

COMMUNITY HEALTH SYSTEMS INC  
Form 10-Q  
July 27, 2012  
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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2012

Commission file number 001-15925

**COMMUNITY HEALTH SYSTEMS, INC.**

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

**Delaware**  
*(State or other jurisdiction of  
incorporation or organization)*

**4000 Meridian Boulevard**

**Franklin, Tennessee**  
*(Address of principal executive offices)*

**13-3893191**  
*(I.R.S. Employer*

*Identification Number)*

**37067**

*(Zip Code)*

**615-465-7000**

*(Registrant's telephone number)*

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

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

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

As of July 19, 2012, there were outstanding 90,963,226 shares of the registrant's Common Stock, \$0.01 par value.

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**Community Health Systems, Inc.**

**Form 10-Q**

**For the Three and Six Months Ended June 30, 2012**

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS***(In thousands, except share data)**(Unaudited)*

	<b>June 30,</b>	<b>December 31,</b>
	<b>2012</b>	<b>2011</b>
<b>ASSETS</b>		
<i>Current assets</i>		
Cash and cash equivalents	\$ 115,109	\$ 129,865
Patient accounts receivable, net of allowance for doubtful accounts of \$2,105,051 and \$1,891,334 at June 30, 2012 and December 31, 2011, respectively	2,055,292	1,834,167
Supplies	358,597	346,611
Prepaid income taxes	16,721	101,389
Deferred income taxes	89,797	89,797
Prepaid expenses and taxes	126,883	112,613
Other current assets	234,764	231,647
Total current assets	2,997,163	2,846,089
<i>Property and equipment</i>		
Property and equipment	9,808,757	9,369,528
Less accumulated depreciation and amortization	(2,760,532)	(2,513,552)
Property and equipment, net	7,048,225	6,855,976
<i>Goodwill</i>		
Goodwill	4,372,993	4,264,845
<i>Other assets, net</i>		
Other assets, net	1,454,625	1,241,930
Total assets	\$ 15,873,006	\$ 15,208,840
<b>LIABILITIES AND EQUITY</b>		
<i>Current liabilities</i>		
Current maturities of long-term debt	\$ 83,877	\$ 63,706
Accounts payable	770,450	748,997
Accrued interest	82,742	110,121
Accrued liabilities	962,056	988,315
Total current liabilities	1,899,125	1,911,139
<i>Long-term debt</i>		
Long-term debt	9,241,489	8,782,798
<i>Deferred income taxes</i>		
Deferred income taxes	704,725	704,725

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<i>Other long-term liabilities</i>	998,984	949,990
<b><i>Total liabilities</i></b>	<b>12,844,323</b>	<b>12,348,652</b>
<i>Redeemable noncontrolling interests in equity of consolidated subsidiaries</i>	367,909	395,743
<b><i>EQUITY</i></b>		
<i>Community Health Systems, Inc. stockholders' equity</i>		
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; 91,917,432 shares issued and 90,941,883 shares outstanding at June 30, 2012, and 91,547,079 shares issued and 90,571,530 shares outstanding at December 31, 2011	919	915
Additional paid-in capital	1,101,224	1,086,008
Treasury stock, at cost, 975,549 shares at June 30, 2012 and December 31, 2011	(6,678)	(6,678)
Accumulated other comprehensive loss	(159,546)	(184,479)
Retained earnings	1,660,163	1,501,330
<b>Total Community Health Systems, Inc. stockholders' equity</b>	<b>2,596,082</b>	<b>2,397,096</b>
<i>Noncontrolling interests in equity of consolidated subsidiaries</i>	64,692	67,349
<b><i>Total equity</i></b>	<b>2,660,774</b>	<b>2,464,445</b>
<b><i>Total liabilities and equity</i></b>	<b>\$ 15,873,006</b>	<b>\$ 15,208,840</b>

See accompanying notes to the condensed consolidated financial statements.

**Table of Contents****COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF INCOME***(in thousands, except share and per share data)**(Unaudited)*

	Three Months Ended		Six Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Operating revenues (net of contractual allowances and discounts)	\$ 3,746,428	\$ 3,433,829	\$ 7,529,919	\$ 6,787,881
Provision for bad debts	503,454	433,002	989,910	832,971
<i>Net operating revenues</i>	3,242,974	3,000,827	6,540,009	5,954,910
<i>Operating costs and expenses:</i>				
Salaries and benefits	1,497,446	1,384,096	3,022,421	2,763,463
Supplies	489,729	449,279	988,308	907,096
Other operating expenses	736,225	654,737	1,445,168	1,269,530
Electronic health records incentive reimbursement	(16,802)	-	(42,970)	-
Rent	66,463	62,431	133,687	125,601
Depreciation and amortization	179,801	161,376	354,155	319,531
Total operating costs and expenses	2,952,862	2,711,919	5,900,769	5,385,221
<i>Income from operations</i>	290,112	288,908	639,240	569,689
<i>Interest expense, net</i>	151,607	163,230	303,782	326,448
<i>Loss from early extinguishment of debt</i>	-	-	63,429	-
<i>Equity in earnings of unconsolidated affiliates</i>	(13,181)	(12,017)	(25,194)	(30,151)
<i>Income from continuing operations before income taxes</i>	151,686	137,695	297,223	273,392
<i>Provision for income taxes</i>	49,519	44,821	95,338	88,913
<i>Income from continuing operations</i>	102,167	92,874	201,885	184,479
<i>Discontinued operations, net of taxes:</i>				
Income (loss) from operations of entities sold	-	235	(466)	(1,443)
Impairment of hospitals sold	-	(39,562)	-	(47,930)
Loss on sale, net	-	-	-	(3,234)
<i>Loss from discontinued operations, net of taxes</i>	-	(39,327)	(466)	(52,607)
<i>Net income</i>	102,167	53,547	201,419	131,872
Less: Net income attributable to noncontrolling interests	18,808	18,158	42,586	35,159
Net income attributable to Community Health Systems, Inc.	\$ 83,359	\$ 35,389	\$ 158,833	\$ 96,713

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<i>Basic earnings (loss) per share attributable to Community Health Systems, Inc. common stockholders(1):</i>								
Continuing operations	\$	0.94	\$	0.82	\$	1.79	\$	1.64
Discontinued operations		-		(0.43)		(0.01)		(0.58)
Net income	\$	0.94	\$	0.39	\$	1.79	\$	1.06

<i>Diluted earnings (loss) per share attributable to Community Health Systems, Inc. common stockholders(1):</i>								
Continuing operations	\$	0.93	\$	0.81	\$	1.79	\$	1.62
Discontinued operations		-		(0.43)		(0.01)		(0.57)
Net income	\$	0.93	\$	0.39	\$	1.78	\$	1.05

<i>Weighted-average number of shares outstanding:</i>								
Basic		89,147,472		91,130,672		88,911,126		91,069,876
Diluted		89,530,639		91,783,725		89,191,651		91,960,610

(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		Six Months Ended	
	June 30, 2012	2011	June 30, 2012	2011
Net income	\$ 102,167	\$ 53,547	\$ 201,419	\$ 131,872
Other comprehensive income (loss), net of income taxes:				
Net change in fair value of interest rate swaps	9,976	(8,969)	20,512	27,477
Net change in fair value of available-for-sale securities	(527)	268	2,140	1,338
Amortization and recognition of unrecognized pension cost components	1,140	807	2,281	1,579
Other comprehensive income (loss)	10,589	(7,894)	24,933	30,394
Comprehensive income	112,756	45,653	226,352	162,266
Less: Comprehensive income attributable to noncontrolling interests	18,808	18,158	42,586	35,159
Comprehensive income attributable to Community Health Systems, Inc.	\$ 93,948	\$ 27,495	\$ 183,766	\$ 127,107

See accompanying notes to the condensed consolidated financial statements.

