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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2004

Commission file number 001-15925

COMMUNITY HEALTH SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**13-3893191** (I.R.S. Employer Identification Number)
155 Franklin Road, Suite 400 **Brentwood, Tennessee** (Address of principal executive offices)	**37027** (Zip Code)

615-373-9600
(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, and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒   No o

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act) Yes ☒   No o

As of May 5, 2004, there were outstanding 98,771,284 shares of the Registrant's Common Stock, $.01 par value.

Community Health Systems, Inc.
Form 10-Q
For the Quarter Ended March 31, 2004

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	March 31, 2004	December 31, 2003
	(Unaudited)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 16,100	$ 16,331
Patient accounts receivable, net of allowance for doubtful accounts of $203,900 and $103,677 at March 31, 2004 and December 31, 2003, respectively	583,875	559,097
Supplies	79,227	77,418
Prepaid expenses and taxes	24,088	24,314
Other current assets	16,695	18,920
Total current assets	719,985	696,080
Property and equipment	1,804,419	1,772,461
Less accumulated depreciation and amortization	(405,970)	(377,116)
Property and equipment, net	1,398,449	1,395,345
Goodwill	1,159,233	1,155,797
Other Assets, net	102,596	102,989
Total assets	$ 3,380,263	$ 3,350,211
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current maturities of long-term debt	$ 22,163	$ 29,677
Accounts payable	139,742	154,711
Current income taxes payable	23,100	9,126
Deferred income taxes	669	669
Accrued interest	10,731	7,558
Accrued liabilities	181,639	196,323
Total current liabilities	378,044	398,064
Long-term debt	1,441,294	1,444,981
Deferred income taxes	110,341	110,341
Other long-term liabilities	62,709	46,236
Stockholders' equity		
Preferred stock, $.01 par value per share, 100,000,000 shares authorized, none issued	—	—
Common stock, $.01 par value per share, 300,000,000 shares authorized; 99,737,321 shares issued and 98,761,772 shares outstanding at March 31, 2004 and 99,657,532 shares issued and 98,681,983 shares outstanding at December 31, 2003	997	997
Additional paid-in capital	1,317,339	1,315,959
Treasury stock, at cost, 975,549 shares at March 31, 2004 and December 31, 2003	(6,678)	(6,678)
Unearned stock compensation	—	(2)
Accumulated other comprehensive loss	(4,925)	(103)
Accumulated earnings	81,142	40,416
Total stockholders' equity	1,387,875	1,350,589
Total liabilities and stockholders' equity	$ 3,380,263	$ 3,350,211

See accompanying notes.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except share and per share data)
(Unaudited)

	Three Months Ended March 31,	
	2004	**2003**
Net operating revenues	$ 822,376	$ 659,277
Operating costs and expenses:		
Salaries and benefits	330,428	268,772
Provision for bad debts	86,111	62,341
Supplies	99,392	76,820
Other operating expenses	161,724	128,631
Rent	19,698	16,139
Depreciation and amortization	38,451	33,242
Minority interests in earnings	373	372
Total operating costs and expenses	736,177	586,317
Income from operations	86,199	72,960
Interest expense, net	18,772	17,016
Income before income taxes	67,427	55,944
Provision for income taxes	26,701	22,405
Net income	$ 40,726	$ 33,539
Net income per common share:		
Basic	$ 0.41	$ 0.34
Diluted	$ 0.39	$ 0.33
Weighted-average number of shares outstanding:		
Basic	98,698,286	98,354,944
Diluted	109,136,803	107,820,250

See accompanying notes.

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

	Three Months Ended March 31,	
	2004	**2003**
Cash flows from operating activities		
Net income	$ 40,726	$ 33,539
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	38,451	33,242
Minority interest in earnings	373	372
Stock compensation expense	2	4
Other non-cash expenses, net	(493)	(26)
Changes in operating assets and liabilities, net of effects of acquisitions:		
Patient accounts receivable	(23,162)	(63,860)
Supplies, prepaid expenses and other current assets	688	(265)
Accounts payable, accrued liabilities and income taxes	(3,801)	(4,700)
Other	8,947	10,204
Net cash provided by operating activities	61,731	8,510
Cash flows from investing activities		
Acquistions of facilities	(3,986)	(147,241)
Purchases of property and equipment	(39,897)	(32,261)
Proceeds from sale of equipment	839	3
Increase in other assets	(7,408)	(7,428)
Net cash used in investing activities	(50,452)	(186,927)
Cash flows from financing activities		
Proceeds from exercise of stock options	1,012	133
Stock buy-back	—	(10,290)
Redemption of minority investments in joint ventures	(993)	(86)
Distributions to minority investors in joint ventures	(328)	(1,161)
Borrowing under credit agreement	34,440	80,000
Repayments of long-term indebtedness	(45,641)	(3,460)
Net cash (used in) provided by financing activities	(11,510)	65,136
Net change in cash and cash equivalents	(231)	(113,281)
Cash and cash equivalents at beginning of period	16,331	132,844
Cash and cash equivalents at end of period	$ 16,100	$ 19,563

See accompanying notes.

1. ACCOUNTING FOR STOCK-BASED COMPENSATION

The Company accounts for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board ("APB") Opinion No.25, "Accounting for Stock Issued to Employees" and related interpretations. Compensation cost, which the Company has substantially none, is measured as the excess of the fair value of the Company's stock at the date of grant over the amount an employee must pay to acquire the stock. Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," established accounting and disclosure requirements using a fair value based method of accounting for stock-based employee compensation plans; however, it allows an entity to continue to measure compensation for those plans using the intrinsic value method of accounting prescribed by APB Opinion No. 25. The Company has elected to continue to measure compensation under the method of accounting as described above, and has adopted the disclosure requirements of SFAS No. 123 and SFAS No. 148.

Had the fair value based method under SFAS No. 123 been used to value options granted and compensation expense recognized on a straight line basis over the vesting period of the grant, the Company's net income and income per share would have been reduced to the pro forma amounts indicated below (in thousands except per share data):

	Three Months Ended March 31,	
	2004	**2003**
Net income:	$ 40,726	$ 33,539
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	1,763	680
Pro-forma net income	$ 38,963	$ 32,859
Net income per share:		
Basic—as reported	$ 0.41	$ 0.34
Basic—pro-forma	$ 0.39	$ 0.33
Diluted—as reported	$ 0.39	$ 0.33
Diluted—pro-forma	$ 0.38	$ 0.33

2. BASIS OF PRESENTATION

The unaudited condensed consolidated financial statements of Community Health Systems, Inc. and its subsidiaries (the "Company") as of and for the three months ended March 31, 2004 and March 31, 2003, have been prepared in accordance with accounting principles generally accepted in the United States of America. In the opinion of management, such information contains all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for such periods. All intercompany transactions and balances have been eliminated. The results of operations for the three months ended March 31, 2004 are not necessarily indicative of the results to be expected for the full fiscal year ending December 31, 2004.

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, although the Company believes the disclosure is 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, 2003 contained in the Company's Annual Report on Form 10-K/A.

3. COST OF REVENUE

The majority of the Company's operating costs and expenses are "cost of revenue" items. Operating costs that could be classified as general and administrative by the Company would include the Company's corporate office costs which were $11.1 million and $9.9 million for the three month periods ended March 31, 2004 and 2003, respectively.

4. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management of the Company to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. Actual results could differ from the estimates.

5. ALLOWANCE FOR DOUBTFUL ACCOUNTS

Effective January 1, 2004, the Company changed its policy relative to the timing of the write-off of accounts receivable which are fully reserved. Previously, all amounts over 210 days from discharge were written-off and therefore excluded from the allowance for doubtful accounts and gross accounts receivable. The Company's new policy is to write-off gross accounts receivable when such amounts are subsequently placed with outside collection agencies. The Company believes this policy more accurately reflects the ongoing collection efforts within the Company and is more consistent with industry practices. This change in policy has no impact on the provision for bad debts and does not impact net accounts receivable as reflected on the accompanying condensed consolidated balance sheets.

At December 31, 2003, there were approximately $90 million in accounts over 210 days from discharge that were fully reserved and were still being actively pursued by the Company's internal collection agency excluded from the allowance and gross accounts receivable. As a result of this change in policy, at March 31, 2004, the Company included in its allowance for doubtful accounts and gross accounts receivable approximately $95 million of uncollected accounts over 210 days from discharge that were fully reserved and were still being actively pursued by our internal collection agency.

6. RECENT ACCOUNTING PRONOUNCEMENT

In December 2003, the FASB issued Interpretation No. 46R, "Consolidation of Variable Interest Entities", or FIN No. 46. This interpretation clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to specified entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. As of December 31, 2003, the Company adopted the Provisions of FIN No. 46 which are effective as of December 31, 2003 and required to be applied to those entities that are considered to be special-purpose entities. The adoption of those effective provisions of FIN No. 46 did not have an impact on the Company's consolidated financial position or results of operations as the Company had not identified any relationship that would qualify as special-purpose entities. The adoption of the remaining provisions of FIN No. 46 which were effective for the Company on March 31, 2004, did not have any impact on the consolidated financial statements. As of March 31, 2004, the Company has no investments in variable interest entities.

