AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON OCTOBER 4, 2001

REGISTRATION NO. 333-69064

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

AMENDMENT NO. 2
TO
FORM S-1
REGISTRATION STATEMENT

UNDER
THE SECURITIES ACT OF 1933

COMMUNITY HEALTH SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	8062	13-3893191
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

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155 FRANKLIN ROAD, SUITE 400
BRENTWOOD, TENNESSEE 37027
(615) 373-9600
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

RACHEL A. SEIFERT
155 FRANKLIN ROAD, SUITE 400
BRENTWOOD, TENNESSEE 37027
(615) 373-9600

(Name, address, including zip code, and telephone number, including area code, of agent for service)

COPIES TO:

JEFFREY BAGNER	MICHAEL W. BLAIR
FRIED, FRANK, HARRIS, SHRIVER & JACOBSON	STEVEN J. SLUTZKY
ONE NEW YORK PLAZA	DEBEVOISE & PLIMPTON
NEW YORK, NEW YORK 10004	919 THIRD AVENUE
(212) 859-8000	NEW YORK, NEW YORK 10022
	(212) 909-6000

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO PUBLIC: As soon as practicable after the effective date of this registration statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box. / /

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. / /

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. / /

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. / /

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. / /

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

EXPLANATORY NOTE

THIS REGISTRATION STATEMENT CONTAINS (1) A PROSPECTUS RELATING TO A PUBLIC OFFERING OF COMMON STOCK BY COMMUNITY HEALTH SYSTEMS, INC. AND (2) A PROSPECTUS RELATING TO A PUBLIC OFFERING OF CONVERTIBLE SUBORDINATED NOTES BY COMMUNITY HEALTH SYSTEMS, INC. THE PROSPECTUS RELATING TO THE COMMON STOCK FOLLOWS IMMEDIATELY AFTER THIS EXPLANATORY NOTE AND FOLLOWING THAT PROSPECTUS IS THE PROSPECTUS RELATING TO THE CONVERTIBLE SUBORDINATED NOTES.

THE INFORMATION IN THIS PRELIMINARY PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. THESE SECURITIES MAY NOT BE SOLD UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PRELIMINARY PROSPECTUS IS NOT AN OFFER TO SELL NOR DOES IT SEEK AN OFFER TO BUY THESE SECURITIES IN ANY JURISDICTION WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION.
PRELIMINARY PROSPECTUS DATED OCTOBER 4, 2001.

12,000,000 Shares

[LOGO]

Common Stock

Community Health Systems, Inc. is offering all of the shares to be sold in the offering.

Community Health Systems' common stock is listed on the New York Stock Exchange under the symbol "CYH". The last reported sale price for the common stock on September 20, 2001 was $28.60 per share.

Concurrently with this offering of common stock, Community Health Systems is offering $250,000,000 aggregate principal amount of convertible subordinated notes due , 2008. The convertible notes will be offered pursuant to a separate prospectus. Neither offering is contingent upon the other.

SEE "RISK FACTORS" BEGINNING ON PAGE 9 TO READ ABOUT FACTORS YOU SHOULD CONSIDER BEFORE BUYING THE SHARES OF COMMON STOCK.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY OTHER REGULATORY BODY HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Per Share	Total
Initial price to public	$	$
Underwriting discount	$	$
Proceeds, before expenses, to Community Health Systems	$	$

To the extent that the underwriters sell more than 12,000,000 shares of common stock, the underwriters have the option to purchase up to an additional 1,800,000 shares from Community Health Systems at the initial price to public less the underwriting discount.

The underwriters expect to deliver the shares against payment in New York, New York on , 2001.

GOLDMAN, SACHS & CO. MERRILL LYNCH & CO. CREDIT SUISSE FIRST BOSTON

BANC OF AMERICA SECURITIES LLC

JPMORGAN

UBS WARBURG

Prospectus dated , 2001.

[INSIDE FRONT COVER]

[DESCRIPTION OF ARTWORK: MAP OF THE UNITED STATES INDICATING LOCATIONS OF OUR FACILITIES]

PROSPECTUS SUMMARY

YOU SHOULD READ THE FOLLOWING SUMMARY TOGETHER WITH THE MORE DETAILED INFORMATION REGARDING OUR COMPANY AND THE COMMON STOCK BEING SOLD IN THIS OFFERING AND OUR CONSOLIDATED FINANCIAL STATEMENTS AND THE RELATED NOTES APPEARING ELSEWHERE IN THIS PROSPECTUS.

COMMUNITY HEALTH SYSTEMS

OVERVIEW OF OUR COMPANY

We are the largest non-urban provider of general hospital healthcare services in the United States in terms of number of facilities and the second largest in terms of revenues. As of October 1, 2001, we owned, leased or operated 55 hospitals, geographically diversified across 20 states, with an aggregate of 5,010 licensed beds. In over 85% of our markets, we are the sole provider of general hospital healthcare services. In all but one of our other markets, we are one of two providers of these services. For the fiscal year ended December 31, 2000, we generated $1.34 billion in revenues. For the six months ended June 30, 2001, we generated $799.6 million in revenues.

Affiliates of Forstmann Little & Co. formed us in 1996 to acquire our predecessor company. Wayne T. Smith, who has over 30 years of experience in the healthcare industry, joined our company in January 1997. Under this ownership and leadership, we have:

- strengthened the senior management team in all key business areas;
- standardized and centralized our operations across key business areas;
- implemented a disciplined acquisition program;
- expanded and improved the services and facilities at our hospitals;
- recruited additional physicians to our hospitals; and
- instituted a company-wide regulatory compliance program.

As a result of these initiatives, we achieved revenue growth of 23.8% in 2000, 26.4% in 1999 and 15.1% in 1998.

We target growing, non-urban healthcare markets because of their favorable demographic and economic trends and competitive conditions. Because non-urban service areas have smaller populations, there are generally fewer hospitals and other healthcare service providers in these communities. We believe that smaller populations result in less direct competition for hospital-based services. Also, we believe that non-urban communities generally view the local hospital as an integral part of the community. There is generally a lower level of managed care presence in these markets.

OUR BUSINESS STRATEGY

The key elements of our business strategy are to:

- INCREASE REVENUE AT OUR FACILITIES. We seek to increase our share of the healthcare dollars spent by local residents and limit inpatient and outpatient migration to larger urban facilities. Our initiatives to increase revenue include:
  - o recruiting additional primary care physicians and specialists;
  - o expanding the breadth of services offered at our hospitals through targeted capital expenditures; and

  - o providing the capital to invest in our facilities, particularly in our emergency rooms.
- GROW THROUGH SELECTIVE ACQUISITIONS. Each year we intend to acquire, on a selective basis, two to four hospitals. We generally pursue acquisition candidates that:
  - o have a general service area population between 20,000 and 100,000 with a stable or growing population base;
  - o are the sole or primary provider of general hospital services in the community;
  - o are located more than 25 miles from a competing hospital;

- o are not located in an area that is dependent upon a single employer or industry; and

- o have financial performance that we believe will benefit from our management's operating skills.

We estimate that there are currently approximately 375 hospitals that meet our acquisition criteria. These hospitals are primarily not-for-profit or municipally owned.

- REDUCE COSTS. To improve efficiencies and increase margins, we implement cost containment programs which include:

- o standardizing and centralizing our operations;

- o optimizing resource allocation by utilizing our company-devised case and resource management program;

- o capitalizing on purchasing efficiencies;

- o installing a standardized management information system; and

- o managing staffing levels.

- IMPROVE QUALITY. We implement new programs to improve the quality of care provided. These include training programs, sharing of best practices, assistance in complying with regulatory requirements, standardized accreditation documentation, and patient, physician, and staff satisfaction surveys.

RECENT DEVELOPMENTS

Effective June 1, 2001, we acquired Brandywine Hospital, a 168-bed acute care facility located in Coatesville, Pennsylvania, for an aggregate consideration of approximately $61 million. Effective September 1, 2001, we acquired Red Bud Regional Hospital, a 103-bed facility located in Red Bud, Illinois for an aggregate consideration of approximately $5 million. On October 1, 2001, we acquired Jennersville Regional Hospital, formerly known as Southern Chester County Medical Center, a 59-bed hospital located in West Grove, Pennsylvania for an aggregate consideration of approximately $29 million. These three acquisitions increased the number of hospitals we own, lease or operate to 55. On August 2, 2001, we signed a definitive agreement to acquire 369-bed Easton Hospital, the only hospital in the city of Easton and Northampton County, Pennsylvania. This pending transaction is expected to close during the fourth quarter of 2001. The sellers of each of these four hospitals are tax-exempt entities. Each of these hospitals is the sole provider of general hospital services in its community.

Effective July 19, 2001, we amended our credit agreement. The credit agreement is syndicated with a group of lenders led by The Chase Manhattan Bank, an affiliate of J.P. Morgan Securities Inc., and co-agents, Bank of America, N.A. and The Bank of Nova Scotia. This amendment extended the maturity of approximately 80% of the $200 million revolving credit facility and the $263.2 million in acquisition loan commitments from December 31, 2002 to January 2, 2004.

As of September 7, 2001, we also have entered into non-binding letters of intent to acquire an additional two hospitals. We do not enter into definitive agreements until we complete satisfactory business and financial due diligence and financial modeling. In some cases, we do not sign definitive agreements or acquire the hospital after a letter of intent is executed. Some of the hospitals we acquired this year or have executed definitive agreements or letters of intent to acquire had significant historical operating losses. It is not uncommon for us to acquire hospitals with historical losses. As evidenced by our experience with prior acquisitions, these historical losses are not necessarily indicative of the future operating results we would experience after these acquisitions are completed.

INDUSTRY OVERVIEW

Hospital services, the market in which we operate, is the largest single category of healthcare expenditures at 32.1% of total healthcare spending in 2000, or $415.8 billion. The Centers for Medicare and Medicaid Services, formerly known as the U.S. Health Care Financing Administration, projects the hospital services category to grow by 5.7% per year through 2010.

According to the American Hospital Association, there are approximately 5,000 hospitals in the U.S. that are owned by not-for-profit entities, for-profit investors, or state or local governments. Of these hospitals, 44%, or approximately 2,200, are located in non-urban communities.

We were incorporated in Delaware in 1996. Our principal subsidiary was incorporated in Delaware in 1985. We completed our initial public offering of common stock in June 2000 and completed a subsequent offering of common stock in October 2000. Our principal executive offices are located at 155 Franklin Road,

Suite 400, Brentwood, Tennessee 37027. Our telephone number at that address is (615) 373-9600. Our World Wide Web site address is www.chs.net. The information in the website is not intended to be incorporated into this prospectus by reference and should not be considered a part of this prospectus.

THE OFFERING

COMMON STOCK OFFERED	
By Community Health Systems, Inc.....	12,000,000 shares
Common stock to be outstanding immediately after the offering.....	98,464,298 shares
Use of proceeds.....	We estimate that our net proceeds from this offering and the concurrent notes offering will be approximately $570.5 million. We intend to use all of the net proceeds from the concurrent notes offering to repay a portion of the $500 million of our 7 1/2% subordinated debt, plus accrued interest. We intend to use the net proceeds from this offering to repay the balance of our 7 1/2% subordinated debt, plus accrued interest, and to repay a portion of our outstanding debt under the acquisition loan facility of our credit agreement with The Chase Manhattan Bank, an affiliate of J.P. Morgan Securities Inc., and other lenders. All of our 7 1/2% subordinated debt is held by the limited partners of an affiliate of Forstmann Little & Co. As of September 30, 2001, accrued interest on the subordinated debt was $6.3 million.
NYSE symbol.....	CYH

Unless we specifically state otherwise, the information in this prospectus does not take into account:

- up to 1,800,000 shares of common stock which the underwriters have the option to purchase to cover over-allotments;
- up to shares of common stock, including the underwriters' over-allotment option, issuable upon the conversion of the convertible subordinated notes being offered in the concurrent notes offering; and
- an additional 4,887,844 shares of common stock we have reserved for issuance under our stock option plans as of September 6, 2001. Of these reserved shares, 4,288,694 shares are issuable upon exercise of outstanding stock options at an average exercise price of $13.30.

OUR CONCURRENT NOTES OFFERING

Concurrently with this offering, we are offering $250 million aggregate principal amount of convertible subordinated notes, excluding the over-allotment option of $37.5 million aggregate principal amount, in an underwritten public offering.

The notes offering and this offering are not contingent on each other.

SUMMARY CONSOLIDATED FINANCIAL AND OTHER DATA

You should read the summary consolidated financial and other data below in conjunction with our consolidated financial statements and the accompanying notes. We derived the historical financial data for the three years ended December 31, 2000 from our audited consolidated financial statements. We derived the historical financial data for the six months ended June 30, 2000 and June 30, 2001, and as of June 30, 2001, from our unaudited interim condensed consolidated financial statements. The unaudited interim condensed consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for these periods. You should also read Selected Consolidated Financial and Other Data and the accompanying Management's Discussion and Analysis of Financial Condition and Results of Operations. All of these materials are contained later in this prospectus. The pro forma consolidated statements of operations and balance sheet data are presented in a separate table following the historical data. For each period, the pro forma consolidated statements of operations data are presented in three columns: historical data, pro forma data reflecting the application of the estimated net proceeds from this offering to repay a portion of our outstanding debt as if this repayment occurred on January 1, 2000, and pro forma data reflecting the application of the estimated net proceeds from

both this offering and the concurrent notes offering to repay a portion of our outstanding debt as if this repayment had occurred on January 1, 2000. The pro forma consolidated statements of operations data for the year ended December 31, 2000 also reflect the application of the net proceeds from our two common stock public offerings in 2000. The pro forma consolidated balance sheet data give effect to this offering as well as both this offering and the concurrent notes offering as if they had occurred on June 30, 2001.

SIX MONTHS ENDED	YEAR ENDED DECEMBER 31,				JUNE 30,
	1998	1999	2000	2000	2001
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)				
CONSOLIDATED STATEMENT OF OPERATIONS DATA					
Net operating revenues	$ 854,580	$1,079,953	$1,337,501	$ 625,787	$ 799,554
Operating expenses (a)	688,190	875,768	1,084,765	505,931	648,476
Depreciation and amortization	49,861	56,943	71,931	33,910	43,094
Amortization of goodwill	26,639	24,708	25,693	12,378	14,074
Impairment of long-lived assets	164,833	--	--	--	--
Compliance settlement and Year 2000 remediation costs (b)	20,209	17,279	--	--	--
Income (loss) from operations	(95,152)	105,255	155,112	73,568	93,910
Interest expense, net	101,191	116,491	127,370	65,305	53,174
Income (loss) before cumulative effect of a change in accounting principle and income taxes	(196,343)	(11,236)	27,742	8,263	40,736
Provision for (benefit from) income taxes	(13,405)	5,553	18,173	7,164	20,237
Income (loss) before cumulative effect of a change in accounting principle	(182,938)	(16,789)	9,569	1,099	20,499
Cumulative effect of a change in accounting principle, net of taxes	(352)	--	--	--	--
Net income (loss)	$ (183,290)	$ (16,789)	$ 9,569	$ 1,099	$ 20,499
Basic income (loss) per common share:					
Income (loss) before cumulative effect of a change in accounting principle	$ (3.37)	$ (0.31)	$ 0.14	$ 0.02	$ 0.24
Cumulative effect of a change in accounting principle	(0.01)	--	--	--	--
Net income (loss)	$ (3.38)	$ (0.31)	$ 0.14	$ 0.02	$ 0.24
Diluted income (loss) per common share:					
Income (loss) before cumulative effect of a change in accounting principle	$ (3.37)	$ (0.31)	$ 0.14	$ 0.02	$ 0.23
Cumulative effect of a change in accounting principle	(0.01)	--	--	--	--
Net income (loss)	$ (3.38)	$ (0.31)	$ 0.14	$ 0.02	$ 0.23
Weighted average number of shares outstanding:					
Basic	54,249,895	54,545,030	67,610,399	56,423,677	85,696,119
Diluted	54,249,895	54,545,030	69,187,191	57,554,519	87,554,317

(FOOTNOTES BEGIN ON PAGE 8)

SIX MONTHS ENDED	YEAR ENDED DECEMBER 31,	JUNE 30,
	2000	2001
Cash flows from operating activities	$ 183,000	$ 153,000
Cash flows from investing activities	(1,000,000)	(1,000,000)
Cash flows from financing activities	817,000	847,000
Ratio of earnings to fixed charges	1.2x	1.6x
Deficiency of earnings to fixed charges	$ 100,000	$ 13,000
BALANCE SHEET DATA		
Working capital	$ 1,000	$ 1,000
Total assets	2,000,000	2,000,000
Total debt	1,000,000	1,000,000
Stockholders' equity	1,000,000	1,000,000

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OFFERING (D) ACTUAL
OFFERING (C) OFFERING
(D) ---------- --------
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- (DOLLARS IN
THOUSANDS, EXCEPT PER
SHARE DATA)
CONSOLIDATED STATEMENT
OF OPERATIONS DATA Net
operating revenues....
$1,337,501 $1,337,501
$1,337,501 $ 799,554 $
799,554 $ 799,554
Operating expenses
(a).... 1,084,765
1,084,765 1,084,765
648,476 648,476 648,476
Depreciation and
amortization............
71,931 71,931 71,931
43,094 43,094 43,094
Amortization of
goodwill................
25,693 25,693 25,693
14,074 14,074 14,074 --
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Income from
operations.... 155,112
155,112 155,112 93,910
93,910 93,910 Interest
expense, net.....
127,370 72,692 66,808
53,174 40,867 38,149 --
-------- ---------- ---
------- ---------- ----
------ ----------
Income before
extraordinary item and
income
taxes............
27,742 82,420 88,304
40,736 53,043 55,761
Provision for income
taxes...................
18,173 39,497 41,792
20,237 25,037 26,097 --
-------- ---------- ---
------- ---------- ----
------ ----------
Income before
extraordinary
item...... $ 9,569 $
42,923 $ 46,512 $
20,499 $ 28,006 $
29,664 ==========
========== ==========
========== ==========
========== Income per
common share before
extraordinary item:
Basic...................
$ 0.14 $ 0.54 $ 0.58 $
0.24 $ 0.29 $ 0.30
========== ==========
========== ==========
========== ==========
Diluted.................
$ 0.14 $ 0.53 $ 0.57 $
0.23 $ 0.28 $ 0.30
========== ==========
========== ==========
========== ==========
Weighted average number
of shares outstanding:
Basic...................

67,610,399 79,610,399
79,610,399 85,696,119
97,696,119 97,696,119
========== ==========
========== ==========
========== ==========

Diluted.................
69,187,191 81,187,191
81,187,191 87,554,317
99,554,317 99,554,317
========== ==========
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CONSOLIDATED BALANCE SHEET DATA (AS OF END OF PERIOD)			
Cash and cash equivalents..	$ 35,740	$ 35,740	$ 35,740
Total assets...	2,280,086	2,275,891	2,283,160
Long-term debt...	1,229,507	905,668	915,219
Other long-term liabilities..	14,015	14,015	14,015
Stockholders' equity...	779,841	1,107,371	1,105,979

(FOOTNOTES BEGIN ON PAGE 8)

SELECTED OPERATING DATA

The following table sets forth operating statistics for our hospitals for each of the periods presented. Statistics for 1998 include a full year of operations for 37 hospitals and partial periods for four hospitals acquired during the year. Statistics for 1999 include a full year of operations for 41 hospitals and partial periods for four hospitals acquired, and one hospital constructed and opened, during the year. Statistics for 2000 include a full year of operations for 45 hospitals and partial periods for one hospital disposed of, and seven hospitals acquired during the year. Statistics for the six months ended June 30, 2000 include operations for 45 hospitals and partial periods for four hospitals acquired during the six month period. Statistics for the six months ended June 30, 2001 include operations for 52 hospitals and partial periods for one hospital acquired.

	YEAR ENDED DECEMBER 31,			SIX MONTHS ENDED JUNE 30,	
	1998	1999	2000	2000	2001
	(DOLLARS IN THOUSANDS)				
Number of hospitals (e).......................	41	46	52	49	53
Licensed beds (e) (f)..........................	3,644	4,115	4,688	4,401	4,848
Beds in service (e) (g).......................	2,776	3,123	3,587	3,355	3,722
Admissions (h)...............................	100,114	120,414	143,310	68,314	82,559
Adjusted admissions (i).......................	177,075	217,006	262,419	126,137	149,741
Patient days (j).............................	416,845	478,658	548,827	267,060	315,994
Average length of stay (days) (k).............	4.2	4.0	3.8	3.9	3.8
Occupancy rate (beds in service) (l)..........	43.3%	44.1%	44.6%	45.0%	48.4%
Net inpatient revenue as a % of total net revenue....................................	55.7%	52.7%	51.0%	50.6%	51.0%
Net outpatient revenue as a % of total net revenue....................................	42.6%	45.5%	47.3%	47.6%	47.8%
Adjusted EBITDA (m)...........................	$ 166,390	$ 204,185	$ 252,736	$ 119,856	$ 151,078
Adjusted EBITDA as a % of net revenue.........	19.5%	18.9%	18.9%	19.2%	18.9%
Net cash flows provided by (used in) operating activities................................	$ 15,719	$ (11,746)	$ 22,985	$ (34,399)	$ 95,528
Net cash flows used in investing activities...	$(236,553)	$(155,541)	$(244,444)	$ (74,261)	$(104,464)
Net cash flows provided by financing activities................................	$ 219,890	$ 164,850	$ 230,914	$ 110,368	$ 30,936

SIX MONTHS ENDED YEAR
ENDED DECEMBER 31, JUNE
30, ----------------------
------ PERCENTAGE --------

PERCENTAGE 1999 2000
INCREASE 2000 2001
INCREASE ----------- -----
------ ----------- -------
-- --------- -----------
(DOLLARS IN THOUSANDS)
(DOLLARS IN THOUSANDS)
SAME HOSPITALS DATA (n)
Admissions
(h)............... 117,768
125,207 6.3% 68,066 72,126
6.0% Adjusted admissions
(i)...... 212,246 227,780
7.3% 125,649 131,027 4.3%
Patient days
(j)............. 467,884
481,620 2.9% 266,114
276,134 3.8% Average
length of stay (days)
(k).........................
4.0 3.8 3.9 3.8 Occupancy
rate (beds in service)
(l)............... 44.8%
45.1% 45.1% 47.4% Net
revenue..................
$1,047,950 $1,155,850
10.3% $ 620,067 $ 688,905
11.1% Adjusted EBITDA
(m).......... $ 196,843 $
229,637 16.7% $ 116,730 $
133,537 14.4% Adjusted
EBITDA, as a % of net
revenue................
18.8% 19.9% 18.8% 19.4%

(FOOTNOTES BEGIN ON PAGE 8)

(a) Operating expenses include salaries and benefits, provision for bad debts, supplies, rent, and other operating expenses, and exclude certain items for purposes of determining adjusted EBITDA as discussed in footnote (m) below.

(b) Includes Year 2000 remediation costs of $0.2 million in 1998 and $3.3 million in 1999.

(c) The pro forma adjustments for this offering for the year ended December 31, 2000 reflect our two common stock public offerings in 2000 and this offering, the application of the net proceeds from our two common stock public offerings in 2000 to repay debt of $225.2 million on June 14, 2000, $20.5 million on July 3, 2000 and $268.8 million on November 3, 2000 and the estimated net proceeds from this offering to repay debt of $323.8 million based on the outstanding debt balance as of December 31, 2000 and the resultant reduction of interest expense of $54.7 million as if these events had occurred on January 1, 2000.

The pro forma adjustments for this offering for the six months ended June 30, 2001 reflect this offering, the estimated net proceeds from this offering to repay debt of $323.8 million based on the outstanding debt balance as of June 30, 2001 and the resultant reduction of interest expense of $12.3 million as if these events had occurred on January 1, 2000.

The pro forma adjustments also reflect an increase in provision for income taxes of $21.3 million for the year ended December 31, 2000 and $4.8 million for the six months ended June 30, 2001, resulting from the decrease in interest expense. See "Use of Proceeds" and note (p) to the "Selected Consolidated Financial and Other Data."

(d) The pro forma adjustments for both this offering and the concurrent notes offering for the year ended December 31, 2000 reflect the pro forma adjustments for our two common stock public offerings in 2000 and this offering as detailed in footnote (c) above as well as the concurrent notes offering and the estimated net proceeds from the concurrent notes offering to repay additional debt of $240.4 million based on the outstanding balance as of December 31, 2000 and the resultant additional reduction of interest expense of $5.9 million as if these events had occurred on January 1, 2000.

The pro forma adjustments for both this offering and the concurrent notes offering for the six months ended June 30, 2001 reflect the pro forma adjustments for this offering as detailed in footnote (c) above as well as the concurrent notes offering and the estimated net proceeds from the concurrent notes offering to repay additional debt of $240.4 million based on outstanding balance at June 30, 2001 and the resultant additional

reduction of interest expense of $2.7 million as if these events had occurred on January 1, 2000.

The pro forma adjustments also reflect an additional increase in provision for income taxes of $2.3 million for the year ended December 31, 2000 and $1.1 million for the six months ended June 30, 2001, resulting from the decrease in interest expense. See "Use of Proceeds" and note (q) to the "Selected Consolidated Financial and Other Data."

(e) At end of period.

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

(g) Beds in service are the number of beds that are readily available for patient use.

(h) Admissions represent the number of patients admitted for inpatient treatment.

(i) 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.

(j) Patient days represent the total number of days of care provided to inpatients.

(k) Average length of stay (days) represents the average number of days inpatients stay in our hospitals.

(l) We calculated percentages by dividing the average daily number of inpatients by the weighted average of beds in service.

(m) We define adjusted EBITDA as EBITDA adjusted to exclude cumulative effect of a change in accounting principle, impairment of long-lived assets, compliance settlement and Year 2000 remediation costs, and loss from hospital sales. EBITDA consists of income (loss) before interest, income taxes, depreciation and amortization, and amortization of goodwill. EBITDA and adjusted EBITDA should not be considered as measures of financial performance under generally accepted accounting principles. Items excluded from EBITDA and adjusted EBITDA are significant components in understanding and assessing financial performance. EBITDA and adjusted EBITDA are key measures used by management to evaluate our operations and provide useful information to investors. EBITDA and adjusted EBITDA should not be considered in isolation or as alternatives to net income, cash flows generated by operations, investing or financing activities, or other financial statement data presented in the consolidated financial statements as indicators of financial performance or liquidity. Because EBITDA and adjusted EBITDA are not measurements determined in accordance with generally accepted accounting principles and are thus susceptible to varying calculations, EBITDA and adjusted EBITDA as presented may not be comparable to other similarly titled measures of other companies.

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

RISK FACTORS

YOU SHOULD CAREFULLY CONSIDER THE RISKS DESCRIBED BELOW BEFORE BUYING OUR COMMON STOCK IN THIS OFFERING. THE RISKS DESCRIBED IN THIS SECTION ARE THE ONES WE CONSIDER TO BE MATERIAL TO YOUR DECISION WHETHER TO INVEST IN OUR COMMON STOCK AT THIS TIME. IF ANY OF THE FOLLOWING RISKS OCCUR, OUR BUSINESS, FINANCIAL CONDITION OR RESULTS OF OPERATIONS COULD BE MATERIALLY HARMED. IN THAT CASE, THE TRADING PRICE OF OUR COMMON STOCK COULD DECLINE, AND YOU COULD LOSE ALL OR PART OF YOUR INVESTMENT.

IF FEDERAL OR STATE HEALTHCARE PROGRAMS OR MANAGED CARE COMPANIES REDUCE THE PAYMENTS WE RECEIVE AS REIMBURSEMENT FOR SERVICES WE PROVIDE, OUR REVENUES MAY DECLINE.

A large portion of our revenues come from the Medicare and Medicaid programs. In recent years, federal and state governments made significant changes in the Medicare and Medicaid programs. These changes have decreased the amount of money we receive for our services relating to these programs.

In recent years, Congress and some state legislatures have introduced an increasing number of other proposals to make major changes in the healthcare system. Future federal and state legislation may further reduce the payments we receive for our services.

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

IF WE FAIL TO COMPLY WITH EXTENSIVE LAWS AND GOVERNMENT REGULATIONS, WE COULD SUFFER PENALTIES OR BE REQUIRED TO MAKE SIGNIFICANT CHANGES TO OUR OPERATIONS.

The healthcare industry is required to comply with many laws and regulations at the federal, state, and local government levels. These laws and regulations require that hospitals meet various requirements, including those relating to the adequacy of medical care, equipment, personnel, operating policies and procedures, maintenance of adequate records, compliance with building codes, and environmental protection. If we fail to comply with applicable laws and regulations, we could suffer civil or criminal penalties, including the loss of our licenses to operate and our ability to participate in the Medicare, Medicaid, and other federal and state healthcare programs.

In addition, there are heightened coordinated civil and criminal enforcement efforts by both federal and state government agencies relating to the healthcare industry, including the hospital segment. The ongoing investigations relate to various referral, cost reporting, and billing practices, laboratory and home healthcare services, and physician ownership and joint ventures involving hospitals.

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

IF WE FAIL TO COMPLY WITH THE MATERIAL TERMS OF OUR CORPORATE COMPLIANCE AGREEMENT, WE COULD BE EXCLUDED FROM GOVERNMENT HEALTHCARE PROGRAMS.

In December 1997, we approached the Office of Inspector General of the U.S. Department of Health and Human Services and made a voluntary disclosure regarding the assignment of billing codes for inpatient services and reimbursements we received from the U.S. government programs

from 1993 to 1997. We entered into a settlement agreement under which we paid approximately $31.8 million to the appropriate governmental agencies in exchange for a release of civil claims relating to these reimbursements.

As part of this settlement, we entered into a corporate compliance agreement with the Inspector General. Complying with our corporate compliance agreement will require additional efforts and costs. Our failure to comply with the terms of the compliance agreement could subject us to civil and criminal penalties, including significant fines. In addition, failure to comply with the material terms of the compliance agreement could lead to suspension or disbarment from further participation in the federal and state healthcare programs, including Medicare and Medicaid. Any suspension or disbarment would restrict our ability to treat patients and receive reimbursement from these programs. See "Business of Community Health Systems--Compliance Program."

IF COMPETITION DECREASES OUR ABILITY TO ACQUIRE ADDITIONAL HOSPITALS ON FAVORABLE TERMS, WE MAY BE UNABLE TO EXECUTE OUR ACQUISITION STRATEGY.

An important part of our business strategy is to acquire two to four hospitals each year in non-urban markets. However, not-for-profit hospital systems and other for-profit hospital companies generally attempt to acquire the same type of hospitals as we do. Some of these other purchasers have greater financial resources than we do. Our principal competitors for acquisitions include Health Management Associates, Inc. and Province Healthcare Company. In addition, some hospitals are sold through an auction process, which may result in higher purchase prices than we believe are reasonable. Therefore, we may not be able to acquire additional hospitals on terms favorable to us.

IF WE FAIL TO IMPROVE THE OPERATIONS OF ACQUIRED HOSPITALS, WE MAY BE UNABLE TO ACHIEVE OUR GROWTH STRATEGY.

Some of the hospitals we have acquired or will acquire had or may have operating losses prior to the time we acquired them. We may be unable to operate profitably any hospital or other facility we acquire, effectively integrate the operations of any acquisitions, or otherwise achieve the intended benefit of our growth strategy.

IF WE ACQUIRE HOSPITALS WITH UNKNOWN OR CONTINGENT LIABILITIES, WE COULD BECOME LIABLE FOR MATERIAL OBLIGATIONS.

Hospitals that we acquire may have unknown or contingent liabilities, including liabilities for failure to comply with healthcare laws and regulations. Although we seek indemnification from prospective sellers covering these matters, we may nevertheless have material liabilities for past activities of acquired hospitals.

STATE EFFORTS TO REGULATE THE SALE OF HOSPITALS OPERATED BY NOT-FOR-PROFIT ENTITIES COULD PREVENT US FROM ACQUIRING ADDITIONAL HOSPITALS AND EXECUTING OUR BUSINESS STRATEGY.

Many states, including some where we have hospitals and others where we may in the future acquire hospitals, have adopted legislation regarding the sale or other disposition of hospitals operated by not-for-profit entities. In other states that do not have specific legislation, the attorneys general have demonstrated an interest in these transactions under their general obligations to protect charitable assets from waste. These legislative and administrative

efforts focus primarily on the appropriate valuation of the assets divested and the use of the proceeds of the sale by the non-profit seller. While these review and, in some instances, approval processes can add additional time to the closing of a hospital acquisition, we have not had any significant difficulties or delays in

completing acquisitions. However, future actions on the state level could seriously delay or even prevent our ability to acquire hospitals.

STATE EFFORTS TO REGULATE THE CONSTRUCTION, ACQUISITION OR EXPANSION OF HOSPITALS COULD PREVENT US FROM ACQUIRING ADDITIONAL HOSPITALS, RENOVATING OUR FACILITIES OR EXPANDING THE BREADTH OF SERVICES WE OFFER.

Some states require prior approval for the construction or acquisition of healthcare facilities and for the expansion of healthcare facilities and services. In giving approval, these states consider the need for additional or expanded healthcare facilities or services. In some states in which we operate, we are required to obtain certificates of need, known as CONs, for capital expenditures exceeding a prescribed amount, changes in bed capacity or services, and some other matters. Other states may adopt similar legislation. We may not be able to obtain the required CONs or other prior approvals for additional or expanded facilities in the future. In addition, at the time we acquire a hospital, we may agree to replace or expand the facility we are acquiring. If we are not able to obtain required prior approvals, we would not be able to acquire additional hospitals and expand healthcare services.

OUR SIGNIFICANT INDEBTEDNESS COULD LIMIT OUR OPERATIONAL AND CAPITAL FLEXIBILITY.

As of June 30, 2001, on a pro forma basis after giving effect to the issuance of the notes in the concurrent notes offering and the use of the net estimated proceeds from this offering and the concurrent notes offering, we had total long-term debt of $915.2 million or approximately 45.3% of our total capitalization.

Our acquisition program requires substantial capital resources. In addition, the operations of our existing hospitals require ongoing capital expenditures. We may need to incur additional indebtedness to fund these acquisitions and expenditures. However, we may be unable to obtain sufficient financing on terms satisfactory to us.

The degree to which we are leveraged could have other important consequences to holders of the common stock, including the following:

- we must dedicate a substantial portion of our cash flow from operations to the payment of principal and interest on our indebtedness; this reduces the funds available for our operations;

- a portion of our borrowings are at variable rates of interest, which makes us vulnerable to increases in interest rates; and

- some of our indebtedness contains numerous financial and other restrictive covenants, including restrictions on paying dividends, incurring additional indebtedness, and selling assets.

Under our credit agreement and the notes being offered pursuant to the concurrent notes offering, a change of control of us may result in the debt under these agreements becoming due and payable. See "--If we experience a change of control, it would accelerate repayment obligations under our indebtedness."

IF WE ARE UNABLE TO EFFECTIVELY COMPETE FOR PATIENTS, LOCAL RESIDENTS COULD USE OTHER HOSPITALS.

The hospital industry is highly competitive. In addition to the competition we face for acquisitions and physicians, we must also compete with other hospitals and healthcare providers for patients. The competition among hospitals and other healthcare providers for patients has intensified in recent years. Our hospitals are located in non-urban service areas. Most of our

hospitals face no direct competition because there are no other hospitals in their primary service areas. However, these hospitals do face competition from hospitals outside of their primary service area, including hospitals in urban areas that provide more complex services. These facilities generally are located in excess of 25 miles from our facilities. Patients in our primary service areas may travel to these other hospitals for a variety of reasons. These reasons include physician referrals or the need for services we do not offer. Patients who seek services from these other hospitals may subsequently shift their preferences to those hospitals for the services we do provide.

Some of our hospitals operate in primary service areas where they compete with one other hospital. One of our hospitals competes with more than one other hospital in its primary service area. Some of these competing hospitals use equipment and services more specialized than those available at our hospitals. In addition, some of the hospitals that compete with us are owned by tax-supported governmental agencies or not-for-profit entities supported by endowments and charitable contributions. These hospitals can make capital

expenditures without paying sales, property and income taxes. We also face competition from other specialized care providers, including outpatient surgery, orthopedic, oncology, and diagnostic centers.

We expect that these competitive trends will continue. Our inability to compete effectively with other hospitals and other healthcare providers could cause local residents to use other hospitals. See "Business of Community Health Systems--Competition."

IF WE BECOME SUBJECT TO SIGNIFICANT LEGAL ACTIONS, WE COULD BE SUBJECT TO SUBSTANTIAL UNINSURED LIABILITIES.

In recent years, physicians, hospitals, and other healthcare providers have become subject to an increasing number of legal actions alleging malpractice, product liability, or related legal theories. Many of these actions involve large claims and significant defense costs. To protect us from the cost of these claims, we generally maintain professional malpractice liability insurance and general liability insurance coverage in amounts and with deductibles that we believe to be appropriate for our operations. However, our insurance coverage may not cover all claims against us or continue to be available at a reasonable cost for us to maintain adequate levels of insurance.

IF FUTURE CASH FLOWS ARE INSUFFICIENT TO RECOVER THE CARRYING VALUE OF OUR GOODWILL, A MATERIAL NON-CASH CHARGE TO EARNINGS COULD RESULT.

The Forstmann Little partnerships acquired our predecessor company in 1996 principally for cash. We recorded a significant portion of the purchase price as goodwill. We have also recorded as goodwill a portion of the purchase price for our subsequent hospital acquisitions. At June 30, 2001, we had $992 million of goodwill recorded on our books. We expect to recover the carrying value of this goodwill through our future cash flows. On an ongoing basis, we evaluate, based on projected undiscounted cash flows, whether we will be able to recover all or a portion of the carrying value of goodwill. If future cash flows are insufficient to recover the carrying value of our goodwill, we must write off a portion of the unamortized balance of goodwill. In 1998, in connection with our periodic review process, we determined that projected undiscounted cash flows from seven of our hospitals were below the carrying value of the long-lived assets associated with these hospitals. In accordance with generally accepted accounting principles, we adjusted the carrying value of these assets to their estimated fair value through an impairment charge of $164.8 million. Of this charge, goodwill accounted for $134.3 million. This impairment charge arose from various circumstances that were unique to each of the hospitals and adversely affected their prospects. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

IF OUR STOCK PRICE FLUCTUATES AFTER THIS OFFERING, YOU COULD LOSE A SIGNIFICANT PART OF YOUR INVESTMENT.

Our common stock is listed on the New York Stock Exchange. We do not know if an active trading market will continue to exist for our common stock or how the common stock will trade in the future. The market price of our common stock may fluctuate significantly in the future, and these fluctuations may be unrelated to our performance. In addition, the stock market in general has experienced extreme volatility that often has been unrelated to the operating performance or prospects of particular companies. You may not be able to resell your shares at or above the public offering price due to fluctuations in the market price of our common stock due to changes in our operating performance or prospects.

IF EXISTING STOCKHOLDERS SELL THEIR COMMON STOCK, YOU COULD LOSE A SIGNIFICANT PART OF YOUR INVESTMENT.

Upon the completion of this offering, assuming no exercise of the underwriters' over-allotment option, we will have outstanding 98,464,298 shares of common stock. The 20,425,717 shares of common stock that we sold in our initial public offering, the 18,000,000 shares of common stock that we sold in our offering in October 2000, the 12,000,000 shares of common stock that we intend to sell in this offering and the shares of common stock issuable upon the conversion of the notes sold in the concurrent notes offering will be freely tradable without restriction or further registration under the federal securities laws unless purchased by our "affiliates" as that term is defined in Rule 144 under the Securities Act of 1933. Upon completion of this offering and the concurrent notes offering, approximately 47,704,296 shares of our common stock will be "restricted securities" as that term is defined in Rule 144. A significant amount of these shares will be subject to 90-day lock up agreements restricting their resale and are subject to resale restrictions under our stockholder's agreements. In addition, existing stockholders, including the Forstmann Little partnerships, holding approximately 46,134,738 shares of common stock have the right to require us to register their shares under the Securities Act of 1933. These shares may also be sold under Rule 144 of the Securities Act of 1933, depending on their holding period and subject to significant restrictions in the case of shares held by persons deemed to be our affiliates. As restrictions on resale end or as these stockholders exercise their registration rights, the market price of our stock could drop significantly if the holders of restricted shares sell them or are perceived by the market as intending to sell them.

BECAUSE FORSTMANN LITTLE AND OUR MANAGEMENT OWN A SUBSTANTIAL INTEREST IN US, THEY WILL HAVE SIGNIFICANT INFLUENCE IN DETERMINING THE OUTCOME OF ALL MATTERS SUBMITTED TO OUR STOCKHOLDERS FOR APPROVAL.

Following this offering, the Forstmann Little partnerships and our management will together own approximately 47.8% of our outstanding common stock. Accordingly, they will collectively have significant influence in:

- electing our entire board of directors;

- controlling our management and policies;

- determining the outcome of any corporate transaction or other matter submitted to our stockholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets; and

- amending our certificate of incorporation and by-laws.

The Forstmann Little partnerships and our management may also be able to prevent or cause a change of control of us. Their interests may conflict with the interests of the other holders of

common stock. The Forstmann Little partnerships have a contractual right to elect two directors until they no longer own any shares of our common stock.

IF WE EXPERIENCE A CHANGE OF CONTROL, IT WOULD ACCELERATE REPAYMENT OBLIGATIONS UNDER OUR INDEBTEDNESS.

If we experience a change of control as defined in our credit agreement, our indebtedness under this credit agreement becomes due and payable at the option of the lenders under the credit agreement. In addition, if we experience a change of control under the indenture governing the notes being issued in the concurrent notes offering, a holder of notes will have the right, subject to some conditions and restrictions, to require us to repurchase, with cash or common stock, some or all of the notes at a purchase price equal to 100% of the principal amount plus accrued interest.

We cannot give any assurances that we will have sufficient funds available for any required repurchases under the credit agreement or the notes if we experience a change of control. In addition, under the covenants governing our credit agreement, we are not permitted to repurchase the notes for cash.

IF PROVISIONS IN OUR CORPORATE DOCUMENTS AND DELAWARE LAW DELAY OR PREVENT A CHANGE OF CONTROL OF OUR COMPANY, WE MAY BE UNABLE TO CONSUMMATE A TRANSACTION THAT OUR STOCKHOLDERS CONSIDER FAVORABLE.

Our certificate of incorporation and by-laws may discourage, delay, or prevent a merger or acquisition involving us that our stockholders may consider favorable by:

- authorizing the issuance of preferred stock, the terms of which may be determined at the sole discretion of the board of directors;

- providing for a classified board of directors, with staggered three-year terms; and

- establishing advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted on by stockholders at meetings.

Delaware law may also discourage, delay or prevent someone from acquiring or merging with us. For a description you should read "Description of Capital Stock."

THIS PROSPECTUS INCLUDES FORWARD-LOOKING STATEMENTS WHICH COULD DIFFER FROM ACTUAL FUTURE RESULTS.

Some of the matters discussed in this prospectus 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 or our corporate compliance agreement;

- legislative proposals for healthcare reform;

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

- changes in Medicare and Medicaid payment levels;

- uncertainty with the newly issued Health Insurance Portability and Accountability Act of 1996 regulations;

- liability and other claims asserted against us;

- competition;

- our ability to attract and retain qualified personnel, including physicians;

- trends toward treatment of patients in lower acuity healthcare settings;

- 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.

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 prospectus. We assume no obligation to update or revise them or provide reasons why actual results may differ.

USE OF PROCEEDS

We estimate our net proceeds from our sale of common stock in this offering at an estimated offering price of $28.60 per share, after deducting estimated expenses and underwriting discounts and commissions of $13.1 million, to be approximately $330.1 million. In addition, we expect to receive net proceeds of $240.4 million from our concurrent notes offering after deducting estimated expenses and underwriting discounts and commissions. We intend to use all of the net proceeds from the concurrent notes offering to repay a portion of the $500 million of our 7 1/2% subordinated debt, plus accrued interest. We intend to use the net proceeds from this offering to repay the balance of our 7 1/2% subordinated debt, plus accrued interest, and to repay a portion of our outstanding debt under the acquisition loan facility of our credit agreement with The Chase Manhattan Bank, an affiliate of J.P. Morgan Securities Inc., and other lenders. The entire $500 million of our subordinated debt is held by the limited partners of an affiliate of Forstmann Little & Co. and approximately $14.7 million of our outstanding debt under the acquisition loan facility of our credit agreement is held by affiliates of the underwriters. If the concurrent notes offering is not completed, all of the net proceeds from this offering will be used to repay our 7 1/2% subordinated debt, plus accrued interest. As of September 30, 2001, accrued interest on the subordinated debt was $6.3 million.

Approximately 80% of our outstanding debt under the acquisition loan facility matures January 2, 2004. The balance of this debt matures on December 31, 2002. As of June 30, 2001, the effective interest rate for our outstanding debt under the acquisition loan facility was 6.17%.

We expect to borrow under the acquisition loan facility as needed to fund our acquisitions. See "Business of Community Health Systems--Our Business Strategy--Grow Through Selective Acquisitions."

See "Management--Relationships and Transactions between Community Health Systems and its Officers, Directors and 5% Beneficial Owners and their Family Members" and "Description of Indebtedness."

DIVIDEND POLICY

We have not paid any cash dividends in the past, and we do not intend to pay any cash dividends for the foreseeable future. We intend to retain earnings, if any, for the future operation and expansion of our business. Any determination to pay dividends in the future will be dependent upon results of operations, financial condition, contractual restrictions, restrictions imposed by applicable law, and other factors deemed relevant by our board of directors. Our existing indebtedness limits our ability to pay dividends and make distributions to stockholders.

PRICE RANGE OF COMMON STOCK

Our common stock began trading on the New York Stock Exchange on June 9, 2000, under the symbol "CYH." The following table sets forth for the indicated periods the high and low sale prices of our common stock as reported by the New

York Stock Exchange.

	HIGH	LOW
Fiscal Year Ended December 31, 2000		
Second Quarter (beginning June 9, 2000)	$16.31	$13.00
Third Quarter	$32.50	$15.63
Fourth Quarter	$37.20	$24.25
Fiscal Year Ended December 31, 2001		
First Quarter	$35.45	$22.20
Second Quarter	$30.75	$21.25
Third Quarter (through September 20, 2001)	$35.35	$26.85

On September 20, 2001, the last reported sale price of our common stock on the NYSE was $28.60. As of September 17, 2001, there were approximately 54 holders of record of our common stock.

CAPITALIZATION

The following table sets forth our debt and capitalization as of June 30, 2001, on an actual basis and on a pro forma basis. The pro forma data are presented in two columns. One column reflects this offering and the use of the estimated net proceeds from this offering to repay some of our outstanding subordinated debt. The second pro forma column reflects both this offering and the concurrent notes offering and the use of the estimated net proceeds from this offering and the concurrent notes offering to repay all of our outstanding subordinated debt and a portion of our outstanding debt under the acquisition loan facility of our credit agreement.

In addition, you should read the following table in conjunction with Selected Consolidated Financial and Other Data, our consolidated financial statements and the accompanying notes, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Description of Indebtedness, which are contained later in this prospectus.

AS OF JUNE 30, 2001		
	PRO FORMA TO REFLECT THIS OFFERING (A)	PRO FORMA TO REFLECT THIS AND THE CONCURRENT OFFERING (B)
	(DOLLARS IN THOUSANDS)	
LONG-TERM DEBT:		
Credit facilities:		
Revolving credit loans	$ --	$ --
Acquisition loans	119,000	119,000
Term loans	563,675	563,675
Subordinated debentures	500,000	176,161
Convertible notes	--	250,000
Taxable bonds	24,300	24,300
Tax-exempt bonds	8,000	8,000
Capital lease obligations and other debt	36,031	36,031
Total debt	1,251,006	927,167
Less current maturities	21,499	21,499
Total long-term debt (c)	1,229,507	905,668
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; 87,296,185 shares issued and 86,320,636 outstanding actual; 99,296,185 shares issued and 98,320,636 outstanding pro forma	873	993
Additional paid-in capital	1,001,204	1,331,173
Accumulated deficit	(215,284)	(217,843)
Treasury stock, at cost, 975,549 shares	(6,678)	(6,678)
Notes receivable for common stock	(211)	(211)
Unearned stock compensation	(63)	(63)
Total stockholders' equity		

779,841 1,107,371 1,105,979 ---------- ----------
---------- Total
capitalization.....
$2,009,348 $2,013,039 $2,021,198 ==========
========== ==========

(a) Pro forma reflects the write-off of deferred financing costs associated with the repayment of 7 1/2% subordinated debt of $2.6 million, net of tax benefit of $1.6 million.

(b) Pro forma reflects the write-off of deferred financing costs associated with the repayment of 7 1/2% subordinated debt of $3.9 million, net of tax benefit of $2.6 million.

(c) We also had letters of credit issued, primarily in support of our taxable and tax-exempt bonds, of approximately $35.9 million.

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

You should read the selected consolidated historical financial and other data below in conjunction with our consolidated financial statements and the accompanying notes. You should also read Management's Discussion and Analysis of Financial Condition and Results of Operations. All of these materials are contained later in this prospectus. We derived the consolidated historical financial data as of December 31, 1998, 1999 and 2000 and for the three years ended December 31, 2000 from our consolidated financial statements. We derived the historical data for the six months ended June 30, 2000 and June 30, 2001, and as of June 30, 2001, from our unaudited interim condensed consolidated financial statements. The unaudited interim condensed consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for these periods. The pro forma consolidated statements of operations and balance sheet data are presented in a separate table following the historical data. For each period, the pro forma consolidated statements of operations data are presented in three columns: historical data, pro forma data reflecting the application of the estimated net proceeds from this offering to repay a portion of our outstanding debt as if this repayment had occurred on January 1, 2000 and pro forma data reflecting the application of the estimated net proceeds from both this offering and the concurrent notes offering to repay a portion of our outstanding debt as if this repayment had occurred on January 1, 2000. The pro forma consolidated statements of operations data for the year ended December 31, 2000 also reflect the application of the net proceeds from our two common stock public offerings in 2000. The consolidated balance sheet data give effect to this offering as well as both this offering and the concurrent notes offering as if these events had occurred on June 30, 2001. We derived the selected consolidated financial and other data as of December 31, 1996 and 1997 and for the period from July 1, 1996 through December 31, 1996 and the year ended December 31, 1997 from our unaudited consolidated financial statements, which are not contained in this prospectus. We derived the selected consolidated financial and other data at June 30, 1996 and for the period from January 1, 1996 through June 30, 1996 from the unaudited consolidated financial statements of our predecessor company, which are not contained in this prospectus.

PREDECESSOR (a) --------------
PERIOD FROM PERIOD FROM
JANUARY 1 JULY 1 THROUGH
THROUGH YEAR ENDED DECEMBER
31, JUNE 30, DECEMBER 31, ----

------------------- 1996 (b)
1996 (c) 1997 1998 1999 2000 -

-------------- ------------ ---
-------- ----------- ---------
-- -----------
(DOLLARS IN THOUSANDS)
CONSOLIDATED STATEMENT OF
OPERATIONS DATA Net operating
revenues..... $ 294,166
$ 327,922 $ 742,350 $ 854,580
$ 1,079,953 $ 1,337,501
Operating expenses
(d)..... 291,712(e)
270,319 620,112 688,190
875,768 1,084,765 Depreciation
and amortization.... 17,558
18,858 43,753 49,861 56,943
71,931 Amortization of
goodwill..... 164 11,627
25,404 26,639 24,708 25,693
Impairment of long-lived
assets and relocation
costs..... 15,655 -- --
164,833 -- -- Compliance
settlement and Year 2000
remediation costs (f)..... --
-- -- 20,209 17,279 -- Loss
from hospital sales.....

3,146 -- -- -- -- -- --------- - ----------- ----------- ---- ------- ----------- ---------- - Income (loss) from operations.... (34,069) 27,118 53,081 (95,152) 105,255 155,112 Interest expense, net..... 8,930 38,964 89,753 101,191 116,491 127,370 ---------- ----------- ------- ---- ----------- ----------- - ---------- Income (loss) before cumulative effect of a change in accounting principle and income taxes..... (42,999) (11,846) (36,672) (196,343) (11,236) 27,742 Provision for (benefit from) income taxes..... (15,747) 1,256 (4,501) (13,405) 5,553 18,173 -------- -- ----------- ----------- --- -------- ----------- --------- -- Income (loss) before cumulative effect of a change in accounting principle..... (27,252) (13,102) (32,171) (182,938) (16,789) 9,569 Cumulative effect of a change in accounting principle..... -- -- -- (352) -- -- ---------- ------- ---- ----------- ----------- - ---------- ----------- Net income (loss)..... $ (27,252) $ (13,102) $ (32,171) $ (183,290) $ (16,789) $ 9,569 ========== ========== ========== ========== ========== (FOOTNOTES BEGIN ON PAGE 21)

PREDECESSOR (a) -------------- PERIOD FROM PERIOD FROM JANUARY 1 JULY 1 THROUGH THROUGH YEAR ENDED DECEMBER 31, JUNE 30, DECEMBER 31, ---- ---------- ---------- ------------------- 1996 (b) 1996 (c) 1997 1998 1999 2000 - ------------- ------------ --- -------- ----------- --------- -- ----------- (DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA) Basic and diluted income (loss) per common share: Income (loss) before cumulative effect of a change in accounting principle..... $ (0.24) $ (0.60) $ (3.37) $ (0.31) $ 0.14 Cumulative effect of a change in accounting principle..... -- -- (0.01) - - -- ----------- ----------- - ---------- ----------- ------- ---- Net income (loss)..... $ (0.24) $ (0.60) $ (3.38) $ (0.31) $ 0.14 ========== ========== ========== ========== ========== Diluted income (loss) per common share: Income (loss) before cumulative effect of a change in accounting principle..... $ (0.24) $ (0.60) $ (3.37) $ (0.31) $ 0.14 Cumulative effect of a change in accounting principle..... -- -- (0.01) - - -- ----------- ----------- - ---------- ----------- -------

---- Net income (loss)..... $ (0.24) $ (0.60) $ (3.38) $ (0.31) $ 0.14 ========== ========== ========== ========== ========== Weighted-average number of shares outstanding: Basic..... 53,786,432 53,989,089 54,249,895 54,545,030 67,610,399 ========== ========== ========== ========== ========== Diluted..... 53,786,432 53,989,089 54,249,895 54,545,030 69,187,191 ========== ========== ========== ========== ========== CONSOLIDATED BALANCE SHEET DATA (AS OF END OF PERIOD OR YEAR) Cash and cash equivalents..... $ 10,410 $ 26,588 $ 7,663 $ 6,719 $ 4,282 $ 13,740 Total assets..... 506,323 1,630,630 1,643,521 1,747,016 1,895,084 2,213,837 Long-term debt..... 190,797 988,612 1,021,832 1,246,594 1,407,604 1,201,590 Other long-term liabilities..... 55,419 21,086 31,618 26,915 22,495 15,200 Stockholders' equity..... 165,879 465,673 433,625 246,826 229,708 756,174 SELECTED OPERATING DATA Number of hospitals (g)..... 29 35 37 41 46 52 Licensed beds (g) (h)..... 2,641 3,222 3,288 3,644 4,115 4,688 Beds in service (g) (i)..... 2,005 2,311 2,543 2,776 3,123 3,587 Admissions (j)..... 34,876 40,246 88,103 100,114 120,414 143,310 Adjusted admissions (k)..... 56,136 68,059 153,618 177,075 217,006 262,419 Patient days (l)..... 168,995 183,809 399,012 416,845 478,658 548,827 Average length of stay (days) (m)..... 4.8 4.6 4.5 4.2 4.0 3.8 Occupancy rate (beds in service) (n)..... 46.3% 43.2% 43.1% 43.3% 44.1% 44.6% Net inpatient revenue as a % of total net revenue..... 61.1% 58.3% 57.3% 55.7% 52.7% 51.0% Net outpatient revenue as a % of total net revenue..... 37.5% 40.4% 41.5% 42.6% 45.5% 47.3% Adjusted EBITDA (o)..... $ 2,454(g) $ 57,603 $ 122,238 $ 166,390 $ 204,185 $ 252,736 Adjusted EBITDA as a % of net revenue..... 0.8% 17.6% 16.5% 19.5% 18.9% 18.9% Net cash flows provided by (used in) operating activities..... $ 30,081 $ 2,953 $ 21,544 $ 15,719 $ (11,746) $ 22,985 Net cash flows used in investing activities..... $ (25,067) $(1,259,268) $ (76,651) $ (236,553) $ (155,541) $ (244,441) Net cash flows provided by (used in) financing activities..... $

(8,886) $ 1,282,903 $ 36,182 $ 219,890 $ 164,850 $ 230,914

(FOOTNOTES BEGIN ON PAGE 21)

SIX MONTHS ENDED JUNE 30, 2000 2001 (DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA) CONSOLIDATED STATEMENT OF OPERATIONS DATA Net operating revenues $ 625,787 $ 799,554 Operating expenses (d) 505,931 648,476 Depreciation and amortization 33,910 43,094 Amortization of goodwill 12,378 14,074 Income from operations 73,568 93,910 Interest expense, net 65,305 53,174 Income before income taxes 8,263 40,736 Provision for income taxes 7,164 20,237 Net income $ 1,099 $ 20,499 Net income per common share: Basic $ 0.02 $ 0.24 Diluted $ 0.02 $ 0.23 Weighted average number of shares outstanding: Basic 56,423,677 85,696,119 Diluted 57,554,519 87,554,317 SELECTED OPERATING DATA Number of hospitals (g) 49 53 Licensed beds (g) (h) 4,401 4,848 Beds in service (g) (i) 3,355 3,722 Admissions (j) 68,314 82,559 Adjusted admissions (k) 126,137 149,741 Patient days (l) 267,060 315,994 Average length of stay (days) (m) 3.9 3.8 Occupancy rate (beds in service) (n) 45.0% 48.4% Net inpatient revenue as a % of total net revenue 50.6% 51.0% Net outpatient revenue as a % of total net revenue 47.6% 47.8% Adjusted EBITDA (o) $ 119,856 $ 151,078 Adjusted EBITDA as a % of net revenue 19.2% 18.9% Net cash flows (used in) provided by operating activities $ (34,399) $ 95,528 Net cash flows used in investing activities $ (74,261) $ (104,464) Net cash flows provided by financing activities $ 110,368 $ 30,936

(FOOTNOTES BEGIN ON PAGE 21)

YEAR ENDED DECEMBER 31, 2000	SIX MONTHS ENDED JUNE 30, 2001				
	PRO FORMA	PRO FORMA TO REFLECT TO REFLECT THIS OFFERING	THIS OFFERING AND THE PRO FORMA AND THE PRO FORMA CONCURRENT TO REFLECT	CONCURRENT TO REFLECT THIS NOTES	THIS NOTES
ACTUAL	OFFERING (P)	OFFERING (Q)	ACTUAL	OFFERING (P)	OFFERING (Q)
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA) CONSOLIDATED STATEMENT OF OPERATIONS DATA Net operating revenues	$ 1,337,501	$1,337,501	$1,337,501	$ 799,554	$ 799,554
$ 799,554 Operating expenses (d)	1,084,765	1,084,765	1,084,765	648,476	648,476
648,476 Depreciation and amortization	71,931	71,931	71,931	43,094	43,094
43,094 Amortization of goodwill	25,693	25,693	25,693	14,074	14,074
14,074					
Income from operations	155,112	155,112	155,112		

93,910 93,910 93,910 Interest expense, net... 127,370 72,692 66,808 53,174 40,867 38,149 ---------- ---------- ---------- ---------- ---------- ---------- Income before extraordinary item and income taxes..... 27,742 82,420 88,304 40,736 53,043 55,761 Provision for income taxes..... 18,173 39,497 41,792 20,237 25,037 26,097 ---------- -------- -- ---------- ---------- ---------- ---------- Income before extraordinary item..... $ 9,569 $ 42,923 $ 46,512 $ 20,499 $ 28,006 $ 29,664 ========== ========== ========== ========== ========== ========== Income per common share before extraordinary item: Basic..... $ 0.14 $ 0.54 $ 0.58 $ 0.24 $ 0.29 $ 0.30 ========== ========== ========== ========== ========== ========== Diluted..... $ 0.14 $ 0.53 $ 0.57 $ 0.23 $ 0.28 $ 0.30 ========== ========== ========== ========== ========== ========== Weighted average number of shares outstanding: Basic..... 67,610,399 79,610,399 79,610,399 85,696,119 97,696,119 97,696,119 ========== ========== ========== ========== ========== ========== Diluted..... 69,187,191 81,187,191 81,187,191 87,554,317 99,554,317 99,554,317 ========== ========== ========== ========== ========== ========== CONSOLIDATED BALANCE SHEET DATA (AS OF END OF PERIOD) Cash and cash equivalents..... 35,740 35,740 35,740 Total assets..... 2,280,086 2,275,891 2,283,160 Long-term debt..... 1,229,507 905,668 915,219 Other long-term liabilities..... 14,015 14,015 14,015 Stockholders' equity..... 779,841 1,107,371 1,105,979

(a) Effective in July 1996, we acquired all of the outstanding common stock of our principal subsidiary, CHS/Community Health Systems, Inc. The predecessor company had a substantially different capital structure compared to ours. Because of the limited usefulness of the earnings per share information for the predecessor company, these amounts have been excluded.

(b) Includes two acquisitions.

(c) Includes six acquisitions.

(d) Operating expenses include salaries and benefits, provision for bad debts, supplies, rent, and other operating expenses, and exclude certain items for purposes of determining adjusted EBITDA as discussed in footnote (o) below.

(e) Includes $47.5 million of expense resulting from the cancellation of stock options associated with the acquisition of our principal subsidiary as discussed in footnote (a).

(f) Includes Year 2000 remediation costs of $0.2 million in 1998 and $3.3 million in 1999.

(FOOTNOTES CONTINUE ON FOLLOWING PAGE)

(g) At end of period.

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

(i) Beds in service are the number of beds that are readily available for patient use.

(j) Admissions represent the number of patients admitted for inpatient treatment.

(k) 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.

(l) Patient days represent the total number of days of care provided to inpatients.

(m) Average length of stay (days) represents the average number of days inpatients stay in our hospitals.

(n) We calculated percentages by dividing the daily average number of inpatients by the weighted average of beds in service.

(o) We define adjusted EBITDA as EBITDA adjusted to exclude cumulative effect of a change in accounting principle, impairment of long-lived assets and relocation costs, compliance settlement and Year 2000 remediation costs, and loss from hospital sales. EBITDA consists of income (loss) before interest,

income taxes, depreciation and amortization, and amortization of goodwill. EBITDA and adjusted EBITDA should not be considered as measures of financial performance under generally accepted accounting principles. Items excluded from EBITDA and adjusted EBITDA are significant components in understanding and assessing financial performance. EBITDA and adjusted EBITDA are key measures used by management to evaluate our operations and provide useful information to investors. EBITDA and adjusted EBITDA should not be considered in isolation or as alternatives to net income, cash flows generated by operations, investing or financing activities, or other financial statement data presented in the consolidated financial statements as indicators of financial performance or liquidity. Because EBITDA and adjusted EBITDA are not measurements determined in accordance with generally accepted accounting principles and are thus susceptible to varying calculations, EBITDA and adjusted EBITDA as presented may not be comparable to other similarly titled measures of other companies.

(p) The pro forma adjustments for this offering for the year ended December 31, 2000 reflect our two common stock public offerings in 2000 and this offering, the application of the net proceeds from our two common stock public offerings in 2000 to repay debt of $225.2 million on June 14, 2000, $20.5 million on July 3, 2000 and $268.8 million on November 3, 2000 and the estimated net proceeds from this offering to repay debt of $323.8 million based on the outstanding debt balance as of December 31, 2000 and the resultant reduction of interest expense of $54.7 million as if these events had occurred on January 1, 2000.

The pro forma adjustments for this offering for the six months ended June 30, 2001 reflect this offering, the estimated net proceeds from this offering to repay debt of $323.8 million based on the outstanding debt balance as of June 30, 2001 and the resultant reduction of interest expense of $12.3 million as if these events had occurred on January 1, 2000.

The pro forma adjustments also reflect an increase in provision for income taxes of $21.3 million for the year ended December 31, 2000 and $4.8 million for the six months ended June 30, 2001, resulting from the decrease in interest expense.

1. To adjust interest expense to reflect the following:

- For the year ended December 31, 2000, interest expense of $24.3 million and for the six months ended June 30, 2001, interest expense of $12.0 million on the 7 1/2% subordinated debt has been excluded giving effect to the repayment of $323.8 million with the estimated net proceeds from this offering.

- For the year ended December 31, 2000, interest expense of $0.5 million and for the six months ended June 30, 2001, interest expense of $0.3 million from the amortization of deferred financing costs associated with the 7 1/2% subordinated debt has been excluded giving effect to the write-off of $4.2 million of deferred financing costs.

- For the year ended December 31, 2000, interest expense of $19.8 million on the acquisition revolving loan facility of our credit agreement has been excluded, giving effect to the repayment of $308.7 million in outstanding borrowings with the net proceeds from our two common stock public offerings in 2000 at an assumed weighted average interest rate of 8.6%.

- For the year ended December 31, 2000, interest expense of $6.8 million on the revolving credit facility of our credit agreement has been excluded, giving effect to the repayment of $165.5 million in outstanding borrowings with the net proceeds from our two common stock public offerings in 2000 using an assumed weighted average interest rate of 9.0%.

- For the year ended December 31, 2000, interest expense of $3.2 million on the term loans of our credit agreement has been excluded, giving effect to the repayment of $40.3 million in outstanding borrowings with the net proceeds from our two common stock public offerings in 2000 at an assumed weighted average interest rate of 9.6%.

2. The adjustment to the pro forma provision for income taxes, computed using a 39% statutory income tax rate, was $21.3 million for the year ended December 31, 2000 and $4.8 million for the six months ended June 30, 2001 for the tax effect of the above-noted pro forma adjustments.

3. Pro forma income statement does not reflect the write-off of deferred financing costs associated with the repayment of the 7 1/2% subordinated debt of $2.6 million, net of tax benefit of $1.6 million.

(q) The pro forma adjustments for both this offering and the concurrent notes offering for the year ended December 31, 2000 reflect the pro forma adjustments for our two common stock public offerings in 2000 and this offering as detailed in footnote (p) above as well as the concurrent notes offering and the estimated net proceeds from the concurrent notes offering to repay additional debt of $240.4 million based on the outstanding balance as of December 31, 2000 and the resultant additional reduction of interest expense of $5.9 million as if these events had occurred on January 1, 2000.

The pro forma adjustments for both this offering and the concurrent notes offering for the six months ended June 30, 2001 reflect the pro forma adjustments for this offering as detailed in footnote (p) above as well as the concurrent notes offering and the estimated net proceeds from the concurrent notes offering to repay additional debt of $240.4 million based on the outstanding balance at June 30, 2001 and the resultant additional reduction of interest expense of $2.7 million as if these events had occurred on January 1, 2000.

The pro forma adjustments also reflect an additional increase in provision for income taxes of $2.3 million for the year ended December 31, 2000 and $1.1 million for the six months ended June 30, 2001, resulting from the decrease in interest expense. See "Use of Proceeds." These adjustments are detailed as follows:

1. To adjust interest expense to reflect the following:

   - For the year ended December 31, 2000, interest expense of $37.5 million on $500.0 million of the 7 1/2% subordinated debt has been excluded. For the six months ended June 30, 2001, interest expense of $18.6 million on $500.0 million of the subordinated debt has been excluded giving effect to the repayment of the entire outstanding balances of the subordinated debt with the proceeds of this offering and the concurrent notes offering.

   - For the year ended December 31, 2000, interest expense of $0.8 million and for the six months ended June 30, 2001 interest expense of $0.4 million from the amortization of deferred financing costs associated with the subordinated debt has been excluded giving effect to the write-off of $6.5 million of deferred financing costs.

   - For the year ended December 31, 2000, interest expense of $25.4 million on the acquisition revolving loan facility of our credit agreement has been excluded, giving effect to the repayment of $308.7 million in outstanding borrowings with the net proceeds from our two common stock public offerings in 2000 at an assumed weighted average interest rate of 8.6% and the repayment of $64.3 million in outstanding borrowings with proceeds from this offering and the concurrent notes offering at an assumed weighted average interest rate of 8.8%. For the six months ended June 30, 2001, interest expense of $2.6 million on the acquisition loan revolving facility of our credit agreement has been excluded, giving effect to the repayment of $64.3 million in outstanding borrowings with proceeds from this offering and the concurrent notes offering using an assumed weighted average interest rate of 8.3%.

   - For the year ended December 31, 2000, interest expense of $6.8 million on the revolving credit facility of our credit agreement has been excluded, giving effect to the repayment of $165.5 million in outstanding borrowings with the net proceeds from our two common stock public offerings in 2000 using an assumed weighted average interest rate of 9.0%.

   - For the year ended December 31, 2000, interest expense of $3.2 million on the term loans of our credit agreement has been excluded, giving effect to the repayment of $40.3 million in outstanding borrowings with net proceeds from our two common stock public offerings in 2000 at an assumed weighted average interest rate of 9.6%.

   - For the year ended December 31, 2000, interest expense of $13.2 million has been included giving effect to the concurrent notes offering at an assumed interest rate of 4.75% on the notes. This interest expense includes $1.4 million of amortization of the $9.6 million of debt offering costs. For the six months ended June 30, 2001, interest expense of $6.6 million has been included giving effect to the concurrent notes offering at an assumed interest rate of 4.75% on the notes. This interest expense includes $0.7 million of amortization of the $9.6 million of debt offering costs.

2. The adjustment to the pro forma provision for income taxes, computed using a 39% statutory income tax rate, was $23.6 million for the year ended December 31, 2000 and $5.9 million for the six months ended June 30, 2001 for the tax effect of the above-noted pro forma adjustments.

3. Pro forma income statement for the year ended December 31, 2000 and six months ended June 30, 2001 does not reflect the write-off of deferred financing costs associated with the repayment of the 7 1/2% subordinated debt of $3.9 million, net of tax benefit of $2.6 million.

4. The conversion of the notes into shares of common stock under the if-converted method has not been included in the computation of diluted pro forma earnings per share because the effect would be antidilutive.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

YOU SHOULD READ THE FOLLOWING DISCUSSION IN CONJUNCTION WITH "RISK FACTORS,"

"SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA" AND OUR CONSOLIDATED FINANCIAL STATEMENTS AND THE RELATED NOTES INCLUDED ELSEWHERE IN THIS PROSPECTUS.

OVERVIEW

We are the largest non-urban provider of general hospital healthcare services in the United States in terms of number of facilities and the second largest in terms of revenues and EBITDA. As of October 1, 2001, we owned, leased or operated 55 hospitals, geographically diversified across 20 states, with an aggregate of 5,010 licensed beds. In over 85% of our markets, we are the sole provider of general hospital healthcare services. In all but one of our other markets, we are one of two providers of general hospital healthcare services. For the fiscal year ended December 31, 2000, we generated $1.34 billion in net operating revenues and $252.7 million in adjusted EBITDA. For the six months ended June 30, 2001, we generated $799.6 million in net operating revenues and $151.1 million in adjusted EBITDA. We achieved revenue growth of 23.8% in 2000, 26.4% in 1999 and 15.1% in 1998. We also achieved growth in adjusted EBITDA of 23.8% in 2000, 22.7% in 1999 and 36.1% in 1998. Our net income for 2000 was $9.6 million, compared to a net loss of $16.8 million in 1999 and a net loss of $183.3 million in 1998.

ACQUISITIONS

Effective June 1, 2001, we acquired Brandywine Hospital, a 168-bed acute care facility located in Coatesville, Pennsylvania, for an aggregate consideration of approximately $61 million. Effective September 1, 2001, we acquired Red Bud Regional Hospital, a 103-bed facility located in Red Bud, Illinois, for an aggregate consideration of approximately $5 million. On October 1, 2001, we acquired Jennersville Regional Hospital, a 59-bed hospital located in West Grove, Pennsylvania, for an aggregate consideration of approximately $29 million. Each of these hospitals is the sole provider of general acute hospital services in its community.

During 2000, we acquired, through five purchases and two capital lease transactions, most of the assets, including working capital, of seven hospitals. These acquisitions include the purchase of assets of a hospital which we were managing under an operating agreement. We had purchased the working capital accounts of that hospital in 1998. The consideration for the seven hospitals totaled approximately $247 million. This consideration consisted of $148 million in cash, which we borrowed under our acquisition loan facilities, and assumed liabilities of $99 million. We prepaid the lease obligation relating to each lease transaction. We included the prepayment as part of the cash consideration. The purchase of our hospital in Kirksville, Missouri includes an operating lease for the primary building location.

During 1999, we acquired, through three purchases and one capital lease transaction, most of the assets, including working capital, of four hospitals. The consideration for the four hospitals totaled approximately $77.8 million. This consideration consisted of $59.7 million in cash, which we borrowed under our acquisition loan facility, and assumed liabilities of $18.1 million. We prepaid the entire lease obligation relating to the lease transaction. We included the prepayment as part of the cash consideration. We also opened one additional hospital, after completion of construction, at a cost of $15.3 million. This owned hospital replaced a hospital that we managed.

During 1998, we acquired, through two purchase and two capital lease transactions, most of the assets, including working capital, of four hospitals. The consideration for the four hospitals totaled approximately $218.6 million. This consideration consisted of $169.8 million in cash, which we borrowed under our acquisition loan facility, and assumed liabilities of $48.8 million. We prepaid

the entire lease obligation relating to each lease transaction. We included the prepayment as part of the cash consideration. Also, effective December 1, 1998, we entered into an operating agreement relating to a 38 licensed bed hospital. We also purchased the working capital accounts of that hospital. The cash payment made for this hospital was $2.8 million. Pursuant to this operating agreement, upon specified conditions being met, we will be obligated to construct a replacement hospital and to purchase for $0.9 million the remaining assets of the hospital. Upon completion, all rights of ownership and operation will transfer to us.

During 1997, we exercised a purchase option under an operating lease and acquired two hospitals through capital lease transactions. The consideration for these three hospitals totaled $46.1 million, including working capital. This consideration consisted of $36.3 million in cash, which we borrowed under our acquisition loan facility, and assumed liabilities of $9.8 million. We prepaid the entire lease obligation relating to each lease transaction. We included the prepayment as part of the cash consideration.

Goodwill from the acquisition of our predecessor company in 1996 was $662.7 million and from subsequent hospital acquisitions was $328.8 million as of June 30, 2001. Based on management's assessment of the goodwill's estimated useful life, we generally amortize our goodwill over 40 years. Goodwill

represented 127.1% of our shareholders' equity as of June 30, 2001; the amount of goodwill amortized equaled 15.0% of our income from operations for the six-month period ended June 30, 2001. Significant adverse changes in facts regarding our industry, markets and operations could cause our management to determine that impairment indicators exist. This could cause impairments to the carrying amount of such goodwill, resulting in a non-cash charge which would reduce operating income.

In the future, we intend to acquire, on a selective basis, two to four hospitals in our target markets annually. Because of the financial impact of acquisitions, it is difficult to make meaningful comparisons between our financial statements for the periods presented. Because adjusted EBITDA margins at hospitals we acquire are, at the time of acquisition, lower than those of our existing hospitals, acquisitions can negatively affect our adjusted EBITDA margins on a consolidated basis.

On May 1, 2000, we terminated the lease of a hospital previously held for disposition. At June 30, 2001, the carrying amounts of one of our hospitals were segregated from our remaining assets. The carrying amount of long-term assets of a facility held for disposition are classified in other assets, net in our unaudited interim condensed consolidated balance sheet as of June 30, 2001. We do not expect the impact of any gain or loss on our financial results to be material.

SOURCES OF REVENUE

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. Approximately 49% for the year ended December 31, 1998, 48% for the year ended December 31, 1999 and 46% for the year ended December 31, 2000, are related to services rendered to patients covered by the Medicare and Medicaid programs. 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 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. Adjustments related to final settlements or appeals that

increased revenue were insignificant in each of the years ended December 31, 1998, 1999 and 2000. Net amounts due to third-party payors were $9.1 million as of December 31, 1999 and $2.3 million as of December 31, 2000. We included these amounts in the line item accrued liabilities--other in the accompanying balance sheets. Substantially all Medicare and Medicaid cost reports are final settled through 1997.

We expect the percentage of revenues received from the Medicare program to increase due to the general aging of the population and the restoration of some payments under the Balanced Budget Refinement Act of 1999 and the Benefits Improvement and Protection Act of 2000. The payment rates under the Medicare program for inpatients are based on a prospective payment system, based upon the diagnosis of a patient. 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.

The implementation of Medicare's new prospective payment system for outpatient hospital care, effective August 1, 2000, had a favorable impact, but was not material to our overall operating results. The Centers for Medicare and Medicaid Services estimates that this new prospective payment system will result in an overall 9.7% increase in projected outpatient payments which began August 1, 2000, mandated by the Balanced Budget Act of 1997.

In December, 2000, the Benefits Improvement and Protection Act of 2000 became law. It is estimated that the changes to be implemented to many facets of the Medicare reimbursement system by reason of this law will increase reimbursement. We do not believe these increases will be material to our overall operating results.

In addition, Medicaid programs, insurance companies, and employers are actively negotiating the amounts paid to hospitals as opposed to their standard rates. 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, OB/GYN, occupational medicine, 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 generally highest during the first quarter and lowest during the third quarter.

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

SIX MONTHS ENDED	YEAR ENDED DECEMBER 31,				
JUNE 30,	1998	1999	2000	2000	2001
(EXPRESSED AS A PERCENTAGE OF NET OPERATING REVENUES)					
Net operating revenues	100.0	100.0	100.0	100.0	100.0
Operating expenses (a)	(80.5)	(81.1)	(81.1)	(80.8)	(81.1)
Adjusted EBITDA (b)	19.5	18.9	18.9	19.2	18.9
Depreciation and amortization	(5.8)	(5.3)	(5.4)	(5.4)	(5.4)
Amortization of goodwill	(3.1)	(2.3)	(1.9)	(2.0)	(1.8)
Impairment of long-lived assets	(19.3)	--	--	--	--
Compliance settlement and Year 2000 remediation costs (c)					
	(2.4)	(1.6)	--	--	--
Income (loss) from operations	(11.1)	9.7	11.6	11.8	11.7
Interest, net	(11.8)	(10.8)	(9.5)	(10.4)	(6.7)
Income (loss) before cumulative effect of a change in accounting principle and income taxes					
	(22.9)	(1.1)	2.1	1.3	5.1
Provision for (benefit from) income taxes	(1.5)	0.5	1.4	1.1	2.5
Income (loss) before cumulative effect of a change in accounting principle	(21.4)	(1.6)	0.7	0.2	2.6

SIX MONTHS ENDED	YEAR ENDED DECEMBER 31,		
JUNE 30,	1999	2000	2001
(EXPRESSED IN PERCENTAGES)			
PERCENTAGE CHANGE FROM PRIOR PERIOD:			
Net operating revenues	26.4	23.8	27.8
Admissions	20.3	19.0	20.9
Adjusted admissions (d)	22.6	20.9	18.7
Average length of stay	(4.8)	(5.0)	(2.6)
Adjusted EBITDA	22.7	23.8	26.0
SAME HOSPITALS PERCENTAGE CHANGE FROM PRIOR PERIOD (e):			
Net operating revenues	7.6	10.3	11.1
Admissions	4.9	6.3	6.0
Adjusted admissions	7.7	7.3	4.3
Adjusted EBITDA	12.6	16.7	14.4

(a) Operating expenses include salaries and benefits, provision for bad debts, supplies, rent, and other operating expenses, and exclude the items that are excluded for purposes of determining adjusted EBITDA as discussed in footnote (b) below.

(b) We define adjusted EBITDA as EBITDA adjusted to exclude cumulative effect of a change in accounting principle, impairment of long-lived assets, compliance settlement and Year 2000 remediation costs, and loss from hospital sales. EBITDA consists of income (loss) before interest, income taxes, depreciation and amortization, and amortization of goodwill. EBITDA and adjusted EBITDA should not be considered as measures of financial performance under generally accepted accounting principles. Items excluded from EBITDA and adjusted EBITDA are significant components in understanding and assessing financial performance. EBITDA and adjusted EBITDA are key measures used by management to evaluate our operations and provide useful information to investors. EBITDA and adjusted EBITDA should not be

considered in isolation or as alternatives to net income, cash flows generated by operations, investing or financing activities, or other financial statement data presented in the consolidated financial statements as indicators of financial performance or liquidity. Because EBITDA and adjusted EBITDA are not measurements determined in accordance with generally accepted accounting principles and are thus susceptible to varying calculations, EBITDA and adjusted EBITDA as presented may not be comparable to other similarly titled measures of other companies.

(c) Includes Year 2000 remediation costs representing 0.0% in 1998 and 0.3% in 1999.

(d) 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.

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

SIX MONTHS ENDED JUNE 30, 2001 COMPARED TO SIX MONTHS ENDED JUNE 30, 2000

Net operating revenues increased 27.8% to $799.6 million for the six months ended June 30, 2001 from $625.8 million for the six months ended June 30, 2000. Of the $173.8 million increase in net operating revenues, the seven hospitals acquired in 2000 and one hospital acquired in 2001 contributed approximately $104.9 million, and hospitals we owned throughout both periods contributed $68.9 million, an increase of 11.1%. The increase from hospitals owned throughout both periods was attributable primarily to volume increases, rate increases from managed care and other payors and an increase in government reimbursement; these increases were offset by the 2001 period having one fewer day as compared to the 2000 period, resulting from 2000 being a leap year.

Inpatient admissions increased by 20.9%. Adjusted admissions increased by 18.7%. 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 decreased by 2.6%. On a same hospital basis, inpatient admissions increased by 6.0% and adjusted admissions increased by 4.3%. The increase in same hospital inpatient admissions and adjusted admissions was due primarily to an increase in services offered, physician relationship development efforts and the addition of physicians through our focused recruitment program. On a same hospital basis, net outpatient revenues increased 12.5%.

Operating expenses, as a percentage of net operating revenues, increased from 80.8% for the six months ended June 30, 2000, to 81.1% for the six months ended June 30, 2001, primarily due to an increase in provision for bad debts, increases in utility expense and an increase in rent expense, offset by improvements in salaries and benefits. Salaries and benefits, as a percentage of net operating revenues, decreased to 38.7% from 39.0% for the comparable periods, due to the continued realization of savings from improvements made at the hospitals acquired offset by hospitals acquired more recently having higher salaries and benefits as a percentage of net operating revenues for which savings have not yet been realized. Provision for bad debts, as a percentage of net operating revenues, increased to 9.3% for the six months ended June 30, 2001 from 9.0% for the comparable period in 2000 due primarily to an increase in self-pay business. Supplies as a percentage of net operating revenues remained unchanged at 11.6% for the comparable periods in 2000 and 2001. Rent and other operating expenses, as a percentage of net operating revenues, increased from 21.2% for the six months ended June 30, 2000 to 21.5% for the six months ended June 30, 2001. Adjusted EBITDA margins decreased from 19.2% for the six months ended June 30, 2000 to 18.9% for the six months ended June 30, 2001 due primarily to the acquisition of a previously managed facility and the lower initial adjusted EBITDA margins associated with hospitals acquired in 2000 and 2001.

On a same hospital basis, operating expenses as a percentage of net operating revenues decreased from 81.2% for the six months ended June 30, 2000 to 80.6% for the six months ended June 30, 2001. We achieved this reduction through efficiency and productivity gains in payroll and supplies expense reductions, offset by a smaller increase in bad debt expense and other operating expenses.

Depreciation and amortization increased by $9.2 million from $33.9 million for the six months ended June 30, 2000 to $43.1 million for the six months ended June 30, 2001. The seven hospitals acquired in 2000 and one hospital acquired in 2001 accounted for $2.9 million of the increase; facility renovations and purchases of equipment, information system upgrades, the inclusion of a hospital previously held for divestiture and other deferred items accounted for the remaining $6.3 million.

Amortization of goodwill increased from $12.4 million for the six months ended June 30, 2000 to $14.1 million for the comparable period in 2001 related to acquired hospitals.

Interest, net decreased from $65.3 million for the six months ended June 30, 2000 to $53.2 million for the six months ended June 30, 2001. The decrease in average long-term debt during the comparable periods in 2000 and 2001 accounted for $9.8 million of the decrease while a net decrease in interest rates accounted for the remaining difference. The decrease in average debt balance is the result of debt repayments from proceeds raised from the issuance of common stock in 2000 being greater than additional sums borrowed to finance hospital acquisitions.

Income before income taxes increased from $8.3 million for the six months ended June 30, 2000 to $40.7 million for the six months ended June 30, 2001 primarily as a result of the increases in revenue and decreases in expenses as discussed above.

Provision for income taxes increased from $7.2 million for the six months ended June 30, 2000 to $20.2 million for the six months ended June 30, 2001 as a result of the increase in pre-tax income.

Net income was $20.5 million for the six months ended June 30, 2001 compared to $1.1 million for the six months ended June 30, 2000.

YEAR ENDED DECEMBER 31, 2000 COMPARED TO YEAR ENDED DECEMBER 31, 1999

Net operating revenues increased by 23.8% to $1,337.5 million in 2000 from $1,080.0 million in 1999. Of the $257.5 million increase in net operating revenues, the hospitals we acquired, including one new hospital we constructed, in 2000 and 1999 contributed $149.6 million and the hospitals we owned throughout both periods contributed $107.9 million. The $107.9 million, or 10.3%, increase in same hospitals net operating revenues was attributable primarily to inpatient and outpatient volume increases. In 2000, we experienced an estimated $25 million of reductions from the Balanced Budget Act of 1997. We have experienced lower payments from a number of payors, resulting primarily from:

- reductions mandated by the Balanced Budget Act of 1997, particularly in the areas of reimbursement for Medicare outpatient, capital, bad debts, home health, and skilled nursing;

- reductions in various states' Medicaid programs; and

- reductions in length of stay for patients not reimbursed on an admission basis.

We expect the Balanced Budget Refinement Act of 1999 and the Benefits Improvement and Protection Act of 2000 to lessen the impact of these reductions in future periods.

Inpatient admissions increased by 19.0%. Adjusted admissions increased by 20.9%. Average length of stay decreased by 5.0%. On a same hospitals basis, inpatient admissions increased by 6.3% and adjusted admissions increased by 7.3%. The increase in same hospitals inpatient admissions and adjusted admissions was due primarily to an increase in services offered, physician relationship development efforts, and the addition of physicians through our focused recruitment program. On a same hospitals basis, net outpatient operating revenues increased 13.7%. Outpatient growth reflects the continued trend toward a preference for outpatient procedures, where appropriate, by patients, physicians, and payors.

Operating expenses, as a percentage of net operating revenues, remained unchanged at 81.1% from 1999 to 2000. Adjusted EBITDA margin remained unchanged at 18.9% from 1999 to 2000. Salaries and benefits, as a percentage of net operating revenues, decreased from 38.8% in 1999 to 38.7% in 2000. Provision for bad debts, as a percentage of net operating revenues, increased to 9.1% in 2000 from 8.8% in 1999 due to an increase in self-pay revenues and payor remittance slowdowns in part caused by an increase in the number of acquisition conversions. The conversion is the process by which the Company must apply for new Medicare and Medicaid provider numbers on acquired hospitals. This process results in billing delays and payor remittance slowdowns and subsequently an increase in the allowance for uncollectible receivables during the conversion period. Supplies, as a percentage of net operating revenues, decreased to 11.5% in 2000 from 11.7% in 1999. Rent and other operating expenses, as a percentage of net operating revenues, remained unchanged at 21.7% from 1999 to 2000.

On a same hospitals basis, operating expenses as a percentage of net operating revenues decreased from 81.2% in 1999 to 80.1% in 2000 and adjusted EBITDA margin increased from 18.8% in 1999 to 19.9% in 2000. These efficiency and productivity gains resulted from the achievement of target staffing ratios, physician recruiting efforts, and improved compliance with national purchasing contracts. Operating expenses improved as a percentage of net operating revenues in every major category except provision for bad debts which increased slightly and other operating expenses which were flat compared to 1999.

Depreciation and amortization increased by $15.0 million from $56.9 million in 1999 to $71.9 million in 2000. The twelve hospitals acquired in 1999 and 2000 accounted for $5.9 million of the increase and facility renovations and purchases of equipment primarily accounted for the remaining $9.1 million.

Amortization of goodwill increased by $1.0 million from $24.7 million in 1999 to $25.7 million in 2000. This increase primarily related to the twelve

hospitals acquired, including one constructed, in 1999 and 2000.

Interest, net increased by $10.9 million from $116.5 million in 1999 to $127.4 million in 2000. The twelve hospitals acquired, including one constructed, in 1999 and 2000 accounted for approximately $8.5 million of incremental interest, borrowings under our credit agreement to finance capital expenditures and physician recruiting accounted for $10.0 million of incremental interest, borrowings to fund our compliance settlement accounted for $1.9 million of incremental interest and changes in interest rates accounted for $8.2 million of incremental interest. These increases were offset by savings of approximately $16.0 million from the repayment of long-term debt with the proceeds from our initial public and secondary offerings in 2000 and a savings of $1.7 million from an increase in cash flow from operations.

Income before income taxes for 2000 was $27.7 million compared to a loss of $11.2 million in 1999. This improvement is primarily the result of revenue growth from both acquisitions and same store hospitals, management's ability to control expenses and a reduction in the growth rate of interest expense.

The provision for income taxes in 2000 was $18.2 million compared to $5.6 million in 1999. Due to the non-deductible nature of certain goodwill amortization, the resulting effective tax rate is in excess of the statutory rate.

Net income for 2000 was $9.6 million as compared to $16.8 million net loss in 1999.

YEAR ENDED DECEMBER 31, 1999 COMPARED TO YEAR ENDED DECEMBER 31, 1998

Net operating revenues increased by 26.4% to $1,080.0 million in 1999 from $854.6 million in 1998. Of the $225.4 million increase in net operating revenues, the nine hospitals we acquired, including one constructed, in 1998 and 1999, contributed $160.6 million and nine hospitals we owned throughout both periods contributed $64.8 million. The $64.8 million, or 7.6%, increase in same hospitals net operating revenues was attributable primarily to inpatient and outpatient volume increases, partially offset by a decrease in reimbursement. In 1999, we experienced an estimated $23 million of reductions from the Balanced Budget Act of 1997. We have experienced lower payments from a number of payors, resulting primarily from:

- reductions mandated by the Balanced Budget Act of 1997, particularly in the areas of reimbursement for Medicare outpatient, capital, bad debts, home health, and skilled nursing;

- reductions in various states' Medicaid programs; and

- reductions in length of stay for patients not reimbursed on an admission basis.

We expect the Balanced Budget Refinement Act of 1999 to lessen the impact of these reductions in future periods.

Inpatient admissions increased by 20.3%. Adjusted admissions increased by 22.6%. Average length of stay decreased by 4.8%. On a same hospitals basis, inpatient admissions increased by 4.9% and adjusted admissions increased by 7.7%. The increase in same hospitals inpatient admissions and adjusted admissions was due primarily to an increase in services offered, physician relationship development efforts, and the addition of physicians through our focused recruitment program. On a same hospitals basis, net outpatient operating revenues increased 14.8%. Outpatient growth reflects the continued trend toward a preference for outpatient procedures, where appropriate, by patients, physicians, and payors.

Operating expenses, as a percentage of net operating revenues, increased from 80.5% in 1998 to 81.1% in 1999 due to higher operating expenses and lower initial adjusted EBITDA margins associated with acquired hospitals and one recently constructed hospital. Adjusted EBITDA margin decreased from 19.5% in 1998 to 18.9% in 1999. Salaries and benefits, as a percentage of net operating revenues, increased to 38.8% in 1999 from 38.4% in 1998, due to acquisitions of hospitals in 1998 and 1999 having higher salaries and benefits as a percentage of net operating revenues than our 1998 results. Provision for bad debts, as a percentage of net operating revenues, increased to 8.8% in 1999 from 8.1% in 1998 due to an increase in self-pay revenues and payor remittance slowdowns in part caused by Year 2000 conversions. Supplies, as a percentage of net operating revenues, decreased to 11.7% in 1999 from 11.8% in 1998. Rent and other operating expenses, as a percentage of net operating revenues, decreased to 21.7% in 1999 from 22.3% in 1998.

On a same hospitals basis, operating expenses as a percentage of net operating revenues decreased from 81.1% in 1998 to 80.3% in 1999 and adjusted EBITDA margin increased from 18.9% in 1998 to 19.7% in 1999. These efficiency and productivity gains resulted from the achievement of target staffing ratios and improved compliance with national purchasing contracts. Operating expenses improved as a percentage of net operating revenues in every major category except provision for bad debts.

Depreciation and amortization increased by $7.0 million from $49.9 million

in 1998 to $56.9 million in 1999. The nine hospitals acquired in 1998 and 1999 accounted for $7.1 million of the increase and facility renovations and purchases of equipment accounted for the remaining $3.3 million. These increases were offset by a $3.4 million reduction in depreciation and amortization related to the 1998 impairment write-off of certain assets.

Amortization of goodwill decreased by $1.9 million from $26.6 million in 1998 to $24.7 million in 1999. The 1998 impairment charge resulted in a $3.6 million reduction in amortization of goodwill, offset by an increase of $1.7 million primarily related to the nine hospitals acquired in 1998 and 1999.

Interest, net increased by $15.3 million from $101.2 million in 1998 to $116.5 million in 1999. The nine hospitals acquired in 1998 and 1999 accounted for $10.2 million of the increase, and borrowings under our credit agreement to finance capital expenditures accounted for the remaining $5.1 million.

Loss before cumulative effect of a change in accounting principle and income taxes for 1999 was $11.2 million compared to a loss of $196.3 million in 1998. A majority of this variance was due to a $164.8 million charge for impairment of long-lived assets recorded in 1998. In December 1998, in connection with our periodic review process, we determined that as a result of adverse changes in physician relationships, undiscounted cash flows from seven of our hospitals were below the carrying value of long-lived assets associated with those hospitals. Therefore, in accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," we adjusted the carrying value of the related long-lived assets, primarily goodwill, to their estimated fair value. We based the estimated fair values of these hospitals on specific market appraisals.

The provision for income taxes in 1999 was $5.6 million compared to a benefit of $13.4 million in 1998. Due to the non-deductible nature of certain goodwill amortization and the goodwill portion of the 1998 impairment charge, the resulting effective tax rate is in excess of the statutory rate.

Including the impairment of long-lived assets, compliance settlement costs, Year 2000 remediation costs, and cumulative effect of a change in accounting principle charges, net loss for 1999 was $16.8 million as compared to $183.3 million net loss in 1998. In 1997, we initiated a voluntary review of inpatient medical records to determine whether documentation supported the inpatient codes billed to certain governmental payors for the years 1993 through 1997. We executed a settlement agreement with the appropriate state and federal governmental agencies for a negotiated settlement amount of approximately $31.8 million, which we paid in May 2000. We recorded as a charge to income, under the caption "Compliance settlement costs," $20 million in 1998 and $14 million in 1999.

LIQUIDITY AND CAPITAL RESOURCES

SIX MONTHS ENDED JUNE 30, 2001 COMPARED TO SIX MONTHS ENDED JUNE 30, 2000

Net cash provided by operating activities increased $129.9 million to $95.5 million for the six months ended June 30, 2001 from a cash use of $34.4 million for the six months ended June 30, 2000. This increase represents an increase in net income of $19.4 million, an increase in non-cash expenses of $11.8 million, an increase of cash from working capital of $67.8 million and the absence of the one-time compliance settlement payment of $30.9 million made in 2000 when comparing the six month periods ended June 30, 2000 and 2001. The increase of cash from working capital can be attributed primarily to improvement in collections of accounts receivable, an increase in our tax provision, which we anticipate will be substantially offset by our existing net operating loss carryforwards and therefore not result in cash outflow, and overall better

management of other working capital items. The use of cash from investing activities increased from $74.3 million for the six months ended June 30, 2000 to $104.5 million for the six months ended June 30, 2001. This increase is the result of the additional cost of the acquisition in 2001 and additional expenditures on property, equipment and other assets. Net cash provided by financing activities decreased $79.4 million during the comparable periods as a result of not borrowing to meet capital expenditure and working capital needs during the 2001 period and not borrowing for the compliance settlement as was done in the 2000 period.