**Table of Contents****COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS***(In thousands)**(Unaudited)*

	<b>Six Months Ended June 30,</b>	
	<b>2012</b>	<b>2011</b>
<i>Cash flows from operating activities</i>		
Net income	\$ 201,419	\$ 131,872
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	354,155	324,367
Stock-based compensation expense	20,624	20,732
Loss on sale, net	-	3,234
Impairment of hospitals sold	-	47,930
Loss from early extinguishment of debt	63,429	-
Excess tax benefit relating to stock-based compensation	(1,037)	(4,659)
Other non-cash expenses, net	16,461	4,313
Changes in operating assets and liabilities, net of effects of acquisitions and divestitures:		
Patient accounts receivable	(199,383)	(83,082)
Supplies, prepaid expenses and other current assets	(39,920)	9,374
Accounts payable, accrued liabilities and income taxes	51,843	129,518
Other	15,336	1,086
Net cash provided by operating activities	482,927	584,685
<i>Cash flows from investing activities</i>		
Acquisitions of facilities and other related equipment	(245,227)	(204,264)
Purchases of property and equipment	(386,461)	(351,383)
Proceeds from disposition of ancillary operations	-	18,464
Proceeds from sale of property and equipment	3,437	8,034
Increase in other investments	(162,316)	(75,211)
Net cash used in investing activities	(790,567)	(604,360)
<i>Cash flows from financing activities</i>		
Proceeds from exercise of stock options	1,269	18,831
Repurchase of restricted stock shares for payroll tax withholding requirements	(9,074)	-
Deferred financing costs	(63,986)	(234)
Excess tax benefit relating to stock-based compensation	1,037	4,659
Stock buy-back	-	(50,002)
Proceeds from noncontrolling investors in joint ventures	637	863
Redemption of noncontrolling investments in joint ventures	(35,888)	(3,303)
Distributions to noncontrolling investors in joint ventures	(34,590)	(30,078)
Borrowings under credit agreements	5,244,263	-
Issuance of long-term debt	1,025,000	-
Proceeds from receivables facility	300,000	-
Repayments of long-term indebtedness	(6,135,784)	(28,798)
Net cash provided by (used in) financing activities	292,884	(88,062)

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<i>Net change in cash and cash equivalents</i>		(14,756)	(107,737)
<i>Cash and cash equivalents at beginning of period</i>		129,865	299,169
<i>Cash and cash equivalents at end of period</i>	\$	115,109	\$ 191,432
<i>Supplemental disclosure of cash flow information:</i>			
Interest payments	\$	331,161	\$ 327,717
Income tax paid (refunds received), net	\$	22,028	\$ (25,697)

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 June 30, 2012 and December 31, 2011 and for the three-month and six-month periods ended June 30, 2012 and June 30, 2011, have been prepared in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ). In the opinion of management, such information contains all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for such periods. All intercompany transactions and balances have been eliminated. The results of operations for the three and six months ended June 30, 2012, are not necessarily indicative of the results to be expected for the full fiscal year ending December 31, 2012. Certain information and disclosures normally included in the notes to consolidated financial statements have been condensed or omitted as permitted by the rules and regulations of the Securities and Exchange Commission (the SEC ). The Company believes the disclosures are adequate to make the information presented not misleading. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2011, contained in the Company's Annual Report on Form 10-K.

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

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

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

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

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

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

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Medicare	\$ 950,887	\$ 918,669	\$ 2,015,043	\$ 1,842,533
Medicaid	396,566	348,232	711,657	669,757
Managed Care and other third-party payors	1,911,861	1,751,817	3,818,350	3,451,677
Self-pay	487,114	415,111	984,869	823,914
<b>Total</b>	<b>\$ 3,746,428</b>	<b>\$ 3,433,829</b>	<b>\$ 7,529,919</b>	<b>\$ 6,787,881</b>

*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.

During the three and six months ended June 30, 2012, the Company recognized approximately \$16.8 million and \$43.0 million, respectively, of incentive reimbursement for HITECH incentives from Medicare and Medicaid related to certain of the Company's hospitals and from Medicare and Medicaid 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 were presented as a reduction of operating expenses on the condensed consolidated statement of income. During the three and six months ended June 30, 2012, the Company received cash related to the incentive reimbursement for HITECH incentives of approximately \$22.6 million and \$28.8 million, respectively. No incentive reimbursements were recognized during the three-month and six-month periods ended June 30, 2011.

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

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

**2. ACCOUNTING FOR STOCK-BASED COMPENSATION**

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Stock-based compensation awards are granted under the Community Health Systems, Inc. Amended and Restated 2000 Stock Option and Award Plan, amended and restated as of March 24, 2009 (the "2000 Plan"), and the Community Health Systems, Inc. 2009 Stock Option and Award Plan, amended and restated as of March 18, 2011 (the "2009 Plan").

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

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 June 30, 2012, 446,221 shares of unissued common stock were reserved for future grants under the 2000 Plan.

The 2009 Plan provides for the grant of incentive stock options intended to qualify under Section 422 of the IRC and for the grant of stock options which do not so qualify, stock appreciation rights, restricted stock, restricted stock units, performance-based shares or units and other share awards. Persons eligible to receive grants under the 2009 Plan include the Company's directors, officers, employees and consultants. To date, all options granted under the 2009 Plan have been nonqualified stock options for tax purposes. Options granted in 2011 have a 10-year contractual term. As of June 30, 2012, 1,627,477 shares of unissued common stock were reserved for future grants under the 2009 Plan.

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

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Effect on income from continuing operations before income taxes	\$ (10,129)	\$ (10,814)	\$ (20,624)	\$ (20,732)
Effect on net income	\$ (6,432)	\$ (6,867)	\$ (13,096)	\$ (13,165)

At June 30, 2012, \$54.9 million of unrecognized stock-based compensation expense was expected to be recognized over a weighted-average period of 21 months. Of that amount, \$11.0 million related to outstanding unvested stock options was expected to be recognized over a weighted-average period of 20 months and \$43.9 million related to outstanding unvested restricted stock and restricted stock units was expected to be recognized over a weighted-average period of 21 months. There were no modifications to awards during the three-month and six-month periods ended June 30, 2012.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Expected volatility	59.9 %	38.1 %	57.8 %	31.5 %
Expected dividends	-	-	-	-
Expected term	4 years	4 years	4.1 years	4 years
Risk-free interest rate	0.6 %	1.4 %	0.7 %	1.7 %





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

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

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

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

	Shares	Weighted-Average Exercise Price	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value as of June 30, 2012
Outstanding at December 31, 2011	8,389,142	\$ 32.83		
Granted	246,500	21.07		
Exercised	(17,244)	17.88		
Forfeited and cancelled	(130,475)	32.27		
Outstanding at March 31, 2012	8,487,923	32.53		
Granted	4,000	21.91		
Exercised	(50,018)	19.20		
Forfeited and cancelled	(103,448)	33.38		
Outstanding at June 30, 2012	8,338,457	\$ 32.59	4.8 years	\$ 15,756
Exercisable at June 30, 2012	6,732,861	\$ 32.67	3.9 years	\$ 12,670

The weighted-average grant date fair value of stock options granted during the three months ended June 30, 2012 and 2011 was \$10.01 and \$8.89, respectively, and \$9.16 and \$10.29 during the six months ended June 30, 2012 and 2011, respectively. The aggregate intrinsic value (the number of in-the-money stock options multiplied by the difference between the Company's closing stock price on the last trading day of the reporting period (\$28.03) and the exercise price of the respective stock options) in the table above represents the amount that would have been received by the option holders had all option holders exercised their options on June 30, 2012. This amount changes based on the market value of the Company's common stock. The aggregate intrinsic value of options exercised during the three months ended June 30, 2012 and 2011 was \$0.3 million and \$0.2 million, respectively. The aggregate intrinsic value of options exercised during the six months ended June 30, 2012 and 2011 was \$0.4 million and \$6.1 million, respectively. The aggregate intrinsic value of options vested and expected to vest approximates that of the outstanding options.

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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.

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

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

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

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

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



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

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		Six Months Ended	
	2012	June 30, 2011	2012	June 30, 2011
Directors' fees earned and deferred into plan	\$ 28	\$ 55	\$ 55	\$ 110
Share equivalent units	1,237	2,142	2,218	3,517

At June 30, 2012, a total of 30,993 share equivalent units were deferred in the plan with an aggregate fair value of \$0.9 million, based on the closing market price of the Company's common stock at June 30, 2012 of \$28.03.

**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 \$56.6 million and \$47.8 million for the three months ended June 30, 2012 and 2011, respectively, and \$104.2 million and \$89.5 million for the six months ended June 30, 2012 and 2011, respectively. Included in these amounts is stock-based compensation expense of \$10.1 million and \$10.8 million for the three months ended June 30, 2012 and 2011, respectively, and \$20.6 million and \$20.7 million for the six months ended June 30, 2012 and 2011, respectively.

**4. USE OF ESTIMATES**

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

**5. ACQUISITIONS AND DIVESTITURES*****Acquisitions***

The Company accounts for all transactions that represent business combinations after January 1, 2009 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.



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

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 \$12.7 million assumed in liabilities, for a total consideration of \$65.0 million. Based upon the Company's preliminary purchase price allocation relating to this acquisition as of June 30, 2012, approximately \$41.8 million of goodwill has been recorded. The preliminary allocation of the purchase price has been determined by the Company based on available information and is subject to settling amounts related to purchased working capital. Adjustments to the purchase price allocation are not expected to be material.

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 \$11.5 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 \$49.9 million. Based upon the Company's preliminary purchase price allocation relating to this acquisition as of June 30, 2012, no goodwill has been recorded. The preliminary allocation of the purchase price has been determined by the Company based on available information and is subject to settling amounts related to purchased working capital and final appraisals of tangible and intangible assets. Adjustments to the purchase price allocation are not expected to be material.