7. ACQUISITIONS

On March 15, 2004, the Company announced the execution of a definitive agreement to acquire Galesburg Cottage Hospital (170 beds) in Galesburg, Illinois. The hospital is being acquired from a local not-for-profit organization and is located approximately 45 miles west of Peoria, Illinois. The acquisition is subject to regulatory approvals and is expected to close by mid-year.

8. GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill for the three months ended March 31, 2004, are as follows (in thousands):

Balance as of December 31, 2003	$	1,155,797
Goodwill acquired as part of acquisitions during 2004		401
Consideration adjustments and finalization of purchase price allocations for acquisitions completed prior to 2004		3,035
Balance as of March 31, 2004	$	1,159,233

The Company completed its annual goodwill impairment test as required by SFAS No. 142, using a measurement date of September 30, 2003. Based on the results of the impairment test, the Company was not required to recognize an impairment of goodwill.

The gross carrying amount of the Company's other intangible assets was $9.8 million at March 31, 2004 and December 31, 2003, and the net carrying amount was $7.5 million at March 31, 2004 and $7.8 million at December 31, 2003. Other intangible assets are included in other assets, net on the Company's balance sheet.

The weighted average amortization period for the intangible assets subject to amortization is approximately 6 years. There are no expected residual values related to these intangible assets. Amortization expense on intangible assets during the three months ended March 31, 2004 and 2003 was $0.3 million and $0.1 million, respectively. Amortization expense on intangible assets is estimated to be $0.8 million for the remainder of 2004, $1.0 million in fiscal 2005, $0.8 million in fiscal 2006, $0.7 million in fiscal 2007, $0.6 million in fiscal 2008, and $0.5 million for fiscal 2009.

9. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except share and per share data):

	Three Months Ended March 31,	
	2004	2003
Numerator:		
Net income	$ 40,726	$ 33,539
Convertible notes, interest, net of taxes	2,189	2,189
Adjusted net income	$ 42,915	$ 35,728
Denominator:		
Weighted-average number of shares outstanding—basic	98,698,286	98,354,944
Basic shares not vested	39,136	133,446
Effect of dilutive securities:		
Employee stock options	1,817,305	749,784
Convertible notes	8,582,076	8,582,076
Weighted-average number of shares—diluted	109,136,803	107,820,250
Basic earnings per share	$ 0.41	$ 0.34
Diluted earnings per share	$ 0.39	$ 0.33

Since the net income per share impact of the conversion of the convertible notes is less than the basic net income per share for the three months ended March 31, 2004 and March 31, 2003, the convertible notes are dilutive and accordingly, must be included in the fully diluted calculation.

10. STOCKHOLDERS' EQUITY

On January 23, 2003, the Company announced an open market share repurchase program for up to five million shares of its common stock. The share repurchase program will conclude at the earlier of three years or when the maximum number of shares have been repurchased. Since the inception of the program the Company has repurchased 790,000 shares at an average cost of $18.57 per share. No shares were repurchased during the quarter ended March 31, 2004.

11. COMPREHENSIVE INCOME

The following table presents the components of comprehensive income, net of related taxes. The change in fair value of interest rate swap agreements is a function of the spread between the fixed interest rate of the swap and the underlying variable interest rate (in thousands):

	Three Months Ended March 31,	
	2004	2003
Net income	$ 40,726	$ 33,539
Net change in fair value of interest rate swap	(4,822)	(193)
Comprehensive Income	$ 35,904	$ 33,346

The net change in fair value of the interest rate swap is included in stockholders' equity on the condensed consolidated balance sheets.

12. SUBSEQUENT EVENTS

On April 19, 2004, the Company entered into an underwriting agreement with CHS/Community Health Systems, Inc., a wholly owned subsidiary of the Company, the selling stockholders named therein, which included affiliates of Forstmann Little & Co., other shareholders and other members of management, and the various underwriters named therein. Pursuant to the underwriting agreement, the selling stockholders sold 23,400,870 shares of common stock at a public offering price of $24.50 per share. The offering reduced Forstmann Little's beneficial ownership interest in the Company to approximately 24%. The selling stockholders also granted the underwriters a 30-day option to purchase, at the public offering price, less the underwriting discount, up to an additional 3,510,130 shares of common stock to cover any over-allotments. This option expires on May 19, 2004. The Company did not receive any proceeds from the sale of shares by the selling stockholders and will not receive any proceeds if the over-allotment is exercised.

The common stock was offered pursuant to a prospectus supplement and the accompanying base prospectus previously filed with the SEC pursuant to Rule 424(b)(3) of the Securities Act of 1933, as amended, in connection with a shelf takedown from the Company's shelf registration statement on Form S-3, as amended (Reg. No. 333-112084) and the registration statement on Form S-3 filed pursuant to Rule 462(b) of the Securities Act (Reg. No. 333-114418).

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read this discussion together with our unaudited Condensed Consolidated Financial Statements and accompanying notes included herein.

Executive Overview

We are the largest non-urban provider of general hospital healthcare services in the United States in terms of number of facilities. For the quarter ended March 31, 2004, we generated $822 million in net operating revenues, a growth of 24.7% over the first quarter of 2003 and $40.7 million in net income, a growth of 21.4% over the first quarter of 2003.

The 24.7% increase in net operating revenues in the quarter ended March 31, 2004, was primarily due to the execution of our acquisition strategy, with 16.5% of the net operating revenue growth coming from hospitals owned less than one year. The remaining 8.2% growth was from hospitals owned throughout both periods. Of the increase in net operating revenues from hospitals owned throughout both periods we estimate that 5.1% was attributable to increases in rates and the acuity level of services provided, 2.1% was attributable to volume increases and 1.0% was attributable to increases in governmental reimbursement.

During the quarter ended March 31, 2004, we managed to reduce salaries and benefits as a percentage of net operating revenues at hospitals owned throughout both periods. The provision for bad debts as of March 31, 2004 increased as compared to March 31, 2003 due to the increase in uncollected self-pay accounts, primarily caused by an increase in self-pay gross revenue in the quarter. Admissions at hospitals owned throughout both periods increased 1.9% in the quarter ended March 31, 2004 as compared to the quarter ended March 31, 2003, reflecting the growth in cardiology related procedures and surgery cases at those hospitals and one additional business day in the 2004 quarter as compared to the prior year. On a consolidated basis, total operating costs and expenses as a percentage of net operating revenues increased for the quarter ended March 31, 2004 as compared to the quarter ended March 31, 2003 primarily as a result of our operating improvements being offset by those recently acquired hospitals where our strategies to improve profitability have not yet been implemented or where we have not yet fully recognized the benefits of these strategies and also as a result of an increase in bad debt expense.

Cash flows from operating activities were $61.7 million for the quarter ended March 31, 2004, compared to $8.5 million for the quarter ended March 31, 2003. The increase is due primarily to increases in net income, non-cash expenses and improved collections of accounts receivable at hospitals owned throughout both periods. The increase between periods would not have been as large had net cash provided by operating activities not been lowered by approximately $9.0 million in the quarter ended March 31, 2004 and by approximately $26.5 million for the quarter ended March 31, 2003, primarily as a result of the build-up of accounts receivable related to acquisitions.

As a result of the Medicare Prescription Drug, Improvement and Modernization Act of 2003, the additional disproportionate share payment begins April 1, 2004 and is expected to increase reimbursement by at least $6.5 million for 2004, and reimbursement improvement from the wage index change provided for in this law is effective October 1, 2004 and is expected to have an impact of approximately $1.5 million for 2004.

Acquisitions

On March 15, 2004, the Company announced the execution of a definitive agreement to acquire Galesburg Cottage Hospital located in Galesburg, Illinois, approximately 45 miles west of Peoria, Illinois. The hospital, which has a total of 170 beds, is being acquired from a local not-for-profit organization. The transaction is subject to routine regulatory approvals.

Recent Development

On April 19, 2004, the Company entered into an underwriting agreement with CHS/Community Health Systems, Inc., a wholly owned subsidiary of the Company, the selling stockholders named therein, which included affiliates of Forstmann Little & Co., other shareholders and other members of management, and the various underwriters named therein. Pursuant to the underwriting agreement, the selling stockholders sold 23,400,870 shares of common stock at a public offering price of $24.50 per share. The offering reduced Forstmann Little's beneficial ownership interest in the Company to approximately 24%. The selling stockholders also granted the underwriters a 30-day option to purchase, at the public offering price, less the underwriting discount, up to an additional 3,510,130 shares of common stock to cover any over-allotments. This option expires on May 19, 2004. The Company did not receive any proceeds from the sale of shares by the selling stockholders and will not receive any proceeds if the over-allotment is exercised.

The common stock was offered pursuant to a prospectus supplement and the accompanying base prospectus previously filed with the SEC pursuant to Rule 424(b)(3) of the Securities Act of 1933, as amended, in connection with a shelf takedown from the Company's shelf registration statement on Form S-3, as amended (Reg. No. 333-112084) and the registration statement on Form S-3 filed pursuant to Rule 462(b) of the Securities Act (Reg. No. 333-114418).

