COMMUNITY HEALTH SYSTEMS INC
Form 10-Q
April 30, 2013
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2013

Commission file number 001-15925

COMMUNITY HEALTH SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

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

615-465-7000

(Registrant s telephone number)

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

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

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

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

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

As of April 23, 2013, there were outstanding 94,258,327 shares of the Registrant s Common Stock, $0.01 par value.

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Community Health Systems, Inc.

Form 10-Q

For the Three Months Ended March 31, 2013

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PART I FINANCIAL INFORMATION

Item 1. ***Financial Statements***

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

(Unaudited)

	March 31, 2013	December 31, 2012
ASSETS		
Current assets		
Cash and cash equivalents	$ 285,048	$ 387,813
Patient accounts receivable, net of allowance for doubtful accounts of $2,258,229 and $2,201,875 at March 31, 2013 and December 31, 2012, respectively	2,215,198	2,067,379
Supplies	371,055	368,172
Prepaid income taxes	-	49,888
Deferred income taxes	117,045	117,045
Prepaid expenses and taxes	142,366	126,561
Other current assets	288,071	302,284
Total current assets	3,418,783	3,419,142
Property and equipment	10,216,916	10,145,408
Less accumulated depreciation and amortization	(3,121,782)	(2,993,535)
Property and equipment, net	7,095,134	7,151,873
Goodwill	4,408,362	4,408,138
Other assets, net	1,674,923	1,627,182
Total assets	$ 16,597,202	$ 16,606,335
LIABILITIES AND EQUITY		
Current liabilities		
Current maturities of long-term debt	$ 113,801	$ 89,911
Accounts payable	741,175	825,914
Income tax payable	5,924	-
Accrued interest	109,939	110,702
Accrued liabilities	1,038,081	1,116,693
Total current liabilities	2,008,920	2,143,220
Long-term debt	9,424,383	9,451,394
Deferred income taxes	808,489	808,489
Other long-term liabilities	1,039,365	1,039,045

Total liabilities		13,281,157		13,442,148
Redeemable noncontrolling interests in equity of consolidated subsidiaries		375,506		367,666
EQUITY				
Community Health Systems, Inc. stockholders equity				
Preferred stock, $.01 par value per share, 100,000,000 shares authorized; none issued		-		-
Common stock, $.01 par value per share, 300,000,000 shares authorized; 95,042,056 shares issued and 94,066,507 shares outstanding at March 31, 2013, and 92,925,715 shares issued and 91,950,166 shares outstanding at December 31, 2012		950		929
Additional paid-in capital		1,187,535		1,138,274
Treasury stock, at cost, 975,549 shares at March 31, 2013 and December 31, 2012		(6,678)		(6,678)
Accumulated other comprehensive loss		(126,998)		(145,310)
Retained earnings		1,823,166		1,743,992
Total Community Health Systems, Inc. stockholders equity		2,877,975		2,731,207
Noncontrolling interests in equity of consolidated subsidiaries		62,564		65,314
Total equity		2,940,539		2,796,521
Total liabilities and equity	$	16,597,202	$	16,606,335

See accompanying notes to the condensed consolidated financial statements.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except share and per share data)

(Unaudited)

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Operating revenues (net of contractual allowances and discounts)	$ 3,799,864	$ 3,783,491
Provision for bad debts	488,114	486,456
Net operating revenues	3,311,750	3,297,035
Operating costs and expenses:		
Salaries and benefits	1,577,148	1,524,975
Supplies	497,841	498,579
Other operating expenses	707,974	708,943
Electronic health records incentive reimbursement	(20,916)	(26,168)
Rent	71,554	67,224
Depreciation and amortization	192,158	174,354
Total operating costs and expenses	3,025,759	2,947,907
Income from operations	285,991	349,128
Interest expense, net	156,350	152,175
Loss from early extinguishment of debt	1,295	63,429
Equity in earnings of unconsolidated affiliates	(15,680)	(12,013)
Income from continuing operations before income taxes	144,026	145,537
Provision for income taxes	47,703	45,819
Income from continuing operations	96,323	99,718
Discontinued operations, net of taxes:		
Loss from operations of entities sold	-	(466)
Loss from discontinued operations, net of taxes	-	(466)
Net income	96,323	99,252
Less: Net income attributable to noncontrolling interests	17,149	23,778
Net income attributable to Community Health Systems, Inc. stockholders	$ 79,174	$ 75,474
Basic earnings (loss) per share attributable to Community Health Systems, Inc. common stockholders:		
Continuing operations	$ 0.87	$ 0.86
Discontinued operations	-	(0.01)

Net income	$	0.87	$	0.85
Diluted earnings (loss) per share attributable to Community Health Systems, Inc. common stockholders(1):				
Continuing operations	$	0.86	$	0.85
Discontinued operations		-		(0.01)
Net income	$	0.86	$	0.85
Weighted-average number of shares outstanding:				
Basic		91,002,615		88,674,779
Diluted		91,998,993		88,852,704

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

See accompanying notes to the condensed consolidated financial statements.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Net income	$ 96,323	$ 99,252
Other comprehensive income, net of income taxes:		
Net change in fair value of interest rate swaps	15,770	10,536
Net change in fair value of available-for-sale securities	1,809	2,667
Amortization and recognition of unrecognized pension cost components	733	1,140
Other comprehensive income	18,312	14,343
Comprehensive income	114,635	113,595
Less: Comprehensive income attributable to noncontrolling interests	17,149	23,778
Comprehensive income attributable to Community Health Systems, Inc. stockholders	$ 97,486	$ 89,817

See accompanying notes to the condensed consolidated financial statements.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended March 31, 2013	2012
Cash flows from operating activities		
Net income	$ 96,323	$ 99,252
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	192,158	174,354
Stock-based compensation expense	9,958	10,495
Loss from early extinguishment of debt	1,295	63,429
Excess tax benefit relating to stock-based compensation	(5,358)	(1,004)
Other non-cash expenses, net	5,269	2,569
Changes in operating assets and liabilities, net of effects of acquisitions and divestitures:		
Patient accounts receivable	(147,805)	(163,484)
Supplies, prepaid expenses and other current assets	(1,752)	(125,111)
Accounts payable, accrued liabilities and income taxes	(97,678)	96,109
Other	4,744	30,701
Net cash provided by operating activities	57,154	187,310
Cash flows from investing activities		
Acquisitions of facilities and other related equipment	(4,750)	(248,436)
Purchases of property and equipment	(112,859)	(184,903)
Proceeds from sale of property and equipment	714	748
Increase in other investments	(69,483)	(67,708)
Net cash used in investing activities	(186,378)	(500,299)
Cash flows from financing activities		
Proceeds from exercise of stock options	73,429	308
Repurchase of restricted stock shares for payroll tax withholding requirements	(14,478)	(9,032)
Stock buy-back	(18,726)	-
Deferred financing costs	(878)	(24,787)
Excess tax benefit relating to stock-based compensation	5,358	1,004
Redemption of noncontrolling investments in joint ventures	(436)	(31,096)
Distributions to noncontrolling investors in joint ventures	(15,291)	(27,038)
Borrowings under credit agreements	100,893	2,704,337
Issuance of long-term debt	-	1,025,000
Proceeds from receivables facility	300,000	300,000
Repayments of long-term indebtedness	(403,412)	(3,626,274)
Net cash provided by financing activities	26,459	312,422

Net change in cash and cash equivalents		(102,765)		(567)
Cash and cash equivalents at beginning of period		387,813		129,865
Cash and cash equivalents at end of period	$	285,048	$	129,298
Supplemental disclosure of cash flow information:				
Interest payments	$	149,735	$	161,140
Income tax refunds received, net	$	(448)	$	(61)

See accompanying notes to the condensed consolidated financial statements.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements of Community Health Systems, Inc. and its subsidiaries (the Company) as of March 31, 2013 and December 31, 2012 and for the three-month periods ended March 31, 2013 and March 31, 2012, have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). In the opinion of management, such information contains all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for such periods. All intercompany transactions and balances have been eliminated. The results of operations for the three months ended March 31, 2013, are not necessarily indicative of the results to be expected for the full fiscal year ending December 31, 2013. Certain information and disclosures normally included in the notes to consolidated financial statements have been condensed or omitted as permitted by the rules and regulations of the Securities and Exchange Commission (the SEC). The Company believes the disclosures are adequate to make the information presented not misleading. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2012, contained in the Company s Annual Report on Form 10-K.

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

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

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

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

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

Operating revenues, net of contractual allowances and discounts (but before the provision for bad debts), recognized during the three months ended March 31, 2013 and 2012, were as follows (in thousands):

	Three Months Ended March 31,

	2013	2012
Medicare	$ 992,893	$ 1,064,157
Medicaid	332,349	315,092
Managed Care and other third-party payors	1,965,858	1,906,487
Self-pay	508,764	497,755
Total	$ 3,799,864	$ 3,783,491

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) CONTINUED

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

The Company recognized approximately $20.9 million and $26.2 million during the three months ended March 31, 2013 and 2012, respectively, of incentive reimbursement for HITECH incentives from Medicare and Medicaid related to certain of the Company s hospitals and for certain of the Company s employed physicians that have demonstrated meaningful use of certified EHR technology or have completed attestations to their adoption or implementation of certified EHR technology. These incentive reimbursements are presented as a reduction of operating costs and expenses on the condensed consolidated statements of income. The Company received cash related to the incentive reimbursement for HITECH incentives of approximately $45.1 million and $5.8 million for the three months ended March 31, 2013 and 2012, respectively, of which $19.9 million and $1.0 million was recorded as deferred revenue as all criteria for gain recognition had not been met, for the three months ended March 31, 2013 and 2012, respectively.

Reimbursement Settlement. Included in net operating revenues for the three months ended March 31, 2012 on a non-same store basis is approximately $101.8 million of net operating revenues from an industry-wide settlement with the United States Department of Health and Human Services and Centers for Medicare and Medicaid Services, based on a claim that acute-care hospitals in the U.S. were underpaid from the Medicare inpatient prospective payment system in federal fiscal years 1999 through 2011. The underpayments resulted from calculations related to the rural floor budget neutrality adjustments implemented in connection with the Balanced Budget Act of 1997. Also included in net operating revenues for the three months ended March 31, 2012 is an unfavorable adjustment of approximately $21.0 million related to the revised Supplemental Security Income ratios issued for federal fiscal years 2006 through 2009 utilized for calculating Medicare Disproportionate Share Hospital reimbursements.

2. ACCOUNTING FOR STOCK-BASED COMPENSATION

Stock-based compensation awards are granted under the Community Health Systems, Inc. Amended and Restated 2000 Stock Option and Award Plan, amended and restated as of March 20, 2013 (the 2000 Plan), and the Community Health Systems, Inc. 2009 Stock Option and Award Plan, amended and restated as of March 20, 2013 (the 2009 Plan).