Effective January 1, 2012, one or more subsidiaries of the Company completed the acquisition of Moses Taylor Healthcare System based in Scranton, Pennsylvania, which is a healthcare system comprised of two acute care hospitals and other healthcare providers. This healthcare system includes Moses Taylor Hospital (217 licensed beds) located in Scranton, Pennsylvania, and Mid-Valley Hospital (25 licensed beds) located in Peckville, Pennsylvania. The total cash consideration paid for fixed assets and working capital was approximately \$151.1 million and \$9.2 million, respectively, with additional consideration of \$13.5 million assumed in liabilities, for a total consideration of \$173.8 million. Based upon the Company's preliminary purchase price allocation relating to this acquisition as of June 30, 2012, approximately \$54.9 million of goodwill has been recorded. The preliminary allocation of the purchase price has been determined by the Company based on available information and is subject to settling amounts related to purchased working capital and final appraisals of tangible and intangible assets. Adjustments to the purchase price allocation are not expected to be material.

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

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

Additionally, during the six months ended June 30, 2012, the Company paid approximately \$13.2 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 \$3.4 million of the consideration paid to property and equipment, \$0.3 million to net working capital, and the remainder, approximately \$9.5 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.

Approximately \$2.3 million and \$5.3 million of acquisition costs related to prospective and closed acquisitions were expensed during the three months ended June 30, 2012 and 2011, respectively, and \$6.6 million and \$8.7 million for the six months ended June 30, 2012 and 2011, respectively.





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

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

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

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

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

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

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Net operating revenues	\$ -	\$ 68,479	\$ -	\$ 140,563
Income (loss) from operations of entities sold before income taxes	-	392	(729)	(2,280)
Impairment of hospitals sold	-	(38,600)	-	(51,695)
Loss on sale, net	-	-	-	(5,061)
Loss from discontinued operations, before taxes	-	(38,208)	(729)	(59,036)
Income tax expense (benefit)	-	1,119	(263)	(6,429)
Loss from discontinued operations, net of taxes	\$ -	\$ (39,327)	\$ (466)	\$ (52,607)

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

**6. INCOME TAXES**

The total amount of unrecognized benefit that would affect the effective tax rate, if recognized, was approximately \$2.0 million as of June 30, 2012. During the six months ended June 30, 2012, the Company increased liabilities for uncertain tax positions by \$1.0 million and increased interest and penalties by approximately \$0.3 million. A total of approximately \$0.5 million of interest and penalties is included in the amount of

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the liability for uncertain tax positions at June 30, 2012. It is the Company's policy to recognize interest and penalties related to unrecognized benefits in its condensed consolidated statements of income as income tax expense.

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

The Company, or one of its subsidiaries, files income tax returns in the United States federal jurisdiction and various state jurisdictions. The Company has extended the federal statute of limitations for Triad Hospitals, Inc. ( Triad ) for the tax periods ended December 31, 1999, December 31, 2000, April 30, 2001, June 30, 2001, December 31, 2001, December 31, 2002 and December 31, 2003. The Internal Revenue Service (the IRS ) has concluded its examination of the federal tax return of Triad for the tax periods ended December 31, 2004, December 31, 2005, December 31, 2006 and July 25, 2007, and the statutes of limitations for those years will close on December 31, 2012. With few exceptions, the Company is no longer subject to state income tax examinations for years prior to 2008 and federal

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

income tax examinations with respect to Community Health Systems, Inc. federal returns for years prior to 2007. The Company's federal income tax returns for the 2007, 2008, 2009 and 2010 tax years are currently under examination by the IRS. The Company believes the results of this examination will not be material to its consolidated results of operations or consolidated financial position. In connection with the Company's 2007 and 2008 IRS examinations, the IRS has taken exception to the timing of the Company's malpractice expense deductions. Management believes that the Company's deduction timing is appropriate, and will work to resolve this item over the next 24 months. If management is unable to sustain the current timing of the Company's deduction, then it would be subject to interest and penalty costs. Management does not consider this matter to have met the recognition criteria to be considered an uncertain tax position for which a reserve is necessary.

Cash paid for income taxes, net of refunds received, resulted in net cash paid of \$22.1 million and a net cash refund of \$25.0 million for the three months ended June 30, 2012 and 2011, respectively. Cash paid for income taxes, net of refunds received, resulted in net cash paid of \$22.0 million and a net cash refund of \$25.7 million for the six months ended June 30, 2012 and 2011, respectively.

**7. GOODWILL AND OTHER INTANGIBLE ASSETS**

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

Balance as of December 31, 2011	\$	4,264,845
Goodwill acquired as part of acquisitions during 2012		106,189
Consideration adjustments and purchase price allocation adjustments for prior year's acquisitions		1,959
Balance as of June 30, 2012	\$	4,372,993

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

Goodwill is evaluated for impairment at the same time every year and when an event occurs or circumstances change that, more likely than not, reduce the fair value of the reporting unit below its carrying value. There is a two-step method for determining goodwill impairment. Step one is to compare the fair value of the reporting unit with the unit's carrying amount, including goodwill. If this test indicates the fair value is less than the carrying value, then step two is required to compare the implied fair value of the reporting unit's goodwill with the carrying value of the reporting unit's goodwill. The Company has selected September 30 as its annual testing date. The Company performed its last annual goodwill evaluation as of September 30, 2011, which evaluation took place during the fourth quarter of 2011. No impairment was indicated by this evaluation.

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.

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

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

The gross carrying amount of the Company's other intangible assets subject to amortization was \$61.8 million at June 30, 2012 and \$60.0 million at December 31, 2011, and the net carrying amount was \$29.6 million at June 30, 2012 and \$30.6 million at December 31, 2011. The carrying amount of the Company's other intangible assets not subject to amortization was \$47.3 million at June 30, 2012 and \$46.9 million at December 31, 2011. Other intangible assets are included in other assets, net on the Company's condensed consolidated balance sheets. Substantially all of the Company's intangible assets are contract-based intangible assets related to operating licenses, management contracts, or non-compete agreements entered into in connection with prior acquisitions.

The weighted-average amortization period for the intangible assets subject to amortization is approximately eight years. There are no expected residual values related to these intangible assets. Amortization expense on these intangible assets was \$1.9 million and \$2.3 million during the three months ended June 30, 2012 and 2011, respectively, and \$3.7 million and \$4.2 million during the six months ended June 30, 2012 and 2011, respectively. Amortization expense on intangible assets is estimated to be \$4.4 million for the remainder of 2012, \$5.5 million in 2013, \$3.5 million in 2014, \$3.2 million in 2015, \$2.4 million in 2016, \$2.2 million in 2017 and \$8.4 million thereafter.

The gross carrying amount of capitalized software for internal use was approximately \$544.5 million and \$451.0 million at June 30, 2012 and December 31, 2011, respectively, and the net carrying amount considering accumulated amortization was approximately \$294.2 million and \$241.3 million at June 30, 2012 and December 31, 2011, respectively. The estimated amortization period for capitalized internal-use software is generally three years, except for capitalized costs related to significant system conversions, which is generally eight years. There is no expected residual value for capitalized internal-use software. At June 30, 2012, there was approximately \$171.9 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 \$21.7 million and \$16.7 million during the three months ended June 30, 2012 and 2011, respectively, and \$41.4 million and \$34.7 million during the six months ended June 30, 2012 and 2011, respectively. Amortization expense on capitalized internal-use software is estimated to be \$48.8 million for the remainder of 2012, \$97.7 million in 2013, \$60.4 million in 2014, \$26.7 million in 2015, \$19.4 million in 2016, \$16.2 million in 2017 and \$25.0 million thereafter.

**Table of Contents****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		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
<b>Numerator:</b>				
Income from continuing operations, net of taxes	\$ 102,167	\$ 92,874	\$ 201,885	\$ 184,479
Less: Income from continuing operations attributable to noncontrolling interests, net of taxes	18,808	18,158	42,586	35,159
Income from continuing operations attributable to Community Health Systems, Inc. common stockholders basic and diluted	\$ 83,359	\$ 74,716	\$ 159,299	\$ 149,320
Loss from discontinued operations, net of taxes	\$ -	\$ (39,327)	\$ (466)	\$ (52,607)
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	\$ -	\$ (39,327)	\$ (466)	\$ (52,607)
<b>Denominator:</b>				
Weighted-average number of shares outstanding basic	89,147,472	91,130,672	88,911,126	91,069,876
Effect of dilutive securities:				
Restricted stock awards	160,211	263,876	90,722	258,871
Employee stock options	214,353	381,632	180,876	623,662
Other equity-based awards	8,603	7,545	8,927	8,201
Weighted-average number of shares outstanding diluted	89,530,639	91,783,725	89,191,651	91,960,610

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011

Dilutive securities outstanding not included in the computation of earnings per share because their effect is antidilutive:				
Employee stock options	6,774,748	6,726,417	6,895,140	5,560,855

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

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

**9. STOCKHOLDERS EQUITY**

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

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

On September 15, 2010, the Company commenced an open market repurchase program for up to 4,000,000 shares of the Company's common stock, not to exceed \$100 million in repurchases. This program will conclude at the earliest of three years from the commencement date, when the maximum number of shares has been repurchased or when the maximum dollar amount of repurchases has been expended. During the three and six months ended June 30, 2012, the Company did not repurchase any shares under this program. During the three and six months ended June 30, 2011, the Company repurchased and retired 1,763,566 shares at a weighted average price of \$28.31 under this program. The cumulative number of shares that have been repurchased and retired under this program through June 30, 2012 is 3,921,138 shares at a weighted-average price of \$25.39 per share.