Sources of Revenue

	Quarter Ended March 31,		Year Ended December 31,
	2004	2003	2003
Medicare	33.3%	33.4%	33.0%
Medicaid	9.9%	10.7%	10.8%
Managed Care	20.4%	17.5%	19.2%
Self-pay	12.8%	13.5%	12.8%
Other third party payors	23.6%	24.9%	24.2%
Total	100.0%	100.0%	100.0%

Net operating revenues include amounts estimated by management to be reimbursable by Medicare and Medicaid under prospective payment systems and provisions of cost-reimbursement and other payment methods. In addition, we are reimbursed by non-governmental payors using a variety of payment methodologies. Amounts we receive for treatment of patients covered by these programs are generally less than the standard billing rates. We account for the differences between the estimated program reimbursement rates and the standard billing rates as contractual adjustments, which we deduct from gross revenues to arrive at net operating revenues. Final settlements under some of these programs are subject to adjustment based on administrative review and audit by third parties. We account for adjustments to previous program reimbursement estimates as contractual adjustments and report them in the periods that such adjustments become known. Adjustments related to final settlements or appeals that increased revenue were insignificant in each of the three month periods ended March 31, 2004 and 2003.

The payment rates under the Medicare program for inpatients are based on a prospective payment system, depending upon the diagnosis of a patient's condition. While these rates are indexed for inflation annually, the increases have historically been less than actual inflation. Reductions in the rate of increase in Medicare reimbursement may have an adverse impact on our net operating revenue growth. Effective April 1, 2002, Centers for Medicare and Medicaid Services implemented changes to the Medicare outpatient prospective payment system. Although these changes have resulted in reductions to Medicare outpatient payments, these reductions, as well as changes to the Medicare system caused by the Benefit Improvement and Protection Act of 2000, should not materially affect our net operating revenue growth. While the Medicare Prescription Drug, Improvement and Modernization Act of 2003 provides a broad range of provider payment benefits, federal government spending in excess of federal budgetary provisions contained in passage of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 could result in future deficit spending for the Medicare system, which could cause future payments under the Medicare system to grow at a slower rate or decline.

In addition, specified managed care programs, insurance companies, and employers are actively negotiating the amounts paid to hospitals. The trend toward increased enrollment in managed care may adversely affect our net operating revenue growth.

Results of Operations

Our hospitals offer a variety of services involving a broad range of inpatient and outpatient medical and surgical services. These include orthopedics, cardiology, occupational medicine, diagnostic services, emergency services, rehabilitation treatment, home health, and skilled nursing. The strongest demand for hospital services generally occurs during January through April and the weakest demand for these services occurs during the summer months. Accordingly, eliminating the effect of new acquisitions, our net operating revenues and earnings are historically highest during the first quarter and lowest during the third quarter.

The following tables summarize, for the periods indicated, selected operating data.

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
	(expressed as a percentage of net operating revenues)	
Net operating revenues	100.0	100.0
Operating expenses(a)	(84.8)	(83.8)
Depreciation and amortization	(4.7)	(5.0)
Minority interest in earnings	—	(0.1)
Income from operations	10.5	11.1
Interest, net	(2.3)	(2.6)
Income before income taxes	8.2	8.5
Provision for income taxes	(3.2)	(3.4)
Net income	5.0	5.1

	Three Months Ended March 31, 2004
	(expressed in percentages)
Percentage increase from same period prior year:	
Net operating revenues	24.7
Admissions	17.8
Adjusted admissions(b)	18.3
Average length of stay	2.5
Net Income	21.4
Same-hospitals percentage increase from same period prior year(c):	
Net operating revenues	8.2
Admissions	1.9
Adjusted admissions(b)	2.1

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

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

(c) Includes acquired hospitals to the extent we operated them during comparable periods in both years.

Three Months Ended March 31, 2004 Compared to Three Months Ended March 31, 2003

Net operating revenues increased by 24.7% to $822.4 million for the three months ended March 31, 2004 from $659.3 million for the three months ended March 31, 2003. Of the $163.1 million increase in net operating revenues, the three hospitals we acquired in the third and fourth quarters of 2003, which are not yet included in same-store revenues, contributed approximately $109.5 million, and hospitals we owned throughout both periods contributed $53.6 million, an increase of 8.2%. Of the increase from hospitals owned throughout both periods, approximately 5.1% was attributable to rate increases, payor mix and the acuity level of services provided, and approximately 2.1% was attributable to volume increases in inpatient and outpatient surgeries and inpatient admissions, and 1.0% was attributable to increases from government reimbursement.

Inpatient admissions increased by 17.8% primarily due to newly acquired hospitals. Adjusted admissions increased by 18.3%. Adjusted admissions is a general measure of combined inpatient and outpatient volume. We computed adjusted admissions by multiplying admissions by gross patient revenues and then dividing that number by gross inpatient revenues. Average length of stay increased by 2.5%. On a same-store basis, inpatient admissions increased by 1.9%, adjusted admissions increased by 2.1% and patient days increased 3.4%. On a same-store basis net inpatient revenues increased 5.7% and net outpatient revenues increased 10.8%.

Operating expenses, as a percentage of net operating revenues, increased from 83.8% for the three months ended March 31, 2003 to 84.8% for the three months ended March 31, 2004. Salaries and benefits, as a percentage of net operating revenues, decreased from 40.8% for the three months ended March 31, 2003 to 40.2% for the three months ended March 31, 2004, primarily as a result of improvements at hospitals owned throughout both periods offset by recent acquisitions having higher salaries and benefits as a percentage of net operating revenues for which reductions have not yet been realized. The use of contract labor, primarily for nursing services, increased 0.4% in the quarter ended March 31, 2004 as compared to the quarter ended March 31, 2003. Combined salaries, benefits and contract labor decreased 0.2% of net operating revenues for the quarter ended March 31, 2004 as compared to the quarter ended March 31, 2003. Provision for bad debts, as a percentage of net revenues, increased from 9.5% for the three months ended March 31, 2003 to 10.5% for the three months ended March 31, 2004 primarily as a result of an increase in uncollected self-pay accounts. Supplies, as a percentage of net operating revenues, increased from 11.7% for the three months ended March 31, 2003 to 12.1% for the three months ended March 31, 2004, primarily as a result of the impact of the three large acquisitions in the third and fourth quarters of 2003. Rent and other operating expenses, as a percentage of net operating revenues, remained unchanged at 22.0% for each of the three month periods ended March 31, 2003 and March 31, 2004. Net income margins decreased from 5.1% in 2003 to 5.0% in 2004 due to higher operating expenses as a percentage of net operating revenues, offset by decreases in interest and depreciation as a percentage of net operating revenues.

On a same-store basis, we achieved a decrease in salary and benefits expense of 1.0% of net operating revenue resulting primarily from a combination of operating efficiency gains, offset by the additional use of contract labor, primarily nursing. Combined salaries, benefits and contract labor decreased 0.5% of net operating revenue for the quarter ended March 31, 2004 compared to the quarter ended March 31, 2003. The provision for bad debts expense increased 0.9% of net operating revenues primarily as a result of an increase in uncollected self-pay accounts. Other operating expenses increased 0.1% of net operating revenue primarily reflecting the increase in contract labor as a percent of net operating revenues, supplies expense remaining flat for the comparable periods offset by decreases in malpractice expense and other operating expenses. On a same-store basis, income from operations as a percentage of net operating revenues increased from 11.1% for the quarter ended March 31, 2003 to 11.2% for the quarter ended March 31, 2004.

Depreciation and amortization increased by $5.3 million from $33.2 million for the three months ended March 31, 2003 to $38.5 million for the three months ended March 31, 2004. The three hospitals acquired in the third and fourth quarters of 2003 not yet included in same-store, accounted for $4.5 million of the increase, while facility renovations and purchases of equipment, information systems upgrades, and other deferred items accounted for the remaining $0.8 million.

Interest, net increased by $1.8 million from $17.0 million for the three months ended March 31, 2003 to $18.8 million for the three months ended March 31, 2004. The increase in our average outstanding debt during the three months ended March 31, 2004 as compared to the three months ended March 31, 2003, due primarily to borrowings in the third and fourth quarter of 2003 to make acquisitions, accounted for a $3.3 million increase. This increase was offset by a decrease of

$1.5 million resulting from the decrease in interest rates during the three months ended March 31, 2004 as compared to the three months ended March 31, 2003.

Provision for income taxes increased from $22.4 million for the three months ended March 31, 2003 to $26.7 million for the three months ended March 31, 2004 as a result of the increase in pre-tax income.

Net income was $40.7 million for the three months ended March 31, 2004 compared to net income of $33.5 million for the three months ended March 31, 2003.

Liquidity and Capital Resources

Net cash provided by operating activities increased $53.2 million to $61.7 million for the three months ended March 31, 2004 from $8.5 million for the three months ended March 31, 2003. This increase is attributable to an increase in net accounts receivable and accounts payable of $26.5 million at the seven hospitals acquired at the beginning of the first quarter of 2003 where we did not purchase these accounts, an incremental increase in net income of $7.2 million as compared to the first quarter of 2003, an increase in non-cash expenses of $5.2 million as compared to the first quarter 2003, an incremental increase in malpractice liability of $4.4 million over the increase in this liability during the first quarter of 2003, an improvement in cash from receivables of $9.7 million and a net increase in all other operating assets and liabilities of $0.2 million. The use of cash from investing activities decreased from $186.9 million for the three months ended March 31, 2003 to $50.4 million for the three months ended March 31, 2004. Of this decrease, $143.2 million resulted from decreased acquisition activity during the quarter as compared to the same period in the prior year. Net cash provided by financing activities decreased $76.6 million during the three months ended March 31, 2004 compared to the three months ended March 31, 2004 primarily as a result of an increase in debt repayments and reduced borrowings.