2000 COMPARED TO 1999

Net cash provided by operating activities increased by $34.7 million, from a use of $11.7 million during 1999 to cash provided of $23.0 million during 2000. This improvement is due primarily to an increase in net income of $26.4 million, use of deferred tax assets of $17.2 million during 2000 as compared to creating deferred tax assets of $3.8 million in 1999, and an increase in accounts payable and accrued liabilities, offset by an increase in accounts receivable and the $31.8 million compliance settlement payment made during 2000. The use of cash in investing activities increased $88.9 million from $155.5 million in 1999 to $244.4 million in 2000. The increase is due primarily to an increase in cash used to finance hospital acquisitions of $88.5 million during 2000 and an increase in cash used to finance all other capital expenditures of $0.4 million. Net cash provided by financing activities increased $66.0 million from $164.9 million in 1999 to $230.9 million in 2000. We raised $514.5 million in proceeds, net of expenses from our initial public

and secondary offerings completed in 2000, which were used to repay long term debt. Our borrowings during 2000 were $241.3 million and, excluding the offering proceeds, repayments would have been $11.0 million. Excluding the 2000 offering proceeds and the refinancing of our credit facility in 1999, this represents a $64.8 million increase compared to borrowings of $186.3 million and repayments of $20.9 million in 1999. The $64.8 million increase in borrowings is derived from the increase in the amount spent on acquisitions of facilities partially offset by an increase in operating cash flows.

1999 COMPARED TO 1998

Net cash provided by operating activities decreased by $27.4 million, from $15.7 million during 1998 to a use of $11.7 million during 1999 due primarily to an increase in accounts receivable at both same hospitals and newly-acquired hospitals. The use of cash in investing activities decreased from $236.6 million in 1998 to $155.5 million in 1999. The $81.1 million decrease was due primarily to a decrease in cash used to finance hospital acquisitions of $112.9 million during 1999. This decrease was offset by a $31.8 million increase in cash used primarily to finance capital expenditures during 1999, including approximately $15.0 million of Year 2000 expenditures. The 1998 use of cash to acquire facilities, included four hospitals, two of which were larger facilities. Net cash provided by financing activities decreased from $219.9 million in 1998 to $164.9 million in 1999. Excluding the refinancing of our credit facility, borrowings in 1999 would have been $186.3 million and repayments would have been $20.9 million. This represents a $56.2 million decrease compared to $242.5 million borrowed in 1998 and repayments of long-term indebtedness of $20.9 million in 1999 compared to repayments of $18.8 million in 1998. The $56.2 million decrease in borrowings related to a lesser amount spent on acquisition of facilities, partially offset by increased capital expenditures and an increase in the accounts receivable balance.

CAPITAL EXPENDITURES

Our capital expenditures for 2000 totaled $63.0 million compared to $64.8 million in 1999 and $51.3 million in 1998. Our capital expenditures for 1999 excludes $15.3 million of costs associated with the opening and construction of one additional hospital. The decrease in capital expenditures in 2000 was due primarily to the increase in purchases of medical equipment and information

systems upgrades in 1999 related to Year 2000 compliance. The Year 2000 compliance expenditures account for the increase in capital expenditures during 1999 as compared to 1998.

Pursuant to hospital purchase agreements, we are required to construct four replacement hospitals through 2005 with an aggregate estimated construction cost, including equipment, of approximately $120 million. We expect total capital expenditures of approximately $90 million in 2001, including approximately $60 million for renovation and equipment purchases and approximately $30 million for construction of replacement hospitals.

CAPITAL RESOURCES

Net working capital was $169.1 million at June 30, 2001 compared to $167.7 million at December 31, 2000. The $1.4 million increase was attributable primarily to an increase in cash and cash equivalents, an increase in accounts receivable consistent with the increase in net revenues and a decrease in accrued interest and other current liabilities offset by a decrease in prepaid expenses and an increase in current income taxes payable that we expect to settle using net operating loss carry forwards.

In July 2001, we amended our credit agreement. Our amended credit agreement provides for $644 million in term debt with quarterly amortization and staggered maturities in 2001, 2002, 2003, 2004 and 2005. This agreement also provides for revolving facility debt for working capital of $200 million and acquisitions of $263.2 million at June 30, 2001. This new amendment extends the maturity of approximately 80% of the revolver commitments to January 2, 2004. Borrowings under the facility bear interest at either LIBOR or prime rate plus various applicable margins which are based upon financial covenant ratio tests. As of June 30, 2001 using amended rates, our weighted average interest rate under our credit agreement was 7.04%. As of June 30, 2001, we had availability to borrow an additional $162.1 million under the working capital revolving facility and an additional $144.2 million under the acquisition loan revolving facility.

We are required to pay a quarterly commitment fee at a rate of .375% to .500% based on specified financial criteria. This fee applies to unused commitments under the revolving credit facility and the acquisition loan facility.

The terms of the credit agreement include various restrictive covenants. These covenants include restrictions on additional indebtedness, investments, asset sales, capital expenditures, dividends, sale and leasebacks, contingent obligations, transactions with affiliates, and fundamental changes. The covenants also require maintenance of various ratios regarding senior indebtedness, senior interest, and fixed charges.

We believe that internally generated cash flows and borrowings under our revolving credit facility and acquisition facility will be sufficient to finance acquisitions, capital expenditures and working capital requirements through the

next 12 months. If funds required for future acquisitions exceed existing sources of capital, we will need to increase our credit facilities or obtain additional capital by other means.

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. 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, 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.

RECENT ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

On July 20, 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." These SFAS Statements make significant changes to the accounting for business combinations, goodwill and intangible assets.

SFAS No. 141 eliminates the pooling-of-interests method of accounting for business combinations. In addition, it further clarifies the criteria for recognition of intangible assets separately from goodwill. This statement's provisions apply to business combinations accounted for using the purchase method for which the date of acquisition is July 1, 2001, or later.

SFAS No. 142 discontinues the practice of amortizing goodwill and indefinite life intangible assets. Its nonamortization provisions are effective January 1, 2002 for goodwill existing at June 30, 2001, and are effective immediately for business combinations with acquisition dates after June 30, 2001. Intangible assets with a determinable useful life will continue to be amortized over that period. SFAS No. 142 requires us to complete a transitional goodwill impairment test as of January 1, 2002. Any impairment loss will be recorded as soon as possible, but in no case later than December 31, 2002. In addition, SFAS No. 142 requires that indefinite life intangible assets and goodwill be tested at least annually for impairment of carrying value; impairment of carrying value would be evaluated more frequently if certain indicators are encountered.

We expect to adopt SFAS No. 142 effective January 1, 2002. Early adoption and retroactive application of SFAS No. 141 and SFAS No. 142 are not permitted. Subject to final analysis, we expect application of the nonamortization provisions of these SFAS Statements to result in a positive effect on net income of approximately $23 million in calendar year 2002. We will perform the first of the required impairment tests of goodwill and indefinite lived intangible assets as of January 1, 2002. We do not expect the effect of SFAS Nos. 141 and 142 to have a significant effect on our financial position.

SFAS No. 143, "Accounting for Asset Retirement Obligations," was issued in June 2001 by the Financial Accounting Standards Board and is effective for financial statements issued for fiscal years beginning after June 15, 2002. Earlier application is encouraged. SFAS No. 143 establishes accounting standards for recognition and measurement of a liability for an asset retirement obligation and the associated retirement cost. This SFAS Statement applies to all entities and to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) the normal operation of a long-lived asset, except for certain obligations of lessees. We are evaluating the impact, if any, of adopting SFAS No. 143.

ACCOUNTING PRONOUNCEMENT ADOPTED

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," is effective for all fiscal years beginning after June 15, 2000. SFAS No. 133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. Under SFAS No. 133, certain contracts that were not formerly considered derivatives may now meet the definition of a derivative. We adopted SFAS No. 133 on January 1, 2001. The

adoption of SFAS No. 133 did not impact our financial position, results of operations, or cash flows.

FEDERAL INCOME TAX EXAMINATIONS

We have settled the Internal Revenue Service examinations of our filed federal income tax returns for the tax periods ended December 31, 1993 through December 31, 1996. In that settlement, we have agreed to several adjustments, primarily involving temporary or timing differences, and made a payment of approximately $8.5 million, which is sufficient to cover all resulting federal income taxes and interest. The Internal Revenue Service examinations did not have a material financial impact on us.

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. We have not taken any action to cover interest rate market risk, and are not a party to any interest rate market risk management activities.

A 1% change in interest rates on variable rate debt would have resulted in interest expense fluctuating approximately $6 million for 1998, $8 million for 1999, $9 million for 2000 and $3.5 million for the six months ended June 30, 2001.

BUSINESS OF COMMUNITY HEALTH SYSTEMS

OVERVIEW OF OUR COMPANY

We are the largest non-urban provider of general hospital healthcare services in the United States in terms of number of facilities and the second largest in terms of revenues and EBITDA. As of October 1, 2001 we owned, leased or operated 55 hospitals, geographically diversified across 20 states, with an aggregate of 5,010 licensed beds. In over 85% of our markets, we are the sole provider of these services. In all but one of our other markets, we are one of two providers of these services. For the fiscal year ended December 31, 2000, we generated $1.34 billion in revenues and $252.7 million in adjusted EBITDA. For the six months ended June 30, 2001, we generated $799.6 million in revenues and $151.1 million in adjusted EBITDA.

In July 1996, an affiliate of Forstmann Little & Co. acquired our predecessor company from its public stockholders. The predecessor company was formed in 1985. The aggregate purchase price for the acquisition was $1,100.2 million. Wayne T. Smith, who has over 30 years of experience in the healthcare industry, joined our company as President in January 1997. We named him Chief Executive Officer in April 1997 and Chairman of our board of directors in February 2001. Under this ownership and leadership, we have:

- strengthened the senior management team in all key business areas;
- standardized and centralized our operations across key business areas;
- implemented a disciplined acquisition program;
- expanded and improved the services and facilities at our hospitals;
- recruited additional physicians to our hospitals; and
- instituted a company-wide regulatory compliance program.

As a result of these initiatives, we achieved revenue growth of 23.8% in 2000, 26.4% in 1999 and 15.1% in 1998. We also achieved growth in adjusted EBITDA of 23.8% in 2000, 22.7% in 1999 and 36.1% in 1998. Our adjusted EBITDA margins improved from 16.5% for 1997 to 18.9% for 2000.

Our hospitals typically have 50 to 200 beds and approximate annual revenues ranging from $12 million to $80 million. Some of the hospitals we have recently acquired have exceeded these ranges. They generally are located in non-urban markets with populations of 20,000 to 100,000 people and economically diverse employment bases. These facilities, together with their medical staffs, provide a wide range of inpatient and outpatient general hospital services and a variety of specialty services.

We target growing, non-urban healthcare markets because of their favorable demographic and economic trends and competitive conditions. Because non-urban service areas have smaller populations, there are generally fewer hospitals and other healthcare service providers in these communities. We believe that smaller populations result in less direct competition for hospital-based services. Also, we believe that non-urban communities generally view the local hospital as an integral part of the community. There is generally a lower level of managed care presence in these markets.

OUR BUSINESS STRATEGY

The key elements of our business strategy are to:

- increase revenue at our facilities;

- grow through selective acquisitions;

- reduce costs; and

- improve quality.

INCREASE REVENUE AT OUR FACILITIES

OVERVIEW. We seek to increase revenue at our facilities by providing a broader range of services in a more attractive care setting, as well as by supporting and recruiting physicians. We identify the healthcare needs of the community by analyzing demographic data and patient referral trends. We also work with local hospital boards, management teams, and medical staffs to determine the number and type of additional physicians needed. Our initiatives to increase revenue include:

- recruiting additional primary care physicians and specialists;

- expanding the breadth of services offered at our hospitals through targeted capital expenditures to support the addition of more complex services, including orthopedics, cardiology, OB/GYN, and occupational medicine; and

- providing the capital to invest in technology and the physical plant at the facilities, particularly in our emergency rooms.

By taking these actions, we believe that we can increase our share of the healthcare dollars spent by local residents and limit inpatient and outpatient migration to larger urban facilities. Total revenue for hospitals operated by us for a full year increased by 10.3% from 1999 to 2000. Total inpatient admissions increased by 6.3% over the same period.

PHYSICIAN RECRUITING. The primary method of adding or expanding medical services is the recruitment of new physicians into the community. A core group of primary care physicians is necessary as an initial contact point for all local healthcare. The addition of specialists who offer services including general surgery, OB/GYN, cardiology, and orthopedics completes the full range of medical and surgical services required to meet a community's core healthcare needs. When we acquire a hospital, we identify the healthcare needs of the community by analyzing demographic data and patient referral trends. We are then able to determine what we believe to be the optimum mix of primary care physicians and specialists. We employ recruiters at the corporate level to support the local hospital managers in their recruitment efforts. During the past three years, we have increased the number of physicians affiliated with us by 405, including 84 in 1998, 156 in 1999 and 165 in 2000. The percentage of recruited physicians commencing practice that were surgeons or specialists grew from 45% in 1997 to 65% in 2000. We do not employ most of our physicians, but rather they are in private practice in their communities. We have been successful in recruiting physicians because of the practice opportunities of physicians in our markets, as well as the lower managed care penetration as compared to urban areas. These physicians are able to earn incomes comparable to incomes earned by physicians in urban centers. As of June 30, 2001, approximately 2,200 physicians were affiliated with our hospitals.

To attract and retain qualified physicians, we provide recruited physicians with various services to assist them in opening and operating their practices, including:

- relocation assistance;

- physician practice management assistance, either through consulting advice or training;

- access to medical office building space adjacent to our hospitals;

- joint marketing programs for community awareness of new services and providers of care in the community;

- case management consulting for best practices; and

- access to a physician advisory board which communicates regularly with physicians regarding a wide range of issues affecting the medical staffs of our hospitals.

EMERGENCY ROOM INITIATIVES. Given that over 50% of our hospital admissions originate in the emergency room, we systematically take steps to increase patient flow in our emergency rooms as a means of optimizing utilization rates for our hospitals. Furthermore, the impression of our overall operations by our customers is substantially influenced by our emergency room since often that is their first experience with our hospitals. The steps we take to increase patient flow in our emergency rooms include renovating and expanding our emergency room facilities, improving service, and reducing waiting times, as well as

publicizing our emergency room capabilities in the local community. We have expanded or renovated 15 of our emergency room facilities since 1997 and are now in the process of upgrading an additional 5 emergency room facilities. Since 1997, we have entered into new contracts with emergency room operating groups to improve performance in emergency rooms in approximately 35 of our hospitals. We have implemented marketing campaigns that emphasize the speed, convenience, and quality of our emergency rooms to enhance each community's awareness of our emergency room services.

Our upgrades include the implementation of specialized software programs designed to assist physicians in making diagnoses and determining treatments. The software also benefits patients and hospital personnel by assisting in proper documentation of patient records. It enables our nurses to provide more consistent patient care and provides clear instructions to patients at time of discharge to help them better understand their treatments.

EXPANSION OF SERVICES. To capture a greater portion of the healthcare spending in our markets and to more efficiently utilize our hospital facilities, we have added a broad range of emergency, outpatient, and specialty services to our hospitals. Depending on the needs of the community, we identify opportunities to expand into various specialties, including orthopedics, cardiology, OB/GYN, and occupational medicine. In addition to expanding services, we have completed major capital projects at selected facilities to offer these types of services. For example, in 1999 we invested $1 million in a new cardiac catheterization laboratory at our Crestview, Florida hospital. As a result, this laboratory increased the number of procedures it performed from 122 in 1998 to 670 in 2000. In another example, the magnetic resonance imaging technology was upgraded in our Lancaster, South Carolina hospital in late 2000. In the first 10 months since the upgrade, MRI volumes grew by 879 procedures, or 113%. We believe that through these efforts to expand our services we will reduce patient migration to competing providers of healthcare services and increase volume.

MANAGED CARE STRATEGY. Managed care has seen growth across the U.S. as health plans expand service areas and membership. As we service primarily non-urban markets, we have limited relationships with managed care organizations. We have responded with a proactive and carefully considered strategy developed specifically for each of our facilities. Our experienced business development department reviews and approves all managed care contracts, which are managed through a central database. The primary mission of this department is to select and evaluate appropriate managed care opportunities, manage existing reimbursement arrangements, negotiate increases, and educate our physicians. We do not have any risk sharing capitated contracts.

GROW THROUGH SELECTIVE ACQUISITIONS

ACQUISITION CRITERIA. Each year we intend to acquire, on a selective basis, two to four hospitals that fit our acquisition criteria. We generally pursue acquisition candidates that:

- have a general service area population between 20,000 and 100,000 with a stable or growing population base;

- are the sole or primary provider of acute care services in the community;

- are located more than 25 miles from a competing hospital;

- are not located in an area that is dependent upon a single employer or industry; and

- have financial performance that we believe will benefit from our management's operating skills.

Most hospitals we have acquired are located in service areas having populations within the lower to middle range of our criteria. However, we have also acquired hospitals having service area populations in the upper range of our criteria. For example, in 1998, we acquired a 162-bed facility in Roswell, New Mexico, which has a service area population of over 70,000 and is located 200 miles from the nearest urban centers in Albuquerque, New Mexico and Lubbock, Texas. In 2000, we acquired a 164-bed facility in Kirksville, Missouri, which has a service area population of over 100,000. Facilities similar to the ones located in Roswell and Kirksville offer even greater opportunities to expand services given their larger service area populations.

Most of our acquisition targets are municipal and other not-for-profit hospitals. We believe that our access to capital and ability to recruit physicians make us an attractive partner for these communities. In addition, we have found that communities located in states where we already operate a hospital are more receptive to us when they consider selling their hospital because they are aware of our operating track record with respect to our existing facilities within the state.

ACQUISITION OPPORTUNITIES. We believe that there are significant opportunities for growth through the acquisition of additional facilities. We estimate that there are currently approximately 375 hospitals that meet our acquisition criteria. These hospitals are primarily not-for-profit or municipally owned. Many of these hospitals have experienced declining financial performance, lack the resources necessary to maintain and improve facilities, have difficulty attracting qualified physicians, and are challenged by the

changing healthcare industry. We believe that these circumstances will continue and may encourage owners of these facilities to turn to companies, like ours, that have greater management expertise and financial resources and can enhance the local availability of healthcare.

After we acquire a hospital, we:

- improve hospital operations by implementing our standardized and centralized programs and appropriate expense controls as well as by managing staff levels;

- recruit additional primary care physicians and specialists;

- expand the breadth of services offered in the community to increase local market share and reduce inpatient and outpatient migration to larger urban hospitals; and

- implement appropriate capital expenditure programs to renovate the facility, add new services, and upgrade equipment.

REPLACEMENT FACILITIES. In some cases, we enter into agreements with the owners of hospitals to construct a new facility to be owned or leased by us that will replace the existing facility. The new facilities offer many benefits to us as well as the local community, including:

- state of the art technology, which attracts physicians trained in the latest medical procedures;

- physical plant efficiencies designed to enhance the flow of services, including emergency room and outpatient services;

- improved registration and business office functions; and

- local support for the institution.

As an obligation under hospital purchase agreements, we are required to construct four replacement hospitals through 2005 with an aggregate estimated construction cost, including equipment, of approximately $120 million.

DISCIPLINED ACQUISITION APPROACH. We have been disciplined in our approach to acquisitions. We have a dedicated team of internal and external professionals who complete a thorough review of the hospital's financial and operating performance, the demographics of the market, and the state of the physical plant of the facilities. Based on our historical experience, we then build a pro forma financial model that reflects what we believe can be accomplished under our ownership. Whether we buy or lease the existing facility or agree to construct a replacement hospital, we have been disciplined in our approach to pricing. We typically begin the acquisition process by entering into a non-binding letter of intent with an acquisition candidate. After we complete business and financial due diligence and financial modeling, we decide whether or not to enter into a definitive agreement.

ACQUISITION EFFORTS. We have significantly enhanced our acquisition efforts in the last five years in an effort to achieve our goals. We have focused on identifying possible acquisition opportunities through expanding our internal acquisition group and working with a broad range of financial advisors who are active in the sale of hospitals, especially in the not-for-profit sector. Since July 1996, we have acquired 27 hospitals through October 1, 2001, for an aggregate investment of approximately $866 million, including working capital. We have completed the following acquisitions since July 1996:

HOSPITAL NAME	CITY	STATE	YEAR OF ACQUISITION/ INCEPTION (a)	LICENSED LEASE BEDS
Chesterfield General (b)	Cheraw	SC	1996	66
Marlboro Park Hospital (b)	Bennettsville	SC	1996	109
Northeast Medical (b)	Bonham	TX	1996	75
Cleveland Regional (b)	Cleveland	TX	1996	115
River West Medical (b)	Plaquemine	LA	1996	80
Marion Memorial	Marion	IL	1996	99
Lake Granbury Medical	Granbury	TX	1997	56
Payson Regional	Payson	AZ	1997	66
Eastern New Mexico	Roswell	NM	1998	162
Watsonville Community	Watsonville	CA	1998	102
Martin General				

Williamston NC 1998 49 Fallbrook Hospital..... Fallbrook CA 1998 47 Greensville Memorial..... Emporia VA 1999 114 Berwick Hospital..... Berwick PA 1999 144 King's Daughters..... Greenville MS 1999 137 Big Bend Regional (c)..... Alpine TX 1999 40 Evanston Regional..... Evanston WY 1999 42 Southampton Memorial..... Franklin VA 2000 105 Northeastern Regional..... Las Vegas NM 2000 54 Lakeview Community..... Eufaula AL 2000 74 South Baldwin Regional..... Foley AL 2000 82 Western Arizona Regional..... Bullhead City AZ 2000 90 Tooele Valley Regional(d)..... Tooele UT 2000 38 Northeastern Regional..... Kirksville MO 2000 164 Brandywine..... Coatesville PA 2001 168 Red Bud Regional..... Red Bud IL 2001 103 Jennersville Regional..... West Grove PA 2001 59

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

(b) Acquired in a single transaction from a private, for-profit company.

(c) New hospital constructed to replace existing facility that we managed.

(d) We acquired this hospital as of October 1, 2000. Prior to the acquisition, we operated this hospital under a management agreement and did not include the operating statistics of this hospital in our consolidated statistics. During the term of the management agreement, our fee was equal to the excess of the hospital's net revenue over expenses.

REDUCE COSTS

OVERVIEW. To improve efficiencies and increase operating margins, we implement cost containment programs and adhere to operating philosophies which include:

- standardizing and centralizing our operations;
- optimizing resource allocation by utilizing our company-devised case and resource management program, which assists in improving clinical care and containing expenses;
- capitalizing on purchasing efficiencies through the use of company-wide standardized purchasing contracts and terminating or renegotiating certain vendor contracts;
- installing a standardized management information system, resulting in more efficient billing and collection procedures; and
- managing staffing levels according to patient volumes and the appropriate level of care.

In addition, each of our hospital management teams is supported by our centralized operational, reimbursement, regulatory, and compliance expertise as well as by our senior management team, which has an average of 20 years of experience in the healthcare industry. Adjusted EBITDA margins on a same hospitals basis improved from 18.9% in 1998 to 19.7% in 1999 and to 19.9% in 2000. Adjusted EBITDA margins on a same hospitals basis improved from 18.8% for the first six months in 2000 to 19.4% for the first six months in 2001.

STANDARDIZATION AND CENTRALIZATION. Our standardization and centralization initiatives encompass nearly every aspect of our business, from developing standard policies and procedures with respect to patient accounting and physician practice management, to implementing standard processes to initiate, evaluate, and complete construction projects. Our standardization and centralization initiatives have been a key element in improving our adjusted EBITDA margins.

- BILLING AND COLLECTIONS. We have adopted standard policies and procedures with respect to billing and collections. We have also automated and standardized various components of the collection cycle, including statement and collection letters and the movement of accounts through the collection cycle. Upon completion of an acquisition, our management information system team converts the hospital's existing information system to our standardized system. This enables us to quickly implement our business controls and cost containment initiatives.

- PHYSICIAN SUPPORT. We support our physicians to enhance their performance. We have implemented physician practice management seminars and training. We host these seminars at least quarterly. All newly recruited physicians are required to attend a three-day introductory seminar. The subjects covered in these comprehensive seminars include:

o our corporate structure and philosophy;

o provider applications, physician to physician relationships, and performance standards;

o marketing and volume building techniques;

o medical records, equipment, and supplies;

o review of coding and documentation guidelines;

o compliance, legal, and regulatory issues;

o understanding financial statements;

o national productivity standards; and

o managed care.

- MATERIALS MANAGEMENT. We have standardized and centralized our operations with respect to medical supplies and equipment and pharmaceuticals used in our hospitals. In 1997, after evaluating our vendor contract pricing, we entered into an affiliation agreement with Broadlane Inc., formerly known as BuyPower, a group purchasing organization in which Tenet Healthcare Corporation has a majority ownership interest. At the present time, Broadlane is the source for a substantial portion of our medical supplies and equipment and pharmaceuticals. We have reduced supply from 11.8% of our revenue in 1998 to 11.7% of our revenue in 1999 and to 11.5% of our revenue in 2000.

- FACILITIES MANAGEMENT. We have standardized interiors, lighting, and furniture programs. We have also implemented a standard process to initiate, evaluate, and complete construction projects. Our corporate staff monitors all construction projects and pays all construction project invoices. Our initiatives in this area have reduced our construction costs while maintaining the same level of quality and improving upon the time it takes us to complete these projects.

- OTHER INITIATIVES. We have also improved margins by implementing standard programs with respect to ancillary services support in areas including emergency rooms, pharmacy, laboratory, imaging, cardiac services, home health, skilled nursing, centralized outpatient scheduling and health information management. We have reduced costs associated with these services by improving contract terms, standardizing information systems, and encouraging adherence to best practices guidelines.

CASE AND RESOURCE MANAGEMENT. Our case and resource management program is a company-devised program developed in response to ongoing reimbursement changes with the goal of improving clinical care and cost containment. The program focuses on:

- appropriately treating patients along the care continuum;

- reducing inefficiently applied processes, procedures, and resources;

- developing and implementing standards for operational best practices; and

- using on-site clinical facilitators to train and educate care practitioners on identified best practices.

Our case and resource management program integrates the functions of utilization review, discharge planning, overall clinical management, and resource management into a single effort to improve the quality and efficiency of care. Issues evaluated in this process include patient treatment, patient length of stay, and utilization of resources. The average length of inpatient stays decreased from 4.5 days in 1997 to 3.8 in 2000 and in the first six months of 2001. We believe this decrease was primarily a result of these initiatives.

Under our case and resource management program, patient care begins with a clinical assessment of the appropriate level of care, discharge planning, and medical necessity for planned services. Once a patient is admitted to the hospital, we conduct a review for ongoing medical necessity using appropriateness criteria. We reassess and adjust discharge plan options as the needs of the patient change. We closely monitor cases to prevent delayed service

or inappropriate utilization of resources. Once the patient obtains clinical improvement, we encourage the attending physician to consider alternatives to hospitalization through discussions with the facility's physician advisor. Finally, we refer the patient to the appropriate post-hospitalization resources.

IMPROVE QUALITY

We have implemented various programs to ensure improvement in the quality of care provided. We have developed training programs for all senior hospital management, chief nursing officers,

quality directors, physicians and other clinical staff. We share information among our hospital management to implement best practices and assist in complying with regulatory requirements. We have standardized accreditation documentation and requirements. Corporate support is provided to each facility to assist with accreditation reviews. Several of our facilities have received accreditation "with commendation" from the Joint Commission on Accreditation of Healthcare Organizations. All hospitals conduct patient, physician, and staff satisfaction surveys to help identify methods of improving the quality of care.

Each of our hospitals is governed by a board of trustees, which includes members of the hospital's medical staff. The board of trustees establishes policies concerning the hospital's medical, professional, and ethical practices, monitors these practices, and is responsible for ensuring that these practices conform to legally required standards. We maintain quality assurance programs to support and monitor quality of care standards and to meet Medicare and Medicaid accreditation and regulatory requirements. Patient care evaluations and other quality of care assessment activities are reviewed and monitored continuously.

OUR FACILITIES

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

For each of our hospitals, the following table shows its location, the date of its acquisition or lease inception and the number of licensed beds as of October 1, 2001:

HOSPITAL	CITY	LICENSED BEDS(a)	DATE OF ACQUISITION/LEASE INCEPTION	OWNERSHIP TYPE
ALABAMA				
Woodland Community Hospital	Cullman	100	October, 1994	Owned
Parkway Medical Center Hospital	Decatur	120	October, 1994	Owned
L.V. Stabler Memorial Hospital	Greenville	72	October, 1994	Owned
Hartselle Medical Center	Hartselle	150	October, 1994	Owned
Edge Regional Hospital	Troy	97	December, 1994	Owned
Lakeview Community Hospital	Eufaula	74	April, 2000	Owned
South Baldwin Regional Medical Center	Foley	82	June, 2000	Leased
ARIZONA				
Payson Regional Medical Center	Payson	66	August, 1997	Leased
Western Arizona Regional	Bullhead City	90	July, 2000	Owned
ARKANSAS				
Harris Hospital	Newport	132	October, 1994	Owned
Randolph County Medical Center	Pocahontas	50	October, 1994	Leased
CALIFORNIA				
Barstow Community Hospital	Barstow	56	January, 1993	Leased
Fallbrook Hospital	Fallbrook	47	November, 1998	Operated (b)
Watsonville Community Hospital	Watsonville	102	September, 1998	Owned
FLORIDA				
North Okaloosa Medical Center	Crestview	110	March, 1996	Owned
GEORGIA				
Berrien County Hospital				

Nashville 63 October, 1994 Leased
Fannin Regional
Hospital..... Blue
Ridge 34 January, 1986 Owned
ILLINOIS Crossroads Community
Hospital..... Mt. Vernon
55 October, 1994 Owned Marion
Memorial
Hospital..... Marion
99 October, 1996 Leased Red Bud
Regional Hospital.....
Red Bud 103 September, 2001 Owned

(CONTINUED ON FOLLOWING PAGE)

DATE OF LICENSED ACQUISITION/LEASE
OWNERSHIP HOSPITAL CITY BEDS(a)
INCEPTION TYPE -------- ----------
--- -------- ---------- ---
---------- KENTUCKY Parkway
Regional
Hospital..... Fulton
70 May, 1992 Owned Three Rivers
Medical Center.....
Louisa 90 May, 1993 Owned Kentucky
River Medical Center.....
Jackson 55 August, 1995 Leased
LOUISIANA Byrd Regional
Hospital.....
Leesville 70 October, 1994 Owned
Sabine Medical
Center..... Many
52 October, 1994 Owned River West
Medical Center.....
Plaquemine 80 August, 1996 Leased
MISSISSIPPI The King's Daughters
Hospital..... Greenville
137 September, 1999 Owned MISSOURI
Moberly Regional Medical
Center..... Moberly 114
November, 1993 Owned Northeastern
Regional Medical Center.....
Kirksville 164 December, 2000
Leased NEW MEXICO Mimbres Memorial
Hospital..... Deming
49 March, 1996 Owned Eastern New
Mexico Medical Center.....
Roswell 162 April, 1998 Owned
Northeastern Regional
Hospital..... Las Vegas 54
April, 2000 Leased NORTH CAROLINA
Martin General
Hospital.....
Williamston 49 November, 1998
Leased PENNSYLVANIA Berwick
Hospital.....
Berwick 144 March, 1999 Owned
Brandywine
Hospital.....
Coatesville 168 June, 2001 Owned
Jennersville Regional
Hospital..... West Grove
59 October, 2001 Owned SOUTH
CAROLINA Marlboro Park
Hospital.....
Bennettsville 109 August, 1996
Leased Chesterfield General
Hospital..... Cheraw 66
August, 1996 Leased Springs
Memorial
Hospital.....
Lancaster 194 November, 1994 Owned
TENNESSEE Lakeway Regional
Hospital.....
Morristown 135 May, 1993 Owned
Scott County
Hospital.....
Oneida 99 November, 1989 Leased
Cleveland Community
Hospital..... Cleveland
100 October, 1994 Owned White
County Community
Hospital..... Sparta 60
October, 1994 Owned TEXAS Big Bend
Regional Medical Center.....
Alpine 40 October, 1999 Owned

Northeast Medical Center..... Bonham 75 August, 1996 Owned Cleveland Regional Medical Center..... Cleveland 115 August, 1996 Leased Highland Medical Center..... Lubbock 123 September, 1986 Owned Scenic Mountain Medical Center..... Big Spring 150 October, 1994 Owned Hill Regional Hospital..... Hillsboro 92 October, 1994 Owned Lake Granbury Medical Center..... Granbury 56 January, 1997 Leased UTAH Tooele Valley Regional Medical Center..... Tooele 38 October, 2000 Owned (c) VIRGINIA Greensville Memorial Hospital..... Emporia 114 March, 1999 Leased Russell County Medical Center..... Lebanon 78 September, 1986 Owned Southampton Memorial Hospital..... Franklin 105 March, 2000 Owned WYOMING Evanston Regional Hospital..... Evanston 42 November, 1999 Owned

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

(b) We operate this hospital under a lease-leaseback and operating agreement. We recognize all revenue and expenses associated with this hospital on our financial statements.

(c) We acquired this hospital as of October 1, 2000. Prior to the acquisition, we operated this hospital under a management agreement and did not include the operating statistics of this hospital in our consolidated statistics. During the term of the management agreement, our fee was equal to the excess of the hospital's net revenue over expenses.

SOURCES OF REVENUE

We receive payment for healthcare services provided by our hospitals from:

- the federal Medicare program;
- state Medicaid programs;
- healthcare insurance carriers, health maintenance organizations, or "HMOs," preferred provider organizations, or "PPOs," and other managed care programs; and
- patients directly.

The following table presents the approximate percentages of net revenue received from private, Medicare, Medicaid and other sources for the periods indicated. The data for the years presented are not strictly comparable due to the significant effect that hospital acquisitions and dispositions have had on these statistics.

SIX MONTHS ENDED NET REVENUE BY PAYOR SOURCE 1998 1999 2000 JUNE 30, 2001 ------ ---------- -------- -------- -- ------ -------------

Medicare..... 39.0% 36.2% 34.2% 34.1%

Medicaid..... 10.2% 11.9% 11.8% 11.6% Managed Care (HMO/PPO)..... 14.0% 14.3% 15.9% 16.4% Private and Other..... 36.8% 37.6% 38.1% 37.9% ------ ------ ------ ---

Total..... 100.0% 100.0% 100.0% 100.0% ====== ====== ====== ======

As shown above, we receive a substantial portion of our revenue from the Medicare and Medicaid programs.

Medicare is a federal program that provides medical insurance benefits to persons age 65 and over, some disabled persons, and persons with end-stage renal disease. Medicaid is a federal-state funded program, administered by the states, which provides medical benefits to individuals who are unable to afford healthcare. All of our hospitals are certified as providers of Medicare and Medicaid services. Amounts received under the Medicare and Medicaid programs are generally significantly less than the hospital's customary charges for the services provided. In recent years, changes made to the Medicare and Medicaid programs have further reduced payment to hospitals. We expect this trend to continue. Since an important portion of our revenues comes from patients under Medicare and Medicaid programs, our ability to operate our business successfully in the future will depend in large measure on our ability to adapt to changes in these programs.

In addition to government programs, we are paid by private payors, which include insurance companies, HMOs, PPOs, other managed care companies, and employers, as well as by patients directly. Patients are generally not responsible for any difference between customary hospital charges and amounts paid for hospital services by Medicare and Medicaid programs, insurance companies, HMOs, PPOs, and other managed care companies, but are responsible for services not covered by these programs or plans, as well as for deductibles and co-insurance obligations of their coverage. The amount of these deductibles and co-insurance obligations has increased in recent years. Collection of amounts due from individuals is typically more difficult than collection of amounts due from government or business payors. To further reduce their healthcare costs, an increasing number of insurance companies, HMOs, PPOs, and other managed care companies are negotiating discounted fee structures or fixed amounts for hospital services performed, rather than paying healthcare providers the amounts billed. We negotiate discounts with managed care companies which are typically smaller than discounts under governmental programs. If an increased number of insurance companies, HMOs, PPOs, and other managed care companies

succeed in negotiating discounted fee structures or fixed amounts, our results of operations may be negatively affected. For more information on the payment programs on which our revenues depend, see "--Payment."

Hospital revenues depend upon inpatient occupancy levels, the volume of outpatient procedures, and the charges or negotiated payment rates for hospital services provided. Charges and payment rates for routine inpatient services vary significantly depending on the type of service performed and the geographic location of the hospital. In recent years, we have experienced a significant increase in revenue received from outpatient services. We attribute this increase to:

- advances in technology, which have permitted us to provide more services on an outpatient basis; and

- pressure from Medicare or Medicaid programs, insurance companies, and managed care plans to reduce hospital stays and to reduce costs by having services provided on an outpatient rather than on an inpatient basis.

SUPPLY CONTRACTS

During fiscal 1997, we entered into an affiliation agreement with Broadlane, a group purchasing organization in which Tenet Healthcare Corporation has a majority ownership interest. Our affiliation with Broadlane combines the purchasing power of our hospitals with the purchasing power of more than 600 other healthcare providers affiliated with the program. This increased purchasing power has resulted in reductions in the prices paid by our hospitals for medical supplies and equipment and pharmaceuticals. We also use Broadlane's internet purchasing portal.

INDUSTRY OVERVIEW

The Centers for Medicare and Medicaid Services estimated that in 2000, total U.S. healthcare expenditures grew by 8.3% to $1.3 trillion. It projects total U.S. healthcare spending to grow by 8.6% in 2001 and by 7.1% annually from 2002 through 2010. By these estimates, healthcare expenditures will account for approximately $2.6 trillion, or 15.9% of the total U.S. gross domestic product, by 2010.

Hospital services, the market in which we operate, is the largest single category of healthcare at 32.1% of total healthcare spending in 2000, or $415.8 billion. The Centers for Medicare and Medicaid Services projects the hospital services category to grow by 5.7% per year through 2010. It expects growth in hospital healthcare spending to continue due to the aging of the U.S. population and consumer demand for expanded medical services. As hospitals remain the primary setting for healthcare delivery, it expects hospital services to remain the largest category of healthcare spending.

U.S. HOSPITAL INDUSTRY. The U.S. hospital industry is broadly defined to include acute care, rehabilitation, and psychiatric facilities that are either public (government owned and operated), not-for-profit private (religious or secular), or for-profit institutions (investor owned). According to the American Hospital Association, there are approximately 5,000 inpatient hospitals in the U.S. which are not-for-profit owned, investor owned, or state or local government owned. Of these hospitals, 44%, or approximately 2,200, are located in non-urban communities. These facilities offer a broad range of healthcare

services, including internal medicine, general surgery, cardiology, oncology, neurosurgery, orthopedics, OB/GYN, and emergency services. In addition, hospitals also offer other ancillary services including psychiatric, diagnostic, rehabilitation, home health, and outpatient surgery services.

URBAN VS. NON-URBAN HOSPITALS

According to the U.S. Census Bureau, 25% of the U.S. population lives in communities designated as non-urban. In these non-urban communities, hospitals are typically the primary source of healthcare and, in many cases, a single hospital is the only provider of general healthcare services. According to the American Hospital Association, in 1998, there were approximately 2,200 non-urban hospitals in the U.S. We believe that a majority of these hospitals are owned by not-for-profit or governmental entities.

FACTORS AFFECTING PERFORMANCE. Among the many factors that can influence a hospital's financial and operating performance are:

- facility size and location;

- facility ownership structure (i.e., tax-exempt or investor owned);

- a facility's ability to participate in group purchasing organizations; and

- facility payor mix.

We believe that non-urban hospitals are generally able to obtain higher operating margins than urban hospitals. Factors contributing to a non-urban hospital's margin advantage include fewer patients with complex medical problems, a lower cost structure, limited competition, and favorable Medicare payment provisions. Patients needing the most complex care are more often served by the larger and/or more specialized urban hospitals. A non-urban hospital's lower cost structure results from its geographic location as well as the lower number of patients treated who need the most highly advanced services. Additionally, because non-urban hospitals are generally sole providers or one of a small group of providers in their markets, there is limited competition. This generally results in more favorable pricing with commercial payors. Medicare has special payment provisions for "sole community hospitals." Under present law, hospitals that qualify for this designation receive higher reimbursement rates and are guaranteed capital reimbursement equal to 90% of capital costs. As of June 30, 2001, 15 of our hospitals were "sole community hospitals." In addition, we believe that non-urban communities are generally characterized by a high level of patient and physician loyalty that fosters cooperative relationships among the local hospitals, physicians, employees, and patients.

The type of third party responsible for the payment of services performed by healthcare service providers is also an important factor which affects hospital margins. These providers have increasingly exerted pressure on healthcare service providers to reduce the cost of care. The most active providers in this regard have been HMOs, PPOs, and other managed care organizations. The characteristics of non-urban markets make them less attractive to these managed care organizations. This is partly because the limited size of non-urban markets and their diverse, non-national employer bases minimize the ability of managed care organizations to achieve economies of scale. In 2000, approximately 16% of our revenues were paid by managed care organizations.

HOSPITAL INDUSTRY TRENDS

DEMOGRAPHIC TRENDS. According to the U.S. Census Bureau, there are approximately 35 million Americans aged 65 or older in the U.S. today, who comprise approximately 13% of the total U.S. population. By the year 2030, the number of elderly is expected to climb to 69 million, or 20% of the total population. Due to the increasing life expectancy of Americans, the number of people aged 85 years and older is also expected to increase from 4.3 million to 8.5 million by the year 2030. This increase in life expectancy will increase demand for healthcare services and, as importantly, the demand for innovative, more sophisticated means of delivering those services.

Hospitals, as the largest category of care in the healthcare market, will be among the main beneficiaries of this increase in demand. Based on data compiled for us, the populations of the service areas where our hospitals are located grew by 10.4% from 1990 to 2000 and are projected to grow by 4.3% from 2000 to 2005. The number of people aged 65 or older in these service areas grew by 15.1% from 1990 to 2000 and is projected to grow by 4.2% from 2000 to 2005.

CONSOLIDATION. During the late 1980s and early 1990s, there was significant industry consolidation involving large, investor owned hospital companies seeking to achieve economies of scale. While consolidation activity in the hospital industry is continuing, the consolidation is currently primarily taking place through mergers and acquisitions involving not-for-profit hospital systems. Reasons for this activity include:

- limited access to capital;

- financial performance issues, including challenges associated with changes in reimbursement;

- the desire to enhance the local availability of healthcare in the community;

- the need and ability to recruit primary care physicians and specialists; and

- the need to achieve general economies of scale and to gain access to standardized and centralized functions, including favorable supply agreements.

SHIFTING UTILIZATION TRENDS. Over the past decade, many procedures that had previously required hospital visits with overnight stays have been performed on an outpatient basis. This shift has been driven by cost containment efforts led by private and government payors. The focus on cost containment has coincided with advancements in medical technology that have allowed patients to be treated with less invasive procedures that do not require overnight stays. According to the American Hospital Association, the number of surgeries performed on an inpatient basis declined from 1995 to 1999 at an average annual rate of 0.4%, from 9.7 million in 1995 to 9.5 million in 1999. During the same period, the number of outpatient surgeries increased at an average annual rate of 4.2%, from 13.5 million in 1995 to 15.8 million in 1998. The mix of inpatient as compared to outpatient surgeries shifted from a ratio of 27.9% inpatient to 72.1% outpatient in 1995 to a ratio of 39.8% inpatient to 60.2% outpatient in 1999.

These trends have led to a reduction in the average length of stay and, as a result, inpatient utilization rates. According to the American Hospital Association, the average length of stay in general hospitals has declined from 6.5 days in 1995 to 5.9 days in 1999.

GOVERNMENT REGULATION

OVERVIEW. The healthcare industry is required to comply with extensive government regulation at the federal, state, and local levels. Under these regulations, hospitals must meet requirements to be certified as hospitals and qualified to participate in government programs, including the Medicare and Medicaid programs. These requirements relate to the adequacy of medical care, equipment, personnel, operating policies and procedures, maintenance of adequate records, hospital use, rate-setting, compliance with building codes, and environmental protection laws. There are also extensive regulations governing a hospital's participation in these government programs. If we fail to comply with applicable laws and regulations, we can be subject to criminal penalties and civil sanctions, our hospitals can lose their licenses and we could lose our ability to participate in these government programs. In addition, government regulations may change. If that happens, we may have to make changes in our facilities, equipment, personnel, and services so that our hospitals remain certified as hospitals and qualified to participate in these programs. We believe

that our hospitals are in substantial compliance with current federal, state, and local regulations and standards.

Hospitals are subject to periodic inspection by federal, state, and local authorities to determine their compliance with applicable regulations and requirements necessary for licensing and certification. All of our hospitals are licensed under appropriate state laws and are qualified to participate in Medicare and Medicaid programs. In addition, most of our hospitals are accredited by the Joint Commission on Accreditation of Healthcare Organizations. This accreditation indicates that a hospital satisfies the applicable health and administrative standards to participate in Medicare and Medicaid programs.

FRAUD AND ABUSE LAWS. Participation in the Medicare program is heavily regulated by federal statute and regulation. If a hospital fails substantially to comply with the requirements for participating in the Medicare program, the hospital's participation in the Medicare program may be terminated and/or civil or criminal penalties may be imposed. For example, a hospital may lose its ability to participate in the Medicare program if it performs any of the following acts:

- making claims to Medicare for services not provided or misrepresenting actual services provided in order to obtain higher payments;

- paying money to induce the referral of patients where services are reimbursable under a federal health program; or

- failing to provide treatment to any individual who comes to a hospital's emergency room with an "emergency medical condition" or otherwise failing to properly treat and transfer emergency patients.

The Health Insurance Portability and Accountability Act of 1996 broadened the scope of the fraud and abuse laws by adding several criminal statutes that are not related to receipt of payments from a federal healthcare program. The Accountability Act created civil penalties for conduct, including upcoding and billing for medically unnecessary goods or services. It established new enforcement mechanisms to combat fraud and abuse. These include a bounty system, where a portion of the payments recovered is returned to the government agencies, as well as a whistleblower program. This law also expanded the categories of persons that may be excluded from participation in federal healthcare programs.

Another law regulating the healthcare industry is a section of the Social Security Act, known as the "anti-kickback" or "fraud and abuse" statute. This law prohibits some business practices and relationships under Medicare, Medicaid, and other federal healthcare programs. These practices include the payment, receipt, offer, or solicitation of money in connection with the referral of patients covered by a federal or state healthcare program. Violations of the anti-kickback statute may be punished by criminal and civil fines, exclusion from federal healthcare programs, and damages up to three times the total dollar amount involved.

The Office of Inspector General of the Department of Health and Human Services is authorized to publish regulations outlining activities and business relationships that would be deemed not to violate the anti-kickback statute. These regulations are known as "safe harbor" regulations. However, the failure of a particular activity to comply with the safe harbor regulations does not mean that the activity violates the anti-kickback statute.

The Office of Inspector General is responsible for identifying fraud and abuse activities in government programs. In order to fulfill its duties, the Office of Inspector General performs audits, investigations, and inspections. In addition, it provides guidance to healthcare providers by

identifying types of activities that could violate the anti-kickback statute. The Office of the Inspector General has identified the following incentive arrangements as potential violations:

- payment of any incentive by the hospital each time a physician refers a patient to the hospital;

- use of free or significantly discounted office space or equipment for physicians in facilities usually located close to the hospital;

- provision of free or significantly discounted billing, nursing, or other staff services;

- free training for a physician's office staff including management and laboratory techniques;

- guarantees which provide that if the physician's income fails to reach a predetermined level, the hospital will pay any portion of the remainder;

- low-interest or interest-free loans, or loans which may be forgiven if a physician refers patients to the hospital;

- payment of the costs of a physician's travel and expenses for conferences;

- payment of services which require few, if any, substantive duties by the physician, or payment for services in excess of the fair market value of the services rendered; or

- purchasing goods or services from physicians at prices in excess of their fair market value.

We have a variety of financial relationships with physicians who refer patients to our hospitals. Physicians own interests in a few of our facilities. Physicians may also own our stock. We also have contracts with physicians providing for a variety of financial arrangements, including employment contracts, leases, management agreements, and professional service agreements. We provide financial incentives to recruit physicians to relocate to communities served by our hospitals. These incentives include revenue guarantees and, in some cases, loans. Although we believe that we have structured our arrangements with physicians in light of the "safe harbor" rules, we cannot assure you that regulatory authorities will not determine otherwise. If that happens, we would be subject to criminal and civil penalties and/or exclusion from participating in Medicare, Medicaid, or other government healthcare programs.

The Social Security Act also includes a provision commonly known as the "Stark law." This law prohibits physicians from referring Medicare and Medicaid patients to healthcare entities in which they or any of their immediate family members have ownership or other financial interests. These types of referrals are commonly known as "self referrals." Sanctions for violating the Stark law include civil money penalties, assessments equal to twice the dollar value of each service, and exclusion from Medicare and Medicaid programs. There are ownership and compensation arrangement exceptions to the self-referral prohibition. One exception allows a physician to make a referral to a hospital if the physician owns an interest in the entire hospital, as opposed to an ownership interest in a department of the hospital; however, a bill has been introduced into Congress that would eliminate this exception. Another exception allows a physician to refer patients to a healthcare entity in which the physician has an ownership interest if the entity is located in a rural area, as defined in the statute. There are also exceptions for many of the customary financial arrangements between physicians and providers, including employment contracts, leases, and recruitment agreements. In 2001, the federal government began issuing final regulations which interpret some of the provisions included in the Stark law. The government invited comment on a number of the regulations and has not indicated when it will issue the remaining final regulations. We have structured our financial arrangements with physicians to comply with the statutory exceptions included in the Stark law. However, when the government finalizes the regulations, it may interpret certain provisions of this law in a

manner different from the manner with which we

have interpreted them. We cannot predict the final form that these regulations will take and the effect these regulations will have on us, including any possible restructuring of our existing relationships with physicians.

Many states in which we operate also have adopted, or are considering adopting, similar laws. Some of these state laws apply even if the payment for care does not come from the government. These statutes typically provide criminal and civil penalties as well as loss of licensure. While there is little precedent for the interpretation or enforcement of these state laws, we have attempted to structure our financial relationships with physicians and others in light of these laws. However, if we are found to have violated these state laws, it could result in the imposition of criminal and civil penalties as well as possible licensure revocation.

CORPORATE PRACTICE OF MEDICINE FEE-SPLITTING. Some states have laws that prohibit unlicensed persons or business entities, including corporations, from employing physicians. Some states also have adopted laws that prohibit direct or indirect payments or fee-splitting arrangements between physicians and unlicensed persons or business entities. Possible sanctions for violations of these restrictions include loss of a physician's license, civil and criminal penalties and rescission of business arrangements. These laws vary from state to state, are often vague and have seldom been interpreted by the courts or regulatory agencies. We structure our arrangements with healthcare providers to comply with the relevant state law. However, we cannot assure you that governmental officials charged with responsibility for enforcing these laws will not assert that we, or transactions in which we are involved, are in violation of these laws. These laws may also be interpreted by the courts in a manner inconsistent with our interpretations.

EMERGENCY MEDICAL TREATMENT AND ACTIVE LABOR ACT. The Emergency Medical Treatment and Active Labor Act imposes requirements as to the care that must be provided to anyone who comes to facilities providing emergency medical services seeking care before they may be transferred to another facility or otherwise denied care. Regulations have recently been adopted that expand the areas within a facility and in off-campus locations that must provide emergency medical screening examinations and treatment. Sanctions for failing to fulfill these requirements include exclusion from participation in Medicare and Medicaid programs and civil money penalties. In addition, the law creates private civil remedies which enable an individual who suffers personal harm as a direct result of a violation of the law to sue the offending hospital for damages and equitable relief. A medical facility that suffers a financial loss as a direct result of another participating hospital's violation of the law also has a similar right. Although we believe that our practices are in compliance with the law, we can give no assurance that governmental officials responsible for enforcing the law or others will not assert we are in violation of these laws.

FALSE CLAIMS ACT. Another trend in healthcare litigation is the use of the False Claims Act. This law has been used not only by the U.S. government, but also by individuals who bring an action on behalf of the government under the law's "qui tam" or "whistleblower" provisions. When a private party brings a qui tam action under the False Claims Act, the defendant will generally not be aware of the lawsuit until the government makes a determination whether it will intervene and take a lead in the litigation.

Civil liability under the False Claims Act can be up to three times the actual damages sustained by the government plus civil penalties for each separate false claim. There are many potential bases for liability under the False Claims Act. Although liability under the False Claims Act arises when an entity knowingly submits a false claim for reimbursement to the federal government, the False Claims Act defines the term "knowingly" broadly. Thus, although simple negligence generally will not give rise to liability under the False Claims Act, submitting a claim with reckless disregard to its truth or falsity can constitute "knowingly" submitting a claim. See "--Legal Proceedings" for a description of pending, unsealed False Claims Act litigation.

HEALTHCARE REFORM. The healthcare industry continues to attract much legislative interest and public attention. In recent years, an increasing number of legislative proposals have been introduced or proposed in Congress and in some state legislatures that would effect major changes in the healthcare system. Proposals that have been considered include cost controls on hospitals, insurance market reforms to increase the availability of group health insurance to small businesses, and mandatory health insurance coverage for employees. The costs of implementing some of these proposals would be financed, in part, by reductions in payments to healthcare providers under Medicare, Medicaid, and other government programs. We cannot predict the course of future healthcare legislation or other changes in the administration or interpretation of governmental healthcare programs and the effect that any legislation, interpretation, or change may have on us.

CONVERSION LEGISLATION. Many states, including some where we have hospitals and others where we may acquire hospitals, have adopted legislation regarding the sale or other disposition of hospitals operated by not-for-profit entities. In other states that do not have specific legislation, the attorneys general have demonstrated an interest in these transactions under their general obligations to protect charitable assets from waste. These legislative and

administrative efforts primarily focus on the appropriate valuation of the assets divested and the use of the proceeds of the sale by the not-for-profit seller. While these review and, in some instances, approval processes can add additional time to the closing of a hospital acquisition, we have not had any significant difficulties or delays in completing the process. There can be no assurance, however, that future actions on the state level will not seriously delay or even prevent our ability to acquire hospitals. If these activities are widespread, they could have a negative impact on our ability to acquire additional hospitals. See "--Our Business Strategy."

CERTIFICATES OF NEED. The construction of new facilities, the acquisition of existing facilities and the addition of new services at our facilities may be subject to state laws that require prior approval by state regulatory agencies. These certificate of need laws generally require that a state agency determine the public need and give approval prior to the construction or acquisition of facilities or the addition of new services. We operate hospitals in 11 states that have adopted certificate of need laws. If we fail to obtain necessary state approval, we will not be able to expand our facilities, complete acquisitions or add new services in these states. Violation of these state laws may result in the imposition of civil sanctions or the revocation of a hospital's licenses.

PRIVACY AND SECURITY REQUIREMENTS OF THE HEALTH INSURANCE PORTABILITY AND ACCOUNTABILITY ACT OF 1996. The Administrative Simplification Provisions of the Health Insurance Portability and Accountability Act of 1996 require the use of uniform electronic data transmission standards for healthcare claims and payment transactions submitted or received electronically. These provisions are intended to encourage electronic commerce in the healthcare industry. On August 17, 2000, the Centers for Medicare and Medicaid Services published final regulations establishing electronic data transmission standards that all healthcare providers must use when submitting or receiving certain healthcare transactions electronically. Compliance with these regulations is required by October 16, 2002. We cannot predict the impact that final regulations, when fully implemented, will have on us. We have established a sub-committee of our compliance committee to address our compliance with these regulations.

The Administrative Simplification Provisions also require the Centers for Medicare and Medicaid Services to adopt standards to protect the security and privacy of health-related information. The Centers for Medicare and Medicaid Services proposed regulations containing security standards on August 12, 1998. These proposed security regulations have not been finalized, but as proposed, would require healthcare providers to implement organizational and technical practices to protect the security of electronically maintained or transmitted health-related information. In addition, the Centers for Medicare and Medicaid Services released final regulations containing privacy standards

in December 2000. These privacy regulations became effective April 14, 2001 but compliance with these regulations is not required until April 2003. Therefore, these privacy regulations could be further amended prior to the compliance date. However, as currently drafted, the privacy regulations will extensively regulate the use and disclosure of individually identifiable health-related information. The security regulations, as proposed, and the privacy regulations could impose significant costs on our facilities in order to comply with these standards. We cannot predict the final form that these regulations will take or the impact that final regulations, when fully implemented, will have on us. If we violate these regulations, we would be subject to monetary fines and penalties, criminal sanctions and civil causes of action.

PAYMENT

MEDICARE. Under the Medicare program, we are paid for inpatient and outpatient services performed by our hospitals.

Payments for inpatient acute services are generally made pursuant to a prospective payment system, commonly known as "PPS." Under a PPS, our hospitals are paid a prospectively determined amount for each hospital discharge based on the patient's diagnosis. Specifically, each discharge is assigned to a diagnosis-related group, commonly known as a "DRG," based upon the patient's condition and treatment during the relevant inpatient stay. Each DRG is assigned a payment rate that is prospectively set using national average costs per case for treating a patient for a particular diagnosis. DRG payments do not consider the actual costs incurred by a hospital in providing a particular inpatient service. However, DRG payments are adjusted by a predetermined geographic adjustment factor assigned to the geographic area in which the hospital is located. While a hospital generally does not receive payment in addition to a DRG payment, hospitals may qualify for an "outlier" payment when the relevant patient's treatment costs are extraordinarily high and exceed a specified threshold. In addition, hospitals may qualify for Medicare disproportionate share payments when their percentage of low income patients exceeds specified thresholds. Under the Benefits Improvement and Protection Act of 2000, a majority of our hospitals qualify to receive Medicare disproportionate share payments.

The DRG rates are adjusted by an update factor each federal fiscal year, which begins on October 1. The index used to adjust the DRG rates, known as the "market basket index," gives consideration to the inflation experienced by hospitals in purchasing goods and services. For several years, however, the percentage increases in the DRG payments have been lower than the projected increases in the costs of goods and services purchased by hospitals. DRG rate increases were 1.1% for federal fiscal year 1995, 1.5% for federal fiscal year

1996, 2.0% for federal fiscal year 1997, 0.0% for federal fiscal year 1998, and 0.5% for federal fiscal year 1999. The DRG rate was increased by market basket minus 1.8% for federal fiscal year 2000. Under the Benefits Improvement and Protection Act of 2000, the DRG rate increased by the amount of the full market basket for federal fiscal year 2001 and by an amount equal to the market basket minus 0.55% for federal fiscal years 2002 and 2003. Future legislation may decrease the rate of increase for DRG payments, but we are not able to predict the amount of any reduction or the effect that any reduction will have on us.

Outpatient services have traditionally been paid at the lower of customary charges or on a reasonable cost basis. The Balanced Budget Act of 1997 established a PPS for outpatient hospital services that commenced on August 1, 2000. The Balanced Budget Refinement Act of 1999 eliminated the anticipated average reduction of 5.7% for various Medicare outpatient business under the Balanced Budget Act of 1997. Under the Balanced Budget Refinement Act of 1999, non-urban hospitals with 100 beds or less are held harmless under Medicare outpatient PPS through December 31, 2003. Of our 54 hospitals, 35 qualify for this relief. Losses under Medicare outpatient PPS of non-urban hospitals with greater than 100 beds and urban hospitals will be mitigated

through a corridor reimbursement approach, where a percentage of losses will be reimbursed through December 31, 2003. Substantially all of our remaining hospitals qualify for relief under this provision.

Skilled nursing facilities have historically been paid by Medicare on the basis of actual costs, subject to limitations. The Balanced Budget Act of 1997 established a PPS for Medicare skilled nursing facilities. The new PPS commenced in July 1998, and will be fully implemented in June 2002. We have experienced reductions in payments for our skilled nursing services. However, the Benefits Improvement and Protection Act of 2000 requires the Centers for Medicare and Medicaid Services to increase the current reimbursement amount for the skilled nursing facility PPS by approximately 8.0% for services furnished between April 1, 2001 and September 30, 2002. Additionally, the Benefits Improvement and Protection Act of 2000 increases the skilled nursing facility PPS to the full market basket for federal fiscal year 2001 and market basket minus 0.5% for federal fiscal years 2002 and 2003.

The Balanced Budget Act of 1997 also required the Department of Health and Human Services to establish a PPS for home health services. The Balanced Budget Act of 1997 put in place the interim payment system, commonly known as "IPS," until the home health PPS could be implemented. As of October 1, 2000, the home health PPS replaced IPS. We have experienced reductions in payments for our home health services and a decline in home health visits due to a reduction in benefits by reason of the Balanced Budget Act of 1997. However, the Balanced Budget Refinement Act of 1999 delayed until one year following implementation of the PPS a 15.0% payment reduction that would have otherwise applied effective October 1, 2000. The Benefits Improvement and Protection Act of 2000 further delays the one-time 15.0% payment reduction until October 1, 2002. Additionally, the Benefits Improvement and Protection Act of 2000 increases the home health agency PPS annual update to 2.2% for services furnished between April 1, 2001 and September 30, 2001, and for a two year period that began on April 1, 2001, increases Medicare payments by 10.0% for home health services furnished in rural areas.

The Balanced Budget Act of 1997 mandated a PPS for inpatient rehabilitation hospital services. A PPS system for Medicare inpatient rehabilitation services is scheduled for a two year phase-in beginning January 1, 2002. Prior to the implementation of this prospective payment system, payments to exempt rehabilitation hospitals and units are based upon reasonable cost, subject to a cost per discharge target. These limits are updated annually by a market basket index.

MEDICAID. Most state Medicaid payments are made under a PPS or under programs which negotiate payment levels with individual hospitals. Medicaid is currently funded jointly by state and federal governments. The federal government and many states are currently considering significantly reducing Medicaid funding, while at the same time expanding Medicaid benefits. The Bush administration has announced a proposal to reduce the upper payment limits of Medicaid reimbursements made to the states. This could adversely affect future levels of Medicaid payments received by our hospitals.

ANNUAL COST REPORTS. Hospitals participating in the Medicare and some Medicaid programs, whether paid on a reasonable cost basis or under a PPS, are required to meet certain financial reporting requirements. Federal and, where applicable, state regulations require submission of annual cost reports identifying medical costs and expenses associated with the services provided by each hospital to Medicare beneficiaries and Medicaid recipients.

Annual cost reports required under the Medicare and some Medicaid programs are subject to routine governmental audits. These audits may result in adjustments to the amounts ultimately determined to be due to us under these reimbursement programs. Finalization of these audits often takes several years. Providers can appeal any final determination made in connection with an audit.

COMMERCIAL INSURANCE. Our hospitals provide services to individuals covered by private healthcare insurance. Private insurance carriers pay our hospitals, or in some cases reimburse their policyholders, based upon the hospital's

established charges and the coverage provided in the insurance policy. Commercial insurers are trying to limit the costs of hospital services by negotiating discounts, including PPS, which would reduce payments by commercial insurers to our hospitals. Reductions in payments for services provided by our hospitals to individuals covered by commercial insurers could adversely affect us.

COMPETITION

The hospital industry is highly competitive. An important part of our business strategy is to acquire hospitals each year in non-urban markets. However, not-for-profit hospital systems and other for-profit hospital companies generally attempt to acquire the same type of hospitals as we do. In addition, some hospitals are sold through an auction process, which may result in higher purchase prices than we believe are reasonable.

In addition to the competition we face for acquisitions and physicians, we must also compete with other hospitals and healthcare providers for patients. The competition among hospitals and other healthcare providers for patients has intensified in recent years. Our hospitals are located in non-urban service areas. Most of our hospitals face no direct competition because there are no other hospitals in their primary service areas. However, these hospitals do face competition from hospitals outside of their primary service area, including hospitals in urban areas that provide more complex services. These facilities are generally located in excess of 25 miles from our facilities. Patients in our primary service areas may travel to these other hospitals for a variety of reasons, including the need for services we do not offer or physician referrals. Patients who are required to seek services from these other hospitals may subsequently shift their preferences to those hospitals for services we do provide.

Some of our hospitals operate in primary service areas where they compete with one other hospital. One of our hospitals competes with more than one other hospital in its primary service area. Some of these competing hospitals use equipment and services more specialized than those available at our hospitals. In addition, some of the hospitals that compete with us are owned by tax-supported governmental agencies or not-for-profit entities supported by endowments and charitable contributions. These hospitals can make capital expenditures without paying sales, property and income taxes. We also face competition from other specialized care providers, including outpatient surgery, orthopedic, oncology, and diagnostic centers.

The number and quality of the physicians on a hospital's staff is an important factor in a hospital's competitive advantage. Physicians decide whether a patient is admitted to the hospital and the procedures to be performed. Admitting physicians may be on the medical staffs of other hospitals in addition to those of our hospitals. We attempt to attract our physicians' patients to our hospitals by offering quality services and facilities, convenient locations, and state-of-the-art equipment.

COMPLIANCE PROGRAM

OUR COMPLIANCE PROGRAM. In early 1997, under our new management and leadership, we voluntarily adopted a company-wide compliance program. The program included the appointment of a compliance officer and committee, adoption of an ethics and business conduct code, employee education and training, implementation of an internal system for reporting concerns, auditing and monitoring programs, and a means for enforcing the program's policies.

We take an operations team approach to compliance and utilize corporate experts for program design efforts and facility leaders for employee-level implementation. Compliance is another area

that demonstrates our utilization of standardization and centralization techniques and initiatives which yield efficiencies and consistency throughout our facilities. We recognize that our compliance with applicable laws and regulations depends on individual employee actions as well as company operations. Our approach focuses on integrating compliance responsibilities with operational function. This approach is intended to reinforce our company-wide commitment to operate strictly in accordance with the laws and regulations that govern our business.

Since its initial adoption, the compliance program continues to be expanded and developed to meet the industry's expectations and our needs. Specific written policies, procedures, training and educational materials and programs, as well as auditing and monitoring activities, have been prepared and implemented to address the functional and operational aspects of our business. Included within these functional areas are materials and activities for business sub-units, including laboratory, radiology, pharmacy, emergency, surgery, observation, home health, skilled nursing, and clinics. Specific areas identified through regulatory interpretation and enforcement activities have also been addressed in our program. Claims preparation and submission, including coding, billing, and cost reports, comprise the bulk of these areas. Financial arrangements with physicians and other referral sources, including anti-kickback and Stark laws, emergency department treatment and transfer requirements, and other patient disposition issues are also the focus of policy and training, standardized documentation requirements, and review and audit.

INPATIENT CODING COMPLIANCE ISSUE. In August 1997, during a routine

internal audit at one of our facilities, we discovered inaccuracies in the DRG coding for some of our inpatient medical records. At that time, this was the primary auditing activity for our compliance program. These inaccuracies involved inpatient coding practices that had been put in place prior to the time we acquired our operating company in 1996.

Because of the concerns raised by the internal audit, we performed an internal review of historical inpatient coding practices. At the completion of this review in December 1997, we voluntarily disclosed the coding problems to the Office of Inspector General of the U.S. Department of Health and Human Services. After discussions with the Inspector General, we agreed to have an independent consultant audit the coding for eight specific DRGs. This audit ultimately involved a review by the consultant of approximately 1,500 patient files. The audit procedures we followed generated a statistically valid estimate of the dollar amounts related to coding errors for these DRGs at 36 of our hospitals for the period 1993 to 1997.

The results of this audit were reviewed by the Inspector General and the Department of Justice, who also conducted their own investigation. We cooperated fully with their investigation.

We have entered into a settlement agreement with these federal government agencies and the applicable state Medicaid programs. Pursuant to the settlement agreement, we paid approximately $31.4 million in May 2000 and were released from all civil claims relating to the coding of the eight specific DRGs for the hospitals and time periods covered in the audit. We funded this payment from our acquisition loan facility. During 1998 and 1999, we established a liability in our financial statements for this amount. We have also agreed with the Inspector General to continue our existing voluntary compliance program under a corporate compliance agreement and to adopt various additional compliance measures for a period of three years. These additional compliance measures include making various reports to the federal government and having our actions pursuant to the compliance agreement reviewed annually by a third party.

The compliance measures and reporting and auditing requirements contained in the compliance agreement include:

- continuing the duties and activities of our corporate compliance officer, corporate compliance work group, and facility compliance chairs and committees;

- maintaining our written ethics and conduct policy, which sets out our commitment to full compliance with all statutes, regulations, and guidelines applicable to federal healthcare programs;

- maintaining our written policies and procedures addressing the operation of our compliance program, including proper coding for inpatient hospital stays;

- continuing our general training on the ethics and conduct policy and adding training about our compliance program and the compliance agreement;

- continuing our specific training for the appropriate personnel on billing and coding issues;

- continuing independent third party periodic audits of our facilities' inpatient DRG coding;

- having an independent third party perform an annual review of our compliance with the compliance agreement;

- continuing our confidential disclosure program and "ethics hotline" to enable employees or others to disclose issues or questions regarding possible inappropriate policies or behavior;

- enhancing our screening program to ensure that we do not hire or engage employees or contractors who are ineligible persons for federal healthcare programs;

- reporting any material deficiency which resulted in an overpayment to us by a federal healthcare program; and

- submitting annual reports to the Inspector General which describe in detail the operations of our corporate compliance program for the past year.

Our substantial adherence to the terms and conditions of the compliance agreement will constitute an element of our eligibility to participate in the federal healthcare programs. Consequently, material, uncorrected violations of the compliance agreement could lead to suspension or disbarment from these federal programs. In addition, we will be subject to possible civil penalties for a failure to substantially comply with the terms of the compliance agreement, including stipulated penalties ranging between $1,000 to $2,500 per day. We will also be subject to a stipulated penalty of $25,000 per day, following notice and cure periods, for any deliberate and/or flagrant breach of the material provisions of the compliance agreement.

EMPLOYEES

At June 30, 2001, we employed 12,176 full time employees and 5,531 part-time employees. Of these employees, 807 are union members. We believe that our labor relations are good.

PROFESSIONAL LIABILITY

As part of our business of owning and operating hospitals, we are subject to legal actions alleging liability on our part. To cover claims arising out of the operations of hospitals, we generally maintain professional malpractice liability insurance and general liability insurance on a claims made basis in amounts and with deductibles that we believe to be sufficient for our operations. We also maintain umbrella liability coverage covering claims which, due to their nature or amount, are not covered by our insurance policies. We cannot assure you that professional liability insurance will cover all claims against us or continue to be available at reasonable costs for us to maintain adequate levels of insurance.

LEGAL PROCEEDINGS

We have entered into a settlement agreement with the Inspector General, the Department of Justice, and the applicable state Medicaid programs pursuant to which we paid approximately $31.8 million in exchange for a release of civil claims associated with possible inaccurate inpatient coding for the period 1993 to 1997. For a description of the terms of the settlement agreement as well as the events giving rise to the settlement agreement, see "--Compliance Program" and "Risk Factors--If we fail to comply with the material terms of our corporate compliance agreement, we could be excluded from government healthcare programs."

In May 1999, we were served with a complaint in U.S. EX REL. BLEDSOE V. COMMUNITY HEALTH SYSTEMS, INC., now pending in the Middle District of Tennessee, Case No. 2-00-0083. This qui tam action seeks treble damages and penalties under the False Claims Act against us. The Department of Justice did not intervene in this action. The allegations in the amended complaint are extremely general, but involve Medicare billing at our White County Community Hospital in Sparta, Tennessee. No discovery has occurred in this action. Based on our review of the complaint, we do not believe that this lawsuit is meritorious and we intend to vigorously defend ourselves against this action. We have filed a motion to dismiss this case, which is still pending. Because of the uncertain nature of litigation, we cannot predict the outcome of this matter. The relator in this case has filed a motion seeking from the United States government a portion of the settlement proceeds from our May 2000 settlement with the U.S. Department of Justice, the Office of the Inspector General, and applicable state Medicaid programs. The government is vigorously opposing this motion. Should the relator prevail on this motion, any monies would come from the United States and not us, and at least a portion of the relator's lawsuit would likely be dismissed. By order entered on September 19, 2001, the U.S. District Court granted our motion for judgment on the pleadings and dismissed the case, with prejudice.

We have also received various inquiries or subpoenas from state regulators, fiscal intermediaries, and the Department of Justice regarding various Medicare and Medicaid issues. In addition, we are subject to other claims and lawsuits arising in the ordinary course of our business. Plaintiffs in these lawsuits generally request punitive or other damages that by state law may not be able to be covered by insurance. We are not aware of any pending or threatened litigation which we believe would have a material adverse impact on us.

ENVIRONMENTAL MATTERS

We are subject to various federal, state, and local laws and regulations governing the use, discharge, and disposal of hazardous materials, including medical waste products. Compliance with these laws and regulations is not expected to have a material adverse effect on us. It is possible, however, that environmental issues may arise in the future which we cannot now predict.

MANAGEMENT

DIRECTORS AND EXECUTIVE OFFICERS

The following sets forth information regarding our executive officers and directors as of October 1, 2001. Unless otherwise indicated, each of our executive officers holds an identical position with CHS/Community Health Systems, Inc., our wholly owned subsidiary:

NAME	AGE	POSITION
Wayne T. Smith	55	Chairman of the Board, President and Chief Executive Officer (Class III)
W. Larry Cash	52	Executive Vice President,

Chief Financial Officer and Director (Class I) David L. Miller..... 53 Senior Vice President--Group Operations Gary D. Newsome..... 43 Senior Vice President--Group Operations Michael T. Portacci..... 43 Senior Vice President--Group Operations John A. Fromhold..... 48 Vice President--Group Operations Martin G. Schweinhart..... 47 Senior Vice President--Operations T. Mark Buford..... 48 Vice President and Corporate Controller Rachel A. Seifert..... 42 Senior Vice President, Secretary and General Counsel Sheila P. Burke..... 50 Director (Class III) Robert J. Dole..... 78 Director (Class I) J. Anthony Forstmann..... 63 Director (Class I) Theodore J. Forstmann..... 61 Director (Class III) Dale F. Frey..... 69 Director (Class II) Sandra J. Horbach..... 41 Director (Class II) Harvey Klein, M.D..... 64 Director (Class I) Thomas H. Lister..... 37 Director (Class III) Michael A. Miles..... 62 Director (Class II)

WAYNE T. SMITH is the Chairman of the Board, President and Chief Executive Officer. Mr. Smith joined us in January 1997 as President. In April 1997 we also named him our Chief Executive Officer and a member of the Board of Directors. In February 2001, he was elected Chairman of our Board of Directors. Prior to joining us, Mr. Smith spent 23 years at Humana Inc., most recently as President and Chief Operating Officer, and as a director, from 1993 to mid-1996. He is also a director of Almost Family and Praxair, Inc.

W. LARRY CASH is the Executive Vice President, Chief Financial Officer and a Director. Mr. Cash joined us in September 1997 as Executive Vice President and Chief Financial Officer. He was elected a director in May 2001. Prior to joining Community Health Systems, he served as Vice President and Group Chief Financial Officer of Columbia/HCA Healthcare Corporation from September 1996 to August 1997. Prior to Columbia/HCA, Mr. Cash spent 23 years at Humana Inc., most recently as Senior Vice President of Finance and Operations from 1993 to 1996.

DAVID L. MILLER is a Senior Vice President--Group Operations. Mr. Miller joined us in November 1997 as a Group Vice President, managing hospitals in Alabama, Florida, North Carolina, South Carolina, and Virginia. Prior to joining us, he served as a Divisional Vice President for Health Management Associates, Inc. from January 1996 to October 1997. From July 1994 to December 1995, Mr. Miller was the Chief Executive Officer of the Lake Norman Regional Medical Center in Mooresville, North Carolina, which is owned by Health Management Associates, Inc.

GARY D. NEWSOME is a Senior Vice President--Group Operations. Mr. Newsome joined us in February 1998 as Group Vice President, managing hospitals in Kentucky, Mississippi, Wyoming, Pennsylvania, Tennessee, and Utah. Prior to joining us, he was a Divisional Vice President of Health Management Associates, Inc. in Midwest City, Oklahoma from January 1996 to February 1998. From January 1995 to January 1996, Mr. Newsome served as Assistant Vice President/Operations

and Group Operations Vice President responsible for facilities of Health Management Associates, Inc. in Oklahoma, Arkansas, Kentucky, and West Virginia.

MICHAEL T. PORTACCI is a Senior Vice President--Group Operations. Mr. Portacci joined us in 1987 as a hospital administrator and became a Group Director in 1991. In 1994, he became Group Vice President, managing facilities in Arizona, California, Illinois, Missouri, New Mexico, and Texas.

JOHN A. FROMHOLD is a Vice President--Group Operations. Mr. Fromhold joined

us in June 1998 as a Group Vice President, managing hospitals in Arkansas, Florida, Georgia, Louisiana and Texas. Prior to joining us, he served as Chief Executive Officer of Columbia Medical Center of Arlington, Texas from 1995 to 1998.

MARTIN G. SCHWEINHART is Senior Vice President--Operations. Mr. Schweinhart joined us in June 1997 and has served as the Vice President Operations. From 1994 to 1997 he served as Chief Financial Officer of the Denver and Kentucky divisional markets of Columbia/HCA Healthcare Corporation. Prior to that time he spent 18 years with Humana Inc. and Columbia/HCA Healthcare Corporation in various management capacities.

T. MARK BUFORD is Vice President and Corporate Controller. Mr. Buford has served as our Corporate Controller since 1986 and as Vice President since 1988.

RACHEL A. SEIFERT is Senior Vice President, Secretary and General Counsel. Ms. Seifert joined us in January 1998. From 1992 to 1997, she was Associate General Counsel of Columbia/HCA Healthcare Corporation and became Vice President-Legal Operations in 1994. Prior to joining Columbia/HCA in 1992, she was in private practice in Dallas, Texas.

SHEILA P. BURKE has been a director since 1997. She has been the Under Secretary for American Museums and National Programs at the Smithsonian Institution since June 2000. Previously, she was Executive Dean of the John F. Kennedy School of Government, Harvard University from 1996 until June 2000. Previously in 1996, Ms. Burke was senior advisor to the Dole for President Campaign. From 1986 until June 1996, Ms. Burke served as the chief of staff to former Senator Robert Dole and, in that capacity, was actively involved in writing some of the healthcare legislation in effect today. She is a director of WellPoint Health Networks Inc. and The Chubb Corporation.

ROBERT J. DOLE has been a director since 1997. He was a U.S. Senator from 1968 to 1996, during which time he served as Senate majority leader, minority leader and chairman of the Senate Finance Committee. Mr. Dole was also a U.S. Representative from 1960 to 1968. He has been a special counsel with Verner, Liipfert, Bernhard, McPherson and Hand since 1997. He is also a director of TB Woods Corp.

J. ANTHONY FORSTMANN has been a director since 1996. He has been a Managing Director of J.A. Forstmann & Co., a merchant banking firm, since October 1987. Mr. Forstmann was President of The National Registry Inc. from October 1991 to August 1993 and from September 1994 to March 1995 and Chief Executive Officer from October 1991 to August 1993 and from September 1994 to December 1995. In 1968, he co-founded Forstmann-Leff Associates, an institutional money management firm with $6 billion in assets. He is also a special limited partner of one of the Forstmann Little partnerships.

THEODORE J. FORSTMANN has been a director since 1996. He has been a general partner of FLC XXIX Partnership, L.P. since he co-founded Forstmann Little & Co. in 1978. He is also a director of The Yankee Candle Company, Inc. and McLeodUSA Incorporated.

DALE F. FREY has been a director since 1997. Mr. Frey currently is retired. From 1984 until 1997, Mr. Frey was the Chairman of the Board and President of General Electric Investment Corp. From 1980 until 1997, he was also Vice President of General Electric Company. Mr. Frey is also a director of Praxair, Inc., The Yankee Candle Company, Inc., Roadway Express Inc., McLeodUSA Incorporated, and Aftermarket Technology Corp.

SANDRA J. HORBACH has been a director since 1996. She has been a general partner of FLC XXIX Partnership, L.P. since 1993. She is also a director of The Yankee Candle Company, Inc. and XO Communications, Inc.

HARVEY KLEIN, M.D. has been an Attending Physician at the New York Hospital since 1992. Dr. Klein serves as the William S. Paley Professor of Clinical Medicine at Cornell University Medical College, a position he has held since 1992. He also has been a Member of the Board of Overseers of Weill Medical College of Cornell University since 1997. Dr. Klein is a member of the American Board of Internal Medicine and American Board of Internal Medicine, Gastroenterology. Upon joining the Board in May 2001, Dr. Klein received 10,000 options under the Community Health Systems 2000 Stock Options and Award Plan.

THOMAS H. LISTER has been a director since April 2000. He has been a general partner of FLC XXX Partnership, L.P. since 1997. He joined Forstmann Little & Co. in 1993 as an associate.

MICHAEL A. MILES has been a director since 1997 and served as Chairman of the Board from March 1998 to February 2001. Mr. Miles currently is retired. Mr. Miles served as Chairman and Chief Executive Officer of Philip Morris from 1991 to 1994. He is also a director of AMR Corporation, Dell Computer Corp., Morgan Stanley & Co., Sears Roebuck and Co., AOL Time Warner Inc., Allstate Inc., and the Interpublic Group of Companies, Inc. He is a special limited partner of one of the Forstmann Little partnerships.

THE BOARD OF DIRECTORS

Our certificate of incorporation provides for a classified board of directors consisting of three classes. Each class consists, as nearly as possible, of one-third of the total number of directors constituting the entire

board. The term of the Class I directors will terminate on the date of the 2004 annual meeting of stockholders; the term of the Class II directors will terminate on the date of the 2002 annual meeting of stockholders; and the term of the Class III directors will terminate on the date of the 2003 annual meeting of stockholders. At each annual meeting of stockholders, successors to the class of directors whose term expires at that annual meeting will be elected for a three-year term and until their respective successors are elected and qualified. A director may only be removed with cause by the affirmative vote of the holders of a majority of the outstanding shares of capital stock entitled to vote in the election of directors. The Forstmann Little partnerships have a contractual right to elect two directors until they no longer own any shares of our common stock.

Directors who are neither our executive officers nor general partners in the Forstmann Little partnerships have been granted options to purchase common stock in connection with their election to our board of directors. Directors do not receive any fees for serving on our board, but are reimbursed for their out-of-pocket expenses arising from attendance at meetings of the board and committees. See "--Outside Director Stock Options."

The board has three committees: Executive, Compensation, and Audit and Compliance. The Executive Committee consists of Theodore J. Forstmann, Sandra J. Horbach, Michael A. Miles, and Wayne T. Smith. The Compensation Committee consists of Michael A. Miles and J. Anthony Forstmann. The Audit and Compliance Committee consists of Dale F. Frey, Michael A. Miles, and Sheila P. Burke.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The current members of the Compensation Committee of our board of directors are: Michael A. Miles and J. Anthony Forstmann. Until February 2000, the Compensation Committee consisted of Theodore J. Forstmann and Sandra J. Horbach. Sandra J. Horbach formerly served as one of our officers but received no compensation for her services. None of the other members of the current or former Compensation Committees are current or former executive officers or employees of us or any of our subsidiaries. Theodore J. Forstmann and Sandra J. Horbach are general partners in partnerships affiliated with the Forstmann Little partnerships. See "--Relationships and Transactions between Community Health Systems and its Officers, Directors and 5% Beneficial Owners and their

Family Members" for a description of the 1996 acquisition of our principal subsidiary by the Forstmann Little partnerships and members of our management.

EXECUTIVE COMPENSATION

The following table sets forth certain summary information with respect to compensation for 1999 and 2000 paid by us for services to our Chief Executive Officer and our four other most highly paid executive officers who were serving as executive officers at December 31, 2000.

SUMMARY COMPENSATION TABLE

	ANNUAL COMPENSATION		LONG TERM - COMPENSATION AWARDS		ALL OTHER - ANNUAL COMPENSATION
NAME AND POSITION	YEAR	SALARY ($)	BONUS ($) (a)	SECURITIES UNDERLYING OPTIONS (#)	OTHER COMPENSATION ($)
Wayne T. Smith	2000	500,000	450,000	--	--

1,000,000
24,171 (b)
Chairman of
the Board,
1999
475,002
427,500 --
-- 11,947
(c)
President
and Chief
Executive
Officer W.
Larry Cash
2000
400,000
325,000 --
700,000
15,815 (d)
Executive
Vice
President
1999
375,000
318,750 --
-- 10,764
(e) and
Chief
Financial
Officer
Michael T.
Portacci
2000
223,000
212,745 --
300,000
5,940 (f)
Senior Vice
President--
1999
216,000
145,800 --
-- 5,735
(g) Group
Operations
David L.
Miller 2000
245,000
179,775 --
300,000
6,520 (h)
Senior Vice
President--
1999
235,000
137,475 --
-- 6,635
(i) Group
Operations
Gary D.
Newsome
2000
233,000
165,000 --
300,000
5,311 (j)
Senior Vice
President--
1999
216,000
163,080 --
-- 32,352
(k) Group
Operations

(a) The amount of other annual compensation is not required to be reported since the aggregate amount of perquisites and other personal benefits was less than $50,000 or 10% of the total annual salary and bonus reported for each named executive officer.

(b) Amount consists of additional long-term disability premiums and payments made to the Supplemental Survivors Accumulation Plan of $5,512, employer matching contributions to the 401(k) plan of $3,401 and employer matching contributions to the deferred compensation plan of $15,258.

(c) Amount consists of additional long-term disability premiums and payments made to the Supplemental Survivors Accumulation Plan of $4,822, employer matching contributions to the 401(k) plan of $2,400 and employer matching

contributions to the deferred compensation plan of $4,725.

(d) Amount consists of additional long-term disability premiums and payments made to the Supplemental Survivors Accumulation Plan of $4,337, employer matching contributions to the 401(k) plan of $3,401, and employer matching contributions to the deferred compensation plan of $8,077.

(e) Amount consists of additional long-term disability premiums and payments made to the Supplemental Survivors Accumulation Plan of $5,139, employer matching contributions to the 401(k) plan of $2,400 and employer matching contributions to the deferred compensation plan of $3,225.

(f) Amount consists of additional long-term disability premiums and payments made to the Supplemental Survivors Accumulation Plan of $2,539 and employer matching contributions to the 401(k) plan of $3,401.

(g) Amount consists of additional long-term disability premiums and payments made to the Supplemental Survivors Accumulation Plan of $3,335 and employer matching contributions to the 401(k) plan of $2,400.

(h) Amount consists of additional long-term disability premiums and payments made to the Supplemental Survivors Accumulation Plan of $3,453 and employer matching contributions to the 401(k) plan of $3,067.

(i) Amount consists of additional long-term disability premiums and payments made to the Supplemental Survivors Accumulation Plan of $4,235 and employer matching contributions to the 401(k) plan of $2,400.

(j) Amount consists of additional long-term disability premiums and payments made to the Supplemental Survivors Accumulation Plan totaling $2,802, employer matching contributions to the 401(k) plan of $1,700 and employer matching contributions to the deferred compensation plan of $809.

(k) Amount consists of additional long-term disability premiums and payments made to the Supplemental Survivors Accumulation Plan totaling $3,502, relocation expense reimbursement of $26,758 and employer matching contributions to the 401(k) plan of $2,092.

STOCK OPTION TABLES
OPTION GRANTS IN FISCAL 2000

The following table sets forth information with respect to options to purchase common stock granted during 2000 under our stock option plans to the executive officers named in the "Summary Compensation Table."

NAME	INDIVIDUAL GRANTS: NUMBER OF SECURITIES GRANTED TO EMPLOYEES IN FISCAL YEAR	INDIVIDUAL GRANTS: PERCENT OF TOTAL OPTIONS GRANTED PER SHARE	INDIVIDUAL GRANTS: EXERCISE PRICE PER SHARE	INDIVIDUAL GRANTS: EXPIRATION DATE	POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATE OF STOCK PRICE APPRECIATION FOR OPTION TERM: 5%	POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATE OF STOCK PRICE APPRECIATION FOR OPTION TERM: 10%
Wayne T. Smith	1,000,000	26.0%	$13.00	6/8/10	$8,180,000	$20,720,000
W. Larry Cash	700,000	18.2	13.00	6/8/10	5,726,000	14,504,000
David L. Miller	300,000	7.8	13.00	6/8/10	2,454,000	

6,216,000 Gary D. Newsome..... 300,000 7.8 13.00 6/8/10 2,454,000 6,216,000 Michael T. Portacci..... 300,000 7.8 13.00 6/8/10 2,454,000 6,216,000

AGGREGATED OPTION EXERCISES IN FISCAL 2000 AND FISCAL YEAR-END OPTION VALUES

The following table sets forth the stock option values as of December 31, 2000 for these persons:

	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR-END		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT FISCAL YEAR-END (A)	
	EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
Wayne T. Smith.....	--	--	1,000,000	$ --
W. Larry Cash.....	--	--	$22,000,000	--
David L. Miller.....	--	--	700,000	--
Gary D. Newsome.....	1,598	33,874	15,400,000	1,765
Michael T. Portacci.....	305,044	49,438	6,741,282	1,598
	33,874	1,765	305,044	49,438
	6,741,282			

	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR-END		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT FISCAL YEAR-END (A)	
	EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
Wayne T. Smith.....	--	--	1,000,000	$ --
W. Larry Cash.....	--	--	$22,000,000	--
David L. Miller.....	--	--	700,000	--
Gary D. Newsome.....	1,598	33,874	15,400,000	1,765
Michael T. Portacci.....	305,044	49,438	6,741,282	1,598
	33,874	1,765	305,044	49,438
	6,741,282			

(a) Sets forth values for options that represent the positive spread between the respective exercise prices of outstanding stock options based on the closing price of our common stock on the NYSE on December 29, 2000, which was $35.00 per share.

EMPLOYMENT ARRANGEMENTS

There are no written employment contracts with any of our executive officers. The stockholder's agreements, to which each of our executive officers is bound, contain forfeiture provisions in the event the person engages in prohibited conduct, including certain competitive activities. The stockholder's agreements, as well as the stock option agreements, provide for full and immediate vesting in the event of a change of control transaction (as defined under each agreement). Under our policy, our executive officers are entitled to severance compensation in the event they are terminated without cause; the compensation ranges from 12 to 24 months of base salary depending on benefit category, length of employment and reason for termination.

COMMUNITY HEALTH SYSTEMS STOCK OPTION PLAN

The Community Health Systems Employee Stock Option Plan provides for the granting of options to purchase shares of common stock of our company to any employee of our company or our subsidiaries. These options are not intended to qualify as incentive stock options. The plan is currently administered by the Compensation Committee of our Board of Directors. As of June 30, 2001, options

to purchase 381,504 shares of common stock were outstanding. No additional grants will be made under this plan. See "Principal Stockholders."

STOCK OPTION AGREEMENTS. Options are granted pursuant to stock option agreements. To exercise an option, the optionee must pay for the shares in full and execute the stockholder's agreement described below. One-fifth of the options generally vest and become exercisable on each of the first, second, third, fourth and fifth anniversaries of the grant date. Unvested options expire on the date of the optionee's termination of employment and vested options expire after the termination of employment as described below.

Each option expires, unless earlier terminated, on the earliest of:

- the tenth anniversary of the date of grant; and

- the exercise in full of the option.

If an optionee's employment is terminated for any reason, the options will terminate to the extent they were not exercisable at the time of termination of employment. The optionee has a 60-day period from the date of our notification to exercise the vested portion of the option. These options are generally exercisable only by an optionee during the optionee's lifetime and are not transferable.

The stock option agreements provide that we will notify the optionee prior to a total sale or a partial sale. A total sale includes:

- the merger or consolidation of us into another corporation, other than a merger or consolidation in which we are the surviving corporation and which does not result in a capital reorganization, reclassification or other change in the then outstanding common stock;

- the liquidation of us;

- the sale to a third party of all or substantially all of our assets; or

- the sale to a third party of common stock, other than through a public offering;

but only if the Forstmann Little partnerships cease to own any shares of the voting stock of our Company.

A partial sale means a sale by the Forstmann Little partnerships of all or a portion of their shares of common stock to a third party, including through a public offering, other than a total sale. This offering constitutes neither a total sale nor a partial sale.

The optionee may exercise his or her options only for purposes of participating in the partial sale, whether or not the options were otherwise exercisable, with respect to the excess, if any, of

- the number of shares with respect to which the optionee would be entitled to participate in the partial sale under the stockholder's agreement which permits proportional participation with the Forstmann Little partnerships in a public offering or sale to a third party, as described below, over

- the number of shares previously issued upon exercise of such options and not previously disposed of in a partial sale.

Upon receipt of a notice of a total sale, the optionee may exercise all or part of his or her options, whether or not such options were otherwise exercisable, within five days of receiving such notice, or a shorter time as determined by the committee.

In connection with a total sale involving the merger, consolidation or liquidation of us or the sale of common stock by the Forstmann Little partnerships, we may redeem the unexercised portion of the options, for a price equal to the price received per share of common stock in the total sale, less the exercise price of the options, in lieu of permitting the optionee to exercise the options. Any unexercised portion of an option will terminate upon the completion of a total sale, unless we provide for its continuation.

In the event a total sale or partial sale is not completed, any option that the optionee had exercised in connection with the total sale or partial sale will be deemed not to have been exercised and will be exercisable after the total sale or partial sale only to the extent it would have been exercisable if notice of the total sale or partial sale had not been given to the optionee. The optionee has no independent right to require us to register the shares of common stock underlying the options under the Securities Act of 1933.

The stock option agreements permit us to terminate all of an optionee's options if the optionee engages in prohibited or competitive activities, including:

- disclosing confidential information about us;

- soliciting any of our employees within eighteen months of being terminated;

- publishing any statement critical of us;

- engaging in any competitive activities; or

- being convicted of a crime against us.

The number and class of shares underlying, and the terms of, outstanding options may be adjusted in certain events, such as a merger, consolidation, stock split or stock dividend.

STOCKHOLDER'S AGREEMENT. Upon exercise of an option under the plan, an optionee is required to enter into a stockholder's agreement with us in the form then in effect. The stockholder's agreement governs the optionee's rights and obligations as a stockholder. The stockholder's agreement provides that, generally, the shares issued upon exercise of the options may not be sold, assigned or otherwise transferred. The description below summarizes the terms of the form of the stockholder's agreement currently in effect.

If one or more partial sales result in the Forstmann Little partnerships owning, in the aggregate, less than 25% of our then outstanding voting stock, the stockholder is entitled to sell, transfer or hold his or her shares of common stock free of the restrictions and rights contained in the stockholder's agreement.

The stockholder's agreement provides that the stockholder may participate proportionately in any sale by the Forstmann Little partnerships of all or a portion of their shares of common stock to any person who is not a partner or affiliate of the Forstmann Little partnerships. In addition, the stockholder shall be entitled to (and may be required to) participate proportionately in a public offering of shares of common stock by the Forstmann Little partnerships, by selling the same percentage of the stockholder's shares that the Forstmann Little partnerships are selling of their

shares. The sale of shares of common stock in such a transaction must be for the same price and otherwise on the same terms and conditions as the sale by the Forstmann Little partnerships. If the Forstmann Little partnerships sell or exchange all or a portion of their common stock in a bona fide arm's-length transaction, the Forstmann Little partnerships may require the stockholder to sell a proportionate amount of his or her shares for the same price and on the same terms and conditions as the sale of common stock by the Forstmann Little partnerships and, if stockholder approval of the transaction is required, to vote his or her shares in favor of the sale or exchange.

The stockholder's agreement permits us to repurchase all the shares of common stock then held by a stockholder if the stockholder engages in any prohibited activity or competitive activity or is convicted of a crime against us.

OUTSIDE DIRECTOR STOCK OPTIONS

Five directors, Messrs. Dole, J. Anthony Forstmann, Frey and Miles, and Ms. Burke, have options which were granted pursuant to individual stock option agreements. Each of the director optionees other than Mr. Miles has options to purchase 29,940 shares of common stock at $8.96 per share. Mr. Miles has options to purchase 41,916 shares of common stock at $8.96 per share. These options are not intended to qualify as incentive stock options and were not issued pursuant to the plan. See "Principal Stockholders."

One-third of the options generally become exercisable on each of the first, second and third anniversaries of the date of the grant. Each option expires on the earliest of:

- the tenth anniversary of the date of grant;

- the date the director optionee ceases to serve as one of our directors; and

- the exercise in full of the option.

