated Statements of Stockholders Equity for the Years Ended December 31, 2007, 2006 and 2005
olidated Statements of Cash Flows for the Years Ended December 31, 2007, 2006 and 2005
s to Consolidated Financial Statements

of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

e Board of Directors and Stockholders of
munity Health Systems, Inc.
klin, Tennessee

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

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

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

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

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

eloitte & Touche LLP

ville, Tennessee
ary 28, 2008

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
	2007	**2006**	**2005**
	(In thousands, except share and per share dat		
perating revenues	$ 7,127,494	$ 4,180,136	$ 3,576,
ating costs and expenses:			
es and benefits	2,894,977	1,661,619	1,421,
sion for bad debts	897,285	518,861	356,
ies	944,768	487,778	429,
	155,566	91,943	82,
operating expenses	1,432,998	855,596	731,
eciation and amortization	316,215	179,282	157,
operating costs and expenses	6,641,809	3,795,079	3,177,
ne from operations	485,685	385,057	398,
st expense, net of interest income of $8,181, $1,779, and $5,742 in 2007, 2006 005, respectively	364,533	94,411	87,
from early extinguishment of debt	27,388	4	
rity interest in earnings	15,996	2,795	3,
y in earnings of unconsolidated affiliates	(25,132)		
ne from continuing operations before income taxes	102,900	287,847	308,
sion for income taxes	43,003	110,152	119,
ne from continuing operations	59,897	177,695	188,
ntinued operations, net of taxes:			
from operations of hospitals sold or held for sale	(11,067)	(6,873)	(8,
oss on sale of hospitals and partnership interests	(2,594)	(2,559)	(7,
rment of long-lived assets of hospitals held for sale	(15,947)		(4,
on discontinued operations	(29,608)	(9,432)	(20,
ncome	$ 30,289	$ 168,263	$ 167,
ngs per common share basic:			
ne from continuing operations	$ 0.64	$ 1.87	$
on discontinued operations	$ (0.32)	$ (0.10)	$ ((
ncome	$ 0.32	$ 1.77	$
ngs per common share diluted:			
ne from continuing operations	$ 0.63	$ 1.85	$

on discontinued operations	$	(0.31)	$	(0.10)	$	((
ncome	$	0.32	$	1.75	$	
hted average number of shares outstanding:						
		93,517,337		94,983,646		88,601,
ed		94,642,294		96,232,910		98,579,

See notes to consolidated financial statements.

61

of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2007	2006
	(In thousands, except sh data)	
ASSETS		
nt assets:		
and cash equivalents	$ 132,874	$ 40,
nt accounts receivable, net of allowance for doubtful accounts of $1,033,516 and $478,565 in 2007 and respectively	1,533,798	773,
ies	262,903	113,
id income taxes	99,417	
red income taxes	113,741	13,
id expenses and taxes	70,339	32,
current assets (including assets of hospitals held for sale of $118,893 at December 31, 2007)	339,826	47,
current assets	2,552,898	1,021,
rty and equipment:		
and improvements	460,501	163,
ings and improvements	4,134,654	1,634,
oment and fixtures	1,606,756	831,
	6,201,911	2,630,
accumulated depreciation and amortization	(689,337)	(643,
rty and equipment, net	5,512,574	1,986,
will	4,247,714	1,336,
assets, net of accumulated amortization of $100,556 and $92,921 in 2007 and 2006, respectively ding assets of hospitals held for sale of $417,120 at December 31, 2007)	1,180,457	162,
assets	$ 13,493,643	$ 4,506,
LIABILITIES AND STOCKHOLDERS EQUITY		
nt liabilities:		
nt maturities of long-term debt	$ 20,710	$ 35,
unts payable	492,693	247,
nt income taxes payable		7,
ued liabilities:		
oyee compensation	403,598	162,
est	153,832	7,

r (including liabilities of hospitals held for sale of $67,606 at December 31, 2007)	377,102	115,
current liabilities	1,447,935	575,
-term debt	9,077,367	1,905,
rred income taxes	407,947	141,
r long-term liabilities	483,459	136,
rity interests in equity of consolidated subsidiaries	366,131	23,
mitments and contingencies		
holders equity:		
rred stock, $.01 par value per share, 100,000,000 shares authorized; none issued		
mon stock, $.01 par value per share, 300,000,000 shares authorized; 96,611,085 shares issued and 5,536 shares outstanding at December 31, 2007 and 95,026,494 shares issued and 94,050,945 shares anding at December 31, 2006	966	
ional paid-in capital	1,240,308	1,195,
ury stock, at cost, 975,549 shares at December 31, 2007 and 2006	(6,678)	(6,
rned stock compensation		
mulated other comprehensive income	(81,737)	5,
ned earnings	557,945	527,
stockholders equity	1,710,804	1,723,
liabilities and stockholders equity	$ 13,493,643	$ 4,506,

See notes to consolidated financial statements.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

	Common Stock		Additional Paid-in	Treasury Stock		Unearned Stock	Accumulated Other Comprehensive Income	Retained Earnings (Accumulated	
	Shares	Amount	Capital	Shares	Amount	Compensation	(Loss)	Deficit)	Tot
				(In thousands, except share data)					
December 31,	88,591,733	$ 886	$ 1,047,888	(975,549)	$ (6,678)	$	$ 6,046	$ 191,849	$ 1,239
ive Income:									
								167,544	167
n fair value of swaps, net of of $5,019							8,923		8
n fair value of sale securities							222		
ehensive							9,145	167,544	176
of common	(2,239,700)	(22)	(79,830)						(79
ommon stock n with the ptions	3,134,721	31	49,543						49
ommon stock n with the f convertible	4,495,083	44	148,576						14
ock grant	558,000	6	18,160			(18,160)			
rom exercise			24,453						24
compensation						4,956			4
is			140						
December 31,	94,539,837	$ 945	$ 1,208,930	(975,549)	$ (6,678)	$ (13,204)	$ 15,191	$ 359,393	$ 1,564
ive Income:									
								168,263	168
n fair value of swaps, net of f $931							(1,654)		(
n fair value of sale securities							562		

ehensive							(1,092)	168,263	16
o adopt FASB . 158, net of f $5,465							(8,301)		(8
of common	(5,000,000)	(50)	(176,265)						(17
ommon stock n with the ptions	867,833	9	14,564						1
ommon stock n with the f convertible	4,074,510	41	137,157						13
rom exercise			4,750						4
compensation	544,314	5	20,068						20
ion of ck n			(13,257)			13,204			
December 31,	95,026,494	$ 950	$ 1,195,947	(975,549)	$ (6,678)	$	$ 5,798	$ 527,656	$ 1,72
ive Income:									
								30,289	30
n fair value of swaps, net of f $51,223							(91,063)		(9
n fair value of sale securities							237		
o pension of tax benefit							3,291		3
ehensive							(87,535)	30,289	(5
ommon stock n with the ptions	321,535	3	8,362						8
rom exercise			(2,760)						(2
compensation	1,263,056	13	38,759						3
December 31,	96,611,085	$ 966	$ 1,240,308	(975,549)	$ (6,678)	$	$ (81,737)	$ 557,945	$ 1,71

See notes to consolidated financial statements.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2007	**2006**	**2005**
		(In thousands)	
flows from operating activities:			
ncome	$ 30,289	$ 168,263	$ 167,
stments to reconcile net income to net cash provided by operating activities:			
eciation and amortization	332,580	188,771	166,
rred income taxes	(39,894)	(25,228)	9,
compensation expense	38,771	20,073	4,
ss tax benefits relating to stock-based compensation	(1,216)	(6,819)	
on early extinguishment of debt	27,388		
rity interest in earnings	15,996	2,795	3,
rment on hospital held for sale	19,044		6,
on sale of hospitals	3,954	3,937	6,
non-cash expenses, net	19,017	500	
ges in operating assets and liabilities, net of effects of acquisitions and divestitures:			
nt accounts receivable	131,300	(71,141)	(47,
ies, prepaid expenses and other current assets	(31,977)	(4,544)	(16,
unts payable, accrued liabilities and income taxes	125,959	52,151	84,
	16,527	21,497	24,
ash provided by operating activities	687,738	350,255	411,
flows from investing activities:			
isitions of facilities and other related equipment	(7,018,048)	(384,618)	(158,
ases of property and equipment	(522,785)	(224,519)	(188,
osition of hospitals and other ancillary operations	109,996	750	51,
eds from sale of equipment	4,650	4,480	2,
ase in other non-operating assets	(72,671)	(36,350)	(34,
ash used in investing activities	(7,498,858)	(640,257)	(327,
flows from financing activities:			
eds from exercise of stock options	8,214	14,573	49,
buy-back		(176,316)	(79,
rred financing costs	(182,954)	(2,153)	(1,
ss tax benefits relating to stock-based compensation	1,216	6,819	
mption of convertible notes		(128)	(
eds from minority investors in joint ventures	2,351	6,890	1,
mption of minority investments in joint ventures	(1,356)	(915)	(3,
bution to minority investors in joint ventures	(6,645)	(3,220)	(1,
owings under Credit Agreement	9,221,627	1,031,000	
yments of long-term indebtedness	(2,139,025)	(650,090)	(26,

ash (used in) provided by financing activities		6,903,428		226,460	(62,
hange in cash and cash equivalents		92,308		(63,542)	21,
and cash equivalents at beginning of period		40,566		104,108	82,
and cash equivalents at end of period	$	132,874	$	40,566	$ 104,

See notes to consolidated financial statements.

64

of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Business and Summary of Significant Accounting Policies

ess. Community Health Systems, Inc., through its subsidiaries (collectively the Company), owns, leases and operates acute care hos rban and select urban markets. As of December 31, 2007, included in our continuing operations, the Company owned, leased or operate ospitals, licensed for 16,971 beds in 27 states. Pennsylvania and Texas represent the only areas of geographic concentration. Net operat ues generated by the Company s hospitals in Pennsylvania, as a percentage of consolidated net operating revenues, were 13.1% in 200 % in 2006 and 23.1% in 2005. Net operating revenues generated by the Company s hospitals in Texas, as a percentage of consolidated r ting revenues, were 13.0% in 2007, 10.4% in 2006 and 11.6% in 2005.

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

iples of Consolidation. The consolidated financial statements include the accounts of the Company, its subsidiaries, all of which are olled by the Company through majority voting control, and variable interest entities for which the Company is the primary beneficiary. ficant intercompany accounts and transactions have been eliminated. Certain of the subsidiaries have minority stockholders. The amoun rity interest in equity is disclosed separately on the consolidated balance sheets and minority interest in earnings is disclosed separately nsolidated statements of income.

of Revenue. The majority of the Company s operating expenses are cost of revenue items. Operating costs that could be classified a dministrative by the Company would include the Company s corporate office costs at the Company s Franklin, Tennessee and Plano, s, which were $133.4 million, $88.9 million and $67.5 million for the years ended December 31, 2007, 2006 and 2005, respectively. ded in these amounts is stock-based compensation of $38.8 million, $20.1 million and $5.0 million for the years ended December 31, 20 and 2005, respectively.

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

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

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

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

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ctively. Expenditures for renovations and other significant improvements are capitalized; however, maintenance and repairs which do n
ove or extend the useful lives of the respective assets are charged to operations as incurred. Interest capitalized in accordance with
No. 34, Capitalization of Interest Cost, was $19.0 million, $3.0 million and $2.1 million for the years ended December 31, 2007, 20
respectively. Net property and equipment additions included in accounts payable were $21.4 million, $16.9 million and $0.1 million fo
ended December 31, 2007, 2006 and 2005, respectively.

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

will. Goodwill represents the excess cost over the fair value of net assets acquired. Goodwill arising from business combinations is
nted for under the provisions of SFAS No. 141, Business Combinations (SFAS No. 141), and SFAS No. 142, Goodwill and Oth
gible Assets (SFAS No. 142), and is not amortized. SFAS No. 142 requires goodwill to be evaluated for impairment at the same tin
and when an event occurs or circumstances change such that it is reasonably possible that an impairment may exist. The Company has
ed September 30th as its annual testing date.