Capital Expenditures

Cash expenditures for purchases of facilities were $4.0 million for the quarter ended March 31, 2004 and $147.2 for the quarter ended March 31, 2003. The expenditures during the quarter ended March 31, 2004 included $2.7 million for the acquisition of a surgery center in one of our current markets and $1.3 million for information systems and other equipment to integrate recently acquired hospitals. The expenditures for the quarter ended March 31, 2003 include $141.1 million for the seven hospitals acquired during that period and $6.1 million for information systems and other equipment to integrate those recently acquired hospitals.

Excluding the cost to construct replacement hospitals and capital leases, our capital expenditures for the quarter ended March 31, 2004 totaled $31.3 million compared to $19.8 million for the quarter ended March 31, 2003. This increase is primarily the result of additional construction and renovation projects at our hospitals. Costs to construct replacement hospitals totaled $8.6 million during the quarter ended March 31, 2004 and $12.5 million for the quarter ended March 31, 2003.

Pursuant to hospital purchase agreements in effect as of March 31, 2004, we are required to construct one replacement hospital, which is subject to state certificate of need approval. Since approval for this project has not yet been obtained, final construction cost estimates are not yet available. We expect total capital expenditures of approximately $146 to $150 million for the year ended December 31, 2004, including approximately $133 to $136 million for renovation and equipment purchases (which includes amounts which are required to be expended pursuant to the terms of the hospital purchase agreements) and approximately $13 to $14 million for construction and equipment cost of replacement hospitals.

Capital Resources

Net working capital was $341.9 million at March 31, 2004 compared to $298.0 million at December 31, 2003. The $43.9 million increase was attributable primarily to an increase in accounts receivable, consistent with our increase in revenues and a decrease in accounts payable.

On July 16, 2002 we entered into a $1.2 billion senior secured credit facility with a consortium of lenders. The facility replaced our previous credit facility and consists of an $850 million term loan that matures in 2010 (as opposed to 2005 under the previous facility) and a nine-year $350 million revolving credit facility that matures in 2010 (as opposed to 2004 under the previous facility). On July 2, 2003, we amended our senior secured credit facility by exercising a feature of the facility allowing us to add $200 million of funded term loans with the same interest rate per annum as the existing term loans. The $200 million in incremental term loans mature in 2011. We may elect from time to time an interest rate per annum for the borrowings under the term loan including the incremental term loan and revolving credit facility equal to (a) an annual benchmark rate, which will be equal to the greatest of (i) the Prime Rate; (ii) the Base CD Rate plus 100 basis points or (iii) the Federal Funds Effective Rate plus 50 basis points (the "ABR"), plus (1) 150 basis points for the term loan and (2) the Applicable Margin for revolving credit loans or (b) the Eurodollar Rate plus (1) 250 basis points for the term loan and (2) the Eurodollar Applicable Margin for revolving credit loans. We also pay a commitment fee for the daily average unused commitments under the revolving credit facility. The commitment fee is based on a pricing grid depending on the Eurodollar Applicable Margin for revolving credit loans and ranges from 0.375% to 0.500%. The commitment fee is payable quarterly in arrears and on the revolving credit termination date with respect to the available revolving credit commitments. In addition, we will pay fees for each letter of credit issued under the credit facility. The purpose of the facility was to refinance our previous credit agreement, repay specified other indebtedness, and fund general corporate purposes including acquisitions. As of March 31, 2004, our availability for additional borrowings under our revolving credit facility was $263 million of which $20 million is set aside for outstanding letters of credit. We also have the ability to add up to $150 million of securitized debt under our agreement which we have not yet accessed. As of March 31, 2004, our weighted average interest rate under our credit agreement was 4.0%.

The terms of the credit agreement include various restrictive covenants. These covenants include restrictions on additional indebtedness, investments, asset sales, capital expenditures, sale and leasebacks, contingent obligations, transactions with affiliates, and fundamental changes. We would be required to amend the existing credit agreement in order to pay dividends to our shareholders. The covenants also require maintenance of various ratios regarding consolidated total indebtedness, consolidated interest, and fixed charges. The level of these covenants are similar to or more favorable than the credit facility we refinanced.

We are currently a party to six separate interest swap agreements to limit the effect of changes in interest rates on a portion of our long-term borrowings. Under two agreements, effective November 23, 2001 and expiring in November 2004 and 2005, we pay interest at fixed rates of 4.03% and 4.46% respectively. Each of these agreements have a $100 million notional amount of indebtedness. Under a third agreement, effective November 4, 2002, we pay interest at a fixed rate of 3.30% on $150 million notional amount of indebtedness. This agreement expires in November 2007. Under a fourth agreement, effective June 13, 2003, we pay interest at a fixed rate of 2.04% on $100 million notional amount of indebtedness. This agreement expires in June 2007. Under a fifth agreement, effective June 13, 2003, we pay interest at a fixed rate of 2.40% on $100 million notional amount of indebtedness. This agreement expires in June 2008. Under a sixth agreement, effective October 3, 2003, we pay interest at a fixed rate of 2.31% on $100 million notional amount of indebtedness. This agreement expires in October 2006. We receive a variable rate of interest on each of these swaps based on the three-month London Inter-Bank Offer ("LIBOR"), excluding the margin paid under the credit facility on a quarterly basis, which is currently 225 basis points for revolver loans and 250 basis points for term loans under the credit facility.

We believe that internally generated cash flows, the ability to add $150 million of securitized debt and borrowings under our credit agreement will be sufficient to finance acquisitions, capital expenditures and working capital requirements through the next 12 months. We believe these same sources of cash flows and borrowings under our credit agreement as well as access to bank credit and capital markets will be available to us beyond the next 12 months and into the foreseeable future. If funds required for future acquisitions exceed existing sources of capital, we believe that favorable terms could be obtained if we were to increase or refinance our credit facilities or obtain additional capital by other means.

Off-balance sheet arrangements

Included in our consolidated operating results for the three months ended March 31, 2004 and 2003, was $73.0 million and $69.6 million, respectively, of net operating revenue and $7.2 million and $7.8 million, respectively, of income from operations, generated from eight hospitals operated by us under operating lease arrangements. In accordance with generally accepted accounting principles, the respective assets and the future lease obligations under these arrangements are not recorded in our consolidated balance sheet. Lease payments under these arrangements are included in rent expense when paid and totaled approximately $2.6 million and $2.4 million for the three months ended March 31, 2004 and 2003, respectively. The current terms of these operating leases expire between November 2004 and December 2019, not including lease extensions that we have options to exercise. The one hospital under lease whose current lease term is scheduled to expire in November 2004 generated $6.8 million of net operating revenue and $0.2 million of income from operations for the three months ended March 31, 2004. If we allow these leases to expire, we would no longer generate revenue nor incur expenses from these hospitals.

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

Joint Ventures

We have from time to time sold minority interests in certain of our subsidiaries or acquired subsidiaries with existing minority interest ownership positions. The amount of minority interest in equity is included in other long-term liabilities and the minority interest in income or loss is recorded in other operating expense. We do not believe these minority ownerships are material to our financial position or operating results. The balance of minority interests included in long-term liabilities was $8.3 million as of March 31, 2004, and $8.3 million as of December 31, 2003, and the amount of minority interest expense was $0.4 million for each of the three month periods ended March 31, 2004 and March 31, 2003.

Reimbursement, Legislative and Regulatory Changes

Legislative and regulatory action has resulted in continuing change in the Medicare and Medicaid reimbursement programs which will continue to limit payment increases under these programs and in some cases implement payment decreases. Within the statutory framework of the Medicare and Medicaid programs, there are substantial areas subject to administrative rulings, interpretations, and discretion which may further affect payments made under those programs, and the federal and state governments might, in the future, reduce the funds available under those programs or require more stringent utilization and quality reviews of hospital facilities. Additionally, there may be a continued rise in managed care programs and future restructuring of the financing and delivery of healthcare in the United States. These events could have an adverse effect on our future financial results.

Inflation

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

Critical Accounting Policies

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

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and potentially result in materially different results under different assumptions and conditions. We believe that our critical accounting policies are limited to those described below.

Third Party Reimbursement

Net operating revenues include amounts estimated by management to be reimbursable by Medicare and Medicaid under prospective payment systems and provisions of cost-reimbursement and other payment methods. In addition, we are reimbursed by non-governmental payors using a variety of payment methodologies. Amounts we receive for treatment of patients covered by these programs are generally less than the standard billing rates. Contractual allowances are automatically calculated and recorded through our internally developed "automated contractual allowance system". Within the automated system, actual Medicare DRG data, coupled with all payors' historical paid claims data, is utilized to calculate the contractual allowances. This data is automatically updated on a monthly basis and subjected to review by management to ensure reasonableness and accuracy. We account for the differences between the estimated program reimbursement rates and the standard billing rates as contractual adjustments, which we deduct from gross revenues to arrive at net operating revenues. Final settlements under some of these programs are subject to adjustment based on administrative review and audit by third parties. We record adjustments to the estimated billings in the periods that such adjustments become known. We account for adjustments to previous program reimbursement estimates as contractual adjustments and report them in future periods as final settlements are determined. However, due to the complexities involved in these estimates, actual payments we receive could be different from the amounts we estimate and record.