The director optionees may not sell or otherwise transfer their options.

The director option agreements provide that we will notify the director optionees prior to a total sale or a partial sale. Upon receipt of a notice of a partial sale, a director optionee may exercise his or her options only for purposes of participating in the partial sale, whether or not the options were otherwise exercisable, with respect to the excess, if any, of:

- the number of shares with respect to which the director optionee would be entitled to participate in the partial sale under the director stockholder's agreements described below, over

- the number of shares previously issued upon exercise of the options and not previously disposed of in a partial sale.

Upon receipt of a notice of a total sale, a director optionee may exercise all or part of his options, whether or not the options were otherwise exercisable.

In connection with a total sale, we may redeem the unexercised portion of

the director optionee's options. Any unexercised portion of a director optionee's options will terminate upon the completion of a total sale, unless we provide for continuation of the options.

In the event a total sale or partial sale is not completed, any option which a director optionee had exercised in connection with the sale will be exercisable after the sale only to the extent it would have been exercisable if notice of the sale had not been given to the director optionee. This offering constitutes neither a total sale nor a partial sale.

The director option agreements provide that, if the Forstmann Little partnerships sell shares of common stock in a bona fide arm's-length transaction, at our election, a director optionee may be required to:

- proportionately exercise the director optionee's options and to sell all of the shares of common stock purchased under the exercise in the same transaction and on the same terms as the shares sold by the Forstmann Little partnerships, or if unwilling to do so; or

- forfeit the portion of the option required to be exercised.

The director optionees have no independent right to require us to register the shares of common stock underlying the options under the Securities Act of 1933.

The number and class of shares underlying and the terms of outstanding options may be adjusted in certain events, such as a merger, consolidation, stock split or stock dividend.

DIRECTOR STOCKHOLDER'S AGREEMENTS. Upon exercise of a director option, a director optionee is required to enter into a director stockholder's agreement with us in the form then in effect. The form of director stockholder's agreement currently in effect is substantially the same as the form of employee stockholder's agreement currently in effect.

STOCKHOLDER'S AGREEMENTS

Prior to our initial public offering in June, 2000, members of our management and other employees purchased shares of our common stock pursuant to the terms of stockholder agreements. Currently, 23 members of our management and other employees or former employees own an aggregate of 1,569,558 shares of our common stock, excluding shares issuable upon exercise of options, that were purchased pursuant to the terms of these stockholder agreements. See "Principal Stockholders." The stockholder agreements contain transfer provisions substantially similar to those in the form of stockholder's agreements that the employee and director optionees must execute upon exercise of options granted under the Community Health Systems Stock Option Plan and the Outside Directors Stock Options Plans.

Upon termination of employment, we have the right, at our option, to purchase all of the unvested shares of common stock held by the stockholder. The stock vests at a rate of 20% per year, beginning after one year. The stockholders have no independent right to require us to register their shares under the Securities Act of 1933.

THE COMMUNITY HEALTH SYSTEMS 2000 STOCK OPTION AND AWARD PLAN

Our Board of Directors adopted the 2000 Stock Option and Award Plan in April, 2000, and the stockholders approved it in April, 2000. The stock plan provides for the grant of incentive stock options intended to qualify under Section 422 of the Internal Revenue Code and stock options which do not so qualify, stock appreciation rights, restricted stock, performance units and performance shares, phantom stock awards, and share awards. Persons are eligible to receive grants under the stock plan include our directors, officers, employees, and consultants. The stock plan is designed to comply with the requirements for "performance-based compensation" under Section 162(m) of the Internal Revenue Code, and the conditions for exemption from the short-swing profit recovery rules under Rule 16b-3 under the Securities Exchange Act of 1934.

The stock plan is administered by a committee that consists of at least two nonemployee outside board members. The Compensation Committee of the board currently serves as the committee. Generally, the committee has the right to grant options and other awards to eligible

individuals and to determine the terms and conditions of options and awards, including the vesting schedule and exercise price of options and awards. The stock plan authorizes the issuance of 4,562,791 shares of common stock. As of June 30, 2001 options to purchase 3,790,716 shares were outstanding.

The stock plan provides that the term of any option may not exceed ten years, except in the case of the death of an optionee in which event the option may be exercised for up to one year following the date of death even if it extends beyond ten years from the date of grant. If a participant's employment, or service as a director, is terminated following a change of control, any options or stock appreciation rights become immediately and fully vested at that

time and will remain outstanding until the earlier of the six-month anniversary of termination and the expiration of the option term.

THE COMMUNITY HEALTH SYSTEMS 2000 EMPLOYEE STOCK PURCHASE PLAN

We adopted the 2000 Employee Stock Purchase Plan in April, 2000. The plan allows our employees to purchase additional shares of our common stock on the New York Stock Exchange at the then current market price. Employees who elect to participate in the program will pay for these purchases with funds that we will withhold from their paychecks.

RELATIONSHIPS AND TRANSACTIONS BETWEEN COMMUNITY HEALTH SYSTEMS AND ITS OFFICERS, DIRECTORS AND 5% BENEFICIAL OWNERS AND THEIR FAMILY MEMBERS

In July 1996, we were formed by two Forstmann Little partnerships and members of our management to acquire CHS/Community Health Systems, Inc., which was then a publicly owned company named Community Health Systems, Inc. We financed the acquisition by issuing our common stock to the Forstmann Little partnerships and members of management, by incurring indebtedness under credit facilities, and by issuing an aggregate of $500 million of subordinated debentures to one of the Forstmann Little partnerships, Forstmann Little & Co. Subordinated Debt and Equity Management Buyout Partnership-VI, L.P., or MBO-VI. MBO-VI immediately distributed the subordinated debentures to its limited partners. The subordinated debentures are our general senior subordinated obligations, are not subject to mandatory redemption and mature in three equal annual installments beginning June 30, 2007, with the final payment due on June 30, 2009. The debentures bear interest at a fixed rate of 7.50% which is payable semi-annually in January and July. The balance of debentures outstanding at December 31, 1999 was $500 million. Total interest expense for the debentures was $37.5 million for each of the years ended December 31, 1998, 1999 and 2000. We anticipate that some or all of the debentures will be redeemed with the proceeds of this offering and the concurrent notes offering.

We have engaged Greenwood Marketing and Management Services to provide oversight for our Senior Circle Association, which is a community affinity organization with local chapters sponsored by each of our hospitals. Greenwood Marketing and Management is a company owned and operated by Anita Greenwood Cash, the spouse of W. Larry Cash. In 2000, we paid Greenwood Marketing and Management Services $239,401 for marketing services, postage, magazines, handbooks, sales brochures, training manuals, and membership services.

We employ Brad Cash, son of Larry Cash. In 2000, Brad Cash received compensation of $65,945 while serving as a financial analyst and assistant chief financial officer of one of our hospitals.

We have used the services of Emprint Document Solutions, a company owned and operated by the sister and brother-in-law of Theodore J. Forstmann and J. Anthony Forstmann. In 2000, we paid Emprint Document Solutions approximately $2 million for printing services.

The following executive officers of our company were indebted to us in amounts greater than $60,000 since January 1, 2000 under full recourse promissory notes. These notes were delivered in partial payment for the purchase of our common stock. The promissory notes are secured by the shares to which they relate. The highest amounts outstanding under these notes since January 1, 2000 and the amounts outstanding at August 31, 2001 were as follows:

	SINCE JANUARY 1,	AT AUGUST 31, 2000	2001
INTEREST RATE	----------	----------	
--	----------	W. Larry	
Cash			
$697,771	$60,192	6.84%	David L.
Miller			
344,620	42,187	6.84%	Gary D.
Newsome			
221,707	22,984	6.84%	Michael T.
Portacci			
82,065	--	6.84%	John A.
Fromhold			
224,250	27,284	6.84%	Rachel A.
Seifert			
72,157	58,520	6.84%	

In connection with the relocation of our corporate office from Houston to Nashville in May 1996, we lent $100,000 to Mr. T. Mark Buford, our Vice President and Corporate Controller. This loan was paid in full on December 13, 2000.

PRINCIPAL STOCKHOLDERS

The following table sets forth certain information regarding the beneficial ownership of our common stock immediately prior to the consummation of this offering and as adjusted to reflect the sale of the shares of common stock pursuant to this offering. The table includes:

- each person who is known by us to be the beneficial owner of more than 5% of the outstanding common stock;

- each of our directors;

- each executive officer named in the "Summary Compensation Table"; and

- all directors and executive officers as a group.

Except as otherwise indicated, the persons or entities listed below have sole voting and investment power with respect to all shares of common stock beneficially owned by them, except to the extent such power may be shared with a spouse.

SHARES BENEFICIALLY OWNED BEFORE THIS OFFERING (A)	PERCENT BENEFICIALLY OWNED (A)		
NAME	NUMBER BEFORE THIS OFFERING	AFTER THIS OFFERING	
5% STOCKHOLDERS: Forstmann Little & Co. Equity Partnership-V, L.P. (b)	26,911,990	31.2%	27.4%
Forstmann Little & Co. Subordinated Debt and Equity Management Buyout Partnership-VI, L.P. (b)	19,222,748	22.2%	19.5%
DIRECTORS: Sheila P. Burke	29,940 (c)	*	*
W. Larry Cash	385,327 (i)	*	*
Robert J. Dole	25,681 (d)	*	*
J. Anthony Forstmann (b)	106,981 (e)	*	*
Theodore J. Forstmann (b)	46,134,738	53.4%	46.9%
Dale F. Frey (b)	25,681 (f)	*	*
Sandra J. Horbach (b)	46,134,738	53.4%	46.9%
Harvey Klein, M.D.	--	*	*
Thomas H. Lister (b)	26,911,990	31.2%	27.4%
Michael A. Miles (b)	99,908 (g)	*	*
Wayne T. Smith	831,554 (h)	1.0%	*
OTHER NAMED EXECUTIVE OFFICERS: David L. Miller	179,443 (j)	*	*
Gary D. Newsome	107,033 (k)	*	*
Michael T. Portacci	158,916 (l)	*	*
All directors and executive officers as a group (18 persons)	48,160,132 (m)	55.6%	48.8%

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* Less than 1%.

(a) For purposes of this table, information as to the shares of common stock assumes in the column "After this Offering" that the underwriters' over-allotment option is not exercised. In addition, a person or group of persons is deemed to have "beneficial ownership" of any shares of common stock when such person or persons has the right to acquire them within 60 days after the date of this prospectus. For purposes of computing the percentage of outstanding shares of common stock held by each person or group of persons named above, any shares which such person or persons have the right to acquire within 60 days after the date of this prospectus is deemed to be outstanding but is not deemed to be outstanding for the purpose of computing the percentage ownership of any other person.

(b) The general partner of Forstmann Little & Co. Equity Partnership-V, L.P., a Delaware limited partnership, or Equity-V, is FLC XXX Partnership, L.P. a New York limited partnership of which Theodore J. Forstmann,

Sandra J. Horbach, Thomas H. Lister, Winston W. Hutchins, Erskine B. Bowles (through Tywana LLC, a North Carolina limited liability company having its principal business office at 2012 North Tryon Street, Suite 2450, Charlotte, N.C. 28202) and Jamie C. Nicholls are general partners. The general partner of Forstmann Little & Co. Subordinated Debt and Equity Management Buyout Partnership VI, L.P., a Delaware limited partnership, or MBO-VI, is FLC XXIX

Partnership, L.P., a New York limited partnership of which Theodore J. Forstmann, Sandra J. Horbach, Thomas H. Lister, Winston W. Hutchins, Erskine B. Bowles (through Tywana LLC) and Jamie C. Nicholls are general partners. Accordingly, each of the individuals named above, other than Mr. Lister, with respect to MBO-VI, and Mr. Bowles and Ms. Nicholls, with respect to Equity-V and MBO-VI, for the reasons described below, may be deemed the beneficial owners of shares owned by MBO-VI and Equity-V and, for purposes of this table, beneficial ownership is included. Mr. Lister, with respect to MBO-VI, and Mr. Bowles, Ms. Nicholls and Mr. Lewis, with respect to Equity-V and MBO-VI, do not have any voting or investment power with respect to, or any economic interest in, the shares of common stock of the company held by MBO-VI or Equity-V; and, accordingly, Mr. Lister, Mr. Bowles and Ms. Nicholls are not deemed to be the beneficial owners of these shares. Theodore J. Forstmann and J. Anthony Forstmann are brothers. Messrs. Frey and Miles are members of the Forstmann Little Advisory Board and, as such, have economic interests in the Forstmann Little partnerships. FLC XXX Partnership is a limited partner of Equity-V. Each of Messrs. J. Anthony Forstmann and Michael A. Miles is a special limited partner in one of the Forstmann Little partnerships. None of the other limited partners in each of MBO-VI and Equity-V is otherwise affiliated with Community Health Systems. The address of Equity-V and MBO-VI is c/o Forstmann Little & Co., 767 Fifth Avenue, New York, New York 10153.

(c) Includes 29,940 shares subject to options which are currently exercisable or exercisable within 60 days of the date of this prospectus.

(d) Includes 25,681 shares subject to options which are currently exercisable or exercisable within 60 days of the date of this prospectus.

(e) Includes 29,940 shares subject to options which are currently exercisable or exercisable within 60 days of the date of this prospectus. The remaining shares are held through a limited partnership interest in the Forstmann Little partnerships.

(f) Includes 25,681 shares subject to options which are currently exercisable or exercisable within 60 days of the date of this prospectus.

(g) Includes 41,916 shares subject to options which are currently exercisable or exercisable within 60 days of the date of this prospectus. The remaining shares are held through a limited partnership interest in the Forstmann Little partnerships.

(h) Includes 333,333 shares subject to options which are currently exercisable or exercisable within 60 days of the date of this prospectus.

(i) Includes 233,333 shares subject to options which are currently exercisable or exercisable within 60 days of the date of this prospectus.

(j) Includes 103,346 shares subject to options which are currently exercisable or exercisable within 60 days of the date of this prospectus.

(k) Includes 63,346 shares subject to options which are currently exercisable or exercisable within 60 days of the date of this prospectus.

(l) Includes 86,725 shares subject to options which are currently exercisable or exercisable within 60 days of the date of this prospectus.

(m) Includes 1,055,460 shares subject to options which are currently exercisable or exercisable within 60 days of the date of this prospectus.

DESCRIPTION OF INDEBTEDNESS

THE CREDIT AGREEMENT

We and our wholly owned subsidiary, CHS/Community Health Systems, Inc., are parties to a credit facility with a syndicate of banks and other financial institutions led by The Chase Manhattan Bank, an affiliate of J.P. Morgan Securities Inc., as a lender and administrative agent, under which our subsidiary has, and may in the future, borrow. We have guaranteed the performance of our subsidiary under this credit facility. The credit facility consists of the following:

BALANCE OUTSTANDING (AS OF JUNE 30, 2001)
Revolving credit facility	$ --
Acquisition loan facility	$119,000,000
Tranche A term loan	$ 12,100,000
Tranche B term loan	$120,000,000
Tranche C term loan	$120,000,000
Tranche D term loan	$311,575,349

The loans bear interest, at our option, at either of the following rates:

(a) the highest of:

- the rate from time to time publicly announced by The Chase Manhattan Bank, an affiliate of J.P. Morgan Securities Inc., in New York as its prime rate;

- the secondary market rate for three-month certificates of deposit from time to time plus 1%; and

- the federal funds rate from time to time, plus 1/2 of 1%;

in each case plus an applicable margin which is:

- based on a pricing grid depending on our leverage ratio at that time and the maturity date of the loan, for the revolving credit loans, acquisition loans and the tranche A term loan;

- 2.00% for the tranche B term loan;

- 2.50% for the tranche C term loan;

- 2.75% for the tranche D term loan; or

(b) a Eurodollar rate plus an applicable margin which is:

- based on a pricing grid depending on our leverage ratio at that time and the maturity date of the loan, for revolving credit loans, acquisition loans and the tranche A term loan;

- 3.00% for the tranche B term loan;

- 3.50% for the tranche C term loan; or

- 3.75% for the tranche D term loan.

The term loans are repayable in quarterly installments pursuant to a predetermined payment schedule through December 31, 2005.

We also pay a commitment fee for the daily average unused commitment under the revolving credit commitment and available acquisition loan commitment. The commitment fee is based on a pricing grid depending on our leverage ratio and the termination date of the revolving credit

commitment or the acquisition loan commitment. The commitment fee is payable quarterly in arrears and on the revolving credit termination date with respect to the available revolving credit commitments and on the acquisition loan termination date with respect to available acquisition loan commitments. In addition, we will pay fees for each letter of credit issued under the credit facility.

Approximately 20% of the outstanding debt under our revolving credit facility terminates on December 31, 2002 while the remaining part of the outstanding debt under our revolving credit facility terminates on January 2, 2004. The total borrowings we may have outstanding at any time under our revolving credit facility is $200.0 million prior to December 31, 2002 and, thereafter, $156.0 million.

The acquisition loan facility is a reducing revolving credit facility that will be permanently reduced on predetermined anniversaries in accordance with a schedule. Once reduced, outstanding acquisition loans must be repaid to the extent they exceed the reduced level. Approximately 20% of the outstanding debt under our acquisition loan facility terminates on December 31, 2002 while the remaining part of the outstanding debt under our acquisition loan facility terminates on January 2, 2004. The total borrowings we may have outstanding at any time under our acquisition loan facility is $251.9 million prior to July 22, 2002, reducing to $234.4 million thereafter, through December 31, 2002 and, thereafter, $206.4 million.

The loans must be prepaid with the net proceeds in excess of $20 million in the aggregate of specified asset sales and issuances of additional indebtedness not constituting permitted indebtedness in the credit facility. These net proceeds from these specified asset sales and non-permitted indebtedness must be applied first to prepay ratably the outstanding balances of the term loans and the acquisition loans and then to repay outstanding balances of the revolving credit loans. The commitments under the acquisition loans and revolving credit loans would be permanently reduced by the amount of the repayment of these facilities. We are seeking a waiver to allow the notes to constitute permitted indebtedness.

The credit facility contains covenants and provisions that restrict, among other things, our ability to change the business we are conducting, declare dividends, grant liens, incur additional indebtedness, exceed a specified leverage ratio, fall below a minimum interest coverage ratio and make capital expenditures. Our wholly owned subsidiary, CHS/Community Health Systems, Inc., is prohibited from paying dividends or making other distributions to us except to the extent necessary to pay taxes, fees, and expenses to maintain our corporate existence and to conduct our activities as permitted by our guarantee

of the obligations under the credit facility.

The credit agreement contains customary events of default. In addition, our indebtedness under this credit agreement becomes due and payable at the option of the lenders if we experience a fundamental corporate change, a change of control occurs under the indenture governing the notes, the Forstmann Little partnerships cease to own at least 25% of our outstanding common stock, any person or group owns a greater percentage of our outstanding common stock than the Forstmann Little partnerships, or any person or group, other than the Forstmann Little partnerships, at any time has the right to designate a majority of our board of directors.

We will use the net proceeds from this offering and the concurrent notes offering not used to repay our subordinated debt to repay a portion of our outstanding debt under the acquisition loan facility. See "Use of Proceeds."

SUBORDINATED DEBT

We issued an aggregate of $500 million of subordinated debentures to MBO-VI in connection with the July 1996 acquisition of our subsidiary. MBO-VI immediately distributed the subordinated debentures to its limited partners. The subordinated debentures are divided into three equal series,

due on June 30, 2007, June 30, 2008 and June 30, 2009. The subordinated debentures provide for interest at a rate of 7 1/2%, payable semi-annually. The subordinated debentures may be prepaid by us at any time without premium, penalty or charge and are subordinate to our credit agreement and other senior obligations. We have a right of first refusal on the transfer of the debentures.

We will use a portion of the net proceeds from this offering and all of the net proceeds from the concurrent notes offering to repay all of our subordinated debt or, if the concurrent notes offering is not completed, all of the net proceeds from this offering to repay some of our subordinated debt. See "Use of Proceeds."

CONVERTIBLE SUBORDINATED NOTES

Concurrently with this offering we are offering $250 million aggregate principal amount of % convertible subordinated notes due , 2008.

The notes will be unsecured obligations of ours and will rank junior to all of our existing and future senior indebtedness and will be effectively subordinated to all existing and future liabilities of our subsidiaries, including trade payables.

The notes will be convertible into shares of our common stock per $1,000 principal amount of notes, subject to adjustment. This is equivalent to an initial conversion price of approximately $ per share, which represents a % premium to the closing price of $ of our common stock on the New York Stock Exchange on October , 2001.

Prior to , 2005, if the price of our common stock closes above 150% of the conversion price for at least 20 trading days in the consecutive 30-day trading period specified in the prospectus relating to the concurrent notes offering, we have the option to redeem some or all of the notes at the prices set forth in the prospectus relating to the concurrent notes offering. A portion of the amount paid may be made, at our option, in our common stock. On or after , 2005, we have the option to redeem some or all of the notes, at the redemption prices set forth in the prospectus relating to the concurrent notes offering. The notes are not entitled to any sinking fund. If we experience a change of control, a holder of notes will have the right, subject to some conditions and restrictions, to require us to repurchase, with cash or common stock, some or all of the notes at 100% of the principal amount, plus any accrued and unpaid interest to the repurchase date.

DESCRIPTION OF CAPITAL STOCK

OVERVIEW

Our authorized capital stock consists of 300,000,000 shares of common stock, $.01 par value per share, and 100,000,000 shares of preferred stock, $.01 par value per share.

Before the closing of this offering, based on share information as of September 6, 2001, there were 86,464,298 shares of common stock outstanding and no shares of preferred stock outstanding. After the closing of this offering, there will be 98,464,298 shares of common stock outstanding. After giving effect to the concurrent notes offering, there will be an additional shares of common stock issuable upon conversion of the notes.

After the closing of this offering and the concurrent notes offering, the Forstmann Little partnerships and our management will beneficially own approximately 48.8% of the outstanding common stock, % on a diluted basis. Accordingly, they will collectively have significant influence in:

- electing our entire board of directors;

- determining the outcome of any corporate transaction or other matter submitted to the stockholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets;

- preventing or causing a change of control; and

- approving substantially all amendments to our certificate of incorporation and by-laws.

The Forstmann Little partnerships have a contractual right to elect two directors until such time as they no longer own any of our shares of common stock.

The following summary contains material information relating to provisions of our common stock, preferred stock, certificate of incorporation and by-laws is not intended to be complete and is qualified by reference to the provisions of applicable law and to our certificate of incorporation and by-laws included as exhibits to the registration statement of which this prospectus is a part.

COMMON STOCK

Holders of common stock are entitled to one vote for each share held on all matters submitted to a vote of stockholders and do not have cumulative voting rights. Accordingly, holders of a majority of the outstanding shares of common stock entitled to vote in any election of directors may elect all of the directors standing for election. Holders of common stock are entitled to receive ratably such dividends, if any, as may be declared by the board of directors out of legally available funds. Upon our liquidation, dissolution or winding-up, holders of common stock are entitled to receive ratably our net assets available for distribution after the payment of all of our liabilities and the payment of any required amounts to the holders of any outstanding preferred stock. Holders of common stock have no preemptive, subscription, redemption or conversion rights. The outstanding shares of common stock are, and the shares sold in this offering will be, when issued and paid for, validly issued, fully paid and nonassessable. The rights, preferences and privileges of holders of common stock are subject to, and may be adversely affected by, the rights of holders of shares of any series of preferred stock that may designate and issue in the future.

PREFERRED STOCK

Our board of directors is authorized, subject to any limitations prescribed by law, without further stockholder approval, to establish from time to time one or more classes or series of preferred stock covering up to an aggregate of 100,000,000 shares of preferred stock, and to issue

such shares of preferred stock. Each class or series of preferred stock will cover such number of shares and will have such preferences, voting powers, qualifications and special or relative rights or privileges as is determined by the board of directors, which may include, among others, dividend rights, liquidation preferences, voting rights, conversion rights, preemptive rights, and redemption rights.

The purpose of authorizing the board of directors to establish preferred stock is to eliminate delays associated with a stockholders vote on the creation of a particular class or series of preferred stock. The rights of the holders of common stock will be subject to the rights of holders of any preferred stock issued in the future. The issuance of preferred stock, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of discouraging, delaying or preventing an acquisition of our company at a price which many stockholders find attractive. These provisions could also make it more difficult for our stockholders to effect certain corporate actions, including the election of directors. We have no present plans to issue any shares of preferred stock.

LIMITATION ON LIABILITY AND INDEMNIFICATION MATTERS

Our certificate of incorporation limits the liability of our directors to us and our stockholders to the fullest extent permitted by Delaware law. Specifically, our directors will not be personally liable for money damages for breach of fiduciary duty as a director, except for liability:

- for any breach of the director's duty of loyalty to us or our stockholders;

- for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;

- under Section 174 of the Delaware General Corporation Law, which concerns unlawful payments of dividends, stock purchases, or redemptions; and

- for any transaction from which the director derived an improper personal benefit.

Our certificate of incorporation and by-laws also contain provisions indemnifying our directors and officers to the fullest extent permitted by Delaware law. The indemnification permitted under Delaware law is not exclusive

of any other rights to which such persons may be entitled.

In addition, we maintain directors' and officers' liability insurance to provide our directors and officers with insurance coverage for losses arising from claims based on breaches of duty, negligence, error and other wrongful acts.

We have entered into indemnification agreements with our directors and executive officers. These agreements contain provisions that may require us, among other things, to indemnify these directors and executive officers against certain liabilities that may arise because of their status or service as directors or executive officers, advance their expenses incurred as a result of any proceeding against them as to which they could be indemnified and obtain directors' and officers' liability insurance.

At present there is no pending litigation or proceeding involving any director or officer, as to which indemnification is required or permitted. We are not aware of any threatened litigation or proceeding which may result in a claim for such indemnification.

ANTI-TAKEOVER EFFECTS OF OUR CERTIFICATE OF INCORPORATION AND BY-LAWS AND PROVISIONS OF DELAWARE LAW

A number of provisions in our certificate of incorporation, by-laws and Delaware law may make it more difficult to acquire control of us. These provisions could deprive the stockholders of

opportunities to realize a premium on the shares of common stock owned by them. In addition, these provisions may adversely affect the prevailing market price of our common stock. These provisions are intended to:

- enhance the likelihood of continuity and stability in the composition of the board and in the policies formulated by the board;

- discourage certain types of transactions which may involve an actual or threatened change of control of our company;

- discourage certain tactics that may be used in proxy fights; and

- encourage persons seeking to acquire control of our company to consult first with the board of directors to negotiate the terms of any proposed business combination or offer.

STAGGERED BOARD. Our certificate of incorporation and by-laws provide that the number of our directors shall be fixed from time to time by a resolution of a majority of our board of directors. Our certificate of incorporation and by-laws also provide that the board of directors is divided into three classes. The members of each class of directors serve for staggered three-year terms. In accordance with the Delaware General Corporation Law, directors serving on classified boards of directors may only be removed from office for cause. The classification of the board has the effect of requiring at least two annual stockholder meetings, instead of one, to replace a majority of the members of the board. Subject to the rights of the holders of any outstanding series of preferred stock, vacancies on the board of directors may be filled only by a majority of the remaining directors, by the sole remaining director, or by the stockholders if the vacancy was caused by removal of the director by the stockholders. This provision could prevent a stockholder from obtaining majority representation on the board by enlarging the board of directors and filling the new directorships with its own nominees.

ADVANCE NOTICE PROCEDURES FOR STOCKHOLDER PROPOSALS AND DIRECTOR NOMINATIONS. Our by-laws provide that stockholders seeking to bring business before an annual meeting of stockholders, or to nominate candidates for election as directors at an annual meeting of stockholders, must provide timely notice thereof in writing. To be timely, a stockholder's notice generally must be delivered to or mailed and received at our principal executive offices not less than 45 or more than 75 days prior to the first anniversary of the date on which we first mailed our proxy materials for the preceding year's annual meeting of stockholders. However, if the date of the annual meeting is advanced more than 30 days prior to or delayed by more than 30 days after the anniversary of the preceding year's annual meeting, to be timely, notice by the stockholder must be delivered not later than the close of business on the later of the 90th day prior to the annual meeting or the 10th day following the day on which public announcement of the date of the meeting is first made. The by-laws also specify certain requirements as to the form and content of a stockholder's notice. These provisions may preclude stockholders from bringing matters before an annual meeting of stockholders or from making nominations for directors at an annual meeting of stockholders.

STOCKHOLDER ACTION BY WRITTEN CONSENT. Our by-laws provide that stockholders may take action by written consent.

PREFERRED STOCK. The ability of our board to establish the rights and issue substantial amounts of preferred stock without the need for stockholder approval, while providing desirable flexibility in connection with possible acquisitions, financings, and other corporate transactions, may among other

things, discourage, delay, defer, or prevent a change of control of the company.

AUTHORIZED BUT UNISSUED SHARES OF COMMON STOCK. The authorized but unissued shares of common stock are available for future issuance without stockholder approval. These additional

shares may be utilized for a variety of corporate purposes, including future public offerings to raise additional capital, corporate acquisitions, and employee benefit plans. The existence of authorized but unissued shares of common stock could render more difficult or discourage an attempt to obtain control of us by means of a proxy contest, tender offer, merger or otherwise.

WE HAVE OPTED OUT OF SECTION 203 OF THE DELAWARE GENERAL CORPORATION LAW. Our certificate of incorporation provides that we have opted out of the provisions of Section 203 of the Delaware General Corporation Law. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. Because we have opted out in the manner permitted under Delaware law, the restrictions of this provision will not apply to us.

SHARES ELIGIBLE FOR FUTURE SALE

RULE 144 SECURITIES

Upon the consummation of this offering, we will have 98,464,298 shares of common stock outstanding. Of these shares, 50,760,002 shares, including the 12,000,000 shares of common stock sold in this offering, will be freely tradeable without registration under the Securities Act of 1933 and without restriction by persons other than our "affiliates." The 47,704,296 shares of common stock held by the Forstmann Little partnerships and our directors and executive officers as well as by our other shareholders who acquired their shares prior to our initial public offering are "restricted" securities under the meaning of Rule 144 under the Securities Act of 1933. Their shares may not be sold in the absence of registration under the Securities Act of 1933, unless an exemption from registration is available, including exemptions pursuant to Rule 144 or Rule 144A under the Securities Act of 1933.

In general, under Rule 144 as currently in effect, a person who has beneficially owned shares of our common stock for at least one year would be entitled to sell within any three-month period a number of shares that does not exceed the greater of either of the following:

- 1% of the number of shares of common stock then outstanding, which will equal approximately 980,000 shares immediately after this offering, or

- the average weekly trading volume of the common stock on the New York Stock Exchange during the four calendar weeks preceding the filing of a notice on Form 144 with respect to such sale.

Sales under Rule 144 are also subject to certain manner of sale provisions and notice requirements and to the availability of current public information about us.

Under Rule 144(k), a person who is not deemed to have been one of our "affiliates" at any time during the 90 days preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years, including the holding period of any prior owner other than an "affiliate," is entitled to sell its shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144. Therefore, unless otherwise restricted, "144(k) shares" may be sold immediately upon the completion of this offering. The sale of these shares, or the perception that sales will be made, could adversely affect the price of our common stock after this offering because a greater supply of shares would be, or would be perceived to be, available for sale in the public market.

We, our executive officers and directors and the Forstmann Little partnerships have agreed, with exceptions, not to dispose of or hedge any of our common stock or securities convertible into

or exchangeable for shares of our common stock for 90 days after the date of this prospectus without first obtaining the written consent of Goldman, Sachs & Co. See "Underwriting."

REGISTRATION RIGHTS

We have entered into a registration rights agreement with the Forstmann Little partnerships, pursuant to which we have granted to the Forstmann Little partnerships six demand rights to cause us to file a registration statement under the Securities Act of 1933 covering resales of all shares of common stock held by the Forstmann Little partnerships, and to cause the registration statement to become effective. The registration rights agreement also grants "piggyback" registration rights permitting the Forstmann Little partnerships to include its registrable securities in a registration of securities by us. Under the agreement, we will pay the expenses of such registrations.

In addition, pursuant to the stockholder's and subscription agreements, we have granted "piggyback" registration rights to all of our employees and directors who have purchased shares of common stock and/or that have been awarded options to purchase shares of common stock. These registration rights are exercisable only upon registration by us of shares of common stock held by the Forstmann Little partnerships. The holders of common stock entitled to these registration rights are entitled to notice of any proposal to register shares held by the Forstmann Little partnerships and to include their shares in such registration. We will pay the expenses of these piggyback registrations.

CERTAIN UNITED STATES FEDERAL TAX CONSEQUENCES

The following summary describes the material United States federal income tax consequences and, in the case of a holder that is a non-U.S. holder (as defined below), the United States federal estate tax consequences, of purchasing, owning and disposing of our common stock.

This summary deals only with common stock held as a capital asset (generally, investment property) and does not discuss all of the aspects of United States federal income and estate taxation that may be relevant to you in light of your particular investment or other circumstances. In particular this discussion does not consider:

- U.S. state and local or non-U.S. tax consequences;
- the tax consequences for the stockholders, partners or beneficiaries of a holder;
- special tax rules that may apply to particular holders, such as financial institutions, insurance companies, tax-exempt organizations, U.S. expatriates, broker-dealers, and traders in securities; or
- special tax rules that may apply to a holder that holds our common stock as part of a "straddle," "hedge," "conversion transaction," "synthetic security" or other integrated investment.

This summary is based on United States federal income and estate tax law, including the provisions of the Internal Revenue Code of 1986, as amended, which we refer to as the Internal Revenue Code, Treasury regulations, administrative rulings and judicial authority, all as in effect as of the date of this prospectus. Subsequent developments in United States federal income and estate tax law, including changes in law or differing interpretations, which may be applied retroactively, could have a material effect on the United States federal income and estate tax consequences of purchasing, owning and disposing of our common stock as set forth in this summary. Before you purchase our common stock, you should consult your own tax advisor regarding the particular United States federal, state and local and foreign income and other tax

consequences of acquiring, owning and disposing of our common stock that may be applicable to you.

UNITED STATES HOLDERS

The following summary applies to you only if you are a United States holder (as defined below).

DEFINITION OF A UNITED STATES HOLDER

A "United States holder" is a beneficial owner of our common stock, who or which is for United States federal income tax purposes:

- an individual citizen or resident of the United States;
- a corporation or partnership (or other entity classified as a corporation or partnership for these purposes) created or organized in or under the laws of the United States or of any political subdivision of the United States, including any State;
- an estate, the income of which is subject to United States federal income taxation regardless of the source of that income; or
- a trust, if, in general, a United States court is able to exercise primary supervision over the trust's administration and one or more United States persons (within the meaning of the Internal Revenue Code) has the authority to control all of the trust's substantial decisions.

DISTRIBUTIONS ON COMMON STOCK

The amount of any distributions by us in respect of the common stock will be equal to the amount of cash and the fair market value, on the date of distribution, of any property distributed. Generally, distributions will be treated as a dividend, subject to a tax as ordinary income, to the extent of our current or accumulated earnings and profits, then as a tax-free return of capital to the extent of your tax basis in the common stock and thereafter as a gain from the sale or exchange of the stock.

SALE OR OTHER DISPOSITION OF COMMON STOCK

Your tax basis in your common stock generally will be its cost. You generally will recognize taxable gain or loss when you sell or otherwise dispose of your common stock equal to the difference, if any, between:

- the amount realized on the sale or other disposition; and

- your tax basis in the common stock.

Your gain or loss generally will be capital gain or loss. This capital gain or loss will be long-term capital gain or loss if at the time of the sale or other disposition your holding period for the common stock exceeds one year. Subject to limited exceptions, your capital losses cannot be used to offset your ordinary income. If you are a non-corporate United States holder, your long-term capital gain generally will be subject to a maximum tax rate of 20%.

BACKUP WITHHOLDING

In general, "backup withholding," at the applicable rate, for payments made may apply:

- to any payments of dividends on common stock; and

- to any payments of the proceeds of a sale or other disposition of common stock,

if you are a non-corporate United States holder and fail to provide a correct taxpayer identification number or otherwise comply with applicable requirements of the backup withholding rules.

The backup withholding tax is not an additional tax and may be credited against your United States federal income tax liability, provided that correct information is provided to the Internal Revenue Service.

NON-U.S. HOLDERS

The following summary applies to you if you are a non-U.S. holder. You are a non-U.S. holder if you are a beneficial owner of our common stock, and are not a United States holder (as defined above). An individual may, subject to exceptions, be deemed to be a resident alien, as opposed to a non-resident alien, by among other ways being present in the United States:

- on at least 31 days in the calendar year, and

- for an aggregate of at least 183 days during a three-year period ending in the current calendar year, counting for such purposes all of the days present in the current year, one-third of the days present in the immediately preceding year, and one-sixth of the days present in the second preceding year.

Resident aliens are subject to United States federal income tax as if they were United States citizens.

DIVIDENDS ON COMMON STOCK

In the event that we pay dividends on our common stock, we will have to withhold a United States federal withholding tax at a rate of 30%, or a lower rate under an applicable income tax treaty, from the gross amount of the dividends paid to you. You should consult your tax advisor regarding your entitlement to benefits under a relevant income tax treaty.

Dividends that are effectively connected with your conduct of a trade or business in the United States and, if an income tax treaty applies, attributable to a permanent establishment in the United States, are taxed on a net income basis at the regular graduated rates and in the manner applicable to U.S. persons. In that case, we will not have to withhold United States federal withholding tax if you comply with applicable certification and disclosure requirements. In addition, United States trade or business income of a non-U.S. holder that is a non-U.S. corporation may be subject to a branch profits tax at a rate of 30%, or such lower rate provided by an applicable income tax treaty.

If you claim the benefit of an applicable income tax treaty rate, you generally will be required to satisfy applicable certification and other requirements. However,

- if you are a foreign partnership, the certification requirement will generally apply to your partners, and you will be required to provide certain information;

- if you are a foreign trust, the certification requirement will generally be applied to you or your beneficial owners depending on whether you are a "foreign complex trust," "foreign simple trust," or "foreign grantor trust" as defined in the Treasury regulations; and

- look-through rules will apply for tiered partnerships, foreign simple trusts and foreign grantor trusts.

If you are a foreign partnership or a foreign trust, you should consult your own tax advisor regarding your status under these Treasury regulations and the certification requirements applicable to you.

SALE OR OTHER DISPOSITION OF COMMON STOCK

You generally will not be taxed on gain recognized upon the sale or other disposition of common stock unless:

- the gain is effectively connected with your conduct of a trade or business in the United States and, if an income tax treaty applies, is attributable to a permanent establishment in the United States;

- you are an individual who is present in the United States for 183 days or more during the taxable year of the sale or other disposition and specific other conditions are met; or

- we are or have been a "U.S. real property holding corporation" for United States federal income tax purposes at any time during the shorter of the five-year period ending on the date of sale or other disposition or the period that you held the common stock.

Generally, a corporation is a "U.S. real property holding corporation" if the fair market value of its "U.S. real property interests" equals or exceeds 50% of the sum of the fair market value of its worldwide real property interests plus its other assets used or held for use in a trade or business. The tax relating to stock in a U.S. real property holding corporation generally will not apply to a non-U.S. holder whose holdings, direct and indirect, at all times during the applicable period, constituted 5% or less of our common stock, provided that our common stock was regularly traded on an established securities market. We believe that we are not currently, and we do not anticipate becoming in the future, a U.S. real property holding corporation.

UNITED STATES FEDERAL ESTATE TAX

If you are an individual who is a non-U.S. holder (as specially defined for United States federal estate tax purposes) at the time of your death, common stock owned or treated as owned by you will generally be included in your gross estate for United States federal estate tax purposes, unless an applicable estate tax or other treaty provides otherwise and, therefore, you may be subject to United States federal estate tax.

BACKUP WITHHOLDING AND INFORMATION REPORTING

Under current Treasury regulations, backup withholding may apply to payments made by us or our paying agent (in its capacity as such) to you in respect of our common stock, unless you provide a Form W-8BEN or otherwise meet documentary evidence requirements for establishing that you are a non-U.S. holder or otherwise establish an exemption. We or our paying agent may, however, report payments of dividends on our common stock.

The gross proceeds from the disposition of our common stock may be subject to information reporting and backup withholding tax at the applicable rate. If you sell your common stock outside the U.S. through a non-U.S. office of a non-U.S. broker and the sales proceeds are paid to you outside the U.S., then the U.S. backup withholding and information reporting requirements generally will not apply to that payment. However, U.S. information reporting, but not backup withholding, will apply to a payment of sales proceeds, even if that payment is made outside the U.S., if you sell your common stock through a non-U.S. office of a broker that:

- is a U.S. person;

- derives 50% or more of its gross income in specific periods from the conduct of a trade or business in the U.S.;

- is a "controlled foreign corporation" for U.S. tax purposes; or

- is a foreign partnership, if at any time during its tax year:

  o one or more of its partners are U.S. persons who in the aggregate hold more than 50% of the income or capital interests in the partnership; or

  o the foreign partnership is engaged in a U.S. trade or business,

unless the broker has documentary evidence in its files that you are a non-U.S. person and certain other conditions are met or you otherwise establish an exemption. If you receive payments of the proceeds of a sale of common stock to or through a U.S. office of a broker, the payment is subject to both U.S. backup withholding and information reporting unless you provide a Form W-8BEN certifying that you are a non-U.S. person or you otherwise establish an exemption.

You should consult your own tax advisor regarding application of backup withholding in your particular circumstance and the availability of and procedure for obtaining an exemption from backup withholding under current Treasury regulations. Any amounts withheld under the backup withholding rules from a payment to you will be allowed as a refund or credit against your United States federal income tax liability, provided the required information is furnished to the Internal Revenue Service.

UNDERWRITING

Community Health Systems and the underwriters for this offering named below have entered into an underwriting agreement with respect to the shares being offered. Subject to certain conditions, each underwriter has severally agreed to purchase the number of shares indicated in the following table. Goldman, Sachs & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Credit Suisse First Boston Corporation, Banc of America Securities LLC, J.P. Morgan Securities Inc. and UBS Warburg LLC are the representatives of the underwriters.

Underwriters	Number of Shares
Goldman, Sachs & Co.	
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
Credit Suisse First Boston Corporation	
Banc of America Securities LLC	
J.P. Morgan Securities Inc.	
UBS Warburg LLC	
Total	12,000,000

If the underwriters sell more shares than the total number set forth in the table above, the underwriters have an option to buy up to an additional 1,800,000 shares from Community Health Systems to cover such sales. They may exercise that option for 30 days. If any shares are purchased pursuant to this option, the underwriters will severally purchase shares in approximately the same proportion as set forth in the table above.

The following table shows the per share and total underwriting discounts and commissions to be paid to the underwriters by Community Health Systems. Such amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional shares.

	Paid by Community Health Systems	
	No Exercise	Full Exercise
Per Share	$	$
Total	$	$

Shares sold by the underwriters to the public will initially be offered at the initial public offering price set forth on the cover of this prospectus. Any shares sold by the underwriters to securities dealers may be sold at a discount of up to $ per share from the initial public offering price. Any such securities dealers may resell any shares purchased from the underwriters to certain other brokers or dealers at a discount of up to $ per share from the initial public offering price. If all the shares are not sold at the initial public offering price, the representatives may change the offering price and the other selling terms.

Community Health Systems, its executive officers and directors, and the Forstmann Little partnerships have agreed with the underwriters, with exceptions, not to dispose of or hedge any of their common stock or securities convertible into or exchangeable for shares of common stock for 90 days after the date of this prospectus, except with the prior written consent of Goldman, Sachs & Co. This agreement does not apply to any existing employee benefit plans. See "Shares Available for Future Sale" for a discussion of certain transfer restrictions.

The common stock of Community Health Systems is traded on the New York Stock Exchange under the symbol "CYH".

In connection with this offering, the underwriters may purchase and sell shares of common stock in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Shorts sales involve the sale by the underwriters of a greater number of shares than they are required to purchase in the offering. "Covered" short sales are sales made in an amount not greater than the underwriters' option to purchase additional shares from the issuer in the offering. The underwriters may close out any covered short position by either exercising their option to purchase additional shares or purchasing shares in the open market. In determining the source of shares to close out the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the overallotment option. "Naked" short sales are any sales in excess of such option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market after

pricing that could adversely affect investors who purchase in this offering. Stabilizing transactions consist of various bids for or purchases of common stock made by the underwriters in the open market prior to the completion of this offering.

The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased shares sold by or for the account of such underwriter in stabilizing or short covering transactions.

Purchases to cover a short position and stabilizing transactions may have the effect of preventing or retarding a decline in the market price of Community Health Systems' stock, and together with the imposition of the penalty bid, may stabilize, maintain or otherwise affect the market price of the common stock. As a result, the price of the common stock may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued at any time. These transactions may be effected on the NYSE, in the over-the-counter market or otherwise.

Some of the underwriters and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with Community Health Systems. They have received customary fees and commissions for these transactions. In particular, an affiliate of J.P. Morgan Securities Inc. acts as an administrative agent for Community Health Systems' credit facility and affiliates of J.P. Morgan Securities Inc., Banc of America Securities LLC, Goldman, Sachs & Co. and Merrill Lynch, Pierce, Fenner & Smith Incorporated are lenders under Community Health Systems' credit facility.

A prospectus in electronic format may be made available on the website maintained by Goldman, Sachs & Co. and may also be made available on websites maintained by other underwriters. The underwriters may agree to allocate a number of shares to underwriters for sale to their online brokerage account holders. Internet distributions will be allocated by Goldman, Sachs & Co. to underwriters that may make Internet distributions on the same basis as other allocations.

Community Health Systems estimates that its share of the total expenses of this offering and the concurrent convertible notes offering, excluding underwriting discounts and commissions, will be approximately $1.9 million.

Community Health Systems has agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

LEGAL MATTERS

The validity of the shares of common stock offered in this offering will be passed upon for us by Fried, Frank, Harris, Shriver & Jacobson (a partnership including professional corporations), New York, New York. Certain legal matters related to this offering will be passed upon for the underwriters by Debevoise & Plimpton, New York, New York. Fried, Frank, Harris, Shriver & Jacobson has in the past provided, and may continue to provide, legal services to Forstmann Little and its affiliates.

EXPERTS

The consolidated financial statements as of December 31, 1999 and 2000 and for each of the three years in the period ended December 31, 2000 included in this prospectus and the related financial statement schedule included elsewhere in the registration statement have been audited by Deloitte & Touche LLP, independent auditors, as stated in their reports appearing herein and elsewhere in the registration statement, and have been so included in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the Commission a registration statement on Form S-1, which includes amendments, exhibits, schedules and supplements, under the Securities Act of 1933 and the rules and regulations under the Securities Act of 1933, for the registration of the common stock offered by this prospectus. Although this prospectus, which forms a part of the registration statement, contains all material information relating to this offering included in the registration statement, parts of the registration statement have been omitted from this prospectus as permitted by the rules and regulations of the Commission. For further information with respect to us and the common stock offered by this prospectus, please refer to the registration statement. Statements contained in this prospectus as to the contents of any contracts or other document referred to in this prospectus are not necessarily complete and, where such contract or other document is an exhibit to the registration statement, each such statement is qualified in all respects by the provisions of such exhibit, to which reference is now made. The registration statement can be inspected and copied at prescribed rates at the public reference facilities maintained by the Commission at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Commission's regional office at Northwestern Atrium

Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. The public may obtain information regarding the Washington, D.C. Public Reference Room by calling the Commission at 1-800-SEC-0330. In addition, the registration statement is publicly available through the Commission's site on the Internet's World Wide Web, located at: http://www.sec.gov. Our public filings are available for inspection at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

We are subject to the informational requirements of the Securities Exchange Act of 1934. To comply with these requirements, we will file periodic reports, proxy statements and other information with the Commission. These reports and other information are available as provided above.

You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized anyone to provide you with information different from that contained in this prospectus. If anyone provides you with different information you should not rely on it. We are offering to sell, and seeking offers to buy, shares of common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus regardless of the time of delivery of this prospectus or of any sale of common stock. Our business, financial condition, results of operations, and prospects may have changed since that date.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Community Health Systems, Inc.
Brentwood, Tennessee

We have audited the accompanying consolidated balance sheets of Community Health Systems, Inc. and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of Community Health Systems, Inc. and subsidiaries as of December 31, 2000 and 1999, and the results

of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

Nashville, Tennessee
February 20, 2001

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE DATA)

DECEMBER 31,	1999	2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,282	$ 13,740
Patient accounts receivable, net of allowance for doubtful accounts of $34,499 and $52,935 in 1999 and 2000, respectively	226,350	309,826
Supplies	32,134	39,679
Prepaid expenses and taxes	9,846	19,989
Deferred income taxes	5,862	2,233
Other current assets	22,022	23,110
Total current assets	300,496	408,577
Property and equipment:		
Land and improvements	41,327	46,268
Buildings and improvements	470,856	536,428
Equipment and fixtures	219,659	267,505
	731,842	850,201
Less accumulated depreciation and amortization	(108,499)	(142,120)
Property and equipment, net	623,343	708,081
Goodwill, net of accumulated amortization of $97,766 and $123,459 in 1999 and 2000, respectively	877,890	985,568
Other assets, net of accumulated amortization of $34,265 and $37,142 in 1999 and 2000, respectively	93,355	111,611
Total assets	$1,895,084	$2,213,837
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 27,029	$ 17,433
Accounts payable	57,392	83,191
Compliance settlement payable	30,900	--
Accrued liabilities:		
Employee compensation	49,346	56,840
Interest	19,451	27,389
Other	51,159	56,020
Total current liabilities	235,277	240,873
Long-term debt	1,407,604	1,201,590
Other long-term liabilities	22,495	15,200
Commitments and contingencies:		
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; 87,105,562 shares issued and 86,137,582 shares outstanding at December 31, 1999 and 55,620,807 shares issued and 56,588,787 shares outstanding at December 31, 2000	566	871
Additional paid-in capital	483,237	998,092
Accumulated deficit	(245,352)	(235,783)
Treasury stock, at cost, 967,980 shares at December 31, 2000 and 1999	(6,587)	(6,587)
Notes receivable for common stock	(1,997)	(334)
Unearned stock compensation	(159)	(85)
Total stockholders' equity	229,708	756,174

Total liabilities and stockholders' equity	$1,895,084 $2,213,837

See notes to consolidated financial statements.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

YEAR ENDED DECEMBER 31,	1998	1999	2000
Net operating revenues	$ 854,580	$ 1,079,953	$ 1,337,501
Operating costs and expenses:			
Salaries and benefits	328,264	419,320	517,392
Provision for bad debts	69,005	95,149	122,303
Supplies	100,633	126,693	154,211
Rent	22,344	25,522	31,385
Other operating expenses	167,944	209,084	259,474
Depreciation and amortization	49,861	56,943	71,931
Amortization of goodwill	26,639	24,708	25,693
Impairment of long-lived assets	164,833	--	--
Compliance settlement and Year 2000 remediation costs	20,209	17,279	--
Total operating costs and expenses	949,732	974,698	1,182,389
Income (loss) from operations	(95,152)	105,255	155,112
Interest expense, net of interest income of $261, $288 and $600 in 1998, 1999 and 2000, respectively	101,191	116,491	127,370
Income (loss) before cumulative effect of a change in accounting principle and income taxes	(196,343)	(11,236)	27,742
Provision for (benefit from) income taxes	(13,405)	5,553	18,173
Income (loss) before cumulative effect of a change in accounting principle	(182,938)	(16,789)	9,569
Cumulative effect of a change in accounting principle, net of taxes of $189	(352)	--	--
Net income (loss)	$ (183,290)	$ (16,789)	$ 9,569
Basic and diluted earnings (loss) per common share:			
Income (loss) before cumulative effect of a change in accounting principle	$ (3.37)	$ (0.31)	$ 0.14
Cumulative effect of a change in accounting principle	(0.01)	--	--
Net income (loss)	$ (3.38)	$ (0.31)	$ 0.14
Weighted average number of shares outstanding:			
Basic	54,249,895	54,545,030	67,610,399
Diluted	54,249,895	54,545,030	69,187,191

See notes to consolidated financial statements.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT SHARE DATA)

NOTES	COMMON STOCK	ADDITIONAL	TREASURY

STOCK RECEIVABLE ------ --------------- PAID-IN ACCUMULATED ----------- -------- FOR COMMON SHARES AMOUNT CAPITAL DEFICIT SHARES AMOUNT STOCK ---------- ------ -- ---------- --------- ---- -------- -------- ------------- BALANCE, January 1, 1998.. 56,376,695 $564 $480,435 $ (45,273) (135,868) $(1,041) $(1,050) Issuance of common stock.. 212,092 2 1,653 -- 150,067 1,120 (900) Common stock purchased for treasury, at cost..... -- -- -- -- (970,269) (5,634) 204 Payments on notes receivable..... -- -- -- -- -- -- 36 Net loss..... -- -- -- (183,290) -- - - -- ---------- ---- -- ------ --------- ------ -- ------- ------- BALANCE, December 31, 1998..... 56,588,787 566 482,088 (228,563) (956,070) (5,555) (1,710) Issuance of common stock.. -- -- 907 -- 314,425 1,748 (440) Common stock purchased for treasury, at cost..... -- -- -- -- (326,335) (2,780) -- Payments on notes receivable..... -- -- -- -- -- -- 153 Unearned stock compensation..... -- -- 242 -- -- -- -- Earned stock compensation..... -- -- -- -- -- -- -- Net loss..... -- -- -- (16,789) -- -- -- ---------- ---- ---- ---- --------- -------- ------- ------- BALANCE, December 31, 1999..... 56,588,787 566 483,237 (245,352) (967,980) (6,587) (1,997) Issuance of common stock in connection with initial public offering, net of issuance costs... 20,425,717 204 245,498 -- -- -- -- Issuance of common stock in connection with secondary public offering, net of issuance costs..... 10,000,000 100 268,722 -- -- -- -- Issuance of common stock in connection with the exercise of options..... 91,058 1 635 -- -- -- -- Payments on notes receivable..... -- -- -- -- -- -- 1,663 Earned stock compensation..... -- -- -- -- -- -- -- Net income.....

-- -- -- 9,569 -- -- -- ---------- ---- ------- - --------- -------- -- ----- ------- BALANCE, December 31, 2000..... 87,105,562 $871 $998,092 $(235,783) (967,980) $(6,587) $ (334) ========== ==== ======== ========= ======== ======= ======= UNEARNED STOCK COMPENSATION TOTAL ---- ---------- --------- BALANCE, January 1, 1998.. $ -- $433,635 Issuance of common stock.. -- 1,875 Common stock purchased for treasury, at cost..... -- (5,430) Payments on notes receivable..... -- 36 Net loss..... -- (183,290) ----- ---- ---- BALANCE, December 31, 1998..... -- 246,826 Issuance of common stock.. -- 2,215 Common stock purchased for treasury, at cost..... -- (2,780) Payments on notes receivable..... -- 153 Unearned stock compensation..... (242) -- Earned stock compensation..... 83 83 Net loss..... -- (16,789) ----- ----- --- BALANCE, December 31, 1999..... (159) 229,708 Issuance of common stock in connection with initial public offering, net of issuance costs... -- 245,702 Issuance of common stock in connection with secondary public offering, net of issuance costs..... -- 268,822 Issuance of common stock in connection with the exercise of options..... -- 636 Payments on notes receivable..... -- 1,663 Earned stock compensation..... 74 74 Net income..... -- 9,569 ----- -------- BALANCE, December 31, 2000..... $ (85) $756,174 ===== ========

See notes to consolidated financial statements.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

YEAR ENDED DECEMBER 31, ------------------------------ 1998 1999 2000 --------- -------- -------- (DOLLARS IN THOUSANDS) Cash flows from operating activities: Net income (loss)..... $(183,290) $(16,789) $ 9,569 Adjustments to reconcile net income (loss) to net cash provided by (used in)

operating activities: Depreciation and amortization	76,500	81,651	97,624
Deferred income taxes	(14,797)	(3,799)	17,210
Impairment charge	164,833	--	--
Compliance settlement costs	20,000	14,000	--
Stock compensation expense	--	83	74
Other non-cash (income) expenses, net	(528)	(570)	(5,030)
Changes in operating assets and liabilities, net of effects of acquisitions and divestitures: Patient accounts receivable	(33,908)	(42,973)	(52,989)
Supplies, prepaid expenses and other current assets	(7,724)	(17,598)	(15,604)
Accounts payable, accrued liabilities and income taxes	4,461	(28,071)	17,931
Compliance settlement payable	--	--	(30,900)
Other	(9,828)	2,320	(14,900)
Net cash provided by (used in) operating activities	15,719	(11,746)	22,985
Cash flows from investing activities: Acquisitions of facilities, pursuant to purchase agreements	(172,597)	(59,699)	(148,216)
Purchases of property and equipment	(52,880)	(80,255)	(63,005)
Proceeds from sale of equipment	1,531	121	107
Increase in other assets	(12,607)	(15,708)	(33,327)
Net cash used in investing activities	(236,553)	(155,541)	(244,441)
Cash flows from financing activities: Proceeds from issuance of common stock	1,875	2,215	514,524
Proceeds from exercise of stock options	--	--	636
Common stock purchased for treasury	(5,634)	(2,780)	--
Borrowings under Credit Agreement	242,491	436,300	241,310
Repayments of long-term indebtedness	(18,842)	(270,885)	(525,556)
Net cash provided by financing activities	219,890	164,850	230,914
Net change in cash and cash equivalents	(944)	(2,437)	9,458
Cash and cash equivalents at beginning of period	7,663	6,719	4,282
Cash and cash equivalents at end of period	$ 6,719	$ 4,282	$ 13,740

See notes to consolidated financial statements.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS. Community Health Systems, Inc. (the "Company") owns, leases and operates acute care hospitals that are the principal providers of primary healthcare services in non-urban communities. As of December 31, 2000, the Company owned, leased or operated 52 hospitals, licensed for 4,688 beds in 20 states.

USE OF ESTIMATES. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

PRINCIPLES OF CONSOLIDATION. The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated. Certain of the subsidiaries have minority stockholders. The amount of minority interest in equity and minority interest in income or loss is not material and is included in other long-term liabilities and other operating expenses.

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

SUPPLIES. Supplies, principally medical supplies, are stated at the lower

of cost (first-in, first-out basis) or market.

PROPERTY AND EQUIPMENT. Property and equipment are recorded at cost. Depreciation is recognized using the straight-line method over the estimated useful lives of the land improvements (2 to 15 years; weighted average useful life is 11 years), buildings and improvements (5 to 40 years; weighted average useful life is 33 years) and equipment and fixtures (5 to 20 years; weighted average useful life is 7 years). Costs capitalized as construction in progress were $27.2 million and $30.3 million at December 31, 1999 and 2000, respectively, and are included in buildings and improvements. Expenditures for renovations and other significant improvements are capitalized; however, maintenance and repairs which do not improve or extend the useful lives of the respective assets are charged to operations as incurred. Interest capitalized in accordance with Statement of Financial Accounting Standards ("SFAS") No. 34, "Capitalization of Interest Cost," was $.07 million, $1.4 million and $2.5 million for the years ended December 31, 1998, 1999, and 2000, respectively.

The Company also leases certain facilities and equipment under capital leases (see Notes 2 and 7). Such assets are amortized on a straight-line basis over the lesser of the terms of the respective leases, or the remaining useful lives of the assets.

GOODWILL. Goodwill represents the excess of cost over the fair value of net assets acquired and is amortized on a straight-line basis ranging from 18 to 40 years. Annually, as required by Accounting Principles Board ("APB") Opinion No. 17, the Company reviews its total enterprise goodwill for possible impairment, by comparing total projected undiscounted cash flows to the total carrying amount of goodwill.

OTHER ASSETS. Other assets consist primarily of the noncurrent portion of deferred income taxes and costs associated with the issuance of debt which are amortized over the life of the

1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
related debt using the effective interest method. Amortization of deferred financing costs is included in interest expense.

THIRD-PARTY REIMBURSEMENT. Net operating revenues include amounts estimated by management to be reimbursable by Medicare and Medicaid under prospective payment systems, provisions of cost-reimbursement and other payment methods. Approximately 49% of net operating revenues for the year ended December 31, 1998, 48% for the year ended December 31, 1999, and 46% for the year ended December 31, 2000, are related to services rendered to patients covered by the Medicare and Medicaid programs. In addition, the Company is reimbursed by non-governmental payors using a variety of payment methodologies. Amounts received by the Company for treatment of patients covered by such programs are generally less than the standard billing rates. The differences between the estimated program reimbursement rates and the standard billing rates are accounted for as contractual adjustments, which are deducted from gross revenues to arrive at net operating revenues. Final settlements under certain of these programs are subject to adjustment based on administrative review and audit by third parties. Adjustments to the estimated billings are recorded in the periods that such adjustments become known. Adjustments to previous program reimbursement estimates are accounted for as contractual adjustments and reported in future periods as final settlements are determined. Adjustments related to final settlements or appeals increased revenue by an insignificant amount in each of the years ended December 31, 1998, 1999 and 2000. Net amounts due to third-party payors as of December 31, 1999 were $9.1 million and as of December 31, 2000 were $2.3 million and are included in accrued liabilities-other in the accompanying balance sheets. Substantially all Medicare and Medicaid cost reports are final settled through 1997.

CONCENTRATIONS OF CREDIT RISK. The Company grants unsecured credit to its patients, most of whom reside in the service area of the Company's facilities and are insured under third-party payor agreements. Because of the geographic diversity of the Company's facilities and non-governmental third-party payors, Medicare and Medicaid represent the Company's only significant concentrations of credit risk.

NET OPERATING REVENUES. Net operating revenues are recorded net of provisions for contractual adjustments of approximately $829 million, $1,157 million and $1,649 million in 1998, 1999 and 2000, respectively. Net operating revenues are recognized when services are provided. In the ordinary course of business the Company renders services to patients who are financially unable to pay for hospital care. The value of these services to patients who are unable to pay is not material to the Company's consolidated results of operations.

PROFESSIONAL LIABILITY INSURANCE CLAIMS. The Company accrues, on a quarterly basis, 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 annual actual projections. To the extent that subsequent claims information varies from management's estimates, the liability is adjusted currently.

ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS. In accordance with SFAS No. 121, "Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," whenever events or changes in circumstances indicate that the carrying values of certain long-lived assets and related intangible assets may be impaired, the Company projects the undiscounted cash flows expected to be generated by these assets. If the projections indicate that the reported amounts are not expected to be recovered, such amounts are reduced to their estimated fair value

1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
based on a quoted market price, if available, or an estimate based on valuation techniques available in the circumstances.

INCOME TAXES. The Company accounts for income taxes under the asset and liability method, in which deferred income tax assets and liabilities are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The effect on deferred taxes of a change in tax rates is recognized in the statement of operations during the period in which the tax rate change becomes law.

COMPREHENSIVE INCOME. SFAS No. 130, "Reporting Comprehensive Income," defines comprehensive income as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. Comprehensive income (loss) for 2000, 1999 and 1998 is equal to the net income (loss) reported.

STOCK-BASED COMPENSATION. The Company accounts for stock-based compensation using the intrinsic value method prescribed in APB Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Compensation cost, if any, 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. 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.

SEGMENT REPORTING. SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information," requires that a public company report annual and interim financial and descriptive information about its reportable operating segments. Operating segments, as defined, are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. SFAS No. 131 allows aggregation of similar operating segments into a single operating segment if the businesses have similar economic characteristics and are considered similar under the criteria established by SFAS No. 131. The Company owns, leases and operates 52 acute care hospitals in 52 different non-urban communities. All of these hospitals have similar services, have similar types of patients, operate in a consistent manner and have similar economic and regulatory characteristics. Therefore, the Company has one reportable segment.

RECENT ACCOUNTING PRONOUNCEMENT NOT YET ADOPTED. SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", is effective for all fiscal years beginning after June 15, 2000. SFAS No. 133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. Under SFAS No. 133, certain contracts that were not formerly considered derivatives may now meet the definition of a derivative. The Company will adopt SFAS No. 133 effective January 1, 2001. Management does not expect the adoption of SFAS No. 133 to have a significant impact on the financial position, results of operations, or cash flows of the Company.

2. LONG-TERM LEASES AND PURCHASES OF HOSPITALS

During 1998, the Company acquired, through two purchase transactions, effective in April and September, respectively, and two capital lease transactions, effective in November, most of the assets, including working capital, of four hospitals. The consideration for the four hospitals totaled $218.6 million. The consideration consisted of $169.8 million in cash, which was borrowed under the acquisition loan facilities, and assumed liabilities of $48.8 million. The entire lease obligation relating to each lease transaction was prepaid. The prepayment was included as part of the cash consideration. Licensed beds at these four hospitals totaled 360.

Also, effective December 1, 1998, the Company entered into an operating

agreement relating to, and purchased certain working capital accounts, primarily accounts receivable, supplies and accounts payable, of a 38 licensed bed hospital, for a cash payment of $2.8 million. Pursuant to this agreement, the hospital was acquired on October 1, 2000, with the remaining assets being purchased for $0.9 million and is included in the acquisitions described above.

During 1999, the Company acquired, through three purchase transactions, effective in March, September, and November, respectively, and one capital lease transaction, effective in March, most of the assets, including working capital, of four hospitals. The consideration for the four hospitals totaled $77.8 million. The consideration consisted of $59.7 million in cash, which was borrowed under the acquisition loan facilities, and assumed liabilities of $18.1 million. The entire lease obligation relating to the lease transaction was prepaid. The prepayment was included as part of the cash consideration. The Company also constructed and opened an additional hospital at a cost of $15.3 million, which replaced a hospital we managed. Licensed beds at the four hospitals acquired totaled 477.

During 2000, the Company acquired five hospitals through purchase transactions, effective in March, April, July, October and December and acquired two hospitals through capital lease transactions, effective in April and June, respectively. The consideration for the seven hospitals totaled $246.9 million. The consideration consisted of $147.6 million in cash, which was borrowed under the acquisition loan facilities and assumed liabilities of $99.3 million. The entire lease obligation relating to each lease transaction was prepaid. The repayment was included as part of the cash consideration. Licensed beds at these seven hospitals totaled 607 beds.

The foregoing acquisitions were accounted for using the purchase method of accounting. The allocation of the purchase price for acquisition transactions closed in 2000 has been determined by the Company based upon available information and is subject to obtaining final asset valuations prepared by independent appraisers, and settling amounts related to purchased working capital. Independent asset valuations are generally completed within 120 days of the date of acquisition; working capital settlements are generally made within 180 days of the date of acquisition. Adjustments to the purchase price allocation are not expected to be material.

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

1998	1999	2000
Current assets	$ 40,680	$15,514 $ 39,844
Property and equipment	116,443	53,746 84,512
Goodwill	61,441	24,840 122,585

The operating results of the foregoing hospitals have been included in the consolidated statements of operations from their respective dates of acquisition. The following pro forma

2. LONG-TERM LEASES AND PURCHASES OF HOSPITALS (CONTINUED)
combined summary of operations of the Company gives effect to using historical information of the operations of the hospitals purchased in 2000 and 1999 as if the acquisitions had occurred as of January 1, 1999 (in thousands except per share data):

YEAR ENDED DECEMBER 31,	
1999	2000
Pro forma net operating revenues	$1,347,785 $1,456,867
Pro forma net income (loss)	(24,904) 6,008
Pro forma net income (loss) per share:	
Basic	$ (0.46) $ 0.09
Diluted	$ (0.46) $ 0.09

3. IMPAIRMENT OF LONG-LIVED ASSETS

In December 1998, in connection with the Company's periodic review process, it was determined that primarily as a result of adverse changes in physician relationships, undiscounted cash flows from seven of the Company's hospitals were below the carrying value of long-lived assets associated with those hospitals. Therefore, in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", the Company adjusted the carrying value of the related long-lived assets to their estimated fair value. The estimated fair values of these hospitals were based on independently prepared specific market appraisals. The impairment charge of $164.8 million was comprised of reductions to goodwill of $134.3 million, tangible property of $27.1 million and identifiable intangibles

of $3.4 million.

Of the seven impaired hospitals, two are located in Georgia; two are located in Texas; one is located in Florida; one is located in Louisiana; and one is located in Kentucky. The events and circumstances leading to the impairment charge were unique to each of the hospitals.

One of our Kentucky hospitals lost its only anesthesiologist due to unexpected death and a leading surgeon due to illness. We had not been able to successfully recruit a replacement surgeon. One of our Georgia hospitals lost a key surgeon due to unexpected death and a leading specialist due to relocation to another market. We had not been able to successfully recruit replacement physicians. One of our Louisiana hospitals relies heavily on foreign physicians and, following the departure of four foreign physicians from its market over a short period of time, had difficulties replacing these physicians because of regulatory changes in recruiting foreign physicians. The skilled nursing and home health reimbursement for one of our Texas hospitals was disproportionately and adversely affected by the Balanced Budget Act of 1997. In addition, the market in which this hospital operates relies on foreign physicians that have been difficult to recruit because of regulatory changes. Our other Georgia hospitals terminated an employed specialty surgeon who was responsible for over 5% of the hospital's revenue. We had not been able to replace the surgeon. In addition, this hospital's skilled nursing reimbursement was disproportionately and adversely affected by the Balanced Budget Act of 1997. Our other Texas hospital lost market share and was excluded from several key managed care contracts caused by the combination in 1998 of two larger competing hospitals. This is our only hospital which competes with more than one hospital in its primary service area. A Florida hospital we then owned terminated discussions in 1998 with an unrelated hospital, located in a contiguous county, to build a combined replacement facility. The short and long-term success of this hospital was in our view dependent upon the combination being effected.

3. IMPAIRMENT OF LONG-LIVED ASSETS (CONTINUED)

Generally, we have not experienced difficulty in recruiting physicians and specialists for our hospitals. However, for the four hospitals referred to above we have experienced difficulty in recruiting physicians and specialists where the number of physicians on staff is low. These four hospitals averaged 13 physicians per hospital as of December 31, 1998. The average number of physicians on the medical staff of our other hospitals was 39 physicians at that time. We continually monitor the relationships of our hospitals with their physicians and any physician recruiting requirements. We have frequent discussions with board members, chief executive officers and chief financial officers of our hospitals. We are not aware of any significant adverse relationships with physicians or any recurring physician recruitment needs that, if not resolved in a timely manner, would have a material adverse effect on our results of operations and financial position, either currently or in future periods.

4. INCOME TAXES

The provision for (benefit from) income taxes consists of the following (in thousands):

YEAR ENDED DECEMBER 31,			
	1998	1999	2000
Current			
Federal	$ --	$ --	$ 195
State	1,204	2,815	1,328
	1,204	2,815	1,523
Deferred			
Federal	(11,036)	3,163	16,519
State	(3,573)	(425)	131
	(14,609)	2,738	16,650
Total provision for (benefit from) income taxes	$(13,405)	$5,553	$18,173

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

YEAR ENDED DECEMBER 31,						
	1998		1999		2000	
	AMOUNT	%	AMOUNT	%	AMOUNT	%
Provision for (benefit from) income taxes at statutory federal rate	$(68,843)	35.0%	$(3,933)	35.0%	$	

9,710	35.0%	State income taxes, net of federal income tax benefit	(1,379)	0.7	
2,389	(21.3)	1,459	5.3	Non-deductible goodwill amortization	
7,859	(4.0)	6,751	(60.1)	6,675	24.0
		Impairment charge--goodwill	41,652	(21.2)	
Other					
7,306	(3.7)	346	(3.0)	329	1.2
- Provision for (benefit from) income taxes and effective tax rate	$(13,405)	6.8%	$ 5,553	(49.4)%	$18,173	65.5%

4. INCOME TAXES (CONTINUED)

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

1999		2000	
ASSETS	LIABILITIES	ASSETS	LIABILITIES
Net operating loss and credit carryforwards			
$76,798	$ --	$77,316	$ --
Property and equipment			
40,020	--	54,420	
Self-insurance liabilities			
6,212	--	6,421	--
Intangibles			
--	9,385	--	14,204
Other liabilities			
1,828	--	736	
Long-term debt and interest			
--	4,373	--	4,409
Accounts receivable			
5,362	-	12,956	--
Accrued expenses			
15,975	--	4,140	--
Other			
2,538	1,578	3,259	308
-			
106,885	57,184	104,092	74,077
Valuation allowance			
(18,474)	--	(15,999)	--
Total deferred income taxes			
$88,411	$57,184	$88,093	$74,077

Management believes that the net deferred tax assets will ultimately be realized, except as noted below. Management's conclusion is based on its estimate of future taxable income and the expected timing of temporary difference reversals. The Company has federal net operating loss carryforwards of $153.4 million which expire from 2001 to 2020 and state net operating loss carryforwards of $284.8 million which expire from 2001 to 2020.

The valuation allowance, which was recognized at the date of the acquisition by affiliates of Forstmann Little & Co. ("FL & Co.") of the operating company of the Company in June 1996 (the "Acquisition") of $13.2 million, relates primarily to state net operating losses and other tax attributes. Any future decrease in this valuation allowance will be recorded as a reduction in goodwill recorded in connection with the Acquisition.

The valuation allowance increased by $0.2 million and decreased by $2.5 million during the years ended December 31, 1999 and 2000, respectively. The decrease relates to a redetermination of the amount, and realizability of net operating losses in certain state income tax jurisdictions for which a valuation allowance was previously provided. The increase is primarily related to net operating losses in certain state income tax jurisdictions not expected to be realized.

The Company paid income taxes, net of refunds received, of $1.4 million, and $1.5 million during 1999 and 2000, respectively.

FEDERAL INCOME TAX EXAMINATIONS. The Internal Revenue Service ("IRS") is examining the Company's federal income tax returns for the tax periods ended

December 31, 1993 through December 31, 1996. The IRS has indicated that it is considering certain adjustments primarily involving "temporary" or timing differences. To date, a Revenue Agent's Report has not been issued in connection with the examination of these tax periods. In management's opinion, the ultimate outcome of the IRS examination will not have a material effect on the Company's results of operations or financial condition.

5. LONG-TERM DEBT

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

AS OF DECEMBER 31,	1999	2000
Credit Facilities: Revolving Credit Loans	$ 109,750	$ --
Acquisition Loans	138,551	70,000
Term Loans	624,345	568,679
Subordinated debentures	500,000	500,000
Taxable bonds	29,700	26,100
Tax-exempt bonds	8,000	8,000
Capital lease obligations (see Note 7)	20,828	21,100
Term loan from acquisition in 2000	--	21,700
Other	3,459	3,444
Total debt	1,434,633	1,219,023
Less current maturities	(27,029)	(17,433)
Total long-term debt	$1,407,604	$1,201,590

CREDIT FACILITIES. In connection with the Acquisition, a $900 million credit agreement was entered into with a consortium of creditors (the "Credit Agreement"). The financing under the Credit Agreement consists of (i) a 6 1/2 year term loan facility (the "Tranche A Loan") in an aggregate principal amount equal to $50 million, (ii) a 7 1/2 year term loan facility (the "Tranche B Loan") in an aggregate principal amount equal to $132.5 million, (iii) an 8 1/2 year term loan facility (the "Tranche C Loan") in an aggregate principal amount equal to $132.5 million, (iv) a 9 1/2 year term loan facility (the "Tranche D Loan") in an original aggregate principal amount equal to $100 million and amended to an aggregate principal amount of $350 million in March 1999 (collectively, the "Term Loans"), (v) a revolving credit facility (the "Revolving Credit Loans") in an aggregate principal amount equal to $200 million, of which up to $90 million may be used, to the extent available, for standby and commercial letters of credit and up to $25 million is available to the Company pursuant to a swingline facility and (vi) a reducing acquisition loan facility (the "Acquisition Loans") in an aggregate principal amount of $285 million, reduced to $263.2 million in July 2000.

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

2001	$ 10,094
2002	47,216
2003	125,360
2004	162,970
2005	223,039
2006	--
Total	$568,679

Revolving Credit Loans may be made, and letters of credit may be issued, at any time during the period between July 22, 1996, the loan origination date (the "Origination Date"), and

5. LONG-TERM DEBT (CONTINUED)
December 31, 2002 (the "Termination Date"). No letter of credit is permitted to have an expiration date after the Termination Date. The Acquisition Loans may be made at any time during the period preceding the Termination Date.

The Acquisition Loans facility will automatically be reduced and the

Acquisition Loans will be repaid to the following levels on each of the following anniversaries of the Origination Date: July 22, 2001, $215.3 million; July 22, 2002, $139.0 million; with payment of any remaining balance on the Termination Date.

The Company may elect that all or a portion of the borrowings under the Credit Agreement bear interest at a rate per annum equal to (a) an annual benchmark rate, which will be equal to the greatest of (i) "Prime Rate," (ii) the "Base" CD Rate plus 1% or (iii) the Federal Funds effective rate plus 50 basis points (the "ABR") or (b) the Eurodollar Rate, in each case increased by the applicable margin (the "Applicable Margin") which will vary between 1.50% and 3.75% per annum. The applicable margin on the Revolving Credit Loans, Acquisition Loans and Tranche A Loan is subject to a reduction based on achievement of certain levels of total senior indebtedness to annualized consolidated EBITDA, as defined in the Credit Agreement. To date, the Company has not achieved a reduction of the Applicable Margin.

Interest based on the ABR is payable on the last day of each calendar quarter and interest based on the Eurodollar Rate is payable on set maturity dates. The borrowings under the Credit Agreement bore interest at rates ranging from 9.13% to 10.38% as of December 31, 2000.

The Company is also required to pay a quarterly commitment fee at a rate which ranges from .375% to .500% based on the Eurodollar Applicable Margin for Revolving Credit Loans. This rate is applied to unused commitments under the Revolving Credit Loans and the Acquisition Loans.

The Company is also required to pay letters of credit fees at rates which vary from 1.625% to 2.625%.

All or a portion of the outstanding borrowings under the Credit Agreement may be prepaid at any time and the unutilized portion of the facility for the Revolving Credit Loans or the Acquisition Loans may be terminated, in whole or in part, at the Company's option. Repaid Term Loans and permanent reductions to the Acquisition Loans and Revolving Credit Loans may not be reborrowed.

Credit Facilities generally are required to be prepaid with the net proceeds (in excess of $20 million) of certain permitted asset sales and the issuances of debt obligations (other than certain permitted indebtedness) of the Company or any of its subsidiaries.

Generally, prepayments of Term Loans will be applied to principal payments due during the next twelve months with any excess being applied pro rata to scheduled principal payments thereafter.

The terms of the Credit Agreement include certain restrictive covenants. These covenants include restrictions on indebtedness, investments, asset sales, capital expenditures, dividends, sale and leasebacks, contingent obligations, transactions with affiliates, and fundamental change. The covenants also require maintenance of certain ratios regarding senior indebtedness, senior interest, and fixed charges. The Company was in compliance with all debt covenants at December 31, 2000.

5. LONG-TERM DEBT (CONTINUED)

As of December 31, 1999 and 2000, the Company had letters of credit issued, primarily in support of its Taxable Bonds and Tax-Exempt Bonds, of approximately $43 million and $40 million, respectively. Availability at December 31, 1999 and 2000 under the Revolving Credit Loans facility was approximately $47 million and $160 million, respectively and under the Acquisition Loans facility was approximately $144 million and $193 million, respectively.

SUBORDINATED DEBENTURES. In connection with the Acquisition, the Company issued its subordinated debentures to an affiliate of FL & Co. for $500 million in cash. The debentures are a general senior subordinated obligation of the Company, are not subject to mandatory redemption and mature in three equal annual installments beginning June 30, 2007, with the final payment due on June 30, 2009. The debentures bear interest at a fixed rate of 7.50% which is payable semi-annually in January and July. Total interest expense for the debentures was $37.5 million for each of the years ended December 31, 1998, 1999 and 2000.

TAXABLE BONDS AND TAX-EXEMPT BONDS. Taxable Bonds bear interest at a floating rate which averaged 5.29% and 6.40% during 1999 and 2000, respectively. These bonds are subject to mandatory annual redemptions with the final payment of $17.4 million due on October 1, 2003. Tax-Exempt Bonds bear interest at floating rates which averaged 3.36% and 4.21% during 1999 and 2000, respectively. These bonds are not subject to mandatory annual redemptions under the bond provisions and are due in 2010. Taxable Bonds and Tax-Exempt Bonds are both guaranteed by letters of credit.

TERM LOAN FROM ACQUISITION IN 2000. The Company acquired a hospital in December 2000, in which we assumed debt upon acquisition, through an amended and restated credit agreement dated December 1, 2000. The loan bears interest at a rate of 9.18% as of December 31, 2000 and has the same terms as the Tranche A Term Loan in the "Credit Agreement", previously described. Required principal payments are as follows: $1,350,000 in 2001, $1,875,000 in 2002 and $18,475,000

in 2003.

OTHER DEBT. As of December 31, 2000, other debt consisted primarily of an industrial revenue bond and other obligations maturing in various installments through 2014.

As of December 31, 2000, the scheduled maturities of long-term debt outstanding, including capital leases, for each of the next five years and thereafter are as follows (in thousands):

2001	$ 17,433
2002	126,166
2003	165,549
2004	164,090
2005	224,118
Thereafter	521,667
	$1,219,023

The Company paid interest of $101 million, $118 million and $115 million on borrowings during the years ended December 31, 1998, 1999 and 2000, respectively.

6. FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair value of financial instruments has been estimated by the Company using available market information as of December 31, 1999 and 2000, and valuation methodologies considered appropriate. The estimates presented are not necessarily indicative of amounts the Company could realize in a current market exchange (in thousands):

AS OF DECEMBER 31,			
1999	2000		
ESTIMATED FAIR VALUE	ESTIMATED FAIR VALUE	CARRYING AMOUNT	CARRYING VALUE
Assets: Cash and cash equivalents		$ 4,282	$ 4,282
Liabilities: Credit facilities		$13,740	$13,740
		872,646	862,174
Taxable Bonds		638,679	633,506
		29,700	29,700
Tax-exempt Bonds		26,100	26,100
		8,000	8,000
Other term loans		21,700	21,483

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

Credit facilities and other term loans: Estimated fair value is based on communications with the Company's bankers regarding relevant pricing for trading activity among the Company's lending institutions.

Taxable and Tax-exempt Bonds: The carrying amount approximates fair value as a result of the weekly interest rate reset feature of these publicly traded instruments.

The Company believes that it is not practicable to estimate the fair value of the subordinated debentures because of (i) the fact that the subordinated debentures were issued in connection with the issuance of the original equity of the Company at the date of Acquisition as an investment unit, (ii) the related party nature of the subordinated debentures, (iii) the lack of comparable securities, and (iv) the lack of a credit rating of the Company by an established rating agency.

7. LEASES

The Company leases hospitals, medical office buildings, and certain equipment under capital and operating lease agreements. All lease agreements generally require the Company to pay maintenance, repairs, property taxes and insurance costs. Commitments relating to noncancellable operating and capital leases for each of the next five years and thereafter are as follows (in thousands):

YEAR ENDED DECEMBER 31,	OPERATING CAPITAL	
2001	$ 24,141	$ 5,715
2002	21,073	4,738
2003	19,379	3,706
2004	17,160	2,773
2005	11,943	2,311
Thereafter	72,376	23,999
Total minimum future payments	$166,072	43,242
Less debt discounts		(22,142)
		21,100
Less current portion		(2,290)
Long-term capital lease obligations	$18,810	

7. LEASES (CONTINUED)

Assets capitalized under capital leases as reflected in the accompanying consolidated balance sheets were $5.8 million of land and improvements, $55.7 million of buildings and improvements, and $19.2 million of equipment and fixtures as of December 31, 1999 and $9.9 million of land and improvements, $73.3 million of buildings and improvements and $35.5 million of equipment and fixtures as of December 31, 2000. The accumulated depreciation related to assets under capital leases was $15.1 million and $26.4 million as of December 31, 1999 and 2000, respectively. Depreciation of assets under capital leases is included in depreciation and amortization and amortization of debt discounts on capital lease obligations is included in interest expense in the consolidated statements of operations.

8. EMPLOYEE BENEFIT PLANS

The Company has a defined contribution plan that is qualified under Section 401(k) of the Internal Revenue Code, which covers all eligible employees at its hospitals, clinics, and the corporate offices. Participants may contribute a portion of their compensation not exceeding a limit set annually by the Internal Revenue Service. This plan includes a provision for the Company to match a portion of employee contributions. The Company also provides a defined contribution welfare benefit plan for post-termination benefits to executive and middle management employees. Total expense under the 401(k) plan was $2.2 million, $2.9 million and $2.8 million for the years ended December 31, 1998, 1999 and 2000, respectively. Total expense under the welfare benefit plan was $0.9 million, $0.8 million and $0.7 million for the years ended December 31, 1998, 1999 and 2000, respectively.

9. STOCKHOLDERS' EQUITY

On June 14, 2000, the Company closed its initial public offering of 18,750,000 shares of common stock and on July 3, 2000, the underwriters exercised their overallotment option and purchased 1,675,717 shares of common stock. These shares were offered at $13.00 per share. On November 3, 2000, the Company completed a secondary offering of 18,000,000 shares of its common stock at an offering price of $28.1875. Of these shares, 8,000,000 shares were sold by affiliates of FL & Co. and other shareholders. The net proceeds to the Company from these offerings were $514.5 million in the aggregate and were used to repay long-term debt.

Authorized capital shares of the Company include 400,000,000 shares of capital stock consisting of 300,000,000 shares of common stock and 100,000,000 shares of Preferred Stock. Each of the aforementioned classes of capital stock has a par value of $.01 per share. Shares of Preferred Stock, none of which are outstanding as of December 31, 2000, may be issued in one or more series having such rights, preferences and other provisions as determined by the Board of Directors without approval by the holders of common stock.

Common shares held by employees that were acquired directly from the Company are the subject of a stockholder's agreement under which each share, until vested, is subject to repurchase, upon termination of employment. Shares vest, on a cumulative basis, each year at a rate of 20% of the total shares issued beginning after the first anniversary date of the purchase. Further, under the stockholder's agreement shares of common stock held by stockholders other than FL&Co. will only be transferable together with shares transferred by FL&Co. until FL&Co.'s ownership falls below 25%.

9. STOCKHOLDERS' EQUITY (CONTINUED)

During 1997, the Company granted options to purchase 191,614 shares of common stock to non-employee directors at an exercise price of $8.96 per share. One-third of such options are exercisable each year on a cumulative basis beginning on the first anniversary of the date of grant and expiring ten years from the date of grant. As of December 31, 2000, 178,839 non-employee director options to purchase common stock were exercisable with a weighted average remaining contractual life of 6.5 years.

In November 1996, the Board of Directors approved an Employee Stock Option Plan (the "1996 Plan") to provide incentives to key employees of the Company. Options to purchase up to 756,636 shares of common stock are authorized under the 1996 Plan. All options granted pursuant to the 1996 Plan are generally exercisable each year on a cumulative basis at a rate of 20% of the total number of common shares covered by the option beginning one year from the date of grant and expiring ten years from the date of grant. There will be no additional grants of options under the 1996 Plan.

In April 2000, the Board of Directors approved the 2000 Stock Option and Award Plan (the "2000 Plan"). The 2000 Plan provides for the grant of incentive stock options intended to qualify under Section 422 of the Internal Revenue Code as well as stock options which do not so qualify, stock appreciation rights, restricted stock, performance units and performance shares, phantom stock awards and share awards. Persons eligible to receive grants under the 2000 Plan include the Company's directors, officers, employees and consultants. Options to purchase 4,562,791 shares of common stock are authorized under the 2000 Plan. All options granted pursuant to the 2000 Plan are generally exercisable each year on a cumulative basis at a rate of 33 1/3% of the total number of common shares covered by the option beginning on the first anniversary of the date of grant and expiring ten years from the date of grant. As of December 31, 2000, there were 3,917,500 options granted and 645,291 shares of unissued common stock reserved for future grants under the 2000 Plan.

The options granted are "nonqualified" for tax purposes. For financial reporting purposes, the exercise price of certain option grants under the 1996 plan were considered to be below the fair value of the stock at the time of grant. The fair value of those grants was determined based on an appraisal conducted by an independent appraisal firm as of the relevant date. Options granted under the 2000 Plan were granted to employees at the fair value of the related stock. The aggregate differences between fair value and the exercise price is being charged to compensation expense over the relevant vesting periods. Such expense aggregated $83,000 and $74,000 in 1999 and 2000, respectively.

9. STOCKHOLDERS' EQUITY (CONTINUED)

A summary of the number of shares of common stock issuable upon the exercise of options under the Company's 1996 Plan and 2000 Plan for fiscal 2000, 1999 and 1998 and changes during those years is presented below:

WEIGHTED SHARES	PRICE RANGE	AVERAGE PRICE
Balance at December 31, 1997	431,282	$ 6.99 $ 6.99
Granted	299,292	6.99 6.99
Exercised	--	-- --
Forfeited or canceled	(119,801)	6.99 6.99
Balance at December 31, 1998	610,773	$ 6.99 $ 6.99
Granted	90,376	6.99 6.99
Exercised	--	-- --
Forfeited or canceled	(150,907)	6.99 6.99
Balance at December 31, 1999	550,242	$ 6.99 $ 6.99
Granted	3,943,000	13.00-31.70 13.69
Exercised	(78,284)	6.99 6.99
Forfeited or canceled	(83,927)	6.99-20.06 9.40
Balance at December 31, 2000	4,331,031	$ 6.99-31.70 $13.05

The following table summarizes information concerning currently outstanding and exercisable options:

OPTIONS OUTSTANDING	OPTIONS

EXERCISABLE

--- ------

WEIGHTED
AVERAGE
RANGE OF
EXERCISE
NUMBER
REMAINING
WEIGHTED
AVERAGE
NUMBER
WEIGHTED
AVERAGE
PRICES
OUTSTANDING
CONTRACTUAL
LIFE
EXERCISE
PRICE
EXERCISABLE
EXERCISE
PRICE ----

------- --

------ ---

--- ------
----- ----

-- $ 6.99
413,531
6.8 years
$ 6.99
153,668
$6.99
$13.00-
31.70
3,917,500
9.5 years
$13.69 --
--

Under SFAS No. 123, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. The weighted-average fair value of each option granted during 1998, 1999 and 2000 were $2.05, $5.10 and $6.11, respectively. In 2000 and 1998, the exercise price of options granted was the same as the fair value of the related stock. In 1999, the exercise price of options granted was less than the fair value of the related stock. The following weighted-average assumptions were used for grants in fiscal 1998, 1999 and 2000: risk-free interest rate of 5.14%, 5.49% and 6.46%; expected volatility of the Company's common stock based on peer companies in the healthcare industry of 34%, 45% and 58%, respectively; no dividend yields; and weighted-average expected life of the options of 3 years for all years.

Had the fair value of the options granted been recognized as compensation expense on a straight-line basis over the vesting period of the grant, the Company's net income (loss) and

9. STOCKHOLDERS' EQUITY (CONTINUED)
income (loss) per share would have been reduced to the pro forma amounts indicated below (in thousands except per share data):

	1998	1999	2000
Pro forma net income (loss)................................	$(183,513)	$(17,010)	$ 6,907
Pro forma net income (loss) per share:			
Basic..	$ (3.38)	$ (0.31)	$ 0.10
Diluted..	$ (3.38)	$ (0.31)	$ 0.10

10. EARNINGS PER SHARE

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

YEAR ENDED DECEMBER 31,	1998	1999	2000
NUMERATOR: Income (loss) before cumulative effect of a change in accounting principle	$ (182,938)	$ (16,789)	$ 9,569
Cumulative effect of a change in accounting principle	(352)	--	--
Net income (loss) available to common -- basic and diluted	$ (183,290)	$ (16,789)	$ 9,569
DENOMINATOR: Weighted-average number of shares outstanding -- basic	54,249,895	54,545,030	67,610,399
Effect of dilutive securities: Non-employee director options	--	--	54,885
Unvested common shares	--	--	802,471
Employee options	--	--	719,436
Weighted-average number of shares outstanding -- diluted	54,249,895	54,545,030	69,187,191
Dilutive securities outstanding not included in the computation of earnings (loss) per share because their effect is antidilutive: Non-employee director options	191,614	191,614	--
Unvested common shares	1,239,902	1,031,734	--
Employee options	610,773	550,242	--

11. ACCOUNTING CHANGE

In 1998, the Company adopted The American Institute of Certified Public Accountants Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities," which affects the accounting for start-up costs. The change involved expensing these costs as incurred, rather than capitalizing and subsequently amortizing such costs. The cumulative effect of the change on the

11. ACCOUNTING CHANGE (CONTINUED)
accumulated deficit as of the beginning of 1998 is reflected as a charge of $0.5 million ($0.4 million net of taxes) to 1998 earnings.

12. COMMITMENTS AND CONTINGENCIES

CONSTRUCTION COMMITMENTS. As of December 31, 2000, the Company has obligations under certain hospital purchase agreements to construct four hospitals through 2005 with an aggregate estimated construction cost, including equipment, of approximately $120 million.

PROFESSIONAL LIABILITY RISKS. Substantially all of the Company's professional and general liability risks are subject to a $0.5 million per occurrence deductible (with an annual deductible cap of $5 million). The Company's insurance is underwritten on a "claims-made basis." The Company accrues an estimated liability for its uninsured exposure and self-insured retention based on historical loss patterns and actuarial projections. The Company's estimated liability for the self-insured portion of professional and general liability claims was $16.4 million and $16.6 million as of December 31, 1999 and 2000, respectively. These estimated liabilities represent the present value of estimated future professional liability claims payments based on expected loss patterns using a discount rate of 5.72% and 5.77% in 1999 and 2000, respectively. The discount rate is based on an estimate of the risk-free interest rate for the duration of the expected claim payments. The estimated undiscounted claims liability was $18.9 million and $19.5 million as of December 31, 1999 and 2000, respectively. The effect of discounting professional and general liability claims was a $0.1 million decrease to expense in 1998 and 1999 and a $0.3 million increase to expense in 2000.

COMPLIANCE SETTLEMENT AND YEAR 2000 REMEDIATION COSTS. In 1997, the Company initiated a voluntary review of its inpatient medical records in order to determine the extent it may have had coding inaccuracies under certain government programs. At December 31, 1998, an estimate of the costs of these coding inaccuracies settlement was accrued based on information available and additional costs were accrued at December 31, 1999. In March 2000, the Company reached a settlement with appropriate governmental agencies pursuant to which the Company paid approximately $31.8 million to settle potential liabilities related to coding inaccuracies occurring from October 1993 through September 1997. Year 2000 remediation costs totaled $0.2 million and

$3.3 million for 1998 and 1999, respectively.

LEGAL MATTERS. The Company is a party to legal proceedings incidental to its business. In the opinion of management, any ultimate liability with respect to these actions will not have a material adverse effect on the Company's consolidated financial position, cash flows or results of operations.

13. RELATED PARTY TRANSACTIONS

Notes receivable for common shares held by employees, as disclosed on the consolidated balance sheets, represent the outstanding balance of notes accepted by the Company as partial payment for the purchase of the common shares from senior management employees. These notes bear interest at 6.84%, are full recourse promissory notes and are secured by the shares to which they relate. Each of the full recourse promissory notes mature on the fifth anniversary date of the note, with accelerated maturities in case of employee termination, Company stock repurchases, or

13. RELATED PARTY TRANSACTIONS (CONTINUED)
stockholder's sale of common stock. Employees have fully paid for purchases of common stock by cash or by a combination of cash and full recourse promissory notes.

The Company purchased marketing services and materials at a cost of $268,000 and $239,400 in 1999 and 2000, respectively, from a company owned by the spouse of one of the Company's officers.

In 1996, in connection with the Company's relocation from Houston to Nashville, the Company provided a $100,000 non-interest bearing loan to one of its executives. This loan was repaid on December 13, 2000.