The 2000 Plan allows for the grant of incentive stock options intended to qualify under Section 422 of the Internal Revenue Code (the IRC), as well as stock options which do not so qualify, stock appreciation rights, restricted stock, restricted stock units, performance-based shares or units and other share awards. Prior to being amended in 2009, the 2000 Plan also allowed for the grant of phantom stock. Persons eligible to receive grants under the 2000 Plan include the Company s directors, officers, employees and consultants. To date, all options granted under the 2000 Plan have been nonqualified stock options for tax purposes. Generally, vesting of these granted options occurs in one-third increments on each of the first three anniversaries of the award date. Options granted prior to 2005 have a 10-year contractual term, options granted in 2005 through 2007 have an eight-year contractual term and options granted in 2008 or later have a 10-year contractual term. As of March 31, 2013, 814,471 shares of unissued common stock were reserved for future grants under the 2000 Plan. Contingent upon the approval by the Company s stockholders of the March 20, 2013 amendment and restatement of the 2009 Plan, no further shares will be awarded under the 2000 plan.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) CONTINUED

The 2009 Plan provides for the grant of incentive stock options intended to qualify under Section 422 of the IRC and for the grant of stock options which do not so qualify, stock appreciation rights, restricted stock, restricted stock units, performance-based shares or units and other share awards. Persons eligible to receive grants under the 2009 Plan include the Company s directors, officers, employees and consultants. To date, all options granted under the 2009 Plan have been nonqualified stock options for tax purposes. Generally, vesting of these granted options occurs in one-third increments on each of the first three anniversaries of the award date. Options granted in 2011 or later have a 10-year contractual term. As of March 31, 2013, 3,342,567 shares of unissued common stock were reserved for future grants under the 2009 Plan, assuming the Company s stockholders approve the March 20, 2013 amendment and restatement of the 2009 Plan, which will add 3,000,000 additional shares for future grants.

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

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

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Effect on income from continuing operations before income taxes	$ (9,958)	$ (10,495)
Effect on net income	$ (6,254)	$ (6,664)

At March 31, 2013, $57.1 million of unrecognized stock-based compensation expense was expected to be recognized over a weighted-average period of 26 months. Of that amount, $5.3 million related to outstanding unvested stock options was expected to be recognized over a weighted-average period of 15 months and $51.8 million related to outstanding unvested restricted stock and restricted stock units was expected to be recognized over a weighted-average period of 27 months. There were no modifications to awards during the three months ended March 31, 2013.

The fair value of stock options granted was estimated using the Black Scholes option pricing model with the following assumptions during the three-months ended March 31, 2013 and 2012:

	Three Months Ended March 31, 2013 (1)	Three Months Ended March 31, 2012
Expected volatility	-	57.7 %
Expected dividends	-	-
Expected term	-	4.1 years
Risk-free interest rate	-	0.7 %

(1) No stock options were granted during the three months ended March 31, 2013.

In determining the expected term, the Company examined concentrations of option holdings and historical patterns of option exercises and forfeitures, as well as forward-looking factors, in an effort to determine if there were any discernible employee populations. From this analysis, the Company identified two primary employee populations, one consisting of certain senior executives and the other one consisting of substantially all other recipients.

The expected volatility rate was estimated based on historical volatility. In determining expected volatility, the Company also reviewed the market-based implied volatility of actively traded options of its common stock and determined that historical volatility utilized to estimate the expected volatility rate did not differ significantly from the implied volatility.

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

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) CONTINUED

Options outstanding and exercisable under the 2000 Plan and the 2009 Plan as of March 31, 2013, and changes during the three-month period following December 31, 2012, were as follows (in thousands, except share and per share data):

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value as of March 31, 2013
Outstanding at December 31, 2012	7,104,113	$ 34.25		
Granted	-	-		
Exercised	(2,248,891)	32.53		
Forfeited and cancelled	(20,010)	35.93		
Outstanding at March 31, 2013	4,835,212	34.98	4.6 years	$ 60,000
Exercisable at March 31, 2013	4,166,134	$ 35.67	4.0 years	$ 48,825

The weighted-average grant date fair value of stock options granted during the three months ended March 31, 2012 was $9.15. No stock options were granted during the three months ended March 31, 2013. The aggregate intrinsic value (the number of in-the-money stock options multiplied by the difference between the Company s closing stock price on the last trading day of the reporting period ($47.39) and the exercise price of the respective stock options) in the table above represents the amount that would have been received by the option holders had all option holders exercised their options on March 31, 2013. This amount changes based on the market value of the Company s common stock. The aggregate intrinsic value of options exercised during the three months ended March 31, 2013 and 2012 was $19.3 million and $0.1 million, respectively. The aggregate intrinsic value of options vested and expected to vest approximates that of the outstanding options.

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

Restricted stock outstanding under the 2000 Plan and the 2009 Plan as of March 31, 2013, and changes during the three-month period following December 31, 2012, were as follows:

	Shares	Weighted-Average Grant Date Fair Value
Unvested at December 31, 2012	1,744,564	$ 30.50
Granted	786,588	41.49
Vested	(913,970)	32.38

Forfeited	-	-
Unvested at March 31, 2013	1,617,182	34.79

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) CONTINUED

Restricted stock units (RSUs) have been granted to the Company s outside directors under the 2000 Plan and the 2009 Plan. On February 23, 2011, each of the Company s outside directors received a grant under the 2009 Plan of 3,688 RSUs. On February 16, 2012, each of the Company s outside directors received a grant under the 2009 Plan of 6,645 RSUs. On February 27, 2013, each of the Company s outside directors received a grant under the 2009 Plan of 3,596 RSUs. Vesting of these shares of RSUs occurs in one-third increments on each of the first three anniversaries of the award date.

RSUs outstanding under the 2000 Plan and the 2009 Plan as of March 31, 2013, and changes during the three-month period following December 31, 2012, were as follows:

	Shares	Weighted-Average Grant Date Fair Value
Unvested at December 31, 2012	62,886	$ 26.72
RSUs Granted	21,576	41.71
Vested	(28,926)	29.04
Forfeited	-	-
Unvested at March 31, 2013	55,536	31.33

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

	Three Months Ended March 31, 2013	2012
Directors fees earned and deferred into plan	$ 33	$ 28
Share equivalent units	686	1,237

At March 31, 2013, a total of 28,755 share equivalent units were deferred in the plan with an aggregate fair value of $1.4 million, based on the closing market price of the Company s common stock at March 31, 2013 of $47.39.

3. COST OF REVENUE

Substantially all of the Company s operating costs and expenses are cost of revenue items. Operating costs that could be classified as general and administrative by the Company would include the Company s corporate office costs at its Franklin, Tennessee office, which were $45.4 million and $47.6 million for the three months ended March 31, 2013 and 2012, respectively. Included in these amounts is stock-based compensation expense of $10.0 million and $10.5 million for the three months ended March 31, 2013 and 2012, respectively.

4. USE OF ESTIMATES

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

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) CONTINUED

5. ACQUISITIONS AND DIVESTITURES

Acquisitions

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

Effective July 1, 2012, one or more subsidiaries of the Company completed the acquisition of Memorial Health Systems in York, Pennsylvania. This healthcare system includes Memorial Hospital (100 licensed beds), the Surgical Center of York, and other outpatient and ancillary services. As part of this purchase agreement, the Company has agreed to spend at least $75.0 million to build a replacement hospital within five years of the closing date. The total cash consideration paid for fixed assets and working capital was approximately $45.0 million and $2.6 million, respectively, with additional consideration of $12.5 million assumed in liabilities, for a total consideration of $60.1 million. Based upon the Company s preliminary purchase price allocation relating to this acquisition as of March 31, 2013, approximately $10.3 million of goodwill has been recorded. The preliminary allocation of the purchase price has been determined by the Company based on available information and is subject to settling amounts related to purchased working capital and final appraisals of tangible and intangible assets. Adjustments to the purchase price allocation are not expected to be material.

Effective March 5, 2012, one or more subsidiaries of the Company completed a merger with Diagnostic Clinic of Longview, P.A., which is a multi-specialty clinic serving residents of Longview, Texas and surrounding East Texas communities. This merger was accounted for as a purchase business combination. The total cash consideration paid for the business, including net working capital, was approximately $52.3 million, with additional consideration of $6.9 million assumed in liabilities, for a total consideration of $59.2 million. Based upon the Company s final purchase price allocation relating to this acquisition, approximately $41.8 million of goodwill has been recorded.

Effective March 1, 2012, one or more subsidiaries of the Company completed the acquisition of MetroSouth Medical Center (330 licensed beds) located in Blue Island, Illinois. The total cash consideration paid for fixed assets was approximately $39.3 million with additional consideration of $5.8 million assumed in liabilities as well as a credit applied at closing of $0.9 million for negative acquired working capital, for a total consideration of $44.2 million. Based upon the Company s preliminary purchase price allocation relating to this acquisition as of March 31, 2013, no goodwill has been recorded. The preliminary allocation of the purchase price has been determined by the Company based on available information and is subject to settling amounts related to purchased working capital and final appraisals of tangible and intangible assets. Adjustments to the purchase price allocation are not expected to be material.

Effective January 1, 2012, one or more subsidiaries of the Company completed the acquisition of Moses Taylor Healthcare System based in Scranton, Pennsylvania, which is a healthcare system comprised of two acute care hospitals and other healthcare providers. This healthcare system includes Moses Taylor Hospital (217 licensed beds) located in Scranton, Pennsylvania, and Mid-Valley Hospital (25 licensed beds) located in Peckville, Pennsylvania. The total cash consideration paid for fixed assets and working capital was approximately $151.1 million and $13.1 million, respectively, with additional consideration of $9.4 million assumed in liabilities, for a total consideration of $173.6 million. Based upon the Company s final purchase price allocation relating to this acquisition, approximately $54.6 million of goodwill has been recorded.

Additionally, during the three months ended March 31, 2013, the Company paid approximately $1.4 million to acquire the operating assets and related businesses of certain physician practices, clinics and other ancillary businesses that operate within the communities served by its hospitals. In connection with these acquisitions, the Company allocated approximately $0.5 million of the consideration paid to property and equipment, $0.4 million to net working capital, and the remainder, approximately $0.5 million consisting of intangible assets that do not qualify for separate recognition, was allocated to goodwill. These acquisition transactions were accounted for as purchase business combinations.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) CONTINUED

Approximately $0.6 million and $4.3 million of acquisition costs related to prospective and closed acquisitions were expensed during the three months ended March 31, 2013 and 2012, respectively, and are included in other operating expenses on the condensed consolidated statements of income.