Allowance for Doubtful Accounts

Substantially all of our accounts receivable are related to providing healthcare services to our hospitals' patients. Collection of these accounts receivable is our primary source of cash and is critical to our operating performance. Our primary collection risks relate to uninsured patients and outstanding patient balances for which the primary insurance payor has paid and the remaining outstanding balance (generally deductibles and co-payments) is owed by the patient. At the point of service, for patients required to make a co-payment, we generally collect less than 10% of the related revenue. For all procedures scheduled in advance, our policy is to verify insurance coverage prior to the date of the procedure. Insurance coverage is not verified in advance of procedures for walk-in and emergency room patients. Our estimate for the allowance for doubtful accounts is calculated by reserving as uncollectible all governmental and non-governmental accounts over 150 days from discharge. This method is monitored based on our historical cash collections experience. Collections are impacted by the economic ability of patients to pay and the effectiveness of our collection efforts. Significant changes in payor mix that result in an increase in self-pay revenue, business office operations, economic conditions or trends in federal and state governmental health care coverage could affect our collection of accounts receivable.

We do not provide specific reserves by payor category but estimate bad debts as a consolidated provision for total accounts receivable. We believe our policy of reserving all accounts over 150 days from discharge, without regard to payor class, has resulted in reasonable estimates determined on a consistent basis. We believe that we collect substantially all of our third-party insured receivables which includes receivables from governmental agencies. Since our methodology is not applied by individual payor class, reserving all amounts over 150 days which, includes some accounts that are collectible, has provided us with a reasonable estimate of an allowance for doubtful accounts to cover all accounts receivable, including individual amounts in both the over and under 150 day categories, that are uncollectible. To date, we believe there has not been a material difference between our bad debt allowances and the ultimate historical collection rates on accounts receivables including self-pay. We review our overall reserve adequacy by monitoring historical cash collections as a percentage of net revenue less the provision for bad debts.

Effective January 1, 2004, we changed our policy relative to the timing of the write-off of accounts receivable which are fully reserved. Previously, all amounts over 210 days from discharge were written-off and therefore excluded from the allowance for doubtful accounts and gross accounts receivable. Our new policy is to write-off gross accounts receivable when such amounts are placed with outside collection agencies. We believe this policy more accurately reflects the ongoing collection efforts within the Company and is more consistent with industry practices. This change in policy has no impact on the provision for bad debts and does not impact net accounts receivable as reflected on the accompanying balance sheet. At December 31, 2003, approximately $90 million of uncollected self-pay accounts over 210 days from discharge that were being actively pursued by our internal collection agency were written-off. As a result of our change in policy, at March 31, 2004, included in the allowance for doubtful accounts and gross accounts receivable are approximately $95 million of accounts over 210 days from discharge that are being actively pursued by our internal collection agency. At December 31, 2003 and March 31, 2004, we have approximately $500 million being pursued by various outside collection agencies. We expect to collect less than 5%, net of estimated collection fees of the amounts being pursued by outside collection agencies. As these amounts have been written-off, they are not included in our gross accounts receivable or our allowance for doubtful accounts. However, we take into consideration estimated collections of these amounts written-off in evaluating the reasonableness of our allowance for doubtful accounts.

Days revenue outstanding was 65 at March 31, 2004 and December 31, 2003. This fell within our target range for days revenue outstanding of 60 - 65.

The following table is an aging of our gross (prior to allowances for contractual adjustments and doubtful accounts) accounts receivable (in thousands):

	Balance as of			
	March 31, 2004		December 31, 2003	
	0-150 days	Over 150 days	0-150 days	Over 150 days
Total gross accounts receivable	$ 1,290,837	$ 214,869	$ 1,279,342	$ 98,474

The approximate percentage of total gross accounts receivable (prior to allowance for contractual adjustments and doubtful accounts) summarized by aging categories is as follows:

	As of	
	March 31, 2004	December 31, 2003
0 to 60 days	65.3%	69.0%
61 to 150 days	20.5%	24.0%
151 to 360 days	7.4%	6.5%
Over 360 days	6.8%	0.5%
Total	100.0%	100.0%

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

	As of	
	March 31, 2004	December 31, 2003
Insured receivables	77%	81%
Self-pay receivables	23%	19%
Total	100%	100%

Although we do not specifically maintain information for individual categories of self-pay, as disclosed in our Form 10-K/A for the year ended December 31, 2003, as a component of total self-pay receivables, we estimate that uninsured self-pay receivables are approximately 40% to 45%, patient deductibles and co-insurance after third-party insurance payments are approximately 40% to 45%, and those insured patients billed directly because their insurance has not paid are approximately 15%. Those accounts that are being billed directly to patients because their third-party insurance coverage has not paid, are reclassed to self-pay receivables from insured receivables generally after 60 days from discharge in order to bill the patients directly and get them involved in assisting with the collection process from their third-party insurance company. None of these amounts represents a denial from commercial or other third-party payors. We estimate on a historical basis, the uncollected portion of self-pay receivables related to co-insurance, co-payments and deductibles range from 35% to 40% and the uncollected portion of self-pay receivables related to uninsured patients range from 80% to 85%. Additionally, we estimate the uncollected portion of self-pay receivables related to insured patients billed directly is insignificant. In the aggregate at March 31, 2004 we expect the uncollectible portion of all self-pay receivables, before recoveries of accounts previously written-off, to be approximately 60%—70%. The allowance for doubtful accounts as reported in the condensed consolidated financial statements at March 31, 2004 represents approximately 58% of self-pay receivables as described above. At December 31, 2003, the allowance for doubtful accounts represented approximately 40% of self-pay receivables. Had we included in gross accounts receivable and the allowance for doubtful accounts those accounts written-off that were still being collected by our internal collection agency as is being done at March 31, 2004, the allowance for doubtful accounts at December 31, 2003, would have represented approximately 58% of self-pay receivables.

Goodwill and Other Intangibles

Goodwill represents the excess of cost over the fair value of net assets acquired. Prior to the adoption of Statement of Financial Accounting Standards ("SFAS") No. 142, goodwill arising from business combinations completed prior to July 1, 2001 was amortized on a straight-line basis over a period ranging from 18 to 40 years. Currently, goodwill arising from business combinations (whether or not completed prior to July 1, 2001) is accounted for under the provisions of SFAS No. 141 and SFAS No. 142 and is not amortized. SFAS No. 142 requires goodwill to be evaluated for impairment at the same time every year and when an event occurs or circumstances change such that it is reasonably possible that an impairment may exist. We selected September 30th as our annual testing date.

The SFAS No. 142 goodwill impairment model requires a comparison of the book value of net assets to the fair value of the related operations that have goodwill assigned to them. If the fair value is determined to be less than book value, a second step is performed to compute the amount of the impairment. We estimated the fair values of the related operations using both a debt free discounted cash flow model as well as an adjusted EBITDA multiple model. These models are both based on our best estimate of future revenues and operating costs, based primarily on historical performance and general market conditions, and are subject to review and approval by senior management and the Board of Directors. The cash flow forecasts are adjusted by an appropriate discount rate based on our weighted average cost of capital. We performed our initial evaluation, as required by SFAS No. 142, during the first quarter of 2002 and the annual evaluation as of each succeeding September 30. No impairment has been indicated by these evaluations. Estimates used to conduct the impairment review, including revenue and profitability projections or fair values, could cause our analysis to indicate that our goodwill is impaired in subsequent periods and result in a write-off of a portion or all of our goodwill.

Professional Liability Insurance Claims

We accrue for estimated losses resulting from professional liability claims to the extent they are not covered by insurance. The accrual, which includes an estimate for incurred but not reported claims, is based on historical loss patterns and actuarially determined projections and is discounted to its net present value using a weighted average risk-free discount rate of 3.4% in 2003 and 2002. To the extent that subsequent claims information varies from management's estimates, the liability is adjusted currently. Our insurance is underwritten on a "claims-made" basis. Prior to June 1, 2002, substantially all of our professional and general liability risks were subject to a $0.5 million per occurrence deductible; for claims reported from June 1, 2002 through June 1, 2003, these deductibles were $2.0 million per occurrence. Additional coverage above these deductibles was purchased through captive insurance companies in which we had a 7.5% minority ownership interest in each and to which the premiums paid by us represented less than 8% of the total premium revenues of each captive insurance company. Concurrently, with the formation of our own wholly-owned captive insurance company in June 2003, we terminated our minority interest relationships in those entities. Substantially all claims reported after June 1, 2003 are self-insured up to $4 million per claim. Management on occasion has selectively increased the insured risk at certain hospitals based upon insurance pricing and other factors and may continue that practice in the future. Excess insurance for all hospitals is purchased through commercial insurance companies and generally covers us after the self insured amount up to $100 million per occurrence.

Income Taxes

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

We operate in multiple states with varying tax laws. We are subject to both federal and state audits of tax returns. Our federal income tax returns have been examined by the Internal Revenue Service through fiscal year 1996, which resulted in no material adjustments. We make estimates we believe are accurate in order to determine that tax accruals are adequate to cover any potential audit adjustments.