The Company's Credit Facility (as discussed below) limits the Company's ability to pay dividends and/or repurchase stock to an amount not to exceed \$50 million in the aggregate plus the aggregate amount of proceeds from the exercise of stock options. The indentures governing the 8<sup>7</sup>/<sub>8</sub>% Senior Notes due 2015 and the 8% Senior Notes due 2019 (collectively, the Senior Notes) also limit the Company's ability to pay dividends and/or repurchase stock. As of June 30, 2012, under the most restrictive test under these agreements, the Company has approximately \$81.3 million remaining available with which to pay permitted dividends and/or repurchase shares of stock or its Senior Notes.

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## COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

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

## Community Health Systems, Inc. Stockholders

	Redeemable		Additional		Accumulated		Total	
	Noncontrolling	Common	Paid-In	Treasury	Other	Retained	Noncontrolling	Stockholders
	Interest	Stock	Capital	Stock	Comprehensive	Earnings	Interest	Equity
					Income			
					(Loss)			
<b>Balance, December 31, 2011</b>	\$ 395,743	\$ 915	\$ 1,086,008	\$ (6,678)	\$ (184,479)	\$ 1,501,330	\$ 67,349	\$ 2,464,445
Comprehensive income	30,698	-	-	-	24,933	158,833	11,888	195,654
Distributions to noncontrolling interests, net of contributions	(20,390)	-	-	-	-	-	(13,563)	(13,563)
Purchase of subsidiary shares from noncontrolling interests	(16,681)	-	(18,848)	-	-	-	(359)	(19,207)
Other reclassifications of noncontrolling interests	1,625	-	-	-	-	-	(623)	(623)
Adjustment to redemption value of redeemable noncontrolling interests	(23,086)	-	23,086	-	-	-	-	23,086
Issuance of common stock in connection with the exercise of stock options	-	-	1,269	-	-	-	-	1,269
Cancellation of restricted stock for tax withholdings on vested shares	-	(3)	(9,074)	-	-	-	-	(9,077)
Excess tax benefit from exercise of stock options	-	-	(1,841)	-	-	-	-	(1,841)
	-	7	20,624	-	-	-	-	20,631



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Share-based compensation

<b>Balance, June 30, 2012</b>	\$	367,909	\$	919	\$	1,101,224	\$	(6,678)	\$	(159,546)	\$	1,660,163	\$	64,692	\$	2,660,774
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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):

		<b>Six Months Ended</b>
		<b>June 30, 2012</b>
Net income attributable to Community Health Systems, Inc.	\$	158,833
Transfers to the noncontrolling interests:		
Net decrease in Community Health Systems, Inc. paid-in capital for purchase of subsidiary partnership interests		(18,848)
Net transfers to the noncontrolling interests		(18,848)
Change to Community Health Systems, Inc. stockholders' equity from net income attributable to Community Health Systems, Inc. and transfers to noncontrolling interests	\$	139,985

**Table of Contents****COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****10. EQUITY INVESTMENTS**

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

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Revenues	\$ 315,106	\$ 307,453	\$ 632,423	\$ 628,293
Operating costs and expenses	274,303	268,777	551,559	535,013
Income from continuing operations before taxes	40,781	38,645	80,816	93,229

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

The Company's investment in all of its unconsolidated affiliates was \$432.3 million and \$422.2 million at June 30, 2012 and December 31, 2011, respectively, and is included in other assets, net in the accompanying condensed consolidated balance sheets. Included in the Company's results of operations is the Company's equity in pre-tax earnings from all of its investments in unconsolidated affiliates, which was \$13.2 million and \$12.0 million for the three months ended June 30, 2012 and 2011, respectively, and \$25.2 million and \$30.2 million for the six months ended June 30, 2012 and 2011, respectively.

**11. LONG-TERM DEBT**

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

	June 30,	December 31,
	2012	2011
Credit Facility:		
Term loan A	\$ 750,000	\$ -
Term loan B	5,219,062	5,949,383
Revolving credit loans	5,000	30,000
8 <sup>7</sup> / <sub>8</sub> % Senior Notes due 2015	931,235	1,777,617
8% Senior Notes due 2019	2,023,955	1,000,000
Receivables Facility	300,000	-
Capital lease obligations	47,539	48,361
Other	48,575	41,143

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Total debt	9,325,366	8,846,504
Less current maturities	(83,877)	(63,706)
Total long-term debt	\$ 9,241,489	\$ 8,782,798

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

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

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

On November 5, 2010, CHS entered into an amendment and restatement of the Credit Facility. The amendment extended by two and a half years, until January 25, 2017, the maturity date of \$1.5 billion of the existing term loans under the Credit Facility and increased the pricing on these term loans to LIBOR plus 350 basis points. If more than \$50 million of the 8<sup>7</sup>/<sub>8</sub>% Senior Notes remain outstanding on April 15, 2015, without having been refinanced, then the maturity date for the extended term loans will be accelerated to April 15, 2015. The amendment also increased CHS's 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. In addition, effective February 2, 2012, the Company completed a second amendment and restatement of the Credit Facility, which extended by two and a half years, until January 25, 2017, the maturity date of an additional \$1.6 billion of the existing non-extended term loans under the Credit Facility and increased the pricing on these term loans to LIBOR plus 350 basis points. The maturity date of the balance of the term loans of approximately \$2.9 billion remained unchanged at July 25, 2014.

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. The execution of these agreements resulted in a loss from early extinguishment of debt of \$8.5 million with an after-tax impact of \$5.3 million recorded in continuing operations for the six months ended June 30, 2012. Both the Replacement Revolver Facility and the Incremental Term Loan have a maturity date of October 25, 2016, subject to customary acceleration events and to the repayment, extension or refinancing with longer maturity debt of substantially all of the Company's outstanding term loans maturing July 25, 2014 and the 8<sup>7</sup>/<sub>8</sub>% Senior Notes. The pricing on each of the Replacement Revolver Facility and the Incremental Term Loan initially is 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.



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

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

CHS has agreed to pay letter of credit fees equal to the applicable percentage then in effect with respect to Eurodollar rate loans under the revolving credit facility times the maximum aggregate amount available to be drawn under all letters of credit outstanding under the subfacility for letters of credit. The issuer of any letter of credit issued under the subfacility for letters of credit will also receive a customary fronting fee and other customary processing charges. CHS is obligated to pay commitment fees of 0.50% per annum (subject to reduction based upon the Company's leverage ratio) on the unused portion of the revolving credit facility. For purposes of this calculation, swingline loans are not treated as usage of the revolving credit facility. With respect to the delayed draw term loan facility, CHS was also obligated to pay commitment fees of 0.50% per annum for the first nine months after the closing of the Credit Facility, 0.75% per annum for the next three months after such nine-month period and thereafter, 1% per annum. In each case, the commitment fee was paid on the unused amount of the delayed draw term loan facility. After the draw down of the remaining \$200 million of the delayed draw term loan in January 2009, CHS no longer pays any commitment fees for the delayed draw term loan facility. CHS paid arrangement fees on the closing of the Credit Facility and pays an annual administrative agent fee.

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

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

As of June 30, 2012, the availability for additional borrowings under the Credit Facility was \$750 million pursuant to the Replacement Revolver Facility, of which \$37.7 million was set aside for outstanding letters of credit and \$5.0 million was outstanding at June 30, 2012. 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 June 30, 2012, the weighted-average interest rate under the Credit Facility, excluding swaps, was 3.5%.



**Table of Contents****COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)*****8<sup>7</sup>/<sub>8</sub>% Senior Notes due 2015***

The 8<sup>7</sup>/<sub>8</sub>% Senior Notes were issued by CHS in connection with the Triad acquisition in the principal amount of approximately \$3.0 billion. The 8<sup>7</sup>/<sub>8</sub>% Senior Notes will mature on July 15, 2015. The 8<sup>7</sup>/<sub>8</sub>% Senior Notes bear interest at the rate of 8.875% per annum, payable semiannually in arrears on January 15 and July 15, commencing January 15, 2008. Interest on the 8<sup>7</sup>/<sub>8</sub>% 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.