6. INCOME TAXES

The total amount of unrecognized benefit that would affect the effective tax rate, if recognized, was approximately $0.9 million as of March 31, 2013. A total of approximately $0.5 million of interest and penalties is included in the amount of the liability for uncertain tax positions at March 31, 2013. It is the Company s policy to recognize interest and penalties related to unrecognized benefits in its condensed consolidated statements of income as income tax expense.

The Company, or one of its subsidiaries, files income tax returns in the United States federal jurisdiction and various state jurisdictions. The Company has extended the federal statute of limitations for Triad Hospitals, Inc. (Triad) for the tax periods ended December 31, 1999, December 31, 2000, April 30, 2001, June 30, 2001, December 31, 2001, December 31, 2002, December 31, 2003 and December 31, 2004. The Internal Revenue Service (the IRS) has concluded its examination of the federal tax return of Triad for the tax periods ended December 31, 2004, December 31, 2005, December 31, 2006 and July 25, 2007. With few exceptions, the Company is no longer subject to state income tax examinations for years prior to 2009 and federal income tax examinations with respect to Community Health Systems, Inc. federal returns for years prior to 2007. The Company s federal income tax returns for the 2007, 2008, 2009 and 2010 tax years are currently under examination by the IRS. The Company anticipates reaching a resolution on the 2007 and 2008 year examinations within the next six months. The Company believes the results of these examinations will not be material to its consolidated results of operations or consolidated financial position.

Cash paid for income taxes, net of refunds received, resulted in a cash refund of $0.5 million and $0.1 million during the three months ended March 31, 2013 and 2012, respectively.

7. GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill for the three months ended March 31, 2013 are as follows (in thousands):

Balance as of December 31, 2012	$	4,408,138
Goodwill acquired as part of acquisitions during 2013		520
Consideration and purchase price allocation adjustments for prior year s acquisitions and other adjustments		(296)
Balance as of March 31, 2013	$	4,408,362

Goodwill is allocated to each identified reporting unit, which is defined as an operating segment or one level below the operating segment (referred to as a component of the entity). Management has determined that the Company s operating segments and hospital management services operations meet the criteria to be classified as reporting units. At March 31, 2013, the hospital operations reporting unit, the home care agency operations reporting unit, and the hospital management services reporting unit had approximately $4.3 billion, $40.5 million and $33.3 million, respectively, of goodwill.

Goodwill is evaluated for impairment at the same time every year and when an event occurs or circumstances change that, more likely than not, reduce the fair value of the reporting unit below its carrying value. There is a two-step method for determining goodwill impairment. Step one is to compare the fair value of the reporting unit with the unit s carrying amount, including goodwill. If this test indicates the fair value is less than the carrying value, then step two is required to compare the implied fair value of the reporting unit s goodwill with the carrying value of the reporting unit s goodwill. The Company performed its last annual goodwill evaluation during the fourth quarter of 2012. No impairment was indicated by this evaluation. The next annual goodwill evaluation will be performed during the fourth quarter of 2013.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) CONTINUED

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

Approximately $0.3 million of intangible assets other than goodwill were acquired during the three months ended March 31, 2013. The gross carrying amount of the Company s other intangible assets subject to amortization was $60.6 million at March 31, 2013 and $61.9 million at December 31, 2012, and the net carrying amount was $25.1 million at March 31, 2013 and $26.3 million at December 31, 2012. The carrying amount of the Company s other intangible assets not subject to amortization was $48.1 million at March 31, 2013 and $48.1 million at December 31, 2012. Other intangible assets are included in other assets, net on the Company s consolidated balance sheets. Substantially all of the Company s intangible assets are contract-based intangible assets related to operating licenses, management contracts, or non-compete agreements entered into in connection with prior acquisitions.

The weighted-average amortization period for the intangible assets subject to amortization is approximately eight years. There are no expected residual values related to these intangible assets. Amortization expense on these intangible assets was $1.4 million and $1.6 million during the three months ended March 31, 2013 and 2012, respectively. Amortization expense on intangible assets is estimated to be $4.5 million for the remainder of 2013, $4.1 million in 2014, $3.2 million in 2015, $2.4 million in 2016, $2.2 million in 2017, $2.0 million in 2018 and $6.7 million thereafter.

The gross carrying amount of capitalized software for internal use was approximately $740.7 million and $654.4 million at March 31, 2013 and December 31, 2012, respectively, and the net carrying amount considering accumulated amortization was approximately $411.2 million and $354.4 million at March 31, 2013 and December 31, 2012, respectively. The estimated amortization period for capitalized internal-use software is generally three years, except for capitalized costs related to significant system conversions, which is generally eight to ten years. There is no expected residual value for capitalized internal-use software. At March 31, 2013, there was approximately $138.1 million of capitalized costs for internal-use software that is currently in the development stage and will begin amortization once the software project is complete and ready for its intended use. Amortization expense on capitalized internal-use software was $30.5 million and $19.7 million during the three months ended March 31, 2013 and 2012, respectively. Amortization expense on capitalized internal-use software is estimated to be $82.2 million for the remainder of 2013, $104.4 million in 2014, $99.6 million in 2015, $33.0 million in 2016, $27.3 million in 2017, $21.1 million in 2018 and $43.6 million thereafter.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) CONTINUED

8. EARNINGS PER SHARE

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

	Three Months Ended March 31, 2013	2012
Numerator:		
Income from continuing operations, net of taxes	$ 96,323	$ 99,718
Less: Income from continuing operations attributable to noncontrolling interests, net of taxes	17,149	23,778
Income from continuing operations attributable to Community Health Systems, Inc. common stockholders basic and diluted	$ 79,174	$ 75,940
Loss from discontinued operations, net of taxes	$ -	$ (466)
Less: Loss from discontinued operations attributable to noncontrolling interests, net of taxes	-	-
Loss from discontinued operations attributable to Community Health Systems, Inc. common stockholders basic and diluted	$ -	$ (466)
Denominator:		
Weighted-average number of shares outstanding basic	91,002,615	88,674,779
Effect of dilutive securities:		
Restricted stock awards	281,447	21,233
Employee stock options	705,189	147,440
Other equity-based awards	9,742	9,252
Weighted-average number of shares outstanding diluted	91,998,993	88,852,704

	Three Months Ended March 31, 2013	2012
Dilutive securities outstanding not included in the computation of earnings per share because their effect is antidilutive:		
Employee stock options and restricted stock awards	-	6,869,031

9. STOCKHOLDERS EQUITY

Authorized capital shares of the Company include 400,000,000 shares of capital stock consisting of 300,000,000 shares of common stock and 100,000,000 shares of preferred stock. Each of the aforementioned classes of capital stock has a par value of $0.01 per share. Shares of preferred stock, none of which were outstanding as of March 31, 2013, may be issued in one or more series having such rights, preferences and other provisions as determined by the Board of Directors without approval by the holders of common stock.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)   CONTINUED

On December 14, 2011, the Company adopted a new open market repurchase program for up to 4,000,000 shares of the Company s common stock, not to exceed $100 million in repurchases. The new repurchase program will conclude at the earliest of three years from the commencement date, when the maximum number of shares has been repurchased, or when the maximum dollar amount of repurchases has been expended. During the three months ended March 31, 2013, the Company repurchased and retired 523,023 shares at a weighted-average price of $35.76 per share, which is the cumulative number of shares repurchased and retired under this program. No shares were repurchased under this program during the three months ended March 31, 2012.

Historically, the Company has not paid any cash dividends. In December 2012, the Company declared and paid a special dividend of $0.25 per share to holders of its common stock at the close of business as of December 17, 2012, which totaled approximately $23.0 million. In the foreseeable future, the Company does not anticipate the payment of any other cash dividends. The Company s Credit Facility limits the Company s ability to pay dividends and/or repurchase stock to an amount not to exceed $150 million in the aggregate plus the aggregate amount of proceeds from the exercise of stock options. The indentures governing the 8% Senior Notes due 2019 and the $7\,^{1}/_{8}$% Senior Notes due 2020 (collectively, the Senior Notes) and the $5\,^{1}/_{8}$% Senior Secured Notes due 2018 also limit the Company s ability to pay dividends and/or repurchase stock. As of March 31, 2013, under the most restrictive test under these agreements, the Company has approximately $233.1 million remaining available with which to pay permitted dividends and/or repurchase shares of stock or its Senior Notes.

The following schedule presents the reconciliation of the carrying amount of total equity, equity attributable to the Company, and equity attributable to the noncontrolling interests for the three-month period ended March 31, 2013 (in thousands):

		Community Health Systems, Inc. Stockholders						
	Redeemable Noncontrolling Interest	**Common Stock**	**Additional Paid-In Capital**	**Treasury Stock**	**Accumulated Other Comprehensive Income (Loss)**	**Retained Earnings**	**Noncontrolling Interest**	**Total Stockholders Equity**
Balance, December 31, 2012	$ 367,666	$ 929	$ 1,138,274	$ (6,678)	$ (145,310)	$ 1,743,992	$ 65,314	$ 2,796,521
Comprehensive income	11,746	-	-	-	18,312	79,174	5,403	102,889
Distributions to noncontrolling interests, net of contributions	(9,455)	-	-	-	-	-	(5,837)	(5,837)
Purchase of subsidiary shares from noncontrolling interests	(291)	-	(146)	-	-	-	1	(145)
Other reclassifications of noncontrolling interests	2,317	-	-	-	-	-	(2,317)	(2,317)

Adjustment to redemption value of redeemable noncontrolling interests		3,523		-		(3,523)		-		-		-		-		(3,523)
Repurchases of common stock		-		(5)		(18,726)		-		-		-		-		(18,731)
Issuance of common stock in connection with the exercise of stock options		-		22		73,429		-		-		-		-		73,451
Cancellation of restricted stock for tax withholdings on vested shares		-		(4)		(14,478)		-		-		-		-		(14,482)
Excess tax benefit from exercise of stock options		-		-		2,747		-		-		-		-		2,747
Share-based compensation		-		8		9,958		-		-		-		-		9,966
Balance, March 31, 2013	**$**	375,506	**$**	950	**$**	1,187,535	**$**	(6,678)	**$**	(126,998)	**$**	1,823,166	**$**	62,564	**$**	2,940,539

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) CONTINUED

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

	Three Months Ended March 31, 2013
Net income attributable to Community Health Systems, Inc. stockholders	$ 79,174
Transfers to the noncontrolling interests:	
Net decrease in Community Health Systems, Inc. paid-in capital for purchase of subsidiary partnership interests	(146)
Net transfers to the noncontrolling interests	(146)
Change to Community Health Systems, Inc. stockholders equity from net income attributable to Community Health Systems, Inc. stockholders and transfers to noncontrolling interests	$ 79,028

10. EQUITY INVESTMENTS

As of March 31, 2013, the Company owned equity interests of 27.5% in four hospitals in Las Vegas, Nevada, and 26.1% in one hospital in Las Vegas, Nevada, in which Universal Health Systems, Inc. owns the majority interest, and an equity interest of 38.0% in three hospitals in Macon, Georgia, in which HCA Inc. owns the majority interest.