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

-Party Reimbursement. Net patient service revenue is reported at the estimated net realizable amount from patients, third party payors a
s for services rendered. Net operating revenues include amounts estimated by management to be reimbursable by Medicare and Medica
prospective payment systems, provisions of cost-reimbursement and other payment methods. Approximately 39.3% of net operating
ues for the year ended December 31, 2007, 41.5% of net operating revenues for the year ended December 31, 2006 and 43.0% of net
ting revenues for the year ended December 31, 2005, are related to services rendered to patients covered by the Medicare and Medicaid
ams. Revenues from Medicare outlier payments are included in the amounts received from Medicare and are approximately 0.42% of n
ting revenues for 2007, 0.44% of net operating revenues for 2006, and 0.47% for 2005. In addition, the Company is reimbursed by
overnmental payors using a variety of payment methodologies. Amounts received by the Company for treatment of patients covered by
programs are generally less than the standard billing rates. The differences between the estimated program reimbursement rates and the
ard billing rates are accounted for as contractual adjustments, which are deducted from gross revenues to arrive at net operating revenue
e net operating revenues are an estimate of the net realizable value due from these payors. Final settlements under certain of these progra
bject to adjustment based on administrative review and audit by third parties. Adjustments to the estimated billings are recorded in the
ds that such adjustments become known. Adjustments to previous program reimbursement estimates are accounted for as contractual
ance adjustments and reported in the periods in which final settlements are determined. Adjustments related to final settlements or appe
ased revenue by an insignificant amount in each of the years ended December 31, 2007, 2006 and 2005. Amounts due to third-party pay
$73 million as of December 31, 2007 and $55 million as of December 31, 2006 and are included in accrued liabilities-other in the
npanying consolidated balance sheets. Substantially all Medicare and Medicaid cost reports are final settled through 2005.

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

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ded in the provision for contractual allowance shown above is the value of administrative and other discounts provided to self-pay patie nated from net operating revenues which was $282.5 million, $100.3 million and $77.9 million for the years ended December 31, 2007, 005, respectively. In the ordinary course of business the Company renders services to patients who are financially unable to pay for hos Included in the provision for contractual allowance shown above, is the value (at the Company s standard charges) of these services to nts who are unable to pay that is eliminated from net operating revenues when it is determined they qualify under the Company s charit . The value of these services was $354.8 million, $214.2 million and $174.2 million for the years ended December 31, 2007, 2006 and respectively. In the fourth quarter of 2007, in conjunction with an analysis of the net realizable value of accounts receivable, which ded updating the Company s analysis of historical cash collections, as well as conforming estimation methodologies with those of the f hospitals, the Company revised its methodology whereby the Company has revised its estimate of contractual allowances for estimated nts of self-pay accounts receivable that will ultimately qualify as charity care, or that will ultimately qualify for Medicaid, indigent care specific governmental reimbursement. Previous estimates of uncollectible amounts for such receivables were included in the Company reserves for each period. The impact of these changes in estimates decreased net operating revenue approximately $96.3 million for the l December 31, 2007.

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

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

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

g the quarter ended December 31, 2007, in conjunction with the Company s ongoing process of monitoring the net realizable value of nts receivable, as well as integrating the methodologies, data and assumptions used by the former Triad management, the Company rmed various analyses including updating a review of historical cash collections. As a result of these analyses, the Company noted a oration in certain key cash collection indicators. The acquisition of Triad also provided additional data and a comparative and larger ation on which to base the Company s estimates. As a result of the lower estimated collectability indicated by the updated analyses, th pany has recorded an increase to its contractual reserves of $96.3 million (as described above) and an increase to its allowance for doub nts as of December 31, 2007 of approximately $70.1 million. The Company believes this lower

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Company believes the revised methodology provides a better approach to estimating changes in payor mix, continued increases in charit ent care as well as the monitoring of historical collection patterns. The revised accounting methodology and the adequacy of resulting ates will continue to be reviewed by monitoring accounts receivable write-offs, monitoring cash collections as a percentage of trailing n ues less provision for bad debts, monitoring historical cash collection trends, as well as analyzing current period net revenue and admis yor classification, aged accounts receivable by payor, days revenue outstanding, and the impact of recent acquisitions and dispositions.

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

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

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

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

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

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Change in Fair Value of Interest Rate Swaps	Change in Fair Value of Available for Sale Securities	Adjustment to Pension Liability	Accumulat Other Comprehens Income
ce as of December 31, 2005	$ 14,969	$ 222	$	$ 15,
Activity, net of tax	(1,654)	562	(8,301)	(9,
ce as of December 31, 2006	$ 13,315	$ 784	$ (8,301)	$ 5,
Activity, net of tax	(91,063)	237	3,291	(87,
ce as of December 31, 2007	$ (77,748)	$ 1,021	$ (5,010)	$ (81,

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

to the acquisition of Triad Hospitals, Inc. (Triad), the Company aggregated its operating segments into one reportable segment as all ting segments had similar services, had similar types of patients, operated in a consistent manner and had similar economic and regulato cteristics. In connection with the Triad acquisition, certain aspects of the Company s organizational structure and the information that i wed by the chief operating decision maker have changed. As a result, management has determined that the Company now operates in th ct operating segments, represented by the hospital operations (which includes our acute care hospitals and related healthcare entities tha de inpatient and outpatient health care services), the home health agencies operations (which provide outpatient care generally in the pa), and the hospital management services business (which provides executive management and consulting services to independent acute tals). SFAS No. 131 requires (1) that financial information be disclosed for operating segments that meet a 10% quantitative threshold c olidated totals of net revenue, profit or loss, or total assets; and (2) that the individual reportable segments disclosed contribute at least 7 al consolidated net revenue. Based on these measures, only the hospital operations segment meets the criteria as a separate reportable ent. Financial information for the home health agencies and management services segments do not meet the quantitative thresholds defi AS No. 131 and are therefore combined with corporate into the all other reportable segment.

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

ative Instruments and Hedging Activities. In accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging ities (SFAS No. 133), as amended, the Company records derivative instruments (including certain derivative instruments embedde acts) on the consolidated balance sheet as either an asset or liability measured at its fair value. Changes in a derivative s fair value are ded each period in earnings or other comprehensive income (OCI), depending on whether the derivative is designated and is effectiv

ed transaction, and on the type of hedge transaction. Changes in the fair value of derivative instruments recorded to OCI are reclassified ngs in the period affected by the underlying hedged item. Any portion of the fair value of a derivative instrument determined to be ctive under the standard is recognized in current earnings.

69

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Accounting Pronouncements. In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, ounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48), which prescribes a recognition easurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax re 8 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transitio 8 is effective for fiscal years beginning after December 15, 2006. The Company adopted FIN 48 as of January 1, 2007. The adoption of retation has not had a material effect on the Company s consolidated results of operations or consolidated financial position.

ptember 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157), which defines fair value, provides a easuring fair value, and expands the disclosures required for fair value measurements. SFAS No. 157 applies to other accounting ouncements that require fair value measurement; it does not require any new fair value measurements. SFAS No. 157 is effective for fisc beginning after November 15, 2007, and is required to be adopted by the Company beginning in the first quarter of 2008. Although we nue to evaluate the application of SFAS No. 157, management does not currently believe adoption will have a material impact on the pany s consolidated results of operations or consolidated financial position.

ruary 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an ndment of FASB Statement No. 115 (SFAS No. 159). SFAS No. 159 expands the use of fair value accounting but does not affect ex ards 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 ocable election to account for certain types of financial instruments and warranty and insurance contracts at fair value, rather than histor with changes in the fair value, whether realized or unrealized, recognized in earnings. SFAS No. 159 is effective for fiscal years beginn November 15, 2007. The Company adopted SFAS No. 159 as of January 1, 2008. The adoption of this statement is not expected to hav ial effect on the Company s consolidated results of operations or consolidated financial position.

cember 2007, the FASB issued SFAS No. 141(R), Business Combinations (SFAS No. 141(R)). SFAS No. 141(R) replaces SFAS ddresses the recognition and accounting for identifiable assets acquired, liabilities assumed, and noncontrolling interests in business inations. This standard will require more assets and liabilities be recorded at fair value and will require expense recognition (rather than lization) of certain pre-acquisition costs. This standard also will require any adjustments to acquired deferred tax assets and liabilities ring after the related allocation period to be made through earnings. Furthermore, this standard requires this treatment of acquired defer sets and liabilities also be applied to acquisitions occurring prior to the effective date of this standard. SFAS No. 141(R) is effective for years beginning after December 15, 2008 and is required to be adopted prospectively with no early adoption permitted. SFAS No. 141(e adopted by the Company in the first quarter of 2009. The Company is currently assessing the potential impact that SFAS No. 141(R) on its consolidated results of operations or financial position.

cember 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS No. 160). No. 160 addresses the accounting and reporting framework for noncontrolling ownership interests in consolidated subsidiaries of the t. SFAS No. 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent compa e interests of the noncontrolling owners and that require minority ownership interests be presented separately within equity in the lidated financial statements. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008, and will be adopted by the pany in the first quarter of 2009. The Company is

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

ssifications. The Company disposed of one hospital in August 2007, disposed of one hospital in October 2007, disposed of one hospita mber 2007, and designated twelve hospitals as being held for sale in the fourth quarter of 2007. The operating results of those hospitals classified as discontinued operations on the consolidated statements of income for all periods presented. There is no effect on net incom riods presented related to the reclassifications made for the discontinued operations. The presentation of certain other prior year amount been changed. These changes in presentation are immaterial to the Company s consolidated financial statements.

ccounting for Stock-Based Compensation

Company adopted the provisions of SFAS No. 123(R), Share-Based Payments (SFAS No. 123(R)) on January 1, 2006, electing to fied prospective method for transition purposes. The modified prospective method requires that compensation expense be recorded for a sted stock options and share awards that subsequently vest or are modified, without restatement of prior periods. Prior to January 1, 200 pany accounted for stock-based compensation using the recognition and measurement principles of Accounting Principles Board Opinio 5, Accounting for Stock Issued to Employees and related interpretations (APB No. 25), and provided the pro-forma disclosure re AS No. 123 Accounting for Stock-Based Compensation and SFAS No. 148 Accounting for Stock-Based Compensation Transition osures an Amendment of FASB Statement No. 123 (SFAS No. 148). Under APB No. 25, when the exercise price of the Compan qual to the market price of the underlying stock on the date of grant, no compensation expense was recognized.

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

		Year End December 2005
come:	$	167
Stock-Based compensation expense recognized under APB No. 25, net of tax		3
ct: Total stock-based compensation under fair value based method for all awards, net of tax	$	14
rma net income	$	156
come per share:		
as reported	$	
proforma	$	
ed as reported	$	
ed proforma	$	

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

71

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

tions applicable to the outstanding stock option grants remain in effect. A total of 1,235,885 stock options, with a weighted exercise pri
6 per share, were accelerated.

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

the Company accounted for its stock options prior to January 1, 2006 using the intrinsic value method of accounting prescribed in APB
5, the accelerated vesting did not result in the recognition of compensation expense in net income for the year ended December 31, 200
ever, in accordance with the disclosure requirements of SFAS No. 148, the pro-forma results presented in the table above include
ximately $5.9 million ($3.6 million, net of tax) of compensation expense for the year ended December 31, 2005, resulting from the vest
eration.

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

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

	Year Ended December 31,		
	2007	2006	200
t on income from continuing operations before income taxes	$ (38,771)	$ (20,073)	$ (4,
t on net income	$ (23,541)	$ (12,762)	$ (3,
t on net income per share-diluted	$ (0.25)	$ (0.13)	$ ((

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

72

of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

ecember 31, 2007, $80.4 million of unrecognized stock-based compensation expense from all outstanding unvested stock options and cted stock is expected to be recognized over a weighted-average period of 18.4 months. There were no modifications to awards during 2 06.