On December 7, 2011, CHS completed the cash tender offer for \$1.0 billion of the then \$2.8 billion aggregate outstanding principal amount of the 8<sup>7</sup>/<sub>8</sub>% Senior Notes. This resulted in a loss from early extinguishment of debt of \$66.0 million with an after-tax impact of \$42.0 million recorded in continuing operations for the year ended December 31, 2011.

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<sup>7</sup>/<sub>8</sub>% Senior Notes. This resulted in a loss from early extinguishment of debt of \$54.9 million with an after-tax impact of \$34.3 million recorded in continuing operations for the six months ended June 30, 2012.

After July 15, 2011, CHS is entitled, at its option, to redeem all or a portion of the 8<sup>7</sup>/<sub>8</sub>% Senior Notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed as a percentage of principal amount on the redemption date), plus accrued and unpaid interest, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the 12-month period commencing on July 15 of the years set forth below:

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

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

***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 \$1.0 billion aggregate principal amount of CHS' outstanding 8<sup>7</sup>/<sub>8</sub>% Senior Notes due 2015 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 due 2019, 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 \$850 million aggregate principal amount of CHS' outstanding 8<sup>7</sup>/<sub>8</sub>% Senior Notes due 2015, 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.

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





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

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 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:

<b>Period</b>	<b>Redemption Price</b>
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.

**Receivables Facility**

On March 21, 2012, the Company and certain of its subsidiaries entered into an accounts receivables loan agreement (the Receivables Facility) with a group of conduit lenders and liquidity banks, Credit Agric le Corporate and Investment Bank, as a managing agent and as the administrative agent, and The Bank of Nova Scotia, as a managing agent. The existing and future 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, 2014, 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 the Company, which then sells or contributes the Receivables to a special-purpose entity that is wholly-owned by the Company. 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 conduit lenders and liquidity banks of up to \$300 million outstanding from time to time based on the availability of eligible Receivables and other customary factors. The group of third-party conduit lenders and liquidity 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 June 30, 2012 totaled \$300.0 million and are classified as long-term debt on the condensed consolidated balance sheet. At June 30, 2012, the carrying amount of Receivables included in the Receivables Facility totaled approximately \$888.0 million and are included in patient accounts receivable on the condensed consolidated balance sheet.

The Company paid interest of \$170.0 million and \$101.6 million on borrowings during the three months ended June 30, 2012 and 2011, respectively, and \$331.2 million and \$327.7 million during the six months ended June 30, 2012 and 2011, respectively.

**Table of Contents****COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****12. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The fair value of financial instruments has been estimated by the Company using available market information as of June 30, 2012 and December 31, 2011, 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):

	June 30, 2012		December 31, 2011	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<b>Assets:</b>				
Cash and cash equivalents	\$ 115,109	\$ 115,109	\$ 129,865	\$ 129,865
Available-for-sale securities	33,943	33,943	31,582	31,582
Trading securities	34,946	34,946	30,486	30,486
<b>Liabilities:</b>				
Credit Facility	5,974,062	5,870,228	5,979,383	5,780,877
8 <sup>7</sup> / <sub>8</sub> % Senior Notes	931,235	961,193	1,777,617	1,842,322
8% Senior Notes	2,023,955	2,065,000	1,000,000	995,000
Other debt	348,575	348,575	41,143	41,143

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 2 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 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.

*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<sup>7</sup>/<sub>8</sub>% 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.

*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.

*Other debt.* The carrying amount of 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.

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

The Company assesses the effectiveness of its hedge instruments on a quarterly basis. For the three and six months ended June 30, 2012 and 2011, 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 June 30, 2012, 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.

Interest rate swaps consisted of the following at June 30, 2012:

<b>Swap #</b>	<b>Notional Amount (in 000 s)</b>	<b>Fixed Interest Rate</b>	<b>Termination Date</b>	<b>Fair Value of Liability (in 000 s)</b>
1	\$ 200,000	4.685 %	September 11, 2012	\$ 1,679
2	100,000	3.352 %	October 23, 2012	908
3	125,000	4.375 %	November 23, 2012	1,953
4	75,000	4.380 %	November 23, 2012	1,174
5	150,000	5.020 %	November 30, 2012	2,862
6	200,000	2.242 %	February 28, 2013	2,347
7	100,000	5.023 %	May 30, 2013	4,144
8	300,000	5.242 %	August 6, 2013	15,631
9	100,000	5.038 %	August 30, 2013	5,276
10	50,000	3.586 %	October 23, 2013	2,013
11	50,000	3.524 %	October 23, 2013	1,972
12	100,000	5.050 %	November 30, 2013	6,383
13	200,000	2.070 %	December 19, 2013	4,540
14	100,000	5.231 %	July 25, 2014	9,511
15	100,000	5.231 %	July 25, 2014	9,511
16	200,000	5.160 %	July 25, 2014	18,734
17	75,000	5.041 %	July 25, 2014	6,843
18	125,000	5.022 %	July 25, 2014	11,357
19	100,000	2.621 %	July 25, 2014	4,216
20	100,000	3.110 %	July 25, 2014	5,208
21	100,000	3.258 %	July 25, 2014	5,508
22	200,000	2.693 %	October 26, 2014	9,682
23	300,000	3.447 %	August 8, 2016	30,536
24	200,000	3.429 %	August 19, 2016	20,306
25	100,000	3.401 %	August 19, 2016	10,048
26	200,000	3.500 %	August 30, 2016	20,957
27	100,000	3.005 %	November 30, 2016	8,828

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

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 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 June 30, 2012 interest rates, approximately \$111.3 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.

The following tabular disclosure provides the amount of pre-tax loss recognized as a component of OCI during the three and six months ended June 30, 2012 and 2011 (in thousands):

Derivatives in Cash Flow  Hedging Relationships	Amount of Pre-Tax Loss Recognized in OCI (Effective Portion)			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Interest rate swaps	\$ (21,704)	\$ (67,685)	\$ (44,826)	\$ (63,572)

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 and six months ended June 30, 2012 and 2011 (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		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Interest expense, net	\$ 37,316	\$ 53,649	\$ 76,926	\$ 106,573

The fair values of derivative instruments in the condensed consolidated balance sheets as of June 30, 2012 and December 31, 2011 were as follows (in thousands):

Asset Derivatives		Liability Derivatives	
June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011
Fair Value	Fair Value	Fair Value	Fair Value

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	<b>Balance Sheet Location</b>		<b>Balance Sheet Location</b>		<b>Balance Sheet Location</b>		<b>Balance Sheet Location</b>	
Derivatives designated as hedging instruments	Other assets, net	\$ -	Other assets, net	\$ -	Other long-term liabilities	\$ 222,127	Other long-term liabilities	\$ 254,228

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

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 June 30, 2012 and December 31, 2011 (in thousands):

	<b>June 30, 2012</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Available-for-sale securities	\$ 33,943	\$ 33,943	\$ -	\$ -
Trading securities	34,946	34,946	-	-
<b>Total assets</b>	<b>\$ 68,889</b>	<b>\$ 68,889</b>	<b>\$ -</b>	<b>\$ -</b>
Fair value of interest rate swap agreements	\$ 222,127	\$ -	\$ 222,127	\$ -
<b>Total liabilities</b>	<b>\$ 222,127</b>	<b>\$ -</b>	<b>\$ 222,127</b>	<b>\$ -</b>
	<b>December 31,</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>



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2011

Available-for-sale securities	\$ 31,582	\$ 31,582	\$ -	\$ -
Trading securities	30,486	30,486	-	-
<b>Total assets</b>	<b>\$ 62,068</b>	<b>\$ 62,068</b>	<b>\$ -</b>	<b>\$ -</b>
Fair value of interest rate swap agreements	\$ 254,228	\$ -	\$ 254,228	\$ -
<b>Total liabilities</b>	<b>\$ 254,228</b>	<b>\$ -</b>	<b>\$ 254,228</b>	<b>\$ -</b>

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

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

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 June 30, 2012 resulted in a decrease in the fair value of the related liability of \$9.7 million and an after-tax adjustment of \$6.2 million to OCI. The CVA on the Company's interest rate swap agreements at December 31, 2011 resulted in a decrease in the fair value of the related liability of \$21.7 million and an after-tax adjustment of \$13.9 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.

**14. RECENT ACCOUNTING PRONOUNCEMENTS**

In September 2011, the FASB issued ASU 2011-08, which modifies how entities test goodwill for impairment. Previous guidance required an entity to perform a two-step goodwill impairment test at least annually by comparing the fair value of a reporting unit with its carrying amount, including goodwill, and recording an impairment loss if the fair value is less than the carrying amount. This ASU allows an entity to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity determines after that assessment that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is not required. This ASU is required to be applied to interim and annual goodwill impairment tests performed for fiscal years beginning after December 15, 2011, and was adopted by the Company on January 1, 2012. The adoption of this ASU did not impact the Company's consolidated financial position, results of operations or cash flows.