Recent Accounting Pronouncement

In December 2003, the FASB issued Interpretation No. 46R, "Consolidation of Variable Interest Entities", or FIN No. 46. This interpretation clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to specified entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. As of December 31, 2003, we adopted the Provisions of FIN No. 46 which are effective as of December 31, 2003 and required to be applied to those entities that are considered to be special-purpose entities. The adoption of those effective provisions of FIN No. 46, did not have an impact on our consolidated financial position or results of operations as we have not identified any relationships that would qualify as special-purpose entities. The adoption of the remaining provisions of FIN No. 46 which were effective for us on March 31, 2004, did not have any impact on the consolidated financial statements. As of March 31, 2004, we have no investments in variable interest entities.

FORWARD-LOOKING STATEMENTS

Some of the matters discussed in this report include forward-looking statements. Statements that are predictive in nature, that depend upon or refer to future events or conditions or that include words such as "expects," "anticipates," "intends," "plans," "believes," "estimates," "thinks," and similar expressions are forward-looking statements. These statements involve known and unknown risks, uncertainties, and other factors that may cause our actual results and performance to be materially different from any future results or performance expressed or implied by these forward-looking statements. These factors include the following:

- general economic and business conditions, both nationally and in the regions in which we operate;
- demographic changes;
- existing governmental regulations and changes in, or the failure to comply with, governmental regulations;
- legislative proposals for healthcare reform;
- the impact of the Medicare Prescription Drug, Improvement and Modernization Act of 2003, which includes specific reimbursement changes for small urban and non-urban hospitals;
- our ability, where appropriate, to enter into managed care provider arrangements and the terms of these arrangements;
- changes in inpatient or outpatient Medicare and Medicaid payment levels;
- uncertainty with the Health Insurance Portability and Accountability Act of 1996 regulations;

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

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

- competition;

- our ability to attract and retain qualified personnel, including physicians, nurses, and other healthcare workers;

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

- changes in medical or other technology;

- changes in generally accepted accounting principles;

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

- our ability to successfully acquire and integrate additional hospitals; and

- the other risk factors set forth in our public filings with the Securities and Exchange Commission.

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

Item 3: Quantitative and Qualitative Disclosures about Market Risk

We are exposed to interest rate changes, primarily as a result of our credit agreement which bears interest based on floating rates. In order to manage the volatility relating to the market risk, we entered into interest rate swap agreements described under the heading "Liquidity and Capital Resources" in Item 2. We do not anticipate any material changes in our primary market risk exposures in 2004. We utilize risk management procedures and controls in executing derivative financial instrument transactions. We do not execute transactions or hold derivative financial instruments for trading purposes. Derivative financial instruments related to interest rate sensitivity of debt obligations are used with the goal of mitigating a portion of the exposure when it is cost effective to do so.

A 1% change in interest rates on variable rate debt would have resulted in interest expense fluctuating approximately $1 million for the three months ended March 31, 2004.

Item 4: Controls and Procedures

As of the end of the period covered by this report, our Chief Executive Officer and Chief Financial Officer, with the participation of other members of management, carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are adequately designed to ensure that the information required to be included in this report has been recorded, processed, summarized and reported on in a timely basis. There have been no significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation. There have been no corrective actions taken with regard to significant deficiencies and material weaknesses subsequent to the date of our most recent evaluation.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

Reference is made to Item 3. Legal Proceedings in our Form 10-K for the year ended December 31, 2003.

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

On January 23, 2003, we announced an open market repurchase program for up to five million shares of our common stock. The repurchase program commenced immediately and will conclude at the earlier of three years or when the maximum number of shares have been repurchased. Through December 31, 2003, we have repurchased 790,000 shares at a weighted average price of $18.57 per share. There were no shares repurchased under this program in the first quarter ended March 31, 2004. The maximum number of shares that may yet be purchased under the open market repurchase program is 4,210,000.

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10.1	Amendment No. 1 to the Community Health Systems, Inc. Supplemental Executive Retirement Plan
10.2	Community Health Systems, Inc. 2004 Employee Performance Incentive Plan
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

Form 8-K dated February 25, 2004, was filed in connection with the issuance of our press release announcing operating results for the fourth quarter and year ended December 31, 2003.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: May 7, 2004

COMMUNITY HEALTH SYSTEMS, INC.
(Registrant)

By: /s/ WAYNE T. SMITH

Wayne T. Smith
Chairman of the Board,
President and Chief Executive Officer
(principal executive officer)

By: /s/ W. LARRY CASH

W. Larry Cash
Executive Vice President, Chief Financial
Officer and Director
(principal financial officer)

By: /s/ T. MARK BUFORD

T. Mark Buford
Vice President and Corporate Controller
(principal accounting officer)

Index to Exhibits

No.	Description
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QuickLinks

Exhibit Number 10.1

**AMENDMENT NO. 1 TO THE
COMMUNITY HEALTH SYSTEMS, INC.
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN**

THIS AMENDMENT NO. 1 TO THE COMMUNITY HEALTH SYSTEMS, INC. SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN dated as of April 8, 2004 (the "Amendment"), amends the Community Health Systems, Inc. Supplemental Executive Retirement Plan dated effective as of January 1, 2003 (the "Plan"). Unless otherwise defined in this Amendment, capitalized terms shall have the meanings assigned to such terms in the Plan.

1. The Plan is hereby amended as follows:

   The definition of "Service" set forth in Section 2.1(v) of the Plan is hereby deleted in its entirety and the following definition is substituted in its place:

   (v) "Service" shall mean one of the following: (i) in the case of an Officer, all years and completed months of service with the Company and any Subsidiary, whether before or after the adoption of the Plan, but not beginning earlier than January 1, 1997 (as indicated on *Exhibit A* hereto) or, in the alternative, if the Committee so specifies for a designated Participant, additional years and months of service, provided, however, such additional years and months of service shall not exceed two years for every year of completed service and two months for every one month of completed service with the Company, but not beginning before January 1, 1997, and (ii) in the case of an Officer or Key Employee who becomes a Participant after January 1, 2003, all years and completed months of service following the date the person becomes a Participant.

2. Except as amended hereby, the Plan shall remain unmodified and in full force and effect.

IN WITNESS WHEREOF, the Company has caused this Amendment to be executed by its duly authorized officer as of the 8th day of April, being the date the Amendment was approved and adopted by the Board of Directors.

COMMUNITY HEALTH SYSTEMS, INC.

By:	/s/ W. LARRY CASH
Name:	W. Larry Cash
Title:	Executive Vice President & Chief Financial Officer

Exhibit Number 10.2

COMMUNITY HEALTH SYSTEMS, INC.

2004 EMPLOYEE PERFORMANCE INCENTIVE PLAN

JANUARY 1, 2004

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COMMUNITY HEALTH SYSTEMS, INC.

2004 EMPLOYEE PERFORMANCE INCENTIVE PLAN

THIS PLAN, hereby executed effective the 1st day of January, 2004, by Community Health Systems, Inc.

W I T N E S S E T H:

WHEREAS, the Company wishes to establish an incentive compensation plan effective January 1, 2004, known as the Community Health Systems, Inc. 2004 Employee Performance Incentive Plan (the "Plan") to promote the interests of Community Health Systems, Inc., its subsidiaries and affiliates (the "Company") and its stockholders by providing additional compensation as incentive to certain employees of the Company who contribute materially to the success of the Company; and

WHEREAS, the Company intends that the Plan provide in part "qualified performance-based compensation" within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder (collectively, the "Code").

NOW, THEREFORE, effective January 1, 2004, the Company hereby establishes the Plan to provide as follows:

ARTICLE I
DEFINITIONS

The following terms when used in the Plan shall, for the purposes of the Plan, have the following meanings:

1.1 **"Award"** shall mean bonus incentive compensation paid in cash.

1.2 **"Board"** shall mean the Board of Directors of Community Health Systems, Inc.

1.3 **"Cause"** shall mean the Participant's (i) intentional failure to perform reasonably assigned duties, (ii) dishonesty or willful misconduct in the performance of duties, (iii) involvement in a transaction in connection with the performance of duties to the Company which transaction is adverse to the interests of the Company and which is engaged in for personal profit or (iv) willful violation of any law, rule or regulation in connection with the performance of duties (other than traffic violations or similar offenses).

1.4 **"Code"** shall have the meaning set forth in the preamble.

1.5 **"Committee"** shall have the meaning set forth in Section 2.3.

1.6 **"Company"** shall have the meaning set forth in the preamble.

1.7 **"Covered Employee"** shall mean a Participant, designated by the Committee on or prior to the last day of the 90-day period commencing on the first day of the Fiscal Year (or, in the case of a Mid-Year Participant, designated by the Committee prior to commencing his or her participation in the Plan), whose Award is intended to constitute "qualified performance-based compensation" as defined in Section 162(m) of the Code.

1.8 **"Fiscal Year"** shall mean the Company's accounting year of 12 months commencing on January 1st of each year and ending the following December 31st.

1.9 **"Mid-Year Participant"** shall mean any Participant in the Plan who does not commence participation on the first day of the Fiscal Year.

1.10 **"Outside Director"** shall mean a director of the Company who is an "outside director" within the meaning of Section 162(m) of the Code.