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

	Year Ended December 31,	
	2007	2006
cted volatility	24.4%	24
cted dividends	0	
cted term	4 years	4 yea
free interest rate	4.48%	4.

ermining expected term, the Company examined concentrations of holdings, its historical patterns of option exercises and forfeitures, a as forward looking factors, in an effort to determine if there were any discernable employee populations. From this analysis, the Compa fied two employee populations, one consisting primarily of certain senior executives and the other consisting of all other recipients.

xpected volatility rate was estimated based on historical volatility. In determining expected volatility, the Company also reviewed the et-based implied volatility of actively traded options of its common stock and determined that historical volatility did not differ significa the implied volatility.

xpected life computation is based on historical exercise and cancellation patterns and forward looking factors, where present, for each ation 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 ture rate is based on historical rates and forward looking factors for each population identified. The Company adjusts the estimated ture rate to its actual experience.

of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (In Years)	Aggrega Intrinsi Value as December 2007
anding at December 31, 2004	7,456,279	$ 18.03		
ed	1,325,700	33.02		
ised	(3,134,721)	15.81		
ited and cancelled	(276,984)	26.02		
anding at December 31, 2005	5,370,274	22.63		
ed	1,151,000	38.07		
ised	(865,833)	16.47		
ited and cancelled	(172,913)	34.02		
anding at December 31, 2006	5,482,528	26.48		
ed	3,544,000	37.79		
ised	(295,854)	26.89		
ited and cancelled	(291,659)	35.70		
anding at December 31, 2007	8,439,015	$ 30.90	6.5 years	$ 57.
isable at December 31, 2007	4,024,138	$ 23.63	5.5 years	$ 53.

veighted-average grant date fair value of stock options granted during the year ended December 31, 2007 and 2006, was $10.24 and $10 ctively. The aggregate intrinsic value (the number of in-the-money stock options multiplied by the difference between the Company s c price on the last trading day of the reporting period and the exercise price of the respective stock options) in the table above represents nt that would have been received by the option holders had all option holders exercised their options on December 31, 2007. This amou ges based on the market value of the Company s common stock. The aggregate intrinsic value of options exercised during the year ende mber 31, 2007 and 2006 was $3.5 million and $18.2 million, respectively. The aggregate intrinsic value of options vested and expected pproximates that of the outstanding options.

Company has also awarded restricted stock under the 2000 Plan to various employees and its directors. The restrictions on these shares ally lapse in one-third increments on each of the first three anniversaries of the award date, except for restricted stock granted on July 2 which restrictions lapse equally on the first two anniversaries of the award date. Certain of the restricted stock awards granted to the pany s senior executives also contain a performance objective that must be met in addition to the vesting requirements. If the performan tive is not attained the awards will be forfeited in their entirety. Once the performance objective has been attained, restrictions will laps

hird increments on each of the first three anniversaries of the award date. Notwithstanding the above mentioned performance objectives
g requirements, the restrictions will lapse earlier in the event of death, disability, termination of employment by employer for reason ot
for cause of the holder of the restricted stock or in the event of change in control of the Company. Restricted stock awards subject to
rmance standards are not considered outstanding for purposes of determining earnings per share until the performance objectives have b
ied.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Shares	Weigh Avera Fai Valu
sted at December 31, 2004		$
ed	563,000	3
d		
ited	(5,000)	3
sted at December 31, 2005	558,000	3
ed	606,000	3
d	(185,975)	3
ited	(8,334)	3
sted at December 31, 2006	969,691	3
ed	1,392,000	3
d	(384,646)	3
ited	(20,502)	3
sted at December 31, 2007	1,956,543	3

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

r the Director s Fee Deferral Plan, the Company s outside directors may elect to receive share equivalent units in lieu of cash for their
or s fee. These units are held in the plan until the director electing to receive the share equivalent units retires or otherwise terminates
orship with the Company. Share equivalent units are converted to shares of common stock of the Company at the time of distribution. T
ving table represents the amount of directors fees which were deferred and the equivalent units into which they converted for each of t
ctive periods:

	Year Ended December 31,	
	2007	2006
tors fees earned and deferred into plan	$ 129,000	$ 177
valent units	3,622.531	4,843

ecember 31, 2007, there are a total of 13,408.532 units deferred in the plan with an aggregate fair value of $0.5 million, based on the clo
et price of the Company s common stock at December 31, 2007 of $36.86.

Long-Term Leases, Acquisitions and Divestitures of Hospitals

Acquisition

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

75

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

nnection with the consummation of the acquisition of Triad, the Company obtained $7.215 billion of senior secured financing under a n facility (the New Credit Facility) and its wholly-owned subsidiary CHS/Community Health Systems, Inc. (CHS/Community Heal 1 billion aggregate principal amount of 8.875% senior notes due 2015 (the Notes). The Company used the net proceeds of $3.000 bi the Notes offering and the net proceeds of $6.065 billion of term loans under the New Credit Facility to acquire the outstanding shares , to refinance certain of Triad s indebtedness and the Company s indebtedness, to complete certain related transactions, to pay certain xpenses of the transactions and for general corporate uses. This New Credit Facility also provides an additional $750 million revolving facility and a $400 million delayed draw term loan facility for future acquisitions, working capital and general corporate purposes. As mber 31, 2007, the $400 million delayed draw term loan had been reduced to $300 million at the request of the Company.

otal cost of the Triad acquisition has been allocated to the assets acquired and liabilities assumed based upon their respective preliminar ated fair values in accordance with SFAS No. 141. The purchase price represented a premium over the fair value of the net tangible and fiable 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.

llocation process requires the analysis of acquired fixed assets, contracts, contractual commitments, and legal contingencies to identify d the fair value of all assets acquired and liabilities assumed. Because of the significance of the transaction and proximity to the end of t nt year, the values of certain assets and liabilities are based on preliminary valuations and are subject to adjustment as additional inform ained. Such additional information includes, but is not limited to: valuations and physical counts of property and equipment, valuation o y investments and intangible assets, valuation of contractual commitments, finalization of involuntary termination of employees, and rev en cost report settlement periods. The Company is also negotiating the termination of certain assumed contracts it deems unfavorable, s rious physician and service contracts. Under GAAP, the Company has up to twelve months from the closing of the acquisition to compl luations and complete contract terminations in order for these terminations to be considered in the allocation process. The Company exp mplete the allocation of the total cost of the Triad acquisition in the second quarter of 2008. Material adjustments to goodwill may resul the completion of these matters.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

r Acquisitions

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

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

g 2005, the Company acquired through four separate purchase transactions and one capital lease transaction, substantially all of the ass vorking capital of five hospitals. On March 1, 2005, the Company acquired an 85% controlling interest in Chestnut Hill Hospital, a 222 tal located in Philadelphia, Pennsylvania. On June 30, 2005, the Company acquired, through a capital lease, Bedford County Medical r, a 104 bed hospital located in Shelbyville, Tennessee. On September 30, 2005, the Company acquired the assets of Newport Hospital c located in Newport, Arkansas. This facility, which was previously operated as an 83 bed acute care general hospital, was closed by its r owner simultaneous with this transaction. The operations of this hospital were consolidated with Harris Hospital, also located in New h is owned and operated by a wholly owned subsidiary of the Company. On October 1, 2005, the Company acquired Sunbury Communi ital, a 123 bed hospital located in Sunbury, Pennsylvania, and Bradley Memorial Hospital, a 251 bed hospital located in Cleveland, essee. The aggregate consideration for the five hospitals totaled approximately $176 million, of which $138 million was paid in cash an

of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

illion was assumed in liabilities. Goodwill recognized in these transactions totaled approximately $51 million, which is expected to be ctible for tax purposes.

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

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

	2007	2006	200
nt assets	$ 1,675,392	$ 56,896	$ 19.
erty and equipment	3,699,200	262,335	110.
will and other intangibles	3,111,711	66,490	43.
lities	1,479,462	27,247	30.

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

	Year Ended December 31	
	2007	2006
orma net operating revenues	$ 9,623,221	$ 9,245.
orma net income (loss)	(95,598)	150.
orma net income per share:		
	$ (1.02)	$
ed	$ (1.01)	$

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

ntinued Operations

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

tive October 31, 2007, the Company sold its 60% membership interest in Northeast Arkansas Medical Center (NEA), a 104 bed facil
boro, Arkansas to Baptist Memorial Health Care (Baptist), headquartered in Memphis, Tennessee for $16.8 million. In connection w
action, the Company also sold real estate and other assets to a subsidiary of Baptist for $26.2 million.

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

78

of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

tive January 31, 2005, the Company s lease of Scott County Hospital, a 99 bed facility located in Oneida, Tennessee, expired pursuant .

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

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

nnection with management s decision to sell the previously mentioned facilities and in accordance with SFAS No. 144, the Company h fied the results of operations of the above mentioned hospitals as discontinued operations in the accompanying consolidated statements ne.

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

	Year Ended December 31,		
	2007	2006	200
		(In thousands)	
perating revenues	$ 417,677	$ 189,734	$ 212,
from operations of hospitals sold or held for sale before income taxes	(14,735)	(10,694)	(13,
on sale of hospitals and partnership interests	(3,954)	(3,938)	(6,
rment of long-lived assets of hospital held for sale	(19,044)		(6,
from discontinued operations, before taxes	(37,733)	(14,632)	(26,
ne tax benefit	8,125	5,200	5,
from discontinued operations, net of tax	$ (29,608)	$ (9,432)	$ (20,

ded in the computation of the loss from discontinued operations, before taxes for the year ended December 31, 2007, is a write-off of million of tangible assets and $0.1 million of goodwill for the partnership and membership interests sold and the two hospitals sold and ated impairment of $19.0 million on long-lived assets at the hospitals held for sale (see Note 4 Goodwill and Other Intangible Assets).

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

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

79

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ssets and liabilities of the hospitals held for sale as of December 31, 2007 are included in the accompanying consolidated balance sheet vs (in thousands): current assets of $118,893, included in other current assets; net property and equipment of $331,139 and other long-te of $85,981, included in other assets; and current liabilities of $67,606, included in other accrued liabilities. The assets and liabilities of tals classified as held for sale at December 31, 2007 have not been reclassified as of December 31, 2006 in the accompanying consolida ce sheet.

Goodwill and Other Intangible Assets

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

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

No. 142 requires that goodwill be allocated to each identified reporting unit, which is defined as an operating segment or one level bel perating segment (referred to as a component of the entity). As a result of the change in the Company s operating segments as discussed 1, management has re-evaluated the determination of our reporting units identified for allocation of goodwill in accordance with No. 142 and determined that the operating segments meet the criteria to be classified as reporting units. At September 30, 2007, goodw t for the amount related to the former Triad hospitals, was reallocated among the hospital operations and home health agencies operatio ting units. At December 31, 2007, the hospital operations reporting unit had $1.309 billion and the home health agencies reporting unit million of goodwill. No goodwill has been allocated to the hospital management services segment as of December 31, 2007 because th ess relates entirely to the Triad acquisition. Goodwill related to the former Triad hospitals of $2.907 billion has not been allocated to the ting unit level as of December 31, 2007 because the final purchase price allocation has not been completed (see Note 3).

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

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

veighted average amortization period for the intangible assets subject to amortization is approximately 8 years. There are no expected ual values related to these intangible assets. Amortization expense for these intangible assets was $2.7 million, $1.9 million and $1.3 mi

g the years ended December 31, 2007, 2006 and 2005, respectively. Amortization expense on intangible assets is estimated to be
 million

of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

08, $13.9 million in 2009, $13.3 million in 2010, $11.9 million in 2011, $8.4 million in 2012 and $0.3 million thereafter.

ncome Taxes

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

	Year Ended December 31,		
	2007	2006	200
nt			
al	$ 27,416	$ 120,209	$ 101.
	11,411	13,555	12.
	38,827	133,764	114.
rred			
al	6,944	(21,793)	3.
	(2,768)	(1,819)	1.
	4,176	(23,612)	5.
provision for income taxes for income from continuing operations	$ 43,003	$ 110,152	$ 119.