**15. SEGMENT INFORMATION**

The Company operates 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). Only the hospital operations segment meets the criteria as a separate reportable segment. The financial information for the home care agencies and hospital management services segments do not meet the quantitative thresholds for a separate identifiable reportable segment and are combined into the corporate and all other reportable segment.

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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 June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
<b>Net operating revenues:</b>				
Hospital operations	\$ 3,178,229	\$ 2,929,038	\$ 6,401,326	\$ 5,813,368
Corporate and all other	64,745	71,789	138,683	141,542
<b>Total</b>	<b>\$ 3,242,974</b>	<b>\$ 3,000,827</b>	<b>\$ 6,540,009</b>	<b>\$ 5,954,910</b>
<b>Income from continuing operations before income taxes:</b>				
Hospital operations	\$ 220,242	\$ 184,426	\$ 420,550	\$ 362,539
Corporate and all other	(68,556)	(46,731)	(123,327)	(89,147)
<b>Total</b>	<b>\$ 151,686</b>	<b>\$ 137,695</b>	<b>\$ 297,223</b>	<b>\$ 273,392</b>

**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.

On February 10, 2006, the Company received a letter 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. The February 2006 letter focused on the Company's hospitals in three states: Arkansas, New Mexico, and South Carolina. On August 31, 2006, the Company received a follow up letter from the Department of Justice requesting additional documents relating to the programs in New Mexico and the payments to the Company's three hospitals in that state. Through the beginning of 2009, 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 its three New Mexico hospitals caused the State of New Mexico to submit improper claims for federal funds, in violation of the Federal False Claims Act. At one point, the Civil Division calculated that the three hospitals received ineligible federal participation payments from August 2000 to June 2006 of approximately \$27.5 million and said that if it proceeded to trial, it would seek treble damages plus

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an appropriate penalty for each of the violations of the Federal False Claims Act. This investigation has culminated in the federal government's intervention in a qui tam lawsuit styled U.S. ex rel. Baker vs. Community Health Systems, Inc., pending in the United States District Court for the District of New Mexico. The federal government filed its complaint in intervention on June 30, 2009. The relator filed a second amended complaint on July 1, 2009. Both of these complaints expand the time period during which alleged improper payments were made. The Company filed motions to dismiss all of the federal government's and the relator's claims on August 28, 2009. On March 19, 2010, the court granted in part and denied in part the Company's motion to dismiss as to the relator's complaint. On July 7, 2010, the court denied the Company's motion to dismiss the federal government's complaint in intervention. On July 21, 2010, the Company filed its answer and pretrial discovery began. On June 2,

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2011, the relator filed a Third Amended Complaint adding subsidiaries Community Health Systems Professional Services Corporation and CHS/Community Health Systems, Inc. as defendants. On June 6, 2011, the government filed its First Amended Complaint in intervention adding Community Health Systems Professional Services Corporation as a defendant. Discovery is closed. Motions for Summary Judgment were filed on March 27, 2012 and there is currently no hearing date on the motions nor has a trial date been set. On March 30, 2012, the court denied the Company's motion to exclude Plaintiffs' expert witness testimony, which the Company believes fails to follow the controlling Medicaid statute and regulations and results in an exaggeration of the damages estimate by fourfold. The Company has the opportunity to challenge the methodology employed at trial. The Company is vigorously defending this action.

**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 very preliminary stage, there are not sufficient facts available to make these assessments.

On April 8, 2011, the Company received a document subpoena, dated March 31, 2011, from the United States Department of Health and Human Services, Office of Inspector General (the "OIG"), in connection with an investigation of possible improper claims submitted to Medicare and Medicaid. The subpoena, issued from the OIG's Chicago, Illinois office, requested documents from all of the Company's hospitals and appears to concern emergency department processes and procedures, including the Company's hospitals' use of the Pro-MED Clinical Information System, which is a third-party software system that assists with the management of patient care and provides operational support and data collection for emergency department management and has the ability to track discharge, transfer and admission recommendations of emergency department physicians. The subpoena also requested other information about the Company's relationships with emergency department physicians, including financial arrangements. The subpoena's requests were very similar to those contained in the Civil Investigative Demands received by the Company's Texas hospitals from the Office of the Attorney General of the State of Texas on November 15, 2010. This investigation is being led by the Department of Justice. The Company is continuing to cooperate with the government including detailing a process for a medical necessity review by clinical reviewers and physicians of a sampling of medical records at a small number of hospitals.

On April 22, 2011, a joint motion was filed by the relator and the United States Department of Justice in the case styled United States ex rel. and Reuille vs. Community Health Systems Professional Services Corporation and Lutheran Musculoskeletal Center, LLC d/b/a Lutheran Hospital, in the United States District Court for the Northern District of Indiana, Fort Wayne Division. The lawsuit was originally filed under seal on January 7, 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. The relator had worked in the case management department of Lutheran Hospital of Indiana but was reassigned to another department in the fall of 2006. This facility was acquired by the Company as part of the July 25, 2007 merger transaction with Triad. The complaint also includes allegations of age discrimination in Ms. Reuille's 2006 reassignment and retaliation in connection with her resignation on October 1, 2008. The Company had cooperated fully with the government in its investigation of this matter, but had been unaware of the exact nature of the allegations in the complaint. On December 27, 2010, the government filed a notice that it declined to intervene in this suit. The April 22, 2011 motion contained additional information about how the government intended to proceed with an investigation regarding allegations of improper billing for inpatient care at other hospitals associated with Community Health Systems, Inc. . . . asserted in other qui tam complaints in other jurisdictions. The motion stated that the Department of Justice has consolidated its investigations of the Company and other related entities and that the Civil Division of the Department of Justice, multiple United States Attorneys' offices, and the Office of Inspector General for the Department of Health and Human Services (the "HHS") are now closely coordinating their investigation of these overlapping allegations. The Attorney General of Texas has initiated an investigation; the United States intends to work cooperatively with Texas and any other States investigating these allegations. The motion also stated that the Office of Audit Services for the Office of Investigations for HHS has been engaged to conduct a national audit of certain of the Company's Medicare claims. The government 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 allegations in the qui tam and to what the government is now describing as a consolidated investigation. (Because qui tam suits are filed under seal, no one but the relator and the government knows that the suit has been filed or what allegations are being made by the relator on behalf of the government. Initially, the government has 60 days to make a determination about whether to intervene in a case and to act as the plaintiff or to decline to intervene and allow the relator to act as the plaintiff in the suit, but extensions of time are frequently granted to allow the government additional time to investigate the allegations. Even if, in the course of an

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investigation, the court partially unseals a complaint to allow the government and a defendant to work to a resolution of the complaint's allegations, the defendant is prohibited from revealing to anyone even that the partial unsealing has occurred. As the investigation proceeds, the Company may learn of additional qui tam suits filed against the Company or its affiliated hospitals or related entities, or that contact letters, document requests, or medical record requests the Company has received in the past

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

from various governmental agencies are generated from qui tam cases filed under seal.) The motion filed on April 22, 2011 concluded by requesting a stay of the litigation in the Reuille case for 180 days, and on April 25, 2011, the court granted the motion. The Company's management company subsidiary, Community Health Systems Professional Services Corporation, the defendant in the Reuille case, consented to the request for the stay. On October 19, 2011, the government filed an application to transfer the Reuille case to the Middle District of Tennessee or for an extension of the stay for an additional 180 days. The Company agreed that a stay for an additional, but shorter period of time, 90 days, was appropriate, but did not consent to the transfer of the case. The Company's response setting forth the Company's legal arguments was filed on October 24, 2011. On November 1, 2011, the court denied the motion to transfer the matter and extended the stay until April 30, 2012. On April 26, 2012, the Company joined the government and the relator in a motion to extend the stay in this case for an additional 180 days. As noted in that filing, the Company is working with the government on a probe audit of medical records (described above with respect to the April 2011 subpoena). The stay has been extended until October 29, 2012. The Company is cooperating fully with the government in its investigations.

Three purported class action shareholder federal securities 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., Wayne T. Smith and W. Larry Cash, filed May 5, 2011; De Zheng v. Community Health Systems, Inc., Wayne T. Smith and W. Larry Cash, filed May 12, 2011; and Minneapolis Firefighters Relief Association v. Community Health Systems, Inc., Wayne T. Smith, W. Larry Cash and Thomas Mark Buford, filed June 2, 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. On September 20, 2011, all three were assigned to the same judge as related cases. On December 28, 2011, the court consolidated all three shareholder cases for pretrial purposes, selected NYC Funds as lead plaintiffs, and selected NYC Funds' counsel as lead plaintiffs' counsel. The parties negotiated operative dates for these consolidated shareholder federal securities actions. An operative consolidated complaint was filed on July 13, 2012 and a responsive pleading is due September 11, 2012.