1.11 **"Participant"** shall mean an employee of the Company as may be designated by the President and Chief Executive Officer and the Chief Financial Officer of Community Health Systems, Inc. to participate in the Plan with respect to each Fiscal Year.

1.12 **"Participation Period"** shall have the meaning set forth in Section 4.4.

1.13 **"Performance Objective"** shall mean one or more performance goals based on the criteria described in Section 3.4 and established as described herein with respect to an individual Participant for the Fiscal Year.

1.14 **"Plan"** shall have the meaning set forth in the preamble.

1.15 **"Plan Administrator"** shall have the meaning set forth in Section 2.2.

1.16 **"Regulations"** shall have the meaning set forth in Section 2.4.

ARTICLE II
ADMINISTRATION

2.1 Remuneration payable under the Plan is intended to constitute "qualified performance-based compensation" as defined in Section 162(m) of the Code for those Participants who are Covered Employees under the Plan, and the Plan shall be construed and administered in accordance with such intention. The Committee shall be authorized to exercise discretion under this Plan in respect of a Covered Employee only to the extent that such exercise will not cause an Award held by a Covered Employee to fail to constitute "qualified performance-based compensation" as defined in Section 162(m) of the Code.

2.2 The Plan shall be administered, under the supervision of the Board, by the Chief Executive Officer and the Chief Financial Officer of Community Health Systems, Inc. (collectively, the **"Plan Administrator"**), except as otherwise provided herein.

2.3 Notwithstanding Section 2.2, for Participants who are Covered Employees, the Board shall administer the Plan through the agency of the Compensation Committee of the Board of Directors of the Company (the **"Committee"**). The Committee shall consist of not fewer than two (2) members of the Board each of whom is an Outside Director.

2.4 The Plan Administrator (or, with respect to any Covered Employee, the Committee) may, from time to time, (i) adopt rules and regulations (**"Regulations"**) for carrying out the provisions and purposes of the Plan and make such determinations, not inconsistent with the terms of the Plan, as the Plan Administrator (or the Committee, if applicable) shall deem appropriate, and (ii) alter, amend or revoke any Regulation so adopted.

2.5 The interpretation and construction of any provision of the Plan by the Plan Administrator (or, with respect to any Covered Employee, the Committee) shall be final and conclusive.

2.6 No member of the Board, including members of the Committee, nor the President and Chief Executive Officer or the Chief Financial Officer of Community Health Systems, Inc., shall be liable for any action, failure to act, determination or interpretation made in good faith with respect to this Plan or any transaction hereunder or for any action, failure to act, determination or interpretation made by another member, officer, agent or employee of the Board, the Committee or the Company in administering this Plan. The Company hereby agrees to indemnify each member of the Board, including members of the Committee, and the President and Chief Executive Officer and the Chief Financial Officer of Community Health Systems, Inc., for all costs and expenses and, to the extent permitted by applicable law, any liability incurred in connection with defending against, responding to, negotiating for the settlement of or otherwise dealing with any claim, cause of action or dispute of any kind arising by reason of an event(s) described in the immediately preceding sentence.

ARTICLE III
PERFORMANCE INCENTIVE AWARDS

3.1 For each Fiscal Year of the Company, the Plan Administrator (or, with respect to any Covered Employee, the Committee) shall determine the following:

(a) The employees who will participate in the Plan for such Fiscal Year;

(b) The basis(es) for determining the amount of the Awards to such Participants; and

(c) The Performance Objectives applicable to an Award.

With respect to Participants who are not Covered Employees, the basis(es) for determining the amount of the Awards shall be dependent upon the attainment by the Company of specified Performance Objectives, as further described in Section 3.3. With respect to Participants who are Covered Employees, the basis(es) for determining the amount of the Awards is set forth in Section 3.2.

3.2 For each Participant who is a Covered Employee, the Committee shall establish in writing one or more objectively determinable Performance Objectives based on the criteria described in Section 3.4 of the Plan no later than last day of the 90-day period commencing on the first day of the Fiscal Year, and at a time when the achievement of such Performance Objective (or Objectives) is substantially uncertain. Notwithstanding anything in this Section 3.2 to the contrary, with respect to any Mid-Year Participant who is a Covered Employee, in no event shall Performance Objectives be established after the earlier of (a) the expiration of the 90-day period immediately following commencement of the applicable performance period and (b) the date on which twenty-five percent (25%) of the applicable performance period has elapsed.

In establishing objectively determinable Performance Objectives, the Committee shall also state, in terms of an objective formula or standard, the method for computing the amount of the Award payable to the Covered Employee if a Performance Objective(s) is attained. In addition, the formula or standard shall specify the individual Covered Employee or class of Covered Employees to which it applies. No Award shall be paid to a Covered Employee unless the Committee determines and certifies in writing, prior to the payment of such Award, that the Performance Objectives applicable to that Participant have been achieved.

3.3 For any Participant who is not a Covered Employee, Performance Objectives, whether quantitative or qualitative, may be established. The Plan Administrator shall establish the specific targets for the selected measures. These targets may be set at a specific level or may be expressed as relative to the comparable measure at comparison companies or a defined index.

3.4 Performance criteria for Awards under the Plan shall be one or more Performance Objectives relating to the following categories:

(a) *Net Revenue*. This target is based upon the Company's or a hospital's consolidated (including without limitation clinics, medical office building, and nursing homes) net revenue budget.

(b) *Earnings Per Share*. This target is based upon the Company's reported earnings per share on a fully diluted basis.

(c) *Corporate Adjusted EBITDA*. This target is based upon the Company's consolidated budgeted adjusted earnings before interest, income tax, depreciation and amortization.

(d) *Clinic Adjusted EBITDA*. This target is based upon an individual clinic's consolidated budgeted adjusted earnings before interest, income tax, depreciation and amortization.

(e) *Hospital Adjusted EBITDA*. This target is based upon a hospital's consolidated (including without limitation clinics, medical office buildings, and nursing homes) budgeted adjusted earnings before interest, income tax, depreciation and amortization.

(f) *EBITDA Margin*. To achieve this goal the actual adjusted EBITDA margin percentage must equal or exceed the budgeted adjusted EBITDA margin percentages.

(g) *EBITDA Margin Improvement*. To achieve this goal the actual EBITDA margin percentage must improve over the comparable period by or in excess of the target improvement amount.

(h) *Bad Debt Expense*. The corporate consolidated target is determined by dividing the year-to-date bad debt expense by the year-to-date net patient revenue. Hospital group operations targets are calculated by dividing the year-to-date bad debt expense by the year-to-date sum of net patient revenue.

(i) *Cash Receipts Target*. Each month's performance is determined by comparing total cash receipts received by each of the Company's affiliated hospitals (or by the Company for that hospital) to the prior month's net revenue less bad debt. For each Fiscal Year, the annual performance will be determined by adding each month's calculation together and calculating a 12-month total achievement.

(j) *Key Operating and Financial Statistics*. This target is based upon budgeted statistics and other financial statistics for admissions, adjusted admissions, census, surgeries, emergency room visits, patient visits, and/or outpatient procedures.

(k) *Case/Resource Management Program*. Although this program is the direct responsibility of the Chief Financial Officer of each of the Company's affiliated hospitals, a Chief Nursing Officer's commitment to the program will be measured based upon the program achieving the length of stay and cost reduction per adjusted admission targets.

(l) *Days Net Revenue in Net Patient Accounts Receivable*. This target is calculated using all patient-related accounts receivable (as shown in the Balance Sheet (Summary Code B-77, excluding all year-end settlement accounts)) net of the allowance for bad debts and net revenue from the most recent three months (including the hospital, and any related clinics and medical office buildings). The actual calculation is based upon dividing the net accounts receivable balance by the last three months average daily net revenue. The measurement will be either on an end of period or an average calculation.

(m) *Nursing Services*. To achieve this goal the actual hospital payroll for nursing services must be at or below the budgeted hospital payroll target for nursing services as a percent of net revenue.

(n) *Quality Indicators*. A Participant's commitment to quality will be determined by (i) Joint Commission on Accreditation of Healthcare Organizations survey results, if applicable, or (ii) through positive trending of patient satisfaction surveys in the current Fiscal Year compared to prior Fiscal Year results.

(o) *Resource Management*. The net effect of implementing a daily case management process, clinical pathways, length of stay reductions and other related strategies should be a decrease in cost per case. A bonus will be based on reduction in the average cost per case of the current Fiscal Year as compared to the prior Fiscal Year and may be categorized for case type or payor classification.

(p) *Operating Expenses Per Equivalent Patient Day*. This component is determined by dividing operating expenses by the number of equivalent patient days.

(1) Operating expenses are all income statement expenses excluding rent, depreciation, amortization, management fee expense and interest expense.

(2) Equivalent patient days is a method of adjusting the number of patient days to compensate for outpatient service rendered.

(q) *Discretionary*. An amount equal to the specified percentage of each Participant's salary or a lump sum amount may be awarded based upon other objective or subjective criteria that recognize accomplishments of a Participant (other than an Covered Employee) during the year. Focus will be on quality, service, regulatory compliance, and accomplishment of specific unique projects, among other items.

Where applicable, for purposes of making any determinations in respect of any Performance Objective, performance will be determined in accordance with generally accepted accounting principles, consistently applied.