Summarized combined financial information for these unconsolidated entities in which the Company owns an equity interest is as follows (in thousands):

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Revenues	$ 315,396	$ 317,317
Operating costs and expenses	283,365	277,256
Income from continuing operations before taxes	32,008	40,035

The summarized financial information was derived from the unaudited financial information provided to the Company by those unconsolidated entities.

The Company s investment in all of its unconsolidated affiliates was $438.2 million and $432.1 million at March 31, 2013 and December 31, 2012, respectively, and is included in other assets, net in the accompanying condensed consolidated balance sheets. Included in the Company s results of operations is the Company s equity in pre-tax earnings from all of its investments in unconsolidated affiliates, which was $15.7 million and $12.0 million for the three months ended March 31, 2013 and 2012, respectively.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) CONTINUED

11. LONG-TERM DEBT

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

	March 31, 2013	December 31, 2012
Credit Facility:		
Term loan A	$ 712,500	$ 712,500
Term loan B	3,412,584	3,619,062
Revolving credit loans	-	-
8% Senior Notes due 2019	2,022,228	2,022,829
7 $^1/_8$% Senior Notes due 2020	1,200,000	1,200,000
5 $^1/_8$% Senior Secured Notes due 2018	1,600,000	1,600,000
Receivables Facility	500,000	300,000
Capital lease obligations	47,037	47,951
Other	43,835	38,963
Total debt	9,538,184	9,541,305
Less current maturities	(113,801)	(89,911)
Total long-term debt	$ 9,424,383	$ 9,451,394

Credit Facility

The Company s wholly-owned subsidiary CHS/Community Health Systems, Inc. (CHS) has obtained senior secured financing under a credit facility (the Credit Facility) with a syndicate of financial institutions led by Credit Suisse, as administrative agent and collateral agent. The Credit Facility includes a $750 million revolving credit facility for working capital and general corporate purposes. The revolving credit facility also includes a subfacility for letters of credit and a swingline subfacility. The Credit Facility requires quarterly amortization payments of each term loan B facility equal to 0.25% of the outstanding amount of such term loans. On November 5, 2010, CHS entered into an amendment and restatement of the Credit Facility. The amendment extended by two and a half years, until January 25, 2017, the maturity date of $1.5 billion of the existing term loans under the Credit Facility and increased the pricing on these term loans to LIBOR plus 350 basis points. The amendment also increased CHS ability to issue additional indebtedness under the uncommitted incremental facility to $1.0 billion from $600 million, permitted CHS to issue term loan A loans under the incremental facility, and provided up to $2.0 billion of borrowing capacity from receivable transactions, an increase of $0.5 billion, of which $1.7 billion would be required to be used for repayment of existing term loans. On February 2, 2012, CHS completed a second amendment and restatement of the Credit Facility to extend an additional $1.6 billion of the term loans due 2014 under the Credit Facility to match the maturity date and interest rate margins of the term loans due January 25, 2017.

On August 3, 2012, CHS entered into Amendment No. 1 to the Credit Facility to provide increased flexibility for refinancing and repayment of the term loans due 2014 and amend certain other terms. On August 17, 2012, the Company made a prepayment of $1.6 billion on the term loans due July 25, 2014, utilizing the proceeds from the issuance of $1.6 billion of 5 $^1/_8$% Senior Secured Notes due 2018. On August 22, 2012, CHS entered into a loan modification agreement with respect to the Credit Facility to extend approximately $340 million of the term loans due 2014 to match the maturity date and interest rate margins of the term loans due January 25, 2017.

On November 27, 2012, CHS entered into Amendment No. 2 to the Credit Facility to provide increased flexibility for the Company to make investments and restricted payments, incur debt related to acquisitions, amend certain other terms of the Credit Facility, including the maximum leverage ratio and interest coverage ratio financial coverage levels, and add a one year 1% prepayment premium payable in connection with a repricing of the term loans due in 2017. The extended term loans are subject to customary acceleration events and earlier maturity if the repayment, extension or refinancing with longer maturity on substantially all of the outstanding term loans maturing July 25, 2014 does not occur by April 15, 2015. During the three months ended March 31, 2013, the Company paid down $206.5 million of the term loans due 2014.

The July 25, 2014 maturity date of the balance of the remaining non-extended term loans at March 31, 2013 of approximately $59.6 million remains unchanged.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) CONTINUED

Effective March 6, 2012, the Company obtained a new $750 million senior secured revolving credit facility (the Replacement Revolver Facility) and a new $750 million incremental term loan A facility (the Incremental Term Loan) subject to the terms and conditions set forth in the Credit Facility. The Replacement Revolver Facility replaced in full the existing revolving credit facility under the Credit Facility. The net proceeds of the Incremental Term Loan were used to repay the same amount of the existing term loans under the Credit Facility. Both the Replacement Revolver Facility and the Incremental Term Loan have a maturity date of October 25, 2016, subject to customary acceleration events and to earlier maturity if the repayment, extension or refinancing with longer maturity debt of substantially all of the Company s then outstanding term loans maturing July 25, 2014 and the now fully redeemed 8 $^{7}/_{8}$% Senior Notes does not occur by April 25, 2014. The pricing on each of the Replacement Revolver Facility and the Incremental Term Loan is initially LIBOR plus a margin of 250 basis points, subject to adjustment based on the Company s leverage ratio. The Incremental Term Loan amortizes at 5% in year one, 10% in years two and three, 15% in year four and 60% in year five.

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

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

The loans under the Credit Facility bear interest on the outstanding unpaid principal amount at a rate equal to an applicable percentage plus, at CHS option, either (a) an Alternate Base Rate (as defined) determined by reference to the greater of (1) the Prime Rate (as defined) announced by Credit Suisse or (2) the Federal Funds Effective Rate (as defined) plus 0.50% or (3) the adjusted London Interbank Offered Rate (LIBOR) on such day for a three-month interest period commencing on the second business day after such day plus 1%, or (b) a reserve adjusted LIBOR for dollars (Eurodollar rate) (as defined). The applicable percentage for Alternate Base Rate loans is 1.25% for term loans due 2014 and is 2.50% for term loans due 2017. The applicable percentage for Eurodollar rate loans is 2.25% for term loans due 2014 and 3.50% for term loans due 2017. The applicable percentage for revolving loans and the Incremental Term Loan is 1.50% for Alternate Base Rate loans and 2.50% for Eurodollar loans, in each case subject to reduction based on the Company s leverage ratio. Loans under the swingline subfacility bear interest at the rate applicable to Alternate Base Rate loans under the Credit Facility.

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

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

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) CONTINUED

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

As of March 31, 2013, the availability for additional borrowings under the Credit Facility was $750 million pursuant to the Replacement Revolver Facility, of which $37.8 million was set aside for outstanding letters of credit. CHS has the ability to amend the Credit Facility to provide for one or more tranches of term loans in an aggregate principal amount of $1.0 billion, which CHS has not yet accessed. As of March 31, 2013, the weighted-average interest rate under the Credit Facility, excluding swaps, was 4.3%.

As of March 31, 2013, the Company had letters of credit issued, primarily in support of potential insurance-related claims and certain bonds, of approximately $37.8 million.

Subsequent to the issuance of the Company s Quarterly Report on Form 10-Q for the three months ended March 31, 2012, the Company determined that the conversion of the term loans due 2014 to extended term loans resulting from the second amendment and restatement of its Credit Facility on February 2, 2012 should be presented as net financing activities in the condensed consolidated statement of cash flows. Such activities were presented in the previously issued Quarterly Report on Form 10-Q for the three months ended March 31, 2012 as a gross-up of borrowings and repayments of debt in the condensed consolidated statement of cash flows. There was no impact on net cash flows provided by financing activities as previously presented. This correction is reflected in the consolidated statement of cash flows in this Quarterly Report on Form 10-Q. Management does not believe such correction is material to the previously issued condensed consolidated financial statements.

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

On July 25, 2007, CHS completed its offering of approximately $3.0 billion aggregate principal amount of 8 $^{7}/_{8}$% Senior Notes due 2015 (the 8 $^{7}/_{8}$% Senior Notes), which were issued in a private placement. The 8 $^{7}/_{8}$% Senior Notes were to mature on July 15, 2015. The 8 $^{7}/_{8}$% Senior Notes bore interest at the rate of 8.875% per annum, payable semiannually in arrears on January 15 and July 15, commencing January 15, 2008. Interest on the 8 $^{7}/_{8}$% Senior Notes accrued from the date of original issuance. Interest was calculated on the basis of a 360-day year comprised of twelve 30-day months.

Pursuant to a registration rights agreement entered into at the time of the issuance of the 8 $^{7}/_{8}$% Senior Notes, as a result of an exchange offer made by CHS, substantially all of the 8 $^{7}/_{8}$% Senior Notes issued in July 2007 were exchanged in November 2007 for new notes (the 8 $^{7}/_{8}$% Exchange Notes) having terms substantially identical in all material respects to the 8 $^{7}/_{8}$% Senior Notes (except that the 8 $^{7}/_{8}$% Exchange Notes were issued under a registration statement pursuant to the 1933 Act). References to the 8 $^{7}/_{8}$% Senior Notes shall also be deemed to include the 8 $^{7}/_{8}$% Exchange Notes unless the context provides otherwise.

On March 21, 2012, CHS completed the cash tender offer for $850 million of the then $1.8 billion aggregate outstanding principal amount of the 8 $^{7}/_{8}$% Senior Notes.

On July 18, 2012, CHS completed the cash tender offer for $639.7 million of the then $934.3 million aggregate outstanding principal amount of the 8 $^{7}/_{8}$% Senior Notes. On August 17, 2012, pursuant to its redemption option, CHS redeemed the remaining $294.6 million outstanding principal of the 8 $^{7}/_{8}$% Senior Notes.

8% Senior Notes due 2019

On November 22, 2011, CHS completed its offering of $1.0 billion aggregate principal amount of 8% Senior Notes due 2019 (the 8% Senior Notes), which were issued in a private placement. The net proceeds from this issuance, together with available cash on hand, were used to finance the purchase of up to $1.0 billion aggregate principal amount of CHS then outstanding 8 $^{7}/_{8}$% Senior Notes and related fees and expenses. On March 21, 2012, CHS completed the secondary offering of $1.0 billion aggregate principal amount of 8% Senior Notes, which were issued in a private placement (at a premium of 102.5%). The net proceeds from this issuance were used to finance the purchase of approximately $850 million aggregate principal amount of CHS then outstanding $8\frac{7}{8}$% Senior Notes, to pay related fees and expenses and for general corporate purposes. The 8% Senior Notes bear interest at 8% per annum, payable semiannually in arrears on May 15 and November 15, commencing May 15, 2012. Interest on the 8% Senior Notes accrues from the date of original issuance. Interest is calculated on the basis of a 360-day year comprised of twelve 30-day months.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) CONTINUED

Except as set forth below, CHS is not entitled to redeem the 8% Senior Notes prior to November 15, 2015.