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, W. Larry Cash, T. Mark Buford, John A. Clerico, James S. Ely III, John A. Fry, William Norris Jennings, Julia B. North and H. Mitchell Watson, Jr., filed May 24, 2011; Roofers Local No. 149 Pension Fund v. Wayne T. Smith, W. Larry Cash, John A. Clerico, James S. Ely, III, John A. Fry, William Norris Jennings, Julia B. North and H. Mitchell Watson, Jr., filed June 21, 2011; and Lambert Sweat v. Wayne T. Smith, W. Larry Cash, T. Mark Buford, John A. Clerico, James S. Ely, III, John A. Fry, William Norris Jennings, Julia B. North, H. Mitchell Watson, Jr. and Community Health Systems, Inc., 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. On September 28, 2011, the court ordered that the Plumbers and Pipefitters Local Union No. 630 Pension Annuity Trust Fund action and the Roofers Local No. 149 Pension Fund action be consolidated for pretrial purposes, and appointed the derivative plaintiffs' lead counsel. On November 29, 2011, the court ordered that the Lambert Sweat action be consolidated with the Plumbers and Roofers consolidated derivative actions. The Plaintiffs filed an operative amended derivative complaint in these three consolidated actions on March 15, 2012. A motion to dismiss was filed on May 14, 2012 and Plaintiffs' response was filed on July 13, 2012. A reply is due on August 27, 2012. The Company believes all of these matters are without merit and will vigorously defend them.

On May 2, 2012, suit was filed in the matter styled Daniel Eagle v. Community Health Systems, Inc., Chancery Court, State of Delaware. Suit was filed under Section 220 of the Delaware General Corporation Law to inspect certain of the Company's books and records pertaining to matters concerning alleged improper admissions practices. An answer was filed on June 25, 2012 and the matter is set for a hearing on September 27, 2012. The Company is vigorously defending this action.

During the six months ended June 30, 2012, the Company met the deductible for its directors and officers insurance policy as it relates to the legal costs for the Tenet acquisition lawsuit and shareholder lawsuits of possible improper claims submitted to Medicare and Medicaid. As a result, the majority of future legal costs incurred related to these claims, covered by the directors and officers insurance policy, will be offset by insurance recoveries. The Company incurred the following pre-tax charges in connection with these legal matters and the government investigations, net of insurance recoveries, during the three and six months ending June 30, 2012 and 2011 (in thousands):

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	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Professional fees and other related costs	\$ (454)	\$ 6,174	\$ 1,448	\$ 6,174



**Table of Contents****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 \$20.4 million at June 30, 2012. 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.

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. The total cash consideration paid at closing for long-lived assets was \$45.0 million and for preliminary net working capital was approximately \$2.6 million. 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.

On July 3, 2012, CHS commenced a cash tender offer for any and all of the approximately \$934 million outstanding principal amount of the 8<sup>7</sup>/<sub>8</sub>% Senior Notes. The total consideration payable for each \$1,000 principal amount of the 8<sup>7</sup>/<sub>8</sub>% Senior Notes validly tendered and not validly withdrawn prior to the consent expiration date of July 17, 2012 is \$1,026, which includes a consent payment of \$20 per \$1,000 principal amount of notes. On July 18, 2012, CHS purchased approximately \$639.7 million of the 8<sup>7</sup>/<sub>8</sub>% Senior Notes pursuant to the cash tender offer and notified holders of its intent to redeem all such remaining 8<sup>7</sup>/<sub>8</sub>% Senior Notes on August 17, 2012. The total consideration to be paid for each \$1,000 principal amount of the 8<sup>7</sup>/<sub>8</sub>% Senior Notes validly tendered and not validly withdrawn after July 17, 2012 is \$1,006 for each \$1,000 principal amount of notes. The tender offer is scheduled to expire on August 1, 2012, unless extended or earlier terminated.

In addition, on July 18, 2012, CHS completed an offering to issue and sell \$1.2 billion of 7<sup>1</sup>/<sub>8</sub>% Senior Notes due 2020. The Company used the proceeds of the offering to purchase approximately \$639.7 million of the 8<sup>7</sup>/<sub>8</sub>% Senior Notes that were validly tendered and not validly withdrawn in the cash tender offer commenced on July 3, 2012, to pay for consents delivered in connection therewith and to pay related fees and expenses. The Company intends to use the remaining proceeds to redeem any remaining 8<sup>7</sup>/<sub>8</sub>% Senior Notes and, to the extent any proceeds remain, for general corporate purposes.

**18. SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION**

In 2007, CHS issued the 8<sup>7</sup>/<sub>8</sub>% Senior Notes in the aggregate principal amount of approximately \$3.0 billion. In 2011, CHS issued the 8% Senior Notes in the aggregate principal amount of \$1.0 billion, the proceeds from which were used to purchase \$1.0 billion of the 8<sup>7</sup>/<sub>8</sub>% Senior Notes. In addition, CHS issued an additional \$1.0 billion of 8% Senior Notes in March 2012, the proceeds from which were used to purchase \$850 million of 8<sup>7</sup>/<sub>8</sub>% Senior Notes. The 8<sup>7</sup>/<sub>8</sub>% Senior Notes and 8% Senior Notes are senior unsecured obligations of CHS and are guaranteed on a senior basis by the Company and by certain of its existing and subsequently acquired or organized 100% owned domestic subsidiaries.

Both the 8<sup>7</sup>/<sub>8</sub>% Senior Notes and the 8% Senior 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 consolidated financial statements of the Company, except as noted below:

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

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

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

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 restated to reflect the status of guarantors or non-guarantors as of June 30, 2012.

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	<b>Parent Guarantor</b>	<b>Issuer</b>	<b>Other Guarantors</b>	<b>Non - Guarantors</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<b>(In thousands)</b>					
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ -	\$ -	\$ 12,722	\$ 102,387	\$ -	\$ 115,109
Patient accounts receivable, net of allowance for doubtful accounts	-	-	617,545	1,437,747	-	2,055,292
Supplies	-	-	239,339	119,258	-	358,597
Deferred income taxes	89,797	-	-	-	-	89,797
Prepaid expenses and taxes	16,721	18	96,300	30,565	-	143,604
Other current assets	-	-	159,736	75,028	-	234,764
<b>Total current assets</b>	<b>106,518</b>	<b>18</b>	<b>1,125,642</b>	<b>1,764,985</b>	<b>-</b>	<b>2,997,163</b>
Intercompany receivable	1,262,531	9,700,772	3,165,271	2,202,583	(16,331,157)	-
Property and equipment, net	-	-	4,696,549	2,351,676	-	7,048,225
Goodwill	-	-	2,511,192	1,861,801	-	4,372,993
Other assets, net of accumulated amortization	-	127,205	665,677	661,743	-	1,454,625
Net investment in subsidiaries	1,942,226	6,677,251	3,679,952	-	(12,299,429)	-
<b>Total assets</b>	<b>\$ 3,311,275</b>	<b>\$ 16,505,246</b>	<b>\$ 15,844,283</b>	<b>\$ 8,842,788</b>	<b>\$ (28,630,586)</b>	<b>\$ 15,873,006</b>
<b>LIABILITIES AND EQUITY</b>						
Current liabilities:						
Current maturities of long-term debt	\$ -	\$ 61,250	\$ 19,095	\$ 3,532	\$ -	\$ 83,877
Accounts payable	-	26	571,967	198,457	-	770,450
Accrued interest	-	82,295	125	322	-	82,742
Accrued liabilities	7,580	-	631,145	323,331	-	962,056
<b>Total current liabilities</b>	<b>7,580</b>	<b>143,571</b>	<b>1,222,332</b>	<b>525,642</b>	<b>-</b>	<b>1,899,125</b>
Long-term debt	-	8,868,681	53,652	319,156	-	9,241,489
Intercompany payable	-	5,330,843	11,663,052	7,131,049	(24,124,944)	-
Deferred income taxes	704,725	-	-	-	-	704,725
Other long-term liabilities	2,888	219,930	591,168	184,998	-	998,984
<b>Total liabilities</b>	<b>715,193</b>	<b>14,563,025</b>	<b>13,530,204</b>	<b>8,160,845</b>	<b>(24,124,944)</b>	<b>12,844,323</b>
Redeemable noncontrolling interests in equity of consolidated subsidiaries	-	-	-	367,909	-	367,909
Equity:						
Community Health Systems, Inc. stockholders' equity:						
Preferred stock	-	-	-	-	-	-
Common stock	919	-	1	2	(3)	919