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

	Year Ended December 31,					
	2007		2006		2005	
	Amount	%	Amount	%	Amount	%
sion for income taxes at statutory federal rate	$ 36,015	35.0%	$ 100,746	35.0%	$ 107,861	35
income taxes, net of federal income tax benefit	5,618	5.5	7,628	2.7	9,390	3
ge in valuation allowance	3,825	3.7				
al and state tax credits	(2,625)	(2.6)				
r	170	0.2	1,778	0.6	2,553	0
sion for income taxes and effective tax rate for ne from continuing operations	$ 43,003	41.8%	$ 110,152	38.3%	$ 119,804	38

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	2007		2006	
	Assets	**Liabilities**	**Assets**	**Liabili**
perating loss and credit carryforwards	$ 75,879	$	$ 26,709	$
rty and equipment		464,753		136,
nsurance liabilities	100,642		35,607	
gibles		139,757		101,
liabilities		19,076		2,
-term debt and interest		42,447	989	
unts receivable	104,727		33,535	
ued expenses	21,928		20,362	
comprehensive income	58,933			1,
-Based compensation	54,464		6,353	
	23,812		12,078	
	440,385	666,033	135,633	242,
ation allowance	(68,558)		(21,207)	
deferred income taxes	$ 371,827	$ 666,033	$ 114,426	$ 242,

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

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

Company adopted the provisions of FIN 48, on January 1, 2007. The total amount of unrecognized benefit that would affect the effectiv f recognized, is approximately $5.7 million as of December 31, 2007. It is the Company s policy to recognize interest and penalties ac d to unrecognized benefits in its statement of operations as income tax expense. During the year ended December 31, 2007, the Compa ded approximately $2.4 million in liabilities and $0.6 million in interest and penalties related to prior state income tax returns through it he tax provision from continuing operations and which are included in its FIN 48 liability at December 31, 2007. A total of approximate million of interest and penalties is included in the amount of FIN 48 liability at December 31, 2007. During the year ended December 3

the Company released $5.2 million plus accrued interest of $0.8 million of its FIN 48 liability, as a result of the expiration of the statut
ations pertaining to tax positions taken in prior years relative to legal settlements and $1.5 million relative to state tax positions. During
ending December 31, 2007, the

82

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Company s unrecognized tax benefits consist primarily of state exposure items. The Company believes that it is reasonably possible tha
ximately $1.1 million of its current unrecognized tax benefit may be recognized within the next twelve months as a result of a lapse of t
e of limitations and settlements with taxing authorities.

ollowing is a tabular reconciliation of the total amount of unrecognized tax benefit for the year ended December 31, 2007 (in thousands

		Year Ended December 31, 2
cognized Tax Benefit at January 1, 2007	$	10,
increases purchase business combination		10,
increases tax positions in current period		1,
increases tax positions in prior period		1,
e of statute of limitations		(6,
ments		(2,
cognized Tax Benefit at December 31, 2007	$	14,

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

RS has concluded an examination of the federal income tax returns of Triad for the short taxable years ended April 27, 2001, June 30, 2
ecember 31, 2001, and the taxable years ended December 31, 2002 and 2003. On May 10, 2006, the IRS issued an examination report
sed adjustments. Triad filed a protest on June 9, 2006 and the matter was referred to the IRS Appeals Office. Representatives of the for
hospitals met with the IRS Appeals Office in April 2007 and reached a tentative settlement. Triad has since received a closing letter wi
ct to the examination for those tax years. The settlement was not material to the Company s results of operations or financial position.

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

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

.ong-Term Debt

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

	As of December 31,	
	2007	2006
t Facilities:		
loans	$ 5,965,000	$ 1,572,
lving credit loans		
xempt bonds	8,000	8,
r subordinated notes	3,021,331	300,
al lease obligations (see Note 8)	35,136	44,
	68,610	16,
debt	9,098,077	1,941,
current maturities	(20,710)	(35,
long-term debt	$ 9,077,367	$ 1,905,

inated Credit Facility and Notes

ugust 19, 2004, the Company entered into a $1.625 billion senior secured credit facility with a consortium of lenders which was quently amended on December 16, 2004, July 8, 2005 and December 13, 2006 (the Terminated Credit Facility). The purpose of the inated Credit Facility was to refinance and replace the Company s previous credit agreement, repay specified other indebtedness, and f al corporate purposes, including amending the credit facility to permit declaration and payment of cash dividends, to repurchase shares other distributions, subject to certain restrictions. The Terminated Credit Facility consisted of a $1.2 billion term loan that was due to re in 2011 and a $425 million revolving credit facility that was due to mature in 2009. The First Incremental Facility Amendment, dated cember 13, 2006, increased the Company s term loans by $400 million (the Incremental Term Loan Facility) and also gave the Con y to add up to $400 million of additional term loans. The full amount of the Incremental Term Loan Facility was funded on December 1 and the proceeds were used to repay the full outstanding amount (approximately $326 million) of the revolving credit facility under the agreement and the balance was available to be used for general corporate purposes. The Company was able to elect from time to time a st rate per annum for the borrowings under the term loan, including the incremental term loan, and revolving credit facility equal to (a) ate base rate, which would have been equal to the greatest of (i) the Prime Rate (as defined) in effect and (ii) the Federal Funds Effectiv (as defined), plus 50 basis points, plus (1) 75 basis points for the term loan and (2) the Applicable Margin (as defined) for revolving cre or (b) the Eurodollar Rate (as defined) plus (1) 175 basis points for the term loan and (2) the Applicable Margin for Eurodollar revolvi loans. The Company also paid a commitment fee for the daily average unused commitments under the revolving credit facility. The nitment fee was based on a pricing grid depending on the Applicable Margin for Eurodollar revolving credit loans and ranged from 0.25 00%. The commitment fee was payable quarterly in arrears and on the revolving credit termination date with respect to the available ving credit commitments. In addition, the Company paid fees for each letter of credit issued under the credit facility.

ecember 16, 2004, the Company issued $300 million 61/2% senior subordinated notes due 2012. On April 8, 2005, the Company excha notes for notes having substantially the same terms as the outstanding notes, except the exchanged notes were registered under the ities Act of 1933, as amended (the 1933 Act).

84

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Credit Facility and Notes

ly 25, 2007, the New Credit Facility was entered into with a syndicate of financial institutions led by Credit Suisse, as administrative ag ollateral agent. The New Credit Facility consists of a $6.065 billion funded term loan facility with a maturity of seven years, a $400 mil ed draw term loan facility with a maturity of seven years and a $750 million revolving credit facility with a maturity of six years. The ving credit facility also includes a subfacility for letters of credit and a swingline subfacility. As previously disclosed, in connection wit mmation of the acquisition of Triad, the Company used a portion of the net proceeds from its New Credit Facility and the Notes offerin its outstanding debt under the Terminated Credit Facility. The Company recorded a pre-tax write-off of approximately $13.9 million in red loan costs relative to the early extinguishment of the debt under the Terminated Credit Facility and incurred tender and solicitation f proximately $13.4 million on the early repayment of the Company s $300 million aggregate principal amount of 61/2% Senior Subordi due 2012 through a cash tender offer and consent solicitation.

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

erm 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 pany and its subsidiaries, subject to certain exceptions and reinvestment rights, (2) 100% of the net cash proceeds of issuances of certain ations or receivables based financing by the Company and its subsidiaries, subject to certain exceptions, and (3) 50%, subject to reducti er percentage based on the Company s leverage ratio (as defined in the New Credit Facility, generally as the ratio of total debt on the d mination to the Company s EBITDA, as defined, for the four quarters most recently ended prior to such date) of excess cash flow (as de y year, commencing in 2008, subject to certain exceptions. Voluntary prepayments and commitment reductions are permitted in whole without any premium or penalty, subject to minimum prepayment or reduction requirements.

bligor under the New Credit Facility is CHS/Community Health. All of the obligations under the New Credit Facility are unconditional nteed by the Company and certain existing and subsequently acquired or organized domestic subsidiaries. All obligations under the New t Facility and the related guarantees are secured by a perfected first priority lien or security interest in substantially all of the assets of th pany, CHS/Community Health and each subsidiary guarantor, including equity interests held by the Company, CHS/Community Health ubsidiary guarantor, but excluding, among others, the equity interests of non-significant subsidiaries, syndication subsidiaries, securitiz diaries and joint venture subsidiaries.

oans under the New Credit Facility will bear interest on the outstanding unpaid principal amount at a rate equal to an applicable percent 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 ed) announced by Credit Suisse or (2) the Federal Funds Effective Rate (as defined) plus one-half of 1.0%, or (b) a reserve adjusted Lon bank offered rate for dollars (Eurodollar Rate) (as defined). The applicable percentage for term loans is 1.25% for Alternate Base Rate lo .25% for Eurodollar rate loans. The applicable percentage for revolving loans is initially 1.25% for Alternate Base Rate revolving loans % for Eurodollar revolving loans, in each case subject to reduction based on the Company s leverage ratio. Loans under the swingline cility bear interest at the rate applicable to alternative base rate loans under the revolving credit facility.

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

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

r of any letter of credit issued under the subfacility for letters of credit will also receive a customary fronting fee and other customary ssing charges. The Company is also obligated to pay commitment fees of 0.50% per annum (subject to reduction based upon the Compa ge ratio) on the unused portion of the revolving credit facility. For purposes of this calculation, swingline loans are not treated as usage volving credit facility. The Company is also obligated to pay commitment fees of 0.50% per annum for the first six months after the clo 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 nt of the delayed draw term loan facility. The Company paid arrangement fees on the closing of the New Credit Facility and will pay an l administrative agent fee.

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

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

Notes were issued by CHS/Community Health in connection with the Triad acquisition in the principal amount of $3.021 billion. These s 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 5, commencing January 15, 2008. Interest on the Notes accrue from the date of original issuance. Interest will be calculated on the basi ay year comprised of twelve 30-day months.

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

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

d	Redempti Price
	104.4
	102.2
and thereafter	100.0

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

h such redemption occurs within 90 days after the date of the related Public Equity Offering.

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

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

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

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

		Term Loans
	$	
		36,
		60,
		60,
		60,
after		5,746,
	$	5,965,

of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

r Subordinated Notes. On December 16, 2004, the Company completed a private placement offering of $300 million aggregate princip nt of 6.5% senior subordinated notes due 2012. The senior subordinated notes were sold in an offering pursuant to Rule 144A and lation S under the 1933 Act. The senior subordinated notes when issued were registered under the 1933 Act or the securities laws of any and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements un 933 Act and any applicable state securities laws. On February 24, 2005, the Company filed a registration statement to exchange these no gistered notes. This exchange was completed during the first quarter of 2005.

nnection with the consummation of the acquisition of Triad, the Company completed an early repayment of the $300 million aggregate pal amount of 61/2% Senior Subordinated Notes due 2012 through a cash tender offer and consent solicitation.

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

Debt. As of December 31, 2007, other debt consisted primarily of an industrial revenue bond, the mortgage obligation on the Compan rate headquarters and other obligations maturing in various installments through 2017.

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

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

	$	20,
		53,
		79,
		70,
		66,
eafter		8,807,
	$	9,098,

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

88

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

air Values of Financial Instruments

air value of financial instruments has been estimated by the Company using available market information as of December 31, 2007 and
and valuation methodologies considered appropriate. The estimates presented are not necessarily indicative of amounts the Company c
e in a current market exchange (in thousands):

	As of December 31,			
	2007		2006	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated I Value
s:				
and cash equivalents	$ 132,874	$ 132,874	$ 40,566	$ 40,
able-for-sale securities	8,352	8,352	7,620	7.
ng securities	38,075	38,075	17,714	17.
lities:				
t facilities	5,965,000	5,733,856	1,572,000	1,573.
exempt bonds	8,000	8,000	8,000	8.
r subordinated notes	3,021,331	3,074,204	300,000	295.
debt	68,610	68,610	4,344	4.

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

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

ng Securities. Estimated fair value is based on closing price as quoted in public markets.

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

Exempt Bonds. The carrying amount approximates fair value as a result of the weekly interest rate reset feature of these publicly-traded
ments.

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

est Rate Swaps. The fair value of interest rate swap agreements is the amount at which they could be settled, based on estimates obtaine
the counterparty. The Company has designated the interest rate swaps as cash flow hedge instruments whose recorded value included in
long-term liabilities in the consolidated balance sheet approximates fair market value.

Company assesses the effectiveness of its hedge instruments on a quarterly basis. For the years ended December 31, 2007 and 2006, the
pany completed an assessment of the cash flow hedge instruments and determined the hedges to be highly effective. The Company has a

mined that the ineffective portion of the hedges do not have a material effect on the Company s consolidated financial position, operati flows. The counterparty to the interest rate swap agreements exposes the Company to credit risk in the event of non-performance. Howe ompany does not anticipate non-performance by the counterparty. The Company does not hold or issue derivative financial instruments g purposes.