Prior to November 15, 2014, CHS is entitled, at its option, to redeem a portion of the 8% Senior Notes (not to exceed 35% of the outstanding principal amount) at a redemption price equal to 108% of the principal amount of the notes redeemed plus accrued and unpaid interest, with the proceeds from certain public equity offerings. Prior to November 15, 2015, CHS may redeem some or all of the 8% Senior Notes at a redemption price equal to 100% of the principal amount of the notes redeemed plus accrued and unpaid interest, if any, plus a make-whole premium, as described in the 8% Senior Notes indenture. On and after November 15, 2015, CHS is entitled, at its option, to redeem all or a portion of the 8% Senior Notes upon not less than 30 nor more than 60 days notice, at the following redemption prices (expressed as a percentage of principal amount on the redemption date), plus accrued and unpaid interest, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the 12-month period commencing on November 15 of the years set forth below:

Period	Redemption Price
2015	104.000 %
2016	102.000 %
2017 and thereafter	100.000 %

Pursuant to a registration rights agreement entered into at the time of the issuance of the 8% Senior Notes, as a result of an exchange offer made by CHS, substantially all of the 8% Senior Notes issued in November 2011 and March 2012 were exchanged in May 2012 for new notes (the 8% Exchange Notes) having terms substantially identical in all material respects to the 8% Senior Notes (except that the 8% Exchange Notes were issued under a registration statement pursuant to the 1933 Act). References to the 8% Senior Notes shall also be deemed to include the 8% Exchange Notes unless the context provides otherwise.

7 $^1/_8$% Senior Notes due 2020

On July 18, 2012, CHS completed an underwritten public offering under its automatic shelf registration filed with the SEC of $1.2 billion aggregate principal amount of 7 $^1/_8$% Senior Notes due 2020 (the 7 $^1/_8$% Senior Notes). The net proceeds from this issuance were used to finance the purchase of $934.3 million aggregate principal amount of CHS outstanding 8 $^7/_8$% Senior Notes and related fees and expenses and for general corporate purposes. The 7 $^1/_8$% Senior Notes bear interest at 7.125% per annum, payable semiannually in arrears on July 15 and January 15, commencing January 15, 2013. Interest on the 7 $^1/_8$% Senior Notes accrues from the date of original issuance. Interest is calculated on the basis of a 360-day year comprised of twelve 30-day months.

Except as set forth below, CHS is not entitled to redeem the 7 $^1/_8$% Senior Notes prior to July 15, 2016.

Prior to July 15, 2015, CHS is entitled, at its option, to redeem a portion of the 7 $^1/_8$% Senior Notes (not to exceed 35% of the outstanding principal amount) at a redemption price equal to 107.125% of the principal amount of the notes redeemed plus accrued and unpaid interest, with the proceeds from certain public equity offerings. Prior to July 15, 2016, CHS may redeem some or all of the 7 $^1/_8$% Senior Notes at a redemption price equal to 100% of the principal amount of the notes redeemed plus accrued and unpaid interest, if any, plus a make-whole premium, as described in the 7 $^1/_8$% Senior Notes indenture. On and after July 15, 2016, CHS is entitled, at its option, to redeem all or a portion of the 7 $^1/_8$% Senior Notes upon not less than 30 nor more than 60 days notice, at the following redemption prices (expressed as a percentage of principal amount on the redemption date), plus accrued and unpaid interest, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the 12-month period commencing on July 15 of the years set forth below:

Period

	Redemption Price
2016	103.563 %
2017	101.781 %
2018 and thereafter	100.000 %

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) CONTINUED

5 $^{1}/_{8}$% Senior Secured Notes due 2018

On August 17, 2012, CHS completed an underwritten public offering under its automatic shelf registration filed with the SEC of $1.6 billion aggregate principal amount of 5 $^{1}/_{8}$% Senior Secured Notes due 2018 (the 5 $^{1}/_{8}$% Senior Secured Notes). The net proceeds from this issuance, together with available cash on hand, were used to finance the prepayment of $1.6 billion of the outstanding term loans due 2014 under the Credit Facility and related fees and expenses. The 5 $^{1}/_{8}$% Senior Secured Notes bear interest at 5.125% per annum, payable semiannually in arrears on August 15 and February 15, commencing February 15, 2013. Interest on the 5 $^{1}/_{8}$% Senior Secured Notes accrues from the date of original issuance. Interest is calculated on the basis of a 360-day year comprised of twelve 30-day months. The 5 $^{1}/_{8}$% Senior Secured Notes are secured by a first-priority lien subject to a shared lien of equal priority with certain other obligations, including obligations under the Credit Facility, and subject to prior ranking liens permitted by the indenture governing the 5 $^{1}/_{8}$% Senior Secured Notes on substantially the same assets, subject to certain exceptions, that secure CHS obligations under the Credit Facility.

Except as set forth below, CHS is not entitled to redeem the 5 $^{1}/_{8}$% Senior Secured Notes prior to August 15, 2015.

Prior to August 15, 2015, CHS is entitled, at its option, to redeem a portion of the 5 $^{1}/_{8}$% Senior Notes (not to exceed 35% of the outstanding principal amount) at a redemption price equal to 105.125% of the principal amount of the notes redeemed plus accrued and unpaid interest, with the proceeds from certain public equity offerings. Prior to August 15, 2015, CHS may redeem some or all of the 5 $^{1}/_{8}$% Senior Secured Notes at a redemption price equal to 100% of the principal amount of the notes redeemed plus accrued and unpaid interest, if any, plus a make-whole premium, as described in the 5 $^{1}/_{8}$% Senior Secured Notes indenture. On and after August 15, 2015, CHS is entitled, at its option, to redeem all or a portion of the 5 $^{1}/_{8}$% Senior Notes upon not less than 30 nor more than 60 days notice, at the following redemption prices (expressed as a percentage of principal amount on the redemption date), plus accrued and unpaid interest, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the 12-month period commencing on August 15 of the years set forth below:

Period	Redemption Price
2015	102.563 %
2016	101.281 %
2017 and thereafter	100.000 %

Receivables Facility

On March 21, 2012, CHS and certain of its subsidiaries entered into an accounts receivable loan agreement (the Receivables Facility) with a group of lenders and banks, Credit Agricolé Corporate and Investment Bank, as a managing agent and as the administrative agent, and The Bank of Nova Scotia, as a managing agent. On March 7, 2013, CHS and certain of its subsidiaries amended the Receivables Facility to add an additional managing agent, The Bank of Tokyo-Mitsubishi UFJ, Ltd., to increase the size of the facility from $300 million to $500 million and to extend the scheduled termination date. Additional subsidiaries of the Company also agreed to participate in the Receivables Facility as of that date. The existing and future non-self pay patient-related accounts receivable (the Receivables) for certain of the Company s hospitals serve as collateral for the outstanding borrowings under the Receivables Facility. The interest rate on the borrowings is based on the commercial paper rate plus an applicable interest rate spread. Unless earlier terminated or subsequently extended pursuant to its terms, the Receivables Facility will expire on March 21, 2015, subject to customary termination events that could cause an early termination date. The Company maintains effective control over the Receivables because, pursuant to the terms of the Receivables Facility, the Receivables are sold from certain of the Company s subsidiaries to CHS, which then sells or contributes the Receivables to a special-purpose entity that is wholly-owned by CHS. The wholly-owned special-purpose entity in turn grants security interests in the Receivables in exchange for borrowings obtained from the group of third-party lenders and banks of up to $500 million outstanding from time to time based on the availability of eligible Receivables and other customary factors. The group of third-party lenders and banks do not have recourse to the Company or its subsidiaries beyond the assets of the wholly-owned special-purpose entity that collateralizes the loan. The Receivables and other assets of the wholly-owned special-purpose entity will be available first and foremost to satisfy the claims of the creditors of such entity. The outstanding borrowings pursuant to the Receivables Facility at March 31, 2013 totaled $500.0 million and are classified as long-term debt on the condensed consolidated balance sheet. At March 31, 2013, the carrying amount of Receivables included in the Receivables Facility totaled approximately $969.4 million and is included in patient accounts receivable on the condensed consolidated balance sheet.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) CONTINUED

Loss from Early Extinguishment of Debt

The financing transactions discussed above relating to the repayment of the Company s term loans under the Credit Facility and the $8\,^{7}/_{8}$% Senior Notes due 2015 resulted in a loss from early extinguishment of debt of $1.3 million and $63.4 million for the three months ended March 31, 2013 and 2012, respectively, and an after-tax loss of $0.8 million and $39.5 million for the years ended March 31, 2013 and 2012, respectively.

Other Debt

As of March 31, 2013, other debt consisted primarily of the mortgage obligation on the Company s corporate headquarters and other obligations maturing in various installments through 2020.

To limit the effect of changes in interest rates on a portion of the Company s long-term borrowings, the Company is a party to 21 separate interest swap agreements in effect at March 31, 2013, with an aggregate notional amount of $2.9 billion. On each of these swaps, the Company receives a variable rate of interest based on the three-month LIBOR in exchange for the payment of a fixed rate of interest. The Company currently pays, on a quarterly basis, a margin above LIBOR of 225 basis points for the outstanding balance of revolver loans and term loans due in 2014, 250 basis points for the Replacement Revolver Facility and the Incremental Term Loan and 350 basis points for term loans due in 2017 under the Credit Facility. See Note 12 for additional information regarding these swaps.

The Company paid interest of $149.7 million and $161.1 million on borrowings during the three months ended March 31, 2013 and 2012, respectively.

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments has been estimated by the Company using available market information as of March 31, 2013 and December 31, 2012, and valuation methodologies considered appropriate. The estimates presented are not necessarily indicative of amounts the Company could realize in a current market exchange (in thousands):

	March 31, 2013		December 31, 2012	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Cash and cash equivalents	$ 285,048	$ 285,048	$ 387,813	$ 387,813
Available-for-sale securities	59,394	59,394	56,376	56,376
Trading securities	38,932	38,932	34,696	34,696
Liabilities:				
Credit Facility	4,125,084	4,153,531	4,331,562	4,357,910
8% Senior Notes	2,022,228	2,216,980	2,022,829	2,185,220
$7\,^{1}/_{8}$% Senior Notes	1,200,000	1,306,800	1,200,000	1,285,848
$5\,^{1}/_{8}$% Senior Secured Notes	1,600,000	1,679,040	1,600,000	1,674,480
Receivables Facility and other debt	543,835	543,835	338,963	338,963

The estimated fair value is determined using the methodologies discussed below in accordance with accounting standards related to the determination of fair value based on the U.S. GAAP fair value hierarchy as discussed in Note 13. The estimated fair value for financial instruments with a fair value that does not equal its carrying value is considered a Level 1 valuation. The Company utilizes the market approach and obtains indicative pricing from the administrative agent to the Credit Facility to determine fair values, which are validated through publicly available subscription services such as Bloomberg where relevant.