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Additional paid-in capital	1,101,224	792,366	878,917	94,001	(1,765,284)	1,101,224
Treasury stock, at cost	(6,678)	-	-	-	-	(6,678)
Accumulated other comprehensive (loss) income	(159,546)	(159,546)	(17,267)	-	176,813	(159,546)
Retained earnings	1,660,163	1,309,401	1,452,428	155,339	(2,917,168)	1,660,163
Total Community Health Systems, Inc. stockholders' equity	2,596,082	1,942,221	2,314,079	249,342	(4,505,642)	2,596,082
Noncontrolling interests in equity of consolidated subsidiaries	-	-	-	64,692	-	64,692
Total equity	2,596,082	1,942,221	2,314,079	314,034	(4,505,642)	2,660,774
Total liabilities and equity	\$ 3,311,275	\$ 16,505,246	\$ 15,844,283	\$ 8,842,788	\$ (28,630,586)	\$ 15,873,006

**Table of Contents****COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****Condensed Consolidating Balance Sheet****December 31, 2011**

	<b>Parent Guarantor</b>	<b>Issuer</b>	<b>Other Guarantors</b>	<b>Non - Guarantors</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<b>(In thousands)</b>					
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ -	\$ -	\$ 12,289	\$ 117,576	\$ -	\$ 129,865
Patient accounts receivable, net of allowance for doubtful accounts	-	-	1,135,909	698,258	-	1,834,167
Supplies	-	-	227,864	118,747	-	346,611
Deferred income taxes	89,797	-	-	-	-	89,797
Prepaid expenses and taxes	101,389	117	86,368	26,128	-	214,002
Other current assets	-	10,235	145,446	75,966	-	231,647
<b>Total current assets</b>	<b>191,186</b>	<b>10,352</b>	<b>1,607,876</b>	<b>1,036,675</b>	<b>-</b>	<b>2,846,089</b>
Intercompany receivable	1,160,785	9,294,295	1,735,734	1,672,003	(13,862,817)	-
Property and equipment, net	-	-	4,524,901	2,331,075	-	6,855,976
Goodwill	-	-	2,412,517	1,852,328	-	4,264,845
Other assets, net of accumulated amortization	-	99,521	508,066	634,343	-	1,241,930
Net investment in subsidiaries	1,758,458	6,457,992	2,412,694	-	(10,629,144)	-
<b>Total assets</b>	<b>\$ 3,110,429</b>	<b>\$ 15,862,160</b>	<b>\$ 13,201,788</b>	<b>\$ 7,526,424</b>	<b>\$ (24,491,961)</b>	<b>\$ 15,208,840</b>
<b>LIABILITIES AND EQUITY</b>						
Current liabilities:						
Current maturities of long-term debt	\$ -	\$ 49,954	\$ 10,087	\$ 3,665	\$ -	\$ 63,706
Accounts payable	-	345	526,255	222,397	-	748,997
Accrued interest	-	109,984	131	6	-	110,121
Accrued liabilities	7,580	567	677,229	302,939	-	988,315
<b>Total current liabilities</b>	<b>7,580</b>	<b>160,850</b>	<b>1,213,702</b>	<b>529,007</b>	<b>-</b>	<b>1,911,139</b>
Long-term debt	-	8,707,805	54,628	20,365	-	8,782,798
Intercompany payable	-	4,980,822	9,385,406	6,084,097	(20,450,325)	-
Deferred income taxes	704,725	-	-	-	-	704,725
Other long-term liabilities	1,028	254,228	433,452	261,282	-	949,990
<b>Total liabilities</b>	<b>713,333</b>	<b>14,103,705</b>	<b>11,087,188</b>	<b>6,894,751</b>	<b>(20,450,325)</b>	<b>12,348,652</b>
Redeemable noncontrolling interests in equity of consolidated subsidiaries	-	-	-	395,743	-	395,743
Equity:						
Community Health Systems, Inc. stockholders' equity:						
Preferred stock	-	-	-	-	-	-
Common stock	915	-	1	2	(3)	915

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Additional paid-in capital	1,086,008	701,399	771,199	60,857	(1,533,455)	1,086,008
Treasury stock, at cost	(6,678)	-	-	-	-	(6,678)
Accumulated other comprehensive (loss) income	(184,479)	(184,479)	(21,687)	-	206,166	(184,479)
Retained earnings	1,501,330	1,241,535	1,365,087	107,722	(2,714,344)	1,501,330
Total Community Health Systems, Inc. stockholders equity	2,397,096	1,758,455	2,114,600	168,581	(4,041,636)	2,397,096
Noncontrolling interests in equity of consolidated subsidiaries	-	-	-	67,349	-	67,349
Total equity	2,397,096	1,758,455	2,114,600	235,930	(4,041,636)	2,464,445
Total liabilities and equity	\$ 3,110,429	\$ 15,862,160	\$ 13,201,788	\$ 7,526,424	\$ (24,491,961)	\$ 15,208,840

**Table of Contents****COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****Condensed Consolidating Statement of Income****Three Months Ended June 30, 2012**

	<b>Parent Guarantor</b>	<b>Issuer</b>	<b>Other Guarantors</b>	<b>Non - Guarantors</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<b>(In thousands)</b>					
Operating revenues (net of contractual allowances and discounts)	\$ -	\$ (2,666)	\$ 2,328,946	\$ 1,420,148	\$ -	\$ 3,746,428
Provision for bad debts	-	-	316,982	186,472	-	503,454
Net operating revenues	-	(2,666)	2,011,964	1,233,676	-	3,242,974
Operating costs and expenses:						
Salaries and benefits	-	-	886,435	611,011	-	1,497,446
Supplies	-	-	325,281	164,448	-	489,729
Other operating expenses	-	20	447,530	288,675	-	736,225
Electronic health records incentive reimbursement	-	-	(6,313)	(10,489)	-	(16,802)
Rent	-	-	36,692	29,771	-	66,463
Depreciation and amortization	-	-	119,422	60,379	-	179,801
Total operating costs and expenses	-	20	1,809,047	1,143,795	-	2,952,862
Income from operations	-	(2,686)	202,917	89,881	-	290,112
Interest expense, net	-	17,588	123,132	10,887	-	151,607
Loss from early extinguishment of debt	-	-	-	-	-	-
Equity in earnings of unconsolidated affiliates	(83,359)	(84,540)	(50,097)	-	204,815	(13,181)
Income from continuing operations before income taxes	83,359	64,266	129,882	78,994	(204,815)	151,686
Provision for (benefit from) income taxes	-	(19,093)	46,887	21,725	-	49,519
Income from continuing operations	83,359	83,359	82,995	57,269	(204,815)	102,167
Discontinued operations, net of taxes:						
Income (loss) from operations of entities sold	-	-	-	-	-	-
Impairment of hospitals sold	-	-	-	-	-	-
Loss on sale, net	-	-	-	-	-	-
Loss from discontinued operations, net of taxes	-	-	-	-	-	-
Net income	83,359	83,359	82,995	57,269	(204,815)	102,167
Less: Net income attributable to noncontrolling interests	-	-	-	18,808	-	18,808
Net income attributable to Community Health Systems, Inc.	\$ 83,359	\$ 83,359	\$ 82,995	\$ 38,461	\$ (204,815)	\$ 83,359



**Table of Contents****COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****Condensed Consolidating Statement of Income****Three Months Ended June 30, 2011**

	<b>Parent Guarantor</b>	<b>Issuer</b>	<b>Other Guarantors</b>	<b>Non - Guarantors</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<b>(In thousands)</b>					
Operating revenues (net of contractual allowances and discounts)	\$ -	\$ -	\$ 2,166,347	\$ 1,267,482	\$ -	\$ 3,433,829
Provision for bad debts	-	-	279,173	153,829	-	433,002
Net operating revenues	-	-	1,887,174	1,113,653	-	3,000,827
Operating costs and expenses:						
Salaries and benefits	-	-	820,221	563,875	-	1,384,096
Supplies	-	-	296,768	152,511	-	449,279
Other operating expenses	-	-	432,436	222,301	-	654,737
Electronic health records incentive reimbursement	-	-	-	-	-	-
Rent	-	-	33,683	28,748	-	62,431
Depreciation and amortization	-	-	103,613	57,763	-	161,376
Total operating costs and expenses	-	-	1,686,721	1,025,198	-	2,711,919
Income from operations	-	-	200,453	88,455	-	288,908
Interest expense, net	-	22,212	120,921	20,097	-	163,230
Loss from early extinguishment of debt	-	-	-	-	-	-
Equity in earnings of unconsolidated affiliates	(35,389)	(54,818)	(2,180)	-	80,370	(12,017)
Income from continuing operations before income taxes	35,389	32,606	81,712	68,358	(80,370)	137,695
Provision for (benefit from) income taxes	-	(2,783)	29,498	18,106	-	44,821
Income from continuing operations	35,389	35,389	52,214	50,252	(80,370)	92,874
Discontinued operations, net of taxes:						
Income (loss) from operations of entities sold	-	-	-	235	-	235
Impairment of hospitals sold	-	-	-	(39,562)	-	(39,562)
Loss on sale, net	-	-	-	-	-	-
Loss from discontinued operations, net of taxes	-	-	-	(39,327)	-	(39,327)
Net income	35,389	35,389				