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

89

of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

#	Notional Amount (In 000 s)	Fixed Interest Rate	Termination Date	Fair Valu (000
	100,000	4.0610%	May 30, 2008	$
	100,000	2.4000%	June 13, 2008	
	100,000	3.5860%	August 29, 2008	
	100,000	3.9350%	June 6, 2009	(
	100,000	4.3375%	November 30, 2009	(1,
	100,000	4.9360%	October 4, 2010	(2,
	100,000	4.7090%	January 24, 2011	(2,
	300,000	5.1140%	August 8, 2011	(12,
	100,000	4.7185%	August 19, 2011	(2,
	100,000	4.7040%	August 19, 2011	(2,
	100,000	4.6250%	August 19, 2011	(2,
	200,000	4.9300%	August 30, 2011	(6,
	200,000	4.4815%	October 26, 2011	(3,
	200,000	4.0840%	December 3, 2011	(
	250,000	5.0185%	May 30, 2012	(9,
	150,000	5.0250%	May 30, 2012	(6,
	200,000	4.6845%	September 11, 2012	(5,
	125,000	4.3745%	November 23, 2012	(1,
	75,000	4.3800%	November 23, 2012	(
	150,000	5.0200%	November 30, 2012	(6,
	100,000	5.0230%	May 30, 2013(1)	(4,
	300,000	5.2420%	August 6, 2013	(15,
	100,000	5.0380%	August 30, 2013(2)	(4,
	100,000	5.0500%	November 30, 2013(3)	(3,
	100,000	5.2310%	July 25, 2014	(5,
	100,000	5.2310%	July 25, 2014	(4,
	200,000	5.1600%	July 25, 2014	(9,
	75,000	5.0405%	July 25, 2014	(3,
	125,000	5.0215%	July 25, 2014	(5,

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

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

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

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

90

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

eases

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

Ended December 31,	Operating(1)	Capi
	$ 146,084	$ 9,
	124,159	5,
	102,242	4,
	81,083	3,
	65,190	2,
after	249,945	21,
minimum future payments	$ 768,703	$ 47,
mputed interest		(11,
		35,
current portion		(5,
-term capital lease obligations		$ 29,

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

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

mployee Benefit Plans

ompany maintains various benefit plans, including defined contribution plans, defined benefit plans and deferred compensation plans.
any s defined contribution plans consist of one plan that covers substantially all corporate office employees and employees at the Com
tals and clinics owned prior to the acquisition of Triad. The other defined contribution plan covers substantially all employees at the for
hospitals, clinics and QHR. These plans are qualified under Section 401(k) of the Internal Revenue Code. Participants may contribute a
n of their compensation not exceeding a limit set annually by the Internal Revenue Service. These plans include a provision for the

pany to match a portion of employee contributions. In addition, the plan covering the former Triad hospitals provides for a supplementa
ibution, determined primarily as a percentage of participants annual wages. The Company is required to maintain the former Triad pla
ding this supplementary contribution benefit, through December 31, 2008. Total expense to the Company under the 401(k) plans was
million, $10.7 million and $8.8 million for the years ended December 31, 2007, 2006 and 2005, respectively.

of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

07, the Company merged its three defined benefit, non-contributory pension plans, which covered certain employees at three of its hosp one plan (Pension plan). The Pension plan provides benefits to covered individuals satisfying certain age and service requirements. E butions to the Pension plan are in accordance with the minimum funding requirements of the Employee Retirement Income Security Ac as amended. The Company expects to contribute $3.7 million to the Pension plan in fiscal 2008. The Company also provides an unfun emental executive retirement plan (SERP) for certain members of its executive management. The Company uses a December 31 urement date for the benefit obligations and a January 1 measurement date for its net periodic costs for both the Pension plan and SERP nces from actuarially assumed rates will result in increases or decreases in benefit obligations, net periodic cost and funding requireme periods.

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

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

	Pension Plans		SERP	
	2007	2006	2007	200
ge in benefit obligation:				
fit obligation, beginning of year	$ 26,220	$ 27,467	$ 23,293	$ 22,
ce cost	3,772	3,757	2,810	3,
est cost	1,587	1,601	1,340	1,
amendment		(5,769)		
rial (gain)/loss	(2,812)	(792)	1,155	(3,
fits paid	(112)	(44)		
fit obligation, end of year	28,655	26,220	28,598	23,
ge in plan assets:				
value of assets, beginning of year	13,670	12,452		
l return on plan assets	834	1,262		
oyer contributions	1,087			
fits paid	(112)	(44)		
value of assets, end of year	15,479	13,670		
nded status	$ (13,176)	$ (12,550)	$ (28,598)	$ (23,

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Pension Plans		SERP	
	2007	2006	2007	200
urrent Asset	$	$	$	$
nt Liability				
urrent Liability	(13,176)	(12,550)	(28,598)	(23,
mount recognized in the consolidated balance sheets	$ (13,176)	$ (12,550)	$ (28,598)	$ (23,

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

	Pension Plans		SERP	
	2007	2006	2007	200
cted benefit obligation	$ 28,655	$ 26,220	$ 28,598	$ 23,
mulated benefit obligation	20,587	17,127	18,546	18,
value of plan assets	15,479	13,670		

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

	Pension Plans		SERP	
	2007	2006	2007	200
unt Rate	6.55%	5.73% - 5.95%	6.00%	5.7
al Salary Increases	4.00%	4.00% - 5.00%	5.00%	5.0

nmary of the amounts recognized in Accumulated Other Comprehensive Income (AOCI) due to the adoption of SFAS No. 158 Em
unting for Defined Benefit Pension and Other Postretirement Plans an amendment of SFAS No. 87, 88, 106 and 132(R) (SFAS No
cember 31, 2006 follows (in thousands):

	Pension Plans	SE
	2006	20
unt recognized in AOCI prior to SFAS 158	$	$
unt recognized in AOCI due to adoption of SFAS 158:		
service cost (credit)	3,583	6,
ctuarial (gain) loss	141	2,

amount recognized in AOCI	$	3,724	$	9.

93

of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Pension Plans			SERP		
	2007	**2006**	**2005**	**2007**	**2006**	**20**
ce cost	$ 3,772	$ 3,757	$ 3,043	$ 2,810	$ 3,023	$ 2.
est cost	1,586	1,601	1,364	1,339	1,225	
cted return on plan assets	(1,179)	(1,054)	(706)			
rtization of unrecognized prior service cost	689	1,336	1,336	884	884	
rtization of net (gain)/loss	(13)		(17)	60	407	
eriodic cost	4,855	5,640	5,020	5,093	5,539	3,
ge in OCI	(3,142)	N/A	N/A	212	N/A	
recognized in Net periodic cost and OCI	$ 1,713	$ 5,640	$ 5,020	$ 5,305	$ 5,539	$ 3.

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

	Pension Plans	S
service cost	$ 689	$
rial (gain)/loss		

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

	Pension Plans			SERP		
	2007	**2006**	**2005**	**2007**	**2006**	**20**
unt rate	5.94%	5.40% - 5.80%	6.00%	5.75%	5.50%	5.
of compensation increase	4.00%	4.00% - 5.00%	4.00%	5.00%	5.00%	5.
cted long term rate of return on assets	8.50%	8.50%	8.50%	N/A	N/A	N

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

	Pension Plans		SERP	
	2007	**2006**	**2007**	**2**
y securities	100%	100%	N/A	

securities	0%	0%	N/A	
	100%	100%	N/A	

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

94

of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

stimated future benefit payments reflecting future service as of the end of 2007 for the Company s pension and SERP plans follows (in
ands):

s Ending	Pension Plans	SER
	$ 271	$
	372	
	438	
	508	1,
	651	1,
- 2016	4,611	14,

Stockholders Equity

orized capital shares of the Company include 400,000,000 shares of capital stock consisting of 300,000,000 shares of common stock and
00,000 shares of Preferred Stock. Each of the aforementioned classes of capital stock has a par value of $.01 per share. Shares of Prefer
, none of which are outstanding as of December 31, 2007 may be issued in one or more series having such rights, preferences and other
sions as determined by the Board of Directors without approval by the holders of common stock.

nuary 14, 2006, the Company commenced an open market repurchase program for up to 5,000,000 shares of the Company s common
exceed $200 million in repurchases. Under this program, the Company repurchased the entire 5,000,000 shares at a weighted average p
5.23. This program concluded on November 8, 2006 when the maximum number of shares had been repurchased. This repurchase plan
wed a prior repurchase plan for up to 5,000,000 shares which concluded on January 13, 2006. The Company repurchased 3,029,700 shar
ghted average price of $31.20 per share under this program. On December 13, 2006, the Company commenced another open market
chase program for up to 5,000,000 shares of the Company s common stock not to exceed $200 million in repurchases. This program w
ude at the earlier of three years or when the maximum number of shares have been repurchased. As of December 31, 2007, the Compan
purchased any shares under this program.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Earnings Per Share

ollowing table sets forth the components of the numerator and denominator for the computation of basic and diluted income from conti
tions per share (in thousands, except share data):

	Year Ended December 31,		
	2007	2006	2005
erator:			
erator for basic earnings per share			
ne from continuing operations available to common stockholders basic	$ 59,897	$ 177,695	$ 188.
erator for diluted earnings per share			
ne from continuing operations	$ 59,897	$ 177,695	$ 188.
st, net of tax, on 4.25% convertible notes		135	8.
ne from continuing operations available to common stockholders diluted	$ 59,897	$ 177,830	$ 196.
minator:			
hted-average number of shares outstanding basic	93,517,337	94,983,646	88,601.
t of dilutive securities:			
employee director options	2,957	11,825	11.
icted Stock awards	227,200	140,959	115.
oyee options	894,800	951,360	1,466.
ὁ Convertible notes		145,120	8,385.
hted-average number of shares outstanding diluted	94,642,294	96,232,910	98,579.
ve securities outstanding not included in the computation of earning per share se their effect is antidilutive:			
oyee options	4,398,307	1,261,367	31.

Equity Investments

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 wh
ersal Health Systems, Inc. owns the majority interest; an equity interest of 38.0% in a hospital in Macon, Georgia in which HCA Inc. ov
ajority interest; and an equity interest of 50.0% in a hospital in El Dorado, Arkansas in which the SHARE Foundation, a not-for-profit
lation, owns the remaining 50.0%. These equity investments were acquired as part of the acquisition of Triad. The Company uses the eq
od of accounting for its investments in these entities. The balance of the Company s investment in unconsolidated affiliates is $213.3 m
cember 31, 2007, and is included in other assets in the accompanying consolidated balance sheet. Included in the Company s results of
tions for the year ended December 31, 2007, is $25.1 million representing the Company s equity in pre-tax earnings from investments
nsolidated affiliates for the period July 25, 2007 through December 31, 2007.

96

of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	December 31, 2 (Unaudited)	
nt assets	$	226,
urrent assets		706,
	$	932,
nt liabilities	$	81,
urrent liabilities		3,
bers equity		848,
	$	932,

	For the Year Ende December 31, 2007 2007 (Unaudited)
nues	$ 1,275,117
ncome	$ 160,802

Segment Information

to the acquisition of Triad, the Company aggregated its operating segments into one reportable segment as all of its operating segments ar services, had similar types of patients, operated in a consistent manner and had similar economic and regulatory characteristics. In ection with the Triad acquisition, management has re-evaluated the information that is reviewed by the chief operating decision maker a ent managers and has determined that the Company now operates in three distinct operating segments, represented by the hospital opera h includes our acute care hospitals and related healthcare entities that provide acute and outpatient health care services), the home healt ies operations (which provide outpatient care generally at the patient s home), and our hospital management services business (which des executive management services to non-affliated acute care hospitals). Only the hospital operations segment meets the criteria in No. 131 as a separate reportable segment. The financial information for the home health agencies and management services segment d the quantitative thresholds defined in SFAS No. 131 and are combined into the corporate and all other reportable segment.