14. QUARTERLY FINANCIAL DATA (UNAUDITED)

QUARTER				
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)	1ST	2ND	3RD	4TH
1999				
Net operating revenues	$ 263,004	$ 261,821	$ 266,896	$ 288,232
Income (loss) before taxes	6,498	254	(4,036)	(13,952)
Net income (loss)	1,918	(1,843)	(4,427)	(12,437)
Net income (loss) per share:				
Basic	0.04	(0.03)	(0.08)	(0.23)
Diluted	0.03	(0.03)	(0.08)	(0.23)
Weighted average number of shares:				
Basic	54,439,895	54,517,660	54,495,334	54,459,838
Diluted	55,632,718	54,517,660	54,495,334	54,459,838
2000				
Net operating revenues	$ 308,651	$ 317,136	$ 342,447	$ 369,267
Income before taxes	4,850	3,413	5,163	14,316
Net income	921	178	1,258	7,212
Net income per share:				
Basic	0.02	--	0.02	0.09
Diluted	0.02	--	0.02	0.09
Weighted average number of shares:				
Basic	54,634,285	58,175,050	75,120,860	81,717,585
Diluted	67,610,399			

Diluted.....
55,838,214 59,310,601
77,193,350 84,067,319
69,187,191

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

AS OF JUNE 30, 2001

(IN THOUSANDS, EXCEPT SHARE DATA)

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 35,740
Patients accounts receivable, net	316,499
Supplies	41,860
Prepaid expenses and income taxes	14,169
Current deferred income taxes	2,233
Other current assets	15,330
Total current assets	425,831
PROPERTY AND EQUIPMENT	936,336
Less: accumulated depreciation and amortization	(169,627)
Property and equipment, net	766,709
GOODWILL, NET	991,557
OTHER ASSETS, NET	95,989
TOTAL ASSETS	$2,280,086
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES	
Current maturities of long-term debt	$ 21,499
Accounts payable	86,460
Current income taxes payable	16,998
Accrued interest	20,278
Accrued liabilities	111,488
Total current liabilities	256,723
LONG-TERM DEBT	1,229,507
OTHER LONG-TERM LIABILITIES	14,015
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; 87,296,185 shares issued and 86,320,636 shares outstanding at June 30, 2001	873
Additional paid-in capital	1,001,204
Accumulated deficit	(215,284)
Treasury stock, at cost, 975,549 shares at June 30, 2001 and 967,980 shares at December 31, 2000	(6,678)
Notes receivable for common stock	(211)
Unearned stock compensation	(63)
Total stockholders' equity	779,841
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$2,280,086

See notes to unaudited interim condensed consolidated financial statements.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

SIX MONTHS ENDED JUNE 30,	
2000	2001
NET OPERATING REVENUES	$ 625,787
$ 799,554	
OPERATING COSTS AND EXPENSES:	
Salaries and benefits	244,222
309,781	
Provision for bad debts	56,594
73,959	

Supplies.....
72,410 92,888 Other operating
expenses..... 118,168
152,161
Rent.....
14,537 19,687 Depreciation and
amortization..... 33,910 43,094
Amortization of
goodwill..... 12,378 14,074
---------- ---------- Total operating costs and
expenses..... 552,219 705,644 ----------
- ---------- INCOME FROM
OPERATIONS..... 73,568
93,910 INTEREST EXPENSE,
NET..... 65,305 53,174
---------- ---------- INCOME BEFORE INCOME
TAXES..... 8,263 40,736
PROVISION FOR INCOME
TAXES..... 7,164 20,237 ----
------- ---------- NET
INCOME.....
$ 1,099 $ 20,499 ========== ========== NET INCOME PER
COMMON SHARE:
Basic.....
$ 0.02 $ 0.24 ========== ==========
Diluted.....
$ 0.02 $ 0.23 ========== ========== WEIGHTED-AVERAGE
NUMBER OF SHARES OUTSTANDING:
Basic.....
56,423,677 85,696,119 ========== ==========
Diluted.....
57,554,519 87,554,317 ========== ==========

See notes to unaudited interim condensed consolidated financial statements.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

SIX MONTHS ENDED JUNE 30, ---------- 2000
2001 --------- --------- CASH FLOWS FROM OPERATING
ACTIVITIES Net
income.....
$ 1,099 $ 20,499 Adjustments to reconcile net income to
net cash provided by (used in) operating activities:
Depreciation and
amortization..... 46,288 57,168
Stock compensation
expense..... 43 22 Other non-
cash expenses (income), net..... (498)
474 Changes in operating assets and liabilities, net of
effects of acquisitions and divestitures: Patient
accounts receivable..... (9,321)
6,277 Supplies, prepaid expenses and other current
assets.....
(3,989) 6,275 Accounts payable, accrued liabilities and
income
taxes.....
(30,486) 2,677 Compliance settlement
payment..... (30,900) --
Other.....
(6,635) 2,136 --------- --------- Net cash provided by
(used in) operating activities..... (34,399) 95,528 -
--------- --------- CASH FLOWS FROM INVESTING ACTIVITIES
Acquisitions of facilities, pursuant to purchase
agreements.....
(40,639) (50,063) Purchases of property and
equipment..... (24,006) (39,056)
Proceeds from sale of
equipment..... 62 53 Increase in
other assets..... (9,678)
(15,398) --------- --------- Net cash used in investing
activities..... (74,261) (104,464) ------
--- --------- CASH FLOWS FROM FINANCING ACTIVITIES
Proceeds from issuance of common stock, net of
expenses... 225,225 -- Proceeds from exercise of stock
options..... -- 2,289 Common stock
purchased for treasury..... -- (91)
Borrowings under credit
agreement..... 137,731 69,000
Repayments of long-term
indebtedness..... (252,588) (40,262) -
-------- --------- Net cash provided by financing
activities..... 110,368 30,936 --------- ----
----- NET CHANGE IN CASH AND CASH
EQUIVALENTS..... 1,708 22,000 CASH AND

CASH EQUIVALENTS AT BEGINNING OF PERIOD.....
4,282 13,740 --------- --------- CASH AND CASH
EQUIVALENTS AT END OF PERIOD..... $ 5,990
$ 35,740 ========= =========

See notes to unaudited interim condensed consolidated financial statements.

1. BASIS OF PRESENTATION

The unaudited condensed consolidated financial statements of Community Health Systems, Inc. and its subsidiaries (the "Company") as of and for the six month periods ended June 30, 2001 and June 30, 2000, have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). In the opinion of management, such information contains all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for such periods. All intercompany transactions and balances have been eliminated. The results of operations for the six months ended June 30, 2001 are not necessarily indicative of the results to be expected for the full fiscal year ending December 31, 2001.

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 financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2000 contained in the Company's Annual Report on Form 10-K.

2. USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP 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.

3. ACQUISITIONS

Effective June 1, 2001, the Company acquired, through a purchase transaction, the assets and working capital of a hospital for consideration of approximately $60.7 million, including liabilities assumed. Licensed beds at the facility totaled 168. The Company borrowed $49.0 million against its acquisition loan revolving facility to fund this transaction.

4. RECENT ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

On July 20, 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets" (the "Statements"). These Statements make significant changes to the accounting for business combinations, goodwill and intangible assets.

SFAS No. 141 eliminates the pooling-of-interests method of accounting for business combinations. In addition, it further clarifies the criteria for recognition of intangible assets separately from goodwill. This statement's provisions apply to business combinations accounted for using the purchase method for which the date of acquisition is July 1, 2001, or later.

SFAS No. 142 discontinues the practice of amortizing goodwill and indefinite life intangible assets. Its nonamortization provisions are effective January 1, 2002 for goodwill existing at June 30, 2001, and are effective immediately for business combinations with acquisition dates after June 30, 2001. Intangible assets with a determinable useful life will continue to be amortized over that period. SFAS No. 142 requires the Company to complete a transitional goodwill impairment test as of January 1, 2002. Any impairment loss will be recorded as soon as possible, but in no case later

4. RECENT ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED (CONTINUED)
than December 31, 2002. In addition, SFAS No. 142 requires that indefinite life intangible assets and goodwill be tested at least annually for impairment of carrying value; impairment of carrying value would be evaluated more frequently if certain indicators are encountered.

We expect to adopt SFAS No. 142 effective January 1, 2002. Early adoption and retroactive application of SFAS No. 141 and SFAS No. 142 are not permitted. The Company expects that the adoption of these statements will not have a significant effect on its financial position, but will have a favorable effect

on its results of operations.

SFAS No. 143, "Accounting for Asset Retirement Obligations" was issued in June 2001 by the Financial Accounting Standards Board and is effective for financial statements issued for fiscal years beginning after June 15, 2002. Earlier application is encouraged. SFAS No. 143 establishes accounting standards for recognition and measurement of a liability for an asset retirement obligation and the associated retirement cost. This Statement applies to all entities and to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) the normal operation of a long-lived asset, except for certain obligations of lessees. The Company is currently evaluating the impact, if any, of adopting SFAS No. 143.

5. ACCOUNTING PRONOUNCEMENT ADOPTED

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", is effective for all fiscal years beginning after June 15, 2000. SFAS No. 133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. Under SFAS No. 133, certain contracts that were not formerly considered derivatives may now meet the definition of a derivative. The Company adopted SFAS No. 133 on January 1, 2001. The adoption of SFAS No. 133 did not impact the financial position, results of operations, or cash flows of the Company.

6. 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):

SIX MONTHS ENDED JUNE 30,	
2000	2001
NUMERATOR: Net income	
$ 1,099	$ 20,499
DENOMINATOR: Weighted-average number of shares outstanding--basic	56,423,677	85,696,119
Effect of dilutive options	1,130,842	1,858,198
Weighted-average number of shares outstanding--diluted	57,554,519	87,554,317
Basic earnings per share	$ 0.02	$ 0.24
Diluted earnings per share	$ 0.02	$ 0.23

7. SUBSEQUENT EVENTS

Effective July 19, 2001, the Company amended its 1999 Amended and Restated Credit Agreement. The Credit Agreement is syndicated with a group of lenders led by The Chase Manhattan Bank, an affiliate of J.P. Morgan Securities Inc., and co-agents, Bank of America, N.A. and The Bank of Nova Scotia. This amendment, among other things, extends the maturity of approximately 80% of the $200 million revolving credit facility and the $263.2 million in acquisition loan commitments from December 31, 2002 to January 2, 2004.

Effective September 1, 2001, the Company acquired Red Bud Regional Hospital, a 103-bed facility located in Red Bud, Illinois, for an aggregate consideration of approximately $5 million. On October 1, 2001, the Company acquired Southern Chester County Medical Center, renamed Jennersville Regional Hospital, a 59-bed hospital located in West Grove, Pennsylvania, for an aggregate consideration of approximately $29 million. Southern Chester County Medical Center is the sole provider of general acute hospital services in its community. On August 2, 2001 the Company signed a definitive agreement to acquire 369-bed Easton Hospital, the only hospital in the city of Easton and Northampton County, Pennsylvania. This transaction is subject to state regulatory approvals and licensing and is expected to be completed and closed during the fourth quarter of 2001.

The Company is pursuing concurrent public offerings of 12,000,000 shares of its common stock and $250 million of convertible notes. The Company plans to utilize proceeds from the offerings to repay $500 million of its outstanding subordinated debentures, plus accrued interest, as well as a portion of the outstanding debt under the acquisition loan facility of the Company's credit agreement. In connection with such repayment, the Company anticipates that it will recognize an extraordinary loss on early extinguishment of debt of approximately $3.9 million (after tax). The Company expects to complete such offerings during the fourth quarter of 2001.

[INSIDE BACK COVER PAGE]

[Description of artwork:
Photographs of four of our facilities:
Eastern New Mexico Medical Center,
Moberly Regional Medical Center,
Springs Memorial Hospital, and
North Okaloosa Medical Center]

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus. You must not be rely on any unauthorized information or representations. This prospectus is an offer to sell the shares offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date.

TABLE OF CONTENTS

12,000,000 Shares

COMMUNITY HEALTH
SYSTEMS, INC.

Common Stock

[LOGO]

GOLDMAN, SACHS & CO.
MERRILL LYNCH & CO.
CREDIT SUISSE FIRST BOSTON
BANC OF AMERICA SECURITIES LLC
JPMORGAN
UBS WARBURG

Representatives of the Underwriters

THE INFORMATION IN THIS PRELIMINARY PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. THESE SECURITIES MAY NOT BE SOLD UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PRELIMINARY PROSPECTUS IS NOT AN OFFER TO SELL NOR DOES IT SEEK AN OFFER TO BUY THESE SECURITIES IN ANY JURISDICTION WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION.
PRELIMINARY PROSPECTUS DATED OCTOBER 4, 2001.

$250,000,000

[LOGO]

% Convertible Subordinated Notes due 2008

You may convert the notes into shares of common stock of Community Health Systems, Inc. at any time prior to their maturity or their redemption by Community Health Systems. The conversion rate is shares per each $1,000 principal amount of notes, subject to adjustment. This is equivalent to a conversion price of approximately $ per share. On September 20, 2001, the last reported sale price for the common stock on the New York Stock Exchange was $28.60 per share. The common stock is listed under the symbol "CYH".

Community Health Systems will pay interest on the notes on and of each year. The first such payment will be made on , 2002. The notes will be unsecured obligations of Community Health Systems and will rank junior to all of its existing and future senior indebtedness and will be effectively subordinated to all existing and future liabilities of its subsidiaries, including trade payables. As of June 30, 2001, Community Health Systems and its subsidiaries had approximately $1.5 billion of consolidated indebtedness and other liabilities. The notes will be issued only in denominations of $1,000 and integral multiples of $1,000.

Prior to , 2005, if the price of its common stock closes above 150% of the conversion price for at least 20 trading days in the consecutive 30-day trading period specified in this prospectus, Community Health Systems has the option to redeem some or all of the notes at the prices set forth in this prospectus. A portion of the amount paid may be made, at the option of Community Health Systems, in its common stock. On or after 2005, Community Health Systems has the option to redeem some or all of the notes at the redemption prices set forth in the prospectus. You have the option, subject to some conditions, to require Community Health Systems to repurchase any note held by you in the event of a change of control of us, as described in the prospectus, at a price equal to 100% of its principal amount plus accrued interest to the date of repurchase.

Concurrently with this offering of notes, Community Health Systems is offering 12,000,000 shares of its common stock. The common stock will be offered pursuant to a separate prospectus. Neither offering is contingent on the other.

Community Health Systems, Inc. does not intend to apply for listing of the notes on any securities exchange or for inclusion of the notes in any automated quotation system.

SEE "RISK FACTORS" BEGINNING ON PAGE 12 TO READ ABOUT FACTORS YOU SHOULD CONSIDER BEFORE BUYING THE NOTES.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY OTHER REGULATORY BODY HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Per Note	Total
Initial public offering price	%	$
Underwriting discount	%	$
Proceeds, before expenses, to Community Health Systems, Inc.	%	$

The initial public offering price set forth above does not include accrued interest, if any. Interest on the notes will accrue from the date of original issuance of the notes, expected to be .

To the extent that the underwriters sell more than $250,000,000 principal amount of notes, the underwriters have the option to purchase up to an additional $37,500,000 principal amount of notes at the initial public offering less the underwriting discount.

The underwriters expect to deliver the notes in book-entry form only through the facilities of The Depository Trust Company against payment in New York, New York on , 2001.

GOLDMAN, SACHS & CO. MERRILL LYNCH & CO. CREDIT SUISSE FIRST BOSTON

BANC OF AMERICA SECURITIES LLC

JPMORGAN

UBS WARBURG

Prospectus dated , 2001.

[INSIDE FRONT COVER]

[DESCRIPTION OF ARTWORK: MAP OF THE UNITED STATES INDICATING LOCATIONS OF OUR FACILITIES]

PROSPECTUS SUMMARY

YOU SHOULD READ THE FOLLOWING SUMMARY TOGETHER WITH THE MORE DETAILED INFORMATION REGARDING OUR COMPANY AND THE NOTES BEING SOLD IN THIS OFFERING AND OUR CONSOLIDATED FINANCIAL STATEMENTS AND THE RELATED NOTES APPEARING ELSEWHERE IN THIS PROSPECTUS.

COMMUNITY HEALTH SYSTEMS

OVERVIEW OF OUR COMPANY

We are the largest non-urban provider of general hospital healthcare services in the United States in terms of number of facilities and the second largest in terms of revenues. As of October 1, 2001, we owned, leased or operated 55 hospitals, geographically diversified across 20 states, with an aggregate of 5,010 licensed beds. In over 85% of our markets, we are the sole provider of general hospital healthcare services. In all but one of our other markets, we are one of two providers of these services. For the fiscal year ended December 31, 2000, we generated $1.34 billion in revenues. For the six months ended June 30, 2001, we generated $799.6 million in revenues.

Affiliates of Forstmann Little & Co. formed us in 1996 to acquire our predecessor company. Wayne T. Smith, who has over 30 years of experience in the healthcare industry, joined our company in January 1997. Under this ownership and leadership, we have:

- strengthened the senior management team in all key business areas;
- standardized and centralized our operations across key business areas;
- implemented a disciplined acquisition program;
- expanded and improved the services and facilities at our hospitals;
- recruited additional physicians to our hospitals; and
- instituted a company-wide regulatory compliance program.

As a result of these initiatives, we achieved revenue growth of 23.8% in 2000, 26.4% in 1999 and 15.1% in 1998.

We target growing, non-urban healthcare markets because of their favorable demographic and economic trends and competitive conditions. Because non-urban service areas have smaller populations, there are generally fewer hospitals and other healthcare service providers in these communities. We believe that smaller populations result in less direct competition for hospital-based services. Also, we believe that non-urban communities generally view the local hospital as an integral part of the community. There is generally a lower level of managed care presence in these markets.

OUR BUSINESS STRATEGY

The key elements of our business strategy are to:

- INCREASE REVENUE AT OUR FACILITIES. We seek to increase our share of the healthcare dollars spent by local residents and limit inpatient and outpatient migration to larger urban facilities. Our initiatives to increase revenue include:
  - o recruiting additional primary care physicians and specialists;

  - o expanding the breadth of services offered at our hospitals through targeted capital expenditures; and
  - o providing the capital to invest in our facilities, particularly in our emergency rooms.
- GROW THROUGH SELECTIVE ACQUISITIONS. Each year we intend to acquire, on a selective basis, two to four hospitals. We generally pursue acquisition candidates that:
  - o have a general service area population between 20,000 and 100,000 with a stable or growing population base;

- are the sole or primary provider of general hospital services in the community;

- are located more than 25 miles from a competing hospital;

- are not located in an area that is dependent upon a single employer or industry; and

- have financial performance that we believe will benefit from our management's operating skills.

We estimate that there are currently approximately 375 hospitals that meet our acquisition criteria. These hospitals are primarily not-for-profit or municipally owned.

- REDUCE COSTS. To improve efficiencies and increase margins, we implement cost containment programs which include:

  - standardizing and centralizing our operations;

  - optimizing resource allocation by utilizing our company-devised case and resource management program;

  - capitalizing on purchasing efficiencies;

  - installing a standardized management information system; and

  - managing staffing levels.

- IMPROVE QUALITY. We implement new programs to improve the quality of care provided. These include training programs, sharing of best practices, assistance in complying with regulatory requirements, standardized accreditation documentation, and patient, physician, and staff satisfaction surveys.

RECENT DEVELOPMENTS

Effective June 1, 2001, we acquired Brandywine Hospital, a 168-bed acute care facility located in Coatesville, Pennsylvania for an aggregate consideration of approximately $61 million. Effective September 1, 2001, we acquired Red Bud Regional Hospital, a 103-bed facility located in Red Bud, Illinois for an aggregate consideration of approximately $5 million. On October 1, 2001, we acquired Jennersville Regional Hospital, formerly known as Southern Chester County Medical Center, a 59-bed hospital located in West Grove, Pennsylvania for an aggregate consideration of approximately $29 million. These three acquisitions increased the number of hospitals we own, lease or operate to 55. On August 2, 2001, we signed a definitive agreement to acquire 369-bed Easton Hospital, the only hospital in the city of Easton and Northampton County, Pennsylvania. This pending transaction is expected to close during the fourth quarter of 2001. The sellers of each of these four hospitals are tax-exempt entities. Each of these hospitals is the sole provider of general hospital services in its community.

Effective July 19, 2001, we amended our credit agreement. The credit agreement is syndicated with a group of lenders led by The Chase Manhattan Bank, an affiliate of J.P. Morgan Securities

Inc., and co-agents, Bank of America, N.A. and The Bank of Nova Scotia. This amendment extended the maturity of approximately 80% of the $200 million revolving credit facility and the $263.2 million in acquisition loan commitments from December 31, 2002 to January 2, 2004.

As of September 7, 2001, we also have entered into non-binding letters of intent to acquire an additional two hospitals. We do not enter into definitive agreements until we complete satisfactory business and financial due diligence and financial modeling. In some cases, we do not sign definitive agreements or acquire the hospital after a letter of intent is executed. Some of the hospitals we acquired this year or have executed definitive agreements or letters of intent to acquire had significant historical operating losses. It is not uncommon for us to acquire hospitals with historical losses. As evidenced by our experience with prior acquisitions, these historical losses are not necessarily indicative of the future operating results we would experience after these acquisitions are completed.

INDUSTRY OVERVIEW

Hospital services, the market in which we operate, is the largest single category of healthcare expenditures at 32.1% of total healthcare spending in 2000, or $415.8 billion. The Centers for Medicare and Medicaid Services, formerly known as the U.S. Health Care Financing Administration, projects the hospital services category to grow by 5.7% per year through 2010.

According to the American Hospital Association, there are approximately 5,000 hospitals in the U.S. that are owned by not-for-profit entities, for-profit investors, or state or local governments. Of these hospitals, 44%, or approximately 2,200, are located in non-urban communities.

We were incorporated in Delaware in 1996. Our principal subsidiary was incorporated in Delaware in 1985. We completed our initial public offering of common stock in June 2000 and completed a subsequent offering of common stock in October 2000. Our principal executive offices are located at 155 Franklin Road, Suite 400, Brentwood, Tennessee 37027. Our telephone number at that address is (615) 373-9600. Our World Wide Web site address is www.chs.net. The information in the website is not intended to be incorporated into this prospectus by reference and should not be considered a part of this prospectus.

THE OFFERING

Securities offered.....	$250,000,000 aggregate principal amount of % Convertible Subordinated Notes due , 2008. We have also granted the underwriters an over-allotment option to purchase up to an additional $37,500,000 aggregate principal amount of convertible notes.
Offering price.....	100% of the principal amount of the notes, plus accrued interest, if any, from the date of original issuance of the notes, which we expect to be , 2001.
Interest payable.....	We will pay interest on the notes semi-annually on and of each year, commencing , 2002.
Conversion.....	The notes are convertible, at the option of the holder, into shares of our common stock at any time before the close of business on the business day preceding the maturity date, unless we have previously redeemed or repurchased the notes, at a conversion rate of shares of common stock per $1,000 principal amount of notes. The conversion rate is subject to anti-dilution adjustment in some events.
Provisional Redemption.....	Prior to , 2005, if the price of our common stock has exceeded 150% of the conversion price for at least 20 trading days in the consecutive 30-day trading period ending on the trading day prior to the date of mailing of the notice of redemption, we have the right at any time to redeem some or all of the notes at a redemption price of 100% of their principal amount plus accrued and unpaid interest to the redemption date. In this case, we must make an additional "make whole" payment in cash or, at our option, common stock or a combination of cash and common stock on the redeemed notes equal to $ per $1,000 principal amount of notes, minus the amount of any interest actually paid or accrued and unpaid on each $1,000 principal amount of redeemed notes prior to the date we redeem the notes. We must make these "make whole" payments on all notes called for redemption, including notes converted after the date we mailed the notice. See "Description of Notes--Provisional Redemption."
Optional redemption by us.....	On or after , 2005, we have the right at any time to redeem some or all of the notes at the redemption prices set forth in this prospectus, plus accrued and unpaid interest to the redemption date.

Repurchase at the option of holders upon a change of control.....	If we experience a specified change of control, a holder of notes will have the right, subject to some conditions and restrictions, to require us to repurchase, with cash or common stock, some or all of the notes held by that holder at a price equal to 100% of the principal amount, plus accrued and unpaid interest to the repurchase date.
Ranking.....	The notes will be subordinated to our future senior debt, as that term is defined in "Description of the Notes--Subordination." The notes are also effectively subordinated

	in right of payment to all indebtedness and other liabilities of our subsidiaries. As of June 30, 2001, we had outstanding senior debt of $1,251.0 million, including the $500 million of our 7 1/2% subordinated debt, and the aggregate amount of other indebtedness and liabilities of us and our subsidiaries was approximately $249.2 million. The indenture under which the notes will be issued will not restrict the incurrence of senior debt by us or any of our subsidiaries or our incurrence of other indebtedness or liabilities. See "Description of the Notes--Subordination."
Use of proceeds.....	We estimate that our net proceeds from this offering and the concurrent common stock offering will be approximately $570.5 million. We intend to use all of the net proceeds from this offering to repay a portion of the $500 million of our 7 1/2% subordinated debt, plus accrued interest. We intend to use the net proceeds from the concurrent common stock offering to repay the balance of our 7 1/2% subordinated debt, plus accrued interest, and to repay a portion of our outstanding debt under the acquisition loan facility of our credit agreement with The Chase Manhattan Bank, an affiliate of J.P. Morgan Securities Inc., and other lenders. All of our 7 1/2% subordinated debt is held by the limited partners of an affiliate of Forstmann Little & Co. As of September 30, 2001, accrued interest on our subordinated debt was $6.3 million.

Events of default.....	Events of default include: - failure to pay interest on any of the notes within 30 days after payment becomes due; - failure to pay principal of or premium, if any, on any of the notes when due; - failure to perform or comply with the other covenants in the indenture with respect to the notes, and that failure is not cured within 60 days after we are given notice of the failure; - failure by us or some of our subsidiaries to pay when due, or the acceleration of the due date, of more than $15.0 million of indebtedness for money borrowed, and that indebtedness is not discharged, or the acceleration is not annulled, within 30 days after we are given notice of the failure or acceleration; - some events of bankruptcy, insolvency or reorganization of our company; - failure to provide the required notice of any change of control or to pay the repurchase price in connection with a change of control; and - failure for 10 days to deliver shares of common stock, together with cash instead of fractional shares, in connection with the conversion of the notes into shares of our common stock.
Listing of notes.....	The notes will not be listed on any securities exchange or any automated quotation system. Some of the underwriters have advised us that they currently intend to make a market in the notes. However, they are not obligated to do so, and any market making may be discontinued at any time at the sole discretion of the underwriters without notice.

Global note; book-entry system.....	We will issue the notes only in book-entry form, registered in the name of DTC or its nominee. Purchasers will not receive individually certificated notes. Instead, the notes will be evidenced by a global note, in fully registered form and without coupons, and deposited with the trustee, as custodian for DTC. The interest of any holder in the global note will be shown on, and transfers of that interest will be effected only through, records maintained by DTC and its direct and indirect participants.
Governing law.....	The indenture and the notes will be governed by the laws of the State of New York.

Unless we specifically state otherwise, the information in this prospectus does not take into account:

- up to shares of common stock, including the underwriters' over-allotment option, issuable upon the conversion of the notes;
- up to 1,800,000 shares of common stock which the underwriters have the option to purchase to cover over-allotments in the concurrent common stock offering; and
- an additional 4,887,844 shares of common stock we have reserved for issuance under our stock option plans as of September 30, 2001. Of these reserved shares, 4,288,694 shares are issuable upon exercise of outstanding stock options at an average exercise price of $13.30.

OUR CONCURRENT COMMON STOCK OFFERING

Concurrently with this offering, we are offering 12,000,000 shares of common stock, excluding the over-allotment option of 1,800,000 shares of common stock, in an underwritten public offering.

The common stock offering and this offering are not contingent on each other.

SUMMARY CONSOLIDATED FINANCIAL AND OTHER DATA

You should read the summary consolidated financial and other data below in conjunction with our consolidated financial statements and the accompanying notes. We derived the historical financial data for the three years ended December 31, 2000 from our audited consolidated financial statements. We derived the historical financial data for the six months ended June 30, 2000 and June 30, 2001, and as of June 30, 2001, from our unaudited interim condensed consolidated financial statements. The unaudited interim condensed consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for these periods. You should also read Selected Consolidated Financial and Other Data and the accompanying Management's Discussion and Analysis of Financial Condition and Results of Operations. All of these materials are contained later in this prospectus. The pro forma consolidated statements of operations and balance sheet data are presented in a separate table following the historical data. For each period, the pro forma consolidated statements of operations data are presented in three columns: historical data, pro forma data reflecting the application of the estimated net proceeds from this offering to repay a portion of our outstanding debt as if this repayment occurred on January 1, 2000, and pro forma data reflecting the application of the estimated net proceeds from both this offering and the concurrent common stock offering to repay a portion of our outstanding debt as if this repayment had occurred on January 1, 2000. The pro forma consolidated statements of operations data for the year ended December 31, 2000 also reflect the application of the net proceeds from our two common stock public offerings in 2000. The pro forma consolidated balance sheet data give effect to this offering as well as both this offering and the concurrent common stock offering as if they had occurred on June 30, 2001.

SIX MONTHS ENDED		YEAR ENDED DECEMBER 31,			JUNE 30,	
1998	1999	2000	2000	2001		
			(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)			
CONSOLIDATED STATEMENT OF OPERATIONS DATA						
Net operating revenues	$ 854,580	$1,079,953	$1,337,501	$ 625,787	$ 799,554	
Operating expenses (a)	688,190	875,768	1,084,765	505,931	648,476	
Depreciation and amortization	49,861	56,943	71,931	33,910	43,094	
Amortization of						

goodwill..... 26,639 24,708 25,693 12,378 14,074 Impairment of long-lived assets..... 164,833 -- -- -- -- Compliance settlement and Year 2000 remediation costs (b)..... 20,209 17,279 -- -- -- ---------- ---------- ---------- ---------- Income (loss) from operations..... (95,152) 105,255 155,112 73,568 93,910 Interest expense, net..... 101,191 116,491 127,370 65,305 53,174 ---------- ---------- ---------- ------- ---------- ---------- Income (loss) before cumulative effect of a change in accounting principle and income taxes..... (196,343) (11,236) 27,742 8,263 40,736 Provision for (benefit from) income taxes..... (13,405) 5,553 18,173 7,164 20,237 ---------- ---------- ---------- ---------- ---------- ------ Income (loss) before cumulative effect of a change in accounting principle..... (182,938) (16,789) 9,569 1,099 20,499 Cumulative effect of a change in accounting principle, net of taxes..... (352) -- -- -- -- ---------- ---------- ---------- ---------- ------ Net income (loss)..... $ (183,290) $ (16,789) $ 9,569 $ 1,099 $ 20,499 ========== ========== ========== ========== ========== Basic income (loss) per common share: Income (loss) before cumulative effect of a change in accounting principle..... $ (3.37) $ (0.31) $ 0.14 $ 0.02 $ 0.24 Cumulative effect of a change in accounting principle... (0.01) -- -- -- -- -- -------- ---------- ---------- ---------- ---------- Net income (loss)..... $ (3.38) $ (0.31) $ 0.14 $ 0.02 $ 0.24 ========== ========== ========== ========== ========== Diluted income (loss) per common share: Income (loss) before cumulative effect of a change in accounting principle..... $ (3.37) $ (0.31) $ 0.14 $ 0.02 $ 0.23 Cumulative effect of a change in accounting principle... (0.01) -- -- -- -- -- -------- ---------- ---------- ---------- ---------- Net income (loss)..... $ (3.38) $ (0.31) $ 0.14 $ 0.02 $ 0.23 ========== ========== ========== ========== ========== Weighted average number of shares outstanding: Basic..... 54,249,895 54,545,030 67,610,399 56,423,677 85,696,119 ========== ========== ========== ========== ========== Diluted..... 54,249,895 54,545,030 69,187,191 57,554,519 87,554,317 ========== ========== ========== ========== ========== Ratio of earnings to fixed charges (c):..... -- -- 1.18x 1.10x 1.66x

(FOOTNOTES BEGIN ON PAGE 11)

YEAR ENDED DECEMBER 31, 2000 SIX MONTHS ENDED JUNE 30, 2001 ---------- ---------- ---------- ---------- PRO FORMA TO PRO FORMA TO REFLECT THIS REFLECT THIS OFFERING AND THE OFFERING AND THE PRO FORMA TO CONCURRENT PRO FORMA TO CONCURRENT REFLECT THIS COMMON STOCK REFLECT THIS COMMON STOCK ACTUAL OFFERING (D) OFFERING (E) ACTUAL OFFERING (D) OFFERING (E) ---------- -------- --------- ------ ---------- ---------- (DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA) CONSOLIDATED STATEMENT OF OPERATIONS DATA Net operating revenues..... $ 1,337,501 $ 1,337,501 $ 1,337,501 $ 799,554 $ 799,554 $ 799,554 Operating expenses(a)..... 1,084,765 1,084,765 1,084,765 648,476 648,476 648,476 Depreciation and amortization..... 71,931 71,931 71,931 43,094 43,094 43,094 Amortization of goodwill..... 25,693 25,693 25,693 14,074 14,074 14,074 ---------- ---------- ---------- ---------- - ---------- Income from operations..... 155,112 155,112 155,112 93,910 93,910 93,910 Interest expense, net..... 127,370 92,800 66,808 53,174 50,893 38,149 ----------

---------- ---------- ---------- ----------
- ---------- Income before extraordinary item
and income taxes.. 27,742 62,312 88,304 40,736
43,017 55,761 Provision for income
taxes..... 18,173 31,655 41,792 20,237
21,127 26,097 ---------- ---------- --------
--- ---------- ---------- ---------- Income
before extraordinary item..... $
9,569 $ 30,657 $ 46,512 $ 20,499 $ 21,890 $
29,664 ========== ========== ==========
========== ========== ========== Income per
common share before extraordinary item:
Basic..... $ 0.14 $ 0.45 $ 0.58 $ 0.24
$ 0.26 $ 0.30 ========== ==========
========== ========== ==========
========== Diluted..... $ 0.14 $ 0.44 $
0.57 $ 0.23 $ 0.25 $ 0.30 ==========
========== ========== ==========
========== ========== Weighted average
number of shares outstanding:
Basic..... 67,610,399 67,610,399
79,610,399 85,696,119 85,696,119 97,696,119
========== ========== ==========
========== ========== ==========
Diluted..... 69,187,191 69,187,191
81,187,191 87,554,317 87,554,317 99,554,317
========== ========== ==========
========== ========== ========== Ratio of
earnings to fixed charges (c):.....
1.18x 1.23x 1.23x 1.66x 1.72x 1.72x
CONSOLIDATED BALANCE SHEET DATA (AS OF END OF
PERIOD) Cash and cash
equivalents..... $
35,740 $ 35,740 $ 35,740 Total
assets.....
2,280,086 2,286,603 2,283,160 Long-term
debt.....
1,229,507 1,245,308 915,219 Other long-term
liabilities..... 14,015
14,015 14,015 Stockholders'
equity.....
779,841 777,990 1,105,979

(FOOTNOTES BEGIN ON PAGE 11)

SELECTED OPERATING DATA

The following table sets forth operating statistics for our hospitals for each of the periods presented. Statistics for 1998 include a full year of operations for 37 hospitals and partial periods for four hospitals acquired during the year. Statistics for 1999 include a full year of operations for 41 hospitals and partial periods for four hospitals acquired, and one hospital constructed and opened, during the year. Statistics for 2000 include a full year of operations for 45 hospitals and partial periods for one hospital disposed of, and seven hospitals acquired during the year. Statistics for the six months ended June 30, 2000 include operations for 45 hospitals and partial periods for four hospitals acquired during the six month period. Statistics for the six months ended June 30, 2001 include operations for 52 hospitals and partial periods for one hospital acquired.

SIX MONTHS ENDED YEAR ENDED DECEMBER 31,
JUNE 30, ----------
-------- ---------- 1998 1999
2000 2000 2001 ---------- ---------- ------
---- --------- --------- (DOLLARS IN
THOUSANDS) Number of hospitals
(f)..... 41 46 52 49 53
Licensed beds (f)
(g)..... 3,644 4,115
4,688 4,401 4,848 Beds in service (f)
(h)..... 2,776 3,123
3,587 3,355 3,722 Admissions
(i)..... 100,114
120,414 143,310 68,314 82,559 Adjusted
admissions (j).....
177,075 217,006 262,419 126,137 149,741
Patient days
(k)..... 416,845
478,658 548,827 267,060 315,994 Average
length of stay (days) (l)..... 4.2
4.0 3.8 3.9 3.8 Occupancy rate (beds in
service) (m)..... 43.3% 44.1% 44.6%
45.0% 48.4% Net inpatient revenue as a % of
total net
revenue.....
55.7% 52.7% 51.0% 50.6% 51.0% Net
outpatient revenue as a % of total net
revenue.....

42.6% 45.5% 47.3% 47.6% 47.8% Adjusted EBITDA (n)..... $ 166,390 $ 204,185 $ 252,736 $ 119,856 $ 151,078 Adjusted EBITDA as a % of net revenue..... 19.5% 18.9% 18.9% 19.2% 18.9% Net cash flows provided by (used in) operating activities..... $ 15,719 $ (11,746) $ 22,985 $ (34,399) $ 95,528 Net cash flows used in investing activities... $(236,553) $(155,541) $(244,444) $ (74,261) $(104,464) Net cash flows provided by financing activities..... $ 219,890 $ 164,850 $ 230,914 $ 110,368 $ 30,936

SIX MONTHS ENDED YEAR ENDED DECEMBER 31, JUNE 30, -------- PERCENTAGE ---- ---------- PERCENTAGE 1999 2000 INCREASE 2000 2001 INCREASE ---------- --- -------- ---------- --- ------ --------- ------- ---- (DOLLARS IN THOUSANDS) (DOLLARS IN THOUSANDS) SAME HOSPITALS DATA (o) Admissions (i)..... 117,768 125,207 6.3% 68,066 72,126 6.0% Adjusted admissions (j)..... 212,246 227,780 7.3% 125,649 131,027 4.3% Patient days (k)..... 467,884 481,620 2.9% 266,114 276,134 3.8% Average length of stay (days) (l)..... 4.0 3.8 3.9 3.8 Occupancy rate (beds in service) (m)..... 44.8% 45.1% 45.1% 47.4% Net revenue..... $1,047,950 $1,155,850 10.3% $ 620,067 $ 688,905 11.1% Adjusted EBITDA (n)..... $ 196,843 $ 229,637 16.7% $ 116,730 $ 133,537 14.4% Adjusted EBITDA, as a % of net revenue..... 18.8% 19.9% 18.8% 19.4%

(FOOTNOTES BEGIN ON PAGE 11)

(a) Operating expenses include salaries and benefits, provision for bad debts, supplies, rent, and other operating expenses, and exclude certain items for purposes of determining adjusted EBITDA as discussed in footnote (n) below.

(b) Includes Year 2000 remediation costs of $0.2 million in 1998 and $3.3 million in 1999.

(c) The ratio of earnings to fixed charges is calculated by dividing earnings by fixed charges. For this purpose, "earnings" means income (loss) from continuing operations before provision for income taxes and extraordinary items plus fixed charges (other than capitalized interest). "Fixed charges" means total interest whether capitalized or expensed (including the portion of rent expense representative of interest costs) on outstanding debt plus debt related fees and amortization of deferred financing costs. For the years ended December 31, 1998 and 1999, earnings were insufficient to cover fixed charges by approximately $197.0 million and $12.6 million.

The pro forma ratio of earnings to fixed charges gives effect to the net decrease in the interest expense resulting from this offering and the application of the estimated net proceeds from this offering to the repayment of existing debt, as if this offering had occurred at the beginning of the periods presented; this ratio does not give effect to any

other pro forma events. The ratio has been computed using an assumed interest rate of 4.75% for the notes.

(d) The pro forma adjustments for this offering for the year ended December 31, 2000 reflect our two common stock public offerings in 2000 and this offering, the application of the net proceeds from our two common stock public offerings in 2000 to repay debt of $225.2 million on June 14, 2000, $20.5 million on July 3, 2000 and $268.8 million on November 3, 2000 and the estimated net proceeds from this offering to repay debt of $234.2 million based on the outstanding debt balance as of December 31, 2000 and the resultant reduction of interest expense of $34.6 million as if these events had occurred on January 1, 2000.

The pro forma adjustments for this offering for the six months ended June 30, 2001 reflect this offering, the estimated net proceeds from this offering to repay debt of $234.2 million based on the outstanding debt balance as of June 30, 2001 and the resultant reduction of interest expense of $2.3 million as if these events had occurred on January 1, 2000.

The pro forma adjustments also reflect an increase in provision for income taxes of $13.5 million for the year ended December 31, 2000 and $0.9 million for the six months ended June 30, 2001, resulting from the decrease in interest expense. See "Use of Proceeds" and note (q) to the "Selected Consolidated Financial and Other Data."

(e) The pro forma adjustments for both this offering and the concurrent common stock offering for the year ended December 31, 2000 reflect the pro forma adjustments for our two common stock public offerings in 2000 and this offering as detailed in footnote (d) above as well as the concurrent common stock offering and the estimated net proceeds from the concurrent common stock offering to repay additional debt of $330.1 million based on the outstanding balance as of December 31, 2000 and the resultant additional reduction of interest expense of $26.0 million as if these events had occurred on January 1, 2000.

The pro forma adjustments for both this offering and the concurrent common stock offering for the six months ended June 30, 2001 reflect the pro forma adjustments for this offering as detailed in footnote (d) above as well as the concurrent common stock offering and the estimated net proceeds from the concurrent common stock offering to repay additional debt of $330.1 million based on the outstanding balance as of June 30, 2001 and the resultant additional reduction of interest expense of $12.7 million as if these events had occurred on January 1, 2000.

The pro forma adjustments also reflect an additional increase in provision for income taxes of $10.1 million for the year ended December 31, 2000 and $5.0 million for the six months ended June 30, 2001, resulting from the decrease in interest expense. See "Use of Proceeds" and note (r) to the "Selected Consolidated Financial and Other Data."

(f) At end of period.

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

(h) Beds in service are the number of beds that are readily available for patient use.

(i) Admissions represent the number of patients admitted for inpatient treatment.

(j) 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.

(k) Patient days represent the total number of days of care provided to inpatients.

(l) Average length of stay (days) represents the average number of days inpatients stay in our hospitals.

(m) We calculated percentages by dividing the average daily number of inpatients by the weighted average of beds in service.

(n) We define adjusted EBITDA as EBITDA adjusted to exclude cumulative effect of a change in accounting principle, impairment of long-lived assets, compliance settlement and Year 2000 remediation costs, and loss from hospital sales. EBITDA consists of income (loss) before interest, income taxes, depreciation and amortization, and amortization of goodwill. EBITDA and adjusted EBITDA should not be considered as measures of financial performance under generally accepted accounting principles. Items excluded from EBITDA and adjusted EBITDA are significant components in understanding and assessing financial performance. EBITDA and adjusted EBITDA are key measures used by management to evaluate our operations and provide useful information to investors. EBITDA and adjusted EBITDA should not be considered in isolation or as alternatives to net income, cash flows generated by operations, investing or financing activities, or other financial statement data presented in the consolidated financial statements as indicators of financial performance or liquidity. Because EBITDA and

adjusted EBITDA are not measurements determined in accordance with generally accepted accounting principles and are thus susceptible to varying calculations, EBITDA and adjusted EBITDA as presented may not be comparable to other similarly titled measures of other companies.

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

RISK FACTORS

YOU SHOULD CAREFULLY CONSIDER THE RISKS DESCRIBED BELOW BEFORE BUYING THE NOTES IN THIS OFFERING. THE RISKS DESCRIBED IN THIS SECTION ARE THE ONES WE CONSIDER TO BE MATERIAL TO YOUR DECISION WHETHER TO INVEST IN THE NOTES AT THIS TIME. IF ANY OF THE FOLLOWING RISKS OCCUR, OUR BUSINESS, FINANCIAL CONDITION OR RESULTS OF OPERATIONS COULD BE MATERIALLY HARMED. IN THAT CASE, THE TRADING PRICE OF THE NOTES COULD DECLINE, AND YOU COULD LOSE ALL OR PART OF YOUR INVESTMENT.

IF FEDERAL OR STATE HEALTHCARE PROGRAMS OR MANAGED CARE COMPANIES REDUCE THE PAYMENTS WE RECEIVE AS REIMBURSEMENT FOR SERVICES WE PROVIDE, OUR REVENUES MAY DECLINE.

A large portion of our revenues come from the Medicare and Medicaid programs. In recent years, federal and state governments made significant changes in the Medicare and Medicaid programs. These changes have decreased the amount of money we receive for our services relating to these programs.

In recent years, Congress and some state legislatures have introduced an increasing number of other proposals to make major changes in the healthcare system. Future federal and state legislation may further reduce the payments we receive for our services.

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

IF WE FAIL TO COMPLY WITH EXTENSIVE LAWS AND GOVERNMENT REGULATIONS, WE COULD SUFFER PENALTIES OR BE REQUIRED TO MAKE SIGNIFICANT CHANGES TO OUR OPERATIONS.

The healthcare industry is required to comply with many laws and regulations at the federal, state, and local government levels. These laws and regulations require that hospitals meet various requirements, including those relating to the adequacy of medical care, equipment, personnel, operating policies and procedures, maintenance of adequate records, compliance with building codes, and environmental protection. If we fail to comply with applicable laws and regulations, we could suffer civil or criminal penalties, including the loss of our licenses to operate and our ability to participate in the Medicare, Medicaid, and other federal and state healthcare programs.

In addition, there are heightened coordinated civil and criminal enforcement efforts by both federal and state government agencies relating to the healthcare industry, including the hospital segment. The ongoing investigations relate to various referral, cost reporting, and billing practices, laboratory and home healthcare services, and physician ownership and joint ventures involving hospitals.

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

IF WE FAIL TO COMPLY WITH THE MATERIAL TERMS OF OUR CORPORATE COMPLIANCE AGREEMENT, WE COULD BE EXCLUDED FROM GOVERNMENT HEALTHCARE PROGRAMS.

In December 1997, we approached the Office of Inspector General of the U.S. Department of Health and Human Services and made a voluntary disclosure regarding the assignment of billing codes for inpatient services and reimbursements we received from the U.S. government programs

from 1993 to 1997. We entered into a settlement agreement under which we paid approximately $31.8 million to the appropriate governmental agencies in exchange for a release of civil claims relating to these reimbursements.

As part of this settlement, we entered into a corporate compliance agreement with the Inspector General. Complying with our corporate compliance agreement will require additional efforts and costs. Our failure to comply with the terms of the compliance agreement could subject us to civil and criminal penalties, including significant fines. In addition, failure to comply with the material terms of the compliance agreement could lead to suspension or disbarment from further participation in the federal and state healthcare programs, including Medicare and Medicaid. Any suspension or disbarment would restrict our ability to treat patients and receive reimbursement from these programs. See "Business of Community Health Systems--Compliance Program."

IF COMPETITION DECREASES OUR ABILITY TO ACQUIRE ADDITIONAL HOSPITALS ON FAVORABLE TERMS, WE MAY BE UNABLE TO EXECUTE OUR ACQUISITION STRATEGY.

An important part of our business strategy is to acquire two to four hospitals each year in non-urban markets. However, not-for-profit hospital systems and other for-profit hospital companies generally attempt to acquire the same type of hospitals as we do. Some of these other purchasers have greater financial resources than we do. Our principal competitors for acquisitions include Health Management Associates, Inc. and Province Healthcare Company. In addition, some hospitals are sold through an auction process, which may result in higher purchase prices than we believe are reasonable. Therefore, we may not be able to acquire additional hospitals on terms favorable to us.

IF WE FAIL TO IMPROVE THE OPERATIONS OF ACQUIRED HOSPITALS, WE MAY BE UNABLE TO ACHIEVE OUR GROWTH STRATEGY.

Some of the hospitals we have acquired or will acquire had or may have operating losses prior to the time we acquired them. We may be unable to operate profitably any hospital or other facility we acquire, effectively integrate the operations of any acquisitions, or otherwise achieve the intended benefit of our growth strategy.

IF WE ACQUIRE HOSPITALS WITH UNKNOWN OR CONTINGENT LIABILITIES, WE COULD BECOME LIABLE FOR MATERIAL OBLIGATIONS.

Hospitals that we acquire may have unknown or contingent liabilities, including liabilities for failure to comply with healthcare laws and regulations. Although we seek indemnification from prospective sellers covering these matters, we may nevertheless have material liabilities for past activities of acquired hospitals.

STATE EFFORTS TO REGULATE THE SALE OF HOSPITALS OPERATED BY NOT-FOR-PROFIT ENTITIES COULD PREVENT US FROM ACQUIRING ADDITIONAL HOSPITALS AND EXECUTING OUR BUSINESS STRATEGY.

Many states, including some where we have hospitals and others where we may in the future acquire hospitals, have adopted legislation regarding the sale or other disposition of hospitals operated by not-for-profit entities. In other states that do not have specific legislation, the attorneys general have demonstrated an interest in these transactions under their general obligations to protect charitable assets from waste. These legislative and administrative efforts focus primarily on the appropriate valuation of the assets divested and the use of the proceeds of the sale by the non-profit seller. While these review and, in some instances, approval processes can add additional time to the closing of a hospital acquisition, we have not had any significant difficulties or delays in

completing acquisitions. However, future actions on the state level could seriously delay or even prevent our ability to acquire hospitals.

STATE EFFORTS TO REGULATE THE CONSTRUCTION, ACQUISITION OR EXPANSION OF HOSPITALS COULD PREVENT US FROM ACQUIRING ADDITIONAL HOSPITALS, RENOVATING OUR FACILITIES OR EXPANDING THE BREADTH OF SERVICES WE OFFER.

Some states require prior approval for the construction or acquisition of healthcare facilities and for the expansion of healthcare facilities and services. In giving approval, these states consider the need for additional or expanded healthcare facilities or services. In some states in which we operate, we are required to obtain certificates of need, known as CONs, for capital expenditures exceeding a prescribed amount, changes in bed capacity or services, and some other matters. Other states may adopt similar legislation. We may not be able to obtain the required CONs or other prior approvals for additional or expanded facilities in the future. In addition, at the time we acquire a hospital, we may agree to replace or expand the facility we are acquiring. If we are not able to obtain required prior approvals, we would not be able to acquire additional hospitals and expand healthcare services.

OUR SIGNIFICANT INDEBTEDNESS COULD LIMIT OUR OPERATIONAL AND CAPITAL FLEXIBILITY.

As of June 30, 2001, on a pro forma basis after giving effect to the issuance of the notes in this offering and the use of the estimated net proceeds from this offering and the concurrent common stock offering, we had total long-term debt of $915.2 million or approximately 45.3% of our total capitalization.

Our acquisition program requires substantial capital resources. In addition, the operations of our existing hospitals require ongoing capital expenditures. We may need to incur additional indebtedness to fund these acquisitions and expenditures. However, we may be unable to obtain sufficient financing on terms satisfactory to us.

The degree to which we are leveraged could have other important consequences to holders of the common stock, including the following:

- we must dedicate a substantial portion of our cash flow from operations to the payment of principal and interest on our indebtedness; this reduces the funds available for our operations;

- a portion of our borrowings are at variable rates of interest, which makes us vulnerable to increases in interest rates; and

- some of our indebtedness contains numerous financial and other restrictive covenants, including restrictions on paying dividends, incurring additional indebtedness, and selling assets.

Under our credit agreement and the notes being offered pursuant to this offering, a change of control of us may result in the debt under these agreements becoming due and payable. See "--We may not have sufficient funds to repay the notes at maturity or if we experience a change of control."

IF WE ARE UNABLE TO EFFECTIVELY COMPETE FOR PATIENTS, LOCAL RESIDENTS COULD USE OTHER HOSPITALS.

The hospital industry is highly competitive. In addition to the competition we face for acquisitions and physicians, we must also compete with other hospitals and healthcare providers for patients. The competition among hospitals and other healthcare providers for patients has intensified in recent years. Our hospitals are located in non-urban service areas. Most of our

hospitals face no direct competition because there are no other hospitals in their primary service areas. However, these hospitals do face competition from hospitals outside of their primary service area, including hospitals in urban areas that provide more complex services. These facilities generally are located in excess of 25 miles from our facilities. Patients in our primary service areas may travel to these other hospitals for a variety of reasons. These reasons include physician referrals or the need for services we do not offer. Patients who seek services from these other hospitals may subsequently shift their preferences to those hospitals for the services we do provide.

Some of our hospitals operate in primary service areas where they compete with one other hospital. One of our hospitals competes with more than one other hospital in its primary service area. Some of these competing hospitals use equipment and services more specialized than those available at our hospitals. In addition, some of the hospitals that compete with us are owned by tax-supported governmental agencies or not-for-profit entities supported by endowments and charitable contributions. These hospitals can make capital expenditures without paying sales, property and income taxes. We also face competition from other specialized care providers, including outpatient surgery, orthopedic, oncology, and diagnostic centers.

We expect that these competitive trends will continue. Our inability to compete effectively with other hospitals and other healthcare providers could cause local residents to use other hospitals. See "Business of Community Health Systems--Competition."

IF WE BECOME SUBJECT TO SIGNIFICANT LEGAL ACTIONS, WE COULD BE SUBJECT TO SUBSTANTIAL UNINSURED LIABILITIES.

In recent years, physicians, hospitals, and other healthcare providers have become subject to an increasing number of legal actions alleging malpractice, product liability, or related legal theories. Many of these actions involve large claims and significant defense costs. To protect us from the cost of these claims, we generally maintain professional malpractice liability insurance and general liability insurance coverage in amounts and with deductibles that we believe to be appropriate for our operations. However, our insurance coverage may not cover all claims against us or continue to be available at a reasonable cost for us to maintain adequate levels of insurance.

IF FUTURE CASH FLOWS ARE INSUFFICIENT TO RECOVER THE CARRYING VALUE OF OUR GOODWILL, A MATERIAL NON-CASH CHARGE TO EARNINGS COULD RESULT.

The Forstmann Little partnerships acquired our predecessor company in 1996 principally for cash. We recorded a significant portion of the purchase price as goodwill. We have also recorded as goodwill a portion of the purchase price for our subsequent hospital acquisitions. At June 30, 2001, we had $992 million of goodwill recorded on our books. We expect to recover the carrying value of this goodwill through our future cash flows. On an ongoing basis, we evaluate, based on projected undiscounted cash flows, whether we will be able to recover all or a portion of the carrying value of goodwill. If future cash flows are insufficient to recover the carrying value of our goodwill, we must write off a portion of the unamortized balance of goodwill. In 1998, in connection with our periodic review process, we determined that projected undiscounted cash flows from seven of our hospitals were below the carrying value of the long-lived assets associated with these hospitals. In accordance with generally accepted accounting principles, we adjusted the carrying value of these assets to their estimated fair value through an impairment charge of $164.8 million. Of this charge, goodwill accounted for $134.3 million. This impairment charge arose from various circumstances that were unique to each of the hospitals and adversely affected their prospects. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

IF OUR STOCK PRICE FLUCTUATES AFTER THIS OFFERING, YOU COULD LOSE A SIGNIFICANT PART OF YOUR INVESTMENT.

Our common stock is listed on the New York Stock Exchange. We do not know if

an active trading market will continue to exist for our common stock or how the common stock will trade in the future. The market price of our common stock may fluctuate significantly in the future, and these fluctuations may be unrelated to our performance. In addition, the stock market in general has experienced extreme volatility that often has been unrelated to the operating performance or prospects of particular companies. The trading price of the notes is, in part, a function of the market price of our common stock.

IF EXISTING STOCKHOLDERS SELL THEIR COMMON STOCK, YOU COULD LOSE A SIGNIFICANT PART OF YOUR INVESTMENT.

Upon the completion of our concurrent common stock offering, assuming no exercise of the underwriters' over-allotment option, we will have outstanding 98,464,298 shares of common stock. The 20,425,717 shares of common stock that we sold in our initial public offering, the 18,000,000 shares of common stock that we sold in our offering in October 2000, the 12,000,000 shares of common stock that we intend to sell in our concurrent common stock offering and the shares of common stock issuable upon conversion of the notes sold in this offering will be freely tradable without restriction or further registration under the federal securities laws unless purchased by our "affiliates" as that term is defined in Rule 144 under the Securities Act of 1933. Upon completion of this offering and the concurrent common stock offering, approximately 47,704,296 shares of our common stock will be "restricted securities" as that term is defined in Rule 144. A significant amount of these securities will be subject to 90-day lock up agreements restricting their resale and are subject to resale restrictions under our stockholder's agreements. In addition, existing stockholders including the Forstmann Little partnerships holding approximately 46,134,738 shares of common stock have the right to require us to register their shares under the Securities Act of 1933. These shares may also be sold under Rule 144 of the Securities Act of 1933, depending on their holding period and subject to significant restrictions in the case of shares held by persons deemed to be our affiliates. As restrictions on resale end or as these stockholders exercise their registration rights, the market price of our stock could drop significantly if the holders of restricted shares sell them or are perceived by the market as intending to sell them.

BECAUSE FORSTMANN LITTLE AND OUR MANAGEMENT OWN A SUBSTANTIAL INTEREST IN US, THEY WILL HAVE SIGNIFICANT INFLUENCE IN DETERMINING THE OUTCOME OF ALL MATTERS SUBMITTED TO OUR STOCKHOLDERS FOR APPROVAL.

Following this offering, the Forstmann Little partnerships and our management will together own approximately 47.8% of our outstanding common stock. Accordingly, they will collectively have significant influence in:

- electing our entire board of directors;
- controlling our management and policies;
- determining the outcome of any corporate transaction or other matter submitted to our stockholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets; and
- amending our certificate of incorporation and by-laws.

The Forstmann Little partnerships and our management may also be able to prevent or cause a change of control of us. Their interests may conflict with the interests of the other holders of

common stock. The Forstmann Little partnerships have a contractual right to elect two directors until they no longer own any shares of our common stock.

THE NOTES WILL RANK BELOW OUR CURRENT AND FUTURE SENIOR DEBT, AND WE MAY BE UNABLE TO REPAY OUR OBLIGATIONS UNDER THE NOTES.

The notes are unsecured and will be subordinated in right of payment to all of our current and future senior debt. Because the notes will be subordinate to our senior debt if we experience:

- a bankruptcy, liquidation or reorganization;
- an acceleration of the notes due to an event of default under the indenture; or
- other specified events;

we will be permitted to make payments on the notes only after we have satisfied all of our senior debt obligations currently outstanding or which we may incur in the future. Therefore, we may not have sufficient assets remaining to pay amounts due on any or all of the notes.

The indenture for the notes does not limit our ability to incur additional senior debt. We may have difficulty paying what we owe under the notes if we incur additional senior debt. As of June 30, 2001, on a pro forma basis giving effect to this offering and the concurrent common stock offering and the use of the estimated net proceeds from this offering and the concurrent common stock

offering, our total senior debt would have been approximately $915.2 million. See "Description of Notes--Subordination of Notes."

BECAUSE OF OUR HOLDING COMPANY STRUCTURE, THE NOTES WILL BE EFFECTIVELY SUBORDINATED TO THE OBLIGATIONS OF OUR SUBSIDIARIES.

Because we are a holding company and our assets consist primarily of our equity interests in our operating subsidiaries, our obligations on the notes will be effectively subordinated to all existing and future indebtedness and other liabilities of our subsidiaries or any subsidiaries we may in the future acquire or establish. None of our subsidiaries has guaranteed or otherwise become obligated with respect to the notes. In a bankruptcy, liquidation or reorganization, claims of creditors of our subsidiaries, including trade creditors, will generally have priority as to the assets of our subsidiaries over our claims and claims of the holders of our indebtedness, including the notes. As of June 30, 2001, we and our subsidiaries had approximately $1.5 billion of consolidated indebtedness and other liabilities effectively ranking senior to the notes.

WE ARE A HOLDING COMPANY AND WILL DEPEND ON OUR OPERATING SUBSIDIARIES FOR CASH TO MAKE PAYMENTS ON THE NOTES.

All of our revenues are generated by our subsidiaries. As a result, we are dependent upon dividends, incidental expense reimbursement and intercompany transfer of funds from our subsidiaries to meet our payment obligation on the notes. Our credit agreement generally prohibits the transfer of funds from our subsidiaries to us.

WE MAY NOT HAVE SUFFICIENT FUNDS TO REPAY THE NOTES AT MATURITY OR IF WE EXPERIENCE A CHANGE OF CONTROL.

At maturity, the entire outstanding principal amount of the notes will become due and payable. If we experience a change of control under the indenture governing the notes, a holder of notes will have the right, subject to some conditions and restrictions, to require us to repurchase, with cash or common stock, some or all of the notes at a purchase price equal to 100% of the principal amount plus accrued interest. At maturity or upon a change of control, we may not have sufficient

funds or may be unable to arrange for additional financing to pay the principal amount due. Under the terms of the indenture for the notes, we may elect, if we meet specified conditions, to pay the repurchase price upon a change of control with shares of common stock. A change of control under the notes may also be a change of control under our bank credit agreement. A change of control under our credit agreement may result in our indebtedness under the credit agreement becoming due and payable at the option of the lenders under the credit agreement. The definition of change of control in our bank credit agreement may be broader than the definition of change of control under the notes. See "Description of Other Indebtedness." If the maturity date or change of control occurs at a time when our other arrangements prohibit us from repaying the notes, we could try to obtain the consent of the lenders under those arrangements, or we could attempt to refinance the borrowings that contain the restrictions. Under the covenants governing our credit agreement, we are not permitted to repurchase the notes for cash. Any future borrowing arrangements or agreements relating to senior debt to which we become a party may contain restrictions on, or prohibitions against, our repayments of the notes. If we do not obtain the necessary consents or refinance these borrowings, we will be unable to repay the notes. In that case, our failure to repay the notes due upon maturity or upon a change of control would constitute an event of default under the indenture. Any default, in turn, may cause a default under the terms of our senior debt. As a result, in those circumstances, the subordination provisions of the indenture would, absent a waiver, prohibit any repayment of the notes until we pay the senior debt in full.

A LIQUID TRADING MARKET FOR THE NOTES MAY NOT DEVELOP.

There has not been an established trading market for the notes. We do not intend to apply for listing of the notes on any securities exchange or for quotation through the National Association of Securities Dealers Automated Quotation System. Although some of the underwriters have informed us that they currently intend to make a market in the notes, they have no obligation to do so and may discontinue making a market at any time without notice. The liquidity of any market for the notes will depend on the number of holders of the notes, our performance, the market for similar securities, the interest of securities dealers in making a market in the notes and other factors. A liquid trading market may not develop for the notes.

IF PROVISIONS IN OUR CORPORATE DOCUMENTS AND DELAWARE LAW DELAY OR PREVENT A CHANGE OF CONTROL OF OUR COMPANY, WE MAY BE UNABLE TO CONSUMMATE A TRANSACTION THAT OUR STOCKHOLDERS CONSIDER FAVORABLE.

Our certificate of incorporation and by-laws may discourage, delay, or prevent a merger or acquisition involving us that our stockholders may consider favorable by:

- authorizing the issuance of preferred stock, the terms of which may be determined at the sole discretion of the board of directors;

- providing for a classified board of directors, with staggered three-year terms; and

- establishing advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted on by stockholders at meetings.

Delaware law may also discourage, delay or prevent someone from acquiring or merging with us. For a description you should read "Description of Capital Stock."

THIS PROSPECTUS INCLUDES FORWARD-LOOKING STATEMENTS WHICH COULD DIFFER FROM ACTUAL FUTURE RESULTS.

Some of the matters discussed in this prospectus 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 or our corporate compliance agreement;

- legislative proposals for healthcare reform;

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

- changes in Medicare and Medicaid payment levels;

- uncertainty with the newly issued Health Insurance Portability and Accountability Act of 1996 regulations;

- liability and other claims asserted against us;

- competition;

- our ability to attract and retain qualified personnel, including physicians;

- trends toward treatment of patients in lower acuity healthcare settings;

- 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.

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 prospectus. We assume no obligation to update or revise them or provide reasons why actual results may differ.

USE OF PROCEEDS

We estimate our net proceeds from our sale of notes in this offering after deducting estimated expenses and underwriting discounts and commissions of $9.4 million, to be approximately $240.4 million. In addition, we expect to receive net proceeds of $330.1 million from our concurrent common stock offering, at an estimated public offering price of $28.60 per share and after deducting estimated expenses and underwriting discounts and commissions. We intend to use all of the net proceeds from this offering to repay a portion of the $500 million of our 7 1/2% subordinated debt, plus accrued interest. We intend to use the net proceeds from the concurrent common stock offering to

repay the balance of our 7 1/2% subordinated debt, plus accrued interest, and to repay a portion of our outstanding debt under the acquisition loan facility of our credit agreement with The Chase Manhattan Bank, an affiliate of J.P. Morgan Securities Inc., and other lenders. The entire $500 million of our subordinated debt is held by the limited partners of an affiliate of Forstmann Little & Co. and approximately $14.7 million of our outstanding debt under the acquisition loan facility of our credit agreement is held by affiliates of the underwriters. As of September 30, 2001, accrued interest on the subordinated debt was $6.3 million.

Approximately 80% of our outstanding debt under the acquisition loan facility matures January 2, 2004. The balance of this debt matures on December 31, 2002. As of June 30, 2001, the effective interest rate for our outstanding debt under the acquisition loan facility was 6.17%.

We expect to borrow under the acquisition loan facility as needed to fund our acquisitions. See "Business of Community Health Systems--Our Business Strategy--Grow Through Selective Acquisitions."

See "Management--Relationships and Transactions between Community Health Systems and its Officers, Directors and 5% Beneficial Owners and their Family Members" and "Description of Other Indebtedness."

DIVIDEND POLICY

We have not paid any cash dividends in the past, and we do not intend to pay any cash dividends for the foreseeable future. We intend to retain earnings, if any, for the future operation and expansion of our business. Any determination to pay dividends in the future will be dependent upon results of operations, financial condition, contractual restrictions, restrictions imposed by applicable law, and other factors deemed relevant by our board of directors. Our existing indebtedness limits our ability to pay dividends and make distributions to stockholders.

PRICE RANGE OF COMMON STOCK

Our common stock began trading on the New York Stock Exchange on June 9, 2000, under the symbol "CYH." The following table sets forth for the indicated periods the high and low sale prices of our common stock as reported by the New York Stock Exchange.

HIGH LOW -------- -------- Fiscal Year Ended December 31, 2000 Second Quarter (beginning June 9, 2000)..... $16.31 $13.00 Third Quarter..... $32.50 $15.63 Fourth Quarter..... $37.20 $24.25 Fiscal Year Ended December 31, 2001 First Quarter..... $35.45 $22.20 Second Quarter..... $30.75 $21.25 Third Quarter (through September 20, 2001)..... $35.35 $26.85

On September 20, 2001, the last reported sale price of our common stock on the NYSE was $28.60. As of September 17, 2001, there were approximately 54 holders of record of our common stock.

CAPITALIZATION

The following table sets forth our debt and capitalization as of June 30, 2001, on an actual basis and on a pro forma basis. The pro forma data are presented in two columns. One column reflects this offering and the use of the estimated net proceeds from this offering to repay some of our outstanding subordinated debt. The second pro forma column reflects both this offering and the concurrent common stock offering and the use of the estimated net proceeds from this offering and the concurrent common stock offering to repay all of our outstanding subordinated debt and a portion of our outstanding debt under the acquisition loan facility of our credit agreement.

In addition, you should read the following table in conjunction with Selected Consolidated Financial and Other Data, our consolidated financial statements and the accompanying notes, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Description of Other Indebtedness, which are contained later in this prospectus.

AS OF JUNE 30, 2001 ---------- PRO FORMA TO REFLECT THIS PRO FORMA OFFERING AND THE TO REFLECT CONCURRENT THIS COMMON STOCK ACTUAL OFFERING (A) OFFERING (B) --- ------- ------------ ---------- (DOLLARS IN THOUSANDS) LONG-TERM DEBT: Credit facilities: Revolving credit loans..... $ -- $ -- $ -- Acquisition loans.....

119,000 119,000 54,712 Term loans.....
563,675 563,675 563,675 Subordinated debentures.....
500,000 265,801 -- Convertible notes..... --
250,000 250,000 Taxable bonds.....
24,300 24,300 24,300 Tax-exempt bonds.....
8,000 8,000 8,000 Capital lease obligations and other debt..... 36,031 36,031 36,031
---------- ---------- ---------- Total debt.....
1,251,006 1,266,807 936,718 Less current maturities.....
21,499 21,499 21,499 ---------- ---------- ------
---- Total long-term debt (c)..... 1,229,507
1,245,308 915,219 ---------- ---------- ---------
- 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; 87,296,185 shares issued and 86,320,636 outstanding actual and pro forma to reflect this offering; 99,296,185 shares issued and 98,320,636 outstanding pro forma to reflect this offering and the concurrent common stock offering..... 873 873 993
Additional paid-in capital..... 1,001,204
1,001,204 1,331,173 Accumulated deficit.....
(215,284) (217,135) (219,235) Treasury stock, at cost, 975,549 shares..... (6,678)
(6,678) (6,678) Notes receivable for common stock..... (211) (211) (211)
Unearned stock compensation..... (63)
(63) (63) ---------- ---------- ---------- Total stockholders' equity.....
779,841 777,990 1,105,979 ---------- ---------- -
--------- Total capitalization.....
$2,009,348 $2,023,298 $2,021,198 ==========
========== ==========

(a) Pro forma reflects the write-off of deferred financing costs associated with the repayment of 7 1/2% subordinated debt of $1.9 million, net of tax benefit of $1.2 million.

(b) Pro forma reflects the write-off of deferred financing costs associated with the repayment of 7 1/2% subordinated debt of $3.9 million, net of tax benefit of $2.6 million.

(c) We also had letters of credit issued, primarily in support of our taxable and tax-exempt bonds, of approximately $35.9 million.

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

You should read the selected consolidated historical financial and other data below in conjunction with our consolidated financial statements and the accompanying notes. You should also read Management's Discussion and Analysis of Financial Condition and Results of Operations. All of these materials are contained later in this prospectus. We derived the consolidated historical financial data as of December 31, 1998, 1999 and 2000 and for the three years ended December 31, 2000 from our consolidated financial statements. We derived the historical data for the six months ended June 30, 2000 and June 30, 2001, and as of June 30, 2001, from our unaudited interim condensed consolidated financial statements. The unaudited interim condensed consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for these periods. The pro forma consolidated statements of operations and balance sheet data are presented in a separate table following the historical data. For each period, the pro forma consolidated statements of operations data are presented in three columns: historical data, pro forma data reflecting the application of the estimated net proceeds from this offering to repay a portion of our outstanding debt as if this repayment had occurred on January 1, 2000 and pro forma data reflecting the application of the estimated net proceeds from both this offering and the concurrent common stock offering to repay a portion of our outstanding debt as if this repayment had occurred on January 1, 2000. The pro forma consolidated statements of operations data for the year ended December 31, 2000 also reflect the application of the net proceeds from our two common stock public offerings in 2000. The consolidated balance sheet data give effect to this offering as well as both this offering and the concurrent common stock offering as if these events had occurred on June 30, 2001. We derived the selected consolidated financial and other data as of December 31, 1996 and 1997

and for the period from July 1, 1996 through December 31, 1996 and the year ended December 31, 1997 from our unaudited consolidated financial statements, which are not contained in this prospectus. We derived the selected consolidated financial and other data at June 30, 1996 and for the period from January 1, 1996 through June 30, 1996 from the unaudited consolidated financial statements of our predecessor company, which are not contained in this prospectus.

PREDECESSOR (a)								
	PERIOD FROM JANUARY 1 THROUGH JUNE 30,	PERIOD FROM JULY 1 THROUGH DECEMBER 31, 1996 (b)	YEAR ENDED DECEMBER 31, 1996 (c)	1997	1998	1999	2000	
	(DOLLARS IN THOUSANDS)							
CONSOLIDATED STATEMENT OF OPERATIONS DATA								
Net operating revenues	$ 294,166	$ 327,922	$ 742,350	$ 854,580	$ 1,079,953	$ 1,337,501		
Operating expenses (d)	291,712	270,319	620,112	688,190	875,768	1,084,765		
Depreciation and amortization	17,558	18,858	43,753	49,861	56,943	71,931		
Amortization of goodwill	164	11,627	25,404	26,639	24,708	25,693		
Impairment of long-lived assets and relocation costs	15,655	--	--	164,833	--	--		
Compliance settlement and Year 2000 remediation costs (f)	--	--	--	20,209	17,279	--		
Loss from hospital sales	3,146	--	--	--	--	--		
Income (loss) from operations	(34,069)	27,118	53,081	(95,152)	105,255	155,112		
Interest expense, net	8,930	38,964	89,753	101,191	116,491	127,370		
Income (loss) before cumulative effect of a change in accounting principle and income taxes	(42,999)	(11,846)	(36,672)	(196,343)	(11,236)	27,742		
Provision for (benefit from) income taxes	(15,747)	1,256	(4,501)	(13,405)	5,553	18,173		
Income (loss) before cumulative effect of a change in accounting principle	(27,252)	(13,102)	(32,171)	(182,938)	(16,789)	9,569		
Cumulative effect of a change in accounting principle	--	--	--	(352)	--	--		
Net income (loss)	$ (27,252)	$ (13,102)	$ (32,171)	$ (183,290)	$ (16,789)	$ 9,569		

(FOOTNOTES BEGIN ON PAGE 26)

	PREDECESSOR (a)						
	PERIOD FROM JANUARY 1 THROUGH JUNE 30,	PERIOD FROM JULY 1 THROUGH DECEMBER 31,	YEAR ENDED DECEMBER 31, 1996 (b)	1997	1998	1999	2000
(DOLLARS IN THOUSANDS EXCEPT PER SHARE DATA)							
Basic and diluted income (loss) per common share:							
Income (loss) before cumulative effect of a change in accounting principle	$ (0.24)	$ (0.60)	$ (3.37)	$ (0.31)	$ 0.14		
Cumulative effect of a change in accounting principle	--	--	(0.01)	--	--		
Net income (loss)	$ (0.24)	$ (0.60)	$ (3.38)	$ (0.31)	$ 0.14		
Diluted income (loss) per common share:							
Income (loss) before cumulative effect of a change in accounting principle	$ (0.24)	$ (0.60)	$ (3.37)	$ (0.31)	$ 0.14		
Cumulative effect of a change in accounting principle	--	--	(0.01)	--	--		
Net income (loss)	$ (0.24)	$ (0.60)	$ (3.38)	$ (0.31)	$ 0.14		
Weighted-average number of shares outstanding:							
Basic	53,786,432	53,989,089	54,249,895	54,545,030	67,610,399		
Diluted	53,786,432	53,989,089	54,249,895	54,545,030	69,187,191		
Ratio of earnings to fixed charges (g)	--	--	--	--	1.18x		
CONSOLIDATED BALANCE SHEET DATA (AS OF END OF PERIOD OR YEAR)							
Cash and cash equivalents	$ 10,410	$ 26,588	$ 7,663	$ 6,719	$ 4,282	$ 13,740	
Total assets	506,323	1,630,630	1,643,521	1,747,016	1,895,084	2,213,837	
Long-term debt	190,797	988,612	1,021,832	1,246,594	1,407,604	1,201,590	
Other long-term liabilities	55,419	21,086	31,618	26,915	22,495	15,200	
Stockholders' equity	165,879	465,673	433,625	246,826	229,708	756,174	
SELECTED OPERATING DATA							
Number of hospitals (h)	29	35	37	41	46	52	
Licensed beds (h)(i)	2,641	3,222	3,288	3,644	4,115	4,688	
Beds in service (h)(j)	2,005	2,311	2,543	2,776	3,123	3,587	
Admissions (k)	34,876						

40,246 88,103 100,114 120,414 143,310 Adjusted admissions (l)..... 56,136 68,059 153,618 177,075 217,006 262,419 Patient days (m)..... 168,995 183,809 399,012 416,845 478,658 548,827 Average length of stay (days) (n)..... 4.8 4.6 4.5 4.2 4.0 3.8 Occupancy rate (beds in service) (o)..... 46.3% 43.2% 43.1% 43.3% 44.1% 44.6% Net inpatient revenue as a % of total net revenue..... 61.1% 58.3% 57.3% 55.7% 52.7% 51.0% Net outpatient revenue as a % of total net revenue..... 37.5% 40.4% 41.5% 42.6% 45.5% 47.3% Adjusted EBITDA (p)..... $ 2,454 $ 57,603 $ 122,238 $ 166,390 $ 204,185 $ 252,736 Adjusted EBITDA as a % of net revenue..... 0.8% 17.6% 16.5% 19.5% 18.9% 18.9% Net cash flows provided by (used in) operating activities..... $ 30,081 $ 2,953 $ 21,544 $ 15,719 $ (11,746) $ 22,985 Net cash flows used in investing activities..... $ (25,067) $(1,259,268) $ (76,651) $ (236,553) $ (155,541) $ (244,441) Net cash flows provided by (used in) financing activities..... $ (8,886) $ 1,282,903 $ 36,182 $ 219,890 $ 164,850 $ 230,914

(FOOTNOTES BEGIN ON PAGE 26)

SIX MONTHS ENDED JUNE 30, ---------- 2000 2001 ---------- ---------- (DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA) CONSOLIDATED STATEMENT OF OPERATIONS DATA Net operating revenues..... $ 625,787 $ 799,554 Operating expense (d)..... 505,931 648,476 Depreciation and amortization..... 33,910 43,094 Amortization of goodwill..... 12,378 14,074 ---------- ---------- Income from operations..... 73,568 93,910 Interest expense, net..... 65,305 53,174 ---------- ---------- Income before income taxes..... 8,263 40,736 Provision for income taxes..... 7,164 20,237 ---------- ---------- Net income..... $ 1,099 $ 20,499 ========== ========== Net income per common share: Basic..... $ 0.02 $ 0.24 Diluted..... $ 0.02 $ 0.23 Weighted average number of shares outstanding: Basic..... 56,423,677 85,696,119 ========== ========== Diluted..... 57,554,519 87,554,317 ========== ========== Ratio of earnings to fixed charges (g)..... 1.10x 1.66x SELECTED OPERATING DATA Number of hospitals (h)..... 49 53 Licensed beds (h)(i)..... 4,401 4,848 Beds in service (h) (j)..... 3,355 3,722 Admissions (k)..... 68,314 82,559 Adjusted admissions

(l)..... 126,137 149,741
Patient days
(m)..... 267,060
315,994 Average length of stay (days)
(n)..... 3.9 3.8 Occupancy rate (beds
in service) (o)..... 45.0% 48.4% Net
inpatient revenue as a % of total net revenue.....
50.6% 51.0% Net outpatient revenue as a % of total net
revenue..... 47.6% 47.8% Adjusted EBITDA
(p)..... $ 119,856 $
151,078 Adjusted EBITDA as a % of net
revenue..... 19.2% 18.9% Net cash flows
(used in) provided by operating
activities.....
$ (34,399) $ 95,528 Net cash flows used in investing
activities..... $ (74,261) $ (104,464) Net cash
flows provided by financing activities..... $
110,368 $ 30,936

(FOOTNOTES BEGIN ON PAGE 26)

YEAR ENDED DECEMBER 31, 2000 SIX MONTHS ENDED JUNE 30, 2001 ------
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---------- PRO FORMA PRO FORMA TO REFLECT TO REFLECT THIS THIS
OFFERING, OFFERING AND THE AND THE PRO FORMA CONCURRENT PRO FORMA
CONCURRENT TO REFLECT COMMON TO REFLECT COMMON THIS STOCK THIS
STOCK ACTUAL OFFERING (Q) OFFERING (R) ACTUAL OFFERING (Q)
OFFERING (R) ---------- ---------- ---------- ---------- ---
--------- ---------- (DOLLARS IN THOUSANDS, EXCEPT PER SHARE
DATA) CONSOLIDATED STATEMENT OF OPERATIONS DATA..... Net
operating revenues..... $1,337,501 $1,337,501 $1,337,501 $
799,554 $ 799,554 $ 799,554 Operating expense (d).....
1,084,765 1,084,765 1,084,765 648,476 648,476 648,476 Depreciation
and amortization..... 71,931 71,931 71,931 43,094 43,094
43,094 Amortization of goodwill..... 25,693 25,693 25,693 14,074
14,074 14,074 ---------- ---------- ---------- ---------- --------
-- ---------- Income from operations..... 155,112 155,112
155,112 93,910 93,910 93,910 Interest expense, net..... 127,370
92,800 66,808 53,174 50,893 38,149 ---------- ---------- ---------
- ---------- ---------- ---------- Income before extraordinary
item and income taxes..... 27,742 62,312 88,304 40,736 43,017
55,761 Provision for income taxes... 18,173 31,655 41,792 20,237
21,127 26,097 ---------- ---------- ---------- ---------- --------
-- ---------- Income before extraordinary
item..... $ 9,569 $ 30,657 $ 46,512 $ 20,499 $
21,890 $ 29,664 ========== ========== ========== ==========
========== ========== Income per common share before extraordinary
item: Basic..... $ 0.14 $ 0.45 $ 0.58 $ 0.24 $
0.26 $ 0.30 ========== ========== ========== ========== ==========
========== Diluted..... $ 0.14 $ 0.44 $ 0.57 $ 0.23
$ 0.25 $ 0.30 ========== ========== ========== ==========
========== ========== Weighted average number of shares
outstanding: Basic..... 67,610,399 67,610,399
79,610,399 85,696,119 85,696,119 97,696,119 ========== ==========
========== ========== ========== ==========
Diluted..... 69,187,191 69,187,191 81,187,191
87,554,317 87,554,317 99,554,317 ========== ========== ==========
========== ========== ========== Ratio of earnings to fixed
charges (g)..... 1.18x 1.23x 1.23x 1.66x 1.72x 1.72x
CONSOLIDATED BALANCE SHEET DATA (AS OF END OF PERIOD) Cash and
cash equivalents..... $
35,740 $ 35,740 $ 35,740 Total
assets.....
2,280,086 2,286,603 2,283,160 Long-term
debt.....
1,229,507 1,245,308 915,219 Other long-term
liabilities..... 14,015
14,015 14,015 Stockholders'
equity.....
779,841 777,990 1,105,979 (FOOTNOTES BEGIN ON PAGE 26)

(a) Effective in July 1996, we acquired all of the outstanding common stock of our principal subsidiary, CHS/Community Health Systems, Inc. The predecessor company had a substantially different capital structure compared to ours. Because of the limited usefulness of the earnings per share information for the predecessor company, these amounts have been excluded.

(b) Includes two acquisitions.

(c) Includes six acquisitions.

(d) Operating expenses include salaries and benefits, provision for bad debts,

supplies, rent, and other operating expenses, and exclude certain items for purposes of determining adjusted EBITDA as discussed in footnote (p) below.

(e) Includes $47.5 million of expense resulting from the cancellation of stock options associated with the acquisition of our principal subsidiary as discussed in footnote (a).

(f) Includes Year 2000 remediation costs of $0.2 million in 1998 and $3.3 million in 1999.

(g) The ratio of earnings to fixed charges is calculated by dividing earnings by fixed charges. For this purpose, "earnings" means income (loss) from continuing operations before provision for income taxes and extraordinary items plus fixed charges (other than capitalized interest). "Fixed charges" means total interest whether capitalized or expensed (including the portion of rent expense representative of interest costs) on outstanding debt plus debt related fees and amortization of deferred financing costs. The ratio of earnings to fixed charges for the period January 1, 1996 to June 30, 1996 is not presented because of a lack of comparability between the capital structure of our company and that of its predecessor. For the years ended December 31, 1996, 1997, 1998 and 1999, earnings were insufficient to cover fixed charges by approximately $11.8 million, $37.3 million, $197.0 million and $12.6 million.
The pro forma ratio of earnings to fixed charges gives effect to the net decrease in the interest expense resulting from this offering and the application of the estimated net proceeds from this offering to the repayment of existing debt, as if this offering had occurred at the beginning of the periods presented; this ratio does not give effect to any other pro forma events. The ratio has been computed using an assumed interest rate of 4.75% for the notes.

(h) At end of period.

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

(j) Beds in service are the number of beds that are readily available for patient use.

(k) Admissions represent the number of patients admitted for inpatient treatment.

(l) 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.

(m) Patient days represent the total number of days of care provided to inpatients.

(n) Average length of stay (days) represents the average number of days inpatients stay in our hospitals.

(o) We calculated percentages by dividing the daily average number of inpatients by the weighted average of beds in service.

(p) We define adjusted EBITDA as EBITDA adjusted to exclude cumulative effect of a change in accounting principle, impairment of long-lived assets and relocation costs, compliance settlement and Year 2000 remediation costs, and loss from hospital sales. EBITDA consists of income (loss) before interest, income taxes, depreciation and amortization, and amortization of goodwill. EBITDA and adjusted EBITDA should not be considered as measures of financial performance under generally accepted accounting principles. Items excluded from EBITDA and adjusted EBITDA are significant components in understanding and assessing financial performance. EBITDA and adjusted EBITDA are key measures used by management to evaluate our operations and provide useful information to investors. EBITDA and adjusted EBITDA should not be considered in isolation or as alternatives to net income, cash flows generated by operations, investing or financing activities, or other financial statement data presented in the consolidated financial statements as indicators of financial performance or liquidity. Because EBITDA and adjusted EBITDA are not measurements determined in accordance with generally accepted accounting principles and are thus susceptible to varying calculations, EBITDA and adjusted EBITDA as presented may not be comparable to other similarly titled measures of other companies.

(q) The pro forma adjustments for this offering for the year ended December 31, 2000 reflect our two common stock public offerings in 2000 and this offering, the application of the net proceeds from our two common stock public offerings in 2000 to repay debt of $225.2 million on June 14, 2000, $20.5 million on July 3, 2000 and $268.8 million on November 3, 2000 and the estimated net proceeds from this offering to repay debt of $234.2 million based on the outstanding debt

balance as of December 31, 2000 and the resultant reduction of interest expense of $34.6 million as if these events had occurred on January 1, 2000.

The pro forma adjustments for this offering for the six months ended

June 30, 2001 reflect this offering, the estimated net proceeds from this offering to repay debt of $234.2 million based on the outstanding debt balance as of June 30, 2001 and the resultant reduction of interest expense of $2.3 million as if these events had occurred on January 1, 2000.

The pro forma adjustments also reflect an increase in provision for income taxes of $13.5 million for the year ended December 31, 2000 and $0.9 million for the six months ended June 30, 2001, resulting from the decrease in interest expense. See "Use of Proceeds." These adjustments are detailed as follows:

1. To adjust interest expense to reflect the following:

   - For the year ended December 31, 2000, interest expense of $17.6 million and for the six months ended June 30, 2001, interest expense of $8.7 million on the 7 1/2% subordinated debt has been excluded giving effect to the repayment of $234.2 million with the estimated net proceeds from this offering.

   - For the year ended December 31, 2000, interest expense of $0.4 million and for the six months ended June 30, 2001, interest expense of $0.2 million from the amortization of deferred financing costs associated with the 7 1/2% subordinated debt has been excluded giving effect to the write-off of $3.0 million of deferred financing costs.

   - For the year ended December 31, 2000, interest expense of $19.8 million on the acquisition revolving loan facility of our credit agreement has been excluded, giving effect to the repayment of $308.7 million in outstanding borrowings with the net proceeds from our two common stock public offerings in 2000 at an assumed weighted average interest rate of 8.6%.

   - For the year ended December 31, 2000, interest expense of $6.8 million on the revolving credit facility of our credit agreement has been excluded, giving effect to the repayment of $165.5 million in outstanding borrowings with the net proceeds from our two common stock public offerings in 2000 using an assumed weighted average interest rate of 9.0%.

   - For the year ended December 31, 2000, interest expense of $3.2 million on the term loans of our credit agreement has been excluded, giving effect to the repayment of $40.3 million in outstanding borrowings with the net proceeds from our two common stock public offerings in 2000 at an assumed weighted average interest rate of 9.6%.

   - For the year ended December 31, 2000, interest expense of $13.2 million has been included giving effect to this offering at an assumed interest rate of 4.75% on the notes. This interest expense includes $1.4 million of amortization of the $9.6 million of debt offering costs. For the six months ended June 30, 2001, interest expense of $6.6 million has been included giving effect to this offering at an assumed interest rate of 4.75% of the notes. This interest expense includes $0.7 million of amortization of the $9.6 million of debt offering costs.

2. The adjustment to the pro forma provision for income taxes, computed using a 39% statutory income tax rate, was $13.5 million for the year ended December 31, 2000 and $0.9 million for the six months ended June 30, 2001 for the tax effect of the above-noted pro forma adjustments.

3. Pro forma income statement for the year ended December 31, 2000 and six months ended June 30, 2001 does not reflect the write-off of deferred financing costs associated with the repayment of the 7 1/2% subordinated debt of $1.9 million, net of tax benefit of $1.1 million.

4. The conversion of the notes into shares of common stock under the if-converted method has not been included in the computation of diluted pro forma earnings per share because the effect would be antidilutive.

(r) The pro forma adjustments for both this offering and the concurrent offering for the year ended December 31, 2000 reflect the pro forma adjustments for our two common stock public offerings in 2000 and this offering as detailed in footnote (q) above as well as the concurrent common stock offering and the estimated net proceeds from the concurrent common stock offering to repay additional debt of $330.1 million based on the outstanding balance as of December 31, 2000 and the resultant additional reduction of interest expense of $26.0 million as if these events had occurred on January 1, 2000.

The pro forma adjustments for both this offering and the concurrent common stock offering for the six months ended June 30, 2001 reflect the pro forma adjustments for this offering as detailed in footnote (q) above as well as the concurrent common stock offering and the estimated net proceeds from the concurrent common stock offering to repay debt of $330.1 million based on outstanding balance at June 30, 2001 and the resultant additional reduction of interest expense of $12.7 million as if these events had occurred on January 1, 2000.

The pro forma adjustments also reflect an additional increase in provision

for income taxes of $10.2 million for the year ended December 31, 2000 and $5.2 million for the six months ended June 30, 2001, resulting from the decrease in interest expense. See "Use of Proceeds." These adjustments are detailed as follows:

1. To adjust interest expense to reflect the following:

   - For the year ended December 31, 2000, interest expense of $37.5 million on $500.0 million of the 7 1/2% subordinated debt has been excluded. For the six months ended June 30, 2001, interest expense of $18.6 million on $500.0 million of the 7 1/2% subordinated debt has been excluded.

   - For the year ended December 31, 2000, interest expense of $0.8 million and for the six months ended June 30, 2001, interest expense of $0.4 million from the amortization of deferred financing costs associated with the subordinated debt has been excluded giving effect to the write-off of $6.5 million of deferred financing costs.

   - For the year ended December 31, 2000, interest expense of $25.4 million on the acquisition revolving loan facility of our credit agreement has been excluded, giving effect to the repayment of $308.7 million in outstanding borrowings with the net proceeds from our two common stock public offerings in 2000 at an assumed weighted average interest rate of 8.6% and the repayment of $64.3 million in outstanding borrowings with proceeds from this offering and the concurrent common stock offering at an assumed weighted average interest rate of 8.8%. For the six months ended June 30, 2001, interest expense of $2.6 million on the acquisition loan revolving facility of our credit agreement has been excluded, giving effect to the repayment of $64.3 million in outstanding borrowings with proceeds from this offering and the concurrent common stock offering using an assumed weighted average interest rate of 8.3%.

   - For the year ended December 31, 2000, interest expense of $6.8 million on the revolving credit facility of our credit agreement has been excluded, giving effect to the repayment of $165.5 million in outstanding borrowings with the net proceeds from our two common stock public offerings in 2000 using an assumed weighted average interest rate of 9.0%.

   - For the year ended December 31, 2000, interest expense of $3.2 million on the term loans of our credit agreement has been excluded, giving effect to the repayment of $40.3 million in outstanding borrowings with the net proceeds from our two common stock public offerings in 2000 at an assumed weighted average interest rate of 9.6%.

   - For the year ended December 31, 2000, interest expense of $13.2 million has been included giving effect to this offering at an assumed interest rate of 4.75% on the notes. This interest expense includes $1.4 million of amortization of the $9.6 million of debt offering costs. For the six months ended June 30, 2001, interest expense of $6.6 million has been included giving effect to this offering at an assumed interest rate of 4.75% on the notes. This interest expense includes $0.7 million of amortization of the $9.6 million of debt offering costs.

2. The adjustment to the pro forma provision for income taxes, computed using a 39% statutory income tax rate, was $23.6 million for the year ended December 31, 2000 and $5.9 million for the six months ended June 30, 2001 for the tax effect of the above-noted pro forma adjustments.

3. Pro forma income statement for the year ended December 31, 2000 and six months ended June 30, 2001 does not reflect the write-off of deferred financing costs associated with the repayment of the 7 1/2% subordinated debt of $3.9 million, net of tax benefit of $2.6 million.

4. The conversion of the notes into shares of common stock under the if-converted method has not been included in the computation of diluted pro forma earnings per share because the effect would be antidilutive.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

YOU SHOULD READ THE FOLLOWING DISCUSSION IN CONJUNCTION WITH "RISK FACTORS," "SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA" AND OUR CONSOLIDATED FINANCIAL STATEMENTS AND THE RELATED NOTES INCLUDED ELSEWHERE IN THIS PROSPECTUS.

OVERVIEW

We are the largest non-urban provider of general hospital healthcare services in the United States in terms of number of facilities and the second largest in terms of revenues and EBITDA. As of October 1, 2001, we owned, leased or operated 55 hospitals, geographically diversified across 20 states, with an aggregate of 5,010 licensed beds. In over 85% of our markets, we are the sole provider of general hospital healthcare services. In all but one of our other markets, we are one of two providers of general hospital healthcare services.

For the fiscal year ended December 31, 2000, we generated $1.34 billion in net operating revenues and $252.7 million in adjusted EBITDA. For the six months ended June 30, 2001, we generated $799.6 million in net operating revenues and $151.1 million in adjusted EBITDA. We achieved revenue growth of 23.8% in 2000, 26.4% in 1999 and 15.1% in 1998. We also achieved growth in adjusted EBITDA of 23.8% in 2000, 22.7% in 1999 and 36.1% in 1998. Our net income for 2000 was $9.6 million, compared to a net loss of $16.8 million in 1999 and a net loss of $183.3 million in 1998.

ACQUISITIONS

Effective June 1, 2001, we acquired Brandywine Hospital, a 168-bed acute care facility located in Coatesville, Pennsylvania, for an aggregate consideration of approximately $61 million. Effective September 1, 2001, we acquired Red Bud Regional Hospital, a 103-bed facility located in Red Bud, Illinois, for an aggregate consideration of approximately $5 million. On October 1, 2001, we acquired Jennersville Regional Hospital, a 59-bed hospital located in West Grove, Pennsylvania, for an aggregate consideration of approximately $29 million. Each of these hospitals is the sole provider of general acute hospital services in its community.

During 2000, we acquired, through five purchases and two capital lease transactions, most of the assets, including working capital, of seven hospitals. These acquisitions include the purchase of assets of a hospital which we were managing under an operating agreement. We had purchased the working capital accounts of that hospital in 1998. The consideration for the seven hospitals totaled approximately $247 million. This consideration consisted of $148 million in cash, which we borrowed under our acquisition loan facilities, and assumed liabilities of $99 million. We prepaid the lease obligation relating to each lease transaction. We included the prepayment as part of the cash consideration. The purchase of our hospital in Kirksville, Missouri includes an operating lease for the primary building location.

During 1999, we acquired, through three purchases and one capital lease transaction, most of the assets, including working capital, of four hospitals. The consideration for the four hospitals totaled approximately $77.8 million. This consideration consisted of $59.7 million in cash, which we borrowed under our acquisition loan facility, and assumed liabilities of $18.1 million. We prepaid the entire lease obligation relating to the lease transaction. We included the prepayment as part of the cash consideration. We also opened one additional hospital, after completion of construction, at a cost of $15.3 million. This owned hospital replaced a hospital that we managed.

During 1998, we acquired, through two purchase and two capital lease transactions, most of the assets, including working capital, of four hospitals. The consideration for the four hospitals totaled approximately $218.6 million. This consideration consisted of $169.8 million in cash, which we borrowed under our acquisition loan facility, and assumed liabilities of $48.8 million. We prepaid

the entire lease obligation relating to each lease transaction. We included the prepayment as part of the cash consideration. Also, effective December 1, 1998, we entered into an operating agreement relating to a 38 licensed bed hospital. We also purchased the working capital accounts of that hospital. The cash payment made for this hospital was $2.8 million. Pursuant to this operating agreement, upon specified conditions being met, we will be obligated to construct a replacement hospital and to purchase for $0.9 million the remaining assets of the hospital. Upon completion, all rights of ownership and operation will transfer to us.