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

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

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) CONTINUED

Trading securities. Estimated fair value is based on closing price as quoted in public markets.

Credit Facility. Estimated fair value is based on information from the Company s bankers regarding relevant pricing for trading activity among the Company s lending institutions.

8% Senior Notes. Estimated fair value is based on the average bid and ask price as quoted by the bank who served as underwriters in the sale of these notes.

7 $^1/_8$% Senior Notes. Estimated fair value is based on the average bid and ask price as quoted by the bank who served as underwriters in the sale of these notes.

5 $^1/_8$% Senior Secured Notes. Estimated fair value is based on the average bid and ask price as quoted by the bank who served as underwriters in the sale of these notes.

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

Interest rate swaps. The fair value of interest rate swap agreements is the amount at which they could be settled, based on estimates calculated by the Company using a discounted cash flow analysis based on observable market inputs and validated by comparison to estimates obtained from the counterparty. The Company incorporates credit valuation adjustments (CVAs) to appropriately reflect both its own nonperformance or credit risk and the respective counterparty s nonperformance or credit risk in the fair value measurements. In adjusting the fair value of its interest rate swap agreements for the effect of nonperformance or credit risk, the Company has considered the impact of any netting features included in the agreements.

The Company assesses the effectiveness of its hedge instruments on a quarterly basis. For the three months ended March 31, 2013 and 2012, the Company completed an assessment of the cash flow hedge instruments and determined the hedges to be highly effective. The Company has also determined that the ineffective portion of the hedges do not have a material effect on the Company s consolidated financial position, operations or cash flows. The counterparties to the interest rate swap agreements expose the Company to credit risk in the event of nonperformance. However, at March 31, 2013, each swap agreement entered into by the Company was in a net liability position so that the Company would be required to make the net settlement payments to the counterparties; the Company does not anticipate nonperformance by those counterparties. The Company does not hold or issue derivative financial instruments for trading purposes.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) CONTINUED

Interest rate swaps consisted of the following at March 31, 2013:

Swap #	Notional Amount (in 000 s)	Fixed Interest Rate	Termination Date	Fair Value of Liability (in 000 s)
1	$ 100,000	5.023 %	May 30, 2013	$ 775
2	300,000	5.242 %	August 6, 2013	5,219
3	100,000	5.038 %	August 30, 2013	1,982
4	50,000	3.586 %	October 23, 2013	928
5	50,000	3.524 %	October 23, 2013	911
6	100,000	5.050 %	November 30, 2013	3,168
7	200,000	2.070 %	December 19, 2013	2,528
8	100,000	5.231 %	July 25, 2014	6,453
9	100,000	5.231 %	July 25, 2014	6,453
10	200,000	5.160 %	July 25, 2014	12,719
11	75,000	5.041 %	July 25, 2014	4,651
12	125,000	5.022 %	July 25, 2014	7,720
13	100,000	2.621 %	July 25, 2014	2,992
14	100,000	3.110 %	July 25, 2014	3,640
15	100,000	3.258 %	July 25, 2014	3,837
16	200,000	2.693 %	October 26, 2014	7,339
17	300,000	3.447 %	August 8, 2016	28,680
18	200,000	3.429 %	August 19, 2016	19,124
19	100,000	3.401 %	August 19, 2016	9,471
20	200,000	3.500 %	August 30, 2016	19,735
21	100,000	3.005 %	November 30, 2016	8,595

The Company is exposed to certain risks relating to its ongoing business operations. The risk managed by using derivative instruments is interest rate risk. Interest rate swaps are entered into to manage interest rate fluctuation risk associated with the term loans in the Credit Facility. Companies are required to recognize all derivative instruments as either assets or liabilities at fair value in the condensed consolidated statement of financial position. The Company designates its interest rate swaps as cash flow hedges. For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income (OCI) and reclassified into earnings in the same period or periods during which the hedged transactions affect earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

Assuming no change in March 31, 2013 interest rates, approximately $85.6 million of interest expense resulting from the spread between the fixed and floating rates defined in each interest rate swap agreement will be recognized during the next 12 months. If interest rate swaps do not remain highly effective as a cash flow hedge, the derivatives gains or losses resulting from the change in fair value reported through OCI will be reclassified into earnings.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) CONTINUED

The following tabular disclosure provides the amount of pre-tax loss recognized as a component of OCI during the three months ended March 31, 2013 and 2012 (in thousands):

Derivatives in Cash Flow Hedging Relationships	Amount of Pre-Tax Loss Recognized in OCI (Effective Portion)	
	Three Months Ended March 31,	
	2013	2012
Interest rate swaps	$ (2,622)	$ (23,122)

The following tabular disclosure provides the location of the effective portion of the pre-tax loss reclassified from accumulated other comprehensive loss (AOCL) into interest expense on the condensed consolidated statements of income during the three months ended March 31, 2013 and 2012 (in thousands):

Location of Loss Reclassified from AOCL into Income (Effective Portion)	Amount of Pre-Tax Loss Reclassified from AOCL into Income (Effective Portion)	
	Three Months Ended March 31,	
	2013	2012
Interest expense, net	$ 27,302	$ 39,610

The fair values of derivative instruments in the condensed consolidated balance sheets as of March 31, 2013 and December 31, 2012 were as follows (in thousands):

	Asset Derivatives				Liability Derivatives			
	March 31, 2013		December 31, 2012		March 31, 2013		December 31, 2012	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments	Other assets, net	$ -	Other assets, net	$ -	Other long-term liabilities	$ 156,920	Other long-term liabilities	$ 181,600

13. FAIR VALUE

Fair Value Hierarchy

Fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, the Company utilizes the U.S. GAAP fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity s own assumption about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

The inputs used to measure fair value are classified into the following fair value hierarchy:

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

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

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

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) CONTINUED

In instances where the determination of the fair value hierarchy measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment of factors specific to the asset or liability.

The following table sets forth, by level within the fair value hierarchy, the financial assets and liabilities recorded at fair value on a recurring basis as of March 31, 2013 and December 31, 2012 (in thousands):

	March 31, 2013	Level 1	Level 2	Level 3
Available-for-sale securities	$ 59,394	$ 59,394	$ -	$ -
Trading securities	38,932	38,932	-	-
Total assets	$ 98,326	$ 98,326	$ -	$ -
Fair value of interest rate swap agreements	$ 156,920	$ -	$ 156,920	$ -
Total liabilities	$ 156,920	$ -	$ 156,920	$ -

	December 31, 2012	Level 1	Level 2	Level 3
Available-for-sale securities	$ 56,376	$ 56,376	$ -	$ -
Trading securities	34,696	34,696	-	-
Total assets	$ 91,072	$ 91,072	$ -	$ -
Fair value of interest rate swap agreements	$ 181,600	$ -	$ 181,600	$ -
Total liabilities	$ 181,600	$ -	$ 181,600	$ -

Available-for-sale securities and trading securities classified as Level 1 are measured using quoted market prices.

The valuation of the Company s interest rate swap agreements is determined using market valuation techniques, including discounted cash flow analysis on the expected cash flows of each agreement. This analysis reflects the contractual terms of the agreement, including the period to maturity, and uses observable market-based inputs, including forward interest rate curves. The fair value of interest rate swap agreements are determined by netting the discounted future fixed cash payments and the discounted expected variable cash receipts. The variable cash receipts are based on the expectation of future interest rates based on observable market forward interest rate curves and the notional amount being hedged.

The Company incorporates CVAs to appropriately reflect both its own nonperformance or credit risk and the respective counterparty s nonperformance or credit risk in the fair value measurements. In adjusting the fair value of its interest rate swap agreements for the effect of nonperformance or credit risk, the Company has considered the impact of any netting features included in the agreements. The CVA on the Company s interest rate swap agreements at March 31, 2013 resulted in a decrease in the fair value of the related liability of $2.1 million and an after-tax adjustment of $1.3 million to OCI. The CVA on the Company s interest rate swap agreements at December 31, 2012 resulted in a decrease in the fair value of the related liability of $3.6 million and an after-tax adjustment of $2.3 million to OCI.

The majority of the inputs used to value its interest rate swap agreements, including the forward interest rate curves and market perceptions of the Company s credit risk used in the CVAs, are observable inputs available to a market participant. As a result, the Company has determined that the interest rate swap valuations are classified in Level 2 of the fair value hierarchy.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) CONTINUED

14. OTHER COMPREHENSIVE INCOME

The following table presents information about items reclassified out of accumulated other comprehensive income (loss) by component for the three months ended March 31, 2013 (in thousands, net of tax):

	Change in Fair Value of Interest Rate Swaps	Change in Fair Value of Available for Sale Securities	Change in Unrecognized Pension Cost Components	Accumulated Other Comprehensive Income (Loss)
Balance as of December 31, 2012	$ (116,382)	$ 4,588	$ (33,516)	$ (145,310)
Other comprehensive income before reclassifications	(1,676)	1,809	-	133
Amounts reclassified from accumulated other comprehensive income	17,446	-	733	18,179
Net current-period other comprehensive income	15,770	1,809	733	18,312
Balance as of March 31, 2013	$ (100,612)	$ 6,397	$ (32,783)	$ (126,998)

The following table presents a subtotal for each significant reclassification to net income out of accumulated other comprehensive income (loss) and the line item affected in the condensed consolidated statement of income during the three months ended March 31, 2013 (in thousands):

For the Three Months Ended March 31, 2013		
Details about accumulated other comprehensive income (loss) components	Amount reclassified from accumulated other comprehensive loss	Affected line item in the statement where net income is presented
Gains and losses on cash flow hedges		
Interest rate swaps	$ (27,302)	Interest expense, net
	9,856	Tax benefit
	$ (17,446)	Net of tax
Amortization of defined benefit pension items		
Prior service costs	$ (286)	Salaries and benefits
Actuarial losses	(880)	Salaries and benefits
	(1,166)	Total before tax
	433	Tax benefit
	$ (733)	Net of tax

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)   CONTINUED

15. SEGMENT INFORMATION

Prior to the quarter ended March 31, 2013, the Company operated in three distinct operating segments, represented by hospital operations (which includes its general acute care hospitals and related healthcare entities that provide inpatient and outpatient healthcare services), home care agency operations (which provide in-home outpatient care), and hospital management services (which provides executive management and consulting services to non-affiliated acute care hospitals). During the quarter ended March 31, 2013, the chief operating decision maker stopped receiving discrete financial information for the hospital management services, so it no longer meets the criteria as a separate operating segment. The Company operates in two operating segments, hospital operations and home care agency operations. Financial information for hospital management services is now presented as a component of the hospital operations segment. The financial information from prior years has been revised to reflect the change in the composition of the Company s operating segments. Consistent with 2012, the Company presents two reportable segments, as noted below.