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

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

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	For the Year Ended December 31,		
	2007	2006	2005
nues:			
ital operations	$ 6,965,152	$ 4,101,974	$ 3,516,
orate and all other	162,342	78,162	59,
	$ 7,127,494	$ 4,180,136	$ 3,576,
ne from continuing operations before income taxes:			
ital operations	$ 256,274	$ 360,576	$ 360,
orate and all other	(153,374)	(72,729)	(52,
	$ 102,900	$ 287,847	$ 308,
nditures for segment assets:			
ital operations	$ 501,671	$ 232,500	$ 179,
orate and all other	32,464	39,693	20,
	$ 534,135	$ 272,193	$ 200,

	December 31,	
	2007	2006
assets:		
ital operations	$ 12,176,957	$ 4,082,271
orate and all other	1,316,686	424,308
	$ 13,493,643	$ 4,506,579

Commitments and Contingencies

truction Commitments. Pursuant to hospital purchase agreements in effect as of December 31, 2007, and where required certificate of n
val has been obtained, the Company is required to build the following replacement facilities. The Company has agreed, as part of the
sition in 2003 of Southside Regional Medical Center in Petersburg, Virginia, to build a replacement facility with an aggregate estimatec
ruction cost, including equipment, of approximately $145 million. Of this amount, approximately $98 million has been expended throug
mber 31, 2007. The Company expects to spend approximately $44 million in replacement hospital construction and equipment costs rel

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

98

of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

pany expects to spend approximately $16 million in replacement hospital construction costs related to this project in 2008. The project i red to be completed by June 30, 2009. As required by an amendment to a lease agreement entered into in 2005, the Company agreed to acement facility at its Barstow, California location. Construction costs for this replacement facility are estimated to be approximately million. Of this amount, approximately $2 million has been expended through December 31, 2007. The Company expects to spend ximately $3 million in replacement hospital construction and equipment costs related to this project in 2008. This project is required to leted in 2011. The Company has agreed, as part of an acquisition in 2007, to build a replacement hospital in Valparaiso, Indiana with ar gate estimated construction cost, including equipment costs, of approximately $210 million. Of this amount, an immaterial amount has nded through December 31, 2007. The Company expects to spend approximately $5 million in replacement hospital construction and ment costs related to this project in 2008. This project is required to be completed in 2011. As part of the Triad acquisition, the Compar ned the commitment to build a replacement hospital in Clarksville, Tennessee, with an aggregate estimated construction cost, including ment costs, of approximately $201 million. Of this amount, approximately $133 million has been expended through December 31, 200 Company expects to spend approximately $68 million in replacement hospital construction and equipment costs related to this project in This project is required to be completed in 2009. Also, as part of the Triad acquisition, the Company assumed the commitment to build hospital in Cedar Park, Texas, with an aggregate estimated construction cost, including equipment costs, of approximately $113 millior mount, approximately $111 million has been expended through December 31, 2007. The Company expects to spend approximately llion in replacement hospital construction and equipment costs related to this project in 2008. This project is required to be completed i Also in 2005, the Company entered into an agreement with a developer to build and lease to the Company new corporate headquarters truction of the new headquarters was completed in December 2006. In January 2007, the Company exercised a purchase option under th agreement and acquired the new headquarters by purchasing the equity interests of the previous owner for a purchase price of $34.9 mi

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

ssional Liability Risks.

ssional Liability Insurance for Former Triad Hospitals

antially all of the professional and general liability risks of the acquired Triad hospitals are subject to a per occurrence deductible. antially all losses in periods prior to May 1999 are insured through a wholly-owned insurance subsidiary of HCA, Inc., or HCA, Triad r prior to that time, and excess loss policies maintained by HCA. HCA has agreed to indemnify the Triad hospitals in respect of claims ed by such insurance policies arising prior to May 1999. After May 1999, the Triad hospitals obtained insurance coverage on a claims red basis from HCA s wholly-owned insurance subsidiary with excess coverage obtained from other carriers that is subject to certain ctibles. Effective for claims incurred after December 31, 2006, Triad began insuring its claims from $1 million to $5 million through its y-owned captive insurance company, replacing the coverage provided by HCA. Substantially all claims reported on or after January 20 lf-insured up to $10 million per claim. Excess insurance for all hospitals is purchased through commercial insurance companies and ally after the self-insured amount covers up to $100 million

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

ssional Liability Insurance Claims for All Other Community Health Systems Hospitals

Company accrues for estimated losses resulting from professional liability claims. The accrual, which includes an estimate for incurred b ported claims, is based on historical loss patterns and actuarially determined projections and is discounted to its net present value using nted average risk-free discount rate of 4.1% and 4.6% in 2007 and 2006, respectively. To the extent that subsequent claims information s from management s estimates, the liability is adjusted currently. The Company s insurance is underwritten on a claims-made basis 1, 2002, substantially all of the Company s professional and general liability risks were subject to a $0.5 million per occurrence deduct aims reported from June 1, 2002 through June 1, 2003, these deductibles were $2.0 million per occurrence. Additional coverage above t ctibles was purchased through captive insurance companies in which the Company had a 7.5% minority ownership interest in each and t n the premiums paid by the Company represented less than 8% of the total premiums revenues of each captive insurance company. With ation of the Company s own wholly-owned captive insurance company in June 2003, the Company terminated its minority interest onships in those entities. Substantially all claims reported after June 1, 2003 and before June 1, 2005 are self-insured up to $4 million pe . Substantially all claims reported on or after June 1, 2005 are self-insured up to $5 million per claim. Management on occasion has ively increased the insured risk at certain hospitals based upon insurance pricing and other factors and may continue that practice in the e. Excess insurance for all hospitals was purchased through commercial insurance companies and generally covers the Company for ities in excess of the self-insured amount and up to $100 million per occurrence for claims reported on or after June 1, 2003.

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

Matters. The Company is a party to other legal proceedings incidental to its business. In the opinion of management, any ultimate liab respect to these actions will not have a material adverse effect on the Company s consolidated financial position, cash flows or results o tions.

etter dated October 4, 2007, the Civil Division of the Department of Justice notified the Company that, as a result of an investigation int n which different state Medicaid programs apply to the federal government for matching or supplemental funds that are ultimately used or a small portion of the services provided to Medicaid and indigent patients, it believes the Company and three of its New Mexico hosp caused the State of New Mexico to submit improper claims for federal funds in violation of the federal False Claims Act. In a letter date ry 22, 2008, the Civil Division notified the Company that based on its investigation, it has calculated that these three hospitals received ible federal participation payments from August 2000 to June 2006 of approximately $27.5 million. The Civil Division also advised the pany that were it to proceed to trial, it would seek treble damages plus an appropriate penalty for each of the violations of the False Clai The Company continues to believe that it has not violated the False Claims Act, and is continuing discussions with the Civil Division in to resolve this matter.

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

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Subsequent Events

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

Quarterly Financial Data (Unaudited)

	Quarter				
	1st	2nd	3rd	4th	Total
	(In thousands, except share and per share data)				
ended December 31, 2007:					
perating revenues	$ 1,154,278	$ 1,197,865	$ 2,247,009	$ 2,528,342	$ 7,127,
ne from continuing operations before taxes	93,121	87,114	31,371	(108,706)	102,
ne from continuing operations	57,289	53,558	19,699	(70,649)	59,
on discontinued operations	(2,965)	205	(9,239)	(17,609)	(29,
ncome	54,324	53,763	10,460	(88,258)	30,
ne from continuing operations per share:					
	0.61	0.57	0.21	(0.75)	(
ed	0.61	0.57	0.21	(0.75)	(
ncome per share:					
	0.58	0.57	0.11	(0.94)	(
ed	0.58	0.57	0.11	(0.94)	(
hted-average number of shares:					
	93,402,545	93,518,991	93,651,645	93,664,355	93,517,
ed	94,365,292	94,647,870	94,841,749	93,664,355	94,642,
ended December 31, 2006:					
perating revenues	$ 986,073	$ 1,017,337	$ 1,072,199	$ 1,104,527	$ 4,180,
ne from continuing operations before taxes	95,447	86,106	18,199	88,095	287,
ne from continuing operations	58,484	52,963	11,344	54,904	177,
on discontinued operations	(4,446)	(594)	(3,103)	(1,289)	(9,
ncome	54,038	52,369	8,241	53,615	168,
ne from continuing operations per share:					
	0.61	0.55	0.12	0.59	
ed	0.60	0.55	0.12	0.58	
ncome per share:					
	0.56	0.55	0.09	0.57	
ed	0.55	0.54	0.09	0.57	
hted-average number of shares:					
	96,552,448	95,769,030	94,119,020	93,538,958	94,983,

ed	98,209,271	96,870,315	95,258,771	94,644,589	96,232,

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

101

of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Supplemental Condensed Consolidating Financial Information

nnection with the consummation of the Triad acquisition, the Company obtained $7.215 billion of senior secured financing under the No
t Facility and CHS/Community Health issued the Notes in the aggregate principal amount of $3.021 billion. The Notes are senior unsec
ations of CHS/Community Health and are guaranteed on a senior basis by the Company and by certain of the Company s domestic
diaries. The Notes are fully and unconditionally guaranteed by the Company and certain of its current and future, direct and indirect, 10
d domestic subsidiaries. Such guarantees are joint and several. The following condensed consolidating financial statements present the
pany (as guarantor), CHS/Community Health (as the issuer), the subsidiary guarantors, the subsidiary non-guarantors and eliminations.
ensed consolidating financial information has been prepared and presented in accordance with SEC Regulation S-X Rule 3-10 Financi
ments of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered .

of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2007
Balance Sheet

	Parent Guarantor	Issuer	Other Guarantors	Non-Guarantors	Eliminations	Consolida
	(In thousands, except for share data)					
ASSETS						
nt assets						
and cash equivalents	$	$	$ 114,075	$ 18,799	$	$ 132,
nt accounts receivable, net of ance for doubtful accounts			954,106	579,692		1,533,
ies			163,961	98,942		262,
red income taxes	113,741					113,
id expenses and taxes		102	156,733	12,921		169,
current assets			129,147	210,679		339,
current assets	113,741	102	1,518,022	921,033		2,552,
rty and equipment, net			3,667,487	1,845,087		5,512,
will	96,671		2,162,601	1,988,442		4,247,
assets, net of accumulated tization		189,140	276,589	714,728		1,180,
nvestment in subsidiaries	1,519,952	1,464,944	4,968,905		(7,953,801)	
assets	$ 1,730,364	$ 1,654,186	$ 12,593,604	$ 5,469,290	$ (7,953,801)	$ 13,493,
LIABILITIES AND STOCKHOLDERS EQUITY						
nt Liabilities						
nt maturities of long-term debt	$	$	$ 16,603	$ 4,107	$	$ 20,
unts payable		19	276,503	216,171		492,
nt income taxes payable						
red income taxes current						
ued liabilities						
oyee compensation			231,500	172,098		403,
st payable (receivable)		153,085	8,042	(7,295)		153,
			206,308	170,794		377,
current liabilities		153,104	738,956	555,875		1,447,

-term debt payable(receivable)	4	4,487,090	4,633,801	(43,528)		9,077,
rred income taxes	407,947					407,
long-term liabilities	(2,519)	121,482	188,316	176,180		483,
rity interests in equity of consolidated diaries			13,491	352,640		366,
ompany (receivable) payable	(385,872)	(4,627,439)	5,956,358	4,562,215	(5,505,262)	
holders equity						
rred stock						
mon stock	966		1	2	(3)	
ional paid-in capital	1,240,308					1,240,
ury stock, at cost	(6,678)					(6,
mulated other comprehensive income	(81,737)	(81,737)	(3,990)		85,727	(81,
ned earnings	557,945	1,601,686	1,066,671	(134,094)	(2,534,263)	557,
stockholders equity	1,710,804	1,519,949	1,062,682	(134,092)	(2,448,539)	1,710,
liabilities and stockholders equity	$ 1,730,364	$ 1,654,186	$ 12,593,604	$ 5,469,290	$ (7,953,801)	$ 13,493,