During 1997, we exercised a purchase option under an operating lease and acquired two hospitals through capital lease transactions. The consideration for these three hospitals totaled $46.1 million, including working capital. This consideration consisted of $36.3 million in cash, which we borrowed under our acquisition loan facility, and assumed liabilities of $9.8 million. We prepaid the entire lease obligation relating to each lease transaction. We included the prepayment as part of the cash consideration.

Goodwill from the acquisition of our predecessor company in 1996 was $662.7 million and from subsequent hospital acquisitions was $328.8 million as of June 30, 2001. Based on management's assessment of the goodwill's estimated useful life, we generally amortize our goodwill over 40 years. Goodwill represented 127.1% of our shareholders' equity as of June 30, 2001; the amount of goodwill amortized equaled 15.0% of our income from operations for the six-month period ended June 30, 2001. Significant adverse changes in facts regarding our industry, markets and operations could cause our management to determine that impairment indicators exist. This could cause impairments to the carrying amount of such goodwill, resulting in a non-cash charge which would reduce operating income.

In the future, we intend to acquire, on a selective basis, two to four hospitals in our target markets annually. Because of the financial impact of acquisitions, it is difficult to make meaningful comparisons between our financial statements for the periods presented. Because adjusted EBITDA margins

at hospitals we acquire are, at the time of acquisition, lower than those of our existing hospitals, acquisitions can negatively affect our adjusted EBITDA margins on a consolidated basis.

On May 1, 2000, we terminated the lease of a hospital previously held for disposition. At June 30, 2001, the carrying amounts of one of our hospitals were segregated from our remaining assets. The carrying amount of long-term assets of a facility held for disposition are classified in other assets, net in our unaudited interim condensed consolidated balance sheet as of June 30, 2001. We do not expect the impact of any gain or loss on our financial results to be material.

SOURCES OF REVENUE

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. Approximately 49% for the year ended December 31, 1998, 48% for the year ended December 31, 1999 and 46% for the year ended December 31, 2000, are related to services rendered to patients covered by the Medicare and Medicaid programs. 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 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. Adjustments related to final settlements or appeals that

increased revenue were insignificant in each of the years ended December 31, 1998, 1999 and 2000. Net amounts due to third-party payors were $9.1 million as of December 31, 1999 and $2.3 million as of December 31, 2000. We included these amounts in the line item accrued liabilities--other in the accompanying balance sheets. Substantially all Medicare and Medicaid cost reports are final settled through 1997.

We expect the percentage of revenues received from the Medicare program to increase due to the general aging of the population and the restoration of some payments under the Balanced Budget Refinement Act of 1999 and the Benefits Improvement and Protection Act of 2000. The payment rates under the Medicare program for inpatients are based on a prospective payment system, based upon the diagnosis of a patient. 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.

The implementation of Medicare's new prospective payment system for outpatient hospital care, effective August 1, 2000, had a favorable impact, but was not material to our overall operating results. The Centers for Medicare and Medicaid Services estimates that this new prospective payment system will result in an overall 9.7% increase in projected outpatient payments which began August 1, 2000, mandated by the Balanced Budget Act of 1997.

In December, 2000, the Benefits Improvement and Protection Act of 2000 became law. It is estimated that the changes to be implemented to many facets of the Medicare reimbursement system by reason of this law will increase reimbursement. We do not believe these increases will be material to our overall operating results.

In addition, Medicaid programs, insurance companies, and employers are actively negotiating the amounts paid to hospitals as opposed to their standard rates. 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, OB/GYN, occupational medicine, 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 generally highest during the first quarter and lowest during the third quarter.

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

SIX MONTHS ENDED JUNE 30,	YEAR ENDED DECEMBER 31,				
	1998	1999	2000	2000	2001
(EXPRESSED AS A PERCENTAGE OF NET OPERATING					

REVENUES) Net operating revenues..... 100.0 100.0 100.0 100.0 100.0 Operating expenses (a)..... (80.5) (81.1) (81.1) (80.8) (81.1) ----- ----- ----- ----- ----- ---- Adjusted EBITDA (b)..... 19.5 18.9 18.9 19.2 18.9 Depreciation and amortization..... (5.8) (5.3) (5.4) (5.4) (5.4) Amortization of goodwill..... (3.1) (2.3) (1.9) (2.0) (1.8) Impairment of long-lived assets..... (19.3) -- -- -- -- Compliance settlement and Year 2000 remediation costs (c)..... (2.4) (1.6) -- -- -- ----- ----- ----- ----- ----- ---- Income (loss) from operations..... (11.1) 9.7 11.6 11.8 11.7 Interest, net..... (11.8) (10.8) (9.5) (10.4) (6.7) ----- ----- ----- ----- ----- --- ----- Income (loss) before cumulative effect of a change in accounting principle and income taxes..... (22.9) (1.1) 2.1 1.3 5.1 Provision for (benefit from) income taxes..... (1.5) 0.5 1.4 1.1 2.5 ----- ----- ----- ----- ----- Income (loss) before cumulative effect of a change in accounting principle..... (21.4) (1.6) 0.7 0.2 2.6 ===== ===== ===== ===== =====

SIX MONTHS YEAR ENDED ENDED DECEMBER 31, JUNE 30, ------- ---------- ---------- 1999 2000 2001 -------- ----- --- ---------- (EXPRESSED IN PERCENTAGES) PERCENTAGE CHANGE FROM PRIOR PERIOD: Net operating revenues..... 26.4 23.8 27.8 Admissions..... 20.3 19.0 20.9 Adjusted admissions (d)..... 22.6 20.9 18.7 Average length of stay..... (4.8) (5.0) (2.6) Adjusted EBITDA..... 22.7 23.8 26.0 SAME HOSPITALS PERCENTAGE CHANGE FROM PRIOR PERIOD (e): Net operating revenues..... 7.6 10.3 11.1 Admissions..... 4.9 6.3 6.0 Adjusted admissions..... 7.7 7.3 4.3 Adjusted EBITDA..... 12.6 16.7 14.4

(a) Operating expenses include salaries and benefits, provision for bad debts, supplies, rent, and other operating expenses, and exclude the items that are excluded for purposes of determining adjusted EBITDA as discussed in footnote (b) below.

(b) We define adjusted EBITDA as EBITDA adjusted to exclude cumulative effect of a change in accounting principle, impairment of long-lived assets, compliance settlement and Year 2000 remediation costs, and loss from hospital sales. EBITDA consists of income (loss) before interest, income taxes, depreciation and amortization, and amortization of goodwill. EBITDA and adjusted EBITDA should not be considered as measures of financial performance under generally accepted accounting principles. Items excluded from EBITDA and adjusted EBITDA are significant components in understanding and assessing financial performance. EBITDA and adjusted EBITDA are key measures used by management to evaluate our operations and provide useful information to investors. EBITDA and adjusted EBITDA should not be

considered in isolation or as alternatives to net income, cash flows generated by operations, investing or financing activities, or other financial statement data presented in the consolidated financial statements as indicators of financial performance or liquidity. Because EBITDA and adjusted EBITDA are not measurements determined in accordance with generally accepted accounting principles and are thus susceptible to varying calculations, EBITDA and adjusted EBITDA as presented may not be comparable to other similarly titled measures of other companies.

(c) Includes Year 2000 remediation costs representing 0.0% in 1998 and 0.3% in

1999.

(d) 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.

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

SIX MONTHS ENDED JUNE 30, 2001 COMPARED TO SIX MONTHS ENDED JUNE 30, 2000

Net operating revenues increased 27.8% to $799.6 million for the six months ended June 30, 2001 from $625.8 million for the six months ended June 30, 2000. Of the $173.8 million increase in net operating revenues, the seven hospitals acquired in 2000 and one hospital acquired in 2001 contributed approximately $104.9 million, and hospitals we owned throughout both periods contributed $68.9 million, an increase of 11.1%. The increase from hospitals owned throughout both periods was attributable primarily to volume increases, rate increases from managed care and other payors and an increase in government reimbursement; these increases were offset by the 2001 period having one fewer day as compared to the 2000 period, resulting from 2000 being a leap year.

Inpatient admissions increased by 20.9%. Adjusted admissions increased by 18.7%. 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 decreased by 2.6%. On a same hospital basis, inpatient admissions increased by 6.0% and adjusted admissions increased by 4.3%. The increase in same hospital inpatient admissions and adjusted admissions was due primarily to an increase in services offered, physician relationship development efforts and the addition of physicians through our focused recruitment program. On a same hospital basis, net outpatient revenues increased 12.5%.

Operating expenses, as a percentage of net operating revenues, increased from 80.8% for the six months ended June 30, 2000, to 81.1% for the six months ended June 30, 2001, primarily due to an increase in provision for bad debts, increases in utility expense and an increase in rent expense, offset by improvements in salaries and benefits. Salaries and benefits, as a percentage of net operating revenues, decreased to 38.7% from 39.0% for the comparable periods, due to the continued realization of savings from improvements made at the hospitals acquired offset by hospitals acquired more recently having higher salaries and benefits as a percentage of net operating revenues for which savings have not yet been realized. Provision for bad debts, as a percentage of net operating revenues, increased to 9.3% for the six months ended June 30, 2001 from 9.0% for the comparable period in 2000 due primarily to an increase in self-pay business. Supplies as a percentage of net operating revenues remained unchanged at 11.6% for the comparable periods in 2000 and 2001. Rent and other operating expenses, as a percentage of net operating revenues, increased from 21.2% for the six months ended June 30, 2000 to 21.5% for the six months ended June 30, 2001. Adjusted EBITDA margins decreased from 19.2% for the six months ended June 30, 2000 to 18.9% for the six months ended June 30, 2001 due primarily to the acquisition of a previously managed facility and the lower initial adjusted EBITDA margins associated with hospitals acquired in 2000 and 2001.

On a same hospital basis, operating expenses as a percentage of net operating revenues decreased from 81.2% for the six months ended June 30, 2000 to 80.6% for the six months ended June 30, 2001. We achieved this reduction through efficiency and productivity gains in payroll and supplies expense reductions, offset by a smaller increase in bad debt expense and other operating expenses.

Depreciation and amortization increased by $9.2 million from $33.9 million for the six months ended June 30, 2000 to $43.1 million for the six months ended June 30, 2001. The seven hospitals acquired in 2000 and one hospital acquired in 2001 accounted for $2.9 million of the increase; facility renovations and purchases of equipment, information system upgrades, the inclusion of a hospital previously held for divestiture and other deferred items accounted for the remaining $6.3 million.

Amortization of goodwill increased from $12.4 million for the six months ended June 30, 2000 to $14.1 million for the comparable period in 2001 related to acquired hospitals.

Interest, net decreased from $65.3 million for the six months ended June 30, 2000 to $53.2 million for the six months ended June 30, 2001. The decrease in average long-term debt during the comparable periods in 2000 and 2001 accounted for $9.8 million of the decrease while a net decrease in interest rates accounted for the remaining difference. The decrease in average debt balance is the result of debt repayments from proceeds raised from the issuance of common stock in 2000 being greater than additional sums borrowed to finance hospital acquisitions.

Income before income taxes increased from $8.3 million for the six months ended June 30, 2000 to $40.7 million for the six months ended June 30, 2001 primarily as a result of the increases in revenue and decreases in expenses as discussed above.

Provision for income taxes increased from $7.2 million for the six months ended June 30, 2000 to $20.2 million for the six months ended June 30, 2001 as a result of the increase in pre-tax income.

Net income was $20.5 million for the six months ended June 30, 2001 compared to $1.1 million for the six months ended June 30, 2000.

YEAR ENDED DECEMBER 31, 2000 COMPARED TO YEAR ENDED DECEMBER 31, 1999

Net operating revenues increased by 23.8% to $1,337.5 million in 2000 from $1,080.0 million in 1999. Of the $257.5 million increase in net operating revenues, the hospitals we acquired, including one new hospital we constructed, in 2000 and 1999 contributed $149.6 million and the hospitals we owned throughout both periods contributed $107.9 million. The $107.9 million, or 10.3%, increase in same hospitals net operating revenues was attributable primarily to inpatient and outpatient volume increases. In 2000, we experienced an estimated $25 million of reductions from the Balanced Budget Act of 1997. We have experienced lower payments from a number of payors, resulting primarily from:

- reductions mandated by the Balanced Budget Act of 1997, particularly in the areas of reimbursement for Medicare outpatient, capital, bad debts, home health, and skilled nursing;

- reductions in various states' Medicaid programs; and

- reductions in length of stay for patients not reimbursed on an admission basis.

We expect the Balanced Budget Refinement Act of 1999 and the Benefits Improvement and Protection Act of 2000 to lessen the impact of these reductions in future periods.

Inpatient admissions increased by 19.0%. Adjusted admissions increased by 20.9%. Average length of stay decreased by 5.0%. On a same hospitals basis, inpatient admissions increased by 6.3% and adjusted admissions increased by 7.3%. The increase in same hospitals inpatient admissions and adjusted admissions was due primarily to an increase in services offered, physician relationship development efforts, and the addition of physicians through our focused recruitment program. On a same hospitals basis, net outpatient operating revenues increased 13.7%. Outpatient growth reflects the continued trend toward a preference for outpatient procedures, where appropriate, by patients, physicians, and payors.

Operating expenses, as a percentage of net operating revenues, remained unchanged at 81.1% from 1999 to 2000. Adjusted EBITDA margin remained unchanged at 18.9% from 1999 to 2000. Salaries and benefits, as a percentage of net operating revenues, decreased from 38.8% in 1999 to 38.7% in 2000. Provision for bad debts, as a percentage of net operating revenues, increased to 9.1% in 2000 from 8.8% in 1999 due to an increase in self-pay revenues and payor remittance slowdowns in part caused by an increase in the number of acquisition conversions. The conversion is the process by which the Company must apply for new Medicare and Medicaid provider numbers on acquired hospitals. This process results in billing delays and payor remittance slowdowns and subsequently an increase in the allowance for uncollectible receivables during the conversion period. Supplies, as a percentage of net operating revenues, decreased to 11.5% in 2000 from 11.7% in 1999. Rent and other operating expenses, as a percentage of net operating revenues, remained unchanged at 21.7% from 1999 to 2000.

On a same hospitals basis, operating expenses as a percentage of net operating revenues decreased from 81.2% in 1999 to 80.1% in 2000 and adjusted EBITDA margin increased from 18.8% in 1999 to 19.9% in 2000. These efficiency and productivity gains resulted from the achievement of target staffing ratios, physician recruiting efforts, and improved compliance with national purchasing contracts. Operating expenses improved as a percentage of net operating revenues in every major category except provision for bad debts which increased slightly and other operating expenses which were flat compared to 1999.

Depreciation and amortization increased by $15.0 million from $56.9 million in 1999 to $71.9 million in 2000. The twelve hospitals acquired in 1999 and 2000 accounted for $5.9 million of the increase and facility renovations and purchases of equipment primarily accounted for the remaining $9.1 million.

Amortization of goodwill increased by $1.0 million from $24.7 million in 1999 to $25.7 million in 2000. This increase primarily related to the twelve hospitals acquired, including one constructed, in 1999 and 2000.

Interest, net increased by $10.9 million from $116.5 million in 1999 to $127.4 million in 2000. The twelve hospitals acquired, including one constructed, in 1999 and 2000 accounted for approximately $8.5 million of incremental interest, borrowings under our credit agreement to finance capital expenditures and physician recruiting accounted for $10.0 million of incremental interest, borrowings to fund our compliance settlement accounted for $1.9 million of incremental interest and changes in interest rates accounted for $8.2 million of incremental interest. These increases were offset by savings of approximately $16.0 million from the repayment of long-term debt with the proceeds from our initial public and secondary offerings in 2000 and a savings of $1.7 million from an increase in cash flow from operations.

Income before income taxes for 2000 was $27.7 million compared to a loss of $11.2 million in 1999. This improvement is primarily the result of revenue growth from both acquisitions and same store hospitals, management's ability to control expenses and a reduction in the growth rate of interest expense.

The provision for income taxes in 2000 was $18.2 million compared to $5.6 million in 1999. Due to the non-deductible nature of certain goodwill amortization, the resulting effective tax rate is in excess of the statutory rate.

Net income for 2000 was $9.6 million as compared to $16.8 million net loss in 1999.

YEAR ENDED DECEMBER 31, 1999 COMPARED TO YEAR ENDED DECEMBER 31, 1998

Net operating revenues increased by 26.4% to $1,080.0 million in 1999 from $854.6 million in 1998. Of the $225.4 million increase in net operating revenues, the nine hospitals we acquired, including one constructed, in 1998 and 1999, contributed $160.6 million and nine hospitals we owned throughout both periods contributed $64.8 million. The $64.8 million, or 7.6%, increase in same hospitals net operating revenues was attributable primarily to inpatient and outpatient volume increases, partially offset by a decrease in reimbursement. In 1999, we experienced an estimated $23 million of reductions from the Balanced Budget Act of 1997. We have experienced lower payments from a number of payors, resulting primarily from:

- reductions mandated by the Balanced Budget Act of 1997, particularly in the areas of reimbursement for Medicare outpatient, capital, bad debts, home health, and skilled nursing;

- reductions in various states' Medicaid programs; and

- reductions in length of stay for patients not reimbursed on an admission basis.

We expect the Balanced Budget Refinement Act of 1999 to lessen the impact of these reductions in future periods.

Inpatient admissions increased by 20.3%. Adjusted admissions increased by 22.6%. Average length of stay decreased by 4.8%. On a same hospitals basis, inpatient admissions increased by 4.9% and adjusted admissions increased by 7.7%. The increase in same hospitals inpatient admissions and adjusted admissions was due primarily to an increase in services offered, physician relationship development efforts, and the addition of physicians through our focused recruitment program. On a same hospitals basis, net outpatient operating revenues increased 14.8%. Outpatient growth reflects the continued trend toward a preference for outpatient procedures, where appropriate, by patients, physicians, and payors.

Operating expenses, as a percentage of net operating revenues, increased from 80.5% in 1998 to 81.1% in 1999 due to higher operating expenses and lower initial adjusted EBITDA margins associated with acquired hospitals and one recently constructed hospital. Adjusted EBITDA margin decreased from 19.5% in 1998 to 18.9% in 1999. Salaries and benefits, as a percentage of net operating revenues, increased to 38.8% in 1999 from 38.4% in 1998, due to acquisitions of hospitals in 1998 and 1999 having higher salaries and benefits as a percentage of net operating revenues than our 1998 results. Provision for bad debts, as a percentage of net operating revenues, increased to 8.8% in 1999 from 8.1% in 1998 due to an increase in self-pay revenues and payor remittance slowdowns in part caused by Year 2000 conversions. Supplies, as a percentage of net operating revenues, decreased to 11.7% in 1999 from 11.8% in 1998. Rent and other operating expenses, as a percentage of net operating revenues, decreased to 21.7% in 1999 from 22.3% in 1998.

On a same hospitals basis, operating expenses as a percentage of net operating revenues decreased from 81.1% in 1998 to 80.3% in 1999 and adjusted EBITDA margin increased from 18.9% in 1998 to 19.7% in 1999. These efficiency and productivity gains resulted from the achievement of target staffing ratios and improved compliance with national purchasing contracts. Operating expenses improved as a percentage of net operating revenues in every major category except provision for bad debts.

Depreciation and amortization increased by $7.0 million from $49.9 million in 1998 to $56.9 million in 1999. The nine hospitals acquired in 1998 and 1999 accounted for $7.1 million of the increase and facility renovations and purchases of equipment accounted for the remaining $3.3 million. These increases were offset by a $3.4 million reduction in depreciation and amortization related to the 1998 impairment write-off of certain assets.

Amortization of goodwill decreased by $1.9 million from $26.6 million in 1998 to $24.7 million in 1999. The 1998 impairment charge resulted in a $3.6 million reduction in amortization of goodwill, offset by an increase of $1.7 million primarily related to the nine hospitals acquired in 1998 and 1999.

Interest, net increased by $15.3 million from $101.2 million in 1998 to $116.5 million in 1999. The nine hospitals acquired in 1998 and 1999 accounted

for $10.2 million of the increase, and borrowings under our credit agreement to finance capital expenditures accounted for the remaining $5.1 million.

Loss before cumulative effect of a change in accounting principle and income taxes for 1999 was $11.2 million compared to a loss of $196.3 million in 1998. A majority of this variance was due to a $164.8 million charge for impairment of long-lived assets recorded in 1998. In December 1998, in connection with our periodic review process, we determined that as a result of adverse changes in physician relationships, undiscounted cash flows from seven of our hospitals were below the carrying value of long-lived assets associated with those hospitals. Therefore, in accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," we adjusted the carrying value of the related long-lived assets, primarily goodwill, to their estimated fair value. We based the estimated fair values of these hospitals on specific market appraisals.

The provision for income taxes in 1999 was $5.6 million compared to a benefit of $13.4 million in 1998. Due to the non-deductible nature of certain goodwill amortization and the goodwill portion of the 1998 impairment charge, the resulting effective tax rate is in excess of the statutory rate.

Including the impairment of long-lived assets, compliance settlement costs, Year 2000 remediation costs, and cumulative effect of a change in accounting principle charges, net loss for 1999 was $16.8 million as compared to $183.3 million net loss in 1998. In 1997, we initiated a voluntary review of inpatient medical records to determine whether documentation supported the inpatient codes billed to certain governmental payors for the years 1993 through 1997. We executed a settlement agreement with the appropriate state and federal governmental agencies for a negotiated settlement amount of approximately $31.8 million, which we paid in May 2000. We recorded as a charge to income, under the caption "Compliance settlement costs," $20 million in 1998 and $14 million in 1999.

LIQUIDITY AND CAPITAL RESOURCES

SIX MONTHS ENDED JUNE 30, 2001 COMPARED TO SIX MONTHS ENDED JUNE 30, 2000

Net cash provided by operating activities increased $129.9 million to $95.5 million for the six months ended June 30, 2001 from a cash use of $34.4 million for the six months ended June 30, 2000. This increase represents an increase in net income of $19.4 million, an increase in non-cash expenses of $11.8 million, an increase of cash from working capital of $67.8 million and the absence of the one-time compliance settlement payment of $30.9 million made in 2000 when comparing the six month periods ended June 30, 2000 and 2001. The increase of cash from working capital can be attributed primarily to improvement in collections of accounts receivable, an increase in our tax provision, which we anticipate will be substantially offset by our existing net operating loss carryforwards and therefore not result in cash outflow, and overall better

management of other working capital items. The use of cash from investing activities increased from $74.3 million for the six months ended June 30, 2000 to $104.5 million for the six months ended June 30, 2001. This increase is the result of the additional cost of the acquisition in 2001 and additional expenditures on property, equipment and other assets. Net cash provided by financing activities decreased $79.4 million during the comparable periods as a result of not borrowing to meet capital expenditure and working capital needs during the 2001 period and not borrowing for the compliance settlement as was done in the 2000 period.

2000 COMPARED TO 1999

Net cash provided by operating activities increased by $34.7 million, from a use of $11.7 million during 1999 to cash provided of $23.0 million during 2000. This improvement is due primarily to an increase in net income of $26.4 million, use of deferred tax assets of $17.2 million during 2000 as compared to creating deferred tax assets of $3.8 million in 1999, and an increase in accounts payable and accrued liabilities, offset by an increase in accounts receivable and the $31.8 million compliance settlement payment made during 2000. The use of cash in investing activities increased $88.9 million from $155.5 million in 1999 to $244.4 million in 2000. The increase is due primarily to an increase in cash used to finance hospital acquisitions of $88.5 million during 2000 and an increase in cash used to finance all other capital expenditures of $0.4 million. Net cash provided by financing activities increased $66.0 million from $164.9 million in 1999 to $230.9 million in 2000. We raised $514.5 million in proceeds, net of expenses from our initial public and secondary offerings completed in 2000, which were used to repay long term debt. Our borrowings during 2000 were $241.3 million and, excluding the offering proceeds, repayments would have been $11.0 million. Excluding the 2000 offering proceeds and the refinancing of our credit facility in 1999, this represents a $64.8 million increase compared to borrowings of $186.3 million and repayments of $20.9 million in 1999. The $64.8 million increase in borrowings is derived from the increase in the amount spent on acquisitions of facilities partially offset by an increase in operating cash flows.

1999 COMPARED TO 1998

Net cash provided by operating activities decreased by $27.4 million, from $15.7 million during 1998 to a use of $11.7 million during 1999 due primarily to

an increase in accounts receivable at both same hospitals and newly-acquired hospitals. The use of cash in investing activities decreased from $236.6 million in 1998 to $155.5 million in 1999. The $81.1 million decrease was due primarily to a decrease in cash used to finance hospital acquisitions of $112.9 million during 1999. This decrease was offset by a $31.8 million increase in cash used primarily to finance capital expenditures during 1999, including approximately $15.0 million of Year 2000 expenditures. The 1998 use of cash to acquire facilities, included four hospitals, two of which were larger facilities. Net cash provided by financing activities decreased from $219.9 million in 1998 to $164.9 million in 1999. Excluding the refinancing of our credit facility, borrowings in 1999 would have been $186.3 million and repayments would have been $20.9 million. This represents a $56.2 million decrease compared to $242.5 million borrowed in 1998 and repayments of long-term indebtedness of $20.9 million in 1999 compared to repayments of $18.8 million in 1998. The $56.2 million decrease in borrowings related to a lesser amount spent on acquisition of facilities, partially offset by increased capital expenditures and an increase in the accounts receivable balance.

CAPITAL EXPENDITURES

Our capital expenditures for 2000 totaled $63.0 million compared to $64.8 million in 1999 and $51.3 million in 1998. Our capital expenditures for 1999 excludes $15.3 million of costs associated with the opening and construction of one additional hospital. The decrease in capital expenditures in 2000 was due primarily to the increase in purchases of medical equipment and information

systems upgrades in 1999 related to Year 2000 compliance. The Year 2000 compliance expenditures account for the increase in capital expenditures during 1999 as compared to 1998.

Pursuant to hospital purchase agreements, we are required to construct four replacement hospitals through 2005 with an aggregate estimated construction cost, including equipment, of approximately $120 million. We expect total capital expenditures of approximately $90 million in 2001, including approximately $60 million for renovation and equipment purchases and approximately $30 million for construction of replacement hospitals.

CAPITAL RESOURCES

Net working capital was $169.1 million at June 30, 2001 compared to $167.7 million at December 31, 2000. The $1.4 million increase was attributable primarily to an increase in cash and cash equivalents, an increase in accounts receivable consistent with the increase in net revenues and a decrease in accrued interest and other current liabilities offset by a decrease in prepaid expenses and an increase in current income taxes payable that we expect to settle using net operating loss carry forwards.

In July 2001, we amended our credit agreement. Our amended credit agreement provides for $644 million in term debt with quarterly amortization and staggered maturities in 2001, 2002, 2003, 2004 and 2005. This agreement also provides for revolving facility debt for working capital of $200 million and acquisitions of $263.2 million at June 30, 2001. This new amendment extends the maturity of approximately 80% of the revolver commitments to January 2, 2004. Borrowings under the facility bear interest at either LIBOR or prime rate plus various applicable margins which are based upon financial covenant ratio tests. As of June 30, 2001 using amended rates, our weighted average interest rate under our credit agreement was 7.04%. As of June 30, 2001, we had availability to borrow an additional $162.1 million under the working capital revolving facility and an additional $144.2 million under the acquisition loan revolving facility.

We are required to pay a quarterly commitment fee at a rate of .375% to .500% based on specified financial criteria. This fee applies to unused commitments under the revolving credit facility and the acquisition loan facility.

The terms of the credit agreement include various restrictive covenants. These covenants include restrictions on additional indebtedness, investments, asset sales, capital expenditures, dividends, sale and leasebacks, contingent obligations, transactions with affiliates, and fundamental changes. The covenants also require maintenance of various ratios regarding senior indebtedness, senior interest, and fixed charges.

We believe that internally generated cash flows and borrowings under our revolving credit facility and acquisition facility will be sufficient to finance acquisitions, capital expenditures and working capital requirements through the next 12 months. If funds required for future acquisitions exceed existing sources of capital, we will need to increase our credit facilities or obtain additional capital by other means.

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. 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, 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.

RECENT ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

On July 20, 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." These SFAS Statements make significant changes to the accounting for business combinations, goodwill and intangible assets.

SFAS No. 141 eliminates the pooling-of-interests method of accounting for business combinations. In addition, it further clarifies the criteria for recognition of intangible assets separately from goodwill. This statement's provisions apply to business combinations accounted for using the purchase method for which the date of acquisition is July 1, 2001, or later.

SFAS No. 142 discontinues the practice of amortizing goodwill and indefinite life intangible assets. Its nonamortization provisions are effective January 1, 2002 for goodwill existing at June 30, 2001, and are effective immediately for business combinations with acquisition dates after June 30, 2001. Intangible assets with a determinable useful life will continue to be amortized over that period. SFAS No. 142 requires us to complete a transitional goodwill impairment test as of January 1, 2002. Any impairment loss will be recorded as soon as possible, but in no case later than December 31, 2002. In addition, SFAS No. 142 requires that indefinite life intangible assets and goodwill be tested at least annually for impairment of carrying value; impairment of carrying value would be evaluated more frequently if certain indicators are encountered.

We expect to adopt SFAS No. 142 effective January 1, 2002. Early adoption and retroactive application of SFAS No. 141 and SFAS No. 142 are not permitted. Subject to final analysis, we expect application of the nonamortization provisions of these SFAS Statements to result in a positive effect on net income of approximately $23 million in calendar year 2002. We will perform the first of the required impairment tests of goodwill and indefinite lived intangible assets as of January 1, 2002. We do not expect the effect of SFAS Nos. 141 and 142 to have a significant effect on our financial position.

SFAS No. 143, "Accounting for Asset Retirement Obligations," was issued in June 2001 by the Financial Accounting Standards Board and is effective for financial statements issued for fiscal years beginning after June 15, 2002. Earlier application is encouraged. SFAS No. 143 establishes accounting standards for recognition and measurement of a liability for an asset retirement obligation and the associated retirement cost. This SFAS Statement applies to all entities and to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) the normal operation of a long-lived asset, except for certain obligations of lessees. We are evaluating the impact, if any, of adopting SFAS No. 143.

ACCOUNTING PRONOUNCEMENT ADOPTED

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," is effective for all fiscal years beginning after June 15, 2000. SFAS No. 133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. Under SFAS No. 133, certain contracts that were not formerly considered derivatives may now meet the definition of a derivative. We adopted SFAS No. 133 on January 1, 2001. The adoption of SFAS No. 133 did not impact our financial position, results of operations, or cash flows.

FEDERAL INCOME TAX EXAMINATIONS

We have settled the Internal Revenue Service examinations of our filed federal income tax returns for the tax periods ended December 31, 1993 through December 31, 1996. In that settlement, we have agreed to several adjustments, primarily involving temporary or timing differences, and made a payment of approximately $8.5 million, which is sufficient to cover all resulting federal income taxes and interest. The Internal Revenue Service examinations did not have a material financial impact on us.

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. We have not taken any action to cover interest rate market risk, and are not a party to any interest rate market risk management activities.

A 1% change in interest rates on variable rate debt would have resulted in interest expense fluctuating approximately $6 million for 1998, $8 million for 1999, $9 million for 2000 and $3.5 million for the six months ended June 30, 2001.

BUSINESS OF COMMUNITY HEALTH SYSTEMS

OVERVIEW OF OUR COMPANY

We are the largest non-urban provider of general hospital healthcare services in the United States in terms of number of facilities and the second largest in terms of revenues and EBITDA. As of October 1, 2001 we owned, leased or operated 55 hospitals, geographically diversified across 20 states, with an aggregate of 5,010 licensed beds. In over 85% of our markets, we are the sole provider of these services. In all but one of our other markets, we are one of two providers of these services. For the fiscal year ended December 31, 2000, we generated $1.34 billion in revenues and $252.7 million in adjusted EBITDA. For the six months ended June 30, 2001, we generated $799.6 million in revenues and $151.1 million in adjusted EBITDA.

In July 1996, an affiliate of Forstmann Little & Co. acquired our predecessor company from its public stockholders. The predecessor company was formed in 1985. The aggregate purchase price for the acquisition was $1,100.2 million. Wayne T. Smith, who has over 30 years of experience in the healthcare industry, joined our company as President in January 1997. We named him Chief Executive Officer in April 1997 and Chairman of our board of directors in February 2001. Under this ownership and leadership, we have:

- strengthened the senior management team in all key business areas;
- standardized and centralized our operations across key business areas;
- implemented a disciplined acquisition program;
- expanded and improved the services and facilities at our hospitals;
- recruited additional physicians to our hospitals; and
- instituted a company-wide regulatory compliance program.

As a result of these initiatives, we achieved revenue growth of 23.8% in 2000, 26.4% in 1999 and 15.1% in 1998. We also achieved growth in adjusted EBITDA of 23.8% in 2000, 22.7% in 1999 and 36.1% in 1998. Our adjusted EBITDA margins improved from 16.5% for 1997 to 18.9% for 2000.

Our hospitals typically have 50 to 200 beds and approximate annual revenues ranging from $12 million to $80 million. Some of the hospitals we have recently acquired have exceeded these ranges. They generally are located in non-urban markets with populations of 20,000 to 100,000 people and economically diverse employment bases. These facilities, together with their medical staffs, provide a wide range of inpatient and outpatient general hospital services and a variety of specialty services.

We target growing, non-urban healthcare markets because of their favorable demographic and economic trends and competitive conditions. Because non-urban service areas have smaller populations, there are generally fewer hospitals and other healthcare service providers in these communities. We believe that smaller populations result in less direct competition for hospital-based services. Also, we believe that non-urban communities generally view the local hospital as an integral part of the community. There is generally a lower level of managed care presence in these markets.

OUR BUSINESS STRATEGY

The key elements of our business strategy are to:

- increase revenue at our facilities;
- grow through selective acquisitions;
- reduce costs; and
- improve quality.

INCREASE REVENUE AT OUR FACILITIES

OVERVIEW. We seek to increase revenue at our facilities by providing a broader range of services in a more attractive care setting, as well as by supporting and recruiting physicians. We identify the healthcare needs of the community by analyzing demographic data and patient referral trends. We also work with local hospital boards, management teams, and medical staffs to determine the number and type of additional physicians needed. Our initiatives to increase revenue include:

- recruiting additional primary care physicians and specialists;

- expanding the breadth of services offered at our hospitals through targeted capital expenditures to support the addition of more complex services, including orthopedics, cardiology, OB/GYN, and occupational medicine; and

- providing the capital to invest in technology and the physical plant at the facilities, particularly in our emergency rooms.

By taking these actions, we believe that we can increase our share of the healthcare dollars spent by local residents and limit inpatient and outpatient migration to larger urban facilities. Total revenue for hospitals operated by us for a full year increased by 10.3% from 1999 to 2000. Total inpatient admissions increased by 6.3% over the same period.

PHYSICIAN RECRUITING. The primary method of adding or expanding medical services is the recruitment of new physicians into the community. A core group of primary care physicians is necessary as an initial contact point for all local healthcare. The addition of specialists who offer services including general surgery, OB/GYN, cardiology, and orthopedics completes the full range of medical and surgical services required to meet a community's core healthcare needs. When we acquire a hospital, we identify the healthcare needs of the community by analyzing demographic data and patient referral trends. We are then able to determine what we believe to be the optimum mix of primary care physicians and specialists. We employ recruiters at the corporate level to support the local hospital managers in their recruitment efforts. During the past three years, we have increased the number of physicians affiliated with us by 405, including 84 in 1998, 156 in 1999 and 165 in 2000. The percentage of recruited physicians commencing practice that were surgeons or specialists grew from 45% in 1997 to 65% in 2000. We do not employ most of our physicians, but rather they are in private practice in their communities. We have been successful in recruiting physicians because of the practice opportunities of physicians in our markets, as well as the lower managed care penetration as compared to urban areas. These physicians are able to earn incomes comparable to incomes earned by physicians in urban centers. As of June 30, 2001, approximately 2,200 physicians were affiliated with our hospitals.

To attract and retain qualified physicians, we provide recruited physicians with various services to assist them in opening and operating their practices, including:

- relocation assistance;

- physician practice management assistance, either through consulting advice or training;

- access to medical office building space adjacent to our hospitals;

- joint marketing programs for community awareness of new services and providers of care in the community;

- case management consulting for best practices; and

- access to a physician advisory board which communicates regularly with physicians regarding a wide range of issues affecting the medical staffs of our hospitals.

EMERGENCY ROOM INITIATIVES. Given that over 50% of our hospital admissions originate in the emergency room, we systematically take steps to increase patient flow in our emergency rooms as a means of optimizing utilization rates for our hospitals. Furthermore, the impression of our overall operations by our customers is substantially influenced by our emergency room since often that is their first experience with our hospitals. The steps we take to increase patient flow in our emergency rooms include renovating and expanding our emergency room facilities, improving service, and reducing waiting times, as well as publicizing our emergency room capabilities in the local community. We have expanded or renovated 15 of our emergency room facilities since 1997 and are now in the process of upgrading an additional 5 emergency room facilities. Since 1997, we have entered into new contracts with emergency room operating groups to improve performance in emergency rooms in approximately 35 of our hospitals. We have implemented marketing campaigns that emphasize the speed, convenience, and quality of our emergency rooms to enhance each community's awareness of our emergency room services.

Our upgrades include the implementation of specialized software programs designed to assist physicians in making diagnoses and determining treatments. The software also benefits patients and hospital personnel by assisting in proper documentation of patient records. It enables our nurses to provide more consistent patient care and provides clear instructions to patients at time of discharge to help them better understand their treatments.

EXPANSION OF SERVICES. To capture a greater portion of the healthcare spending in our markets and to more efficiently utilize our hospital facilities, we have added a broad range of emergency, outpatient, and specialty services to our hospitals. Depending on the needs of the community, we identify opportunities to expand into various specialties, including orthopedics, cardiology, OB/GYN, and occupational medicine. In addition to expanding services, we have completed major capital projects at selected facilities to offer these types of services. For example, in 1999 we invested $1 million in a new cardiac catheterization laboratory at our Crestview, Florida hospital. As a result, this laboratory increased the number of procedures it performed from 122 in 1998 to 670 in 2000. In another example, the magnetic resonance imaging technology was upgraded in our Lancaster, South Carolina hospital in late 2000. In the first 10 months since the upgrade, MRI volumes grew by 879 procedures, or 113%. We believe that through these efforts to expand our services we will reduce patient migration to competing providers of healthcare services and increase volume.

MANAGED CARE STRATEGY. Managed care has seen growth across the U.S. as health plans expand service areas and membership. As we service primarily non-urban markets, we have limited relationships with managed care organizations. We have responded with a proactive and carefully considered strategy developed specifically for each of our facilities. Our experienced business development department reviews and approves all managed care contracts, which are managed through a central database. The primary mission of this department is to select and evaluate appropriate managed care opportunities, manage existing reimbursement arrangements, negotiate increases, and educate our physicians. We do not have any risk sharing capitated contracts.

GROW THROUGH SELECTIVE ACQUISITIONS

ACQUISITION CRITERIA. Each year we intend to acquire, on a selective basis, two to four hospitals that fit our acquisition criteria. We generally pursue acquisition candidates that:

- have a general service area population between 20,000 and 100,000 with a stable or growing population base;

- are the sole or primary provider of acute care services in the community;

- are located more than 25 miles from a competing hospital;

- are not located in an area that is dependent upon a single employer or industry; and

- have financial performance that we believe will benefit from our management's operating skills.

Most hospitals we have acquired are located in service areas having populations within the lower to middle range of our criteria. However, we have also acquired hospitals having service area populations in the upper range of our criteria. For example, in 1998, we acquired a 162-bed facility in Roswell, New Mexico, which has a service area population of over 70,000 and is located 200 miles from the nearest urban centers in Albuquerque, New Mexico and Lubbock, Texas. In 2000, we acquired a 164-bed facility in Kirksville, Missouri, which has a service area population of over 100,000. Facilities similar to the ones located in Roswell and Kirksville offer even greater opportunities to expand services given their larger service area populations.

Most of our acquisition targets are municipal and other not-for-profit hospitals. We believe that our access to capital and ability to recruit physicians make us an attractive partner for these communities. In addition, we have found that communities located in states where we already operate a hospital are more receptive to us when they consider selling their hospital because they are aware of our operating track record with respect to our existing facilities within the state.

ACQUISITION OPPORTUNITIES. We believe that there are significant opportunities for growth through the acquisition of additional facilities. We estimate that there are currently approximately 375 hospitals that meet our acquisition criteria. These hospitals are primarily not-for-profit or municipally owned. Many of these hospitals have experienced declining financial performance, lack the resources necessary to maintain and improve facilities, have difficulty attracting qualified physicians, and are challenged by the changing healthcare industry. We believe that these circumstances will continue and may encourage owners of these facilities to turn to companies, like ours, that have greater management expertise and financial resources and can enhance the local availability of healthcare.

After we acquire a hospital, we:

- improve hospital operations by implementing our standardized and centralized programs and appropriate expense controls as well as by managing staff levels;

- recruit additional primary care physicians and specialists;

- expand the breadth of services offered in the community to increase local market share and reduce inpatient and outpatient migration to

larger urban hospitals; and

- implement appropriate capital expenditure programs to renovate the facility, add new services, and upgrade equipment.

REPLACEMENT FACILITIES. In some cases, we enter into agreements with the owners of hospitals to construct a new facility to be owned or leased by us that will replace the existing facility. The new facilities offer many benefits to us as well as the local community, including:

- state of the art technology, which attracts physicians trained in the latest medical procedures;

- physical plant efficiencies designed to enhance the flow of services, including emergency room and outpatient services;

- improved registration and business office functions; and

- local support for the institution.

As an obligation under hospital purchase agreements, we are required to construct four replacement hospitals through 2005 with an aggregate estimated construction cost, including equipment, of approximately $120 million.

DISCIPLINED ACQUISITION APPROACH. We have been disciplined in our approach to acquisitions. We have a dedicated team of internal and external professionals who complete a thorough review of the hospital's financial and operating performance, the demographics of the market, and the state of the physical plant of the facilities. Based on our historical experience, we then build a pro forma financial model that reflects what we believe can be accomplished under our ownership. Whether we buy or lease the existing facility or agree to construct a replacement hospital, we have been disciplined in our approach to pricing. We typically begin the acquisition process by entering into a non-binding letter of intent with an acquisition candidate. After we complete business and financial due diligence and financial modeling, we decide whether or not to enter into a definitive agreement.

ACQUISITION EFFORTS. We have significantly enhanced our acquisition efforts in the last five years in an effort to achieve our goals. We have focused on identifying possible acquisition opportunities through expanding our internal acquisition group and working with a broad range of financial advisors who are active in the sale of hospitals, especially in the not-for-profit sector. Since July 1996, we have acquired 27 hospitals through October 1, 2001, for an aggregate investment of approximately $866 million, including working capital. We have completed the following acquisitions since July 1996:

HOSPITAL NAME	CITY	STATE	YEAR OF ACQUISITION/ INCEPTION (a)	LICENSED LEASE BEDS
Chesterfield General (b)	Cheraw	SC	1996	66
Marlboro Park Hospital (b)	Bennettsville	SC	1996	109
Northeast Medical Center (b)	Bonham	TX	1996	75
Cleveland Regional Medical (b)	Cleveland	TX	1996	115
River West Medical Center (b)	Plaquemine	LA	1996	80
Marion Memorial	Marion	IL	1996	99
Lake Granbury Medical	Granbury	TX	1997	56
Payson Regional	Payson	AZ	1997	66
Eastern New Mexico	Roswell	NM	1998	162
Watsonville Community	Watsonville	CA	1998	102
Martin General	Williamston	NC	1998	49
Fallbrook Hospital	Fallbrook	CA	1998	47
Greensville Memorial	Emporia	VA	1999	114
Berwick Hospital	Berwick	PA	1999	144
King's Daughters	Greenville	MS	1999	137
Big Bend Regional (c)	Alpine	TX	1999	40
Evanston Regional	Evanston	WY	1999	42
Southampton Memorial	Franklin	VA	2000	105
Northeastern				

Regional..... Las Vegas
NM 2000 54 Lakeview
Community..... Eufaula
AL 2000 74 South Baldwin
Regional..... Foley AL
2000 82 Western Arizona
Regional..... Bullhead City
AZ 2000 90 Tooele Valley
Regional(d)..... Tooele UT
2000 38 Northeastern
Regional..... Kirksville
MO 2000 164
Brandywine.....
Coatesville PA 2001 168 Red Bud
Regional..... Red
Bud IL 2001 103 Jennersville
Regional..... West Grove
PA 2001 59

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

(b) Acquired in a single transaction from a private, for-profit company.

(c) New hospital constructed to replace existing facility that we managed.

(d) We acquired this hospital as of October 1, 2000. Prior to the acquisition, we operated this hospital under a management agreement and did not include the operating statistics of this hospital in our consolidated statistics. During the term of the management agreement, our fee was equal to the excess of the hospital's net revenue over expenses.

REDUCE COSTS

OVERVIEW. To improve efficiencies and increase operating margins, we implement cost containment programs and adhere to operating philosophies which include:

- standardizing and centralizing our operations;

- optimizing resource allocation by utilizing our company-devised case and resource management program, which assists in improving clinical care and containing expenses;

- capitalizing on purchasing efficiencies through the use of company-wide standardized purchasing contracts and terminating or renegotiating certain vendor contracts;

- installing a standardized management information system, resulting in more efficient billing and collection procedures; and

- managing staffing levels according to patient volumes and the appropriate level of care.

In addition, each of our hospital management teams is supported by our centralized operational, reimbursement, regulatory, and compliance expertise as well as by our senior management team, which has an average of 20 years of experience in the healthcare industry. Adjusted EBITDA margins on a same hospitals basis improved from 18.9% in 1998 to 19.7% in 1999 and to 19.9% in 2000. Adjusted EBITDA margins on a same hospitals basis improved from 18.8% for the first six months in 2000 to 19.4% for the first six months in 2001.

STANDARDIZATION AND CENTRALIZATION. Our standardization and centralization initiatives encompass nearly every aspect of our business, from developing standard policies and procedures with respect to patient accounting and physician practice management, to implementing standard processes to initiate, evaluate, and complete construction projects. Our standardization and centralization initiatives have been a key element in improving our adjusted EBITDA margins.

- BILLING AND COLLECTIONS. We have adopted standard policies and procedures with respect to billing and collections. We have also automated and standardized various components of the collection cycle, including statement and collection letters and the movement of accounts through the collection cycle. Upon completion of an acquisition, our management information system team converts the hospital's existing information system to our standardized system. This enables us to quickly implement our business controls and cost containment initiatives.

- PHYSICIAN SUPPORT. We support our physicians to enhance their performance. We have implemented physician practice management seminars and training. We host these seminars at least quarterly. All newly recruited physicians are required to attend a three-day introductory seminar. The subjects covered in these comprehensive seminars include:

- our corporate structure and philosophy;
- provider applications, physician to physician relationships, and performance standards;
- marketing and volume building techniques;
- medical records, equipment, and supplies;
- review of coding and documentation guidelines;
- compliance, legal, and regulatory issues;
- understanding financial statements;
- national productivity standards; and
- managed care.

- MATERIALS MANAGEMENT. We have standardized and centralized our operations with respect to medical supplies and equipment and pharmaceuticals used in our hospitals. In 1997, after evaluating our vendor contract pricing, we entered into an affiliation agreement with Broadlane Inc., formerly known as BuyPower, a group purchasing organization in which Tenet Healthcare Corporation has a majority ownership interest. At the present time, Broadlane is the source for a substantial portion of our medical supplies and equipment and pharmaceuticals. We have reduced supply from 11.8% of our revenue in 1998 to 11.7% of our revenue in 1999 and to 11.5% of our revenue in 2000.

- FACILITIES MANAGEMENT. We have standardized interiors, lighting, and furniture programs. We have also implemented a standard process to initiate, evaluate, and complete construction projects. Our corporate staff monitors all construction projects and pays all construction project invoices. Our initiatives in this area have reduced our construction costs while maintaining the same level of quality and improving upon the time it takes us to complete these projects.

- OTHER INITIATIVES. We have also improved margins by implementing standard programs with respect to ancillary services support in areas including emergency rooms, pharmacy, laboratory, imaging, cardiac services, home health, skilled nursing, centralized outpatient scheduling and health information management. We have reduced costs associated with these services by improving contract terms, standardizing information systems, and encouraging adherence to best practices guidelines.

CASE AND RESOURCE MANAGEMENT. Our case and resource management program is a company-devised program developed in response to ongoing reimbursement changes with the goal of improving clinical care and cost containment. The program focuses on:

- appropriately treating patients along the care continuum;
- reducing inefficiently applied processes, procedures, and resources;
- developing and implementing standards for operational best practices; and
- using on-site clinical facilitators to train and educate care practitioners on identified best practices.

Our case and resource management program integrates the functions of utilization review, discharge planning, overall clinical management, and resource management into a single effort to improve the quality and efficiency of care. Issues evaluated in this process include patient treatment, patient length of stay, and utilization of resources. The average length of inpatient stays decreased from 4.5 days in 1997 to 3.8 in 2000 and in the first six months of 2001. We believe this decrease was primarily a result of these initiatives.

Under our case and resource management program, patient care begins with a clinical assessment of the appropriate level of care, discharge planning, and medical necessity for planned services. Once a patient is admitted to the hospital, we conduct a review for ongoing medical necessity using appropriateness criteria. We reassess and adjust discharge plan options as the needs of the patient change. We closely monitor cases to prevent delayed service or inappropriate utilization of resources. Once the patient obtains clinical improvement, we encourage the attending physician to consider alternatives to hospitalization through discussions with the facility's physician advisor. Finally, we refer the patient to the appropriate post-hospitalization resources.

IMPROVE QUALITY

We have implemented various programs to ensure improvement in the quality of care provided. We have developed training programs for all senior hospital management, chief nursing officers,

quality directors, physicians and other clinical staff. We share information among our hospital management to implement best practices and assist in

complying with regulatory requirements. We have standardized accreditation documentation and requirements. Corporate support is provided to each facility to assist with accreditation reviews. Several of our facilities have received accreditation "with commendation" from the Joint Commission on Accreditation of Healthcare Organizations. All hospitals conduct patient, physician, and staff satisfaction surveys to help identify methods of improving the quality of care.

Each of our hospitals is governed by a board of trustees, which includes members of the hospital's medical staff. The board of trustees establishes policies concerning the hospital's medical, professional, and ethical practices, monitors these practices, and is responsible for ensuring that these practices conform to legally required standards. We maintain quality assurance programs to support and monitor quality of care standards and to meet Medicare and Medicaid accreditation and regulatory requirements. Patient care evaluations and other quality of care assessment activities are reviewed and monitored continuously.

OUR FACILITIES

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

For each of our hospitals, the following table shows its location, the date of its acquisition or lease inception and the number of licensed beds as of October 1, 2001:

HOSPITAL	CITY	LICENSED BEDS(a)	DATE OF ACQUISITION/LEASE INCEPTION	OWNERSHIP TYPE
ALABAMA				
Woodland Community Hospital	Cullman	100	October, 1994	Owned
Parkway Medical Center Hospital	Decatur	120	October, 1994	Owned
L.V. Stabler Memorial Hospital	Greenville	72	October, 1994	Owned
Hartselle Medical Center	Hartselle	150	October, 1994	Owned
Edge Regional Hospital	Troy	97	December, 1994	Owned
Lakeview Community Hospital	Eufaula	74	April, 2000	Owned
South Baldwin Regional Medical Center	Foley	82	June, 2000	Leased
ARIZONA				
Payson Regional Medical Center	Payson	66	August, 1997	Leased
Western Arizona Regional	Bullhead City	90	July, 2000	Owned
ARKANSAS				
Harris Hospital	Newport	132	October, 1994	Owned
Randolph County Medical Center	Pocahontas	50	October, 1994	Leased
CALIFORNIA				
Barstow Community Hospital	Barstow	56	January, 1993	Leased
Fallbrook Hospital	Fallbrook	47	November, 1998	Operated (b)
Watsonville Community Hospital	Watsonville	102	September, 1998	Owned
FLORIDA				
North Okaloosa Medical Center	Crestview	110	March, 1996	Owned
GEORGIA				
Berrien County Hospital	Nashville	63	October, 1994	Leased
Fannin Regional Hospital	Blue Ridge	34	January, 1986	Owned
ILLINOIS				
Crossroads Community Hospital	Mt. Vernon	55	October, 1994	Owned
Marion Memorial Hospital	Marion	99	October, 1996	Leased
Red Bud Regional Hospital	Red Bud	103	September, 2001	Owned

(CONTINUED ON FOLLOWING PAGE)

DATE OF LICENSED ACQUISITION/LEASE OWNERSHIP	HOSPITAL	CITY	BEDS(a)	INCEPTION TYPE
KENTUCKY	Parkway Regional Hospital	Fulton	70	May, 1992 Owned
	Three Rivers Medical Center	Louisa	90	May, 1993 Owned
	Kentucky River Medical Center	Jackson	55	August, 1995 Leased
LOUISIANA	Byrd Regional Hospital	Leesville	70	October, 1994 Owned
	Sabine Medical Center	Many	52	October, 1994 Owned
	River West Medical Center	Plaquemine	80	August, 1996 Leased
MISSISSIPPI	The King's Daughters Hospital	Greenville	137	September, 1999 Owned
MISSOURI	Moberly Regional Medical Center	Moberly	114	November, 1993 Owned
	Northeastern Regional Medical Center	Kirksville	164	December, 2000 Leased
NEW MEXICO	Mimbres Memorial Hospital	Deming	49	March, 1996 Owned
	Eastern New Mexico Medical Center	Roswell	162	April, 1998 Owned
	Northeastern Regional Hospital	Las Vegas	54	April, 2000 Leased
NORTH CAROLINA	Martin General Hospital	Williamston	49	November, 1998 Leased
PENNSYLVANIA	Berwick Hospital	Berwick	144	March, 1999 Owned
	Brandywine Hospital	Coatesville	168	June, 2001 Owned
	Jennersville Regional Hospital	West Grove	59	October, 2001 Owned
SOUTH CAROLINA	Marlboro Park Hospital	Bennettsville	109	August, 1996 Leased
	Chesterfield General Hospital	Cheraw	66	August, 1996 Leased
	Springs Memorial Hospital	Lancaster	194	November, 1994 Owned
TENNESSEE	Lakeway Regional Hospital	Morristown	135	May, 1993 Owned
	Scott County Hospital	Oneida	99	November, 1989 Leased
	Cleveland Community Hospital	Cleveland	100	October, 1994 Owned
	White County Community Hospital	Sparta	60	October, 1994 Owned
TEXAS	Big Bend Regional Medical Center	Alpine	40	October, 1999 Owned
	Northeast Medical Center	Bonham	75	August, 1996 Owned
	Cleveland Regional Medical Center	Cleveland	115	August, 1996 Leased
	Highland Medical Center	Lubbock	123	September, 1986 Owned
	Scenic Mountain Medical Center	Big Spring	150	October, 1994 Owned
	Hill Regional Hospital	Hillsboro	92	October, 1994 Owned
	Lake Granbury Medical Center	Granbury	56	

January, 1997 Leased UTAH Tooele Valley Regional Medical Center..... Tooele 38 October, 2000 Owned (c) VIRGINIA Greensville Memorial Hospital..... Emporia 114 March, 1999 Leased Russell County Medical Center..... Lebanon 78 September, 1986 Owned Southampton Memorial Hospital..... Franklin 105 March, 2000 Owned WYOMING Evanston Regional Hospital..... Evanston 42 November, 1999 Owned

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

(b) We operate this hospital under a lease-leaseback and operating agreement. We recognize all revenue and expenses associated with this hospital on our financial statements.

(c) We acquired this hospital as of October 1, 2000. Prior to the acquisition, we operated this hospital under a management agreement and did not include the operating statistics of this hospital in our consolidated statistics. During the term of the management agreement, our fee was equal to the excess of the hospital's net revenue over expenses.

SOURCES OF REVENUE

We receive payment for healthcare services provided by our hospitals from:

- the federal Medicare program;

- state Medicaid programs;

- healthcare insurance carriers, health maintenance organizations, or "HMOs," preferred provider organizations, or "PPOs," and other managed care programs; and

- patients directly.

The following table presents the approximate percentages of net revenue received from private, Medicare, Medicaid and other sources for the periods indicated. The data for the years presented are not strictly comparable due to the significant effect that hospital acquisitions and dispositions have had on these statistics.

SIX MONTHS ENDED NET REVENUE BY PAYOR SOURCE	1998	1999	2000	JUNE 30, 2001
Medicare	39.0%	36.2%	34.2%	34.1%
Medicaid	10.2%	11.9%	11.8%	11.6%
Managed Care (HMO/PPO)	14.0%	14.3%	15.9%	16.4%
Private and Other	36.8%	37.6%	38.1%	37.9%
Total	100.0%	100.0%	100.0%	100.0%

As shown above, we receive a substantial portion of our revenue from the Medicare and Medicaid programs.

Medicare is a federal program that provides medical insurance benefits to persons age 65 and over, some disabled persons, and persons with end-stage renal disease. Medicaid is a federal-state funded program, administered by the states, which provides medical benefits to individuals who are unable to afford healthcare. All of our hospitals are certified as providers of Medicare and Medicaid services. Amounts received under the Medicare and Medicaid programs are generally significantly less than the hospital's customary charges for the services provided. In recent years, changes made to the Medicare and Medicaid programs have further reduced payment to hospitals. We expect this trend to continue. Since an important portion of our revenues comes from patients under Medicare and Medicaid programs, our ability to operate our business successfully in the future will depend in large measure on our ability to adapt to changes in these programs.

In addition to government programs, we are paid by private payors, which include insurance companies, HMOs, PPOs, other managed care companies, and employers, as well as by patients directly. Patients are generally not responsible for any difference between customary hospital charges and amounts paid for hospital services by Medicare and Medicaid programs, insurance companies, HMOs, PPOs, and other managed care companies, but are responsible for services not covered by these programs or plans, as well as for deductibles and co-insurance obligations of their coverage. The amount of these deductibles and co-insurance obligations has increased in recent years. Collection of amounts due from individuals is typically more difficult than collection of amounts due from government or business payors. To further reduce their healthcare costs, an increasing number of insurance companies, HMOs, PPOs, and other managed care companies are negotiating discounted fee structures or fixed amounts for hospital services performed, rather than paying healthcare providers the amounts billed. We negotiate discounts with managed care companies which are typically smaller than discounts under governmental programs. If an increased number of insurance companies, HMOs, PPOs, and other managed care companies

succeed in negotiating discounted fee structures or fixed amounts, our results of operations may be negatively affected. For more information on the payment programs on which our revenues depend, see "--Payment."

Hospital revenues depend upon inpatient occupancy levels, the volume of outpatient procedures, and the charges or negotiated payment rates for hospital services provided. Charges and payment rates for routine inpatient services vary significantly depending on the type of service performed and the geographic location of the hospital. In recent years, we have experienced a significant increase in revenue received from outpatient services. We attribute this increase to:

- advances in technology, which have permitted us to provide more services on an outpatient basis; and

- pressure from Medicare or Medicaid programs, insurance companies, and managed care plans to reduce hospital stays and to reduce costs by having services provided on an outpatient rather than on an inpatient basis.

SUPPLY CONTRACTS

During fiscal 1997, we entered into an affiliation agreement with Broadlane, a group purchasing organization in which Tenet Healthcare Corporation has a majority ownership interest. Our affiliation with Broadlane combines the purchasing power of our hospitals with the purchasing power of more than 600 other healthcare providers affiliated with the program. This increased purchasing power has resulted in reductions in the prices paid by our hospitals for medical supplies and equipment and pharmaceuticals. We also use Broadlane's internet purchasing portal.

INDUSTRY OVERVIEW

The Centers for Medicare and Medicaid Services estimated that in 2000, total U.S. healthcare expenditures grew by 8.3% to $1.3 trillion. It projects total U.S. healthcare spending to grow by 8.6% in 2001 and by 7.1% annually from 2002 through 2010. By these estimates, healthcare expenditures will account for approximately $2.6 trillion, or 15.9% of the total U.S. gross domestic product, by 2010.

Hospital services, the market in which we operate, is the largest single category of healthcare at 32.1% of total healthcare spending in 2000, or $415.8 billion. The Centers for Medicare and Medicaid Services projects the hospital services category to grow by 5.7% per year through 2010. It expects growth in hospital healthcare spending to continue due to the aging of the U.S. population and consumer demand for expanded medical services. As hospitals remain the primary setting for healthcare delivery, it expects hospital services to remain the largest category of healthcare spending.

U.S. HOSPITAL INDUSTRY. The U.S. hospital industry is broadly defined to include acute care, rehabilitation, and psychiatric facilities that are either public (government owned and operated), not-for-profit private (religious or secular), or for-profit institutions (investor owned). According to the American Hospital Association, there are approximately 5,000 inpatient hospitals in the U.S. which are not-for-profit owned, investor owned, or state or local government owned. Of these hospitals, 44%, or approximately 2,200, are located in non-urban communities. These facilities offer a broad range of healthcare services, including internal medicine, general surgery, cardiology, oncology, neurosurgery, orthopedics, OB/GYN, and emergency services. In addition, hospitals also offer other ancillary services including psychiatric, diagnostic, rehabilitation, home health, and outpatient surgery services.

URBAN VS. NON-URBAN HOSPITALS

According to the U.S. Census Bureau, 25% of the U.S. population lives in communities designated as non-urban. In these non-urban communities, hospitals are typically the primary source of healthcare and, in many cases, a single hospital is the only provider of general healthcare services. According to the American Hospital Association, in 1998, there were approximately 2,200 non-urban hospitals in the U.S. We believe that a majority of these hospitals are owned by

not-for-profit or governmental entities.

FACTORS AFFECTING PERFORMANCE. Among the many factors that can influence a hospital's financial and operating performance are:

- facility size and location;

- facility ownership structure (i.e., tax-exempt or investor owned);

- a facility's ability to participate in group purchasing organizations; and

- facility payor mix.

We believe that non-urban hospitals are generally able to obtain higher operating margins than urban hospitals. Factors contributing to a non-urban hospital's margin advantage include fewer patients with complex medical problems, a lower cost structure, limited competition, and favorable Medicare payment provisions. Patients needing the most complex care are more often served by the larger and/or more specialized urban hospitals. A non-urban hospital's lower cost structure results from its geographic location as well as the lower number of patients treated who need the most highly advanced services. Additionally, because non-urban hospitals are generally sole providers or one of a small group of providers in their markets, there is limited competition. This generally results in more favorable pricing with commercial payors. Medicare has special payment provisions for "sole community hospitals." Under present law, hospitals that qualify for this designation receive higher reimbursement rates and are guaranteed capital reimbursement equal to 90% of capital costs. As of June 30, 2001, 15 of our hospitals were "sole community hospitals." In addition, we believe that non-urban communities are generally characterized by a high level of patient and physician loyalty that fosters cooperative relationships among the local hospitals, physicians, employees, and patients.

The type of third party responsible for the payment of services performed by healthcare service providers is also an important factor which affects hospital margins. These providers have increasingly exerted pressure on healthcare service providers to reduce the cost of care. The most active providers in this regard have been HMOs, PPOs, and other managed care organizations. The characteristics of non-urban markets make them less attractive to these managed care organizations. This is partly because the limited size of non-urban markets and their diverse, non-national employer bases minimize the ability of managed care organizations to achieve economies of scale. In 2000, approximately 16% of our revenues were paid by managed care organizations.

HOSPITAL INDUSTRY TRENDS

DEMOGRAPHIC TRENDS. According to the U.S. Census Bureau, there are approximately 35 million Americans aged 65 or older in the U.S. today, who comprise approximately 13% of the total U.S. population. By the year 2030, the number of elderly is expected to climb to 69 million, or 20% of the total population. Due to the increasing life expectancy of Americans, the number of people aged 85 years and older is also expected to increase from 4.3 million to 8.5 million by the year 2030. This increase in life expectancy will increase demand for healthcare services and, as importantly, the demand for innovative, more sophisticated means of delivering those services.

Hospitals, as the largest category of care in the healthcare market, will be among the main beneficiaries of this increase in demand. Based on data compiled for us, the populations of the service areas where our hospitals are located grew by 10.4% from 1990 to 2000 and are projected to grow by 4.3% from 2000 to 2005. The number of people aged 65 or older in these service areas grew by 15.1% from 1990 to 2000 and is projected to grow by 4.2% from 2000 to 2005.

CONSOLIDATION. During the late 1980s and early 1990s, there was significant industry consolidation involving large, investor owned hospital companies seeking to achieve economies of scale. While consolidation activity in the hospital industry is continuing, the consolidation is currently primarily taking place through mergers and acquisitions involving not-for-profit hospital systems. Reasons for this activity include:

- limited access to capital;

- financial performance issues, including challenges associated with changes in reimbursement;

- the desire to enhance the local availability of healthcare in the community;

- the need and ability to recruit primary care physicians and specialists; and

- the need to achieve general economies of scale and to gain access to standardized and centralized functions, including favorable supply agreements.

SHIFTING UTILIZATION TRENDS. Over the past decade, many procedures that had previously required hospital visits with overnight stays have been performed on an outpatient basis. This shift has been driven by cost containment efforts led by private and government payors. The focus on cost containment has coincided with advancements in medical technology that have allowed patients to be treated

with less invasive procedures that do not require overnight stays. According to the American Hospital Association, the number of surgeries performed on an inpatient basis declined from 1995 to 1999 at an average annual rate of 0.4%, from 9.7 million in 1995 to 9.5 million in 1999. During the same period, the number of outpatient surgeries increased at an average annual rate of 4.2%, from 13.5 million in 1995 to 15.8 million in 1998. The mix of inpatient as compared to outpatient surgeries shifted from a ratio of 27.9% inpatient to 72.1% outpatient in 1995 to a ratio of 39.8% inpatient to 60.2% outpatient in 1999.

These trends have led to a reduction in the average length of stay and, as a result, inpatient utilization rates. According to the American Hospital Association, the average length of stay in general hospitals has declined from 6.5 days in 1995 to 5.9 days in 1999.

GOVERNMENT REGULATION

OVERVIEW. The healthcare industry is required to comply with extensive government regulation at the federal, state, and local levels. Under these regulations, hospitals must meet requirements to be certified as hospitals and qualified to participate in government programs, including the Medicare and Medicaid programs. These requirements relate to the adequacy of medical care, equipment, personnel, operating policies and procedures, maintenance of adequate records, hospital use, rate-setting, compliance with building codes, and environmental protection laws. There are also extensive regulations governing a hospital's participation in these government programs. If we fail to comply with applicable laws and regulations, we can be subject to criminal penalties and civil sanctions, our hospitals can lose their licenses and we could lose our ability to participate in these government programs. In addition, government regulations may change. If that happens, we may have to make changes in our facilities, equipment, personnel, and services so that our hospitals remain certified as hospitals and qualified to participate in these programs. We believe

that our hospitals are in substantial compliance with current federal, state, and local regulations and standards.

Hospitals are subject to periodic inspection by federal, state, and local authorities to determine their compliance with applicable regulations and requirements necessary for licensing and certification. All of our hospitals are licensed under appropriate state laws and are qualified to participate in Medicare and Medicaid programs. In addition, most of our hospitals are accredited by the Joint Commission on Accreditation of Healthcare Organizations. This accreditation indicates that a hospital satisfies the applicable health and administrative standards to participate in Medicare and Medicaid programs.

FRAUD AND ABUSE LAWS. Participation in the Medicare program is heavily regulated by federal statute and regulation. If a hospital fails substantially to comply with the requirements for participating in the Medicare program, the hospital's participation in the Medicare program may be terminated and/or civil or criminal penalties may be imposed. For example, a hospital may lose its ability to participate in the Medicare program if it performs any of the following acts:

- making claims to Medicare for services not provided or misrepresenting actual services provided in order to obtain higher payments;

- paying money to induce the referral of patients where services are reimbursable under a federal health program; or

- failing to provide treatment to any individual who comes to a hospital's emergency room with an "emergency medical condition" or otherwise failing to properly treat and transfer emergency patients.

The Health Insurance Portability and Accountability Act of 1996 broadened the scope of the fraud and abuse laws by adding several criminal statutes that are not related to receipt of payments from a federal healthcare program. The Accountability Act created civil penalties for conduct, including upcoding and billing for medically unnecessary goods or services. It established new enforcement mechanisms to combat fraud and abuse. These include a bounty system, where a portion of the payments recovered is returned to the government agencies, as well as a whistleblower program. This law also expanded the categories of persons that may be excluded from participation in federal healthcare programs.

Another law regulating the healthcare industry is a section of the Social Security Act, known as the "anti-kickback" or "fraud and abuse" statute. This law prohibits some business practices and relationships under Medicare, Medicaid, and other federal healthcare programs. These practices include the payment, receipt, offer, or solicitation of money in connection with the referral of patients covered by a federal or state healthcare program. Violations of the anti-kickback statute may be punished by criminal and civil fines, exclusion from federal healthcare programs, and damages up to three times the total dollar amount involved.

The Office of Inspector General of the Department of Health and Human Services is authorized to publish regulations outlining activities and business relationships that would be deemed not to violate the anti-kickback statute. These regulations are known as "safe harbor" regulations. However, the failure of a particular activity to comply with the safe harbor regulations does not

mean that the activity violates the anti-kickback statute.

The Office of Inspector General is responsible for identifying fraud and abuse activities in government programs. In order to fulfill its duties, the Office of Inspector General performs audits, investigations, and inspections. In addition, it provides guidance to healthcare providers by

identifying types of activities that could violate the anti-kickback statute. The Office of the Inspector General has identified the following incentive arrangements as potential violations:

- payment of any incentive by the hospital each time a physician refers a patient to the hospital;

- use of free or significantly discounted office space or equipment for physicians in facilities usually located close to the hospital;

- provision of free or significantly discounted billing, nursing, or other staff services;

- free training for a physician's office staff including management and laboratory techniques;

- guarantees which provide that if the physician's income fails to reach a predetermined level, the hospital will pay any portion of the remainder;

- low-interest or interest-free loans, or loans which may be forgiven if a physician refers patients to the hospital;

- payment of the costs of a physician's travel and expenses for conferences;

- payment of services which require few, if any, substantive duties by the physician, or payment for services in excess of the fair market value of the services rendered; or

- purchasing goods or services from physicians at prices in excess of their fair market value.

We have a variety of financial relationships with physicians who refer patients to our hospitals. Physicians own interests in a few of our facilities. Physicians may also own our stock. We also have contracts with physicians providing for a variety of financial arrangements, including employment contracts, leases, management agreements, and professional service agreements. We provide financial incentives to recruit physicians to relocate to communities served by our hospitals. These incentives include revenue guarantees and, in some cases, loans. Although we believe that we have structured our arrangements with physicians in light of the "safe harbor" rules, we cannot assure you that regulatory authorities will not determine otherwise. If that happens, we would be subject to criminal and civil penalties and/or exclusion from participating in Medicare, Medicaid, or other government healthcare programs.

The Social Security Act also includes a provision commonly known as the "Stark law." This law prohibits physicians from referring Medicare and Medicaid patients to healthcare entities in which they or any of their immediate family members have ownership or other financial interests. These types of referrals are commonly known as "self referrals." Sanctions for violating the Stark law include civil money penalties, assessments equal to twice the dollar value of each service, and exclusion from Medicare and Medicaid programs. There are ownership and compensation arrangement exceptions to the self-referral prohibition. One exception allows a physician to make a referral to a hospital if the physician owns an interest in the entire hospital, as opposed to an ownership interest in a department of the hospital; however, a bill has been introduced into Congress that would eliminate this exception. Another exception allows a physician to refer patients to a healthcare entity in which the physician has an ownership interest if the entity is located in a rural area, as defined in the statute. There are also exceptions for many of the customary financial arrangements between physicians and providers, including employment contracts, leases, and recruitment agreements. In 2001, the federal government began issuing final regulations which interpret some of the provisions included in the Stark law. The government invited comment on a number of the regulations and has not indicated when it will issue the remaining final regulations. We have structured our financial arrangements with physicians to comply with the statutory exceptions included in the Stark law. However, when the government finalizes the regulations, it may interpret certain provisions of this law in a manner different from the manner with which we

have interpreted them. We cannot predict the final form that these regulations will take and the effect these regulations will have on us, including any possible restructuring of our existing relationships with physicians.

Many states in which we operate also have adopted, or are considering adopting, similar laws. Some of these state laws apply even if the payment for care does not come from the government. These statutes typically provide criminal and civil penalties as well as loss of licensure. While there is little precedent for the interpretation or enforcement of these state laws, we have attempted to structure our financial relationships with physicians and others in light of these laws. However, if we are found to have violated these state laws,

it could result in the imposition of criminal and civil penalties as well as possible licensure revocation.

CORPORATE PRACTICE OF MEDICINE FEE-SPLITTING. Some states have laws that prohibit unlicensed persons or business entities, including corporations, from employing physicians. Some states also have adopted laws that prohibit direct or indirect payments or fee-splitting arrangements between physicians and unlicensed persons or business entities. Possible sanctions for violations of these restrictions include loss of a physician's license, civil and criminal penalties and rescission of business arrangements. These laws vary from state to state, are often vague and have seldom been interpreted by the courts or regulatory agencies. We structure our arrangements with healthcare providers to comply with the relevant state law. However, we cannot assure you that governmental officials charged with responsibility for enforcing these laws will not assert that we, or transactions in which we are involved, are in violation of these laws. These laws may also be interpreted by the courts in a manner inconsistent with our interpretations.

EMERGENCY MEDICAL TREATMENT AND ACTIVE LABOR ACT. The Emergency Medical Treatment and Active Labor Act imposes requirements as to the care that must be provided to anyone who comes to facilities providing emergency medical services seeking care before they may be transferred to another facility or otherwise denied care. Regulations have recently been adopted that expand the areas within a facility and in off-campus locations that must provide emergency medical screening examinations and treatment. Sanctions for failing to fulfill these requirements include exclusion from participation in Medicare and Medicaid programs and civil money penalties. In addition, the law creates private civil remedies which enable an individual who suffers personal harm as a direct result of a violation of the law to sue the offending hospital for damages and equitable relief. A medical facility that suffers a financial loss as a direct result of another participating hospital's violation of the law also has a similar right. Although we believe that our practices are in compliance with the law, we can give no assurance that governmental officials responsible for enforcing the law or others will not assert we are in violation of these laws.

FALSE CLAIMS ACT. Another trend in healthcare litigation is the use of the False Claims Act. This law has been used not only by the U.S. government, but also by individuals who bring an action on behalf of the government under the law's "qui tam" or "whistleblower" provisions. When a private party brings a qui tam action under the False Claims Act, the defendant will generally not be aware of the lawsuit until the government makes a determination whether it will intervene and take a lead in the litigation.

Civil liability under the False Claims Act can be up to three times the actual damages sustained by the government plus civil penalties for each separate false claim. There are many potential bases for liability under the False Claims Act. Although liability under the False Claims Act arises when an entity knowingly submits a false claim for reimbursement to the federal government, the False Claims Act defines the term "knowingly" broadly. Thus, although simple negligence generally will not give rise to liability under the False Claims Act, submitting a claim with reckless disregard to its truth or falsity can constitute "knowingly" submitting a claim. See "--Legal Proceedings" for a description of pending, unsealed False Claims Act litigation.

HEALTHCARE REFORM. The healthcare industry continues to attract much legislative interest and public attention. In recent years, an increasing number of legislative proposals have been introduced or proposed in Congress and in some state legislatures that would effect major changes in the healthcare system. Proposals that have been considered include cost controls on hospitals, insurance market reforms to increase the availability of group health insurance to small businesses, and mandatory health insurance coverage for employees. The costs of implementing some of these proposals would be financed, in part, by reductions in payments to healthcare providers under Medicare, Medicaid, and other government programs. We cannot predict the course of future healthcare legislation or other changes in the administration or interpretation of governmental healthcare programs and the effect that any legislation, interpretation, or change may have on us.

CONVERSION LEGISLATION. Many states, including some where we have hospitals and others where we may acquire hospitals, have adopted legislation regarding the sale or other disposition of hospitals operated by not-for-profit entities. In other states that do not have specific legislation, the attorneys general have demonstrated an interest in these transactions under their general obligations to protect charitable assets from waste. These legislative and administrative efforts primarily focus on the appropriate valuation of the assets divested and the use of the proceeds of the sale by the not-for-profit seller. While these review and, in some instances, approval processes can add additional time to the closing of a hospital acquisition, we have not had any significant difficulties or delays in completing the process. There can be no assurance, however, that future actions on the state level will not seriously delay or even prevent our ability to acquire hospitals. If these activities are widespread, they could have a negative impact on our ability to acquire additional hospitals. See "--Our Business Strategy."

CERTIFICATES OF NEED. The construction of new facilities, the acquisition of existing facilities and the addition of new services at our facilities may be subject to state laws that require prior approval by state regulatory agencies. These certificate of need laws generally require that a state agency determine the public need and give approval prior to the construction or acquisition of

facilities or the addition of new services. We operate hospitals in 11 states that have adopted certificate of need laws. If we fail to obtain necessary state approval, we will not be able to expand our facilities, complete acquisitions or add new services in these states. Violation of these state laws may result in the imposition of civil sanctions or the revocation of a hospital's licenses.

PRIVACY AND SECURITY REQUIREMENTS OF THE HEALTH INSURANCE PORTABILITY AND ACCOUNTABILITY ACT OF 1996. The Administrative Simplification Provisions of the Health Insurance Portability and Accountability Act of 1996 require the use of uniform electronic data transmission standards for healthcare claims and payment transactions submitted or received electronically. These provisions are intended to encourage electronic commerce in the healthcare industry. On August 17, 2000, the Centers for Medicare and Medicaid Services published final regulations establishing electronic data transmission standards that all healthcare providers must use when submitting or receiving certain healthcare transactions electronically. Compliance with these regulations is required by October 16, 2002. We cannot predict the impact that final regulations, when fully implemented, will have on us. We have established a sub-committee of our compliance committee to address our compliance with these regulations.

The Administrative Simplification Provisions also require the Centers for Medicare and Medicaid Services to adopt standards to protect the security and privacy of health-related information. The Centers for Medicare and Medicaid Services proposed regulations containing security standards on August 12, 1998. These proposed security regulations have not been finalized, but as proposed, would require healthcare providers to implement organizational and technical practices to protect the security of electronically maintained or transmitted health-related information. In addition, the Centers for Medicare and Medicaid Services released final regulations containing privacy standards

in December 2000. These privacy regulations became effective April 14, 2001 but compliance with these regulations is not required until April 2003. Therefore, these privacy regulations could be further amended prior to the compliance date. However, as currently drafted, the privacy regulations will extensively regulate the use and disclosure of individually identifiable health-related information. The security regulations, as proposed, and the privacy regulations could impose significant costs on our facilities in order to comply with these standards. We cannot predict the final form that these regulations will take or the impact that final regulations, when fully implemented, will have on us. If we violate these regulations, we would be subject to monetary fines and penalties, criminal sanctions and civil causes of action.

PAYMENT

MEDICARE. Under the Medicare program, we are paid for inpatient and outpatient services performed by our hospitals.

Payments for inpatient acute services are generally made pursuant to a prospective payment system, commonly known as "PPS." Under a PPS, our hospitals are paid a prospectively determined amount for each hospital discharge based on the patient's diagnosis. Specifically, each discharge is assigned to a diagnosis-related group, commonly known as a "DRG," based upon the patient's condition and treatment during the relevant inpatient stay. Each DRG is assigned a payment rate that is prospectively set using national average costs per case for treating a patient for a particular diagnosis. DRG payments do not consider the actual costs incurred by a hospital in providing a particular inpatient service. However, DRG payments are adjusted by a predetermined geographic adjustment factor assigned to the geographic area in which the hospital is located. While a hospital generally does not receive payment in addition to a DRG payment, hospitals may qualify for an "outlier" payment when the relevant patient's treatment costs are extraordinarily high and exceed a specified threshold. In addition, hospitals may qualify for Medicare disproportionate share payments when their percentage of low income patients exceeds specified thresholds. Under the Benefits Improvement and Protection Act of 2000, a majority of our hospitals qualify to receive Medicare disproportionate share payments.

The DRG rates are adjusted by an update factor each federal fiscal year, which begins on October 1. The index used to adjust the DRG rates, known as the "market basket index," gives consideration to the inflation experienced by hospitals in purchasing goods and services. For several years, however, the percentage increases in the DRG payments have been lower than the projected increases in the costs of goods and services purchased by hospitals. DRG rate increases were 1.1% for federal fiscal year 1995, 1.5% for federal fiscal year 1996, 2.0% for federal fiscal year 1997, 0.0% for federal fiscal year 1998, and 0.5% for federal fiscal year 1999. The DRG rate was increased by market basket minus 1.8% for federal fiscal year 2000. Under the Benefits Improvement and Protection Act of 2000, the DRG rate increased by the amount of the full market basket for federal fiscal year 2001 and by an amount equal to the market basket minus 0.55% for federal fiscal years 2002 and 2003. Future legislation may decrease the rate of increase for DRG payments, but we are not able to predict the amount of any reduction or the effect that any reduction will have on us.

Outpatient services have traditionally been paid at the lower of customary charges or on a reasonable cost basis. The Balanced Budget Act of 1997 established a PPS for outpatient hospital services that commenced on August 1, 2000. The Balanced Budget Refinement Act of 1999 eliminated the anticipated average reduction of 5.7% for various Medicare outpatient business under the Balanced Budget Act of 1997. Under the Balanced Budget Refinement Act of 1999,

non-urban hospitals with 100 beds or less are held harmless under Medicare outpatient PPS through December 31, 2003. Of our 54 hospitals, 35 qualify for this relief. Losses under Medicare outpatient PPS of non-urban hospitals with greater than 100 beds and urban hospitals will be mitigated

through a corridor reimbursement approach, where a percentage of losses will be reimbursed through December 31, 2003. Substantially all of our remaining hospitals qualify for relief under this provision.

Skilled nursing facilities have historically been paid by Medicare on the basis of actual costs, subject to limitations. The Balanced Budget Act of 1997 established a PPS for Medicare skilled nursing facilities. The new PPS commenced in July 1998, and will be fully implemented in June 2002. We have experienced reductions in payments for our skilled nursing services. However, the Benefits Improvement and Protection Act of 2000 requires the Centers for Medicare and Medicaid Services to increase the current reimbursement amount for the skilled nursing facility PPS by approximately 8.0% for services furnished between April 1, 2001 and September 30, 2002. Additionally, the Benefits Improvement and Protection Act of 2000 increases the skilled nursing facility PPS to the full market basket for federal fiscal year 2001 and market basket minus 0.5% for federal fiscal years 2002 and 2003.

The Balanced Budget Act of 1997 also required the Department of Health and Human Services to establish a PPS for home health services. The Balanced Budget Act of 1997 put in place the interim payment system, commonly known as "IPS," until the home health PPS could be implemented. As of October 1, 2000, the home health PPS replaced IPS. We have experienced reductions in payments for our home health services and a decline in home health visits due to a reduction in benefits by reason of the Balanced Budget Act of 1997. However, the Balanced Budget Refinement Act of 1999 delayed until one year following implementation of the PPS a 15.0% payment reduction that would have otherwise applied effective October 1, 2000. The Benefits Improvement and Protection Act of 2000 further delays the one-time 15.0% payment reduction until October 1, 2002. Additionally, the Benefits Improvement and Protection Act of 2000 increases the home health agency PPS annual update to 2.2% for services furnished between April 1, 2001 and September 30, 2001, and for a two year period that began on April 1, 2001, increases Medicare payments by 10.0% for home health services furnished in rural areas.

The Balanced Budget Act of 1997 mandated a PPS for inpatient rehabilitation hospital services. A PPS system for Medicare inpatient rehabilitation services is scheduled for a two year phase-in beginning January 1, 2002. Prior to the implementation of this prospective payment system, payments to exempt rehabilitation hospitals and units are based upon reasonable cost, subject to a cost per discharge target. These limits are updated annually by a market basket index.

MEDICAID. Most state Medicaid payments are made under a PPS or under programs which negotiate payment levels with individual hospitals. Medicaid is currently funded jointly by state and federal governments. The federal government and many states are currently considering significantly reducing Medicaid funding, while at the same time expanding Medicaid benefits. The Bush administration has announced a proposal to reduce the upper payment limits of Medicaid reimbursements made to the states. This could adversely affect future levels of Medicaid payments received by our hospitals.

ANNUAL COST REPORTS. Hospitals participating in the Medicare and some Medicaid programs, whether paid on a reasonable cost basis or under a PPS, are required to meet certain financial reporting requirements. Federal and, where applicable, state regulations require submission of annual cost reports identifying medical costs and expenses associated with the services provided by each hospital to Medicare beneficiaries and Medicaid recipients.

Annual cost reports required under the Medicare and some Medicaid programs are subject to routine governmental audits. These audits may result in adjustments to the amounts ultimately determined to be due to us under these reimbursement programs. Finalization of these audits often takes several years. Providers can appeal any final determination made in connection with an audit.

COMMERCIAL INSURANCE. Our hospitals provide services to individuals covered by private healthcare insurance. Private insurance carriers pay our hospitals, or in some cases reimburse their policyholders, based upon the hospital's established charges and the coverage provided in the insurance policy. Commercial insurers are trying to limit the costs of hospital services by negotiating discounts, including PPS, which would reduce payments by commercial insurers to our hospitals. Reductions in payments for services provided by our hospitals to individuals covered by commercial insurers could adversely affect us.

COMPETITION

The hospital industry is highly competitive. An important part of our business strategy is to acquire hospitals each year in non-urban markets. However, not-for-profit hospital systems and other for-profit hospital companies generally attempt to acquire the same type of hospitals as we do. In addition, some hospitals are sold through an auction process, which may result in higher purchase prices than we believe are reasonable.

In addition to the competition we face for acquisitions and physicians, we must also compete with other hospitals and healthcare providers for patients. The competition among hospitals and other healthcare providers for patients has intensified in recent years. Our hospitals are located in non-urban service areas. Most of our hospitals face no direct competition because there are no other hospitals in their primary service areas. However, these hospitals do face competition from hospitals outside of their primary service area, including hospitals in urban areas that provide more complex services. These facilities are generally located in excess of 25 miles from our facilities. Patients in our primary service areas may travel to these other hospitals for a variety of reasons, including the need for services we do not offer or physician referrals. Patients who are required to seek services from these other hospitals may subsequently shift their preferences to those hospitals for services we do provide.

Some of our hospitals operate in primary service areas where they compete with one other hospital. One of our hospitals competes with more than one other hospital in its primary service area. Some of these competing hospitals use equipment and services more specialized than those available at our hospitals. In addition, some of the hospitals that compete with us are owned by tax-supported governmental agencies or not-for-profit entities supported by endowments and charitable contributions. These hospitals can make capital expenditures without paying sales, property and income taxes. We also face competition from other specialized care providers, including outpatient surgery, orthopedic, oncology, and diagnostic centers.

The number and quality of the physicians on a hospital's staff is an important factor in a hospital's competitive advantage. Physicians decide whether a patient is admitted to the hospital and the procedures to be performed. Admitting physicians may be on the medical staffs of other hospitals in addition to those of our hospitals. We attempt to attract our physicians' patients to our hospitals by offering quality services and facilities, convenient locations, and state-of-the-art equipment.

COMPLIANCE PROGRAM

OUR COMPLIANCE PROGRAM. In early 1997, under our new management and leadership, we voluntarily adopted a company-wide compliance program. The program included the appointment of a compliance officer and committee, adoption of an ethics and business conduct code, employee education and training, implementation of an internal system for reporting concerns, auditing and monitoring programs, and a means for enforcing the program's policies.

We take an operations team approach to compliance and utilize corporate experts for program design efforts and facility leaders for employee-level implementation. Compliance is another area

that demonstrates our utilization of standardization and centralization techniques and initiatives which yield efficiencies and consistency throughout our facilities. We recognize that our compliance with applicable laws and regulations depends on individual employee actions as well as company operations. Our approach focuses on integrating compliance responsibilities with operational function. This approach is intended to reinforce our company-wide commitment to operate strictly in accordance with the laws and regulations that govern our business.

Since its initial adoption, the compliance program continues to be expanded and developed to meet the industry's expectations and our needs. Specific written policies, procedures, training and educational materials and programs, as well as auditing and monitoring activities, have been prepared and implemented to address the functional and operational aspects of our business. Included within these functional areas are materials and activities for business sub-units, including laboratory, radiology, pharmacy, emergency, surgery, observation, home health, skilled nursing, and clinics. Specific areas identified through regulatory interpretation and enforcement activities have also been addressed in our program. Claims preparation and submission, including coding, billing, and cost reports, comprise the bulk of these areas. Financial arrangements with physicians and other referral sources, including anti-kickback and Stark laws, emergency department treatment and transfer requirements, and other patient disposition issues are also the focus of policy and training, standardized documentation requirements, and review and audit.

INPATIENT CODING COMPLIANCE ISSUE. In August 1997, during a routine internal audit at one of our facilities, we discovered inaccuracies in the DRG coding for some of our inpatient medical records. At that time, this was the primary auditing activity for our compliance program. These inaccuracies involved inpatient coding practices that had been put in place prior to the time we acquired our operating company in 1996.

Because of the concerns raised by the internal audit, we performed an internal review of historical inpatient coding practices. At the completion of this review in December 1997, we voluntarily disclosed the coding problems to the Office of Inspector General of the U.S. Department of Health and Human Services. After discussions with the Inspector General, we agreed to have an independent consultant audit the coding for eight specific DRGs. This audit ultimately involved a review by the consultant of approximately 1,500 patient files. The audit procedures we followed generated a statistically valid estimate of the dollar amounts related to coding errors for these DRGs at 36 of our

hospitals for the period 1993 to 1997.

The results of this audit were reviewed by the Inspector General and the Department of Justice, who also conducted their own investigation. We cooperated fully with their investigation.

We have entered into a settlement agreement with these federal government agencies and the applicable state Medicaid programs. Pursuant to the settlement agreement, we paid approximately $31.4 million in May 2000 and were released from all civil claims relating to the coding of the eight specific DRGs for the hospitals and time periods covered in the audit. We funded this payment from our acquisition loan facility. During 1998 and 1999, we established a liability in our financial statements for this amount. We have also agreed with the Inspector General to continue our existing voluntary compliance program under a corporate compliance agreement and to adopt various additional compliance measures for a period of three years. These additional compliance measures include making various reports to the federal government and having our actions pursuant to the compliance agreement reviewed annually by a third party.

The compliance measures and reporting and auditing requirements contained in the compliance agreement include:

- continuing the duties and activities of our corporate compliance officer, corporate compliance work group, and facility compliance chairs and committees;

- maintaining our written ethics and conduct policy, which sets out our commitment to full compliance with all statutes, regulations, and guidelines applicable to federal healthcare programs;

- maintaining our written policies and procedures addressing the operation of our compliance program, including proper coding for inpatient hospital stays;

- continuing our general training on the ethics and conduct policy and adding training about our compliance program and the compliance agreement;

- continuing our specific training for the appropriate personnel on billing and coding issues;

- continuing independent third party periodic audits of our facilities' inpatient DRG coding;

- having an independent third party perform an annual review of our compliance with the compliance agreement;

- continuing our confidential disclosure program and "ethics hotline" to enable employees or others to disclose issues or questions regarding possible inappropriate policies or behavior;

- enhancing our screening program to ensure that we do not hire or engage employees or contractors who are ineligible persons for federal healthcare programs;

- reporting any material deficiency which resulted in an overpayment to us by a federal healthcare program; and

- submitting annual reports to the Inspector General which describe in detail the operations of our corporate compliance program for the past year.

Our substantial adherence to the terms and conditions of the compliance agreement will constitute an element of our eligibility to participate in the federal healthcare programs. Consequently, material, uncorrected violations of the compliance agreement could lead to suspension or disbarment from these federal programs. In addition, we will be subject to possible civil penalties for a failure to substantially comply with the terms of the compliance agreement, including stipulated penalties ranging between $1,000 to $2,500 per day. We will also be subject to a stipulated penalty of $25,000 per day, following notice and cure periods, for any deliberate and/or flagrant breach of the material provisions of the compliance agreement.

EMPLOYEES

At June 30, 2001, we employed 12,176 full time employees and 5,531 part-time employees. Of these employees, 807 are union members. We believe that our labor relations are good.

PROFESSIONAL LIABILITY

As part of our business of owning and operating hospitals, we are subject to legal actions alleging liability on our part. To cover claims arising out of the operations of hospitals, we generally maintain professional malpractice liability insurance and general liability insurance on a claims made basis in amounts and with deductibles that we believe to be sufficient for our operations. We also maintain umbrella liability coverage covering claims which, due to their nature or amount, are not covered by our insurance policies. We cannot assure you that professional liability insurance will cover all claims against us or continue to be available at reasonable costs for us to maintain

adequate levels of insurance.

LEGAL PROCEEDINGS

We have entered into a settlement agreement with the Inspector General, the Department of Justice, and the applicable state Medicaid programs pursuant to which we paid approximately $31.8 million in exchange for a release of civil claims associated with possible inaccurate inpatient coding for the period 1993 to 1997. For a description of the terms of the settlement agreement as well as the events giving rise to the settlement agreement, see "--Compliance Program" and "Risk Factors--If we fail to comply with the material terms of our corporate compliance agreement, we could be excluded from government healthcare programs."

In May 1999, we were served with a complaint in U.S. EX REL. BLEDSOE V. COMMUNITY HEALTH SYSTEMS, INC., now pending in the Middle District of Tennessee, Case No. 2-00-0083. This qui tam action seeks treble damages and penalties under the False Claims Act against us. The Department of Justice did not intervene in this action. The allegations in the amended complaint are extremely general, but involve Medicare billing at our White County Community Hospital in Sparta, Tennessee. No discovery has occurred in this action. Based on our review of the complaint, we do not believe that this lawsuit is meritorious and we intend to vigorously defend ourselves against this action. We have filed a motion to dismiss this case, which is still pending. Because of the uncertain nature of litigation, we cannot predict the outcome of this matter. The relator in this case has filed a motion seeking from the United States government a portion of the settlement proceeds from our May 2000 settlement with the U.S. Department of Justice, the Office of the Inspector General, and applicable state Medicaid programs. The government is vigorously opposing this motion. Should the relator prevail on this motion, any monies would come from the United States and not us, and at least a portion of the relator's lawsuit would likely be dismissed. By order entered on September 19, 2001, the U.S. District Court granted our motion for judgment on the pleadings and dismissed the case, with prejudice.

We have also received various inquiries or subpoenas from state regulators, fiscal intermediaries, and the Department of Justice regarding various Medicare and Medicaid issues. In addition, we are subject to other claims and lawsuits arising in the ordinary course of our business. Plaintiffs in these lawsuits generally request punitive or other damages that by state law may not be able to be covered by insurance. We are not aware of any pending or threatened litigation which we believe would have a material adverse impact on us.

ENVIRONMENTAL MATTERS

We are subject to various federal, state, and local laws and regulations governing the use, discharge, and disposal of hazardous materials, including medical waste products. Compliance with these laws and regulations is not expected to have a material adverse effect on us. It is possible, however, that environmental issues may arise in the future which we cannot now predict.

MANAGEMENT

DIRECTORS AND EXECUTIVE OFFICERS

The following sets forth information regarding our executive officers and directors as of October 1, 2001. Unless otherwise indicated, each of our executive officers holds an identical position with CHS/Community Health Systems, Inc., our wholly owned subsidiary:

NAME	AGE	POSITION
Wayne T. Smith	55	Chairman of the Board, President and Chief Executive Officer (Class III)
W. Larry Cash	52	Executive Vice President, Chief Financial Officer and Director (Class I)
David L. Miller	53	Senior Vice President--Group Operations
Gary D. Newsome	43	Senior Vice President--Group Operations
Michael T. Portacci	43	Senior Vice President--Group Operations
John A. Fromhold	48	Vice President--Group Operations
Martin G. Schweinhart		

47 Senior Vice President--Operations T. Mark Buford.....
48 Vice President and Corporate Controller Rachel A. Seifert.....
42 Senior Vice President, Secretary and General Counsel Sheila P. Burke.....
50 Director (Class III) Robert J. Dole.....
78 Director (Class I) J. Anthony Forstmann.....
63 Director (Class I) Theodore J. Forstmann..... 61
Director (Class III) Dale F. Frey.....
69 Director (Class II) Sandra J. Horbach.....
41 Director (Class II) Harvey Klein, M.D..... 64
Director (Class I) Thomas H. Lister.....
37 Director (Class III) Michael A. Miles.....
62 Director (Class II)

WAYNE T. SMITH is the Chairman of the Board, President and Chief Executive Officer. Mr. Smith joined us in January 1997 as President. In April 1997 we also named him our Chief Executive Officer and a member of the Board of Directors. In February 2001, he was elected Chairman of our Board of Directors. Prior to joining us, Mr. Smith spent 23 years at Humana Inc., most recently as President and Chief Operating Officer, and as a director, from 1993 to mid-1996. He is also a director of Almost Family and Praxair, Inc.