3.5 Subject to Sections 2.1, at any time after the commencement of a Fiscal Year for which Performance Objectives have been determined, but prior to the close thereof, the Plan Administrator may, in its discretion, add Participants, decrease targets, or increase or add to an Award(s).

ARTICLE IV

PAYMENT OF PERFORMANCE INCENTIVE AWARDS

4.1 Subject to such forfeitures of Awards and other conditions as are provided in the Plan, the Awards made to Participants shall be paid as follows:

As soon as practicable after the end of the Fiscal Year, the Plan Administrator (or, with respect to any Covered Employee, the Committee) shall determine, the extent to which Awards have been earned on the basis of the actual performance in relation to the Performance Objectives as established for that Fiscal Year. Once determined, an Award shall be paid to a Participant only to the extent that the Participant met the targets for their Award as set forth in the Award. Notwithstanding the foregoing, a lump sum discretionary Award may be paid to a Participant who is not a Covered Employee at any time during the Fiscal Year. No Awards shall be paid to a Covered Employee unless and until the Committee has certified in writing that the Performance Objectives established with respect to the Covered Employee have been achieved. Subject to the foregoing, Awards shall be paid at such time or times as are determined by the Plan Administrator or Committee.

4.2 The maximum amount that any individual Participant may receive relating to any Fiscal Year to which an Award applies may not exceed five million dollars ($5,000,000).

4.3 There shall be deducted from all payments of Awards any taxes required to be withheld by any government entity and paid over to any such government entity in respect of any such payment. Unless otherwise elected by the Participant, such deductions shall be at the established withholding tax rate. Participants may elect to have the deduction of taxes cover the amount of any applicable tax (the amount of withholding tax plus the incremental amount determined on the basis of the highest marginal tax rate applicable to such Participant).

4.4 Subject to Section 3.2 of the Plan, any individual who becomes a Participant in the Plan due to employment, transfer or promotion during the Fiscal Year shall be eligible to receive a partial Award based upon the Participant's base salary for the period of time in which he or she is actually a Participant in the Plan (**"Participation Period"**) and his or her level of achievement in relation to Performance Objectives for the entire Fiscal Year or such shorter period established by the Plan Administrator or Committee. In no event, however, shall partial Awards be made to any Participant with a Participation Period in respect of any Fiscal Year of less than three months, except for discretionary awards under Section 3.4(q).

4.5 With respect to any Participant who is not a Covered Employee, Awards shall be adjusted for partial year responsibility, multiple facility responsibility and reassignments of a duration of at least three consecutive months.

4.6 Except as provided in Section 4.7 or 4.8, no Award shall be paid to a Participant who is not employed by the Company on the date that his or her Award payment is due under the Plan.

4.7 A Participant in the Plan who becomes ineligible during the Fiscal Year due to transfer, change of position or termination of employment shall cease to be eligible for further participation in the Plan on the date of transfer, change or termination. If the Participant had a Participation Period equal to at least three months of the Fiscal Year in which such transfer, change or termination occurred, the Participant shall be eligible to receive a partial Award based upon the Participant's base salary for the Participation Period and his or her level of achievement in relation to Performance Objectives for the entire Fiscal Year multiplied by a fraction, the numerator of which is the number of days in the Participation Period and the denominator of which is 365; provided, however, that, if the Participant becomes ineligible due to his or her termination of employment, a partial Award shall only be payable as described in this sentence if such termination is without Cause (i.e., Participants who resign or who are terminated for Cause shall not be eligible for partial Awards). With respect to

Covered Employees, no partial Award shall be paid unless and until the applicable Performance Objective(s) has been attained and the Committee has certified such attainment.

4.8 In the event that a Participant dies during or subsequent to the Fiscal Year for which an Award is to be or was earned, or if a Participant becomes disabled or is granted a leave of absence during or subsequent to the Fiscal Year for which an Award is to be or was earned, such Participant shall cease to be eligible for further participation in the Plan on the date of such death, disability or leave of absence. To the extent that such death, disability or leave of absence occurred prior to the payment of the Participant's Award, payment of all or a portion of any Award to the Participant (other than a Covered Employee) may be made in the sole discretion of the Plan Administrator. With respect to the death, disability or leave of absence of a Covered Employee, no Award shall be paid unless and until the applicable Performance Objective(s) has been attained and the Committee has certified such attainment.

4.9 Payment of each Award to a Participant shall be subject to the following provisions and conditions:

(a) No Participant shall have any right or interest, whether vested or otherwise, in the Plan or in any Award thereunder, contingent or otherwise, unless and until all of the terms, conditions and provisions of the Plan and the Regulations that affect such Participant have been satisfied. Nothing contained in the Plan or in the Regulations shall require the Company to segregate cash, shares or stock or other property for purposes of payment of Awards under the Plan. Neither the adoption of the Plan nor its operation shall in any way affect the rights and power of the Company to dismiss and/or discharge any employee at any time.

(b) No rights under the Plan, contingent or otherwise, shall be assignable or subject to any encumbrance, pledge or charge of any nature.

ARTICLE V
MISCELLANEOUS

5.1 By accepting any benefits under the Plan, each Participant shall be conclusively deemed to have indicated acceptance and ratification of, and consent to, any action taken or decision made under the Plan by the Company, the Board, the Plan Administrator, the Committee or any other committee appointed by the Board.

5.2 Any action taken or decision made by the Company, the Board, the Plan Administrator, the Committee, or any other committee appointed by the Board in the exercise of this power shall be final, binding and conclusive upon the Company, the Participants, and all other persons having any interest therein.

5.3 The Board, the Plan Administrator, the Committee, or any other committee appointed by the Board may rely upon any information supplied to them by any officer of the Company and may rely upon the advice of counsel in connection with the administration of the Plan and shall be fully protected in relying upon such information or advice.

5.4 The Board may alter, amend, suspend or terminate the Plan; provided, however, that, except as permitted by the Plan, no such alteration, amendment, suspension or termination shall impair or adversely alter any Awards theretofore granted under the Plan, except with the consent of the respective Participant; and provided further, however, that, to the extent necessary under any applicable law, no such alteration, amendment, suspension or termination shall be effective unless approved by the shareholders of the Company in accordance with applicable law or regulation.

5.5 As illustrative of the limitations of liability of the Company, but not intended to be exhaustive thereof, nothing in the Plan shall be construed to:

(a) Give any person any right to participate in the Plan other than at the sole discretion of the Plan Administrator or Committee, as applicable;

(b) Give any person any rights whatsoever with respect to an Award except as specifically provided in this Plan;

(c) Limit in any way the right of the Company to terminate the employment of any person at any time; or

(d) Be evidence of any agreement or understanding, expressed or implied, that the Company will employ any person at any particular rate of compensation or for any particular period of time.

5.6 Except as to matters of federal law, the Plan and the rights of all persons claiming hereunder shall be construed and determined in accordance with the laws of the State of Delaware without giving effect to conflicts of laws principles thereof.

5.7 The Plan will be effective for all Fiscal Years beginning with 2004 by action of the Board of Directors conditioned on and subject to approval of the Plan by a vote of the holders of a majority of the securities of the Company present in person or by proxy at a duly held stockholders meeting at which a quorum representing a majority of all outstanding voting stock is present. The Committee is authorized to make no Awards to Covered Employees in respect of the 2009 Fiscal Year or any later Fiscal Year if the Plan has not been reapproved by the Company's stockholders at its first meeting of stockholders during 2009, if such approval is necessary for such Awards to constitute "qualified performance-based compensation" as defined in Section 162(m) of the Code.

IN WITNESS WHEREOF, this Plan has been executed this 1st day of March, 2004, effective as of the date set forth herein.

COMMUNITY HEALTH SYSTEMS, INC.

By: /s/ W. LARRY CASH

Title: Executive Vice President & CFO

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Exhibit Number 31.1

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-
OXLEY ACT OF 2002**

I, Wayne T. Smith, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Community Health Systems, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

    b) [omitted pursuant to SEC Release No. 33-8238];

    c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting to the registrant's auditors and the audit committee of the registrant's board of directors:

    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2004	/s/ WAYNE T. SMITH
	Wayne T. Smith Chairman of the Board, President and Chief Executive Officer

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[CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES- OXLEY ACT OF 2002]

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Exhibit Number 31.2

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-
OXLEY ACT OF 2002**

I, W. Larry Cash, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Community Health Systems, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) [omitted pursuant to SEC Release No. 33-8238];

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting to the registrant's auditors and the audit committee of the registrant's board of directors:

e) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

f) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2004	/s/ W. LARRY CASH
	W. Larry Cash Executive Vice President, Chief Financial Officer and Director

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[CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES- OXLEY ACT OF 2002]

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Exhibit Number 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Community Health Systems, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Wayne T. Smith, Chairman of the Board, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ WAYNE T. SMITH

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

May 7, 2004

A signed original of this written statement required by Section 906 has been provided to Community Health Systems, Inc. and will be retained by Community Health Systems, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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Exhibit Number 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Community Health Systems, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, W. Larry Cash, Executive Vice President, Chief Financial Officer and Director of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ W. LARRY CASH

W. Larry Cash
Executive Vice President, Chief Financial Officer and Director

May 7, 2004

A signed original of this written statement required by Section 906 has been provided to Community Health Systems, Inc. and will be retained by Community Health Systems, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.