103

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2006
Balance Sheet

	Parent Guarantor	Issuer	Other Guarantors	Non-Guarantors	Eliminations	Consolida
			(In thousands, except for share data)			
			ASSETS			
nt assets:						
and cash equivalents	$	$	$ 28,560	$ 12,006	$	$ 40,
nt accounts receivable, net of allowance oubtful accounts			607,460	166,524		773,
ies			87,688	25,632		113,
red income taxes	13,249					13,
id expenses and taxes			31,586	799		32,
current assets			25,827	22,053		47,
current assets	13,249		781,121	227,014		1,021,
erty and equipment, net			1,580,301	406,276		1,986,
will			1,159,545	176,980		1,336,
assets, net of accumulated amortization		20,804	123,413	17,876		162,
nvestment in subsidiaries	1,085,218	1,071,903	420,246		(2,577,367)	
assets	$ 1,098,467	$ 1,092,707	$ 4,064,626	$ 828,146	$ (2,577,367)	$ 4,506,
			LIABILITIES AND STOCKHOLDERS EQUITY			
nt liabilities:						
nt maturities of long-term debt	$	$ 16,000	$ 20,065	$ (669)	$	$ 35,
unts payable			201,340	46,407		247,
nt income taxes payable			7,626			7,
ued liabilities						
oyee compensation			127,620	34,568		162,
est payable	867	5,866	316	73		7,
			86,784	28,420		115,
current liabilities	867	21,866	443,751	108,799		575,
-term debt payable	300,000	1,556,000	24,942	24,839		1,905,

rred income taxes	141,472					141,
long-term liabilities			124,886	11,925		136,
rity interests in equity of consolidated diaries			502	23,057		23,
ompany (receivable) payable	(1,067,545)	(1,570,373)	2,403,385	709,118	(474,585)	
holders equity:						
rred Stock	950		1	2	(3)	
mon Stock						
ional paid-in capital	1,195,947					1,195,
ury stock, at cost	(6,678)					(6,
mulated other comprehensive income	5,798	5,798	(7,516)		1,718	5,
ned earnings	527,656	1,079,416	1,074,675	(49,594)	(2,104,497)	527,
stockholders equity	1,723,673	1,085,214	1,067,160	(49,592)	(2,102,782)	1,723,
liabilities and stockholders equity	$ 1,098,467	$ 1,092,707	$ 4,064,626	$ 828,146	$ (2,577,367)	$ 4,506,

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Year Ended December 31, 2007
Statement of Income

	Parent Guarantor	Issuer	Other Guarantors	Non-Guarantors	Eliminations	Consolilda
			(In thousands)			
evenue	$	$	$ 4,932,207	$ 2,195,287	$	$ 7,127,
nses and Costs:						
es and benefits			1,896,340	998,637		2,894,
sion for bad debts			664,619	232,666		897,
ies			628,922	315,846		944,
operating expenses			960,095	472,903		1,432,
			91,836	63,730		155,
eciation & amortization			218,722	97,493		316,
			4,460,534	2,181,275		6,641,
ne from operations			471,673	14,012		485,
st expense, net		(160,144)	455,541	69,136		364,
from early extinguishment of debt		27,388				27,
rity interests in earnings			823	15,173		15,
y in earnings of unconsolidated tes	(73,292)	59,464	74,773		(86,077)	(25,
ne from continuing operations before ne taxes	73,292	73,292	(59,464)	(70,297)	86,077	102,
sion for income taxes	43,003					43,
ne from continuing operations	30,289	73,292	(59,464)	(70,297)	86,077	59,
ntinued operations, net of taxes:						
from operations of hospitals sold or or sale				(11,067)		(11,
oss on sale of hospitals and partnership sts				(2,594)		(2,
rment of long-lived assets of hospitals or sale				(15,947)		(15,
on discontinued operations				(29,608)		(29,
ncome	$ 30,289	$ 73,292	$ (59,464)	$ (99,905)	$ 86,077	$ 30,

105

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Year Ended December 31, 2006
Statement of Income

	Parent Guarantor	Issuer	Other Guarantors	Non-Guarantors	Eliminations	Consolida
			(In thousands)			
evenue	$	$	$ 3,344,830	$ 835,306	$	$ 4,180,
ating costs and expenses:						
es and benefits			1,278,676	382,943		1,661,
sion for bad debts			406,095	112,766		518,
ies			390,147	97,631		487,
			64,544	27,399		91,
operating expenses			658,746	196,850		855,
eciation & amortization			147,885	31,397		179,
operating costs and expenses			2,946,093	848,986		3,795,
ne from operations			398,737	(13,680)		385,
st expense, net			71,793	22,618		94,
from early extinguishment of debt			4			
rity interests in earnings			59	2,736		2,
y in earnings of unconsolidated tes	(278,415)	(278,415)	53,778		503,052	
ne from continuing operations before ne taxes	278,415	278,415	273,103	(39,034)	(503,052)	287,
sion for income taxes	110,152					110,
ne from continuing operations	168,263	278,415	273,103	(39,034)	(503,052)	177,
ntinued operations, net of taxes:						
from operations of hospitals sold or for sale				(6,873)		(6,
on sale of hospitals and partnership sts				(2,559)		(2,
on discontinued operations				(9,432)		(9,
ncome	$ 168,263	$ 278,415	$ 273,103	$ (48,466)	$ (503,052)	$ 168,

of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Year Ended December 31, 2005
Statement of Income

	Parent Guarantor	Issuer	Other Guarantors	Non- Guarantors	Eliminations	Consolilda
			(In thousands)			
levenue	$	$	$ 2,829,563	$ 746,554	$	$ 3,576,
nses and Costs:						
es and benefits			1,095,638	325,507		1,421,
sion for bad debts			278,743	77,377		356,
ies			341,896	87,950		429,
operating expenses			555,381	175,643		731,
			58,973	23,284		82,
eciation & amortization			128,062	29,200		157,
			2,458,693	718,961		3,177,
ne from operations			370,870	27,593		398,
est expense, net		(9)	67,927	19,267		87,
rity interests in earnings			129	2,975		3,
y in earnings of unconsolidated ates	(287,348)	(287,499)	15,315		559,532	
ne from continuing operations before ne taxes	287,348	287,508	287,499	5,351	(559,532)	308,
sion for income taxes	119,804					119,
ne from continuing operations	167,544	287,508	287,499	5,351	(559,532)	188,
ntinued operations, net of taxes:						
from operations of hospitals sold or or sale				(8,737)		(8,
on sale of hospitals				(7,618)		(7,
rment of long-lived assets of hospitals or sale				(4,471)		(4,
on discontinued operations				(20,826)		(20,
ncome	$ 167,544	$ 287,508	$ 287,499	$ (15,475)	$ (559,532)	$ 167,

107

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Year Ended December 31, 2007
Statement of Cash Flows

	Parent Guarantor	Issuer	Other Guarantors	Non-Guarantors	Eliminations	Consolida
			(In thousands)			
flows from operating activities						
ncome	$ 30,289	$ 73,292	$ (59,464)	$ (99,905)	$ 86,077	$ 30,
stments to reconcile net income to net cash ded by operating activities:						
eciation and amortization			218,723	113,857		332,
on early extinguishment of debt		27,388				27,
red income taxes	(39,894)					(39,
compensation expense	38,771					38,
ss tax benefits relating to stock-based ensation	(1,216)					(1,
rity interest in earnings			823	15,173		15,
rment on hospital held for sale				19,044		19,
on sale of hospitals				3,954		3,
non-cash expenses, net		16,996	1,546	475		19,
ges in operating assets and liabilities, net ects of acquisitions and divestitures:						
nt accounts receivable			234,448	(103,148)		131,
ies, prepaid expenses and other current s		5,400	(116,398)	79,021		(31,
unts payable, accrued liabilities and ne taxes	103,484	198,461	(309,491)	133,505		125,
nces to subsidiaries, net of return on tment	246,938	(635,576)	1,461,443	(986,728)	(86,077)	
r	(87,934)	(12,225)	(724,503)	841,189		16,
ash provided by(used in) operating ties	290,438	(326,264)	707,127	16,437		687,
flows from investing activities						
isitions of facilities and other related ment		(6,864,794)	(59,203)	(94,051)		(7,018,
ases of property and equipment			(366,069)	(156,716)		(522,
of facilities				109,996		109,
eds from sale of equipment			591	4,059		4,
tment in other assets		(5,502)	(59,772)	(7,397)		(72,

ash provided by (used in) investing ties		(6,870,296)	(484,453)	(144,109)		(7,498,
flows from financing activities						
eds from exercise of stock options	8,214					8,
buy-back						
red financing costs		(182,954)				(182,
ss tax benefits relating to stock-based ensation	1,216					1,
mption of convertible notes						
eds from minority investors in joint res	128			2,223		2,
mption of minority investments in joint res				(1,356)		(1,
bution to minority investors in joint res				(6,645)		(6,
owings under Credit Agreement		9,212,000	4,941	4,686		9,221,
yments of long-term indebtedness	(299,996)	(1,832,486)	(142,100)	135,557		(2,139,
ash provided by (used in) financing ties	(290,438)	7,196,560	(137,159)	134,465		6,903,
hange in cash and cash equivalents			85,515	6,793		92,
and cash equivalents at beginning of d			28,560	12,006		40,
and cash equivalents at end of period	$	$	$ 114,075	$ 18,799	$	$ 132,

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Year Ended December 31, 2006
Statement of Cash Flows

	Parent Guarantor	Issuer	Other Guarantors	Non-Guarantors	Eliminations	Consolida
			(In thousands)			
flows from operating activities:						
ncome	$ 168,263	$ 278,415	$ 273,103	$ (48,466)	$ (503,052)	$ 168,
stments to reconcile net income to net cash ded by operating activities:						
rred income taxes	(25,228)					(25,
eciation and amortization			147,885	40,886		188,
compensation expense	20,073					20,
ss tax benefits relating to stock-based ensation	(6,819)					(6,
on early extinguishment of debt						
rity interest in earnings			59	2,736		2,
on sale of hospitals				3,937		3,
non-cash expenses, net			427	73		
ges in operating assets and liabilities, net of s of acquisitions and divestitures:						
nt accounts receivable			(70,011)	(1,130)		(71,
ies, prepaid expenses and other current s			(8,633)	4,089		(4,
unts payable, accrued liabilities and income	4,935	1,358	71,161	(25,303)		52,
nces to subsidiaries, net of return on tment	4,977	(659,034)	49,448	101,557	503,052	
r	(11,149)	(7,739)	24,168	16,217		21,
ash provided by (used in) operating ties	155,052	(387,000)	487,607	94,596		350,
flows from investing activities						
isitions of facilities and other related ment			(340,314)	(44,304)		(384,
ases of property and equipment			(176,070)	(48,449)		(224,
eds from sale of equipment			102	4,378		4,
osition of hospital and other ancillary tions				750		
ase in other assets			(20,420)	(15,930)		(36,

ash provided by (used in) investing ties			(536,702)	(103,555)		(640,
flows from financing activities:						
eds from exercise of stock options	14,573					14,
buy-back	(176,316)					(176,
red financing costs			(2,153)			(2,
ss tax benefits relating to stock-based ensation	6,819					6,
mption of convertible notes	(128)					(
eds from minority investors in joint res				6,890		6,
mption of minority investments in joint res			(56)	(859)		(
bution to minority investors in joint res				(3,220)		(3,
wings under Credit Agreement		1,031,000				1,031,
yments of long-term indebtedness		(644,000)	(3,525)	(2,565)		(650,
ash provided by (used in) financing ties	(155,052)	387,000	(5,734)	246		226,
hange in cash and cash equivalents			(54,829)	(8,713)		(63,
and cash equivalents at beginning of d			83,389	20,719		104,
and cash equivalents at end of period	$	$	$ 28,560	$ 12,006	$	$ 40,

109

of Contents

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Year Ended December 31, 2005
Statement of Cash Flows