W. LARRY CASH is the Executive Vice President, Chief Financial Officer and a Director. Mr. Cash joined us in September 1997 as Executive Vice President and Chief Financial Officer. He was elected a director in May 2001. Prior to joining Community Health Systems, he served as Vice President and Group Chief Financial Officer of Columbia/HCA Healthcare Corporation from September 1996 to August 1997. Prior to Columbia/HCA, Mr. Cash spent 23 years at Humana Inc., most recently as Senior Vice President of Finance and Operations from 1993 to 1996.

DAVID L. MILLER is a Senior Vice President--Group Operations. Mr. Miller joined us in November 1997 as a Group Vice President, managing hospitals in Alabama, Florida, North Carolina, South Carolina, and Virginia. Prior to joining us, he served as a Divisional Vice President for Health Management Associates, Inc. from January 1996 to October 1997. From July 1994 to December 1995, Mr. Miller was the Chief Executive Officer of the Lake Norman Regional Medical Center in Mooresville, North Carolina, which is owned by Health Management Associates, Inc.

GARY D. NEWSOME is a Senior Vice President--Group Operations. Mr. Newsome joined us in February 1998 as Group Vice President, managing hospitals in Kentucky, Mississippi, Wyoming, Pennsylvania, Tennessee, and Utah. Prior to joining us, he was a Divisional Vice President of Health Management Associates, Inc. in Midwest City, Oklahoma from January 1996 to February 1998. From January 1995 to January 1996, Mr. Newsome served as Assistant Vice President/Operations and Group Operations Vice President responsible for facilities of Health Management Associates, Inc. in Oklahoma, Arkansas, Kentucky, and West Virginia.

MICHAEL T. PORTACCI is a Senior Vice President--Group Operations. Mr. Portacci joined us in 1987 as a hospital administrator and became a Group Director in 1991. In 1994, he became Group Vice President, managing facilities in Arizona, California, Illinois, Missouri, New Mexico, and Texas.

JOHN A. FROMHOLD is a Vice President--Group Operations. Mr. Fromhold joined us in June 1998 as a Group Vice President, managing hospitals in Arkansas, Florida, Georgia, Louisiana, and Texas. Prior to joining us, he served as Chief Executive Officer of Columbia Medical Center of Arlington, Texas from 1995 to 1998.

MARTIN G. SCHWEINHART is Senior Vice President--Operations. Mr. Schweinhart joined us in June 1997 and has served as the Vice President Operations. From 1994 to 1997 he served as Chief Financial Officer of the Denver and Kentucky divisional markets of Columbia/HCA Healthcare Corporation. Prior to that time he spent 18 years with Humana Inc. and Columbia/HCA Healthcare Corporation in various management capacities.

T. MARK BUFORD is Vice President and Corporate Controller. Mr. Buford has served as our Corporate Controller since 1986 and as Vice President since 1988.

RACHEL A. SEIFERT is Senior Vice President, Secretary and General Counsel.

Ms. Seifert joined us in January 1998. From 1992 to 1997, she was Associate General Counsel of Columbia/HCA Healthcare Corporation and became Vice President-Legal Operations in 1994. Prior to joining Columbia/HCA in 1992, she was in private practice in Dallas, Texas.

SHEILA P. BURKE has been a director since 1997. She has been the Under Secretary for American Museums and National Programs at the Smithsonian Institution since June 2000. Previously, she was Executive Dean of the John F. Kennedy School of Government, Harvard University from 1996 until June 2000. Previously in 1996, Ms. Burke was senior advisor to the Dole for President Campaign. From 1986 until June 1996, Ms. Burke served as the chief of staff to former Senator Robert Dole and, in that capacity, was actively involved in writing some of the healthcare legislation in effect today. She is a director of WellPoint Health Networks Inc. and The Chubb Corporation.

ROBERT J. DOLE has been a director since 1997. He was a U.S. Senator from 1968 to 1996, during which time he served as Senate majority leader, minority leader and chairman of the Senate Finance Committee. Mr. Dole was also a U.S. Representative from 1960 to 1968. He has been a special counsel with Verner, Liipfert, Bernhard, McPherson and Hand since 1997. He is also a director of TB Woods Corp.

J. ANTHONY FORSTMANN has been a director since 1996. He has been a Managing Director of J.A. Forstmann & Co., a merchant banking firm, since October 1987. Mr. Forstmann was President of The National Registry Inc. from October 1991 to August 1993 and from September 1994 to March 1995 and Chief Executive Officer from October 1991 to August 1993 and from September 1994 to December 1995. In 1968, he co-founded Forstmann-Leff Associates, an institutional money management firm with $6 billion in assets. He is also a special limited partner of one of the Forstmann Little partnerships.

THEODORE J. FORSTMANN has been a director since 1996. He has been a general partner of FLC XXIX Partnership, L.P. since he co-founded Forstmann Little & Co. in 1978. He is also a director of The Yankee Candle Company, Inc. and McLeodUSA Incorporated.

DALE F. FREY has been a director since 1997. Mr. Frey currently is retired. From 1984 until 1997, Mr. Frey was the Chairman of the Board and President of General Electric Investment Corp. From 1980 until 1997, he was also Vice President of General Electric Company. Mr. Frey is also a director of Praxair, Inc., The Yankee Candle Company, Inc., Roadway Express Inc., McLeodUSA Incorporated, and Aftermarket Technology Corp.

SANDRA J. HORBACH has been a director since 1996. She has been a general partner of FLC XXIX Partnership, L.P. since 1993. She is also a director of The Yankee Candle Company, Inc. and XO Communications, Inc.

HARVEY KLEIN, M.D. has been an Attending Physician at the New York Hospital since 1992. Dr. Klein serves as the William S. Paley Professor of Clinical Medicine at Cornell University Medical College, a position he has held since 1992. He also has been a Member of the Board of Overseers of Weill Medical College of Cornell University since 1997. Dr. Klein is a member of the American Board of Internal Medicine and American Board of Internal Medicine, Gastroenterology. Upon joining the Board in May 2001, Dr. Klein received 10,000 options under the Community Health Systems 2000 Stock Options and Award Plan.

THOMAS H. LISTER has been a director since April 2000. He has been a general partner of FLC XXX Partnership, L.P. since 1997. He joined Forstmann Little & Co. in 1993 as an associate.

MICHAEL A. MILES has been a director since 1997 and served as Chairman of the Board from March 1998 to February 2001. Mr. Miles currently is retired. Mr. Miles served as Chairman and Chief Executive Officer of Philip Morris from 1991 to 1994. He is also a director of AMR Corporation, Dell Computer Corp., Morgan Stanley & Co., Sears Roebuck and Co., AOL Time Warner Inc., Allstate Inc., and the Interpublic Group of Companies, Inc. He is a special limited partner of one of the Forstmann Little partnerships.

THE BOARD OF DIRECTORS

Our certificate of incorporation provides for a classified board of directors consisting of three classes. Each class consists, as nearly as possible, of one-third of the total number of directors constituting the entire board. The term of the Class I directors will terminate on the date of the 2004 annual meeting of stockholders; the term of the Class II directors will terminate on the date of the 2002 annual meeting of stockholders; and the term of the Class III directors will terminate on the date of the 2003 annual meeting of stockholders. At each annual meeting of stockholders, successors to the class of directors whose term expires at that annual meeting will be elected for a three-year term and until their respective successors are elected and qualified. A director may only be removed with cause by the affirmative vote of the holders of a majority of the outstanding shares of capital stock entitled to vote in the election of directors. The Forstmann Little partnerships have a contractual right to elect two directors until they no longer own any shares of our common stock.

Directors who are neither our executive officers nor general partners in the Forstmann Little partnerships have been granted options to purchase common stock in connection with their election to our board of directors. Directors do not

receive any fees for serving on our board, but are reimbursed for their out-of-pocket expenses arising from attendance at meetings of the board and committees. See "--Outside Director Stock Options."

The board has three committees: Executive, Compensation, and Audit and Compliance. The Executive Committee consists of Theodore J. Forstmann, Sandra J. Horbach, Michael A. Miles, and Wayne T. Smith. The Compensation Committee consists of Michael A. Miles and J. Anthony Forstmann. The Audit and Compliance Committee consists of Dale F. Frey, Michael A. Miles, and Sheila P. Burke.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The current members of the Compensation Committee of our board of directors are: Michael A. Miles and J. Anthony Forstmann. Until February 2000, the Compensation Committee consisted of Theodore J. Forstmann and Sandra J. Horbach. Sandra J. Horbach formerly served as one of our officers but received no compensation for her services. None of the other members of the current or former Compensation Committees are current or former executive officers or employees of us or any of our subsidiaries. Theodore J. Forstmann and Sandra J. Horbach are general partners in partnerships affiliated with the Forstmann Little partnerships. See "--Relationships and Transactions between Community Health Systems and its Officers, Directors and 5% Beneficial Owners and their Family Members" for a description of the 1996 acquisition of our principal subsidiary by the Forstmann Little partnerships and members of our management.

EXECUTIVE COMPENSATION

The following table sets forth certain summary information with respect to compensation for 1999 and 2000 paid by us for services to our Chief Executive Officer and our four other most highly paid executive officers who were serving as executive officers at December 31, 2000.

SUMMARY COMPENSATION TABLE

		ANNUAL COMPENSATION		LONG TERM - COMPENSATION AWARDS	
NAME AND POSITION	YEAR	SALARY ($)	BONUS ($) (a)	OTHER ANNUAL COMPENSATION ($)	SECURITIES UNDERLYING OPTIONS (#)	ALL OTHER COMPENSATION ($)
Wayne T. Smith	2000	500,000	450,000	--	1,000,000	24,171 (b)
Chairman of the Board, President and Chief Executive Officer	1999	475,002	427,500	--	--	11,947 (c)
W. Larry Cash	2000	400,000	325,000	--		

700,000
15,815 (d)
Executive
Vice 1999
375,000
318,750 --
-- 10,764
(e)
President
and Chief
Financial
Officer
Michael T.
Portacci
2000
223,000
212,745 --
300,000
5,940 (f)
Senior Vice
1999
216,000
145,800 --
-- 5,735
(g)
President--
Group
Operations
David L.
Miller 2000
245,000
179,775 --
300,000
6,520 (h)
Senior Vice
1999
235,000
137,475 --
-- 6,635
(i)
President--
Group
Operations
Gary D.
Newsome
2000
233,000
165,000 --
300,000
5,311 (j)
Senior Vice
1999
216,000
163,080 --
-- 32,352
(k)
President--
Group
Operations

(a) The amount of other annual compensation is not required to be reported since the aggregate amount of perquisites and other personal benefits was less than $50,000 or 10% of the total annual salary and bonus reported for each named executive officer.

(b) Amount consists of additional long-term disability premiums and payments made to the Supplemental Survivors Accumulation Plan of $5,512, employer matching contributions to the 401(k) plan of $3,401 and employer matching contributions to the deferred compensation plan of $15,258.

(c) Amount consists of additional long-term disability premiums and payments made to the Supplemental Survivors Accumulation Plan of $4,822, employer matching contributions to the 401(k) plan of $2,400 and employer matching contributions to the deferred compensation plan of $4,725.

(d) Amount consists of additional long-term disability premiums and payments made to the Supplemental Survivors Accumulation Plan of $4,337, employer matching contributions to the 401(k) plan of $3,401, and employer matching contributions to the deferred compensation plan of $8,077.

(e) Amount consists of additional long-term disability premiums and payments made to the Supplemental Survivors Accumulation Plan of $5,139, employer matching contributions to the 401(k) plan of $2,400 and employer matching contributions to the deferred compensation plan of $3,225.

(f) Amount consists of additional long-term disability premiums and payments made to the Supplemental Survivors Accumulation Plan of $2,539 and employer matching contributions to the 401(k) plan of $3,401.

(g) Amount consists of additional long-term disability premiums and payments made to the Supplemental Survivors Accumulation Plan of $3,335 and employer matching contributions to the 401(k) plan of $2,400.

(h) Amount consists of additional long-term disability premiums and payments made to the Supplemental Survivors Accumulation Plan of $3,453 and employer matching contributions to the 401(k) plan of $3,067.

(i) Amount consists of additional long-term disability premiums and payments made to the Supplemental Survivors Accumulation Plan of $4,235 and employer matching contributions to the 401(k) plan of $2,400.

(j) Amount consists of additional long-term disability premiums and payments made to the Supplemental Survivors Accumulation Plan totaling $2,802, employer matching contributions to the 401(k) plan of $1,700 and employer matching contributions to the deferred compensation plan of $809.

(k) Amount consists of additional long-term disability premiums and payments made to the Supplemental Survivors Accumulation Plan totaling $3,502, relocation expense reimbursement of $26,758 and employer matching contributions to the 401(k) plan of $2,092.

STOCK OPTION TABLES
OPTION GRANTS IN FISCAL 2000

The following table sets forth information with respect to options to purchase common stock granted during 2000 under our stock option plans to the executive officers named in the "Summary Compensation Table."

INDIVIDUAL GRANTS								
NAME	NUMBER OF SECURITIES GRANTED	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE PRICE PER SHARE	EXPIRATION DATE	POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATE OF STOCK PRICE APPRECIATION FOR OPTION TERM			
					5%		10%	
Wayne T. Smith	1,000,000	26.0%	$13.00	6/8/10	$8,180,000		$20,720,000	
W. Larry Cash	700,000	18.2	13.00	6/8/10	5,726,000		14,504,000	
David L. Miller	300,000	7.8	13.00	6/8/10	2,454,000		6,216,000	
Gary D. Newsome	300,000	7.8	13.00	6/8/10	2,454,000		6,216,000	
Michael T. Portacci	300,000	7.8	13.00	6/8/10	2,454,000		6,216,000	

AGGREGATED OPTION EXERCISES IN FISCAL 2000 AND FISCAL YEAR-END OPTION VALUES

The following table sets forth the stock option values as of December 31,

2000 for these persons:

NUMBER OF SECURITIES VALUE OF UNEXERCISED IN-THE- SHARES UNDERLYING UNEXERCISED MONEY OPTIONS AT FISCAL ACQUIRED OPTIONS AT FISCAL YEAR-END YEAR-END (A) ON VALUE --- EXERCISE REALIZED EXERCISABLE UNEXERCISABLE EXERCISABLE UNEXERCISABLE				
Wayne T. Smith.....	--	$ --	--	1,000,000 $ -- $22,000,000
W. Larry Cash.....	--	--	--	700,000 -- 15,400,000
David L. Miller.....	1,598	33,874	1,765	305,044 49,438 6,741,282
Gary D. Newsome.....	1,598	33,874	1,765	305,044 49,438 6,741,282
Michael T. Portacci.....	-	--	5,044	303,363 141,282 6,694,198

(a) Sets forth values for options that represent the positive spread between the respective exercise prices of outstanding stock options based on the closing price of our common stock on the NYSE on December 29, 2000, which was $35.00 per share.

EMPLOYMENT ARRANGEMENTS

There are no written employment contracts with any of our executive officers. The stockholder's agreements, to which each of our executive officers is bound, contain forfeiture provisions in the event the person engages in prohibited conduct, including certain competitive activities. The stockholder's agreements, as well as the stock option agreements, provide for full and immediate vesting in the event of a change of control transaction (as defined under each agreement). Under our policy, our executive officers are entitled to severance compensation in the event they are terminated without cause; the compensation ranges from 12 to 24 months of base salary depending on benefit category, length of employment and reason for termination.

COMMUNITY HEALTH SYSTEMS STOCK OPTION PLAN

The Community Health Systems Employee Stock Option Plan provides for the granting of options to purchase shares of common stock of our company to any employee of our company or our subsidiaries. These options are not intended to qualify as incentive stock options. The plan is

currently administered by the Compensation Committee of our Board of Directors. As of June 30, 2001, options to purchase 381,504 shares of common stock were outstanding. No additional grants will be made under this plan. See "Principal

Stockholders."

STOCK OPTION AGREEMENTS. Options are granted pursuant to stock option agreements. To exercise an option, the optionee must pay for the shares in full and execute the stockholder's agreement described below. One-fifth of the options generally vest and become exercisable on each of the first, second, third, fourth and fifth anniversaries of the grant date. Unvested options expire on the date of the optionee's termination of employment and vested options expire after the termination of employment as described below.

Each option expires, unless earlier terminated, on the earliest of:

- the tenth anniversary of the date of grant; and

- the exercise in full of the option.

If an optionee's employment is terminated for any reason, the options will terminate to the extent they were not exercisable at the time of termination of employment. The optionee has a 60-day period from the date of our notification to exercise the vested portion of the option. These options are generally exercisable only by an optionee during the optionee's lifetime and are not transferable.

The stock option agreements provide that we will notify the optionee prior to a total sale or a partial sale. A total sale includes:

- the merger or consolidation of us into another corporation, other than a merger or consolidation in which we are the surviving corporation and which does not result in a capital reorganization, reclassification or other change in the then outstanding common stock;

- the liquidation of us;

- the sale to a third party of all or substantially all of our assets; or

- the sale to a third party of common stock, other than through a public offering;

but only if the Forstmann Little partnerships cease to own any shares of the voting stock of our Company.

A partial sale means a sale by the Forstmann Little partnerships of all or a portion of their shares of common stock to a third party, including through a public offering, other than a total sale. The concurrent common stock offering constitutes neither a total sale nor a partial sale.

The optionee may exercise his or her options only for purposes of participating in the partial sale, whether or not the options were otherwise exercisable, with respect to the excess, if any, of

- the number of shares with respect to which the optionee would be entitled to participate in the partial sale under the stockholder's agreement which permits proportional participation with the Forstmann Little partnerships in a public offering or sale to a third party, as described below, over

- the number of shares previously issued upon exercise of such options and not previously disposed of in a partial sale.

Upon receipt of a notice of a total sale, the optionee may exercise all or part of his or her options, whether or not such options were otherwise exercisable, within five days of receiving such notice, or a shorter time as determined by the committee.

In connection with a total sale involving the merger, consolidation or liquidation of us or the sale of common stock by the Forstmann Little partnerships, we may redeem the unexercised

portion of the options, for a price equal to the price received per share of common stock in the total sale, less the exercise price of the options, in lieu of permitting the optionee to exercise the options. Any unexercised portion of an option will terminate upon the completion of a total sale, unless we provide for its continuation.

In the event a total sale or partial sale is not completed, any option that the optionee had exercised in connection with the total sale or partial sale will be deemed not to have been exercised and will be exercisable after the total sale or partial sale only to the extent it would have been exercisable if notice of the total sale or partial sale had not been given to the optionee. The optionee has no independent right to require us to register the shares of common stock underlying the options under the Securities Act of 1933.

The stock option agreements permit us to terminate all of an optionee's options if the optionee engages in prohibited or competitive activities, including:

- disclosing confidential information about us;

- soliciting any of our employees within eighteen months of being terminated;

- publishing any statement critical of us;

- engaging in any competitive activities; or

- being convicted of a crime against us.

The number and class of shares underlying, and the terms of, outstanding options may be adjusted in certain events, such as a merger, consolidation, stock split or stock dividend.

STOCKHOLDER'S AGREEMENT. Upon exercise of an option under the plan, an optionee is required to enter into a stockholder's agreement with us in the form then in effect. The stockholder's agreement governs the optionee's rights and obligations as a stockholder. The stockholder's agreement provides that, generally, the shares issued upon exercise of the options may not be sold, assigned or otherwise transferred. The description below summarizes the terms of the form of the stockholder's agreement currently in effect.

If one or more partial sales result in the Forstmann Little partnerships owning, in the aggregate, less than 25% of our then outstanding voting stock, the stockholder is entitled to sell, transfer or hold his or her shares of common stock free of the restrictions and rights contained in the stockholder's agreement.

The stockholder's agreement provides that the stockholder may participate proportionately in any sale by the Forstmann Little partnerships of all or a portion of their shares of common stock to any person who is not a partner or affiliate of the Forstmann Little partnerships. In addition, the stockholder shall be entitled to (and may be required to) participate proportionately in a public offering of shares of common stock by the Forstmann Little partnerships, by selling the same percentage of the stockholder's shares that the Forstmann Little partnerships are selling of their shares. The sale of shares of common stock in such a transaction must be for the same price and otherwise on the same terms and conditions as the sale by the Forstmann Little partnerships. If the Forstmann Little partnerships sell or exchange all or a portion of their common stock in a bona fide arm's-length transaction, the Forstmann Little partnerships may require the stockholder to sell a proportionate amount of his or her shares for the same price and on the same terms and conditions as the sale of common stock by the Forstmann Little partnerships and, if stockholder approval of the transaction is required, to vote his or her shares in favor of the sale or exchange.

The stockholder's agreement permits us to repurchase all the shares of common stock then held by a stockholder if the stockholder engages in any prohibited activity or competitive activity or is convicted of a crime against us.

OUTSIDE DIRECTOR STOCK OPTIONS

Five directors, Messrs. Dole, J. Anthony Forstmann, Frey and Miles, and Ms. Burke, have options which were granted pursuant to individual stock option agreements. Each of the director optionees other than Mr. Miles has options to purchase 29,940 shares of common stock at $8.96 per share. Mr. Miles has options to purchase 41,916 shares of common stock at $8.96 per share. These options are not intended to qualify as incentive stock options and were not issued pursuant to the plan. See "Principal Stockholders."

One-third of the options generally become exercisable on each of the first, second and third anniversaries of the date of the grant. Each option expires on the earliest of:

- the tenth anniversary of the date of grant;

- the date the director optionee ceases to serve as one of our directors; and

- the exercise in full of the option.

The director optionees may not sell or otherwise transfer their options.

The director option agreements provide that we will notify the director optionees prior to a total sale or a partial sale. Upon receipt of a notice of a partial sale, a director optionee may exercise his or her options only for purposes of participating in the partial sale, whether or not the options were otherwise exercisable, with respect to the excess, if any, of:

- the number of shares with respect to which the director optionee would be entitled to participate in the partial sale under the director stockholder's agreements described below, over

- the number of shares previously issued upon exercise of the options and not previously disposed of in a partial sale.

Upon receipt of a notice of a total sale, a director optionee may exercise all or part of his options, whether or not the options were otherwise exercisable.

In connection with a total sale, we may redeem the unexercised portion of

the director optionee's options. Any unexercised portion of a director optionee's options will terminate upon the completion of a total sale, unless we provide for continuation of the options.

In the event a total sale or partial sale is not completed, any option which a director optionee had exercised in connection with the sale will be exercisable after the sale only to the extent it would have been exercisable if notice of the sale had not been given to the director optionee. The concurrent common stock offering constitutes neither a total sale nor a partial sale.

The director option agreements provide that, if the Forstmann Little partnerships sell shares of common stock in a bona fide arm's-length transaction, at our election, a director optionee may be required to:

- proportionately exercise the director optionee's options and to sell all of the shares of common stock purchased under the exercise in the same transaction and on the same terms as the shares sold by the Forstmann Little partnerships, or if unwilling to do so; or

- forfeit the portion of the option required to be exercised.

The director optionees have no independent right to require us to register the shares of common stock underlying the options under the Securities Act of 1933.

The number and class of shares underlying and the terms of outstanding options may be adjusted in certain events, such as a merger, consolidation, stock split or stock dividend.

DIRECTOR STOCKHOLDER'S AGREEMENTS. Upon exercise of a director option, a director optionee is required to enter into a director stockholder's agreement with us in the form then in effect. The form of director stockholder's agreement currently in effect is substantially the same as the form of employee stockholder's agreement currently in effect.

STOCKHOLDER'S AGREEMENTS

Prior to our initial public offering in June, 2000, members of our management and other employees purchased shares of our common stock pursuant to the terms of stockholder agreements. Currently, 23 members of our management and other employees or former employees own an aggregate of 1,569,558 shares of our common stock, excluding shares issuable upon exercise of options, that were purchased pursuant to the terms of these stockholder agreements. See "Principal Stockholders." The stockholder agreements contain transfer provisions substantially similar to those in the form of stockholder's agreements that the employee and director optionees must execute upon exercise of options granted under the Community Health Systems Stock Option Plan and the Outside Directors Stock Options Plans.

Upon termination of employment, we have the right, at our option, to purchase all of the unvested shares of common stock held by the stockholder. The stock vests at a rate of 20% per year, beginning after one year. The stockholders have no independent right to require us to register their shares under the Securities Act of 1933.

THE COMMUNITY HEALTH SYSTEMS 2000 STOCK OPTION AND AWARD PLAN

Our Board of Directors adopted the 2000 Stock Option and Award Plan in April, 2000, and the stockholders approved it in April, 2000. The stock plan provides for the grant of incentive stock options intended to qualify under Section 422 of the Internal Revenue Code and stock options which do not so qualify, stock appreciation rights, restricted stock, performance units and performance shares, phantom stock awards, and share awards. Persons are eligible to receive grants under the stock plan include our directors, officers, employees, and consultants. The stock plan is designed to comply with the requirements for "performance-based compensation" under Section 162(m) of the Internal Revenue Code, and the conditions for exemption from the short-swing profit recovery rules under Rule 16b-3 under the Securities Exchange Act of 1934.

The stock plan is administered by a committee that consists of at least two nonemployee outside board members. The Compensation Committee of the board currently serves as the committee. Generally, the committee has the right to grant options and other awards to eligible individuals and to determine the terms and conditions of options and awards, including the vesting schedule and exercise price of options and awards. The stock plan authorizes the issuance of 4,562,791 shares of common stock. As of June 30, 2001, options to purchase 3,790,716 shares were outstanding.

The stock plan provides that the term of any option may not exceed ten years, except in the case of the death of an optionee in which event the option may be exercised for up to one year following the date of death even if it extends beyond ten years from the date of grant. If a participant's employment, or service as a director, is terminated following a change of control, any options or stock appreciation rights become immediately and fully vested at that time and will remain outstanding until the earlier of the six-month anniversary of termination and the expiration of the option term.

THE COMMUNITY HEALTH SYSTEMS 2000 EMPLOYEE STOCK PURCHASE PLAN

We adopted the 2000 Employee Stock Purchase Plan in April, 2000. The plan allows our employees to purchase additional shares of our common stock on the New York Stock Exchange at

the then current market price. Employees who elect to participate in the program will pay for these purchases with funds that we will withhold from their paychecks.

RELATIONSHIPS AND TRANSACTIONS BETWEEN COMMUNITY HEALTH SYSTEMS AND ITS OFFICERS, DIRECTORS AND 5% BENEFICIAL OWNERS AND THEIR FAMILY MEMBERS

In July 1996, we were formed by two Forstmann Little partnerships and members of our management to acquire CHS/Community Health Systems, Inc., which was then a publicly owned company named Community Health Systems, Inc. We financed the acquisition by issuing our common stock to the Forstmann Little partnerships and members of management, by incurring indebtedness under credit facilities, and by issuing an aggregate of $500 million of subordinated debentures to one of the Forstmann Little partnerships, Forstmann Little & Co. Subordinated Debt and Equity Management Buyout Partnership-VI, L.P., or MBO-VI. MBO-VI immediately distributed the subordinated debentures to its limited partners. The subordinated debentures are our general senior subordinated obligations, are not subject to mandatory redemption and mature in three equal annual installments beginning June 30, 2007, with the final payment due on June 30, 2009. The debentures bear interest at a fixed rate of 7.50% which is payable semi-annually in January and July. The balance of debentures outstanding at December 31, 1999 was $500 million. Total interest expense for the debentures was $37.5 million for each of the years ended December 31, 1998, 1999 and 2000. We anticipate that some or all of the debentures will be redeemed with the proceeds of this offering and the concurrent common stock offering.

We have engaged Greenwood Marketing and Management Services to provide oversight for our Senior Circle Association, which is a community affinity organization with local chapters sponsored by each of our hospitals. Greenwood Marketing and Management is a company owned and operated by Anita Greenwood Cash, the spouse of W. Larry Cash. In 2000, we paid Greenwood Marketing and Management Services $239,401 for marketing services, postage, magazines, handbooks, sales brochures, training manuals, and membership services.

We employ Brad Cash, son of Larry Cash. In 2000, Brad Cash received compensation of $65,945 while serving as a financial analyst and assistant chief financial officer of one of our hospitals.

We have used the services of Emprint Document Solutions, a company owned and operated by the sister and brother-in-law of Theodore J. Forstmann and J. Anthony Forstmann. In 2000, we paid Emprint Document Solutions approximately $2 million for printing services.

The following executive officers of our company were indebted to us in amounts greater than $60,000 since January 1, 2000 under full recourse promissory notes. These notes were delivered in partial payment for the purchase of our common stock. The promissory notes are secured by the shares to which they relate. The highest amounts outstanding under these notes since January 1, 2000 and the amounts outstanding at August 31, 2001 were as follows:

	SINCE JANUARY 1,	AT AUGUST 31, 2000	2001
	INTEREST RATE	----------	----------
W. Larry Cash	--	----------	
David L. Miller	$697,771	$60,192	6.84%
Gary D. Newsome	344,620	42,187	6.84%
Michael T. Portacci	221,707	22,984	6.84%
John A. Fromhold	82,065	--	6.84%
Rachel A. Seifert	224,250	27,284	6.84%
	72,157	58,520	6.84%

In connection with the relocation of our corporate office from Houston to Nashville in May 1996, we lent $100,000 to Mr. T. Mark Buford, our Vice President and Corporate Controller. This loan was paid in full on December 13, 2000.

PRINCIPAL STOCKHOLDERS

The following table sets forth certain information regarding the beneficial ownership of our common stock immediately prior to the consummation of the concurrent common stock offering and as adjusted to reflect the sale of the shares of common stock pursuant to the concurrent common stock offering. The table includes:

- each person who is known by us to be the beneficial owner of more than 5% of the outstanding common stock;

- each of our directors;

- each executive officer named in the "Summary Compensation Table"; and

- all directors and executive officers as a group.

Except as otherwise indicated, the persons or entities listed below have sole voting and investment power with respect to all shares of common stock beneficially owned by them, except to the extent such power may be shared with a spouse.

SHARES BENEFICIALLY OWNED BEFORE CONCURRENT COMMON STOCK OFFERING	PERCENT BENEFICIALLY OWNED (a) BEFORE THE CONCURRENT COMMON STOCK OFFERING	AFTER THE CONCURRENT COMMON STOCK OFFERING (a)	NAME
			5% STOCKHOLDERS:
26,911,990	31.2%	27.4%	Forstmann Little & Co. Equity Partnership-V, L.P. (b)
19,222,748	22.2%	19.5%	Forstmann Little & Co. Subordinated Debt and Equity Management Buyout Partnership-VI, L.P. (b)
			DIRECTORS:
29,940	*	*	Sheila P. Burke
			W. Larry Cash
385,327 (i)	*	*	Robert J. Dole
25,681 (d)	*	*	J. Anthony Forstmann (b)
106,981 (e)	*	*	Theodore J. Forstmann (b)
46,134,738	53.4%	46.9%	Dale F. Frey (b)
25,681 (f)	*	*	Sandra J. Horbach (b)
46,134,738	53.4%	46.9%	Harvey Klein, M.D.
			Thomas H. Lister (b)
26,911,990	31.2%	27.3%	Michael A. Miles (b)
99,908 (g)	*	*	Wayne T. Smith
831,554 (h)	1.0%	*	OTHER NAMED EXECUTIVE OFFICERS:
			David L. Miller
179,443 (j)	*	*	Gary D. Newsome
107,033 (k)	*	*	Michael T. Portacci
158,916 (l)	*	*	All directors and executive officers as a group (18 persons)
48,160,132 (m)	55.6%	48.8%	

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* Less than 1%.

(a) For purposes of this table, information as to the shares of common stock assumes in the column "After Common Stock Offering" that the underwriters' over-allotment option is not exercised. In addition, a person or group of persons is deemed to have "beneficial ownership" of any shares of common stock when such person or persons has the right to acquire them within 60 days after the date of this prospectus. For purposes of computing the percentage of outstanding shares of common stock held by each person or group of persons named above, any shares which such person or persons have the right to acquire within 60 days after the date of this prospectus is deemed to be outstanding but is not deemed to be outstanding for the purpose of computing the percentage ownership of any other person.

(b) The general partner of Forstmann Little & Co. Equity Partnership-V, L.P., a Delaware limited partnership, or Equity-V, is FLC XXX Partnership, L.P. a New York limited partnership of which Theodore J. Forstmann,

Sandra J. Horbach, Thomas H. Lister, Winston W. Hutchins, Erskine B. Bowles (through Tywana LLC, a North Carolina limited liability company having its principal business office at 2012 North Tryon Street, Suite 2450, Charlotte, N.C. 28202) and Jamie C. Nicholls are general partners. The general partner of Forstmann Little & Co. Subordinated Debt and Equity Management Buyout Partnership VI, L.P., a Delaware limited partnership, or MBO-VI, is FLC XXIX Partnership, L.P., a New York limited partnership of which Theodore J. Forstmann, Sandra J. Horbach, Thomas H. Lister, Winston W. Hutchins, Erskine

B. Bowles (through Tywana LLC) and Jamie C. Nicholls are general partners. Accordingly, each of the individuals named above, other than Mr. Lister, with respect to MBO-VI, and Mr. Bowles and Ms. Nicholls, with respect to Equity-V and MBO-VI, for the reasons described below, may be deemed the beneficial owners of shares owned by MBO-VI and Equity-V and, for purposes of this table, beneficial ownership is included. Mr. Lister, with respect to MBO-VI, and Mr. Bowles, Ms. Nicholls and Mr. Lewis, with respect to Equity-V and MBO-VI, do not have any voting or investment power with respect to, or any economic interest in, the shares of common stock of the company held by MBO-VI or Equity-V; and, accordingly, Mr. Lister, Mr. Bowles and Ms. Nicholls are not deemed to be the beneficial owners of these shares. Theodore J. Forstmann and J. Anthony Forstmann are brothers. Messrs. Frey and Miles are members of the Forstmann Little Advisory Board and, as such, have economic interests in the Forstmann Little partnerships. FLC XXX Partnership is a limited partner of Equity-V. Each of Messrs. J. Anthony Forstmann and Michael A. Miles is a special limited partner in one of the Forstmann Little partnerships. None of the other limited partners in each of MBO-VI and Equity-V is otherwise affiliated with Community Health Systems. The address of Equity-V and MBO-VI is c/o Forstmann Little & Co., 767 Fifth Avenue, New York, New York 10153.

(c) Includes 29,940 shares subject to options which are currently exercisable or exercisable within 60 days of the date of this prospectus.

(d) Includes 25,681 shares subject to options which are currently exercisable or exercisable within 60 days of the date of this prospectus.

(e) Includes 29,940 shares subject to options which are currently exercisable or exercisable within 60 days of the date of this prospectus. The remaining shares are held through a limited partnership interest in the Forstmann Little partnerships.

(f) Includes 25,681 shares subject to options which are currently exercisable or exercisable within 60 days of the date of this prospectus.

(g) Includes 41,916 shares subject to options which are currently exercisable or exercisable within 60 days of the date of this prospectus. The remaining shares are held through a limited partnership interest in the Forstmann Little partnerships.

(h) Includes 333,333 shares subject to options which are currently exercisable or exercisable within 60 days of the date of this prospectus.

(i) Includes 233,333 shares subject to options which are currently exercisable or exercisable within 60 days of the date of this prospectus.

(j) Includes 103,346 shares subject to options which are currently exercisable or exercisable within 60 days of the date of this prospectus.

(k) Includes 63,346 shares subject to options which are currently exercisable or exercisable within 60 days of the date of this prospectus.

(l) Includes 86,725 shares subject to options which are currently exercisable or exercisable within 60 days of the date of this prospectus.

(m) Includes 1,055,460 shares subject to options which are currently exercisable or exercisable within 60 days of the date of this prospectus.

DESCRIPTION OF NOTES

We will issue the notes under a document called the "indenture." The indenture is a contract between us and First Union National Bank, as trustee. The indenture and the notes are governed by the laws of the State of New York. Because this section is a summary, it does not describe every aspect of the notes and the indenture that may be important to you. In this section, we use capitalized words to signify defined terms that have been given special meaning in the indenture. We describe the meaning of only the more important terms. You should read the indenture itself for a full description of the terms of the notes, a form of which has been filed as an exhibit to the registration statement of which this prospectus forms a part. Whenever we refer to particular defined terms, those defined terms are incorporated by reference here. In this section, references to "Community Health Systems, Inc.," "we," "our" or "us" refer solely to Community Health Systems, Inc., a Delaware corporation, and its successors under the indenture and not to any of its subsidiaries.

GENERAL

The notes will be general, unsecured obligations of Community Health Systems, Inc. The notes will be subordinated, which means that they will rank behind certain of our indebtedness as described below. The notes will be limited to $250,000,000 aggregate principal amount ($287,500,000 if the underwriters exercise their over-allotment option in full). We will be required to repay the principal amount of the notes in full on , 2008. The notes will bear interest at the rate per annum shown on the front cover of this prospectus from , 2001. Interest will be computed on the basis of a 360 day year of twelve 30 day months. We will pay interest on the notes on and of each year, commencing on , 2002.

You may convert the notes into shares of our common stock initially at the conversion rate stated on the front cover of this prospectus at any time before the close of business on the business day preceding , 2008 unless the notes have been previously redeemed or repurchased by us. The conversion rate may be adjusted as described below.

Prior to , 2005, if the price of our common stock closes above 150% of the conversion price for at least 20 trading days in the consecutive 30-day trading period ending on the trading day prior to the mailing of the notice of redemption, we may redeem the notes at our option at any time, in whole or in part, at $1,000 per note plus accrued and unpaid interest to the redemption date. In connection with this redemption, we may be required to make a "make whole" payment, as described below under "--Provisional Redemption." On or after , 2005, we may redeem the notes at our option at any time, in whole or in part, at the redemption prices set forth below under "--Optional Redemption," plus accrued and unpaid interest to the redemption date. If there is a Change of Control of Community Health Systems, Inc., you may have the right to require us to repurchase your notes as described below under "--Repurchase at Option of Holders Upon a Change of Control."

The notes will not be guaranteed by any of our subsidiaries. As a result, the notes will be effectively subordinated to all existing and future indebtedness and other liabilities of our subsidiaries. Our subsidiaries have a substantial amount of existing debt and other liabilities and will incur substantial additional debt and other liabilities in the future. See "Risk Factors--Risks Relating to our Business and Operations."

We are not restricted from paying dividends, incurring debt, or issuing or repurchasing our securities under the indenture. In addition, there are no financial covenants in the indenture. You are not protected under the indenture in the event of a highly leveraged transaction or a change of control of Community Health Systems, Inc., except to the extent described under "--Repurchase at Option of Holders Upon a Change of Control."

FORM, DENOMINATION, TRANSFER, EXCHANGE AND BOOK-ENTRY PROCEDURES

The notes will be issued:

- only in fully registered form;
- without interest coupons; and
- in denominations of $1,000 and greater multiples.

The notes will be evidenced by one or more global notes which will be deposited with the trustee as custodian for the Depository Trust Company, or DTC, and registered in the name of Cede & Co. as nominee of DTC. Except as set forth below, record ownership of the global note may be transferred, in whole or in part, only to another nominee of DTC or to a successor of DTC or its nominee.

The global note will not be registered in the name of any person, or exchanged for notes that are registered in the name of any person, other than DTC or its nominee unless either of the following occurs:

- DTC notifies us that it is unwilling, unable or no longer qualified to continue acting as the depositary for the global note and no successor to DTC is appointed by us within 90 days; or
- an Event of Default with respect to the notes represented by the global note has occurred and is continuing;

In those circumstances, DTC will determine in whose names any securities issued in exchange for the global note will be registered.

DTC or its nominee will be considered the sole owner and holder of the global note for all purposes, and as a result:

- you cannot get notes registered in your name if they are represented by the global note;
- you cannot receive certificated (physical) notes in exchange for your beneficial interest in the global notes;
- you will not be considered to be the owner or holder of the global note or any note it represents for any purpose; and
- all payments on the global note will be made to DTC or its nominee.

The laws of some jurisdictions require that certain kinds of purchasers (for example, certain insurance companies) can only own securities in definitive (certificated) form. These laws may limit your ability to transfer your beneficial interests in the global note to these types of purchasers.

Only institutions (such as a securities broker or dealer) that have accounts with DTC or its nominee (called "participants") and persons that may hold beneficial interests through participants can own a beneficial interest in the global note. The only place where the ownership of beneficial interests in the global note will appear and the only way the transfer of those interests can be made will be on the records kept by DTC (for their participants' interests) and the records kept by those participants (for interests of persons held by participants on their behalf).

Secondary trading in bonds and notes of corporate issuers is generally settled in clearinghouse (that is, next-day) funds. In contrast, beneficial interests in a global note usually trade in DTC's same-day funds settlement system, and settle in immediately available funds. We make no representations as to the effect that settlement in immediately available funds will have on trading activity in those beneficial interests.

We will make cash payments of interest on and principal of and the redemption or repurchase price of the global note to Cede, the nominee for DTC, as the registered owner of the global note.

We will make these payments by wire transfer of immediately available funds on each payment date.

We have been informed that DTC's practice is to credit participants' accounts on the payment date with payments in amounts proportionate to their respective beneficial interests in the notes represented by the global note as shown on DTC's records, unless DTC has reason to believe that it will not receive payment on that payment date. Payments by participants to owners of beneficial interests in notes represented by the global note held through participants will be the responsibility of those participants.

We will send any redemption notices to Cede. We understand that if less than all the notes are being redeemed, DTC's practice is to determine by lot the amount of the holdings of each participant to be redeemed.

We also understand that neither DTC nor Cede will consent or vote with respect to the notes. We have been advised that under its usual procedures, DTC will mail an "omnibus proxy" to us as soon as possible after the record date. The omnibus proxy assigns Cede's consenting or voting rights to those participants to whose accounts the notes are credited on the record date identified in a listing attached to the omnibus proxy.

Because DTC can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having a beneficial interest in the principal amount represented by the global note to pledge the interest to persons or entities that do not participate in the DTC book-entry system, or otherwise take actions in respect of that interest, may be affected by the lack of a physical certificate evidencing its interest.

DTC has advised us that it will take any action permitted to be taken by a holder of notes (including the presentation of notes for exchange) only at the direction of one or more participants to whose account with DTC interests in the global note are credited and only in respect of such portion of the principal amount of the notes represented by the global note as to which such participant or participants has or have given such direction.

DTC has also advised us as follows: DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the Uniform Commercial Code, as amended, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between participants through electronic book-entry changes in accounts of its participants. Participants include securities brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations. Certain of such participants (or their representatives), together with other entities, own DTC. Indirect access to the DTC system is available to other entities such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly.

The policies and procedures of DTC, which may change periodically, will apply to payments, transfers, exchanges and other matters relating to beneficial interests in the global note. We and the trustee have no responsibility or liability for any aspect of DTC's or any participants' records relating to beneficial interests in the global note, including for payments made on the global note, and we and the trustee are not responsible for maintaining, supervising or reviewing any of those records.

CONVERSION RIGHTS

You may, at your option, convert any portion of the principal amount of any note that is an integral multiple of $1,000 into shares of our common stock at any time on or prior to the close of business on the business day prior to the maturity date, unless the notes have been previously redeemed or repurchased, at a conversion rate of shares of common stock per $1,000 principal

amount of notes. The conversion rate is equivalent to a conversion price of approximately $, subject to adjustment as set forth below. Your right to convert a note called for redemption or delivered for repurchase following a Change of Control will terminate at the close of business on the business day prior to the redemption date or repurchase date for that note, unless we default in making the payment due upon redemption or repurchase.

You may convert all or part of any note by delivering the note at the corporate trust office of the trustee in the Borough of Manhattan, The City of New York, accompanied by a duly signed and completed notice of conversion, a copy of which may be obtained from the trustee. The conversion date will be the date on which the note and the duly signed and completed notice of conversion are so delivered.

As promptly as practicable on or after the conversion date, we will issue and deliver to the trustee a certificate or certificates for the number of full shares of our common stock issuable upon conversion, together with payment in lieu of any fraction of a share. The certificate will then be sent to the holder. The shares of our common stock issuable upon conversion of the notes will be fully paid and nonassessable and will rank equally with the other shares of our common stock.

If you surrender a note for conversion on a date that is not an interest payment date, you will not be entitled to receive any interest for the period from the next preceding interest payment date to the conversion date, except as described below in this paragraph. Any note surrendered for conversion during the period from the close of business on any Regular Record Date (as defined below under "Payment and Conversion") to the opening of business on the next succeeding interest payment date (except notes or portions of notes called for redemption on a redemption date that will occur, or to be repurchased on a repurchase date for which the right to convert would terminate, during such period) must be accompanied by payment of an amount equal to the interest payable on such interest payment date on the principal amount of notes being surrendered for conversion. In the case of any note which has been converted after any Regular Record Date but before the next succeeding interest payment date, interest payable on such interest payment date shall be payable on such interest payment date notwithstanding such conversion, and such interest shall be paid to the holder of such note on such Regular Record Date.

No other payment or adjustment for interest, or for any dividends in respect of our common stock, will be made upon conversion. Holders of our common stock issued upon conversion will not be entitled to receive any dividends payable to holders of our common stock as of any record time or date before the close of business on the conversion date. We will not issue fractional shares upon conversion. Instead, at our option, we will pay cash based on the market price of our common stock at the close of business on the conversion date or round up the number of shares of common stock issuable upon conversion of the notes to the nearest whole share.

You will not be required to pay any taxes or duties relating to the issue or delivery of shares of our common stock on conversion but you will be required to pay any tax or duty relating to any transfer involved in the issue or delivery of shares of our common stock in a name other than yours. Certificates representing shares of our common stock will not be issued or delivered unless all taxes and duties, if any, payable by you have been paid.

The conversion rate will be subject to adjustment for, among other things:

- dividends (and other distributions) payable in our common stock on shares of our capital stock;

- the issuance to all or substantially all holders of our common stock of rights, options or warrants entitling them to subscribe for or purchase our common stock, or securities convertible into our common stock, at less than the then current market price of such common stock (determined as provided in the indenture) as of the record date for shareholders entitled to receive such rights, options or warrants;

- subdivisions, combinations and reclassifications of our common stock;

- distributions to all or substantially all holders of our common stock of evidences of indebtedness of Community Health Systems, Inc., shares of capital stock, or other property (including cash or assets or securities, but excluding those dividends, rights, options, warrants and distributions referred to above, dividends and distributions paid exclusively in cash and distributions upon mergers or consolidations discussed below);

- distributions consisting exclusively of cash (excluding any cash portion of distributions referred to in the immediately preceding clause, or cash distributed upon a merger or consolidation as discussed below) to all holders of our common stock in an aggregate amount that, combined together with (1) other such all-cash distributions made within the preceding 365-day period in respect of which no adjustment has been made and

(2) any cash and the fair market value of other consideration payable in connection with any tender offer by us or any of our subsidiaries for our common stock concluded within the preceding 365-day period in respect of which no adjustment has been made, exceeds 10% of our market capitalization (being the product of the current market price per share of the common stock on the record date for that distribution and the number of shares of common stock then outstanding); and

- the successful completion of a tender offer made by us or any of our subsidiaries for our common stock which involves an aggregate consideration that, combined together with (1) any cash and other consideration payable in a tender offer by us or any of our subsidiaries for our common stock expiring within the 365-day period preceding the expiration of such tender offer in respect of which no adjustment has been made and (2) the aggregate amount of any such all-cash distributions referred to in the immediately preceding clause above to all holders of our common stock within the 365-day period preceding the expiration of such tender offer in respect of which no adjustments have been made, exceeds 10% of our market capitalization on the expiration of such tender offer.

We will not be required to make any adjustment to the conversion rate until the cumulative adjustments amount to 1.0% or more of the conversion rate. We will compute all adjustments to the conversion rate and will give notice by mail to holders of the notes of any adjustments.

In case of any consolidation or merger of Community Health Systems, Inc. with or into another entity or any merger of another entity into Community Health Systems, Inc. (other than a merger which does not result in any reclassification, conversion, exchange or cancellation of our common stock), or in case of any sale or transfer of all or substantially all of our assets, each note then outstanding will become convertible only into the kind and amount of securities, cash and other property receivable upon such consolidation, merger, sale or transfer by a holder of the number of shares of common stock into which the notes were convertible immediately prior to the consolidation, merger, sale or transfer.

We may increase the conversion rate for any period of at least 20 days, upon at least 15 days notice, if our Board of Directors determines that the increase would be in our best interest. The Board of Directors' determination in this regard will be conclusive. We will give holders of notes at least 15 days notice of such an increase in the conversion rate. Any increase, however, will not be taken into account for purposes of determining whether the closing price of our common stock exceeds the conversion price by 105% in connection with an event which otherwise would be a Change of Control as defined below.

We may also increase the conversion rate for the remaining term of the notes or any shorter period in order to avoid or diminish any income tax to any holders of shares of common stock resulting from any dividend or distribution of stock or issuance of rights or warrants to purchase or subscribe for stock or from any event treated as such for income tax purposes. If at any time we make a distribution of property to our shareholders that would be taxable to such shareholders as a

dividend for United States federal income tax purposes, such as distributions of evidences of indebtedness or assets of Community Health Systems, Inc., but generally not stock dividends on common stock or rights to subscribe for common stock, and, pursuant to the adjustment provisions of the indenture, the number of shares into which notes are convertible is increased, that increase may be deemed for United States federal income tax purposes to be the payment of a taxable dividend to holders of notes; in specified other circumstances, the absence of such an adjustment may result in a taxable dividend to the holders of the common stock. For a discussion of the tax consequences to you as a result of the adjustment of the conversion rate, see "Certain United States Federal Tax Consequences--United States Holders."

Except as stated above, we will not adjust the conversion price for the issuance of our common stock or any securities convertible into or exchangeable for our common stock or the right to purchase our common stock or such convertible or exchangeable securities.

SUBORDINATION

The notes are subordinated and, as a result, the payment of the principal, any premium and interest on the notes, including amounts payable on any redemption or repurchase, will be subordinated to the prior payment in full, in cash or other payment satisfactory to holders of Senior Debt, of all of our Senior Debt. The notes are also effectively subordinated to any debt or other liabilities of our subsidiaries. On June 30, 2001, we had outstanding Senior Debt of $618 million (on a pro forma basis giving effect to the sale of the notes in this offering and the concurrent common stock offering and the

application of the net proceeds therefrom as described under "Use of Proceeds"), consisting of senior debt under our credit facility. See "Capitalization." Our aggregate amount of liabilities (calculated on a pro forma basis taking into account the application of such proceeds from the sale of the notes and common stock as described under "Use of Proceeds") was $1.2 billion, excluding intercompany liabilities.

"Senior Debt" is defined in the indenture to mean: the principal of, and premium, if any, and interest on, including all interest accruing subsequent to the commencement of any bankruptcy or similar proceeding, whether or not a claim for post-petition interest is allowable as a claim in any such proceeding and rent payable on or termination payment with respect to or in connection with, and all fees, costs, expenses and other amounts accrued or due on or in connection with, Indebtedness of the Company, whether absolute or contingent, secured or unsecured, due or to become due, outstanding on the date of the indenture or thereafter created, incurred, assumed, guaranteed or in effect guaranteed by us (including all deferrals, renewals, extensions or refundings of, or amendments, modifications or supplements to, the foregoing). The term "Senior Debt" shall also include all Designated Senior Debt and shall not include our Indebtedness to any of our subsidiaries of which we own, directly or indirectly, a majority of the voting stock.

"Indebtedness" means, with respect to any person:

- all indebtedness evidenced by a credit or loan agreement, note, bond, debenture or other written obligation;

- all obligations for money borrowed;

- all obligations evidenced by a note or similar instrument given in connection with the acquisition of any businesses, properties or assets of any kind;

- all obligations (1) as lessee under leases required to be capitalized on the balance sheet of the lessee under generally accepted accounting principles or (2) as lessee under other leases for facilities, capital equipment or related assets, whether or not capitalized, entered into or leased for financing purposes;

- all obligations under interest rate and currency swaps, caps, floors, collars, hedge agreements, forward contracts or similar agreements or arrangements;

- all obligations with respect to letters of credit, bank guarantees, bankers' acceptances and similar facilties, including reimbursement obligations with respect to the foregoing;

- all obligations issued or assumed as the deferred purchase price of any business, property, assets (including intangibles) or services, excluding trade accounts payable and accrued expenses arising in the ordinary course of business as determined in good faith by us;

- all obligations of the type referred to in the above clauses of another person and all dividends of another person, the payment of which, in either case, we have assumed or guaranteed, or for which we are responsible or liable, directly or indirectly, jointly or severally, as obligor, guarantor or otherwise, or which are secured by a lien on our property; and

- renewals, extensions, modifications, replacements, restatements and refundings of, or any indebtedness or obligation issued in exchange for, any such indebtedness or obligation described in the above clauses of this definition.

Senior Debt will not include any other indebtedness or obligations if its terms or the terms of the instrument under which or pursuant to which it is issued expressly provide that such indebtedness shall not be senior in right of payment to the notes or expressly provides that such indebtedness is equal with or junior to the notes.

We may not make any payment on account of principal, premium or interest on the notes, or redemption or repurchase of the notes, if either of the following occurs:

- we default in our obligations to pay principal, premium, interest or other amounts on our Senior Debt, including a default under any redemption or repurchase obligation, and the default continues beyond any grace period that we may have to make those payments; or

- any other default occurs and is continuing on any Designated Senior Debt and (1) the default permits the holders of the Designated Senior Debt (as defined below) to accelerate its maturity and (2) the trustee has received a notice of the default, called a "Payment Blockage Notice," from Community Health Systems, Inc., the holder of such debt or such other person permitted to give such notice under the indenture.

If payments of the notes have been blocked by a payment default on Senior Debt, payments on the notes may resume when the payment default has been cured or waived or ceases to exist. If payments on the notes have been blocked by a nonpayment default, payments on the notes may resume on the earlier of (1) the date the nonpayment default is cured or waived or ceases to exist or (2) in the case of Designated Senior Debt, 179 days after the Payment Blockage Notice is received if the Designated Senior Debt has not been accelerated.

No nonpayment default that existed on the day a Payment Blockage Notice was delivered to the trustee can be used as the basis for any subsequent Payment Blockage Notice. In addition, once a holder of Designated Senior Debt has blocked payment on the notes by giving a Payment Blockage Notice, no new period of payment blockage can be commenced pursuant to a subsequent Payment Blockage Notice until both of the following are satisfied:

- 365 days have elapsed since the effectiveness of the immediately prior Payment Blockage Notice; and

- all scheduled payments of principal, any premium and interest with respect to the notes that have come due have been paid in full.

"Designated Senior Debt" means our obligations under any particular Senior Debt in which the instrument creating or evidencing the same or the assumption or guarantee thereof, or related agreements or documents to which we are a party, expressly provides that such indebtedness shall be "Designated Senior Debt" for purposes of the indenture. The instrument, agreement or other document evidencing any Designated Senior Debt may place limitations and conditions on the right of such Senior Debt to exercise the rights of Designated Senior Debt.

In addition, upon any acceleration of the principal due on the notes as a result of an Event of Default or payment or distribution of our assets to creditors upon any dissolution, winding up, liquidation or reorganization, whether voluntary or involuntary, marshaling of assets, assignment for the benefit of creditors, or in bankruptcy, insolvency, receivership or other similar proceedings, all principal, premium, if any, interest and other amounts due on all Senior Debt must be paid in full before you are entitled to receive any payment. By reason of such subordination, in the event of insolvency, our creditors who are holders of Senior Debt are likely to recover more, ratably, than you are, and you are likely to experience a reduction or elimination of payments on the notes.

In addition, the notes will be "structurally subordinated" to all indebtedness and other liabilities, including trade payables and lease obligations, of our subsidiaries. This occurs because any right of Community Health Systems, Inc. to receive any assets of our subsidiaries upon their liquidation or reorganization, and the right of the holders of the notes to participate in those assets, will be effectively subordinated to the claims of that subsidiary's creditors, including trade creditors, except to the extent that Community Health Systems, Inc. itself is recognized as a creditor of such subsidiary, in which case the claims of Community Health Systems, Inc., would still be subordinate to any security interest in the assets of the subsidiary and any indebtedness of the subsidiary senior to that held by Community Health Systems, Inc.

The indenture does not limit our ability to incur Senior Debt or our ability or the ability of our subsidiaries to incur any other indebtedness.

PROVISIONAL REDEMPTION

Prior to , 2005, if the closing price of our common stock has exceeded 150% of the conversion price for at least 20 trading days in the consecutive 30-day trading period ending on the trading day prior to the date we mail the notice of redemption, we may redeem the notes, in whole or from time to time in part, at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest to the redemption date.

If we redeem the notes under these circumstances, we will make an additional "make whole" payment on the redeemed notes equal to $ per $1,000 principal amount of notes, minus the amount of any interest actually paid or accrued and unpaid on each $1,000 principal amount of redeemed notes prior to the date we redeem the notes. We must make these "make whole" payments on all notes called for redemption, including notes converted after the date we mailed the notice. We may make these "make whole" payments, at our option, either in cash or, subject to the satisfaction of the conditions in the indenture, in our common stock or a combination of cash and common stock. We will specify the type of consideration for the "make whole" payment in the redemption notice.

Payments made in our common stock will be valued at 95% of the average of the closing sales prices of our common stock for the five consecutive trading days ending on the third trading day prior to the redemption date.

OPTIONAL REDEMPTION

On or after , 2005 we may redeem the notes, in whole or from time to time in part, in cash at the prices set forth below. If we elect to redeem all or part of the notes, we will give at least 30 but no more than 60 days notice to you.

The redemption price, expressed as a percentage of principal amount, is as follows for the 12-month periods beginning on:

REDEMPTION YEAR	PRICE
2005	% ,
2006	%

and thereafter is equal to 100% of the principal amount, in each case together with accrued and unpaid interest to the date of redemption.

If fewer than all of the notes are to be redeemed, the trustee will select the notes to be redeemed on a pro rata basis by lot, or in accordance with any other method the Trustee considers fair and appropriate. If any note is to be redeemed in part only, a new note in principal amount equal to the unredeemed principal portion will be issued. If a portion of your notes is selected for partial redemption and you convert a portion of your convertible notes, the converted portion will be deemed to be of the portion selected for redemption.

No sinking fund is provided for the notes, which means that the indenture does not require us to redeem or retire the notes periodically.

We may, to the extent permitted by applicable law, at any time purchase notes in the open market, by tender at any price or by private agreement. Any note that we purchase may, to the extent permitted by applicable law and subject to restrictions contained in the underwriting agreement, be re-issued or resold or may, at our option, be surrendered to the trustee for cancellation. Any notes surrendered for cancellation may not be re-issued or resold and will be canceled promptly.

PAYMENT AND CONVERSION

Payment of any interest on the notes will be made to the person in whose name the note, or any predecessor note, is registered at the close of business on the or the (whether or not a business day) immediately preceding the relevant interest payment date (a "Regular Record Date"). Payments on any global note registered in the name of DTC or its nominee will be payable by the trustee to DTC or its nominee in its capacity as the registered holder under the indenture. Under the terms of the indenture, we and the trustee will treat the persons in whose names the notes, including any global note, are registered as the owners for the purpose of receiving payments and for all other purposes. Consequently, neither we, the trustee nor any of our agents or the trustee's agents has or will have any responsibility or liability for (1) any aspect of DTC's records or any participant's or indirect participant's records relating to or payments made on account of beneficial ownership interests in the global note, or for maintaining, supervising or reviewing any of DTC's records or any participant's or indirect participant's records relating to the beneficial ownership interests in the global note, or (2) any other matter relating to the actions and practices of DTC or any of its participants or indirect participants.

We will not be required to make any payment on the notes due on any day which is not a business day until the next succeeding business day. The payment made on the next succeeding business day will be treated as though it were paid on the original due date and no interest will accrue on the payment for the additional period of time.

Notes may be surrendered for conversion at the corporate trust office of the trustee in the Borough of Manhattan, The City of New York. Notes surrendered for conversion must be accompanied by appropriate notices and any payments in respect of interest or taxes, as applicable, as described above under "--Conversion Rights."

We have initially appointed the trustee as paying agent and conversion agent. We may terminate the appointment of any paying agent or conversion agent and appoint additional or other paying agents and conversion agents. However, until the convertible notes have been delivered to the trustee for cancellation, or moneys sufficient to pay the principal of, premium, if any, and interest on the notes have been made available for payment and either paid or returned to us as provided in the indenture, the trustee will maintain an office or agency in the Borough of Manhattan, The City of New York for surrender of convertible notes for conversion.

REPURCHASE AT OPTION OF HOLDERS UPON A CHANGE OF CONTROL

If a Change of Control (as defined below) occurs, you will have the right,

at your option, to require us to repurchase all of your notes not previously called for redemption, or any portion of the principal amount thereof, that is equal to $1,000 or an integral multiple of $1,000, pursuant to a "Change of Control Offer." In the Change of Control Offer, we will offer a "Change of Control Payment" in cash (or, as described below, shares of our common stock) equal to 100% of the aggregate principal amount of the notes to be repurchased, together with interest accrued to, but excluding, the repurchase date.

At our option, instead of paying the repurchase price in cash, we may pay the repurchase price in shares of our common stock valued at 95% of the average of the closing prices of our common stock for the five trading days immediately preceding and including the fifth trading day prior to the repurchase date. We may only pay the repurchase price in shares of our common stock if we satisfy the conditions provided in the indenture.

A "Change of Control" means the occurrence of any of the following after the notes are originally issued:

1. any Person, including any syndicate or group deemed to be a "person" under Section 13(d)(3) of the Exchange Act, becomes the Beneficial Owner, directly or indirectly, through a purchase, merger or other acquisition transaction or series of transactions, of shares of our capital stock entitling that Person to exercise 50% or more of the total voting power of all shares of our capital stock entitled to vote generally in elections of directors; however, any acquisition by us, any Subsidiary of us, the Principals and their Related Parties or any employee benefit plan of us and any merger or consolidation that is not a Change of Control under clause (2) below will not trigger this provision;

2. we consolidate with or merge with or into any other Person or another Person merges into us, except if the transaction satisfies any of the following: (i) the Principals and their Related Parties have, directly or indirectly, 50% or more of the total voting power of all shares of capital stock of the continuing or surviving corporation entitled to vote generally in elections of directors of the continuing or surviving corporation immediately after the transaction; (ii) the transaction is a merger which does not result in any reclassification, conversion, exchange or cancellation of outstanding shares of our capital stock; or (iii) the transaction is a merger effected only to change our jurisdiction of incorporation and it results in a reclassification, conversion or exchange of outstanding shares of our common stock only into other shares of Common Stock or shares of common stock of another corporation;

3. we convey, transfer, sell, lease or otherwise dispose, in one or a series of transactions, of all or substantially all of our assets to another Person, other than a Principal or a Related Party, directly or indirectly, 50% or more of the total voting power of all shares of capital stock of such Person entitled to vote generally in elections of directors immediately after the consummation of such transaction; or

4. the first day on which a majority of the members of our board of directors are not Continuing Directors.

However, a Change of Control will not be deemed to have occurred if either (A) the closing price per share of our common stock for any five trading days within the period of ten consecutive trading days ending immediately after the later of the Change of Control or the date of the public announcement of the Change of Control, in the case of a Change of Control under clause (1) above, or the period of ten consecutive trading days ending immediately before the Change of Control, in the case of Change of Control under clause (2) or (3) above, equals or exceeds 105% of the conversion price of the notes in effect on each of those trading days or (B) all of the consideration (excluding cash payments for fractional shares and cash payments made pursuant to dissenters' appraisal rights) in a merger or consolidation otherwise constituting a Change of Control under clause (1) or (2) above issuable to the holders of our common stock, consists of shares of common stock traded on a national securities exchange or quoted on the Nasdaq National Market (or will be so traded or quoted immediately following such merger or consolidation) and as a result of such merger or consolidation the notes become convertible into such common stock. For purposes of these provisions the conversion price is equal to $1,000 divided by the conversion rate then in effect.

The definition of Change of Control includes a phrase relating to the sale, lease, transfer, conveyance or other disposition of "all or substantially all" of the assets of Community Health Systems, Inc. and our subsidiaries, taken as a whole. Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a holder of notes to require

us to repurchase such notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of the assets of Community Health Systems, Inc. and our subsidiaries, taken as a whole, to another Person or group may be uncertain.

Within 30 days following any Change of Control, we will mail a notice to each holder and the trustee describing the transaction or transactions that constitute the Change of Control, offering to repurchase the notes on a certain date (which shall not exceed 30 business days from the date of such notice) (the "Change of Control Payment Date") specified in such notice, pursuant to the procedures required by the indenture and described in such notice and specifying whether the repurchase price will be payable in cash or shares of common stock. Rule 13e-4 under the Exchange Act requires the dissemination of prescribed information to security holders in the event of an issuer tender offer and may apply in the event that the repurchase option becomes available to you. We will comply with this rule to the extent it applies at that time and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable in connection with the repurchase of the notes as a result of a Change of Control.

For purposes of the Change of Control definition:

"BENEFICIAL OWNER" has the meaning assigned to that term in Rule 13d-3 and Rule 13d-5 under the Exchange Act. The terms "Beneficially Owns" and "Beneficially Owned" shall have corresponding meanings.

"BOARD OF DIRECTORS" means (1) with respect to a corporation, the board of directors of the corporation or any duly authorized committee of such board of directors and (2) with respect to any other Person, the board or committee of such Person serving a similar function.

"CAPITAL STOCK" of any Person means any and all shares, interests, participations or other equivalents, however designated, of corporate stock or other equity participations, including partnership interests, whether general or limited, of the Person.

"CONTINUING DIRECTORS" means, as of any date of determination, any member of the Board of Directors of the Company who (1) was a member of such Board of Directors on the date of the indenture; or (2) was nominated for election or elected to such Board of Directors with the approval of a majority of the Continuing Directors who were members of such Board at the time of such

nomination or election; or (3) is a designee of a Principal or a Related Party of a Principal or was nominated by a Principal or a Related Party.

"PERSON" means any individual, corporation, partnership, joint venture, association, limited liability company, joint-stock company, trust, unincorporated organization, government subdivision thereof or any other entity.

"PRINCIPAL" means Forstmann Little & Co. Equity Partnership-V, L.P. or any of its affiliates, Forstmann Little & Co. Subordinated Debt and Equity Management Buyout Partnership-VI, L.P. or any of its affiliates, or each executive officer of Community Health Systems, Inc. as of the date of the indenture.

"RELATED PARTY" means (1) any controlling stockholder, 80% (or more) owned subsidiary, or immediate family member (in the case of an individual) of any Principal; or (2) any trust, corporation, partnership or other entity, the beneficiaries, stockholders, partners, owners or Persons beneficially holding an 80% or more interest of which consist of any one or more Principals and/or such other Persons referred to in the immediately preceding clause (1).

"VOTING STOCK" of any Person as of any date means the Capital Stock of such Person that is at the time entitled to vote in the election of the Board of Directors or all interests in such Person with the ability to control the management or action of such Person.

On the Change of Control Payment Date, we will, to the extent lawful:

1. accept for payment all the notes or portions thereof properly tendered pursuant to the Change of Control Offer;

2. if the Change of Control Payment is to be paid in cash, deposit with the paying agent an amount equal to the Change of Control Payment in respect of all the notes or portions thereof so tendered, or if the Change of Control Payment is to be paid in shares of our common stock, instruct the transfer agent to issue shares representing such Change of Control

Payment; and

3. deliver or cause to be delivered to the trustee the notes so accepted together with an officers' certificate stating the aggregate principal amount of notes or portions thereof being purchased by us.

The paying agent or, in the event we are paying the Change of Control Payment in shares of our common stock, the trustee will promptly mail to each holder of notes so tendered the Change of Control Payment for such notes, and the trustee will promptly authenticate and mail (or cause to be transferred by book entry) to each holder a new note equal in principal amount or principal amount at maturity, as applicable, to any unpurchased portion of the notes surrendered, if any; PROVIDED that each such new note will be in a principal amount or principal amount at maturity, as applicable, of $1,000 or an integral multiple thereof.

Except as described above, the indenture does not contain provisions that permit the holders of the notes to require that we repurchase or redeem the notes in the event of a takeover, recapitalization or similar transaction.

We will not be required to make a Change of Control Offer upon a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the indenture applicable to a Change of Control Offer made by us and purchases all of the notes validly tendered and not withdrawn under such Change of Control Offer.

The foregoing provisions would not necessarily provide you with protection if we are involved in a highly leveraged or other transaction that may adversely affect you.

Our ability to repurchase notes upon the occurrence of a Change of Control is subject to important limitations. Some of the events constituting a Change of Control could result in an event

of default under our Senior Debt. Moreover, a Change of Control could cause an event of default under, or be prohibited or limited by, the terms of our Senior Debt. As a result, unless we were to obtain a waiver, a repurchase of the notes in cash could be prohibited under the subordination provisions of the indenture until the Senior Debt is paid in full. Although we have the right to repurchase the notes with our common stock, subject to certain conditions, we cannot assure you that we would have the financial resources, or would be able to arrange financing, to pay the repurchase price in cash for all the notes that might be delivered by holders of notes seeking to exercise the repurchase right. If we were to fail to repurchase the notes when required following a Change of Control, an Event of Default under the Indenture would occur, whether or not such repurchase is permitted by the subordination provisions of the indenture. Any such default may, in turn, cause a default under our Senior Debt. See "--Subordination" and "Risk Factors" for a discussion of these restrictions and limitations.

MERGER, CONSOLIDATION OR SALE OF ASSETS

We may not, directly or indirectly, (1) (A) consolidate or merge with or into another person (whether or not we are the surviving corporation) or (B) sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of our properties or assets, in one or more related transactions, to another person, or (2) permit any person to (A) consolidate or merge with or into us (whether or not we are the surviving corporation) or (B) sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of such person's properties and assets, in one or more related transactions, to us; unless:

(i) either:

(a) we are the surviving corporation; or

(b) the person formed by or surviving any such consolidation or merger (if other than us) or to which such sale, assignment, transfer, leases, conveyance or other disposition shall have been made is a person organized or existing under the laws of the United States, any state thereof or the District of Columbia (provided that if the person formed by or surviving any such consolidation or merger with us is not a corporation, a corporate co-issuer shall also be an obligor with respect to the notes);

(ii) the person formed by or surviving any such consolidation or merger (if other than us) or the person to which such sale, assignment, transfer, conveyance or other disposition shall have been made assumes all our obligations under the notes and the indenture pursuant to an agreement reasonably satisfactory to the trustee; and

(iii) immediately after such transaction, no Default or Event of Default exists, and no event that, after notice or lapse of time or both, would become an Event of Default, will have occurred and be continuing.

In addition, we may not, directly or indirectly, lease all or substantially all of our properties or assets, in one or more related transactions, to any other person.

These provisions will not apply to a sale, assignment, transfer, conveyance or other disposition of assets between or among Community Health Systems, Inc. and any of its subsidiaries.

EVENTS OF DEFAULT AND REMEDIES

Each of the following is an Event of Default with respect to the notes:

- default for 30 days in the payment when due of interest on the notes, whether or not the payment is prohibited by the subordination provisions of the indenture;

- default in payment when due of the principal of or premium, if any (including the "make-whole" payment, if any), on the notes, whether or not the payment is prohibited by the subordination provisions of the indenture;

- failure to comply with the notice and repurchase provisions described under the caption "--Repurchase at Option of Holders Upon a Change of Control," whether or not the provision of such notice or compliance with the repurchase provisions is prohibited by the subordination provisions of the indenture;

- failure for 10 days to deliver shares of common stock, together with cash instead of fractional shares, in accordance with the conversion provisions described under the caption "--Conversion Rights;"

- failure for 60 days after written notice thereof has been given to us by the trustee or to us and the trustee by holders of at least 25% of the aggregate principal amount of the notes outstanding to comply with any of the other covenants or agreements in the indenture;

- default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any indebtedness for money borrowed by us or any of our significant subsidiaries (or the payment of which is guaranteed by us or any of our significant subsidiaries) whether such indebtedness or guarantee now exists, or is created after the issue date of the notes, if that default:

    (a) is caused by a failure to pay at final stated maturity the principal amount on such indebtedness by the end of the applicable grace period provided in such indebtedness on the date of such default (a "Payment Default"); or

    (b) results in the acceleration of such indebtedness prior to its express maturity,

  and, in each case, the principal amount of any such indebtedness, together with the principal amount of any other such indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated, aggregates $15 million or more if (1) the indebtedness is not discharged, or (2) the acceleration is not annulled, within 30 days after written notice to the Company by the Trustee or the holders of at least 25% in aggregate principal amount of the outstanding notes; and

- specified events of bankruptcy, insolvency or reorganization involving us or any of our significant subsidiaries.

In the case of an Event of Default arising from events of bankruptcy, insolvency or reorganization with respect to us or our significant subsidiaries, all outstanding notes will become due and payable immediately without further action or notice on the part of the holders of the notes or the trustee. If any other Event of Default occurs and is continuing, the trustee or the holders of at least 25% in principal amount of the then outstanding notes may, subject to the subordination provisions of the indenture, declare all notes to be due and payable immediately.

Holders of the notes may not enforce the indenture or the notes except as provided in the indenture. Subject to certain limitations, holders of a majority in principal amount of the then outstanding notes may direct the trustee in its exercise of any trust or power. The trustee may withhold from holders of the notes notice of any continuing Default or Event of Default (except a Default or Event of Default relating to the payment of principal or interest) if it determines that withholding notice is in their interest.

The holders of a majority in aggregate principal amount of the then outstanding notes also may waive by written consent any past default under the indenture, except:

- failure to pay principal, premium, if any, or interest which has not been cured;

- failure to convert any note into common stock; or

- failure to comply with any of the provisions of the indenture that would require the consent of the holder of each outstanding note affected.

No holder will have any right to institute any proceeding under the indenture, or for the appointment of a receiver or a trustee, or for any other remedy under the indenture unless:

- the holder has previously given to the trustee written notice of a continuing event of default with respect to the notes;

- the holders of at least 25% in aggregate principal amount of the outstanding notes have made a written request and have offered reasonable indemnity to the trustee to institute such proceeding as trustee; and

- the trustee has failed to institute such proceeding, and has not received from the holders of a majority in aggregate principal amount of the outstanding notes a direction inconsistent with the request specified above within 60 days after such notice, request and offer.

However, these limitations do not apply to a suit instituted by a holder for the enforcement of payment of the principal of or any premium or interest on any note or the right to convert the note on or after the applicable due date.

We will be required to deliver to the trustee annually a statement regarding compliance with the indenture. Upon becoming aware of any Default or Event of Default, we will be required to deliver to the trustee a statement specifying such Default or Event of Default.

"Significant subsidiaries" has the meaning assigned to that term in Rule 1-02(w) of Regulation S-X under the Exchange Act.

MEETINGS, MODIFICATION AND WAIVER

The indenture contains provisions for convening meetings of the holders of the notes to consider matters affecting their interests.

Certain limited modifications of the indenture may be made without the necessity of obtaining the consent of the holders of the notes. Other modifications and amendments of the indenture may be made, and certain past defaults by us may be waived, either (1) with the written consent of the holders of not less than a majority in aggregate principal amount of the notes then outstanding or (2) by the adoption of a resolution, at a meeting of holders of the notes at which a quorum is present, by the holders of at least 66 2/3% in aggregate principal amount of the notes represented at such meeting or, if less, holders of not less than a majority in aggregate principal amount of the notes then outstanding. The quorum at any meeting called to adopt a resolution will be persons holding or representing a majority in aggregate principal amount of the notes then outstanding and, at any reconvened meeting adjourned for lack of a quorum, 25% of such aggregate principal amount.

However, a modification or amendment requires the consent of the holder of each outstanding note affected if it would:

- change the stated maturity of the principal or interest of a note;

- reduce the principal amount of, or any premium (including the "make-whole" payment, if any) or rate of interest on, any note;

- reduce the amount payable upon a redemption or mandatory repurchase;

- modify the provisions with respect to the repurchase rights of holders of notes in a manner adverse to the holders;

- change the place or currency of payment on a note;

- impair the right to institute suit for the enforcement of any payment on any note;

- modify our obligation to maintain an office or agency in New York City;

- modify the subordination provisions in a manner that is adverse to the holders of the notes;

- adversely affect the right to convert the notes;

- reduce the above-stated percentage of the principal amount of the holders whose consent is needed to modify or amend the indenture;

- reduce the percentage of the principal amount of the holders whose consent is needed to waive compliance with certain provisions of the indenture or to waive certain defaults; or

- reduce the percentage required for the adoption of a resolution or the quorum required at any meeting of holders of notes at which a resolution is adopted.

The holders of a majority in aggregate principal amount of the then outstanding notes may waive compliance by us with certain restrictive provisions of the indenture by written consent. Holders of at least 66 2/3% in aggregate principal amount of notes represented at a meeting or, if less, holders of not less than a majority in aggregate principal amount of the notes then outstanding may also waive compliance by us with certain restrictive provisions of the indenture by the adoption of a resolution at the meeting if a quorum of holders are present and certain other conditions are met.

Any notes held by us or by any person directly or indirectly controlling or controlled by or under direct or indirect common control with us will be disregarded (from both the numerator and the denominator) for purposes of determining whether the holders of a majority in aggregate principal amount of the outstanding notes have consented to a modification, amendment or waiver of the terms of the indenture.

SATISFACTION AND DISCHARGE

The indenture shall cease to be of further effect (except as to any surviving rights of registration of transfer or exchange or conversion of notes herein expressly provided for), subject to certain conditions, when:

(1) either

(A) all notes theretofore authenticated and delivered (other than (i) notes which have been destroyed, lost or stolen and which have been replaced or paid in accordance with the indenture and (ii) notes for whose payment money has been deposited in trust or segregated and held in trust by the Company and has since been repaid to the Company or discharged from such trust,) have been delivered to the trustee for cancellation; or

(B) all such notes not theretofore delivered to the trustee for cancellation (i) have become due and payable, (ii) will become due and payable at their maturity date within one year, or (iii) are to be called for redemption within one year under arrangements satisfactory to the trustee,

and the Company, in the case of each of clauses (B)(i) through (iii) above, has deposited with the trustee as trust funds an amount sufficient to pay and discharge the entire indebtedness on such notes not theretofore delivered to the trustee for cancellation, for principal (and premium, if any) and interest to the date of such deposit (in the case of notes which have become due and payable) or to the maturity or redemption thereof, as the case may be; and

(2) the Company has paid or caused to be paid all other sums payable by the Company under the indenture.

NOTICES

Notice to holders of the notes will be given by mail to the addresses as they appear in the security register.

REPLACEMENT OF NOTES

We will replace any note that becomes mutilated, destroyed, stolen or lost at the expense of the holder upon delivery to the trustee of the mutilated notes or evidence of the loss, theft or destruction satisfactory to us and the trustee. In the case of a lost, stolen or destroyed note, indemnity satisfactory to the trustee and us may be required at the expense of the holder of the note before a replacement note will be issued.

PAYMENT OF STAMP AND OTHER TAXES

We will pay all stamp and other duties, if any, which may be imposed by the United States or any political subdivision thereof or taxing authority thereof or therein with respect to the original issuance of the notes. We will not be required to make any payment with respect to any other tax, assessment or governmental charge imposed by any government or any political subdivision thereof or taxing authority thereof or therein.

GOVERNING LAW

The indenture and the notes will be governed by and construed in accordance with the laws of the State of New York.

CONCERNING THE TRUSTEE

If the trustee becomes a creditor of Community Health Systems, Inc., the indenture limits its right to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim as security or otherwise. The trustee will be permitted to engage in other transactions; however, if it acquires any conflicting interest it must eliminate such conflict within 90 days, apply to the SEC for permission to continue or resign.

The holders of a majority in principal amount of the then outstanding notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the trustee, subject to certain exceptions. The indenture provides that in case an Event of Default shall occur and be continuing, the trustee will be required, in the exercise of its power, to use the degree of care of a prudent man in the conduct of his own affairs. Subject to such provisions, the trustee will be under no obligation to exercise any of its rights or powers under the indenture at the request of any holder of notes, unless such holder shall have offered to the trustee security and indemnity satisfactory to it against any loss, liability or expense.

DESCRIPTION OF OTHER INDEBTEDNESS

THE CREDIT AGREEMENT

We and our wholly owned subsidiary, CHS/Community Health Systems, Inc., are parties to a credit facility with a syndicate of banks and other financial institutions led by The Chase Manhattan Bank, an affiliate of J.P. Morgan Securities Inc., as a lender and administrative agent, under which our subsidiary has, and may in the future, borrow. We have guaranteed the performance of our subsidiary under this credit facility. The credit facility consists of the following:

BALANCE OUTSTANDING (AS OF JUNE 30, 2001)
Revolving credit facility
$ -- Acquisition loan facility
$119,000,000 Tranche A term loan
$ 12,100,000 Tranche B term loan
$120,000,000 Tranche C term loan
$120,000,000 Tranche D term loan
$311,575,349

The loans bear interest, at our option, at either of the following rates:

(a) the highest of:

- the rate from time to time publicly announced by The Chase Manhattan Bank, an affiliate of J.P. Morgan Securities Inc., in New York as its prime rate;

- the secondary market rate for three-month certificates of deposit from time to time plus 1%; and

- the federal funds rate from time to time, plus 1/2 of 1%;

in each case plus an applicable margin which is:

- based on a pricing grid depending on our leverage ratio at that time and the maturity date of the loan, for the revolving credit loans, acquisition loans and the tranche A term loan;

- 2.00% for the tranche B term loan;

- 2.50% for the tranche C term loan;

- 2.75% for the tranche D term loan; or

(b) a Eurodollar rate plus an applicable margin which is:

- based on a pricing grid depending on our leverage ratio at that time and the maturity date of the loan, for revolving credit loans, acquisition loans and the tranche A term loan;

- 3.00% for the tranche B term loan;

- 3.50% for the tranche C term loan; or

- 3.75% for the tranche D term loan.

The term loans are repayable in quarterly installments pursuant to a predetermined payment schedule through December 31, 2005.

We also pay a commitment fee for the daily average unused commitment under the revolving credit commitment and available acquisition loan commitment. The commitment fee is based on a pricing grid depending on our leverage ratio and the termination date of the revolving credit commitment or the acquisition loan commitment. The commitment fee is payable quarterly in arrears and on the revolving credit termination date with respect to the available revolving credit commitments and on the acquisition loan termination date with respect to available acquisition loan commitments. In addition, we will pay fees for each letter of credit issued under the credit facility.

Approximately 20% of the outstanding debt under our revolving credit facility terminates on December 31, 2002 while the remaining part of the outstanding debt under our revolving credit facility terminates on January 2, 2004. The total borrowings we may have outstanding at any time under our revolving credit facility is $200.0 million prior to December 31, 2002 and, thereafter, $156.0 million.

The acquisition loan facility is a reducing revolving credit facility that will be permanently reduced on predetermined anniversaries in accordance with a schedule. Once reduced, outstanding acquisition loans must be repaid to the extent they exceed the reduced level. Approximately 20% of the outstanding debt under our acquisition loan facility terminates on December 31, 2002 while the remaining part of the outstanding debt under our acquisition loan facility terminates on January 2, 2004. The total borrowings we may have outstanding at any time under our acquisition loan facility is $251.9 million prior to July 22, 2002, reducing to $234.4 million thereafter, through December 31, 2002 and, thereafter, $206.4 million.

The loans must be prepaid with the net proceeds in excess of $20 million in the aggregate of specified asset sales and issuances of additional indebtedness not constituting permitted indebtedness in the credit facility. These net proceeds from these specified asset sales and non-permitted indebtedness must be applied first to prepay ratably the outstanding balances of the term loans and the acquisition loans and then to repay outstanding balances of the revolving credit loans. The commitments under the acquisition loans and revolving credit loans would be permanently reduced by the amount of the repayment of these facilities. We are seeking a waiver to allow the notes to constitute permitted indebtedness.

The credit facility contains covenants and provisions that restrict, among other things, our ability to change the business we are conducting, declare dividends, grant liens, incur additional indebtedness, exceed a specified leverage ratio, fall below a minimum interest coverage ratio and make capital expenditures. Our wholly owned subsidiary, CHS/Community Health Systems, Inc., is prohibited from paying dividends or making other distributions to us except to the extent necessary to pay taxes, fees, and expenses to maintain our corporate existence and to conduct our activities as permitted by our guarantee of the obligations under the credit facility.

The credit agreement contains customary events of default. In addition, our indebtedness under this credit agreement becomes due and payable at the option of the lenders if we experience a fundamental corporate change, a change of control occurs under the indenture governing the notes, the Forstmann Little partnerships cease to own at least 25% of our outstanding common stock, any person or group owns a greater percentage of our outstanding common stock than the Forstmann Little partnerships, or any person or group, other than the Forstmann Little partnerships, at any time has the right to designate a majority of our board of directors.

We will use the net proceeds from the concurrent common stock offering not

used to repay our subordinated debt to repay a portion of our outstanding debt under the acquisition loan facility. See "Use of Proceeds."

SUBORDINATED DEBT

We issued an aggregate of $500 million of subordinated debentures to MBO-VI in connection with the July 1996 acquisition of our subsidiary. MBO-VI immediately distributed the subordinated debentures to its limited partners. The subordinated debentures are divided into three equal series, due on June 30, 2007, June 30, 2008 and June 30, 2009. The subordinated debentures provide for interest at a rate of 7 1/2%, payable semi-annually. The subordinated debentures may be prepaid by us at any time without premium, penalty or charge and are subordinate to our credit agreement and other senior obligations. We have a right of first refusal on the transfer of the debentures.

We will use all of the net proceeds from this offering and a portion of the net proceeds from the concurrent common stock offering to repay all of our subordinated debt. See "Use of Proceeds."

DESCRIPTION OF CAPITAL STOCK

OVERVIEW

Our authorized capital stock consists of 300,000,000 shares of common stock, $.01 par value per share, and 100,000,000 shares of preferred stock, $.01 par value per share.

Before the closing of the concurrent common stock offering, based on share information as of September 6, 2001, there were 86,464,298 shares of common stock outstanding and no shares of preferred stock outstanding. After the closing of the concurrent common stock offering, there will be 98,464,298 shares of common stock outstanding. After giving effect to this offering, there will be an additional shares of common stock issuable upon conversion of the notes.

After the closing of this offering and the concurrent common stock offering, the Forstmann Little partnerships and our management will beneficially own approximately 48.8% of the outstanding common stock, % on a diluted basis. Accordingly, they will collectively have significant influence in:

- electing our entire board of directors;
- determining the outcome of any corporate transaction or other matter submitted to the stockholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets;
- preventing or causing a change of control; and
- approving substantially all amendments to our certificate of incorporation and by-laws.

The Forstmann Little partnerships have a contractual right to elect two directors until such time as they no longer own any of our shares of common stock.

The following summary contains material information relating to provisions of our common stock, preferred stock, certificate of incorporation and by-laws is not intended to be complete and is qualified by reference to the provisions of applicable law and to our certificate of incorporation and by-laws included as exhibits to the registration statement of which this prospectus is a part.

COMMON STOCK

Holders of common stock are entitled to one vote for each share held on all matters submitted to a vote of stockholders and do not have cumulative voting rights. Accordingly, holders of a majority of the outstanding shares of common stock entitled to vote in any election of directors may elect all of the directors standing for election. Holders of common stock are entitled to receive ratably such dividends, if any, as may be declared by the board of directors out of legally available funds. Upon our liquidation, dissolution or winding-up, holders of common stock are entitled to receive ratably our net assets available for distribution after the payment of all of our liabilities and the payment of any required amounts to the holders of any outstanding preferred stock. Holders of common stock have no preemptive, subscription, redemption or conversion rights. The outstanding shares of common stock are, and the shares sold in the concurrent common stock offering will be, when issued and paid for, validly issued, fully paid and nonassessable. The rights, preferences and privileges of holders of common stock are subject to, and may be adversely affected by, the rights of holders of shares of any series of preferred stock that may designate and issue in the future.

PREFERRED STOCK

Our board of directors is authorized, subject to any limitations prescribed by law, without further stockholder approval, to establish from time to time one or more classes or series of preferred stock covering up to an aggregate of 100,000,000 shares of preferred stock, and to issue

such shares of preferred stock. Each class or series of preferred stock will cover such number of shares and will have such preferences, voting powers, qualifications and special or relative rights or privileges as is determined by the board of directors, which may include, among others, dividend rights, liquidation preferences, voting rights, conversion rights, preemptive rights, and redemption rights.

The purpose of authorizing the board of directors to establish preferred stock is to eliminate delays associated with a stockholders vote on the creation of a particular class or series of preferred stock. The rights of the holders of common stock will be subject to the rights of holders of any preferred stock issued in the future. The issuance of preferred stock, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of discouraging, delaying or preventing an acquisition of our company at a price which many stockholders find attractive. These provisions could also make it more difficult for our stockholders to effect certain corporate actions, including the election of directors. We have no present plans to issue any shares of preferred stock.

LIMITATION ON LIABILITY AND INDEMNIFICATION MATTERS

Our certificate of incorporation limits the liability of our directors to us and our stockholders to the fullest extent permitted by Delaware law. Specifically, our directors will not be personally liable for money damages for breach of fiduciary duty as a director, except for liability:

- for any breach of the director's duty of loyalty to us or our stockholders;

- for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;

- under Section 174 of the Delaware General Corporation Law, which concerns unlawful payments of dividends, stock purchases, or redemptions; and

- for any transaction from which the director derived an improper personal benefit.

Our certificate of incorporation and by-laws also contain provisions indemnifying our directors and officers to the fullest extent permitted by Delaware law. The indemnification permitted under Delaware law is not exclusive of any other rights to which such persons may be entitled.

In addition, we maintain directors' and officers' liability insurance to provide our directors and officers with insurance coverage for losses arising from claims based on breaches of duty, negligence, error and other wrongful acts.

We have entered into indemnification agreements with our directors and executive officers. These agreements contain provisions that may require us, among other things, to indemnify these directors and executive officers against certain liabilities that may arise because of their status or service as directors or executive officers, advance their expenses incurred as a result of any proceeding against them as to which they could be indemnified and obtain directors' and officers' liability insurance.

At present there is no pending litigation or proceeding involving any director or officer, as to which indemnification is required or permitted. We are not aware of any threatened litigation or proceeding which may result in a claim for such indemnification.

ANTI-TAKEOVER EFFECTS OF OUR CERTIFICATE OF INCORPORATION AND BY-LAWS AND PROVISIONS OF DELAWARE LAW

A number of provisions in our certificate of incorporation, by-laws and Delaware law may make it more difficult to acquire control of us. These provisions could deprive the stockholders of

opportunities to realize a premium on the shares of common stock owned by them. In addition, these provisions may adversely affect the prevailing market price of our common stock. These provisions are intended to:

- enhance the likelihood of continuity and stability in the composition of the board and in the policies formulated by the board;

- discourage certain types of transactions which may involve an actual or threatened change of control of our company;

- discourage certain tactics that may be used in proxy fights; and

- encourage persons seeking to acquire control of our company to consult first with the board of directors to negotiate the terms of any proposed business combination or offer.

STAGGERED BOARD. Our certificate of incorporation and by-laws provide that the number of our directors shall be fixed from time to time by a resolution of a majority of our board of directors. Our certificate of incorporation and by-laws also provide that the board of directors is divided into three classes. The members of each class of directors serve for staggered three-year terms. In accordance with the Delaware General Corporation Law, directors serving on classified boards of directors may only be removed from office for cause. The classification of the board has the effect of requiring at least two annual stockholder meetings, instead of one, to replace a majority of the members of the board. Subject to the rights of the holders of any outstanding series of preferred stock, vacancies on the board of directors may be filled only by a majority of the remaining directors, by the sole remaining director, or by the stockholders if the vacancy was caused by removal of the director by the stockholders. This provision could prevent a stockholder from obtaining majority representation on the board by enlarging the board of directors and filling the new directorships with its own nominees.

ADVANCE NOTICE PROCEDURES FOR STOCKHOLDER PROPOSALS AND DIRECTOR NOMINATIONS. Our by-laws provide that stockholders seeking to bring business before an annual meeting of stockholders, or to nominate candidates for election as directors at an annual meeting of stockholders, must provide timely notice thereof in writing. To be timely, a stockholder's notice generally must be delivered to or mailed and received at our principal executive offices not less than 45 or more than 75 days prior to the first anniversary of the date on which we first mailed our proxy materials for the preceding year's annual meeting of stockholders. However, if the date of the annual meeting is advanced more than 30 days prior to or delayed by more than 30 days after the anniversary of the preceding year's annual meeting, to be timely, notice by the stockholder must be delivered not later than the close of business on the later of the 90th day prior to the annual meeting or the 10th day following the day on which public announcement of the date of the meeting is first made. The by-laws also specify certain requirements as to the form and content of a stockholder's notice. These provisions may preclude stockholders from bringing matters before an annual meeting of stockholders or from making nominations for directors at an annual meeting of stockholders.

STOCKHOLDER ACTION BY WRITTEN CONSENT. Our by-laws provide that stockholders may take action by written consent.

PREFERRED STOCK. The ability of our board to establish the rights and issue substantial amounts of preferred stock without the need for stockholder approval, while providing desirable flexibility in connection with possible acquisitions, financings, and other corporate transactions, may among other things, discourage, delay, defer, or prevent a change of control of the company.

AUTHORIZED BUT UNISSUED SHARES OF COMMON STOCK. The authorized but unissued shares of common stock are available for future issuance without stockholder approval. These additional

shares may be utilized for a variety of corporate purposes, including future public offerings to raise additional capital, corporate acquisitions, and employee benefit plans. The existence of authorized but unissued shares of common stock could render more difficult or discourage an attempt to obtain control of us by means of a proxy contest, tender offer, merger or otherwise.

WE HAVE OPTED OUT OF SECTION 203 OF THE DELAWARE GENERAL CORPORATION LAW. Our certificate of incorporation provides that we have opted out of the provisions of Section 203 of the Delaware General Corporation Law. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. Because we have opted out in the manner permitted under Delaware law, the restrictions of this provision will not apply to us.

SHARES ELIGIBLE FOR FUTURE SALE

RULE 144 SECURITIES

Upon the consummation of the concurrent common stock offering, we will have 98,464,298 shares of common stock outstanding. Of these shares, 50,760,002 shares, including the 12,000,000 shares of common stock sold in the concurrent common stock offering, will be freely tradeable without registration under the Securities Act of 1933 and without restriction by persons other than our "affiliates." The 47,704,296 shares of common stock held by the Forstmann Little partnerships and our directors and executive officers as well as by our other shareholders who acquired their shares prior to our initial public offering are "restricted" securities under the meaning of Rule 144 under the Securities Act of 1933. Their shares may not be sold in the absence of registration under the Securities Act of 1933, unless an exemption from registration is available, including exemptions pursuant to Rule 144 or Rule 144A under the Securities Act of 1933.

In general, under Rule 144 as currently in effect, a person who has beneficially owned shares of our common stock for at least one year would be entitled to sell within any three-month period a number of shares that does not exceed the greater of either of the following:

- 1% of the number of shares of common stock then outstanding, which will equal approximately 980,000 shares immediately after the concurrent common stock offering, or

- the average weekly trading volume of the common stock on the New York Stock Exchange during the four calendar weeks preceding the filing of a notice on Form 144 with respect to such sale.

Sales under Rule 144 are also subject to certain manner of sale provisions and notice requirements and to the availability of current public information about us.

Under Rule 144(k), a person who is not deemed to have been one of our "affiliates" at any time during the 90 days preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years, including the holding period of any prior owner other than an "affiliate," is entitled to sell its shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144. Therefore, unless otherwise restricted, "144(k) shares" may be sold immediately upon the completion of the concurrent common stock offering. The sale of these shares, or the perception that sales will be made, could adversely affect the price of our common stock after the concurrent common stock offering because a greater supply of shares would be, or would be perceived to be, available for sale in the public market.