Only the hospital operations segment meets the criteria as a separate reportable segment. The financial information for the home care agency segment does not meet the quantitative thresholds for a separate identifiable reportable segment and is combined into the corporate and all other reportable segment.

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

	Three Months Ended March 31,	
	2013	2012
Net operating revenues:		
Hospital operations	$ 3,265,340	$ 3,250,604
Corporate and all other	46,410	46,431
Total	$ 3,311,750	$ 3,297,035
Income from continuing operations before income taxes:		
Hospital operations	$ 201,382	$ 199,803
Corporate and all other	(57,356)	(54,266)
Total	$ 144,026	$ 145,537

16. CONTINGENCIES

The Company is a party to various legal proceedings incidental to its business. In the opinion of management, any ultimate liability with respect to these actions will not have a material adverse effect on the Company s consolidated financial position, cash flows or results of operations. With respect to all litigation matters, the Company considers the likelihood of a negative outcome. If the Company determines the likelihood of a negative outcome is probable and the amount of the loss can be reasonably estimated, the Company records an estimated loss for the expected outcome of the litigation and discloses that fact together with the amount accrued, if it was estimable. If the likelihood of a negative outcome is reasonably possible and the Company is able to determine an estimate of the possible loss or a range of loss, the Company discloses that fact together with the estimate of the possible loss or range of loss. However, it is difficult to predict the outcome or estimate a possible loss or range of loss in some instances because litigation is subject to significant uncertainties.

Reasonably Possible Contingencies

For the legal matter below, the Company believes that a negative outcome is reasonably possible, but the Company is unable to determine an estimate of the possible loss or a range of loss.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) CONTINUED

U.S. ex rel. Baker vs. Community Health Systems, Inc. (United States District Court for the District of New Mexico)

The Company s knowledge of this matter originated in early 2006 with correspondence from the Civil Division of the Department of Justice requesting documents in an investigation it was conducting involving the Company. The inquiry related to the way in which different state Medicaid programs apply to the federal government for matching or supplemental funds that are ultimately used to pay for a small portion of the services provided to Medicaid and indigent patients. These programs are referred to by different names, including intergovernmental payments, upper payment limit programs, and Medicaid disproportionate share hospital payments. For approximately three years, the Company provided the Department of Justice with requested documents, met with its personnel on numerous occasions and otherwise cooperated in its investigation. During the course of the investigation, the Civil Division notified the Company that it believed that the Company and three of its New Mexico hospitals caused the State of New Mexico to submit improper claims for federal funds, in violation of the Federal False Claims Act. This investigation has culminated in the federal government s intervention in the referenced qui tam lawsuit, which alleges that the Company s New Mexico hospitals caused to be filed false claims from the period of August 2000 through June 2011. Two of the parent company s subsidiaries are also defendants in this lawsuit. The Company continues to vigorously defend this action. The current posture of this case is that discovery is closed and both parties motions for summary judgment are pending. There is currently no hearing date on these motions and no trial date has been set.

Matters for which an Outcome Cannot be Assessed

For all of the legal matters below, the Company cannot at this time assess what the outcome may be and is further unable to determine any estimate of loss or range of loss. Because the investigations are at a preliminary stage, there are not sufficient facts available to make these assessments.

Multi-provider National Department of Justice Investigations

Implantable Cardioverter Defibrillators (ICDs). The Company was first made aware of this investigation in September 2010, when the Company received a letter from the Civil Division of the United States Department of Justice. The letter advised the Company that an investigation was being conducted to determine whether certain hospitals have improperly submitted claims for payment for ICDs. The period of time covered by the investigation was 2003 to 2010. The Company continues to fully cooperate with the government in this investigation and has provided requested records and documents. On August 30, 2012, the Department of Justice issued a document entitled, Medical Review Guidelines/Resolution Model, which sets out, for the purposes of this investigation, the patient conditions and criteria for the medical necessity of the implantation of ICDs in Medicare beneficiaries and how the Department of Justice will enforce the repayment obligations of hospitals. The Company is in the process of reviewing its medical records in light of the guidance contained in this document.

Department of Justice Investigation of Medicare Short-Stay Admissions from Emergency Departments

In April 2011, the Company received a document subpoena from the United States Department of Health and Human Services (OIG) in connection with an investigation of possible improper claims submitted to Medicare and Medicaid. The subpoena was directed to all of the Company s hospitals and requested documents concerning emergency department processes and procedures, including the hospitals use of the Pro-MED Clinical Information System, a third-party software system that assists with the management of patient care and provides operational support and data collection for emergency department management. The subpoena also sought information about the Company s relationships with emergency department physicians, including financial arrangements. This investigation is being led by the Department of Justice. The Company is continuing to cooperate with the government with the ongoing document production, as well as conducting a joint medical necessity review of a sampling of medical records at a small number of hospitals. The results of the respective reviews have been exchanged and are undergoing further analysis by the experts.

The following matters, although initiated independently of the Department of Justice s April 2011 subpoena, are factually related in some manner to that subpoena and are grouped here for clarity.

Texas Attorney General Investigation of Emergency Department Procedures and Billing. In November 2010, the Company was served with substantially identical Civil Investigative Demands (CIDs) from the Office of Attorney General, State of Texas for all 18 of the Company s affiliated Texas hospitals. The subject of the requests appears to concern emergency department procedures and billing. The Company has complied with these requests and provided all documentation and reports requested. The Company continues to cooperate fully with this investigation.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) CONTINUED

United States ex rel. and Reuille vs. Community Health Systems Professional Services Corporation and Lutheran Musculoskeletal Center, LLC d/b/a Lutheran Hospital (United States District Court for the Northern District of Indiana, Fort Wayne Division). This lawsuit was originally filed under seal in January 2009. The suit is brought under the False Claims Act and alleges that Lutheran Hospital of Indiana billed the Medicare program for (a) false 23 hour observation after outpatient surgeries and procedures, and (b) intentional assignment of inpatient status to one-day stays for cases that do not meet Medicare criteria for inpatient intensity of service or severity of illness. In December 2010, the government filed a notice that it declined to intervene in this suit. On April 22, 2011, a joint motion was filed by the relator and the Department of Justice to extend the period of time for the relator to serve the Company in the case to allow the government more time to decide if it will intervene in the case. The motion to stay was granted, as have subsequent joint motions, and the stay is currently continued until October 25, 2013. The original motion and subsequent filings gave insight to the fact that there are other qui tam complaints in other jurisdictions and that the government was consolidating its investigations and working cooperatively with other investigative bodies (including the Attorney General of the State of Texas). The government also confirmed that it considers the allegations made in the complaint styled *Tenet Healthcare Corporation vs. Community Health Systems, Inc., et al.* filed in the United States District Court for the Northern District of Texas, Dallas Division on April 11, 2011 to be related to the government s consolidated investigation. The Company is cooperating fully with the government in its investigations.

Shelbyville, Tennessee OIG Subpoena. In May 2011, the Company received a subpoena from the Houston Office of the United States Department of Health and Human Services, OIG, requesting 71 patient medical records from the Company s hospital in Shelbyville, Tennessee. The Company provided the requested records and has met with the government regarding this matter. The Company continues to cooperate fully with this investigation.

SEC Subpoena. In May 2011, the Company received a subpoena from the SEC requesting documents related to or requested in connection with the various inquiries, lawsuits and investigations regarding, generally, emergency room admissions or observation practices at the Company s hospitals. The subpoena also requested documents relied upon by the Company in responding to the Tenet litigation, as well as other communications about the Tenet litigation. As with all government investigations, the Company is cooperating fully with the SEC.

Class Action Shareholder Federal Securities Cases. Three purported class action cases have been filed in the United States District Court for the Middle District of Tennessee; namely, Norfolk County Retirement System v. Community Health Systems, Inc., et al., filed May 9, 2011; De Zheng v. Community Health Systems, Inc., et al., filed May 12, 2011; and Minneapolis Firefighters Relief Association v. Community Health Systems, Inc., et al., filed June 21, 2011. All three seek class certification on behalf of purchasers of the Company s common stock between July 27, 2006 and April 11, 2011 and allege that misleading statements resulted in artificially inflated prices for the Company s common stock. In December 2011, the cases were consolidated for pretrial purposes and NYC Funds and its counsel were selected as lead plaintiffs/lead plaintiffs counsel. The Company s motion to dismiss this case has been fully briefed and is pending before the court. The Company believes this consolidated matter is without merit and will vigorously defend this case.

Shareholder Derivative Actions. Three purported shareholder derivative actions have also been filed in the United States District Court for the Middle District of Tennessee; Plumbers and Pipefitters Local Union No. 630 Pension Annuity Trust Fund v. Wayne T. Smith, et al., filed May 24, 2011; Roofers Local No. 149 Pension Fund v. Wayne T. Smith, et al., filed June 21, 2011; and Lambert Sweat v. Wayne T. Smith, et al., filed October 5, 2011. These three cases allege breach of fiduciary duty arising out of allegedly improper inpatient admission practices, mismanagement, waste and unjust enrichment. These cases have been consolidated into a single, consolidated action. The plaintiffs filed an operative amended derivative complaint in these three consolidated actions on March 15, 2012. The Company s motion to dismiss has been fully briefed and is pending before the court. The Company believes all of these matters are without merit and will vigorously defend them.

The Company incurred the following pre-tax charges in connection with the government investigations and shareholder lawsuits of possible improper claims submitted to Medicare and Medicaid during the three months ending March 31, 2013 and 2012 (in thousands):

	Three Months Ended March 31,	
	2013	**2012**

Professional fees and other related costs	$	2,006	$	1,903

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) CONTINUED

Probable Contingencies

In addition to the cases described above, there are a number of legal matters for which, based on information currently available, the Company believes that a negative outcome is known or is probable. In the aggregate, an estimate of these losses has been accrued in the amount of $11.6 million and $22.6 million at March 31, 2013 and December 31, 2012, respectively. Due to the uncertainties and difficulty in predicting the ultimate resolution of these contingencies, the actual amount could differ from the estimated amount; however, the Company does not believe the ultimate outcome of any of these matters would be material.

17. SUBSEQUENT EVENTS

The Company evaluated all material events occurring subsequent to the balance sheet date for events requiring disclosure or recognition in the condensed consolidated financial statements.

18. SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION

The Senior Notes, which are senior unsecured obligations of CHS, and the 5 $^{1}/_{8}$% Senior Secured Notes are guaranteed on a senior basis by the Company and by certain of its existing and subsequently acquired or organized 100% owned domestic subsidiaries. The Senior Notes and the 5 $^{1}/_{8}$% Senior Secured Notes are guaranteed on a joint and several basis, with limited exceptions considered customary for such guarantees, including the release of the guarantee when a subsidiary s assets used in operations are sold. The following condensed consolidating financial statements present Community Health Systems, Inc. (as parent guarantor), CHS (as the issuer), the subsidiary guarantors, the subsidiary non-guarantors and eliminations. These condensed consolidating financial statements have been prepared and presented in accordance with SEC Regulation S-X Rule 3-10 Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered.

The accounting policies used in the preparation of this financial information are consistent with those elsewhere in the condensed consolidated financial statements of the Company, except as noted below:

Intercompany receivables and payables are presented gross in the supplemental condensed consolidating balance sheets.

Cash flows from intercompany transactions are presented in cash flows from financing activities, as changes in intercompany balances with affiliates, net.

Income tax expense is allocated from the parent guarantor to the income producing operations (other guarantors and non-guarantors) and the issuer through stockholders equity. As this approach represents an allocation, the income tax expense allocation is considered non-cash for statement of cash flow purposes.

Interest expense, net has been presented to reflect net interest expense and interest income from outstanding long-term debt and intercompany balances.

The Company s intercompany activity consists primarily of daily cash transfers for purposes of cash management, the allocation of certain expenses and expenditures paid for by the parent on behalf of its subsidiaries, and the push down of investment in its subsidiaries. This activity also includes the intercompany transactions between consolidated entities as part of the Receivables Facility that is further discussed in Note 11. The Company s subsidiaries generally do not purchase services from one another; thus, the intercompany transactions do not represent revenue generating transactions. All intercompany transactions eliminate in consolidation.

From time to time, the Company sells and/or repurchases noncontrolling interests in consolidated subsidiaries, which may change subsidiaries between guarantors and non-guarantors. Amounts for prior periods are revised to reflect the status of guarantors or non-guarantors as of March 31, 2013.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) CONTINUED

Condensed Consolidating Balance Sheet

March 31, 2013

	Parent Guarantor	Issuer	Other Guarantors	Non - Guarantors	Eliminations	Consolidated
			(In thousands)			
ASSETS						
Current assets:						
Cash and cash equivalents	$ -	$ -	$ 163,552	$ 121,496	$ -	$ 285,048
Patient accounts receivable, net of allowance for doubtful accounts	-	-	783,788	1,431,410	-	2,215,198
Supplies	-	-	257,063	113,992	-	371,055
Prepaid income taxes	-	-	-	-	-	-
Deferred income taxes	117,045	-	-	-	-	117,045
Prepaid expenses and taxes	-	65	86,017	56,284	-	142,366
Other current assets	-	-	221,807	66,264	-	288,071
Total current assets	117,045	65	1,512,227	1,789,446	-	3,418,783
Intercompany receivable	511,641	9,593,156	4,085,575	3,440,938	(17,631,310)	-
Property and equipment, net	-	-	4,625,508	2,469,626	-	7,095,134
Goodwill	-	-	2,543,898	1,864,464	-	4,408,362
Other assets, net	-	156,415	1,189,267	798,630	(469,389)	1,674,923
Net investment in subsidiaries	3,072,451	8,608,604	3,581,210	-	(15,262,265)	-
Total assets	$ 3,701,137	$ 18,358,240	$ 17,537,685	$ 10,363,104	$ (33,362,964)	$ 16,597,202
LIABILITIES AND EQUITY						
Current liabilities:						
Current maturities of long-term debt	$ -	$ 94,429	$ 16,519	$ 2,853	$ -	$ 113,801
Accounts payable	-	48	504,788	236,339	-	741,175
Income tax payable	5,924	-	-	-	-	5,924

Accrued interest	-	109,235	294	410	-	109,939
Accrued liabilities	7,575	-	677,530	352,976	-	1,038,081
Total current liabilities	13,499	203,712	1,199,131	592,578	-	2,008,920
Long-term debt	-	8,853,561	52,372	518,450	-	9,424,383
Intercompany payable	-	5,602,211	12,137,048	7,951,231	(25,690,490)	-
Deferred income taxes	808,489	-	-	-	-	808,489
Other long-term liabilities	1,174	626,308	680,608	200,664	(469,389)	1,039,365
Total liabilities	823,162	15,285,792	14,069,159	9,262,923	(26,159,879)	13,281,157
Redeemable noncontrolling interests in equity of consolidated subsidiaries	-	-	-	375,506	-	375,506
Equity:						
Community Health Systems, Inc. stockholders equity:						
Preferred stock	-	-	-	-	-	-
Common stock	950	-	1	2	(3)	950
Additional paid-in capital	1,187,535	1,152,914	1,259,384	530,536	(2,942,834)	1,187,535
Treasury stock, at cost	(6,678)	-	-	-	-	(6,678)
Accumulated other comprehensive (loss) income	(126,998)	(126,998)	(26,386)	-	153,384	(126,998)
Retained earnings	1,823,166	2,046,532	2,235,527	131,573	(4,413,632)	1,823,166
Total Community Health Systems, Inc. stockholders equity	2,877,975	3,072,448	3,468,526	662,111	(7,203,085)	2,877,975
Noncontrolling interests in equity of consolidated subsidiaries	-	-	-	62,564	-	62,564
Total equity	2,877,975	3,072,448	3,468,526	724,675	(7,203,085)	2,940,539
Total liabilities and equity	$ 3,701,137	$ 18,358,240	$ 17,537,685	$ 10,363,104	$ (33,362,964)	$ 16,597,202

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) CONTINUED

Condensed Consolidating Balance Sheet

December 31, 2012

	Parent Guarantor	Issuer	Other Guarantors	Non - Guarantors	Eliminations	Consolidated
			(In thousands)			
ASSETS						
Current assets:						
Cash and cash equivalents	$ -	$ -	$ 271,559	$ 116,254	$ -	$ 387,813
Patient accounts receivable, net of allowance for doubtful accounts	-	-	676,649	1,390,730	-	2,067,379
Supplies	-	-	254,853	113,319	-	368,172
Prepaid income taxes	49,888	-	-	-	-	49,888
Deferred income taxes	117,045	-	-	-	-	117,045
Prepaid expenses and taxes	-	115	86,628	39,818	-	126,561
Other current assets	-	-	222,424	79,860	-	302,284
Total current assets	166,933	115	1,512,113	1,739,981	-	3,419,142
Intercompany receivable	406,534	9,837,904	3,723,120	3,262,823	(17,230,381)	-
Property and equipment, net	-	-	4,660,557	2,491,316	-	7,151,873
Goodwill	-	-	2,544,195	1,863,943	-	4,408,138
Other assets, net	-	165,236	1,273,347	816,373	(627,774)	1,627,182
Net investment in subsidiaries	2,974,965	8,686,242	3,427,182	-	(15,088,389)	-
Total assets	$ 3,548,432	$ 18,689,497	$ 17,140,514	$ 10,174,436	$ (32,946,544)	$ 16,606,335
LIABILITIES AND EQUITY						
Current liabilities:						
Current maturities of long-term debt	$ -	$ 75,679	$ 11,103	$ 3,129	$ -	$ 89,911
Accounts payable	-	74	583,865	241,975	-	825,914
Accrued interest	-	110,091	295	316	-	110,702

Accrued liabilities	7,580	-	748,010	361,103	-	1,116,693
Total current liabilities	7,580	185,844	1,343,273	606,523	-	2,143,220
Long-term debt	-	9,079,392	53,201	318,801	-	9,451,394
Intercompany payable	-	5,639,928	11,693,119	7,822,313	(25,155,360)	-
Deferred income taxes	808,489	-	-	-	-	808,489
Other long-term liabilities	1,156	809,372	675,341	180,950	(627,774)	1,039,045
Total liabilities	817,225	15,714,536	13,764,934	8,928,587	(25,783,134)	13,442,148
Redeemable noncontrolling interests in equity of consolidated subsidiaries	-	-	-	367,666	-	367,666
Equity:						
Community Health Systems, Inc. stockholders equity:						
Preferred stock	-	-	-	-	-	-
Common stock	929	-	1	2	(3)	929
Additional paid-in capital	1,138,274	1,176,342	1,283,499	690,929	(3,150,770)	1,138,274
Treasury stock, at cost	(6,678)	-	-	-	-	(6,678)
Accumulated other comprehensive (loss) income	(145,310)	(145,310)	(28,927)	-	174,237	(145,310)
Retained earnings	1,743,992	1,943,929	2,121,007	121,938	(4,186,874)	1,743,992
Total Community Health Systems, Inc. stockholders equity	2,731,207	2,974,961	3,375,580	812,869	(7,163,410)	2,731,207
Noncontrolling interests in equity of consolidated subsidiaries	-	-	-	65,314	-	65,314
Total equity	2,731,207	2,974,961	3,375,580	878,183	(7,163,410)	2,796,521
Total liabilities and equity	$ 3,548,432	$ 18,689,497	$ 17,140,514	$ 10,174,436	$ (32,946,544)	$ 16,606,335

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) CONTINUED

Condensed Consolidating Statement of Income

Three Months Ended March 31, 2013

	Parent Guarantor	Issuer	Other Guarantors	Non - Guarantors (In thousands)	Eliminations	Consolidated
Operating revenues (net of contractual allowances and discounts)	$ -	$ (3,322)	$ 2,432,880	$ 1,370,306	$ -	$ 3,799,864
Provision for bad debts	-	-	338,431	149,683	-	488,114
Net operating revenues	-	(3,322)	2,094,449	1,220,623	-	3,311,750
Operating costs and expenses:						
Salaries and benefits	-	-	919,268	657,880	-	1,577,148
Supplies	-	-	324,013	173,828	-	497,841
Other operating expenses	-	77	444,585	263,312	-	707,974
Electronic health records incentive reimbursement	-	-	(11,974)	(8,942)	-	(20,916)
Rent	-	-	40,227	31,327	-	71,554
Depreciation and amortization	-	-	128,877	63,281	-	192,158
Total operating costs and expenses	-	77	1,844,996	1,180,686	-	3,025,759
Income from operations	-	(3,399)	249,453	39,937	-	285,991
Interest expense, net	-	14,269	126,466	15,615	-	156,350
Loss from early extinguishment of debt	-	1,295	-	-	-	1,295
Equity in earnings of unconsolidated affiliates	(79,174)	(92,325)	(18,350)	-	174,169	(15,680)
Income from continuing operations before income taxes	79,174	73,362	141,337	24,322	(174,169)	144,026
Provision for (benefit from) income taxes	-	(5,812)	50,931	2,584	-	47,703
Income from continuing operations	79,174	79,174	90,406	21,738	(174,169)	96,323
Discontinued operations, net of taxes:						
Loss from operations of entities sold	-	-	-	-	-	-
Loss from discontinued operations, net of taxes	-	-	-	-	-	-