	Parent Guarantor	Issuer	Other Guarantors	Non-Guarantors	Eliminations	Consolida
			(In thousands)			
flows from operating activities						
ncome	$ 167,544	$ 287,508	$ 287,499	$ (15,475)	$ (559,532)	$ 167,
stments to reconcile net income to net cash ded by operating activities:						
eciation and amortization			128,062	38,100		166,
on early extinguishment of debt						
rred income taxes	9,889					9,
compensation expense	4,957					4,
ss tax benefits relating to stock-based ensation						
rity interest in earnings			129	2,975		3,
rment on hospital held for sale				6,718		6,
on sale of hospitals				6,295		6,
non-cash expenses, net			1,607	(867)		
ges in operating assets and liabilities, net of s of acquisitions and divestitures:						
nt accounts receivable			(38,917)	(8,538)		(47,
ies, prepaid expenses and other current s			(18,462)	1,624		(16,
unts payable, accrued liabilities and income	24,183	803	42,704	17,266		84,
nces to subsidiaries, net of return on tment	(183,330)	(271,514)	(99,433)	(5,255)	559,532	
r	7,328	(4,797)	30,187	(7,741)		24,
ash provided by(used in) operating activities	30,571	12,000	333,376	35,102		411,
flows from investing activities						
isitions of facilities and other related ment			(125,493)	(32,886)		(158,
hases of property and equipment			(153,422)	(34,943)		(188,
of facilities			(6,500)	58,498		51,
eds from sale of equipment			112	2,213		2,
tment in other assets			(22,444)	(12,407)		(34,
ash provided by (used in) investing activities			(307,747)	(19,525)		(327,

flows from financing activities					
eds from exercise of stock options	49,580				49,
buy-back	(79,853)				(79,
red financing costs			(1,259)		(1,
ss tax benefits relating to stock-based ensation					
mption of convertible notes	(298)				(
eds from minority investors in joint ventures				1,383	1,
mption of minority investments in joint res				(3,242)	(3,
bution to minority investors in joint ventures				(1,939)	(1,
owings under Credit Agreement					
yments of long-term indebtedness		(12,000)	(11,863)	(2,676)	(26,
ash provided by (used in) financing activities	(30,571)	(12,000)	(13,122)	(6,474)	(62,
hange in cash and cash equivalents			12,507	9,103	21,
and cash equivalents at beginning of period			70,882	11,616	82,
and cash equivalents at end of period	$	$	$ 83,389	$ 20,719	$ 104,

of Contents

9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

9A. *Controls and Procedures*

Chief Executive Officer and Chief Financial Officer, with the participation of other members of management, have evaluated the iveness of our disclosure controls and procedures (as defined in Rules 13a 15(e) and 15d 15(e)) under the Securities and Exchange as amended, as of December 31, 2006. Based on such evaluations, our Chief Executive Officer and Chief Financial Officer concluded such date, our disclosure controls and procedures were effective (at the reasonable assurance level) to ensure that the information requi cluded in this report has been recorded, processed, summarized and reported within the time periods specified in the Commission s rule and to ensure that the information required to be included in this report was accumulated and communicated to management, including Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

result of the completion of the acquisition of Triad on July 25, 2007, our internal controls over financial reporting have changed. Since t acquisition, we have started to analyze the systems of disclosure controls and procedures and internal controls over financial reporting rmer Triad hospitals and other operations acquired in the Triad acquisition and integrate them within our broader framework of control Securities and Exchange Commission s rules require us to complete this process by the first anniversary of the acquisition. We plan to lete this evaluation and integration within the required time frame and report any changes in internal controls in our first annual report i n our assessment of the former Triad hospitals and other operations is to be included. Although we have not yet identified any material nesses in our disclosure controls and procedures or internal control over financial reporting as a result of this acquisition, there can be n ance that a material weakness will not be identified in the course of this review.

are no other changes in internal control over financial reporting that occurred during the period that have materially affected or are nably likely to materially affect our internal controls over financial reporting.

9B. *Other Information*

Management s Report on Internal Control over Financial Reporting

re responsible for the preparation and integrity of the consolidated financial statements appearing in our Annual Report. The consolidate cial statements were prepared in conformity with accounting principles generally accepted in the United States of America and include nts based on management s estimates and judgments. All other financial information in this report has been presented on a basis consis the information included in the consolidated financial statements.

re also responsible for establishing and maintaining adequate internal controls over financial reporting (as defined in Rule 13a 15(f) u ecurities and Exchange Act of 1934, as amended). We maintain a system of internal controls that is designed to provide reasonable assu the fair and reliable preparation and presentation of the consolidated financial statements, as well as to safeguard assets from unauthoriz r disposition.

ontrol environment is the foundation for our system of internal control over financial reporting and is embodied in our Code of Conduc he tone of our organization and includes factors such as integrity and ethical values. Our internal control over financial reporting is supp rmal policies and procedures which are reviewed, modified and improved as changes occur in business conditions and operations.

Audit and Compliance Committee of the Board of Directors, which is composed solely of outside directors, meets periodically with mem nagement, the internal auditors and the independent registered public accounting firm to review and discuss internal control over financ ting and accounting and financial reporting matters. The independent registered public accounting firm and internal auditors report to th and Compliance Committee and accordingly have full and free access to the Audit and Compliance Committee at any time.

ly 25, 2007, we completed the acquisition of Triad and Triad s results of operations have been included in the consolidated financial ments since that date. As permitted by applicable rules, we have excluded the systems of disclosure controls and procedures and internal ol over financial reporting of the former Triad hospitals and other operations acquired in the Triad acquisition from the scope of gement s assessment of the effectiveness of internal control over financial reporting as of December 31, 2007. The former Triad hospit ther operations represent approximately 40% of total assets as of December 31, 2007, and the results of operations from the former Tria tals and other operations represent approximately 34% of net revenue for the year ended December 31, 2007.

onducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control rated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. This evaluation included review ocumentation of controls, evaluation of the design effectiveness of controls, testing of the operating effectiveness of controls and a usion on this evaluation. We have concluded that our internal control over financial reporting was effective as of December 31, 2007, b ese criteria.

tte & Touche LLP, an independent registered public accounting firm, has issued an attestation report on our internal control over financ ting, which is included herein.

o not expect that our disclosure controls and procedures or our internal controls will prevent all error and all fraud. A control system, no r how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are m er, the design of a control system must reflect the fact there are resource constraints and the benefits of controls must be considered rela ir costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all cont s and instances of fraud, if any, within the Company have been detected.

of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

e Board of Directors and Stockholders of
munity Health Systems, Inc.
klin, Tennessee

ave audited the internal control over financial reporting of Community Health Systems, Inc. and subsidiaries (the Company) as of
mber 31, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring
nizations of the Treadway Commission. As described in Management s Report on Internal Control over Financial Reporting, managem
ded from its assessment the internal control over financial reporting at Triad Hospitals, Inc. (Triad), which was acquired on July 25,
whose financial statements constitute approximately 40% of total assets and approximately 34% of net revenues of the consolidated fina
ment amounts as of and for the year ended December 31, 2007. Accordingly, our audit did not include the internal control over financial
ting at Triad. The Company s management is responsible for maintaining effective internal control over financial reporting and for its
sment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal
rol over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting bas
udit.

onducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standar
re that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting wa
ained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the r
material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, an
rming such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for
on.

mpany s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executi
pal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and oth
nnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for exter
oses in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those
es and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions a
sitions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation o
cial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are bein
only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding
ntion or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on th
cial statements.

use of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper managemen
ide of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any
ation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may be
quate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

r opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007,
on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the
dway Commission.

ave also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated
cial statements as of and for the year ended December 31, 2007 of the Company and our report dated February 28, 2008 expressed an
alified opinion on those consolidated financial statements and included an explanatory paragraph referring to the Company adopting the
recognition provisions of Statement of Financial Accounting Standards No. 123 (Revised 2004), *Share Based Payment* effective Janua

eloitte & Touche LLP

ville, Tennessee
ary 28, 2008

113

PART III

10. ***Directors and Executive Officers of the Company***

nformation required by this Item is incorporated herein by reference from the Company s definitive proxy statement to be filed under lation 14A in connection with the Annual Meeting of the Stockholders of the Company scheduled to be held on May 20, 2008, under nbers of the Board of Directors, Information About our Executive Officers, Compliance with Exchange Act Section 16(A) Benef ership Reporting and Corporate Governance Principles and Board Matters.

11. ***Executive Compensation***

nformation required by this Item is incorporated herein by reference from the Company s definitive proxy statement to be filed under lation 14A in connection with the Annual Meeting of the Stockholders of the Company scheduled to be held on May 20, 2008 under cutive Compensation.

12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

nformation required by this Item is incorporated herein by reference from the Company s definitive proxy statement to be filed under lation 14A in connection with the Annual Meeting of the Stockholders of the Company scheduled to be held on May 20, 2008 under urity Ownership of Certain Beneficial Owners and Management.

13. ***Certain Relationships and Related Transactions***

nformation required by this Item is incorporated herein by reference from the Company s definitive proxy statement to be filed under lation 14A in connection with the Annual Meeting of the Stockholders of the Company scheduled to be held on May 20, 2008 under C actions.

14. ***Principal Accountant Fees and Services***

nformation required by this Item is incorporated herein by reference from the Company s definitive proxy statement to be filed under lation 14A in connection with the Annual Meeting of the Stockholders of the Company scheduled to be held on May 20, 2008 under fication of the Appointment of Independent Registered Public Accounting Firm.

PART IV

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

15(a) 1. *Financial Statements*

ence is made to the index of financial statements and supplementary data under Item 8 in Part II.

15(a) 2. *Financial Statement Schedules*

ollowing financial statement schedule is filed as part of this Report at page 120 hereof:

dule II *Valuation and Qualifying Accounts*

ther schedules are omitted since the required information is not present or is not present in amounts sufficient to require submission of th
ule, or because the information required is included in the consolidated financial statements and notes thereto.

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

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

	Description
2.1	Agreement and Plan of Merger between the Registrant, FLCH Acquisition Corp. and Community Health Systems, Inc., dated on June 9, 1996 (incorporated by reference to Exhibit 2.1 to the Company s Registration Statement on Form S-1 (No. 333-31790))
2.2	Agreement and Plan of Merger, dated as of March 19, 2007, by and among Triad Hospitals, Inc., Community Health Systems, In and FWCT-1 Acquisition Corporation (incorporated by reference to Exhibit 2.1 to Community Health Systems, Inc. s Current R on Form 8-K filed March 19, 2007 (No. 001-15925))
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led herewith.

15(b):

of Contents

SIGNATURES

ant to the requirements of section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be sig behalf by the undersigned, thereunto duly authorized.

munity Health Systems, Inc.

By: /s/ Wayne T. Smith

Wayne T. Smith
Chairman of the Board,
President and Chief Executive Officer

ary 28, 2008

ant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of trant and in the capacities and on the dates indicated.

Name	Title	Dat
AYNE T. SMITH e T. Smith	President and Chief Executive Officer and Director (principal executive officer)	02/28/
. LARRY CASH arry Cash	Executive Vice President, Chief Financial Officer and Director (principal financial officer)	02/28/
MARK BUFORD ark Buford	Vice President and Corporate Controller (principal accounting officer)	02/28/
OHN CLERICO A. Clerico	Director	02/28/
ALE F. FREY F. Frey	Director	02/28/
ARVEY KLEIN, M.D. ey Klein, M.D.	Director	02/28/
OHN A. FRY A. Fry	Director	02/28/

ULIA B. NORTH	Director	02/28/
B. North		
. MITCHELL WATSON, JR.	Director	02/28/
itchell Watson, Jr.		

118

of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

e Board of Directors and Stockholders of
munity Health Systems, Inc.
klin, Tennessee

ave audited the consolidated financial statements of Community Health Systems, Inc. and subsidiaries (the Company) as of Decemb
and 2006, and for each of the three years in the period ended December 31, 2007, and have issued our report thereon dated February 28
(included elsewhere in this Annual Report, such report expresses an unqualified opinion and includes an explanatory paragraph referrin
ompany adopting the fair value recognition provisions of Statement of Financial Accounting Standards No. 123 (Revised 2004), *Share*
d Payment effective January 1, 2006). Our audits also included the financial statement schedule listed in Item 15 of this Annual Report.
olidated financial statement schedule is the responsibility of the Company s management. Our responsibility is to express an opinion ba
udits. In our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial
nents taken as a whole, presents fairly in all material respects the information set forth therein.

eloitte & Touche LLP

ville, Tennessee
ary 28, 2008

of Contents

Community Health Systems, Inc. and Subsidiaries

Schedule II Valuation and Qualifying Accounts

ription	Balance at Beginning of Year	Acquisitions and Dispositions	Charged to Costs and Expenses (In thousands)	Write-offs	Balan at En of Yea
ended December 31, 2007 allowance for doubtful nts	$ 478,565	$ 421,157	$ 897,285	$ (763,491)	$ 1,033,
ended December 31, 2006 allowance for doubtful nts	$ 346,024	$ 31,241	$ 547,781	$ (446,481)	$ 478,
ended December 31, 2005 allowance for doubtful nts	$ 286,094	$	$ 377,596	$ (317,666)	$ 346,

120

Exhibit Index

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