We, our executive officers and directors and the Forstmann Little partnerships have agreed, with exceptions, not to dispose of or hedge any of our common stock or securities convertible into

or exchangeable for shares of our common stock for 90 days after the date of this prospectus without first obtaining the written consent of Goldman, Sachs & Co. See "Underwriting."

REGISTRATION RIGHTS

We have entered into a registration rights agreement with the Forstmann Little partnerships, pursuant to which we have granted to the Forstmann Little partnerships six demand rights to cause us to file a registration statement under the Securities Act of 1933 covering resales of all shares of common stock held by the Forstmann Little partnerships, and to cause the registration statement to become effective. The registration rights agreement also grants "piggyback" registration rights permitting the Forstmann Little partnerships to include its registrable securities in a registration of securities by us. Under the agreement, we will pay the expenses of such registrations.

In addition, pursuant to the stockholder's and subscription agreements, we have granted "piggyback" registration rights to all of our employees and directors who have purchased shares of common stock and/or that have been awarded options to purchase shares of common stock. These registration rights are exercisable only upon registration by us of shares of common stock held by the Forstmann Little partnerships. The holders of common stock entitled to these registration rights are entitled to notice of any proposal to register shares held by the Forstmann Little partnerships and to include their shares in such registration. We will pay the expenses of these piggyback registrations.

CERTAIN UNITED STATES FEDERAL TAX CONSEQUENCES

NOTES OFFERING

The following summary describes the material United States federal income tax consequences and, in the case of a holder that is a non-U.S. holder (as defined below), the United States federal estate tax consequences, of purchasing, owning and disposing of the notes and of the common stock into which the notes may be converted. This summary applies to you only if you are the initial holder of the notes and you acquire the notes for a price equal to the issue price of the notes. The issue price of the notes is the first price at which a substantial amount of the notes is sold other than to bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers.

This summary deals only with notes, and with common stock into which the notes may be converted, held as capital assets (generally, investment property) and does not discuss all of the aspects of United States federal income and estate taxation that may be relevant to you in light of your particular investment or other circumstances. In particular this discussion does not consider:

- U.S. state and local or non-U.S. tax consequences;

- the tax consequences for the stockholders, partners or beneficiaries of a holder;

- special tax rules that may apply to particular holders, such as financial institutions, insurance companies, tax-exempt organizations, U.S. expatriates, broker-dealers, and traders in securities;

- special tax rules that may apply to a holder that holds our notes or common stock into which the notes may be converted, as part of a

"straddle," "hedge," "conversion transaction," "synthetic security" or other integrated investment; or

- persons that are not the initial holders of the notes or that acquire the notes for a price other than their issue price.

This summary is based on United States federal income and estate tax law, including the provisions of the Internal Revenue Code of 1986, as amended, which we refer to as the Internal Revenue Code, Treasury regulations, administrative rulings and judicial authority, all as in effect as of the date of this prospectus. Subsequent developments in United States federal income and estate tax law, including changes in law or differing interpretations, which may be applied retroactively, could have a material effect on the United States federal income and estate tax consequences of purchasing, owning and disposing of the notes, and common stock into which the notes may be converted, as set forth in this summary. Before you purchase notes, you should consult your own tax advisor regarding the particular United States federal, state and local and foreign income and other tax consequences of acquiring, owning and disposing of the notes that may be applicable to you.

UNITED STATES HOLDERS

The following summary applies to you only if you are a United States holder (as defined below).

DEFINITION OF A UNITED STATES HOLDER

A "United States holder" is a beneficial owner of a note or notes, or of common stock into which the notes may be converted, who or which is for United States federal income tax purposes:

- an individual citizen or resident of the United States;

- a corporation or partnership (or other entity classified as a corporation or partnership for these purposes) created or organized in or under the laws of the United States or of any political subdivision of the United States, including any State;

- an estate, the income of which is subject to United States federal income taxation regardless of the source of that income; or

- a trust, if, in general, a United States court is able to exercise primary supervision over the trust's administration and one or more United States persons (within the meaning of the Internal Revenue Code) has the authority to control all of the trust's substantial decisions.

PAYMENTS OF INTEREST

Interest on your notes will be taxed as ordinary interest income. In addition:

- if you use the cash method of accounting for United States federal income tax purposes, you will have to include the interest on your notes in your gross income at the time you receive the interest; and

- if you use the accrual method of accounting for United States federal income tax purposes, you will have to include the interest on your notes in your gross income at the time the interest accrues.

The notes will not be issued with original issue discount, and, accordingly, issues relating to original issue discount are not summarized in this document.

SALE OR OTHER DISPOSITION OF NOTES

Your tax basis in your notes generally will be their cost. You generally will recognize taxable gain or loss when you sell or otherwise dispose of your notes equal to the difference, if any, between:

- the amount realized on the sale or other disposition (less any amount attributable to accrued interest, which will be taxable in the manner described under "United States Holders--Payments of Interest"); and

- your tax basis in the notes.

Your gain or loss generally will be capital gain or loss. This capital gain or loss will be long-term capital gain or loss if at the time of the sale or other disposition you have held the notes for more than one year. Subject to limited exceptions, your capital losses cannot be used to offset your ordinary income. If you are a non-corporate United States holder, your long-term capital gain generally will be subject to a maximum tax rate of 20%.

If your notes are redeemed pursuant to a Provisional Redemption your amount realized will include the fair market value of any common stock you receive as a Make-Whole Payment. Any such common stock received will generally have a tax basis equal to its fair market value at the time of the redemption and may be considered received pursuant to a recapitalization of the Company, in which case

its holding period would generally include the holding period of the note converted.

CONVERSION OF THE NOTES

You generally will not recognize any income, gain or loss upon conversion of a note into common stock, except with respect to cash received in lieu of a fractional share of common stock. Your tax basis in the common stock received on conversion of a note will be the same as your adjusted tax basis in the note at the time of conversion (reduced by any basis allocable to a fractional share), and the holding period for the common stock received on conversion will generally include the holding period of the note converted.

Cash received in lieu of a fractional share of common stock upon conversion should be treated as a payment in exchange for the fractional share of common stock. Accordingly, the receipt of cash in lieu of a fractional share of common stock generally should result in capital gain or loss (measured by the difference between the cash received for the fractional share and your adjusted tax basis in the fractional share).

If you convert your notes in connection with a Provisional Redemption and receive a cash Make-Whole Payment you will generally recognize gain equal to the amount of the cash Make-Whole Payment.

DISTRIBUTIONS ON COMMON STOCK

The amount of any distributions by us in respect of the common stock will be equal to the amount of cash and the fair market value, on the date of distribution, of any property distributed. Generally, distributions will be treated as a dividend, subject to a tax as ordinary income, to the extent of our current or accumulated earnings and profits, then as a tax-free return of capital to the extent of your tax basis in the common stock and thereafter as a gain from the sale or exchange of the stock.

SALE OR OTHER DISPOSITION OF COMMON STOCK

Your tax basis in your common stock received on conversion of a note will be the same as your adjusted tax basis in the note at the time of conversion, reduced by any basis allocable to a fractional share paid in cash. You generally will recognize taxable gain or loss when you sell or otherwise dispose of your common stock equal to the difference, if any, between:

- the amount realized on the sale or other disposition; and
- your tax basis in the common stock.

Your gain or loss generally will be capital gain or loss. This capital gain or loss will be long-term capital gain or loss if at the time of the sale or other disposition your holding period for the common stock exceeds one year. Subject to limited exceptions, your capital losses cannot be used to offset your ordinary income. If you are a non-corporate United States holder, your long-term capital gain generally will be subject to a maximum tax rate of 20%.

ADJUSTMENT OF CONVERSION PRICE

If at any time we make a distribution of property to stockholders that would be taxable to those stockholders as a dividend (e.g., distributions of evidences of indebtedness or assets of our company, but generally not stock dividends or rights to subscribe for common stock) for United States federal income tax purposes and, in accordance with the antidilution provisions of the notes, the conversion price of the notes is decreased, the amount of that decrease may be deemed to be the payment of a taxable dividend to you. As a result, you could recognize taxable income as a result of an event pursuant to which you receive no cash or property.

BACKUP WITHHOLDING

In general, "backup withholding," at the applicable rate, for payments made may apply:

- to any payments made to you of principal of and interest on your note,
- to any payment of the proceeds of a sale or other disposition of your note before maturity,
- to any payments of dividends on common stock; and
- to any payments of the proceeds of a sale or other disposition of common stock,

if you are a non-corporate United States holder and fail to provide a correct taxpayer identification number or otherwise comply with applicable requirements of the backup withholding rules.

The backup withholding tax is not an additional tax and may be credited against your United States federal income tax liability, provided that correct

information is provided to the Internal Revenue Service.

NON-U.S. HOLDERS

The following summary applies to you if you are a non-U.S. holder. You are a non-U.S. holder if you are a beneficial owner of a note or notes, or of common stock into which the notes may be converted, and are not a United States holder (as defined above). An individual may, subject to exceptions, be deemed to be a resident alien, as opposed to a non-resident alien, by among other ways being present in the United States:

- on at least 31 days in the calendar year, and

- for an aggregate of at least 183 days during a three-year period ending in the current calendar year, counting for such purposes all of the days present in the current year,

one-third of the days present in the immediately preceding year, and one-sixth of the days present in the second preceding year.

Resident aliens are subject to United States federal income tax as if they were United States citizens.

PAYMENTS OF INTEREST

Interest paid by us or our paying agent (in its capacity as such) to you on your notes will qualify for the "portfolio interest" exception of the Internal Revenue Code, and therefore, subject to the discussion of backup withholding below, will not be subject to United States federal income tax or withholding tax, provided that:

- you do not, directly or indirectly, actually or constructively, own ten percent or more of the total combined voting power of all classes of our stock entitled to vote within the meaning of section 871(h)(3) of the Internal Revenue Code and the Treasury regulations thereunder;

- you are not (i) a controlled foreign corporation for United States federal income tax purposes that is related, directly or indirectly, to us through sufficient stock ownership (as provided in the Internal Revenue Code), or (ii) a bank receiving interest described in section 881(c)(3)(A) of the Internal Revenue Code;

- such interest is not effectively connected with your conduct of a United States trade or business; and

- you provide a signed written statement, under penalties of perjury, which can reliably be related to you, certifying that you are not a United States person within the meaning of the Internal Revenue Code and providing your name and address to:

  (A) us or our paying agent; or

  (B) a securities clearing organization, bank or other financial institution that holds customers' securities in the ordinary course of its trade or business and holds your notes on your behalf and that certifies to us or our paying agent under penalties of perjury that it, or the bank or financial institution between it and you, has received from you your signed, written statement and provides us or our paying agent with a copy of this statement.

Treasury regulations provide alternative methods for satisfying the certification requirement described in this section. In addition, under these Treasury regulations:

- if you are a foreign partnership, the certification requirement will generally apply to your partners, and you will be required to provide certain information;

- if you are a foreign trust, the certification requirement will generally be applied to you or your beneficial owners depending on whether you are a "foreign complex trust," "foreign simple trust," or "foreign grantor trust" as defined in the Treasury regulations; and

- look-through rules will apply for tiered partnerships, foreign simple trusts and foreign grantor trusts.

If you are a foreign partnership or a foreign trust, you should consult your own tax advisor regarding your status under these Treasury regulations and the certification requirements applicable to you.

If you are engaged in a trade or business in the United States and interest on your notes is effectively connected with the conduct of your trade or business, and, if an income tax treaty applies, you maintain a United States "permanent establishment" to which the interest is generally

attributable, you may be subject to United States income tax on a net basis at the regular graduated rates and in the manner applicable to U.S. persons on the

interest (although interest is exempt from the withholding tax discussed in the preceding paragraphs provided that you provide a properly executed applicable Internal Revenue Service form on or before any payment date to claim the exemption). In addition, United States trade or business income of a non-U.S. holder that is a non-U.S. corporation may be subject to a branch profits tax at a rate of 30%, or such lower rate provided by an applicable income tax treaty.

SALE OR OTHER DISPOSITION OF NOTES

You generally will not be subject to United States federal income tax or withholding tax on any gain realized on the sale or other disposition of your notes (including the receipt of cash in lieu of a fractional share upon conversion of a note into common stock but not including any amount representing interest) unless:

- you are an individual who is present in the United States for 183 days or more during the taxable year of the sale or other disposition of your notes, and specific other conditions are met; or

- the gain is effectively connected with your conduct of a United States trade or business, and, if an income tax treaty applies, is generally attributable to a United States "permanent establishment" maintained by you.

CONVERSION OF NOTES

In general, no United States federal income tax or withholding tax should be imposed upon conversion of a note into common stock by you, except with respect to cash you receive in lieu of a fractional share of common stock upon conversion where:

- you are an individual who is present in the United States for 183 days or more during the taxable year of the conversion of your note, and specific other conditions are met; or

- the cash received in lieu of a fractional share of common stock upon conversion of a note is effectively connected with your conduct of a United States trade or business, and, if an income tax treaty applies, is generally attributable to a United States "permanent establishment" maintained by you.

DIVIDENDS ON COMMON STOCK

In the event that we pay dividends on our common stock, we will have to withhold a United States federal withholding tax at a rate of 30%, or a lower rate under an applicable income tax treaty, from the gross amount of the dividends paid to you. You should consult your tax advisor regarding your entitlement to benefits under a relevant income tax treaty.

Dividends that are effectively connected with your conduct of a trade or business in the United States and, if an income tax treaty applies, attributable to a permanent establishment in the United States, are taxed on a net income basis at the regular graduated rates and in the manner applicable to U.S. persons. In that case, we will not have to withhold United States federal withholding tax if you comply with applicable certification and disclosure requirements. In addition, United States trade or business income of a non-U.S. holder that is a non-U.S. corporation may be subject to a branch profits tax at a rate of 30%, or such lower rate provided by an applicable income tax treaty.

If you claim the benefit of an applicable income tax treaty rate, you generally will be required to satisfy applicable certification and other requirements. However,

- if you are a foreign partnership, the certification requirement will generally apply to your partners, and you will be required to provide certain information;

- if you are a foreign trust, the certification requirement will generally be applied to you or your beneficial owners depending on whether you are a "foreign complex trust," "foreign simple trust," or "foreign grantor trust" as defined in the Treasury regulations; and

- look-through rules will apply for tiered partnerships, foreign simple trusts and foreign grantor trusts.

If you are a foreign partnership or a foreign trust, you should consult your own tax advisor regarding your status under these Treasury regulations and the certification requirements applicable to you.

SALE OR OTHER DISPOSITION OF COMMON STOCK

You generally will not be taxed on gain recognized upon the sale or other disposition of common stock unless:

- the gain is effectively connected with your conduct of a trade or business in the United States and, if an income tax treaty applies, is attributable to a permanent establishment in the United States;

- you are an individual who is present in the United States for 183 days or

more during the taxable year of the sale or other disposition and specific other conditions are met; or

- we are or have been a "U.S. real property holding corporation" for United States federal income tax purposes at any time during the shorter of the five-year period ending on the date of sale or other disposition or the period that you held the common stock.

Generally, a corporation is a "U.S. real property holding corporation" if the fair market value of its "U.S. real property interests" equals or exceeds 50% of the sum of the fair market value of its worldwide real property interests plus its other assets used or held for use in a trade or business. The tax relating to stock in a U.S. real property holding corporation generally will not apply to a non-U.S. holder whose holdings, direct and indirect, at all times during the applicable period, constituted 5% or less of our common stock, provided that our common stock was regularly traded on an established securities market. We believe that we are not currently, and we do not anticipate becoming in the future, a U.S. real property holding corporation.

UNITED STATES FEDERAL ESTATE TAX

If you are an individual who is a non-U.S. holder (as specially defined for United States federal estate tax purposes) at the time of your death, notes owned or treated as owned by you will generally not be subject to the United States federal estate tax, unless, at the time of your death:

- you directly or indirectly, actually or constructively, own ten percent or more of the total combined voting power of all classes of our stock entitled to vote within the meaning of section 871(h)(3) of the Internal Revenue Code and the Treasury regulations thereunder; or

- your interest on the notes is effectively connected with your conduct of a United States trade or business.

If you are an individual who is a non-U.S. holder (as specially defined for United States federal estate tax purposes) at the time of your death, common stock owned or treated as owned by you will generally be included in your gross estate for United States federal estate tax purposes, unless an applicable estate tax or other treaty provides otherwise and, therefore, you may be subject to United States federal estate tax.

BACKUP WITHHOLDING AND INFORMATION REPORTING

Under current Treasury regulations, backup withholding may apply to payments made by us or our paying agent (in its capacity as such) to you in respect of the notes or common stock into which the notes may be converted, unless you provide a Form W-8BEN or otherwise meet documentary evidence requirements for establishing that you are a non-U.S. holder or otherwise establish an exemption. We or our paying agent may, however, report payments of interest on the notes or dividends on the common stock into which the notes may be converted.

The gross proceeds from the disposition of your notes or of common stock into which the notes may be converted may be subject to information reporting and backup withholding tax at the applicable rate. If you sell your notes or common stock into which the notes may be converted outside the United States through a non-U.S. office of a non-U.S. broker and the sales proceeds are paid to you outside the United States, then the U.S. backup withholding and information reporting requirements generally will not apply to that payment. However, U.S. information reporting, but not backup withholding, will apply to a payment of sales proceeds, even if that payment is made outside the United States, if you sell your notes or common stock into which the notes may be converted through a non-U.S. office of a broker that:

- is a United States person (as defined in the Internal Revenue Code);

- derives 50% or more of its gross income in specific periods from the conduct of a trade or business in the United States;

- is a "controlled foreign corporation" for United States federal income tax purposes; or

- is a foreign partnership, if at any time during its tax year:

  o one or more of its partners are U.S. persons who in the aggregate hold more than 50% of the income or capital interests in the partnership; or

  o the foreign partnership is engaged in a U.S. trade or business,

unless the broker has documentary evidence in its files that you are a non-U.S. person and certain other conditions are met or you otherwise establish an exemption. If you receive payments of the proceeds of a sale of your notes or common stock into which the notes may be converted to or through a U.S. office of a broker, the payment is subject to both U.S. backup withholding and information reporting unless you provide a Form W-8BEN certifying that you are a non-U.S. person or you otherwise establish an exemption.

You should consult your own tax advisor regarding application of backup withholding in your particular circumstance and the availability of and procedure for obtaining an exemption from backup withholding under current

Treasury regulations. Any amounts withheld under the backup withholding rules from a payment to you will be allowed as a refund or credit against your United States federal income tax liability, provided the required information is furnished to the Internal Revenue Service.

UNDERWRITING

Community Health Systems and the underwriters for this offering named below have entered into an underwriting agreement with respect to the notes being offered. Subject to certain conditions, each underwriter has severally agreed to purchase the principal amount of notes indicated in the following table.

Underwriters	Principal Amount of Convertible Notes
Goldman, Sachs & Co.	
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
Credit Suisse First Boston Corporation	
Banc of America Securities LLC	
J.P. Morgan Securities Inc.	
UBS Warburg LLC	
Total	$250,000,000

If the underwriters sell more than the total principal amount of notes set forth in the table above, the underwriters have an option to buy up to an additional $37,500,000 principal amount of notes from Community Health Systems to cover such sales. They may exercise that option for 30 days. If any notes are purchased pursuant to this option, the underwriters will severally purchase notes in approximately the same proportion as set forth in the table above.

The following table shows the per note and total underwriting discounts and commissions to be paid to the underwriters by Community Health Systems. Such amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional notes.

	Paid by Community Health Systems	
	No Exercise	Full Exercise
Per Note	$	$
Total	$	$

Notes sold by the underwriters to the public will initially be offered at the initial public offering price set forth on the cover of this prospectus. Any notes sold by the underwriters to securities dealers may be sold at a discount from the initial public offering price of up to % of the principal amount of the notes. Any such securities dealers may resell any notes purchased from the underwriters to certain other brokers or dealers at a discount from the initial public offering price of up to % of the principal amount of the notes. If all the notes are not sold at the initial public offering price, the representatives may change the offering price and the other selling terms.

Community Health Systems, its executive officers and directors, and the Forstmann Little partnerships have agreed with the underwriters, with exceptions, not to dispose of or hedge any of their common stock or securities convertible into, or exchangeable for, shares of common stock for 90 days after the date of this prospectus, except with the prior written consent of Goldman, Sachs & Co. This agreement does not apply to any existing employee benefit plans.

The notes are a new issue of securities with no established trading market. Community Health Systems has been advised by certain underwriters that those underwriters intend to make a market in the notes but are not obligated to do so and may discontinue market making at any time without notice. No assurance can be given as to the liquidity of the trading market for the notes.

In connection with this offering, the underwriters may purchase and sell notes in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of notes than they are required to purchase in the offering. "Covered" short sales are sales made in an amount not greater than the underwriters' option to purchase additional notes from the issuer in the offering. The underwriters may close out any covered short position by either exercising their option to purchase additional notes or purchasing notes in the open market. In determining the source of notes to close out the covered short position, the underwriters will consider, among other things, the price of notes available for purchase in the open market as compared to the price at which they may purchase notes through the overallotment option. "Naked" short sales are any sales in excess of

such option. The underwriters must close out any naked short position by purchasing notes in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the notes in the open market after pricing that could adversely affect investors who purchase in this offering. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the notes while this offering is in progress.

The underwriters also may impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased notes sold by or for the account of such underwriter in stabilizing or short covering transactions.

Purchases to cover a short position and stabilizing transactions may have the effect of preventing or retarding a decline in the market price of Community Health Systems' notes and common stock, and together with the imposition of the penalty bid, may stabilize, maintain or otherwise affect the market price of the notes. As a result, the price of the notes may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued at any time. These transactions may be effected in the over-the-counter market or otherwise.

Some of the underwriters and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with Community Health Systems. They have received customary fees and commissions for these transactions. In particular, an affiliate of J.P. Morgan Securities Inc. acts as an administrative agent for Community Health Systems' credit facility and affiliates of J.P. Morgan Securities Inc., Banc of America Securities LLC, Goldman, Sachs & Co. and Merrill Lynch, Pierce, Fenner & Smith Incorporated are lenders under Community Health Systems' credit facility.

A prospectus in electronic format may be made available on the website maintained by Goldman, Sachs & Co. and may also be made available on websites maintained by other underwriters. The underwriters may agree to allocate an aggregate principal amount of the notes to underwriters for sale to their online brokerage account holders. Internet distributions will be allocated by Goldman, Sachs & Co. to underwriters that may make Internet distributions on the same basis as other allocations.

Community Health Systems estimates that its share of the total expenses of this offering and the concurrent common stock offering, excluding underwriting discounts and commissions, will be approximately $1.9 million.

Community Health Systems has agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

LEGAL MATTERS

The validity of the notes offered in this offering will be passed upon for us by Fried, Frank, Harris, Shriver & Jacobson (a partnership including professional corporations), New York, New York. Certain legal matters related to this offering will be passed upon for the underwriters by Debevoise & Plimpton, New York, New York. Fried, Frank, Harris, Shriver & Jacobson has in the past provided, and may continue to provide, legal services to Forstmann Little and its affiliates.

EXPERTS

The consolidated financial statements as of December 31, 1999 and 2000 and for each of the three years in the period ended December 31, 2000 included in this prospectus and the related financial statement schedule included elsewhere in the registration statement have been audited by Deloitte & Touche LLP, independent auditors, as stated in their reports appearing herein and elsewhere in the registration statement, and have been so included in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the Commission a registration statement on Form S-1, which includes amendments, exhibits, schedules and supplements, under the Securities Act of 1933 and the rules and regulations under the Securities Act of 1933, for the registration of the notes offered by this prospectus. Although this prospectus, which forms a part of the registration statement, contains all material information relating to this offering included in the registration statement, parts of the registration statement have been omitted from this prospectus as permitted by the rules and regulations of the Commission. For further information with respect to us and the notes offered by this prospectus, please refer to the registration statement. Statements contained in this prospectus as to the contents of any contracts or other document referred to in this prospectus are not necessarily complete and, where such contract or other document is an exhibit to the registration statement, each such statement is qualified in all respects by the provisions of such exhibit, to which reference is now made. The registration statement can be inspected and copied at prescribed rates at the public reference facilities maintained by the Commission at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the

Commission's regional office at Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. The public may obtain information regarding the Washington, D.C. Public Reference Room by calling the Commission at 1-800-SEC-0330. In addition, the registration statement is publicly available through the Commission's site on the Internet's World Wide Web, located at: http://www.sec.gov. Our public filings are available for inspection at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

We are subject to the informational requirements of the Securities Exchange Act of 1934. To comply with these requirements, we will file periodic reports, proxy statements and other information with the Commission. These reports and other information are available as provided above.

You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized anyone to provide you with information different from that contained in this prospectus. If anyone provides you with different information you should not rely on it. We are offering to sell, and seeking offers to buy, the notes only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus regardless of the time of delivery of this prospectus or of any sale of the notes. Our business, financial condition, results of operations, and prospects may have changed since that date.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Community Health Systems, Inc.
Brentwood, Tennessee

We have audited the accompanying consolidated balance sheets of Community Health Systems, Inc. and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of Community Health Systems, Inc. and subsidiaries as of December 31, 2000 and 1999, and the results

of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

Nashville, Tennessee
February 20, 2001

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE DATA)

DECEMBER 31,	1999	2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,282	$ 13,740
Patient accounts receivable, net of allowance for doubtful accounts of $34,499 and $52,935 in 1999 and 2000, respectively	226,350	309,826
Supplies	32,134	39,679
Prepaid expenses and taxes	9,846	19,989
Deferred income taxes	5,862	2,233
Other current assets	22,022	23,110
Total current assets	300,496	408,577
Property and equipment:		
Land and improvements	41,327	46,268
Buildings and improvements	470,856	536,428
Equipment and fixtures	219,659	267,505
	731,842	850,201
Less accumulated depreciation and amortization	(108,499)	(142,120)
Property and equipment, net	623,343	708,081
Goodwill, net of accumulated amortization of $97,766 and $123,459 in 1999 and 2000, respectively	877,890	985,568
Other assets, net of accumulated amortization of $34,265 and $37,142 in 1999 and 2000, respectively	93,355	111,611
Total assets	$1,895,084	$2,213,837
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 27,029	$ 17,433
Accounts payable	57,392	83,191
Compliance settlement payable	30,900	--
Accrued liabilities:		
Employee compensation	49,346	56,840
Interest	19,451	27,389
Other	51,159	56,020
Total current liabilities	235,277	240,873
Long-term debt	1,407,604	1,201,590
Other long-term liabilities	22,495	15,200
Commitments and contingencies:		
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; 87,105,562 shares issued and 86,137,582 shares outstanding at December 31, 1999 and 55,620,807 shares issued and 56,588,787 shares outstanding at December 31, 2000	566	871
Additional paid-in capital	483,237	998,092
Accumulated deficit	(245,352)	(235,783)
Treasury stock, at cost, 967,980 shares at December 31, 2000 and 1999	(6,587)	(6,587)
Notes receivable for common stock	(1,997)	(334)
Unearned stock compensation	(159)	(85)
Total stockholders' equity	229,708	756,174

Total liabilities and stockholders' equity	$1,895,084 $2,213,837

See notes to consolidated financial statements.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

YEAR ENDED DECEMBER 31,	1998	1999	2000
Net operating revenues	$ 854,580	$ 1,079,953	$ 1,337,501
Operating costs and expenses:			
Salaries and benefits	328,264	419,320	517,392
Provision for bad debts	69,005	95,149	122,303
Supplies	100,633	126,693	154,211
Rent	22,344	25,522	31,385
Other operating expenses	167,944	209,084	259,474
Depreciation and amortization	49,861	56,943	71,931
Amortization of goodwill	26,639	24,708	25,693
Impairment of long-lived assets	164,833	--	--
Compliance settlement and Year 2000 remediation costs	20,209	17,279	--
Total operating costs and expenses	949,732	974,698	1,182,389
Income (loss) from operations	(95,152)	105,255	155,112
Interest expense, net of interest income of $261, $288 and $600 in 1998, 1999 and 2000, respectively	101,191	116,491	127,370
Income (loss) before cumulative effect of a change in accounting principle and income taxes	(196,343)	(11,236)	27,742
Provision for (benefit from) income taxes	(13,405)	5,553	18,173
Income (loss) before cumulative effect of a change in accounting principle	(182,938)	(16,789)	9,569
Cumulative effect of a change in accounting principle, net of taxes of $189	(352)	--	--
Net income (loss)	$ (183,290)	$ (16,789)	$ 9,569
Basic and diluted earnings (loss) per common share:			
Income (loss) before cumulative effect of a change in accounting principle	$ (3.37)	$ (0.31)	$ 0.14
Cumulative effect of a change in accounting principle	(0.01)	--	--
Net income (loss)	$ (3.38)	$ (0.31)	$ 0.14
Weighted average number of shares outstanding:			
Basic	54,249,895	54,545,030	67,610,399
Diluted	54,249,895	54,545,030	69,187,191

See notes to consolidated financial statements.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT SHARE DATA)

NOTES	COMMON STOCK	ADDITIONAL	TREASURY

STOCK RECEIVABLE ------ --------------- PAID-IN ACCUMULATED ----------- -------- FOR COMMON SHARES AMOUNT CAPITAL DEFICIT SHARES AMOUNT STOCK ---------- ------ -- ---------- --------- ---- -------- -------- ------------- BALANCE, January 1, 1998.. 56,376,695 $564 $480,435 $ (45,273) (135,868) $(1,041) $(1,050) Issuance of common stock.. 212,092 2 1,653 -- 150,067 1,120 (900) Common stock purchased for treasury, at cost..... -- -- -- -- (970,269) (5,634) 204 Payments on notes receivable..... -- -- -- -- -- -- 36 Net loss..... -- -- -- (183,290) -- - - -- ---------- ---- -- ------ --------- ------ -- ------- ------- BALANCE, December 31, 1998..... 56,588,787 566 482,088 (228,563) (956,070) (5,555) (1,710) Issuance of common stock.. -- -- 907 -- 314,425 1,748 (440) Common stock purchased for treasury, at cost..... -- -- -- -- (326,335) (2,780) -- Payments on notes receivable..... -- -- -- -- -- -- 153 Unearned stock compensation..... -- -- 242 -- -- -- -- Earned stock compensation..... -- -- -- -- -- -- -- Net loss..... -- -- -- (16,789) -- -- -- ---------- ---- ---- ---- --------- -------- ------- ------- BALANCE, December 31, 1999..... 56,588,787 566 483,237 (245,352) (967,980) (6,587) (1,997) Issuance of common stock in connection with initial public offering, net of issuance costs... 20,425,717 204 245,498 -- -- -- -- Issuance of common stock in connection with secondary public offering, net of issuance costs..... 10,000,000 100 268,722 -- -- -- -- Issuance of common stock in connection with the exercise of options..... 91,058 1 635 -- -- -- -- Payments on notes receivable..... -- -- -- -- -- -- 1,663 Earned stock compensation..... -- -- -- -- -- -- -- Net income.....

-- -- -- 9,569 -- -- -- ---------- ---- ------- - --------- -------- -- ----- ------- BALANCE, December 31, 2000..... 87,105,562 $871 $998,092 $(235,783) (967,980) $(6,587) $ (334) ========== ==== ======== ========= ======== ======= ======= UNEARNED STOCK COMPENSATION TOTAL ---- ---------- --------- BALANCE, January 1, 1998.. $ -- $433,635 Issuance of common stock.. -- 1,875 Common stock purchased for treasury, at cost..... -- (5,430) Payments on notes receivable..... -- 36 Net loss..... -- (183,290) ----- ---- ---- BALANCE, December 31, 1998..... -- 246,826 Issuance of common stock.. -- 2,215 Common stock purchased for treasury, at cost..... -- (2,780) Payments on notes receivable..... -- 153 Unearned stock compensation..... (242) -- Earned stock compensation..... 83 83 Net loss..... -- (16,789) ----- ----- --- BALANCE, December 31, 1999..... (159) 229,708 Issuance of common stock in connection with initial public offering, net of issuance costs... -- 245,702 Issuance of common stock in connection with secondary public offering, net of issuance costs..... -- 268,822 Issuance of common stock in connection with the exercise of options..... -- 636 Payments on notes receivable..... -- 1,663 Earned stock compensation..... 74 74 Net income..... -- 9,569 ----- -------- BALANCE, December 31, 2000..... $ (85) $756,174 ===== ========

See notes to consolidated financial statements.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

YEAR ENDED DECEMBER 31, ------------------------------ 1998 1999 2000 --------- -------- -------- (DOLLARS IN THOUSANDS) Cash flows from operating activities: Net income (loss)..... $(183,290) $(16,789) $ 9,569 Adjustments to reconcile net income (loss) to net cash provided by (used in)

operating activities: Depreciation and amortization	76,500	81,651	97,624
Deferred income taxes	(14,797)	(3,799)	17,210
Impairment charge	164,833	--	--
Compliance settlement costs	20,000	14,000	--
Stock compensation expense	--	83	74
Other non-cash (income) expenses, net	(528)	(570)	(5,030)
Changes in operating assets and liabilities, net of effects of acquisitions and divestitures: Patient accounts receivable	(33,908)	(42,973)	(52,989)
Supplies, prepaid expenses and other current assets	(7,724)	(17,598)	(15,604)
Accounts payable, accrued liabilities and income taxes	4,461	(28,071)	17,931
Compliance settlement payable	--	--	(30,900)
Other	(9,828)	2,320	(14,900)
Net cash provided by (used in) operating activities	15,719	(11,746)	22,985
Cash flows from investing activities: Acquisitions of facilities, pursuant to purchase agreements	(172,597)	(59,699)	(148,216)
Purchases of property and equipment	(52,880)	(80,255)	(63,005)
Proceeds from sale of equipment	1,531	121	107
Increase in other assets	(12,607)	(15,708)	(33,327)
Net cash used in investing activities	(236,553)	(155,541)	(244,441)
Cash flows from financing activities: Proceeds from issuance of common stock	1,875	2,215	514,524
Proceeds from exercise of stock options	--	--	636
Common stock purchased for treasury	(5,634)	(2,780)	--
Borrowings under Credit Agreement	242,491	436,300	241,310
Repayments of long-term indebtedness	(18,842)	(270,885)	(525,556)
Net cash provided by financing activities	219,890	164,850	230,914
Net change in cash and cash equivalents	(944)	(2,437)	9,458
Cash and cash equivalents at beginning of period	7,663	6,719	4,282
Cash and cash equivalents at end of period	$ 6,719	$ 4,282	$ 13,740

See notes to consolidated financial statements.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS. Community Health Systems Inc. (the "Company") owns, leases and operates acute care hospitals that are the principal providers of primary healthcare services in non-urban communities. As of December 31, 2000, the Company owned, leased or operated 52 hospitals, licensed for 4,688 beds in 20 states.

USE OF ESTIMATES. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

PRINCIPLES OF CONSOLIDATION. The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated. Certain of the subsidiaries have minority stockholders. The amount of minority interest in equity and minority interest in income or loss is not material and is included in other long-term liabilities and other operating expenses.

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

SUPPLIES. Supplies, principally medical supplies, are stated at the lower

of cost (first-in, first-out basis) or market.

PROPERTY AND EQUIPMENT. Property and equipment are recorded at cost. Depreciation is recognized using the straight-line method over the estimated useful lives of the land improvements (2 to 15 years; weighted average useful life is 11 years), buildings and improvements (5 to 40 years; weighted average useful life is 33 years) and equipment and fixtures (5 to 20 years; weighted average useful life is 7 years). Costs capitalized as construction in progress were $27.2 million and $30.3 million at December 31, 1999 and 2000, respectively, and are included in buildings and improvements. Expenditures for renovations and other significant improvements are capitalized; however, maintenance and repairs which do not improve or extend the useful lives of the respective assets are charged to operations as incurred. Interest capitalized in accordance with Statement of Financial Accounting Standards ("SFAS") No. 34, "Capitalization of Interest Cost," was $.07 million, $1.4 million and $2.5 million for the years ended December 31, 1998, 1999, and 2000, respectively.

The Company also leases certain facilities and equipment under capital leases (see Notes 2 and 7). Such assets are amortized on a straight-line basis over the lesser of the terms of the respective leases, or the remaining useful lives of the assets.

GOODWILL. Goodwill represents the excess of cost over the fair value of net assets acquired and is amortized on a straight-line basis ranging from 18 to 40 years. Annually, as required by Accounting Principles Board ("APB") Opinion No. 17, the Company reviews its total enterprise goodwill for possible impairment, by comparing total projected undiscounted cash flows to the total carrying amount of goodwill.

OTHER ASSETS. Other assets consist primarily of the noncurrent portion of deferred income taxes and costs associated with the issuance of debt which are amortized over the life of the

1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
related debt using the effective interest method. Amortization of deferred financing costs is included in interest expense.

THIRD-PARTY REIMBURSEMENT. Net operating revenues include amounts estimated by management to be reimbursable by Medicare and Medicaid under prospective payment systems, provisions of cost-reimbursement and other payment methods. Approximately 49% of net operating revenues for the year ended December 31, 1998, 48% for the year ended December 31, 1999, and 46% for the year ended December 31, 2000, are related to services rendered to patients covered by the Medicare and Medicaid programs. In addition, the Company is reimbursed by non-governmental payors using a variety of payment methodologies. Amounts received by the Company for treatment of patients covered by such programs are generally less than the standard billing rates. The differences between the estimated program reimbursement rates and the standard billing rates are accounted for as contractual adjustments, which are deducted from gross revenues to arrive at net operating revenues. Final settlements under certain of these programs are subject to adjustment based on administrative review and audit by third parties. Adjustments to the estimated billings are recorded in the periods that such adjustments become known. Adjustments to previous program reimbursement estimates are accounted for as contractual adjustments and reported in future periods as final settlements are determined. Adjustments related to final settlements or appeals increased revenue by an insignificant amount in each of the years ended December 31, 1998, 1999 and 2000. Net amounts due to third-party payors as of December 31, 1999 were $9.1 million and as of December 31, 2000 were $2.3 million and are included in accrued liabilities-other in the accompanying balance sheets. Substantially all Medicare and Medicaid cost reports are final settled through 1997.

CONCENTRATIONS OF CREDIT RISK. The Company grants unsecured credit to its patients, most of whom reside in the service area of the Company's facilities and are insured under third-party payor agreements. Because of the geographic diversity of the Company's facilities and non-governmental third-party payors, Medicare and Medicaid represent the Company's only significant concentrations of credit risk.

NET OPERATING REVENUES. Net operating revenues are recorded net of provisions for contractual adjustments of approximately $829 million, $1,157 million and $1,649 million in 1998, 1999 and 2000, respectively. Net operating revenues are recognized when services are provided. In the ordinary course of business the Company renders services to patients who are financially unable to pay for hospital care. The value of these services to patients who are unable to pay is not material to the Company's consolidated results of operations.

PROFESSIONAL LIABILITY INSURANCE CLAIMS. The Company accrues, on a quarterly basis, 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 annual actual projections. To the extent that subsequent claims information varies from management's estimates, the liability is adjusted currently.

ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS. In accordance with SFAS No. 121, "Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," whenever events or changes in circumstances indicate that the carrying values of certain long-lived assets and related intangible assets may be impaired, the Company projects the undiscounted cash flows expected to be generated by these assets. If the projections indicate that the reported amounts are not expected to be recovered, such amounts are reduced to their estimated fair value

1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
based on a quoted market price, if available, or an estimate based on valuation techniques available in the circumstances.

INCOME TAXES. The Company accounts for income taxes under the asset and liability method, in which deferred income tax assets and liabilities are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The effect on deferred taxes of a change in tax rates is recognized in the statement of operations during the period in which the tax rate change becomes law.

COMPREHENSIVE INCOME. SFAS No. 130, "Reporting Comprehensive Income," defines comprehensive income as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. Comprehensive income (loss) for 2000, 1999 and 1998 is equal to the net income (loss) reported.

STOCK-BASED COMPENSATION. The Company accounts for stock-based compensation using the intrinsic value method prescribed in APB Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Compensation cost, if any, 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. 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.

SEGMENT REPORTING. SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information," requires that a public company report annual and interim financial and descriptive information about its reportable operating segments. Operating segments, as defined, are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. SFAS No. 131 allows aggregation of similar operating segments into a single operating segment if the businesses have similar economic characteristics and are considered similar under the criteria established by SFAS No. 131. The Company owns, leases and operates 52 acute care hospitals in 52 different non-urban communities. All of these hospitals have similar services, have similar types of patients, operate in a consistent manner and have similar economic and regulatory characteristics. Therefore, the Company has one reportable segment.

RECENT ACCOUNTING PRONOUNCEMENT NOT YET ADOPTED. SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," is effective for all fiscal years beginning after June 15, 2000. SFAS No. 133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. Under SFAS No. 133, certain contracts that were not formerly considered derivatives may now meet the definition of a derivative. The Company will adopt SFAS No. 133 effective January 1, 2001. Management does not expect the adoption of SFAS No. 133 to have a significant impact on the financial position, results of operations, or cash flows of the Company.

2. LONG-TERM LEASES AND PURCHASES OF HOSPITALS

During 1998, the Company acquired, through two purchase transactions, effective in April and September, respectively, and two capital lease transactions, effective in November, most of the assets, including working capital, of four hospitals. The consideration for the four hospitals totaled $218.6 million. The consideration consisted of $169.8 million in cash, which was borrowed under the acquisition loan facilities, and assumed liabilities of $48.8 million. The entire lease obligation relating to each lease transaction was prepaid. The prepayment was included as part of the cash consideration. Licensed beds at these four hospitals totaled 360.

Also, effective December 1, 1998, the Company entered into an operating

agreement relating to, and purchased certain working capital accounts, primarily accounts receivable, supplies and accounts payable, of a 38 licensed bed hospital, for a cash payment of $2.8 million. Pursuant to this agreement, the hospital was acquired on October 1, 2000, with the remaining assets being purchased for $0.9 million and is included in the acquisitions described above.

During 1999, the Company acquired, through three purchase transactions, effective in March, September, and November, respectively, and one capital lease transaction, effective in March, most of the assets, including working capital, of four hospitals. The consideration for the four hospitals totaled $77.8 million. The consideration consisted of $59.7 million in cash, which was borrowed under the acquisition loan facilities, and assumed liabilities of $18.1 million. The entire lease obligation relating to the lease transaction was prepaid. The prepayment was included as part of the cash consideration. The Company also constructed and opened an additional hospital at a cost of $15.3 million, which replaced a hospital we managed. Licensed beds at the four hospitals acquired totaled 477.

During 2000, the Company acquired five hospitals through purchase transactions, effective in March, April, July, October and December and acquired two hospitals through capital lease transactions, effective in April and June, respectively. The consideration for the seven hospitals totaled $246.9 million. The consideration consisted of $147.6 million in cash, which was borrowed under the acquisition loan facilities and assumed liabilities of $99.3 million. The entire lease obligation relating to each lease transaction was prepaid. The repayment was included as part of the cash consideration. Licensed beds at these seven hospitals totaled 607 beds.

The foregoing acquisitions were accounted for using the purchase method of accounting. The allocation of the purchase price for acquisition transactions closed in 2000 has been determined by the Company based upon available information and is subject to obtaining final asset valuations prepared by independent appraisers, and settling amounts related to purchased working capital. Independent asset valuations are generally completed within 120 days of the date of acquisition; working capital settlements are generally made within 180 days of the date of acquisition. Adjustments to the purchase price allocation are not expected to be material.

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

1998	1999	2000
Current assets	$ 40,680	$15,514
$ 39,844	Property and equipment	116,443
53,746	84,512	Goodwill
61,441	24,840	122,585

The operating results of the foregoing hospitals have been included in the consolidated statements of operations from their respective dates of acquisition. The following pro forma

2. LONG-TERM LEASES AND PURCHASES OF HOSPITALS (CONTINUED)
combined summary of operations of the Company gives effect to using historical information of the operations of the hospitals purchased in 2000 and 1999 as if the acquisitions had occurred as of January 1, 1999 (in thousands except per share data):

YEAR ENDED DECEMBER 31,	
1999	2000
Pro forma net operating revenues	$1,347,785
$1,456,867	Pro forma net income (loss)
(24,904)	6,008
Pro forma net income (loss) per share:	
Basic	$ (0.46)
$ 0.09	Diluted
$ (0.46)	$ 0.09

3. IMPAIRMENT OF LONG-LIVED ASSETS

In December 1998, in connection with the Company's periodic review process, it was determined that primarily as a result of adverse changes in physician relationships, undiscounted cash flows from seven of the Company's hospitals were below the carrying value of long-lived assets associated with those hospitals. Therefore, in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", the Company adjusted the carrying value of the related long-lived assets to their estimated fair value. The estimated fair values of these hospitals were based on independently prepared specific market appraisals. The impairment charge of $164.8 million was comprised of reductions to goodwill of $134.3 million, tangible property of $27.1 million and identifiable intangibles

of $3.4 million.

Of the seven impaired hospitals, two are located in Georgia; two are located in Texas; one is located in Florida; one is located in Louisiana; and one is located in Kentucky. The events and circumstances leading to the impairment charge were unique to each of the hospitals.

One of our Kentucky hospitals lost its only anesthesiologist due to unexpected death and a leading surgeon due to illness. We had not been able to successfully recruit a replacement surgeon. One of our Georgia hospitals lost a key surgeon due to unexpected death and a leading specialist due to relocation to another market. We had not been able to successfully recruit replacement physicians. One of our Louisiana hospitals relies heavily on foreign physicians and, following the departure of four foreign physicians from its market over a short period of time, had difficulties replacing these physicians because of regulatory changes in recruiting foreign physicians. The skilled nursing and home health reimbursement for one of our Texas hospitals was disproportionately and adversely affected by the Balanced Budget Act of 1997. In addition, the market in which this hospital operates relies on foreign physicians that have been difficult to recruit because of regulatory changes. Our other Georgia hospitals terminated an employed specialty surgeon who was responsible for over 5% of the hospital's revenue. We had not been able to replace the surgeon. In addition, this hospital's skilled nursing reimbursement was disproportionately and adversely affected by the Balanced Budget Act of 1997. Our other Texas hospital lost market share and was excluded from several key managed care contracts caused by the combination in 1998 of two larger competing hospitals. This is our only hospital which competes with more than one hospital in its primary service area. A Florida hospital we then owned terminated discussions in 1998 with an unrelated hospital, located in a contiguous county, to build a combined replacement facility. The short and long-term success of this hospital was in our view dependent upon the combination being effected.

3. IMPAIRMENT OF LONG-LIVED ASSETS (CONTINUED)

Generally, we have not experienced difficulty in recruiting physicians and specialists for our hospitals. However, for the four hospitals referred to above we have experienced difficulty in recruiting physicians and specialists where the number of physicians on staff is low. These four hospitals averaged 13 physicians per hospital as of December 31, 1998. The average number of physicians on the medical staff of our other hospitals was 39 physicians at that time. We continually monitor the relationships of our hospitals with their physicians and any physician recruiting requirements. We have frequent discussions with board members, chief executive officers and chief financial officers of our hospitals. We are not aware of any significant adverse relationships with physicians or any recurring physician recruitment needs that, if not resolved in a timely manner, would have a material adverse effect on our results of operations and financial position, either currently or in future periods.

4. INCOME TAXES

The provision for (benefit from) income taxes consists of the following (in thousands):

YEAR ENDED DECEMBER 31,			
	1998	1999	2000
Current			
Federal	$ --	$ --	$ 195
State	1,204	2,815	1,328
	1,204	2,815	1,523
Deferred			
Federal	(11,036)	3,163	16,519
State	(3,573)	(425)	131
	(14,609)	2,738	16,650
Total provision for (benefit from) income taxes	$(13,405)	$5,553	$18,173

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

YEAR ENDED DECEMBER 31,						
	1998		1999		2000	
	AMOUNT	%	AMOUNT	%	AMOUNT	%
Provision for (benefit from) income taxes at statutory federal rate	$(68,843)	35.0%	$(3,933)	35.0%	$	

9,710 35.0% State income taxes, net of federal income tax benefit..... (1,379) 0.7 2,389 (21.3) 1,459 5.3 Non-deductible goodwill amortization..... 7,859 (4.0) 6,751 (60.1) 6,675 24.0 Impairment charge--goodwill..... 41,652 (21.2) -- -- -- -- Other..... 7,306 (3.7) 346 (3.0) 329 1.2 ----- --- ----- ------- ----- ------- --- - Provision for (benefit from) income taxes and effective tax rate..... $(13,405) 6.8% $ 5,553 (49.4)% $18,173 65.5% ======== ===== ======= ===== ======= ====

4. INCOME TAXES (CONTINUED)

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

1999 2000 ---------- --- ---------- ASSETS LIABILITIES ASSETS LIABILITIES ----- --- ---------- -------- ---------- Net operating loss and credit carryforwards..... $76,798 $ -- $77,316 $ -- Property and equipment..... -- 40,020 -- 54,420 Self-insurance liabilities..... 6,212 -- 6,421 -- Intangibles..... -- 9,385 -- 14,204 Other liabilities..... -- 1,828 -- 736 Long-term debt and interest..... -- 4,373 -- 4,409 Accounts receivable..... 5,362 - - 12,956 -- Accrued expenses..... 15,975 -- 4,140 -- Other..... 2,538 1,578 3,259 308 ------- ------ - ------- ------- 106,885 57,184 104,092 74,077 Valuation allowance..... (18,474) -- (15,999) -- ------- ------- ----- -- ------- Total deferred income taxes..... $88,411 $57,184 $88,093 $74,077 ======= ======= ======= =======

Management believes that the net deferred tax assets will ultimately be realized, except as noted below. Management's conclusion is based on its estimate of future taxable income and the expected timing of temporary difference reversals. The Company has federal net operating loss carryforwards of $153.4 million which expire from 2001 to 2020 and state net operating loss carryforwards of $284.8 million which expire from 2001 to 2020.

The valuation allowance, which was recognized at the date of the acquisition by affiliates of Forstmann Little & Co. ("FL & Co.") of the operating company of the Company in June 1996 (the "Acquisition") of $13.2 million, relates primarily to state net operating losses and other tax attributes. Any future decrease in this valuation allowance will be recorded as a reduction in goodwill recorded in connection with the Acquisition.

The valuation allowance increased by $0.2 million and decreased by $2.5 million during the years ended December 31, 1999 and 2000, respectively. The decrease relates to a redetermination of the amount, and realizability of net operating losses in certain state income tax jurisdictions for which a valuation allowance was previously provided. The increase is primarily related to net operating losses in certain state income tax jurisdictions not expected to be realized.

The Company paid income taxes, net of refunds received, of $1.4 million, and $1.5 million during 1999 and 2000, respectively.

FEDERAL INCOME TAX EXAMINATIONS. The Internal Revenue Service ("IRS") is examining the Company's federal income tax returns for the tax periods ended

December 31, 1993 through December 31, 1996. The IRS has indicated that it is considering certain adjustments primarily involving "temporary" or timing differences. To date, a Revenue Agent's Report has not been issued in connection with the examination of these tax periods. In management's opinion, the ultimate outcome of the IRS examination will not have a material effect on the Company's results of operations or financial condition.

5. LONG-TERM DEBT

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

AS OF DECEMBER 31,	1999	2000
Credit Facilities: Revolving Credit Loans	$ 109,750	$ --
Acquisition Loans	138,551	70,000
Term Loans	624,345	568,679
Subordinated debentures	500,000	500,000
Taxable bonds	29,700	26,100
Tax-exempt bonds	8,000	8,000
Capital lease obligations (see Note 7)	20,828	21,100
Term loan from acquisition in 2000	--	21,700
Other	3,459	3,444
Total debt	1,434,633	1,219,023
Less current maturities	(27,029)	(17,433)
Total long-term debt	$1,407,604	$1,201,590

CREDIT FACILITIES. In connection with the Acquisition, a $900 million credit agreement was entered into with a consortium of creditors (the "Credit Agreement"). The financing under the Credit Agreement consists of (i) a 6 1/2 year term loan facility (the "Tranche A Loan") in an aggregate principal amount equal to $50 million, (ii) a 7 1/2 year term loan facility (the "Tranche B Loan") in an aggregate principal amount equal to $132.5 million, (iii) an 8 1/2 year term loan facility (the "Tranche C Loan") in an aggregate principal amount equal to $132.5 million, (iv) a 9 1/2 year term loan facility (the "Tranche D Loan") in an original aggregate principal amount equal to $100 million and amended to an aggregate principal amount of $350 million in March 1999 (collectively, the "Term Loans"), (v) a revolving credit facility (the "Revolving Credit Loans") in an aggregate principal amount equal to $200 million, of which up to $90 million may be used, to the extent available, for standby and commercial letters of credit and up to $25 million is available to the Company pursuant to a swingline facility and (vi) a reducing acquisition loan facility (the "Acquisition Loans") in an aggregate principal amount of $285 million, reduced to $263.2 million in July 2000.

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

2001	$ 10,094
2002	47,216
2003	125,360
2004	162,970
2005	223,039
2006	--
Total	$568,679

Revolving Credit Loans may be made, and letters of credit may be issued, at any time during the period between July 22, 1996, the loan origination date (the "Origination Date"), and

5. LONG-TERM DEBT (CONTINUED)
December 31, 2002 (the "Termination Date"). No letter of credit is permitted to have an expiration date after the Termination Date. The Acquisition Loans may be made at any time during the period preceding the Termination Date.

The Acquisition Loans facility will automatically be reduced and the

Acquisition Loans will be repaid to the following levels on each of the following anniversaries of the Origination Date: July 22, 2001, $215.3 million; July 22, 2002, $139.0 million; with payment of any remaining balance on the Termination Date.

The Company may elect that all or a portion of the borrowings under the Credit Agreement bear interest at a rate per annum equal to (a) an annual benchmark rate, which will be equal to the greatest of (i) "Prime Rate," (ii) the "Base" CD Rate plus 1% or (iii) the Federal Funds effective rate plus 50 basis points (the "ABR") or (b) the Eurodollar Rate, in each case increased by the applicable margin (the "Applicable Margin") which will vary between 1.50% and 3.75% per annum. The applicable margin on the Revolving Credit Loans, Acquisition Loans and Tranche A Loan is subject to a reduction based on achievement of certain levels of total senior indebtedness to annualized consolidated EBITDA, as defined in the Credit Agreement. To date, the Company has not achieved a reduction of the Applicable Margin.

Interest based on the ABR is payable on the last day of each calendar quarter and interest based on the Eurodollar Rate is payable on set maturity dates. The borrowings under the Credit Agreement bore interest at rates ranging from 9.13% to 10.38% as of December 31, 2000.

The Company is also required to pay a quarterly commitment fee at a rate which ranges from .375% to .500% based on the Eurodollar Applicable Margin for Revolving Credit Loans. This rate is applied to unused commitments under the Revolving Credit Loans and the Acquisition Loans.

The Company is also required to pay letters of credit fees at rates which vary from 1.625% to 2.625%.

All or a portion of the outstanding borrowings under the Credit Agreement may be prepaid at any time and the unutilized portion of the facility for the Revolving Credit Loans or the Acquisition Loans may be terminated, in whole or in part, at the Company's option. Repaid Term Loans and permanent reductions to the Acquisition Loans and Revolving Credit Loans may not be reborrowed.

Credit Facilities generally are required to be prepaid with the net proceeds (in excess of $20 million) of certain permitted asset sales and the issuances of debt obligations (other than certain permitted indebtedness) of the Company or any of its subsidiaries.

Generally, prepayments of Term Loans will be applied to principal payments due during the next twelve months with any excess being applied pro rata to scheduled principal payments thereafter.

The terms of the Credit Agreement include certain restrictive covenants. These covenants include restrictions on indebtedness, investments, asset sales, capital expenditures, dividends, sale and leasebacks, contingent obligations, transactions with affiliates, and fundamental change. The covenants also require maintenance of certain ratios regarding senior indebtedness, senior interest, and fixed charges. The Company was in compliance with all debt covenants at December 31, 2000.

5. LONG-TERM DEBT (CONTINUED)

As of December 31, 1999 and 2000, the Company had letters of credit issued, primarily in support of its Taxable Bonds and Tax-Exempt Bonds, of approximately $43 million and $40 million, respectively. Availability at December 31, 1999 and 2000 under the Revolving Credit Loans facility was approximately $47 million and $160 million, respectively and under the Acquisition Loans facility was approximately $144 million and $193 million, respectively.

SUBORDINATED DEBENTURES. In connection with the Acquisition, the Company issued its subordinated debentures to an affiliate of FL & Co. for $500 million in cash. The debentures are a general senior subordinated obligation of the Company, are not subject to mandatory redemption and mature in three equal annual installments beginning June 30, 2007, with the final payment due on June 30, 2009. The debentures bear interest at a fixed rate of 7.50% which is payable semi-annually in January and July. Total interest expense for the debentures was $37.5 million for each of the years ended December 31, 1998, 1999 and 2000.

TAXABLE BONDS AND TAX-EXEMPT BONDS. Taxable Bonds bear interest at a floating rate which averaged 5.29% and 6.40% during 1999 and 2000, respectively. These bonds are subject to mandatory annual redemptions with the final payment of $17.4 million due on October 1, 2003. Tax-Exempt Bonds bear interest at floating rates which averaged 3.36% and 4.21% during 1999 and 2000, respectively. These bonds are not subject to mandatory annual redemptions under the bond provisions and are due in 2010. Taxable Bonds and Tax-Exempt Bonds are both guaranteed by letters of credit.

TERM LOAN FROM ACQUISITION IN 2000. The Company acquired a hospital in December 2000, in which we assumed debt upon acquisition, through an amended and restated credit agreement dated December 1, 2000. The loan bears interest at a rate of 9.18% as of December 31, 2000 and has the same terms as the Tranche A Term Loan in the "Credit Agreement", previously described. Required principal payments are as follows: $1,350,000 in 2001, $1,875,000 in 2002 and $18,475,000

in 2003.

OTHER DEBT. As of December 31, 2000, other debt consisted primarily of an industrial revenue bond and other obligations maturing in various installments through 2014.

As of December 31, 2000, the scheduled maturities of long-term debt outstanding, including capital leases, for each of the next five years and thereafter are as follows (in thousands):

2001	$ 17,433
2002	126,166
2003	165,549
2004	164,090
2005	224,118
Thereafter	521,667
	$1,219,023

The Company paid interest of $101 million, $118 million and $115 million on borrowings during the years ended December 31, 1998, 1999 and 2000, respectively.

6. FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair value of financial instruments has been estimated by the Company using available market information as of December 31, 1999 and 2000, and valuation methodologies considered appropriate. The estimates presented are not necessarily indicative of amounts the Company could realize in a current market exchange (in thousands):

AS OF DECEMBER 31,			
1999	2000		
ESTIMATED FAIR VALUE	ESTIMATED FAIR VALUE	CARRYING AMOUNT	CARRYING VALUE
Assets: Cash and cash equivalents		$ 4,282	$ 4,282
Liabilities: Credit facilities		$13,740	$13,740
		872,646	862,174
Taxable Bonds		638,679	633,506
		29,700	29,700
Tax-exempt Bonds		26,100	26,100
		8,000	8,000
Other term loans		21,700	21,483

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

Credit facilities and other term loans: Estimated fair value is based on communications with the Company's bankers regarding relevant pricing for trading activity among the Company's lending institutions.

Taxable and Tax-exempt Bonds: The carrying amount approximates fair value as a result of the weekly interest rate reset feature of these publicly traded instruments.

The Company believes that it is not practicable to estimate the fair value of the subordinated debentures because of (i) the fact that the subordinated debentures were issued in connection with the issuance of the original equity of the Company at the date of Acquisition as an investment unit, (ii) the related party nature of the subordinated debentures, (iii) the lack of comparable securities, and (iv) the lack of a credit rating of the Company by an established rating agency.

7. LEASES

The Company leases hospitals, medical office buildings, and certain equipment under capital and operating lease agreements. All lease agreements generally require the Company to pay maintenance, repairs, property taxes and insurance costs. Commitments relating to noncancellable operating and capital leases for each of the next five years and thereafter are as follows (in thousands):

YEAR ENDED DECEMBER 31,	OPERATING CAPITAL	
2001	$ 24,141	$ 5,715
2002	21,073	4,738
2003	19,379	3,706
2004	17,160	2,773
2005	11,943	2,311
Thereafter	72,376	23,999
Total minimum future payments	$166,072	43,242
Less debt discounts		(22,142)
		21,100
Less current portion		(2,290)
Long-term capital lease obligations	$18,810	

7. LEASES (CONTINUED)

Assets capitalized under capital leases as reflected in the accompanying consolidated balance sheets were $5.8 million of land and improvements, $55.7 million of buildings and improvements, and $19.2 million of equipment and fixtures as of December 31, 1999 and $9.9 million of land and improvements, $73.3 million of buildings and improvements and $35.5 million of equipment and fixtures as of December 31, 2000. The accumulated depreciation related to assets under capital leases was $15.1 million and $26.4 million as of December 31, 1999 and 2000, respectively. Depreciation of assets under capital leases is included in depreciation and amortization and amortization of debt discounts on capital lease obligations is included in interest expense in the consolidated statements of operations.

8. EMPLOYEE BENEFIT PLANS

The Company has a defined contribution plan that is qualified under Section 401(k) of the Internal Revenue Code, which covers all eligible employees at its hospitals, clinics, and the corporate offices. Participants may contribute a portion of their compensation not exceeding a limit set annually by the Internal Revenue Service. This plan includes a provision for the Company to match a portion of employee contributions. The Company also provides a defined contribution welfare benefit plan for post-termination benefits to executive and middle management employees. Total expense under the 401(k) plan was $2.2 million, $2.9 million and $2.8 million for the years ended December 31, 1998, 1999 and 2000, respectively. Total expense under the welfare benefit plan was $0.9 million, $0.8 million and $0.7 million for the years ended December 31, 1998, 1999 and 2000, respectively.

9. STOCKHOLDERS' EQUITY

On June 14, 2000, the Company closed its initial public offering of 18,750,000 shares of common stock and on July 3, 2000, the underwriters exercised their overallotment option and purchased 1,675,717 shares of common stock. These shares were offered at $13.00 per share. On November 3, 2000, the Company completed a secondary offering of 18,000,000 shares of its common stock at an offering price of $28.1875. Of these shares, 8,000,000 shares were sold by affiliates of FL & Co. and other shareholders. The net proceeds to the Company from these offerings were $514.5 million in the aggregate and were used to repay long-term debt.

Authorized capital shares of the Company include 400,000,000 shares of capital stock consisting of 300,000,000 shares of common stock and 100,000,000 shares of Preferred Stock. Each of the aforementioned classes of capital stock has a par value of $.01 per share. Shares of Preferred Stock, none of which are outstanding as of December 31, 2000, may be issued in one or more series having such rights, preferences and other provisions as determined by the Board of Directors without approval by the holders of common stock.

Common shares held by employees that were acquired directly from the Company are the subject of a stockholder's agreement under which each share, until vested, is subject to repurchase, upon termination of employment. Shares vest, on a cumulative basis, each year at a rate of 20% of the total shares issued beginning after the first anniversary date of the purchase. Further, under the stockholder's agreement shares of common stock held by stockholders other than FL&Co. will only be transferable together with shares transferred by FL&Co. until FL&Co.'s ownership falls below 25%.

9. STOCKHOLDERS' EQUITY (CONTINUED)

During 1997, the Company granted options to purchase 191,614 shares of common stock to non-employee directors at an exercise price of $8.96 per share. One-third of such options are exercisable each year on a cumulative basis beginning on the first anniversary of the date of grant and expiring ten years from the date of grant. As of December 31, 2000, 178,839 non-employee director options to purchase common stock were exercisable with a weighted average remaining contractual life of 6.5 years.

In November 1996, the Board of Directors approved an Employee Stock Option Plan (the "1996 Plan") to provide incentives to key employees of the Company. Options to purchase up to 756,636 shares of common stock are authorized under the 1996 Plan. All options granted pursuant to the 1996 Plan are generally exercisable each year on a cumulative basis at a rate of 20% of the total number of common shares covered by the option beginning one year from the date of grant and expiring ten years from the date of grant. There will be no additional grants of options under the 1996 Plan.

In April 2000, the Board of Directors approved the 2000 Stock Option and Award Plan (the "2000 Plan"). The 2000 Plan provides for the grant of incentive stock options intended to qualify under Section 422 of the Internal Revenue Code as well as stock options which do not so qualify, stock appreciation rights, restricted stock, performance units and performance shares, phantom stock awards and share awards. Persons eligible to receive grants under the 2000 Plan include the Company's directors, officers, employees and consultants. Options to purchase 4,562,791 shares of common stock are authorized under the 2000 Plan. All options granted pursuant to the 2000 Plan are generally exercisable each year on a cumulative basis at a rate of 33 1/3% of the total number of common shares covered by the option beginning on the first anniversary of the date of grant and expiring ten years from the date of grant. As of December 31, 2000, there were 3,917,500 options granted and 645,291 shares of unissued common stock reserved for future grants under the 2000 Plan.

The options granted are "nonqualified" for tax purposes. For financial reporting purposes, the exercise price of certain option grants under the 1996 plan were considered to be below the fair value of the stock at the time of grant. The fair value of those grants was determined based on an appraisal conducted by an independent appraisal firm as of the relevant date. Options granted under the 2000 Plan were granted to employees at the fair value of the related stock. The aggregate differences between fair value and the exercise price is being charged to compensation expense over the relevant vesting periods. Such expense aggregated $83,000 and $74,000 in 1999 and 2000, respectively.

9. STOCKHOLDERS' EQUITY (CONTINUED)

A summary of the number of shares of common stock issuable upon the exercise of options under the Company's 1996 Plan and 2000 Plan for fiscal 2000, 1999 and 1998 and changes during those years is presented below:

WEIGHTED SHARES	PRICE RANGE	AVERAGE PRICE
Balance at December 31, 1997	431,282	$ 6.99 $ 6.99
Granted	299,292	6.99 6.99
Exercised	--	-- --
Forfeited or canceled	(119,801)	6.99 6.99
Balance at December 31, 1998	610,773	$ 6.99 $ 6.99
Granted	90,376	6.99 6.99
Exercised	--	-- --
Forfeited or canceled	(150,907)	6.99 6.99
Balance at December 31, 1999	550,242	$ 6.99 $ 6.99
Granted	3,943,000	13.00-31.70 13.69
Exercised	(78,284)	6.99 6.99
Forfeited or canceled	(83,927)	6.99-20.06 9.40
Balance at December 31, 2000	4,331,031	$ 6.99-31.70 $13.05

The following table summarizes information concerning currently outstanding and exercisable options:

OPTIONS OUTSTANDING	OPTIONS

EXERCISABLE

RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
$ 6.99	413,531	6.8 years	$ 6.99	153,668	$6.99
$13.00-31.70	3,917,500	9.5 years	$13.69	--	--

Under SFAS No. 123, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. The weighted-average fair value of each option granted during 1998, 1999 and 2000 were $2.05, $5.10 and $6.11, respectively. In 2000 and 1998, the exercise price of options granted was the same as the fair value of the related stock. In 1999, the exercise price of options granted was less than the fair value of the related stock. The following weighted-average assumptions were used for grants in fiscal 1998, 1999 and 2000: risk-free interest rate of 5.14%, 5.49% and 6.46%; expected volatility of the Company's common stock based on peer companies in the healthcare industry of 34%, 45% and 58%, respectively; no dividend yields; and weighted-average expected life of the options of 3 years for all years.

Had the fair value of the options granted been recognized as compensation expense on a straight-line basis over the vesting period of the grant, the Company's net income (loss) and

9. STOCKHOLDERS' EQUITY (CONTINUED)

income (loss) per share would have been reduced to the pro forma amounts indicated below (in thousands except per share data):

	1998	1999	2000
Pro forma net income (loss)	$(183,513)	$(17,010)	$ 6,907
Pro forma net income (loss) per share:			
Basic	$ (3.38)	$ (0.31)	$ 0.10
Diluted	$ (3.38)	$ (0.31)	$ 0.10

10. EARNINGS PER SHARE

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

YEAR ENDED DECEMBER 31,	1998	1999	2000
NUMERATOR: Income (loss) before cumulative effect of a change in accounting principle	$ (182,938)	$ (16,789)	$ 9,569
Cumulative effect of a change in accounting principle	(352)	--	--
Net income (loss) available to common -- basic and diluted	$ (183,290)	$ (16,789)	$ 9,569
DENOMINATOR: Weighted-average number of shares outstanding -- basic	54,249,895	54,545,030	67,610,399
Effect of dilutive securities: Non-employee director options	--	--	54,885
Unvested common shares	--	--	802,471
Employee options	--	--	719,436
Weighted-average number of shares outstanding -- diluted	54,249,895	54,545,030	69,187,191
Dilutive securities outstanding not included in the computation of earnings (loss) per share because their effect is antidilutive: Non-employee director options	191,614	191,614	--
Unvested common shares	1,239,902	1,031,734	--
Employee options	610,773	550,242	--

11. ACCOUNTING CHANGE

In 1998, the Company adopted The American Institute of Certified Public Accountants Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities," which affects the accounting for start-up costs. The change involved expensing these costs as incurred, rather than capitalizing and subsequently amortizing such costs. The cumulative effect of the change on the

11. ACCOUNTING CHANGE (CONTINUED)
accumulated deficit as of the beginning of 1998 is reflected as a charge of $0.5 million ($0.4 million net of taxes) to 1998 earnings.

12. COMMITMENTS AND CONTINGENCIES

CONSTRUCTION COMMITMENTS. As of December 31, 2000, the Company has obligations under certain hospital purchase agreements to construct four hospitals through 2005 with an aggregate estimated construction cost, including equipment, of approximately $120 million.

PROFESSIONAL LIABILITY RISKS. Substantially all of the Company's professional and general liability risks are subject to a $0.5 million per occurrence deductible (with an annual deductible cap of $5 million). The Company's insurance is underwritten on a "claims-made basis." The Company accrues an estimated liability for its uninsured exposure and self-insured retention based on historical loss patterns and actuarial projections. The Company's estimated liability for the self-insured portion of professional and general liability claims was $16.4 million and $16.6 million as of December 31, 1999 and 2000, respectively. These estimated liabilities represent the present value of estimated future professional liability claims payments based on expected loss patterns using a discount rate of 5.72% and 5.77% in 1999 and 2000, respectively. The discount rate is based on an estimate of the risk-free interest rate for the duration of the expected claim payments. The estimated undiscounted claims liability was $18.9 million and $19.5 million as of December 31, 1999 and 2000, respectively. The effect of discounting professional and general liability claims was a $0.1 million decrease to expense in 1998 and 1999 and a $0.3 million increase to expense in 2000.

COMPLIANCE SETTLEMENT AND YEAR 2000 REMEDIATION COSTS. In 1997, the Company initiated a voluntary review of its inpatient medical records in order to determine the extent it may have had coding inaccuracies under certain government programs. At December 31, 1998, an estimate of the costs of these coding inaccuracies settlement was accrued based on information available and additional costs were accrued at December 31, 1999. In March 2000, the Company reached a settlement with appropriate governmental agencies pursuant to which the Company paid approximately $31.8 million to settle potential liabilities related to coding inaccuracies occurring from October 1993 through September 1997. Year 2000 remediation costs totaled $0.2 million and

$3.3 million for 1998 and 1999, respectively.

LEGAL MATTERS. The Company is a party to legal proceedings incidental to its business. In the opinion of management, any ultimate liability with respect to these actions will not have a material adverse effect on the Company's consolidated financial position, cash flows or results of operations.

13. RELATED PARTY TRANSACTIONS

Notes receivable for common shares held by employees, as disclosed on the consolidated balance sheets, represent the outstanding balance of notes accepted by the Company as partial payment for the purchase of the common shares from senior management employees. These notes bear interest at 6.84%, are full recourse promissory notes and are secured by the shares to which they relate. Each of the full recourse promissory notes mature on the fifth anniversary date of the note, with accelerated maturities in case of employee termination, Company stock repurchases, or

13. RELATED PARTY TRANSACTIONS (CONTINUED)
stockholder's sale of common stock. Employees have fully paid for purchases of common stock by cash or by a combination of cash and full recourse promissory notes.

The Company purchased marketing services and materials at a cost of $268,000 and $239,400 in 1999 and 2000, respectively, from a company owned by the spouse of one of the Company's officers.

In 1996, in connection with the Company's relocation from Houston to Nashville, the Company provided a $100,000 non-interest bearing loan to one of its executives. This loan was repaid on December 13, 2000.

14. QUARTERLY FINANCIAL DATA (UNAUDITED)

QUARTER				
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)	1ST	2ND	3RD	4TH
1999				
Net operating revenues	$ 263,004	$ 261,821	$ 266,896	$ 288,232
Income (loss) before taxes	6,498	254	(4,036)	(13,952)
Net income (loss)	1,918	(1,843)	(4,427)	(12,437)
Net income (loss) per share:				
Basic	0.04	(0.03)	(0.08)	(0.23)
Diluted	0.03	(0.03)	(0.08)	(0.23)
Weighted average number of shares:				
Basic	54,439,895	54,517,660	54,495,334	54,459,838
Diluted	55,632,718	54,517,660	54,495,334	54,459,838
2000				
Net operating revenues	$ 308,651	$ 317,136	$ 342,447	$ 369,267
Income before taxes	4,850	3,413	5,163	14,316
Net income	921	178	1,258	7,212
Net income per share:				
Basic	0.02	--	0.02	0.09
Diluted	0.02	--	0.02	0.09
Weighted average number of shares:				
Basic	54,634,285	58,175,050	75,120,860	81,717,585
Diluted	67,610,399			

Diluted.....
55,838,214 59,310,601
77,193,350 84,067,319
69,187,191

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

AS OF JUNE 30, 2001

(IN THOUSANDS, EXCEPT SHARE DATA)

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 35,740
Patients accounts receivable, net	316,499
Supplies	41,860
Prepaid expenses and income taxes	14,169
Current deferred income taxes	2,233
Other current assets	15,330
Total current assets	425,831
PROPERTY AND EQUIPMENT	936,336
Less: accumulated depreciation and amortization	(169,627)
Property and equipment, net	766,709
GOODWILL, NET	991,557
OTHER ASSETS, NET	95,989
TOTAL ASSETS	$2,280,086
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES	
Current maturities of long-term debt	$ 21,499
Accounts payable	86,460
Current income taxes payable	16,998
Accrued interest	20,278
Accrued liabilities	111,488
Total current liabilities	256,723
LONG-TERM DEBT	1,229,507
OTHER LONG-TERM LIABILITIES	14,015
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; 87,296,185 shares issued and 86,320,636 shares outstanding at June 30, 2001	873
Additional paid-in capital	1,001,204
Accumulated deficit	(215,284)
Treasury stock, at cost, 975,549 shares at June 30, 2001 and 967,980 shares at December 31, 2000	(6,678)
Notes receivable for common stock	(211)
Unearned stock compensation	(63)
Total stockholders' equity	779,841
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$2,280,086

See notes to unaudited interim condensed consolidated financial statements.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

SIX MONTHS ENDED JUNE 30,			
2000	2001		
NET OPERATING REVENUES	$ 625,787	$ 799,554	
OPERATING COSTS AND EXPENSES: Salaries and benefits	244,222	309,781	
Provision for bad debts	56,594	73,959	

Supplies.....
72,410 92,888 Other operating
expenses..... 118,168
152,161
Rent.....
14,537 19,687 Depreciation and
amortization..... 33,910 43,094
Amortization of
goodwill..... 12,378 14,074
---------- ---------- Total operating costs and
expenses..... 552,219 705,644 ----------
- ---------- INCOME FROM
OPERATIONS..... 73,568
93,910 INTEREST EXPENSE,
NET..... 65,305 53,174
---------- ---------- INCOME BEFORE INCOME
TAXES..... 8,263 40,736
PROVISION FOR INCOME
TAXES..... 7,164 20,237 ----
------- ---------- NET
INCOME.....
$ 1,099 $ 20,499 ========== ========== NET INCOME PER
COMMON SHARE:
Basic.....
$ 0.02 $ 0.24 ========== ==========
Diluted.....
$ 0.02 $ 0.23 ========== ========== WEIGHTED-AVERAGE
NUMBER OF SHARES OUTSTANDING:
Basic.....
56,423,677 85,696,119 ========== ==========
Diluted.....
57,554,519 87,554,317 ========== ==========

See notes to unaudited interim condensed consolidated financial statements.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

SIX MONTHS ENDED JUNE 30, ---------- 2000
2001 --------- --------- CASH FLOWS FROM OPERATING
ACTIVITIES Net
income.....
$ 1,099 $ 20,499 Adjustments to reconcile net income to
net cash provided by (used in) operating activities:
Depreciation and
amortization..... 46,288 57,168
Stock compensation
expense..... 43 22 Other non-
cash expenses (income), net..... (498)
474 Changes in operating assets and liabilities, net of
effects of acquisitions and divestitures: Patient
accounts receivable..... (9,321)
6,277 Supplies, prepaid expenses and other current
assets.....
(3,989) 6,275 Accounts payable, accrued liabilities and
income
taxes.....
(30,486) 2,677 Compliance settlement
payment..... (30,900) --
Other.....
(6,635) 2,136 --------- --------- Net cash provided by
(used in) operating activities..... (34,399) 95,528 -
-------- --------- CASH FLOWS FROM INVESTING ACTIVITIES
Acquisitions of facilities, pursuant to purchase
agreements.....
(40,639) (50,063) Purchases of property and
equipment..... (24,006) (39,056)
Proceeds from sale of
equipment..... 62 53 Increase in
other assets..... (9,678)
(15,398) --------- --------- Net cash used in investing
activities..... (74,261) (104,464) ------
--- --------- CASH FLOWS FROM FINANCING ACTIVITIES
Proceeds from issuance of common stock, net of
expenses... 225,225 -- Proceeds from exercise of stock
options..... -- 2,289 Common stock
purchased for treasury..... -- (91)
Borrowings under credit
agreement..... 137,731 69,000
Repayments of long-term
indebtedness..... (252,588) (40,262) -
-------- --------- Net cash provided by financing
activities..... 110,368 30,936 --------- ----
----- NET CHANGE IN CASH AND CASH
EQUIVALENTS..... 1,708 22,000 CASH AND

CASH EQUIVALENTS AT BEGINNING OF PERIOD.....			
4,282	13,740	---------	--------- CASH AND CASH
EQUIVALENTS AT END OF PERIOD.....			$ 5,990
		$ 35,740	========= =========

See notes to unaudited interim condensed consolidated financial statements.

1. BASIS OF PRESENTATION

The unaudited condensed consolidated financial statements of Community Health Systems, Inc. and its subsidiaries (the "Company") as of and for the six month periods ended June 30, 2001 and June 30, 2000, have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). In the opinion of management, such information contains all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for such periods. All intercompany transactions and balances have been eliminated. The results of operations for the six months ended June 30, 2001 are not necessarily indicative of the results to be expected for the full fiscal year ending December 31, 2001.

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 financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2000 contained in the Company's Annual Report on Form 10-K.

2. USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP 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.

3. ACQUISITIONS

Effective June 1, 2001, the Company acquired, through a purchase transaction, the assets and working capital of a hospital for consideration of approximately $60.7 million, including liabilities assumed. Licensed beds at the facility totaled 168. The Company borrowed $49.0 million against its acquisition loan revolving facility to fund this transaction.

4. RECENT ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

On July 20, 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets" (the "Statements"). These Statements make significant changes to the accounting for business combinations, goodwill and intangible assets.

SFAS No. 141 eliminates the pooling-of-interests method of accounting for business combinations. In addition, it further clarifies the criteria for recognition of intangible assets separately from goodwill. This statement's provisions apply to business combinations accounted for using the purchase method for which the date of acquisition is July 1, 2001, or later.

SFAS No. 142 discontinues the practice of amortizing goodwill and indefinite life intangible assets. Its nonamortization provisions are effective January 1, 2002 for goodwill existing at June 30, 2001, and are effective immediately for business combinations with acquisition dates after June 30, 2001. Intangible assets with a determinable useful life will continue to be amortized over that period. SFAS No. 142 requires the Company to complete a transitional goodwill impairment test as of January 1, 2002. Any impairment loss will be recorded as soon as possible, but in no case later

4. RECENT ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED (CONTINUED)
than December 31, 2002. In addition, SFAS No. 142 requires that indefinite life intangible assets and goodwill be tested at least annually for impairment of carrying value; impairment of carrying value would be evaluated more frequently if certain indicators are encountered.

We expect to adopt SFAS No. 142 effective January 1, 2002. Early adoption and retroactive application of SFAS No. 141 and SFAS No. 142 are not permitted. The Company expects that the adoption of these statements will not have a significant effect on its financial position, but will have a favorable effect

on its results of operations.

SFAS No. 143, "Accounting for Asset Retirement Obligations," was issued in June 2001 by the Financial Accounting Standards Board and is effective for financial statements issued for fiscal years beginning after June 15, 2002. Earlier application is encouraged. SFAS No. 143 establishes accounting standards for recognition and measurement of a liability for an asset retirement obligation and the associated retirement cost. This Statement applies to all entities and to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) the normal operation of a long-lived asset, except for certain obligations of lessees. The Company is currently evaluating the impact, if any, of adopting SFAS No. 143.

5. ACCOUNTING PRONOUNCEMENT ADOPTED

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," is effective for all fiscal years beginning after June 15, 2000. SFAS No. 133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. Under SFAS No. 133, certain contracts that were not formerly considered derivatives may now meet the definition of a derivative. The Company adopted SFAS No. 133 on January 1, 2001. The adoption of SFAS No. 133 did not impact the financial position, results of operations, or cash flows of the Company.

6. 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):

SIX MONTHS ENDED JUNE 30,	
2000	2001
NUMERATOR: Net income	
$ 1,099	$ 20,499
DENOMINATOR: Weighted-average number of shares outstanding--basic	56,423,677	85,696,119
Effect of dilutive options	1,130,842	1,858,198
Weighted-average number of shares outstanding--diluted	57,554,519	87,554,317
Basic earnings per share	$ 0.02	$ 0.24
Diluted earnings per share	$ 0.02	$ 0.23

7. SUBSEQUENT EVENTS

Effective July 19, 2001, the Company amended its 1999 Amended and Restated Credit Agreement. The Credit Agreement is syndicated with a group of lenders led by The Chase Manhattan Bank, an affiliate of J.P. Morgan Securities Inc., and co-agents, Bank of America, N.A. and The Bank of Nova Scotia. This amendment, among other things, extends the maturity of approximately 80% of the $200 million revolving credit facility and the $263.2 million in acquisition loan commitments from December 31, 2002 to January 2, 2004.

Effective September 1, 2001, the Company acquired Red Bud Regional Hospital, a 103-bed facility located in Red Bud, Illinois, for an aggregate consideration of approximately $5 million. On October 1, 2001, the Company acquired Southern Chester County Medical Center, renamed Jennersville Regional Hospital, a 59-bed hospital located in West Grove, Pennsylvania, for an aggregate consideration of approximately $29 million. Southern Chester County Medical Center is the sole provider of general acute hospital services in its community. On August 2, 2001, the Company signed a definitive agreement to acquire 369-bed Easton Hospital, the only hospital in the city of Easton and Northampton County, Pennsylvania. This transaction is subject to state regulatory approvals and licensing and is expected to be completed and closed during the fourth quarter of 2001.

The Company is pursuing concurrent public offerings of 12,000,000 shares of its common stock and $250 million of convertible notes. The Company plans to utilize proceeds from the offerings to repay $500 million of its outstanding subordinated debentures, plus accrued interest, as well as a portion of the outstanding debt under the acquisition loan facility of the Company's credit agreement. In connection with such repayment, the Company anticipates that it will recognize an extraordinary loss on early extinguishment of debt of approximately $3.9 million (after tax). The Company expects to complete such offerings during the fourth quarter of 2001.

[INSIDE BACK COVER PAGE]

[Description of artwork:
Photographs of four of our facilities:
Eastern New Mexico Medical Center,
Moberly Regional Medical Center,
Springs Memorial Hospital, and
North Okaloosa Medical Center]

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus. You must not be rely on any unauthorized information or representations. This prospectus is an offer to sell the notes offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date.

TABLE OF CONTENTS

$250,000,000

COMMUNITY HEALTH
SYSTEMS, INC.

% Convertible Subordinated
Notes due 2008

[LOGO]

GOLDMAN, SACHS & CO.
MERRILL LYNCH & CO.
CREDIT SUISSE FIRST BOSTON
BANC OF AMERICA SECURITIES LLC
JPMORGAN
UBS WARBURG

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The following table sets forth the expenses expected to be incurred in connection with the issuance and distribution of notes and common stock registered hereby, all of which expenses, except for the Securities and Exchange Commission registrant fee, the National Association of Securities Dealers, Inc. filing fee, and the New York Stock Exchange listing application fee, are estimated.

Securities and Exchange Commission registration fee.....	$ 185,157
National Association of Securities Dealers, Inc. filing fee.....	30,500
New York Stock Exchange listing fee.....	101,300
Printing and engraving fees and expenses.....	800,000
Legal fees and expenses.....	300,000
Accounting fees and expenses.....	225,000
Blue Sky fees and expenses.....	5,000
Transfer Agent and Registrar fees and expenses.....	14,500
Miscellaneous expenses.....	338,543
Total.....	$2,000,000

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS

The Certificate of Incorporation and By-Laws provide that the directors and officers of the Registrant shall be indemnified by the Registrant to the fullest extent authorized by Delaware law, as it now exists or may in the future be amended, against all expenses and liabilities reasonably incurred in connection with service for or on behalf of the Registrant, except with respect to any matter that such director or officer has been adjudicated not to have acted in good faith or in the reasonable belief that his action was in the best interests of the Registrant.

The Registrant has entered into agreements to indemnify its directors and officers in addition to the indemnification provided for in the Certificate of Incorporation and By-Laws. These agreements, among other things, indemnify directors and officers of the Registrant to the fullest extent permitted by Delaware law for certain expenses (including attorneys' fees), liabilities, judgments, fines and settlement amounts incurred by such person arising out of or in connection with such person's service as a director or officer of the Registrant or an affiliate of the Registrant.

Policies of insurance are maintained by the Registrant under which its directors and officers are insured, within the limits and subject to the limitations of the policies, against certain expenses in connection with the defense of, and certain liabilities which might be imposed as a result of, actions, suits or proceedings to which they are parties by reason of being or having been such directors or officers.

The form of Underwriting Agreements filed as Exhibit 1.1 and Exhibit 1.2 hereto provides for the indemnification of the registrant, its controlling persons, its directors and certain of its officers by the underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers or persons controlling the Registrant pursuant to the foregoing provisions, the Registrant has been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is therefore unenforceable.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES

During the three years preceding the filing of this registration statement, the Registrant has not sold shares of its common stock without registration under the Securities Act of 1933, except as described below.

During 1997, the Registrant sold an aggregate of 3,631 shares of its Class B common stock to employees of the Registrant for an aggregate purchase price of $1,310,317. During 1998, the Registrant sold an aggregate of 7,754 shares of its Class B common stock to employees of the Registrant for an aggregate purchase price of $2,774,691.36. During 1999, the Registrant sold an aggregate of 6,733 shares of its Class B common stock to employees of the Registrant for an aggregate purchase price of $2,654,848. These issuances were exempt from registration under the Securities Act of 1933 pursuant to section 4(2) thereof because they did not involve a public offering as the shares were offered and sold only to a small group of employees.

Immediately before the closing of our initial public offering in June 2000, we recapitalized as follows:

- each outstanding share of Class B common stock will be exchanged for .390 of a share of Class A common stock;

- each outstanding option to purchase a share of Class C common stock was

exchanged for an option to purchase .702 of a share of Class A common stock;

- the Class A common stock was redesignated as common stock and adjusted for a stock split on a 119.7588-for-1 basis; and

- the certificate of incorporation was amended and restated to reflect a single class of common stock, par value $.01 per share, and the number of authorized shares of common stock and preferred stock was increased.

Registration under the Securities Act of 1933 was not required in respect of issuances pursuant to this recapitalization because they will be made exclusively to existing holders of our securities and did not involve any solicitation. Therefore, these issuances will be exempt from registration under the Securities Act pursuant to section 3(a)(9) of the Securities Act of 1933.

No other sales of our securities have taken place within the last three years.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULE

(a) Exhibits

The following exhibits are filed with this registration statement.

NO.	DESCRIPTION
1.1	Form of Common Stock Underwriting Agreement, by and among the Registrant, CHS/ Community Health Systems, Inc. and the underwriters named therein.*
1.2	Form of Convertible Subordinated Notes Underwriting Agreement, by and among the Registrant, CHS/Community Health Systems, Inc. and the underwriters named therein.*
2.1	Agreement and Plan of Merger between the Registrant, FLCH Acquisition Corp. and Community Health Systems, Inc. (now known as CHS/Community Health Systems, Inc.), dated June 9, 1996 (incorporated by reference to Exhibit 2.1 to the Registrant's Registration Statement on Form S-1 (No. 333-7190))

NO.	DESCRIPTION
3.1	Form of Restated Certificate of Incorporation of the Registrant. (incorporated by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form S-1 (No. 333-7190))
3.2	Form of Amended and Restated By-laws of the Registrant. (incorporated by reference to Exhibit 3.2 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000)
4.1	Form of Indenture, dated as of October , 2001 between the Registrant and First Union National Bank, as trustee.*
4.2	Form of convertible subordinated note (included as Exhibit A to Exhibit 4.1).*
4.3	Form of Common Stock Certificate. (incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-1 (No. 333-7190))
5.1	Opinion of Fried, Frank, Harris, Shriver & Jacobson.*
10.1	Form of outside director Stock Option Agreement. (incorporated by reference to Exhibit 10.1 to the Registrant's Registration Statement on Form S-1 (No. 333-7190))
10.2	Form of Stockholder's Agreement between the Registrant and outside directors. (incorporated

by reference to Exhibit 10.2 to the Registrant's Registration Statement on Form S-1 (No. 333-7190)) 10.3 Form of Employee Stockholder's Agreement. (incorporated by reference to Exhibit 10.3 to the Registrant's Registration Statement on Form S-1 (No. 333-7190)) 10.4 The Registrant's Employee Stock Option Plan and form of Stock Option Agreement. (incorporated by reference to Exhibit 10.4 to the Registrant's Registration Statement on Form S-1 (No. 333-7190)) 10.5 The Registrant's 2000 Stock Option and Award Plan. (incorporated by reference to Exhibit 10.5 to the Registrant's Registration Statement on Form S-1 (No. 333-7190)) 10.6 Form of Stockholder's Agreement between the Registrant and employees. (incorporated by reference to Exhibit 10.6 to the Registrant's Registration Statement on Form S-1 (No. 333-7190)) 10.7 Registration Rights Agreement, dated July 9, 1996, among the Registrant, FLCH Acquisition Corp., Forstmann Little & Co. Equity Partnership--V, L.P. and Forstmann Little & Co. Subordinated Debt and Equity Management Buyout Partnership--VI, L.P. (incorporated by reference to Exhibit 10.7 to

the Registrant's Registration Statement on Form S-1 (No. 333-7190)) 10.8 Form of Indemnification Agreement between the Registrant and its directors and executive officers. (incorporated by reference to Exhibit 10.8 to the Registrant's Registration Statement on Form S-1 (No. 333-7190)) 10.9 Amended and Restated Credit Agreement, dated as of March 26, 1999, among Community (now known as CHS/Community Health Systems, Inc.), the Registrant, certain lenders, The Chase Manhattan Bank, as Administrative Agent, and Nationsbank, N.A. and The Bank of Nova Scotia, as Co-Agents. (incorporated by reference to Exhibit 10.9 to the Registrant's Registration Statement on Form S-1 (No. 333-7190))

NO. DESCRIPTION ---- ---------- 10.10 First Amendment, dated February 24, 2000, to the Amended and Restated Credit Agreement, dated as of March 26, 1999, among Community Health Systems, Inc. (now known as CHS/Community Health Systems, Inc.), the Registrant, certain lenders, The Chase Manhattan Bank, as Administrative

Agent, and Nationsbank, N.A. and The Bank of Nova Scotia, as Co-Agents. (incorporated by reference to Exhibit 10.10 to the Registrant's Registration Statement on Form S-1 (No. 333-7190))

10.11 Second Amendment, dated as of October 13, 2000, to the Amended and Restated Credit Agreement, dated as of March 26, 1999, among Community Health Systems, Inc. (now known as CHS/Community Health Systems, Inc.), the Registrant, certain lenders, The Chase Manhattan Bank, as Administrative Agent, and Nationsbank, N.A. and The Bank of Nova Scotia, as Co-Agents. (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001)

10.12 Third Amendment, dated as of July 19, 2001, to the Amended and Restated Credit Agreement, dated as of March 26, 1999, among Community Health Systems, Inc. (now known as CHS/Community Health Systems, Inc.), the Registrant, certain lenders, The Chase Manhattan Bank, as Administrative Agent, and Nationsbank, N.A. and The Bank of Nova Scotia, as

Co-Agents. (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001)

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10.14 Form of Management Rights Letter between the Registrant and the partnerships affiliated with Forstmann Little & Co. (incorporated by reference to Exhibit 10.11 to the Registrant's Registration Statement on Form S-1 (No. 333-7190))

10.15 Form of Series A 7 1/2% Subordinated Debenture. (incorporated by reference to Exhibit 10.12 to the Registrant's Registration Statement on Form S-1 (No. 333-7190))

10.16 Form of Series B 7 1/2% Subordinated Debenture. (incorporated by reference to Exhibit 10.13 to the Registrant's Registration Statement on

Form S-1 (No. 333-7190))
10.17 Form of Series C 7 1/2% Subordinated Debenture. (incorporated by reference to Exhibit 10.14 to the Registrant's Registration Statement on Form S-1 (No. 333-7190))
10.18 Corporate Compliance Agreement between the Office of Inspector General of the Department of Health and Human Services and the Registrant. (incorporated by reference to Exhibit 10.15 to the Registrant's Registration Statement on Form S-1 (No. 333-7190))
10.19 Tenet BuyPower Purchasing Assistance Agreement, (now known as Broadlane) dated June 13, 1997, between the Registrant and Tenet HealthSystem Inc., Addendum, dated September 19, 1997 and First Amendment, dated March 15, 2000. (incorporated by reference to Exhibit 10.1 6 to the Registrant's Registration Statement on Form S-1 (No. 333-7190))
10.20 The Registrant's 2000 Employee Stock Purchase Plan. (incorporated by reference to Exhibit 10.17 to the Registrant's Registration Statement on Form S-1 (No. 333-7190))

NO.	DESCRIPTION
10.21	Settlement Agreement between the United States of America, the states of Illinois, New Mexico, South Carolina, Tennessee, Texas, West Virginia and the Registrant. (incorporated by reference to Exhibit 10.18 to the Registrant's Registration Statement on Form S-1 (No. 333-7190))
12.1	Statements re: Computation of Ratios.**
21.1	List of subsidiaries.**
23.1	Consent of Fried, Frank, Harris, Shriver & Jacobson (included in the opinion filed as Exhibit 5.1).*
23.2	Consent of Deloitte & Touche LLP.*
24.1	Power of Attorney.**
25.1	Statement of Eligibility of Trustee on Form T-1.*

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* Filed herewith.

** Previously filed.

(b) Financial Statement Schedule

Independent Auditors' Report

Schedule II--Valuation and Qualifying Accounts

All schedules not identified above have been omitted because they are not required, are not applicable or the information is included in the selected consolidated financial data or notes contained in this Registration Statement.

ITEM 17. UNDERTAKINGS

(a) The undersigned registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement, certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

(b) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by the director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling

precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

(c) The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act of 1933 shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this Amendment No. 2 to the registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Brentwood, State of Tennessee, on the 4th day of October, 2001.

COMMUNITY HEALTH SYSTEMS, INC.

By: /s/ WAYNE T. SMITH

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

Pursuant to the requirements of the Securities Act of 1933, this Amendment No. 2 to the registration statement has been signed below by the following persons in the capacities indicated.

SIGNATURE	TITLE	DATE
Chairman of the Board, /s/ WAYNE T. SMITH	President and Chief Executive Officer	October 4, 2001
Wayne T. Smith (principal executive officer)	Executive Vice President, * Chief Financial Officer	--

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- and
Director
October 4,
2001 W.
Larry Cash
(principal
financial
officer)
Vice
President
and *
Corporate
Controller

(principal
accounting
October 4,
2001 T.
Mark
Buford
officer) *

Director
October 4,
2001
Sheila P.
Burke * --

- Director
October 4,
2001
Robert J.
Dole * ---

Director
October 4,
2001 J.
Anthony
Forstmann

SIGNATURE
TITLE
DATE ---

-- -----

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*

Director
October
4, 2001
Theodore
J.
Forstmann
* ---

Director	October 4, 2001	
Dale F. Frey *	-	
Director	October 4, 2001	
Sandra J. Horbach *	-	
Director	October 4, 2001	
Harvey Klein, M.D. *	-	
Director	October 4, 2001	
Thomas H. Lister *	-	
Director	October 4, 2001	
Michael A. Miles		

*By: /s/ WAYNE T. SMITH
Wayne T. Smith
AS ATTORNEY-IN-FACT

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Community Health Systems, Inc.
Brentwood, Tennessee

We have audited the consolidated financial statements of Community Health Systems, Inc. and subsidiaries as of December 31, 2000 and 1999, and for each of the three years in the period ended December 31, 2000, and have issued our report thereon dated February 20, 2001 (included elsewhere in this Registration Statement). Our audits also included the consolidated financial statement schedule listed in Item 16(b) of this Registration Statement. This consolidated financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Deloitte & Touche LLP

Nashville, Tennessee
February 20, 2001

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS
(IN THOUSANDS)

DESCRIPTION	BALANCE AT BEGINNING OF YEAR	CHARGED TO COSTS AND EXPENSES	BALANCE AT END OF YEAR
Year ended December 31, 2000 allowance for doubtful accounts	$34,499	$122,303	$(103,867)
Year ended December 31, 1999 allowance for doubtful accounts	$52,935	28,771	95,149 (89,421) 34,499
Year ended December 31, 1998 allowance for doubtful accounts	20,873	69,005	(61,107) 28,771

EXHIBIT INDEX

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by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form S-1 (No. 333-7190)) 3.2 Form of Amended and Restated By-laws of the Registrant. (incorporated by reference to Exhibit 3.2 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000) 4.1 Form of Indenture, dated as of October , 2001 between the Registrant and First Union National Bank, as trustee.* 4.2 Form of convertible subordinated note (included as Exhibit A to Exhibit 4.1).* 4.3 Form of Common Stock Certificate. (incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-1 (No. 333-7190)) 5.1 Opinion of Fried, Frank, Harris, Shriver & Jacobson.* 10.1 Form of outside director Stock Option Agreement. (incorporated by reference to Exhibit 10.1 to the Registrant's Registration Statement on Form S-1 (No. 333-7190)) 10.2 Form of Stockholder's Agreement between the Registrant and outside directors. (incorporated by reference to Exhibit 10.2 to the Registrant's Registration Statement on Form S-1 (No. 333-7190)) 10.3 Form of Employee Stockholder's Agreement. (incorporated by reference to Exhibit 10.3 to the

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Purchasing Assistance Agreement (now known as Broadlane) dated June 13, 1997, between the Registrant and Tenet HealthSystem Inc., Addendum, dated September 19, 1997 and First Amendment, dated March 15, 2000. (incorporated by reference to Exhibit 10.16 to the Registrant's Registration Statement on Form S-1 (No. 333-7190)) 10.20 The Registrant's 2000 Employee Stock Purchase Plan. (incorporated by reference to Exhibit 10.17 to the Registrant's Registration Statement on Form S-1 (No. 333-7190)) 10.21 Settlement Agreement between the United States of America, the states of Illinois, New Mexico, South Carolina, Tennessee, Texas, West Virginia and the Registrant. (incorporated by reference to Exhibit 10.18 to the Registrant's Registration Statement on Form S-1 (No. 333-7190)) 12.1 Statements re: Computation of Ratios.** 21.1 List of subsidiaries.** 23.1 Consent of Fried, Frank, Harris, Shriver & Jacobson (included in the opinion filed as Exhibit 5.1).* 23.2 Consent of Deloitte & Touche LLP.* 24.1 Power of Attorney.** 25.1 Statement of Eligibility of Trustee on Form T-1.*

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* Filed herewith.

** Previously filed.

Exhibit 1.1

==========

COMMUNITY HEALTH SYSTEMS, INC.

(a Delaware corporation)

12,000,000 Shares of Common Stock

UNDERWRITING AGREEMENT

Dated: , 2001

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COMMUNITY HEALTH SYSTEMS, INC.

(a Delaware corporation)

12,000,000 Shares of Common Stock

(Par Value $.01 Per Share)

UNDERWRITING AGREEMENT

October __, 2001

Goldman, Sachs & Co.
Merrill Lynch, Pierce, Fenner & Smith Incorporated
Credit Suisse First Boston Corporation
Banc of America Securities LLC
J.P. Morgan Securities Inc.
UBS Warburg LLC
as Representatives of the several Underwriters
c/o Goldman, Sachs & Co.
85 Broad Street
New York, NY 10004

Ladies and Gentlemen:

Community Health Systems, Inc., a Delaware corporation (the "Company") and CHS/Community Health Systems, Inc., a Delaware corporation ("CHS"), confirm their respective agreements with Goldman, Sachs & Co. ("Goldman Sachs"), and each of the other Underwriters named in Schedule A hereto (collectively, the "Underwriters", which term shall also include any underwriter substituted as hereinafter provided in Section 10 hereof), for whom Goldman Sachs, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Credit Suisse First Boston Corporation, Banc of America Securities LLC, J.P. Morgan Securities Inc., and UBS Warburg LLC are acting as representatives (in such capacity, the "Representatives"), with respect to the issue and sale by the Company, and the purchase by the Underwriters, acting severally and not jointly, of the respective numbers of shares of Common Stock, par value $.01 per share, of the Company ("Common Stock") set forth in said Schedules A hereto, and with respect to the grant by the Company to the Underwriters, acting severally and not jointly, of the option described in Section 2(b) hereof to purchase all or any

part of up to 1,653,543 additional shares of Common Stock for the sole purpose of covering the sale of shares of Common Stock in

excess of the number of Initial Securities (as hereinafter defined). The aforesaid 12,000,000 shares of Common Stock (the "Initial Securities") to be purchased by the Underwriters and all or any part of the 1,800,000 shares of Common Stock subject to the option described in Section 2(b) hereof (the "Option Securities") are hereinafter called, collectively, the "Securities".

The Underwriters will concurrently enter into an Agreement Among Underwriters dated the date hereof providing for the coordination of certain transactions among the Underwriters under the direction of Goldman Sachs.

The Company and CHS understand that the Underwriters propose to make a public offering of the Securities as soon as the Representatives deem advisable after this Agreement has been executed and delivered. It is also understood and agreed to by all parties that the Company and CHS are concurrently entering into an agreement (the "Convertible Notes Agreement") with the underwriters named in Schedule B thereto, providing for the sale by the Company of $287,500,000 million aggregate principal amount of _____% convertible subordinated notes due 2008 (the "Convertible Notes"), including the over-allotment option thereunder. The offering of the Securities and the offering of the Convertible Notes, however, are independent offerings and are not conditioned on each other. Two forms of prospectuses are to be used in connection with the offering and sale of the Securities and the Convertible Notes contemplated by the foregoing, one relating to the Securities hereunder and the other relating to the Convertible Notes. No requirement exists that the Underwriters sell the Convertible Notes in order to sell the Securities.

The Company has filed with the Securities and Exchange Commission (the "Commission") a registration statement on Form S-1 (No. 333-69064), as amended by Amendment No. 1 filed on September 21, 2001, covering the registration of the Securities under the Securities Act of 1933, as amended (the "1933 Act"), including the related preliminary prospectus or prospectuses related to the Securities. Promptly after execution and delivery of this Agreement, the Company will prepare and file a prospectus related to the Securities in accordance with the provisions of Rule 430A ("Rule 430A") of the rules and regulations of the Commission under the 1933 Act (the "1933 Act Regulations") and paragraph (b) of Rule 424 ("Rule 424(b)") of the 1933 Act Regulations. The information included in any such prospectus that was omitted from such registration statement at the time it became effective but that is deemed to be part of such registration statement at the time it became effective pursuant to paragraph (b) of Rule 430A is referred to as "Rule 430A Information." Each form of prospectus related to the Securities used before such registration statement became effective, and any prospectus that omitted the Rule 430A Information that was used after such effectiveness and prior to the execution and delivery of this Agreement, is herein called a "preliminary prospectus." Such registration statement, including the exhibits thereto and schedules thereto at the time it became effective and including the Rule 430A Information, is herein

called the "Registration Statement." Any registration statement filed pursuant to Rule 462(b) of the 1933 Act Regulations is herein referred to as the "Rule 462(b) Registration Statement," and after such filing the term "Registration Statement" shall include the Rule 462(b) Registration Statement. The final Form of Prospectus related to the Securities in the forms first furnished to the Underwriters for use in connection with the offering of the Securities are herein called the "Prospectus". For purposes of this Agreement, all references to the Registration Statement, any preliminary prospectus, the Prospectus or any amendment or supplement to any of the foregoing shall be deemed to include the copy filed with the Commission pursuant to its Electronic Data Gathering, Analysis and Retrieval system ("EDGAR").

SECTION 1. REPRESENTATIONS AND WARRANTIES.

(a) REPRESENTATIONS AND WARRANTIES BY THE COMPANY. The Company and CHS represent and warrant to each Underwriter as of the date hereof, as of the Closing Time referred to in Section 2(c) hereof, and if any Option Securities are purchased, as of each Date of Delivery referred to in Section 2(b) hereof, and agrees with each Underwriter, as follows:

(i) COMPLIANCE WITH REGISTRATION REQUIREMENTS. Each of the Registration Statement and any Rule 462(b) Registration Statement has become effective under the 1933 Act and no stop order suspending the effectiveness of the Registration Statement or any Rule 462(b) Registration Statement has been issued under the 1933 Act and no proceedings for that purpose have been instituted or are pending or, to the knowledge of the Company, are contemplated by the Commission, and any request on the part of the Commission for additional information has been complied with in all material respects.

At the respective times the Registration Statement, any Rule 462(b) Registration Statement and any post-effective amendments thereto became effective and at the Closing Time (and, if any Option Securities are purchased, at the Date of Delivery), the Registration Statement, the Rule 462(b) Registration Statement and any amendments and supplements thereto complied and will comply in all material respects

with the requirements of the 1933 Act and the 1933 Act Regulations and did not and will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading. Neither the Prospectus nor any amendments or supplements thereto (including any prospectus wrapper), at the time the Prospectus or any amendments or supplements thereto were issued and at the Closing Time (and, if any Option Securities are purchased, at each Date of Delivery), included or will include an untrue statement of a material fact or omitted or will omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made,

not misleading. The representations and warranties in this subsection shall not apply to statements in or omissions from the Registration Statement or the Prospectus made in reliance upon and in conformity with information furnished to the Company in writing by any Underwriter through the Representatives expressly for use in the Registration Statement or the Prospectus.

Each preliminary prospectus and the Prospectus filed as part of the Registration Statement as originally filed or as part of any amendment thereto, or filed pursuant to Rule 424 under the 1933 Act, complied when so filed in all material respects with the 1933 Act Regulations and each preliminary prospectus and the Prospectus delivered to the Underwriters for use in connection with this offering was identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T.

(ii) INDEPENDENT ACCOUNTANTS. The accountants who certified the financial statements and supporting schedules included in the Registration Statement are independent public accountants as required by the 1933 Act and the 1933 Act Regulations.

(iii) FINANCIAL STATEMENTS. The consolidated financial statements included in the Registration Statement and the Prospectus, together with the related schedules and notes, present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries at the dates indicated and the statement of operations, stockholders' equity and cash flows of the Company and its consolidated subsidiaries for the periods specified; said financial statements have been prepared in conformity with generally accepted accounting principles ("GAAP") applied, except as set forth in the notes to the financial statements, on a consistent basis throughout the periods involved. The supporting schedules included in the Registration Statement present fairly, in all material respects, in accordance with GAAP the information required to be stated therein. The selected consolidated financial and other data and the summary consolidated financial and other data included in the Prospectus present fairly, in all material respects, the information shown therein and have been compiled on a basis consistent with that of the audited consolidated financial statements included in the Registration Statement. The pro forma financial information included in the Registration Statement and the Prospectus present fairly, in all material respects, the information shown therein, and have been properly compiled on the bases described therein, and the assumptions used in the preparation thereof are reasonable and the adjustments used therein are appropriate to give effect to the transactions and circumstances referred to therein.

(iv) NO MATERIAL ADVERSE CHANGE IN BUSINESS. Since the respective dates as of which information is given in the Registration Statement and the Prospectus, except as otherwise stated therein, (A) there has been no material adverse change in the condition, financial or otherwise, or in the earnings, business affairs or business prospects of the Company and its subsidiaries considered as one enterprise, whether or not arising in the ordinary course of business (a "Material Adverse Effect"), (B) there have been no transactions entered into by the Company or any of its subsidiaries, other than those in the ordinary course of business, which are material with respect to the Company and its subsidiaries considered as one enterprise, and (C) there has been no dividend or distribution of any kind declared, paid or made by the Company on any class of its capital stock.

(v) GOOD STANDING OF THE COMPANY. The Company has been duly organized and is validly existing as a corporation in good standing under the laws of the State of Delaware and has corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectus and to enter into and perform its obligations under this Agreement; and the Company is duly qualified as a foreign corporation to transact business and is in good standing in each other jurisdiction in which such qualification is required, whether by reason of the ownership or leasing of property or the

conduct of business, except where the failure so to qualify or to be in good standing could not result in a Material Adverse Effect.

(vi) GOOD STANDING OF SUBSIDIARIES. (A) Each "significant subsidiary" of the Company (as such term is defined in Rule 1-02 of Regulation S-X) and CHS, Community Health Investment Corporation, CHS Professional Service Corporation and Hallmark Healthcare Corporation and each other subsidiary which is a hospital holding company or an operating hospital (each a "Subsidiary" and, collectively, the "Subsidiaries") has been duly organized and is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, has corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectus and is duly qualified as a foreign corporation to transact business and is in good standing in each jurisdiction in which such qualification is required, whether by reason of the ownership or leasing of property or the conduct of business, except where the failure so to qualify or to be in good standing would not reasonably be expected to result in a Material Adverse Effect. Except as otherwise disclosed in Exhibit 21 to the Registration Statement, all of the issued and outstanding capital stock of each such Subsidiary has been duly authorized and validly issued, is fully paid and non-assessable and is owned by the Company, directly or through subsidiaries, free and clear of any security interest, mortgage, pledge, lien, encumbrance, claim or equity and none of the outstanding shares of capital stock

of any Subsidiary was issued in violation of the preemptive or similar rights of any securityholder of such Subsidiary. The only subsidiaries of the Company are (a) the subsidiaries listed on Exhibit 21 to the Registration Statement and (b) certain other subsidiaries which, considered in the aggregate as a single Subsidiary, do not constitute a "significant subsidiary" as defined in Rule 1-02 of Regulation S-X.

(B) Except to the extent disclosed in Exhibit 21 to the Registration Statement, each of the hospitals described in the Prospectus as owned or leased by the Company is owned or leased and operated by a Subsidiary of which the Company directly or indirectly owns 100% of the outstanding ownership interests. Except as disclosed in the Prospectus, there are no encumbrances or restrictions on the ability of any Subsidiary (i) to pay any dividends or make any distributions on such Subsidiary's capital stock, (ii) to make any loans or advances to, or investments in, the Company, CHS or any other Subsidiary, or (iii) to transfer any of its property or assets to the Company, CHS or any other Subsidiary.

(vii) CAPITALIZATION. The authorized, issued and outstanding capital stock of the Company is as set forth in the Prospectus in the column entitled "Actual" under the caption "Capitalization" (except for subsequent issuances, if any, pursuant to this Agreement, pursuant to reservations, agreements or employee benefit plans referred to in the Prospectus or pursuant to the exercise of convertible securities or options referred to in the Prospectus). The shares of issued and outstanding capital stock of the Company have been duly authorized and validly issued and are fully paid and non-assessable; none of the outstanding shares of capital stock of the Company was issued in violation of the preemptive or other similar rights of any securityholder of the Company. The shares of issued and outstanding capital stock of the Company have been issued in compliance, in all material respects, with all federal and state securities laws. Except as disclosed in the Prospectus, there are no outstanding options or warrants to purchase, or any preemptive rights or other rights to subscribe for or to purchase, any securities or obligations convertible into, or any contracts or commitments to issue or sell, shares of the Company's capital stock or any such options, warrants, rights, convertible securities or obligations. The description of the Company's stock option and purchase plans and the options or other rights granted and exercised thereunder set forth in the Prospectus accurately and fairly describe, in all material respects, the information required to be shown with respect to such plans, arrangements, options and rights.

(viii) AUTHORIZATION OF AGREEMENT. This Agreement has been duly authorized, executed and delivered by the Company.

(ix) AUTHORIZATION AND DESCRIPTION OF SECURITIES. The Securities to be purchased by the Underwriters from the Company have been duly authorized for issuance and sale to the Underwriters pursuant to this Agreement, and, when issued and delivered by the Company pursuant to this Agreement against payment of the consideration set forth herein, will be validly issued, fully paid and non-assessable; the Common Stock conforms, in all material respects, to all statements relating thereto contained in the Prospectus and such description conforms to the rights set forth in the Company's Restated Certificate of Incorporation, no holder of the Securities will be subject to

personal liability by reason of being such a holder; and the issuance of the Securities is not subject to the preemptive or other similar rights of any securityholder of the Company.

(x) ABSENCE OF DEFAULTS AND CONFLICTS. Neither the Company nor any of its subsidiaries is in violation of its charter or by-laws or in default in the performance or observance of any obligation, agreement, covenant or condition contained in any contract, indenture, mortgage, deed of trust, loan or credit agreement, note, lease or other agreement or instrument to which the Company or any of its subsidiaries is a party or by which it or any of them may be bound, or to which any of the property or assets of the Company or any subsidiary is subject (collectively, "Agreements and Instruments"), except for such defaults under Agreements and Instruments that would not reasonably be expected to result in a Material Adverse Effect; and the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated in this Agreement and in the Registration Statement (including the issuance and sale of the Securities and the use of the proceeds from the sale of the Securities as described in the Prospectus under the caption "Use of Proceeds") and compliance by the Company and CHS with their obligations under this Agreement have been duly authorized by all necessary corporate action and, after giving effect to the use of proceeds as contemplated in the Prospectus under the caption "Use of Proceeds," do not and will not, whether with or without the giving of notice or passage of time or both, conflict with or constitute a breach of, or default or Repayment Event (as defined below) under, or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company, CHS or any of their subsidiaries pursuant to, the Agreements and Instruments (except for such conflicts, breaches or defaults or liens, charges or encumbrances that would not reasonably be expected to result in a Material Adverse Effect), nor will such action result in any violation of the provisions of the charter or by-laws of the Company, CHS or any of their subsidiaries or, any applicable law, statute, rule, regulation, judgment, order, writ or decree of any government, government instrumentality or court, domestic or foreign, having jurisdiction over the Company, CHS or any of their subsidiaries or any of their assets, properties or operations. As used herein, a "Repayment Event" means any event or condition which gives the holder of any note, debenture or other evidence of indebtedness

(or any person acting on such holder's behalf) the right to require the repurchase, redemption or repayment of all or a portion of such indebtedness by the Company, CHS or any of their subsidiaries.

(xi) ABSENCE OF LABOR DISPUTE. No material labor dispute with the employees of the Company, CHS or any of their subsidiaries exists or, to the knowledge of the Company or CHS, is imminent, and neither the Company nor CHS is aware of any existing or imminent labor disturbance by the employees of any of their or any of their subsidiaries' principal suppliers or contractors, which would reasonably be expected to result in a Material Adverse Effect.

(xii) ABSENCE OF PROCEEDINGS. There is no action, suit, proceeding, inquiry or investigation before or brought by any court or governmental agency or body, domestic or foreign, now pending (other than any sealed "qui tam" actions of which neither the Company nor CHS has any knowledge), or, to the knowledge of the Company or CHS, threatened, against or affecting the Company, CHS or any of their subsidiaries, which is required to be disclosed in the Registration Statement (other than as disclosed therein), or which would reasonably be expected to result in a Material Adverse Effect, or which could materially and adversely affect the properties or assets thereof or the consummation of the transactions contemplated in this Agreement, or the performance by the Company or CHS of their obligations hereunder; the aggregate of all pending legal or governmental proceedings to which the Company, CHS or any of their subsidiaries is a party or of which any of their respective property or assets is the subject which are not described in the Registration Statement, including ordinary routine litigation incidental to the business, would not reasonably be expected to result in a Material Adverse Effect.

(xiii) ACCURACY OF EXHIBITS. There are no contracts or documents which are required to be described in the Registration Statement or the Prospectus or to be filed as exhibits to the Registration Statement which have not been so described and/or filed as required.

(xiv) POSSESSION OF INTELLECTUAL PROPERTY. The Company, CHS and their subsidiaries own or possess, or can acquire on reasonable terms, adequate patents, patent rights, licenses, inventions, copyrights, know-how (including trade secrets and other unpatented and/or unpatentable proprietary or confidential information, systems or procedures), trademarks, service marks, trade names or other intellectual property (collectively, "Intellectual Property") necessary to carry on in all material respects the business now operated by them, and none of the Company, CHS or any of their subsidiaries has received

any notice or is otherwise aware of any infringement of or conflict with asserted rights of others with respect to any Intellectual Property or of any facts or circumstances which could render

any Intellectual Property invalid or inadequate to protect the interest of the Company, CHS or any of their subsidiaries therein, except for such infringements or conflicts (if the subject of any unfavorable decision, ruling or finding) or invalidities or inadequacies which would not, singly or in the aggregate, reasonably be expected to result in a Material Adverse Effect.

(xv) ABSENCE OF FURTHER REQUIREMENTS. No filing with, or authorization, approval, consent, license, order, registration, qualification or decree of, any court or governmental authority or agency is necessary or required for the performance by the Company or CHS of their obligations hereunder, in connection with the offering, issuance or sale of the Securities under this Agreement, the consummation of the transactions contemplated by this Agreement, except such as have been already obtained or as may be required under the 1933 Act or the 1933 Act Regulations and foreign or state securities or blue sky laws.

(xvi) POSSESSION OF LICENSES AND PERMITS. The Company, CHS and their subsidiaries possess such permits, licenses, provider numbers, certificates, approvals (including, without limitation, certificate of need approvals), consents, orders, certifications (including, without limitation, certification under the Medicare and Medicaid programs), accreditations (including, without limitation, accreditation by the Joint Commission on Accreditation of Healthcare Organizations) and other authorizations (collectively, "Governmental Licenses") issued by, and have made all declarations and filings with, the appropriate federal, state, local or foreign regulatory agencies or bodies necessary to conduct the business now operated by them (including, without limitation, Governmental Licenses as are required (i) under such federal and state healthcare laws as are applicable to the Company, CHS and their subsidiaries and (ii) with respect to those facilities operated by the Company, CHS or any of their subsidiaries that participate in the Medicare and/or Medicaid programs, to receive reimbursement thereunder), except where the failure to poses such Government Licenses or to make such declarations and filings would not reasonably be expected to result in a Material Adverse Effect; the Company, CHS and their subsidiaries are in compliance with the terms and conditions of all such Governmental Licenses, except where the failure so to comply would not, singly or in the aggregate, reasonably be expected to result in a Material Adverse Effect; all of the Governmental Licenses are valid and in full force and effect, except when the invalidity of such Governmental Licenses or the failure of such Governmental Licenses to be in full force and effect would not reasonably be expected to result in a Material Adverse Effect; and none of the Company, CHS or any of their subsidiaries has received any notice of proceedings relating to the revocation or modification of any such Governmental Licenses which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would

reasonably be expected to result in a Material Adverse Effect. All of the hospitals operated by the Company, CHS and their subsidiaries are "providers of services" as defined in the Social Security Act and the regulations promulgated thereunder and are eligible to participate in the Medicare and Medicaid programs (it being understood that this representation and warranty is to the best of the Company's and CHS's knowledge with respect to the three hospitals acquired by the Company since May 1, 2001).

(xvii) ACCOUNTS RECEIVABLE. The accounts receivable of the Company, CHS and their subsidiaries have been and will continue to be adjusted to reflect material changes in the reimbursement policies of third party payors such as Medicare, Medicaid, private insurance companies, health maintenance organizations, preferred provider organizations, managed care systems and other third party payors (including, without limitation, Blue Cross plans). The accounts receivable, after giving effect to the allowance for doubtful accounts, relating to such third party payors do not and shall not materially exceed amounts the Company, CHS and their subsidiaries are entitled to receive.

(xviii) COMPLIANCE WITH SOCIAL SECURITY ACT AND OTHER FEDERAL ENFORCEMENT INITIATIVES. Neither the Company and CHS nor, to the knowledge of the Company and CHS, any officers, directors or stockholders, employees or other agents of the Company, CHS or any of their subsidiaries or the hospitals operated by them, has engaged in any activities which are prohibited under Federal Medicare and Medicaid statutes including, but not limited to, 42 U.S.C. ss.ss. 1320a-7 (Program Exclusion), 1320a-7a (Civil Monetary Penalties), 1320a-7b (the

Anti-kickback Statute), 42 U.S.C. ss. 1395nn and 1396b (the "Stark" law, prohibiting certain self-referrals), or any other federal law, including, but not limited to, the federal TRICARE statute, 10 U.S.C. ss.1071 et seq., the Federal Civil False Claims Act, 31 U.S.C. ss.ss. 3729-32, Federal Criminal False Claims Act, 18 U.S.C. ss. 287, False Statements Relating to Health Care Matters, 18 U.S.C. ss. 1035, Health Care Fraud, 18 U.S.C. ss. 1347, or the federal Food, Drug & Cosmetics Act, 21 U.S.C. ss. 360aaa, or any regulations promulgated pursuant to such statutes, or related state or local statutes or regulations or any rules of professional conduct, including but not limited to the following: (i) knowingly and willfully making or causing to be made a false statement or representation of a material fact in any applications for any benefit or payment under the Medicare or Medicaid program or from any third party (where applicable federal or state law prohibits such payments to third parties); (ii) knowingly and willfully making or causing to be made any false statement or representation of a material fact for use in determining rights to any benefit or payment under the Medicare or Medicaid program or from any third party (where applicable federal or state law prohibits such payments to third parties); (iii) failing to disclose knowledge by a claimant of the occurrence of any event affecting the initial or continued right to

any benefit or payment under the Medicare or Medicaid program or from any third party (where applicable federal or state law prohibits such payments to third parties) on its own behalf or on behalf of another, with intent to secure such benefit or payment fraudulently; (iv) knowingly and willfully offering, paying, soliciting or receiving any remuneration (including any kickback, bribe or rebate), directly or indirectly, overtly or covertly, in cash or in kind (a) in return for referring an individual to a Person for the furnishing or arranging for the furnishing of any item or service for which payment may be made in whole or in part by Medicare or Medicaid or any third party (where applicable federal or state law prohibits such payments to third parties), or (b) in return for purchasing, leasing or ordering or arranging for or recommending the purchasing, leasing or ordering of any good, facility, service, or item for which payment may be made in whole or in part by Medicare or Medicaid or any third party (where applicable federal or state law prohibits such payments to third parties); (v) knowingly and willfully referring an individual to a person with which they have ownership or certain other financial arrangements (where applicable federal law prohibits such referrals); and (vi) knowingly and willfully violating any enforcement initiative instituted by any governmental agency (including, without limitation, the Office of the Inspector General and the Department of Justice), except for any such activities which are specifically described in the Prospectus or which would not, singly or in the aggregate, reasonably be expected to result in a Material Adverse Effect.

(xix) REGULATORY FILINGS. None of the Company, CHS or any of their subsidiaries or any of the hospitals operated by any of them has failed to file with applicable regulatory authorities any statement, report, information or form required by any applicable law, regulation or order, except where the failure to be so in compliance could not, individually or in the aggregate, have a Material Adverse Effect. Except as described in the Prospectus, all such filings or submissions were in compliance with applicable laws when filed and no deficiencies have been asserted by any regulatory commission, agency or authority with respect to any such filings or submissions, except for any such failures to be in compliance or deficiencies which would not, singly or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(xx) TITLE TO PROPERTY. The Company, CHS and their subsidiaries have good and marketable title to all real property owned by them and good title to all other properties owned by them, in each case, free and clear of all mortgages, pledges, liens, security interests, claims, restrictions or encumbrances of any kind except such as (a) are described in the Prospectus or (b) do not, singly or in the aggregate, in a manner that would reasonably be expected to result in a Material Adverse Effect, affect the value of such property or interfere with the use made or proposed to be made of such property by the Company, CHS or any of their subsidiaries; and all of the leases and subleases of the Company and their subsidiaries, considered as one enterprise, and under which the Company, CHS or any of their

subsidiaries holds properties described in the Prospectus, are in full force and effect, and none of the Company, CHS or any of their subsidiaries has any notice of any claim of any sort that has been asserted by anyone adverse to the rights of the Company, CHS or any of their subsidiaries under any of the leases or subleases mentioned above, or affecting or questioning the rights of the Company, CHS or such subsidiary to the continued possession of the leased or subleased premises under any such lease or sublease, except where the failure to

be in full force and effect or such claim would not reasonably be expected to have a Material Adverse Effect.

(xxi) INVESTMENT COMPANY ACT. None of the Company, CHS or their subsidiaries is, and upon the issuance and sale of the Securities as herein contemplated and the application of the net proceeds therefrom as described in the Prospectus none of them will be, an "investment company" or an entity "controlled" by an "investment company" as such terms are defined in the Investment Company Act of 1940, as amended (the "1940 Act").

(xxii) ENVIRONMENTAL LAWS. Except as described in the Registration Statement and except as would not, singly or in the aggregate, reasonably be expected to result in a Material Adverse Effect, (A) none of the Company, CHS, their subsidiaries or any of the hospitals owned, leased or operated by them is in violation of any federal, state, local or foreign statute, law, rule, regulation, standard, guide, ordinance, code, policy or rule of common law or any judicial or administrative interpretation thereof, including any judicial or administrative order, consent, decree or judgment, relating to pollution or protection of human health or safety, the environment (including, without limitation, ambient air, surface water, groundwater, land surface or subsurface strata) or wildlife, including, without limitation, laws and regulations relating to the release or threatened release of chemicals, pollutants, contaminants, wastes, toxic substances, hazardous substances (including, without limitation, asbestos, polychlorinated biphenyls, urea-formaldehyde insulation, petroleum or petroleum products) (collectively, "Hazardous Materials") or to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling, release or threatened release of Hazardous Materials (collectively, "Environmental Laws"), (B) the Company, CHS, their subsidiaries and each of the hospitals owned, leased or operated by them have all permits, authorizations and approvals required under any applicable Environmental Laws and are each in compliance with their requirements, (C) there are no pending or threatened administrative, regulatory or judicial actions, suits, demands, demand letters, claims, liens, notices of noncompliance or violation, investigation or proceedings relating to any Environmental Law against the Company, CHS, their subsidiaries or any of the

hospitals owned, leased or operated by them and (D) there are no events or circumstances that might reasonably be expected to form the basis of an order for clean-up or remediation, or an action, suit or proceeding by any private party or governmental body or agency, against or affecting the Company, CHS, any of their subsidiaries or any of the hospitals owned, leased or operated by them relating to Hazardous Materials or any Environmental Laws.

(xxiii) REGISTRATION RIGHTS. Except as disclosed in the Prospectus under the caption "Shares Eligible for Future Sale-Registration Rights," there are no persons with registration rights or other similar rights to have any securities of the Company, CHS or any of their subsidiaries registered pursuant to the Registration Statement or otherwise registered by the Company or any other person under the 1933 Act.

(xxiv) INSURANCE. The Company, CHS and each of their subsidiaries and each of the hospitals owned, leased or operated by them are insured by insurers of recognized financial responsibility against such loses and risks and in such amounts as are prudent and customary in the healthcare industry; none of the Company, CHS, their subsidiaries or any of the hospitals owned, leased or operated by them has been refused any material insurance coverage sought or applied for since January 1, 2000; and neither the Company nor CHS has any reason to believe that it or any of the hospitals owned, leased or operated by them, will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its operations except where the failure to renew or maintain such coverage would not reasonably be expected to result in a Material Adverse Effect. The officers and directors of the Company are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as the Company believes are prudent and customary for officers' and directors' liability insurance of a public company and as the Company believes would cover claims which would reasonably be expected to be made in connection with the issuance of the Securities; and the Company has no reason to believe that it will not be able to renew its existing directors' and officers' liability insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to cover its officers and directors.

(xxv) TAX RETURNS AND PAYMENT OF TAXES. The Company, CHS and their subsidiaries have timely filed all federal, state, local and foreign tax returns that are required to be filed or has duly requested extensions thereof and all such tax returns are true, correct and complete, except to the extent that any failure to file or request an extension, or any incorrectness would not reasonably be expected to

result in a Material Adverse Effect. The Company, CHS and their subsidiaries

have timely paid all taxes shown as due on such filed tax returns (including any related assessments, fines or penalties), except to the extent that any such taxes are being contested in good faith and by appropriate proceedings, or to the extent that any failure to pay would not reasonably be expected to result in a Material Adverse Effect; and adequate charges, accruals and reserves have been provided for in the financial statements referred to in Section 1(a)(iii) above in accordance with GAAP in respect of all federal, state, local and foreign taxes for all periods as to which the tax liability of the Company, CHS and their subsidiaries has not been finally determined or remains open to examination by applicable taxing authorities except (A) for taxes incurred after the date of the financial statements referred to in Section 1(a)(iii) or (B) where the failure to provide for such charges, accruals and reserves would not reasonably be expected to result in a Material Adverse Effect. None of the Company, CHS or their subsidiaries is a "United States real property holding corporation" within the meaning of Section 897(c)(2) of the Internal Revenue Code of 1986, as amended (the "Code").

(xxvi) NO STABILIZATION OR MANIPULATION. None of the Company, CHS or their subsidiaries or, to the best of their knowledge, any of their directors, officers or affiliates has taken or will take, directly or indirectly, any action designed to, or that could be reasonably expected to, cause or result in stabilization or manipulation of the price of the Securities in violation of Regulation M under the Securities Exchange Act of 1934, as amended (the "1934 Act").

(xxvii) CERTAIN TRANSACTIONS. Except as disclosed in the Prospectus, there are no outstanding loans, advances, or guarantees of indebtedness by the Company, CHS or any of their subsidiaries to or for the benefit of any of the executive officers or directors of the Company or any of the members of the families of any of them that would be required to be so disclosed under the 1933 Act, the 1933 Act Regulations or Form S-1.

(xxviii) STATISTICAL AND MARKET DATA. The statistical and market-related data included in the Prospectus are derived from sources which the Company and CHS reasonably and in good faith believe to be accurate, reasonable and reliable in all material respects and the statistical and market-related data included in the Prospectus agrees with the sources from which it was derived in all material respects.

(xxix) ACCOUNTING AND OTHER CONTROLS. The Company has established a system of internal accounting controls sufficient to provide reasonable assurances that (i) transactions were, are and will be executed in accordance with management's general or specific authorization; (ii) transactions were, are and will be recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain accountability for assets; (iii) access to

assets was, is and will be permitted only in accordance with a management's general or specific authorizations; and (iv) the recorded accountability for assets was, is and will be compared with existing assets at reasonable intervals and appropriate action was, is and will be taken with respect to any differences.

(b) OFFICER'S CERTIFICATES. Any certificate signed by any officer of the Company delivered to Goldman Sachs, the Representatives or to counsel for the Underwriters shall be deemed a representation and warranty by the Company to each Underwriter as to the matters covered thereby.

SECTION 2. SALE AND DELIVERY TO UNDERWRITERS; CLOSING.

(a) INITIAL SECURITIES. On the basis of the representations and warranties herein contained and subject to the terms and conditions herein set forth, the Company agrees to sell to each Underwriter, severally and not jointly, and each Underwriter, severally and not jointly, agrees to purchase from the Company, at the price per share set forth in Schedule C the number of Initial Securities set forth in Schedule A opposite the name of such Underwriter, plus any additional number of Initial Securities which such Underwriter may become obligated to purchase pursuant to the provisions of Section 10 hereof.

(b) OPTION SECURITIES. In addition, on the basis of the representations and warranties herein contained and subject to the terms and conditions herein set forth, the Company hereby grants an option to the Underwriters, severally and not jointly, to purchase up to an additional 1,800,000 shares of Common Stock, at the price per share set forth in Schedule C less an amount per share equal to any dividends or distributions declared by the Company and payable on

the Initial Securities but not payable on the Option Securities. The option hereby granted will expire 30 days after the date hereof and may be exercised in whole or in part from time to time for the sole purpose of covering the sale of a number of Securities in excess of the number of Initial Securities which may be made in connection with the offering and distribution of the Initial Securities upon notice by Goldman Sachs to the Company setting forth the number of Option Securities as to which the several Underwriters are then exercising the option and the time and date of payment and delivery for such Option Securities. Any such time and date of delivery for the Option Securities (a "Date of Delivery") shall be determined by Goldman Sachs, but shall not be later than seven full business days after the exercise of said option, nor in any event prior to the Closing Time, as hereinafter defined. If the option is exercised as to all or any portion of the Option Securities, each of the Underwriters, acting severally and not jointly, will purchase that proportion of the total number of Option Securities then being purchased which the number of Initial Securities set forth in Schedule A opposite the name of such Underwriter bears to the total number of Initial Securities, subject in each case to such adjustments as Goldman Sachs in its discretion shall make to eliminate any sales or purchases of fractional shares.

(c) PAYMENT. Payment of the purchase price for, and delivery of certificates for, the Initial Securities shall be made at the offices of Debevoise & Plimpton, 919 Third Avenue, New York, New York 10022, or at such other place as shall be agreed upon by Goldman Sachs and the Company, at 9:00 A.M. (Eastern time) on the third (fourth, if the pricing occurs after 4:30 P.M. (Eastern time) on any given day) business day after the date hereof (unless postponed in accordance with the provisions of Section 10), or such other time not later than ten business days after such date as shall be agreed upon by Goldman Sachs and the Company (such time and date of payment and delivery being herein called "Closing Time").

In addition, in the event that any or all of the Option Securities are purchased by the Underwriters, payment of the purchase price for, and delivery of certificates for, such Option Securities shall be made at the above-mentioned offices, or at such other place as shall be agreed upon by Goldman Sachs and the Company, on each Date of Delivery as specified in the notice from Goldman Sachs to the Company.

Payment shall be made to the Company by wire transfer of immediately available funds to bank accounts designated by the Company, against delivery to the Representatives for the respective accounts of the Underwriters of certificates for the Securities to be purchased by them. It is understood that each Underwriter has authorized the Representatives, for its account, to accept delivery of, receipt for, and make payment of the purchase price for, the Initial Securities and the Option Securities, if any, which it has agreed to purchase. Goldman Sachs, individually and not as representative of the Underwriters, may (but shall not be obligated to) make payment of the purchase price for the Initial Securities or the Option Securities, if any, to be purchased by any Underwriter whose funds have not been received by the Closing Time or the relevant Date of Delivery, as the case may be, but such payment shall not relieve such Underwriter from its obligations hereunder.

(d) DENOMINATIONS; REGISTRATION. Certificates for the Initial Securities and the Option Securities, if any, shall be in such denominations and registered in such names as the Representatives may request in writing at least one full business day before the Closing Time or the relevant Date of Delivery, as the case may be. The certificates for the Initial Securities and the Option Securities, if any, will be made available for examination and packaging by the Representatives in The City of New York not later than 10:00 A.M. (Eastern time) on the business day prior to the Closing Time or the relevant Date of Delivery, as the case may be.

SECTION 3. COVENANTS OF THE COMPANY.

The Company covenants with each. Underwriter as follows:

(a) COMPLIANCE WITH SECURITIES REGULATIONS AND COMMISSION REQUESTS. The Company, subject to Section 3(b), will comply with the requirements of Rule 430A and will notify Goldman Sachs immediately, and confirm the notice in writing, (i) when any post-effective amendment to the Registration Statement shall become effective, or any supplement to the Prospectus or any amended Prospectus shall have been filed, (ii) of the receipt of any comments from the Commission, (iii) of any request by the Commission for any amendment to the Registration Statement or any amendment or supplement to the Prospectus or for additional information, and (iv) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or of any order preventing or suspending the use of any preliminary prospectus, or of the suspension of the qualification of the Securities for offering or sale in any jurisdiction, or of the initiation or threatening of any proceedings for any of such purposes. The Company will promptly effect the filings necessary pursuant to Rule 424(b) and will take such steps as it deems necessary to ascertain promptly whether the form of prospectus transmitted for filing under Rule 424(b) was received for filing by the Commission and, in the event that it was not, it will promptly

file such prospectus. The Company will make every reasonable effort to prevent the issuance of any stop order and, if any stop order is issued, to obtain the lifting thereof at the earliest possible moment.

(b) FILING OF AMENDMENTS. The Company will give Goldman Sachs notice of its intention to file or prepare any amendment to the Registration Statement (including any filing under Rule 462(b)), or any amendment, supplement or revision to either the prospectus included in the Registration Statement at the time it became effective or to the Prospectus, will furnish Goldman Sachs with copies of any such documents a reasonable amount of time prior to such proposed filing or use, as the case may be, and will not file or use any such document to which Goldman Sachs or counsel for Goldman Sachs shall reasonably object.

(c) DELIVERY OF REGISTRATION STATEMENTS. The Company has furnished or will deliver to the Representatives and counsel for the Underwriters, without charge, signed copies of the Registration Statement as originally filed and of each amendment thereto (including exhibits filed therewith or incorporated by reference therein) and copies of all signed consents and certificates of experts, and will also deliver to the Representatives, without charge, a conformed copy of the Registration Statement as originally filed and of each amendment thereto (without exhibits) for each of the Underwriters. The copies of the Registration Statement and each amendment thereto furnished to the Underwriters will be identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T.

(d) DELIVERY OF PROSPECTUSES. The Company has delivered to each Underwriter, without charge, as many copies of each preliminary prospectus as such Underwriter reasonably requested, and the Company hereby consents to the use of such copies for purposes permitted by the 1933 Act. The Company will furnish to each Underwriter, without charge, during the period when the Prospectus is required to be delivered under the 1933 Act or the 1934 Act, such number of copies of the Prospectus (as amended or supplemented) as such Underwriter may reasonably request. The Prospectus and any amendments or supplements thereto furnished to the Underwriters will be identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T.

(e) CONTINUED COMPLIANCE WITH SECURITIES LAWS. The Company will comply with the 1933 Act and the 1933 Act Regulations so as to permit the completion of the distribution of the Securities as contemplated in this Agreement and in the Prospectus. If at any time when a prospectus is required by the 1933 Act to be delivered in connection with sales of the Securities, any event shall occur or condition shall exist as a result of which it is necessary, in the opinion of counsel for the Underwriters or for the Company, to amend the Registration Statement or amend or supplement any Prospectus in order that the Prospectus will not include any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein not misleading in the light of the circumstances existing at the time it is delivered to a purchaser, or if it shall be necessary, in the opinion of such counsel, at any such time to amend the Registration Statement or amend or supplement any Prospectus in order to comply with the requirements of the 1933 Act or the 1933 Act Regulations, the Company will promptly prepare and file with the Commission, subject to Section 3(b), such amendment or supplement as may be necessary to correct such statement or omission or to make the Registration Statement or the Prospectus comply with such requirements, and the Company will furnish to the Underwriters such number of copies of such amendment or supplement as the Underwriters may reasonably request.

(f) BLUE SKY QUALIFICATIONS. The Company will use its best efforts, in cooperation with the Underwriters, to qualify the Securities for offering and sale under the applicable securities laws of such states and other jurisdictions (domestic or foreign) as Goldman Sachs may designate and to maintain such qualifications in effect for a period of not less than one year from the later of the effective date of the Registration Statement and any Rule 462(b) Registration Statement; provided, however, that the Company shall not be obligated to file any general consent to service of process or to qualify as a foreign corporation or as a dealer in securities in any jurisdiction in which it is not so qualified or to subject itself to taxation in respect of doing business in any jurisdiction in which it is not otherwise so subject. In each jurisdiction in which the Securities have been so qualified, the Company will file such statements and reports as may be required by the laws of such jurisdiction to continue such qualification of the

Securities in effect for a period of not less than one year from the effective date of the Registration Statement and any Rule 462(b) Registration Statement.

(g) RULE 158. The Company will timely file such reports pursuant to the 1934 Act as are necessary in order to make generally available to its securityholders as soon as practicable an earnings statement for the purposes of, and to provide the benefits contemplated by, the last paragraph of Section 11(a) of the 1933 Act.

(h) USE OF PROCEEDS. The Company will use the net proceeds received by it from the sale of the Securities in the manner specified in the Prospectus under "Use of Proceeds".

(i) LISTING. The Company will use its best efforts to maintain the quotation of the Common Stock on the New York Stock Exchange.

(j) RESTRICTION ON SALE OF SECURITIES. During a period of 90 days from the date of the Prospectus, the Company will not, without the prior written consent of Goldman Sachs, (i) directly or indirectly, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of any share of Common Stock or securities that are substantially similar to the Common Stock, including, but not limited to, any securities convertible into or exercisable or exchangeable for Common Stock or file any registration statement under the 1933 Act with respect to any of the foregoing or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of the Common Stock, whether any such swap or transaction described in clause (i) or (ii) above is to be settled by delivery of Common Stock or such other securities, in cash or otherwise. The foregoing sentence shall not apply to (A) the Securities to be sold hereunder, (B) any shares of Common Stock issued by the Company upon the exercise of an option or warrant or the conversion of a security outstanding on the date hereof and referred to in the Prospectus, (C) any shares of Common Stock issued or options to purchase Common Stock granted pursuant to existing employee benefit plans of the Company referred to in the Prospectus, (D) any shares of Common Stock issued pursuant to any non-employee director stock plan or dividend reinvestment plan, (E) any Convertible Notes to be sold under the Convertible Notes Agreement, or (F) any shares of Common Stock issuable upon conversion of the Convertible Notes.

(k) REPORTING REQUIREMENTS. The Company, during the period when the Prospectus is required to be delivered under the 1933 Act or the 1934 Act, will file all documents required to be filed with the Commission pursuant to the 1934 Act within the time periods required by the 1934 Act and the rules and regulations of the Commission thereunder.

SECTION 4. PAYMENT OF EXPENSES.

(a) EXPENSES. The Company and CHS will pay all expenses incident to the performance of their obligations under this Agreement, including (i) the preparation, printing and filing of the Registration Statement (including financial statements and exhibits) as originally filed and of each amendment thereto, (ii) the preparation, printing and delivery to the Underwriters of this Agreement, any Agreement among Underwriters and such other documents as may be required in connection with the offering, purchase, sale, issuance or delivery of the Securities, (iii) the preparation, issuance and delivery of the certificates for the Securities to the Underwriters, including any stock or other transfer taxes and any stamp or other duties payable upon the sale, issuance or delivery of the Securities to the Underwriters, (iv) the fees and disbursements of the Company's counsel, accountants and other advisors, (v) the qualification of the Securities under securities laws in accordance with the provisions of Section 3(f) hereof, including filing fees and the reasonable fees and disbursements of counsel for the Underwriters in connection therewith and in connection with the preparation of the Blue Sky Survey and any supplement thereto, (vi) the printing and delivery to the Underwriters of copies of each preliminary prospectus and of the Prospectus and any amendments or supplements thereto, (vii) the preparation, printing and delivery to the Underwriters of copies of the Blue Sky Survey and any supplement thereto, (viii) the fees and expenses of any transfer agent or registrar for the Securities, (ix) the filing fees incident to, and the reasonable fees and disbursements of counsel to the Underwriters in connection with, the review by the National Association of Securities Dealers, Inc. (the "NASD") of the terms of the sale of the Securities, and (x) the fees and expenses incurred in connection with the listing of the Securities on the New York Stock Exchange. In addition, each of the Company and the Underwriters will pay 50% of the fees and expenses related to the use of chartered aircraft by the Company in connection with the offering of the Securities.

(b) TERMINATION OF AGREEMENT. If this Agreement is terminated by the Representatives in accordance with the provisions of Section 5 or Section 9(a)(i) hereof, the Company and CHS shall reimburse the Underwriters for all of their out-of-pocket expenses, including the reasonable fees and disbursements of counsel for the Underwriters.

SECTION 5. CONDITIONS OF UNDERWRITERS' OBLIGATIONS.

The obligations of the several Underwriters hereunder are subject to the accuracy of the representations and warranties of the Company and CHS contained in Section 1 hereof or in certificates of any officer of the Company, CHS or any of their subsidiaries the Company delivered pursuant to the provisions hereof, to the performance by the Company of its covenants and other obligations hereunder, and to the following further conditions:

(a) EFFECTIVENESS OF REGISTRATION STATEMENT. The Registration Statement, including any Rule 462(b) Registration Statement, has become effective and at Closing Time no stop order suspending the effectiveness of the Registration Statement shall have been issued under the 1933 Act or proceedings therefor initiated or threatened by the Commission, and any request on the part of the Commission for additional information shall have been complied with to the reasonable satisfaction of counsel to the Underwriters. A prospectus containing the Rule 430A Information shall have been filed with the Commission in accordance with Rule 424(b) (or a post-effective amendment providing such information shall have been filed and declared effective in accordance with the requirements of Rule 430A).

(b) OPINION OF COUNSEL FOR THE COMPANY. At Closing Time, the Representatives shall have received the favorable opinion, dated as of Closing Time, of:

(i) Rachel A. Seifert, Senior Vice President, Secretary and General Counsel of the Company, in form and substance reasonably satisfactory to counsel for the Underwriters, together with signed or reproduced copies of such letter for each of the other Underwriters to the effect set forth in Exhibit A-1 hereto and to such further effect as counsel to the Underwriters may reasonably request; and

(ii) Fried, Frank, Harris, Shriver & Jacobson, special counsel for the Company, in form and substance reasonably satisfactory to counsel for the Underwriters, together with signed or reproduced copies of such letter for each of the other Underwriters to the effect set forth in Exhibit A-2 hereto and to such further effect as counsel to the Underwriters may reasonably request.

(c) OPINION OF COUNSEL FOR THE UNDERWRITERS. At Closing Time, the Representatives shall have received the favorable opinion, dated as of Closing Time, of Debevoise & Plimpton, counsel for the Underwriters, together with signed or reproduced copies of such letter for each of the other Underwriters in form and substance reasonably satisfactory to the Underwriters.

(d) OFFICERS' CERTIFICATE. At Closing Time, there shall not have been, since the date hereof or since the respective dates as of which information is given in the Prospectus, any material adverse change in the condition, financial or otherwise, or in the earnings, business affairs or business prospects of the Company, CHS and their subsidiaries considered as one enterprise, whether or not arising in the ordinary course of business, and the Representatives shall have received a certificate of the President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer of the Company, dated as of Closing Time, to the effect that (i) there has been no such material adverse change, (ii) the representations and warranties in Section 1(a) hereof are true and correct with the same force and effect as though expressly made at and as of

Closing Time, (iii) the Company and CHS have complied with all agreements and satisfied all conditions on their part to be performed or satisfied at or prior to Closing Time, and (iv) no stop order suspending the effectiveness of the Registration Statement has been issued and, to such person's knowledge after due inquiry, no proceedings for that purpose have been instituted or are pending or are contemplated by the Commission.

(e) ACCOUNTANT'S COMFORT LETTER. At the time of the execution of this Agreement, the Representatives shall have received from Deloitte & Touche LLP a letter, dated such date, in form and substance reasonably satisfactory to the Representatives, together with signed or reproduced copies of such letter for each of the other. Underwriters, containing statements and information of the type ordinarily included in accountants' "comfort letters" to underwriters with respect to the financial statements and certain financial information contained in the Registration Statement and the Prospectus.

(f) BRING-DOWN COMFORT LETTER. At Closing Time, the Representatives shall have received from Deloitte & Touche LLP a letter, dated as of Closing Time, to the effect that they reaffirm the statements made in the letter furnished pursuant to subsection (e) of this Section, except that the specified date referred to shall be a date not more than three business days prior to Closing Time.

(g) APPROVAL OF LISTING. At Closing Time, the Securities shall have been approved for listing on the New York Stock Exchange, subject only to official notice of issuance.

(h) NO OBJECTION. The NASD shall have confirmed that it has not raised any objection with respect to the fairness and reasonableness of the underwriting terms and arrangements with respect to the Securities.

(i) LOCK-UP AGREEMENTS. At the date of this Agreement, the Representatives shall have received an agreement substantially in the form of Exhibit B hereto signed by the persons listed on Schedule D hereto.

(j) CONDITIONS TO PURCHASE OF OPTION SECURITIES. In the event that the Underwriters exercise their option provided in Section 2(b) hereof to purchase

all or any portion of the Option Securities, the representations and warranties of the Company contained herein and the statements in any certificates furnished by the Company or any subsidiary of the Company hereunder shall be true and correct as of each Date of Delivery and, at the relevant Date of Delivery, the Representatives shall have received:

(i) OFFICERS' CERTIFICATE. A certificate, dated such Date of Delivery, of the President and Chief Executive Officer, and of the Executive Vice President and Chief Financial Officer of the Company, confirming that the certificate

delivered at the Closing Time pursuant to Section 5(d) hereof remains true and correct as of such Date of Delivery.

(ii) OPINION OF COUNSEL FOR COMPANY. The favorable opinion of Fried, Frank, Harris, Shriver & Jacobson, special counsel for the Company, together with the favorable opinion of Rachel A. Siefert, Senior Vice President, Secretary and General Counsel of the Company, each in form and substance reasonably satisfactory to counsel for the Underwriters, dated such Date of Delivery, relating to the Option Securities to be purchased on such Date of Delivery and otherwise to the same effect as the opinions required by Section 5(b) hereof.

(iii) OPINION OF COUNSEL FOR UNDERWRITERS. The favorable opinion of Debevoise & Plimpton, counsel for the Underwriters, dated such Date of Delivery, relating to the Option Securities to be purchased on such Date of Delivery and otherwise to the same effect as the opinion required by Section 5(c) hereof.

(iv) BRING-DOWN COMFORT LETTER. A letter from Deloitte & Touche LLP, in form and substance reasonably satisfactory to the Representatives and dated such Date of Delivery, substantially in the same form and substance as the letter furnished to the Representatives pursuant to Section 5(f) hereof, except that the "specified date" in the letter furnished pursuant to this paragraph shall be a date not more than five days prior to such Date of Delivery.

(k) ADDITIONAL DOCUMENTS. At Closing Time and at each Date of Delivery, counsel for the Underwriters shall have been furnished with such documents and opinions as they may reasonably require for the purpose of enabling them to pass upon the issuance and sale of the Securities as herein contemplated, or in order to evidence the accuracy of any of the representations or warranties, or the fulfillment of any of the conditions, herein contained; and all proceedings taken by the Company in connection with the issuance and sale of the Securities as herein contemplated shall be reasonably satisfactory in form and substance to the Representatives and counsel for the Underwriters.

(l) TERMINATION OF AGREEMENT. If any condition specified in this Section shall not have been fulfilled when and as required to be fulfilled, this Agreement, or, in the case of any condition to the purchase of Option Securities on a Date of Delivery which is after the Closing Time, the obligations of the several Underwriters to purchase the relevant Option Securities, may be terminated by the Representatives by notice to the Company at any time at or prior to Closing Time or such Date of Delivery, as the case may be, and such termination shall be without liability of any party to any other party except as provided in Section 4 and except that Sections 1, 6, 7 and 8 shall survive any such termination and remain in full force and effect.

SECTION 6. INDEMNIFICATION.

(a) INDEMNIFICATION OF THE UNDERWRITERS BY THE COMPANY AND CHS. (1) The Company and CHS jointly and severally agree to indemnify and hold harmless each Underwriter and each person, if any, who controls any Underwriter within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act as follows:

(i) against any and all loss, liability, claim, damage and expense whatsoever, as incurred, arising out of any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement (or any amendment thereto), including the Rule 430A Information, or the omission or alleged omission therefrom of a material fact required to be stated therein or necessary to make the statements therein not misleading or arising out of any untrue statement or alleged untrue statement of a material fact included in any preliminary prospectus or the Prospectus (or any amendment or supplement thereto), or the omission or alleged omission therefrom of a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(ii) against any and all loss, liability, claim, damage and expense whatsoever, as incurred, to the extent of the aggregate amount paid in settlement of any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or of any claim whatsoever based upon any such untrue statement or

omission; provided that (subject to Section 6(c) below) any such settlement is effected with the written consent of the Company; and

(iii) against any and all expense whatsoever, as incurred (including the fees and disbursements of counsel chosen by Goldman Sachs), reasonably incurred in investigating, preparing or defending against any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever based upon any such untrue statement or omission, or any such alleged untrue statement or omission, to the extent that any such expense is not paid under (i) or (ii) above;

PROVIDED, HOWEVER, that this indemnity agreement shall not apply to any loss, liability, claim, damage or expense to the extent (A) arising out of any untrue statement or omission or alleged untrue statement or omission made in reliance upon and in conformity with written information furnished to the Company by any Underwriter through Goldman Sachs expressly for use in the Registration Statement (or any amendment thereto), including the Rule 430A Information, or any preliminary prospectus or the Prospectus (or any amendment or supplement thereto) or (B) resulting from the fact that a court of competent jurisdiction shall have made a final, non-appealable determination that (1) the untrue statement or omission was corrected in the Prospectus,

(2) that at a time sufficiently prior to the Closing Time, the Company furnished copies of the Prospectus in sufficient quantities to such Underwriter, (3) that such Underwriter failed to send or give a copy of the Prospectus to the person asserting such loss, liability, claim, damage or expense prior to the written confirmation or the sale of Securities to such person by such Underwriter as required by the 1933 Act or the 1933 Act Regulations, and (4) that the sending of the Prospectus to the person asserting such loss, liability, claim, damage or expense would have constituted a defense to the claim asserted by such person or persons.

(2) Insofar as this indemnity agreement may permit indemnification for liabilities under the 1933 Act of any person who is a partner of a Underwriter or who controls an underwriter within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act and who, at the date of this Agreement, is a director or officer of the Company or controls the Company within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act, such indemnity agreement is subject to the undertaking of the Company in the Registration Statement under Item 14.

(b) INDEMNIFICATION OF COMPANY, DIRECTORS AND OFFICERS. Each Underwriter severally agrees to indemnify and hold harmless the Company, CHS and their respective directors, each of the officers of the Company who signed the Registration Statement, and each person, if any, who controls the Company within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act, against any and all loss, liability, claim, damage and expense described in the indemnity contained in subsection (a)(1) of this Section, as incurred, but only with respect to untrue statements or omissions, or alleged untrue statements or omissions, made in the Registration Statement (or any amendment thereto), including the Rule 430A Information, or any preliminary prospectus or the Prospectus (or any amendment or supplement thereto) in reliance upon and in conformity with written information furnished to the Company by such Underwriter through Goldman Sachs expressly for use in the Registration Statement (or any amendment thereto) or such preliminary prospectus or the Prospectus (or any amendment or supplement thereto).

(c) ACTIONS AGAINST PARTIES; NOTIFICATION. Each indemnified party shall give notice as promptly as reasonably practicable to each indemnifying party of any action commenced against it in respect of which indemnity may be sought hereunder, but failure to so notify an indemnifying party shall not relieve such indemnifying party from any liability hereunder to the extent it is not materially prejudiced as a result thereof and in any event shall not relieve it from any liability which it may have otherwise than on account of this indemnity agreement. In the case of parties indemnified pursuant to Section 6(a)(1) above, counsel to the indemnified parties shall be selected by Goldman Sachs, and, in the case of parties indemnified pursuant to Section 6(b) above, counsel to the indemnified parties shall be selected by the Company. An indemnifying party may participate at its own expense in the defense of any such action; provided, however, that counsel to the indemnifying party shall not (except with the consent of the indemnified party) also be counsel to the indemnified party. In no event shall the indemnifying parties be liable for fees and expenses of more than one counsel (in addition to any local counsel) separate from their own counsel for all indemnified parties in connection with any one action or separate but similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances. No indemnifying party shall, without the prior written consent of the indemnified parties, settle or compromise or consent to the entry of any judgment with respect to any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever in respect of which indemnification or contribution could be sought under this Section 6 or Section 7 hereof (whether or not the indemnified parties are actual or potential parties

thereto), unless such settlement, compromise or consent (i) includes an unconditional release of each indemnified party from all liability arising out of such litigation, investigation, proceeding or claim and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act by or on behalf of any indemnified party.

(d) SETTLEMENT WITHOUT CONSENT IF FAILURE TO REIMBURSE. If at any time an indemnified party shall have requested an indemnifying party to reimburse the indemnified party for fees and expenses of counsel, such indemnifying party agrees that it shall be liable for any settlement of the nature contemplated by Section 6(a)(1)(ii) effected without its written consent if (i) such settlement is entered into more than 45 days after receipt by such indemnifying party of the aforesaid request, (ii) such indemnifying party shall have received notice of the terms of such settlement at least 30 days prior to such settlement being entered into and (iii) such indemnifying party shall not have reimbursed such indemnified party in accordance with such request prior to the date of such settlement.

SECTION 7. CONTRIBUTION.

If the indemnification provided for in Section 6 hereof is for any reason unavailable to or insufficient to hold harmless an indemnified party in respect of any

losses, liabilities, claims, damages or expenses referred to therein, then each indemnifying party shall contribute to the aggregate amount of such losses, liabilities, claims, damages and expenses incurred by such indemnified party, as incurred, (i) in such proportion as is appropriate to reflect the relative benefits received by the Company and CHS on the one hand and the Underwriters on the other hand from the offering of the Securities pursuant to this Agreement or (ii) if the allocation provided by clause (i) is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company and CHS on the one hand and of the Underwriters on the other hand in connection with the statements or omissions, which resulted in such losses, liabilities, claims, damages or expenses, as well as any other relevant equitable considerations.

The relative benefits received by the Company and CHS on the one hand and the Underwriters on the other hand in connection with the offering of the Securities pursuant to this Agreement shall be deemed to be in the same respective proportions as the total net proceeds from the offering of the Securities pursuant to this Agreement (before deducting expenses) received by the Company and the total underwriting discount received by the Underwriters, in each case as set forth on the cover of the Prospectus bear to the aggregate initial public offering price of the Securities as set forth on such cover.

The relative fault of the Company and CHS on the one hand and the Underwriters on the other hand shall be determined by reference to, among other things, whether any such untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact relates to information supplied by the Company or by the Underwriters and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

The Company, CHS and the Underwriters agree that it would not be just and equitable if contribution pursuant to this Section 7 were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to above in this Section 7. The aggregate amount of losses, liabilities, claims, damages and expenses incurred by an indemnified party and referred to above in this Section 7 shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in investigating, preparing or defending against any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever based upon any such untrue or alleged untrue statement or omission or alleged omission.

Notwithstanding the provisions of this Section 7, no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Securities underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages which such Underwriter has otherwise been required

to pay by reason of any such untrue or alleged untrue statement or omission or alleged omission.

No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the 1933 Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

For purposes of this Section 7, each person, if any, who controls an Underwriter within the meaning of Section 15 of the 1933 Act or Section 20 of

the 1934 Act shall have the same rights to contribution as such Underwriter, and each director of the Company or CHS, each officer of the Company who signed the Registration Statement, and each person, if any, who controls the Company within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act shall have the same rights to contribution as the Company and CHS. The Underwriters' respective obligations to contribute pursuant to this Section 7 are several in proportion to the number of Initial Securities set forth opposite their respective names in Schedule A hereto and not joint.

SECTION 8. REPRESENTATIONS, WARRANTIES AND AGREEMENTS TO SURVIVE DELIVERY.

All representations, warranties and agreements contained in this Agreement or in certificates of officers of the Company, CHS or any of their subsidiaries submitted pursuant hereto, shall remain operative and in full force and effect, regardless of any investigation made by or on behalf of any Underwriter or controlling person, or by or on behalf of the Company, and shall survive delivery of the Securities to the Underwriters.

SECTION 9. TERMINATION OF AGREEMENT.

(a) TERMINATION; GENERAL. The Representatives may terminate this Agreement, by notice to the Company, at any time at or prior to Closing Time (i) if there has been, since the time of execution of this Agreement or since the respective dates as of which information is given in the Prospectus, any material adverse change in the condition, financial or otherwise, or in the earnings, business affairs or business prospects of the Company and its subsidiaries considered as one enterprise, whether or not arising in the ordinary course of business, or (ii) if there has occurred any material adverse change in the financial markets in the United States or the international financial markets, any outbreak of hostilities or escalation thereof or other calamity or crisis or any change or development involving a prospective change in national or international political, financial or economic conditions, in each case the effect of which is such as to make it, in the judgment of Goldman Sachs, impracticable to market the Securities or to enforce contracts for the sale of the Securities, or (iii) if trading in any securities of the Company has been suspended or materially limited by the Commission or the New York Stock Exchange, or if trading generally on the American Stock Exchange or the New York Stock Exchange or in the Nasdaq National Market has been suspended or materially

limited, or minimum or maximum prices for trading have been fixed, or maximum ranges for prices have been required, by any of said exchanges or by such system or by order of the Commission, the NASD or any other governmental authority, or (iv) if a banking moratorium has been declared by either Federal or New York authorities.

(b) LIABILITIES. If this Agreement is terminated pursuant to this Section, such termination shall be without liability of any party to any other party except as provided in Section 4 hereof, and provided further that Sections 1, 6, 7 and 8 shall survive such termination and remain in full force and effect.

SECTION 10. DEFAULT BY ONE OR MORE OF THE UNDERWRITERS.

If one or more of the Underwriters shall fail at Closing Time or a Date of Delivery to purchase the Securities which it or they are obligated to purchase under this Agreement (the "Defaulted Securities"), the Representatives shall have the right, within 24 hours thereafter, to make arrangements for one or more of the non-defaulting Underwriters, or any other underwriters, to purchase all, but not less than all, of the Defaulted Securities in such amounts as may be agreed upon and upon the terms herein set forth; if, however, the Representatives shall not have completed such arrangements within such 24-hour period, then:

(a) if the number of Defaulted Securities does not exceed 10% of the number of Securities to be purchased on such date, each of the non-defaulting Underwriters shall be obligated, severally and not jointly, to purchase the full amount thereof in the proportions that their respective underwriting obligations hereunder bear to the underwriting obligations of all non-defaulting Underwriters, or

(b) if the number of Defaulted Securities exceeds 10% of the number of Securities to be purchased on such date, this Agreement or, with respect to any Date of Delivery which occurs after Closing Time, the obligation of the Underwriters to purchase and of the Company to sell the Option Securities to be purchased and sold on such Date of Delivery, shall terminate without liability on the part of any non-defaulting Underwriter.

No action taken pursuant to this Section shall relieve any defaulting Underwriter from liability in respect of its default.

In the event of any such default which does not result in a termination of this Agreement or, in the case of a Date of Delivery which occurs after Closing Time, which does not result in a termination of the obligation of the Underwriters to purchase and the Company to sell the relevant Option Securities, as the case may be, either the Representatives or the Company shall have the right to postpone Closing Time or the relevant Date of Delivery, as the case may

be, for a period not exceeding seven days in

order to effect any required changes in the Registration Statement or Prospectus or in any other documents or arrangements. As used herein, the term "Underwriter" includes any person substituted for an Underwriter under this Section 10.

SECTION 11. NOTICES.

All notices and other communications hereunder shall be in writing and shall be deemed to have been duly given if mailed or transmitted by any standard form of telecommunication. Notices to the Underwriters shall be directed to the Representatives at 32 Old Slip, 21st Floor, New York, New York 10005, Attention: Registration Department, with a copy to Debevoise & Plimpton, 919 Third Avenue, New York, New York, Attention: Michael W. Blair and Steven J. Slutzky; and notices to the Company or CHS shall be directed to them at 155 Franklin Road, Suite 400, Brentwood, Tennessee 37027, Attention: Rachel A. Seifert, Senior Vice President, Secretary and General Counsel, with a copy to Fried, Frank, Harris, Shriver & Jacobson, One New York Plaza, New York, New York 10004, Attention: Jeffrey Bagner.

SECTION 12. PARTIES.

This Agreement shall inure to the benefit of and be binding upon the Underwriters and the Company and their respective successors. Nothing expressed or mentioned in this Agreement is intended or shall be construed to give any person, firm or corporation, other than the Underwriters and the Company and CHS and their respective successors and the controlling persons and officers and directors referred to in Sections 6 and 7 and their heirs and legal representatives, any legal or equitable right, remedy or claim under or in respect of this Agreement or any provision herein contained. This Agreement and all conditions and provisions hereof are intended to be for the sole and exclusive benefit of the Underwriters and the Company and their respective successors, and said controlling persons and officers and directors and their heirs and legal representatives, and for the benefit of no other person, firm or corporation. No purchaser of Securities from any Underwriter shall be deemed to be a successor by reason merely of such purchase.

SECTION 13. GOVERNING LAW AND TIME.

THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK WITHOUT GIVING EFFECT TO CONFLICTS OF LAW PRINCIPLES THEREOF. EXCEPT AS OTHERWISE SET FORTH HEREIN, SPECIFIED TIMES OF DAY REFER TO NEW YORK CITY TIME.

SECTION 14. EFFECT OF HEADINGS.

The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

If the foregoing is in accordance with your understanding of our agreement, please sign and return to the Company a counterpart hereof, whereupon this instrument, along with all counterparts, will become a binding agreement between the Underwriters, the Company and CHS in accordance with its terms.

Very truly yours,

COMMUNITY HEALTH SYSTEMS, INC.

By_____
Name:
Title:

CHS/COMMUNITY HEALTH SYSTEMS, INC.

By:_____
Name:
Title:

CONFIRMED AND ACCEPTED,
as of the date first above written:

GOLDMAN, SACHS & CO.
MERRILL LYNCH, PIERCE, FENNER
& SMITH INCORPORATED
CREDIT SUISSE FIRST BOSTON CORPORATION
BANC OF AMERICA SECURITIES LLC
J.P. MORGAN SECURITIES INC.
UBS WARBURG LLC
BY: GOLDMAN, SACHS & CO.

By

Authorized Signatory

For themselves and as Representatives of the
other Underwriters named in Schedule A hereto

SCHEDULE A

NAME OF UNDERWRITER	Number of Initial SECURITIES
Goldman, Sachs & Co.	
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
Credit Suisse First Boston Corporation	
Banc of America Securities LLC	
J.P. Morgan Securities Inc.	
UBS Warburg LLC	
Total	12,000,000

SCHEDULE B

NAME OF UNDERWRITER

Goldman, Sachs & Co
Merrill Lynch, Pierce, Fenner & Smith Incorporated
Credit Suisse First Boston Corporation
Banc of America Securities LLC
J.P. Morgan Securities Inc.
UBS Warburg LLC

SCHEDULE C

COMMUNITY HEALTH SYSTEMS, INC.

12,000,000 Shares of Common Stock

(Par Value $.01 Per Share)

1. The public offering price per share for the Securities, determined as provided in said Section 2, shall be _____.

2. The purchase price per share for the Securities to be paid by the several Underwriters shall be $_____, being an amount equal to the initial public offering price set forth above less $_____ per share; provided that the purchase price per share for any Option Securities purchased upon the exercise of the over-allotment option described in Section 2(b) shall be reduced by an amount per share equal to any dividends or distributions declared by the Company and payable on the Initial Securities but not payable on the Option Securities.

SCHEDULE D

LIST OF PERSONS SUBJECT TO LOCK-UP

Forstmann Little & Co. Equity Partnership-V, L.P.
Forstmann Little & Co. Subordinated Debt and Equity Management Buyout
Partnership-VI, L.P.
Sheila P. Burke
Robert J. Dole
J. Anthony Forstmann
Theodore J. Forstmann
Dale F. Frey
Sandra A. Horbach
Harvey Klein, M.D.
Thomas H. Lister
Michael A. Miles
Wayne T. Smith
W. Larry Cash
John Fromhold
David Miller
Gary Newsome

Michael T. Portacci
Martin G. Schweinhart
T. Mark Buford
Rachael A. Seifert

Exhibit A-1

FORM OF OPINION OF COMPANY'S GENERAL COUNSEL

TO BE DELIVERED PURSUANT TO

SECTION 5(b)(i)

[OPINION OF GENERAL COUNSEL OF COMMUNITY HEALTH SYSTEMS, INC.]

October , 2001

Goldman, Sachs & Co.
Merrill Lynch, Pierce, Fenner & Smith
Incorporated
Credit Suisse First Boston Corporation
Banc of America Securities LLC
J.P. Morgan Securities Inc.
UBS Warburg LLC
As Representatives of the several Underwriters
c/o Goldman, Sachs & Co.
85 Broad Street
New York, NY 10004

Ladies and Gentlemen:

I am Senior Vice President, Secretary and General Counsel of Community Health Systems, Inc., a Delaware corporation (the "Company"), and CHS/Community Health Systems, Inc., a Delaware corporation and a wholly owned subsidiary of the Company ("CHS"). I am delivering this opinion pursuant to Section 5(b)(i) of the Underwriting Agreement, dated October __, 2001 (the "Underwriting Agreement"), among the Company, CHS and Goldman, Sachs & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Credit Suisse First Boston Corporation, Banc of America Securities LLC, J.P. Morgan Securities Inc., and UBS Warburg LLC, as Representatives of the several Underwriters named in Schedule A thereto. All capitalized terms used herein that are defined in, or by reference in, the Underwriting Agreement have the meanings assigned to such terms therein, or by reference therein, unless otherwise defined herein. With your permission, all assumptions and statements of reliance expressly set forth herein have been made without any independent investigation or verification on my part except to the extent otherwise expressly stated, and, except to the extent otherwise expressly stated, I express no opinion with respect to the subject matter or accuracy of such assumptions or items relied upon.

In connection with this opinion, I have (i) investigated such questions of law, (ii) examined originals or certified, conformed or reproduction copies of such agreements, instruments, documents and records of the Company and CHS, such certificates of public officials and such other documents and (iii) received such information from officers and representatives of the Company, CHS and others, in each case as I have deemed necessary or appropriate for the purposes of this opinion.

In all such examinations, I have assumed the legal capacity of all natural persons, the genuineness of all signatures, the authenticity of original and certified documents and the conformity to original or certified copies of all copies submitted to me as conformed or reproduction copies. As to various questions of fact relevant to the opinions expressed herein, I have relied upon, and assume the accuracy of, the representations and warranties contained in the Underwriting Agreement and certificates and oral or written statements and other information of or from public officials, officers or representatives of the Company, CHS and others and assume compliance on the part of all parties to the Underwriting Agreement with the covenants and agreements contained therein.

Based upon the foregoing, and subject to the limitations, qualifications and assumptions set forth herein, I am of the opinion that:

1. The Company is duly qualified as a foreign corporation to transact business and is in good standing in each jurisdiction in which such qualification is required, whether by reason of the ownership or leasing of property or the conduct of business, except where the failure so to qualify or to be in good standing would not result in a Material Adverse Effect.

2. Each subsidiary of the Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, has corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectus and is duly qualified as a foreign corporation to transact business and is in good standing in each jurisdiction in which such qualification is required, whether by reason of the ownership or leasing of property or the conduct of business, except where the failure so to qualify or to be in good standing would not result in a Material Adverse Effect.

3. Except as otherwise disclosed in the Registration Statement, all of the issued and outstanding capital stock of each Subsidiary has been duly authorized and validly issued, is fully paid and non-assessable and, to the best of my knowledge, is owned by the Company, directly or through subsidiaries, free and clear of any security interest, mortgage, pledge, lien, encumbrance, claim or equity; none of the outstanding shares of capital stock of any Subsidiary was issued in violation of the preemptive or similar rights of any securityholder of such Subsidiary.

4. All descriptions in the Prospectus of contracts and other documents to which the Company, CHS or their subsidiaries are a party are accurate in all material respects; to the best of my knowledge, there are no franchises, contracts, indentures, mortgages, loan agreements, notes,

leases or other instruments required to be described or referred to in the Registration Statement or to be filed as exhibits thereto other than those described or referred to therein or filed as exhibits thereto, and the descriptions thereof or references thereto are correct in all material respects.

5. None of the Company or CHS is in violation of its charter or by-laws.

6. The Company, CHS and each of their subsidiaries and each of the hospitals owned, leased or operated by any of them have all necessary permits, licenses, certificates, approvals (including, without limitation, certification under the Medicare and Medicaid programs), accreditations (including, without limitation, accreditation by the Joint Commission on Accreditation of Healthcare Organizations) and other authorizations ("Governmental Licenses") (except where the failure to have such Governmental Licenses, individually or in the aggregate, would not reasonably be expected to have a material adverse effect on the business, operations or financial condition of the Company, CHS and their subsidiaries taken as a whole), to own their respective properties and to conduct their respective businesses as now being conducted.

7. No filing, consent, approval, authorization, order, registration or qualification of or with any Tennessee court or governmental agency or body is required by or on behalf of the Company for the sale of the Securities or the consummation by the Company and CHS of the transactions contemplated by the Underwriting Agreement, expect for such consents, approvals, authorizations, orders, registrations or qualifications as may be required under state or foreign securities or Blue Sky laws, rules and regulations in connection with the purchase and distribution of the Securities by the Underwriters.

8. There is not pending or, to my knowledge, threatened any action, suit, proceeding, inquiry or investigation to which the Company or any subsidiary is a party, or to which the property of the Company or any subsidiary is subject, before or brought by any court or governmental agency or body, domestic or foreign, which would reasonably result in a Material Adverse Effect, or which might reasonably be expected to materially and adversely affect the transactions contemplated in the Underwriting Agreement or the performance by the Company of its obligations thereunder; it being understood that I express no opinion with respect to any "qui tam" action as to which I have no knowledge of its pendency.

9. The statements in the Prospectus under "Business of Community Health Systems - Legal Proceedings," "Business of Community Health Systems - Government Regulations", Business of Community Health Systems - Payment" and "Business of Community Health Systems - Compliance Program," in so far as they constitute summaries of legal matters or documents referred to therein, fairly summarize in all material respects the matters referred to therein.

In the course of the preparation by the Company of the Registration Statement and the Prospectus, I attended conferences with certain of the officers and representatives of the

Company and CHS, representatives of the independent public accountants for the Company and CHS and representatives of the Underwriter, at which the contents of the Registration Statement and the Prospectus were discussed. Between the date of effectiveness of the Registration Statement and the time of delivery of this opinion, I attended additional conferences with certain of the officers and representatives of, and the independent public accountants for, the Company and CHS, at which the contents of the Prospectus were discussed to a limited extent. Given the limitations inherent in the independent verification of factual matters and the character of determinations involved in the registration process, I am not passing upon and do not assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Registration Statement and the Prospectus, other than as set forth in paragraph 4 above. Subject to the foregoing and on the basis of the information I gained in the performance of the services referred to above, including information obtained from officers and other representatives of, and the independent accountants for, the Company and CHS, nothing has come to my attention that causes me to believe that, as of the time it became effective, the Registration Statement contained an untrue statement of a material fact or omitted to state a

material fact required to be stated therein or necessary to make the statements therein not misleading, or that the Prospectus as of their dates contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. Also, subject to the foregoing, nothing has come to my attention in the course of proceedings described in the second sentence of this paragraph that causes me to believe that the Prospectus on the date and time of delivery of this letter contain an untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. I express no view or belief, however, with respect to the financial statements, related notes and schedules thereto and other financial data included in or omitted from the Registration Statement or the Prospectus.

The opinions expressed herein are limited to the federal laws of the United States of America, the laws of the State of Tennessee and, to the extent relevant to the opinions expressed herein, the General Corporation Law of the State of Delaware, each as currently in effect. The opinions expressed herein are given as of the date hereof, and I undertake no obligation to supplement this letter if any applicable laws change after the date hereof or if I become aware of any facts that might change the opinions expressed herein after the date hereof or for any other reason.

The opinions expressed herein are solely for your benefit in connection with the Underwriting Agreement and may not be relied on in any manner or for any purpose by any other person or entity and may not be quoted in whole or in part without my prior written consent.

Very truly yours,

Rachel A. Seifert
Senior Vice President, Secretary
and General Counsel

Exhibit A-2

FORM OF OPINION OF FRIED, FRANK,

HARRIS, SHRIVER & JACOBSON

TO BE DELIVERED PURSUANT TO

SECTION 5(b)(ii)

October __, 2001

Goldman, Sachs & Co.
Merrill Lynch, Pierce, Fenner & Smith
Incorporated
Credit Suisse First Boston Corporation
Banc of America Securities LLC
J.P. Morgan Securities Inc.
UBS Warburg LLC
As Representatives of the several Underwriters
c/o Goldman, Sachs & Co.
85 Broad Street
New York, NY 10004

Ladies and Gentlemen:

We are acting as special counsel to Community Health Systems, Inc., a Delaware corporation (the "Company"), and CHS/Community Health Systems, Inc., a Delaware corporation and a wholly owned subsidiary of the Company ("CHS"), in connection with the underwritten public offering of 12,000,000 shares (the "Securities") of common stock, par value $.01 per share (the "Common Stock"), of the Company. This opinion is delivered to you at the Company's request pursuant to Section 5(b)(ii) of the Underwriting Agreement, dated October __, 2001 (the "Underwriting Agreement"), among the Company, CHS and Goldman, Sachs & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Credit Suisse First Boston Corporation, Banc of America Securities LLC, J.P. Morgan Securities Inc., and UBS Warburg LLC, as Representatives of the several Underwriters named in Schedule A thereto. All capitalized terms used herein that are defined in, or by reference in, the Underwriting Agreement have the meanings assigned to such terms therein, or by reference therein, unless otherwise defined herein. With your permission, all assumptions and statements of reliance expressly set forth herein have been made without any independent investigation or verification on our part except to the extent otherwise expressly stated, and we express no opinion with respect to the subject matter or accuracy of such assumptions or items relied upon.

In connection with this opinion, we have (i) investigated such

questions of law, (ii) examined originals or certified, conformed or reproduction copies of such agreements, instruments, documents and records of the Company and CHS, such certificates of public officials and such other documents and (iii) received such information from officers and representatives of the Company, CHS and others, in each case as we have deemed necessary or appropriate for the purposes of this opinion.

In all such examinations, we have assumed the legal capacity of all natural persons, the genuineness of all signatures, the authenticity of original and certified documents and the conformity to original or certified copies of all copies submitted to us as conformed or reproduction copies. As to various questions of fact relevant to the opinions expressed herein, we have relied upon, and assume the accuracy of, the representations and warranties contained in the Underwriting Agreement and certificates and oral or written statements and other information of or from public officials, officers or representatives of the Company, CHS and others, and assume compliance on the part of all parties to the Underwriting Agreement with the covenants and agreements contained therein. Insofar as statements herein are based upon our knowledge, such phrase means and is limited to the conscious awareness of facts or other information by lawyers in this Firm who gave substantive attention to the representation of the Company and CHS in connection with the Underwriting Agreement.

With respect to the opinion expressed in the second sentence of paragraph 3 below, we have relied solely on the stock transfer records of the Company. With respect to the opinions expressed in paragraphs 10 and 11 below, our opinions are is limited to our review of only those laws and regulations that, in our experience, are normally applicable to transactions of the type contemplated in the Underwriting Agreements. With respect to the opinion expressed in paragraph 7, we have relied solely on the oral advice of the Staff of the Securities and Exchange Commission (the "Commission") that the Commission has issued an order declaring the registration under the 1933 Act of the Securities effective and as to the absence of any stop order or any proceeding relating thereto.

Based upon the foregoing, and subject to the limitations, qualifications and assumptions set forth herein, we are of the opinion that:

1. The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Delaware. CHS has been incorporated and is validly existing as a corporation in good standing under the laws of the State of Delaware.

2. Each of the Company and CHS has the corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectus and to enter into and perform its obligations under the Underwriting Agreement.

3. The Company has an authorized capitalization as set forth in the Prospectus under the caption "Capitalization". The outstanding shares of Common Stock have been duly authorized and validly issued and are fully paid and non-assessable.

4. The Securities to be purchased by the Underwriters from the Company pursuant to the Underwriting Agreement have been duly authorized by the Company and, when delivered to and paid for by the Underwriters in accordance with the Underwriting Agreement, will be validly issued, fully paid and non-assessable and no holder of the Securities will be subject to personal liability under the Delaware General Corporation Law by reason of being such a holder.

5. The outstanding shares of Common Stock were not issued in violation of, and the issuance and sale of the Securities by the Company is not subject to preemptive or other similar rights arising under (i) the Delaware General Corporation Law, (ii) the Restated Certificate of Incorporation or the Amended and Restated By-laws of the Company, or (iii) any indenture, mortgage, deed of trust, loan agreement, other agreement or instrument, or court decree or order (including, without limitation, any settlement agreement) which has been filed as an exhibit to the Registration Statement or otherwise identified to us in a certificate provided by the Chief Financial Officer and the General Counsel of the Company as material to the Company and its subsidiaries taken as a whole (collectively, the "Identified Documents").

6. The Underwriting Agreement has been duly authorized, executed and delivered by the Company and CHS.

7. The Registration Statement, [including any Rule 462(b) Registration Statement,] has been declared effective under the 1933 Act. No stop order suspending the effectiveness of the Registration Statement has been issued under the 1933 Act and no proceedings for that purpose have been instituted or are pending or, to our knowledge, threatened by the Commission. Any required filing of the Prospectus pursuant to Rule 424(b) has been made in the manner and within the time period required by Rule 424(b).

8. The Registration Statement, [including any Rule 462(b) Registration Statement,] the Prospectus, [and each amendment or

supplement to the Registration Statement and the Prospectus,] as of their respective effective or issue dates (other than the financial statements, related notes, supporting schedules and other financial data included therein or omitted therefrom, as to which we express no opinion) appeared on their face to be responsive as to form in all material respects with the requirements of the 1933 Act and the 1933 Act Regulations.

9. The statements in the Prospectus under "Description of Capital Stock," "Description of Indebtedness," "Shares Eligible for Future Sale" and "Certain United States Federal Tax Consequences-- Non-U.S. Holders" and the statements in the Registration Statement under Item 14, in so far as they constitute summaries of legal matters or documents referred to therein, fairly summarize in all material respects the matters referred to therein.

10. No filing, consent, approval, authorization, order, registration or qualification of or with any United States, New York or, with respect to matters arising under the Delaware General Corporation Law, Delaware court or governmental agency or body is required by or on behalf of the Company for the sale of the Securities or the consummation by the Company and CHS of the transactions contemplated by the Underwriting Agreement, except the registration under the 1933 Act of the Securities and such consents, approvals, authorizations, orders, registrations or qualifications as may be required under state or foreign securities or Blue Sky laws, rules and regulations in connection with the purchase and distribution of the Securities by the Underwriters.

11. The execution, delivery and performance by the Company and CHS of the Underwriting Agreement and the consummation of the transactions contemplated by the Underwriting Agreement do not and will not conflict with, or result in a breach or violation of, any of the terms or provisions of, or constitute a default or a Repayment Event under, or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company, CHS or any of their subsidiaries pursuant to, (i) any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries is bound or to which any of the property or assets of the Company or any of its subsidiaries is subject, (ii) the provisions of the Restated Certificate of Incorporation or the Amended and Restated By-laws of the Company, (iii) the Delaware General Corporation Law or any present law, or present regulation of any government agency or authority, of the State of New York or the United States of America known by us to be applicable to the Company or any of its subsidiaries or their respective properties (except that we express no opinion in this paragraph 11 with regard to the anti-fraud provisions of any federal or state Securities laws or rules or regulations promulgated thereunder) or (iv) any court decree or order binding upon the Company or any of its subsidiaries or their respective properties (it being understood that with respect to the opinions in clauses (i) and (iv) of this paragraph, such opinions are limited to the Identified Documents).

12. Other than as disclosed in the Prospectus, to our knowledge, there are no persons with registration rights or other similar rights to have any securities of the Company registered pursuant to the Registration Statement or otherwise registered by the Company under the 1933 Act.

13. The Company is not an "investment company," as such term is defined in the Investment Company Act of 1940, as amended.

In the course of our engagement to represent or to advise the Company, we have not become aware of any pending legal proceeding before, or pending investigation by, any court or administrative agency or authority or any arbitration tribunal of the United States or the State of New York against or directly affecting the Company, CHS or any of their respective subsidiaries or properties which seeks to enjoin or otherwise prevent the consummation of, or to recover any damages or obtain relief in connection with or which would materially adversely affect the legality, validity or enforceability of, the Underwriting Agreement or the transactions contemplated thereby. In making the foregoing statement, we have endeavored, to the extent we have believed necessary, to determine from lawyers currently in our Firm who have performed substantive legal services for the Company, whether such services involved substantive attention in the form of legal representation concerning pending legal proceedings or pending investigations of the nature referred to above. Beyond that, we have not made any review, search or investigation of public files or records or files or records of the Company, CHS or any of their respective subsidiaries or of their transactions, or any other investigation or inquiry with respect to the foregoing statement.

In the course of the preparation by the Company of the Registration Statement and the Prospectus, we attended conferences with certain of the officers and other representatives of the Company and CHS, representatives of the independent public accountants for the Company and CHS and representatives of the Underwriters, at which the contents of the Registration Statement and the Prospectus were discussed. Between the date of effectiveness of the Registration Statement and the time of delivery of this

opinion, we attended additional conferences with certain of the officers and representatives of, and the independent public accountants for, the Company and CHS, at which the contents of the Prospectus were discussed to a limited extent. Given the limitations inherent in the independent verification of factual matters and the character of determinations involved in the registration process, we are not passing upon and do not assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Registration Statement and the Prospectus, other than as set forth in paragraph 9 above. Subject to the foregoing and on the basis of the information we gained in the performance of the services referred to above, including information obtained from officers and other representatives of, and the independent accountants for, the Company and CHS, nothing has come to our attention that causes us to believe that, as of the time it became effective, the Registration Statement contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or that the Prospectus as of its dates contained any untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. Also, subject to the foregoing, nothing has come to our attention in the course of proceedings described in the second sentence of this paragraph that causes us to believe that the Prospectus on the date and at the time of delivery of this letter contains an untrue statement of a material fact or

omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. We express no view or belief, however, with respect to the financial statements, related notes and schedules thereto and other financial data included in or omitted from the Registration Statement or the Prospectus.

The opinions set forth above are subject to the following qualifications:

A. With respect to the opinion expressed in paragraph 11 above: (i) we have made no independent investigation as to whether the Identified Documents, which are governed by the laws of any jurisdiction other than the State of New York, will be enforced as written under the laws of such jurisdiction; and (ii) we express no opinion with respect to any conflict with or any breach or violation of, or default under, any Identified Document (x) not readily ascertainable from the face of such document, (y) arising under or based upon any cross-default provisions insofar as such conflict, breach, violation or default relates to a default under a document which is not an Identified Document, or (z) arising under or based upon any covenant of a financial or numerical nature or which requires arithmetic computation.

B. We express no opinion as to the indemnity, contribution, exculpation or governing law provisions of any agreement.

C. The opinions expressed above are subject to the effect of, and we express no opinions herein as to, the application of state or foreign securities or Blue Sky laws or any rules and regulations thereunder.

The opinions expressed herein are limited to the federal laws of the United States of America, the laws of the State of New York and, to the extent relevant to the opinions expressed herein, the General Corporation Law of the State of Delaware, each as currently in effect. The opinions expressed herein are given as of the date hereof, and we undertake no obligation to supplement this letter if any applicable laws change after the date hereof or if we become aware of any facts that might change the opinions expressed herein after the date hereof or for any other reason.

The opinions expressed herein are solely for your benefit in connection with the Underwriting Agreement and may not be relied on in any manner or for any purpose by any other person or entity and may not be quoted in whole or in part without our prior written consent.

Very truly yours,

FRIED, FRANK, HARRIS, SHRIVER & JACOBSON

By:

Jeffrey Bagner

[FORM OF LOCK-UP FROM DIRECTORS, OFFICERS OR OTHER STOCKHOLDERS PURSUANT TO SECTION 5(j)]

Exhibit B

COMMUNITY HEALTH SYSTEMS, INC.

LOCK-UP AGREEMENT

SEPTEMBER , 2001

Goldman, Sachs & Co.
and to each of the Underwriters
named in the Underwriting Agreements
c/o Goldman, Sachs & Co.
85 Broad Street
New York, NY 10004

Re: COMMUNITY HEALTH SYSTEMS, INC.- LOCK-UP AGREEMENT

Ladies and Gentlemen:

The undersigned understands that Goldman, Sachs & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Credit Suisse First Boston Corporation, Banc of America Securities, LLC, J.P. Morgan Securities, Inc., and UBS Warburg LLC as the representatives (the "Representatives"), propose to enter into an Underwriting Agreement on behalf of the several Underwriters named in Schedule I to such agreement (collectively, the "Syndicate Members"), with Community Health Systems, Inc., a Delaware corporation (the "Company"), providing for a public offering of the Common Stock of the Company (the "Shares"). The undersigned further understands that Goldman, Sachs & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Credit Suisse First Boston Corporation, Banc of America Securities, LLC, J.P. Morgan Securities, Inc., and UBS Warburg LLC (together with the Syndicate Members, the "Underwriters"), propose to enter into an Underwriting Agreement with the Company, providing for a public offering of convertible subordinated notes of the Company (the "Convertible Notes"). Each such offering will be made pursuant to a Registration Statement on Form S-1 filed on September 7, 2001 with the Securities and Exchange Commission (the "SEC"), as amended by Amendment No. 1 filed on September 21, 2001.

In consideration of the agreement by the Underwriters to offer and sell the Shares and the Convertible Notes, and of other good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, the undersigned agrees that, during the period beginning from the date of the final Prospectus covering the public offering of the Shares and the date of the final Prospectus covering the public offering of the Convertible

Notes and continuing to and including the date 90 days after the date of each such final Prospectus, the undersigned will not, directly or indirectly, offer, sell, contract to sell, pledge, grant any option to purchase, make any short sale or otherwise dispose of any shares of Common Stock of the Company, or any options or warrants to purchase any shares of Common Stock of the Company, or any securities convertible into, exchangeable for or that represent the right to receive shares of Common Stock of the Company, whether now owned or hereinafter acquired, by the undersigned or with respect to which the undersigned has or hereafter acquires the power of disposition (collectively the "Undersigned's Shares"), or file any registration statement under the Securities Act of 1933, as amended, with respect to any of the foregoing.

The foregoing restriction is expressly agreed to preclude the undersigned from engaging in any hedging or other transaction which is designed to or which reasonably could be expected to lead to or result in a sale or disposition of the Undersigned's Shares even if such Shares would be disposed of by someone other than the undersigned. Such prohibited hedging or other transactions would include without limitation any short sale or any purchase, sale or grant of any right (including without limitation any put or call option) with respect to any of the Undersigned's Shares or with respect to any security that includes, relates to, or derives any significant part of its value from such Shares.

Notwithstanding the foregoing, the undersigned may transfer the Undersigned's Shares (i) as a BONA FIDE gift or gifts, provided that the donee or donees thereof agree to be bound in writing by the restrictions set forth herein, (ii) to any trust for the direct or indirect benefit of the undersigned or the immediate family of the undersigned, provided that the trustee of the trust agrees to be bound in writing by the restrictions set forth herein, and provided further that any such transfer shall not involve a disposition for value, (iii) if such transfer occurs by operation of law, such as rules of descent and distribution, statutes governing the effects of a merger or a qualified domestic order, provided that the transferee agrees to be bound in writing by the restrictions set forth herein or (iv) with the prior written consent of Goldman, Sachs & Co. on behalf of the Underwriters. For purposes of this Lock-Up Agreement, "immediate family" shall mean any relationship by blood, marriage or adoption, not more remote than first cousin. In addition, notwithstanding the foregoing, if the undersigned is a corporation, the corporation may transfer the capital stock of the Company to any wholly-owned subsidiary of such corporation; PROVIDED, HOWEVER, that in any such case, it shall be a condition to the transfer that the transferee execute an agreement stating that the transferee is receiving and holding such capital stock subject to the provisions of this Agreement and there shall be no further transfer of such capital stock except in accordance with this Agreement, and provided

further that any such transfer shall not involve a disposition for value. The undersigned also agrees and consents to the entry of stop transfer instructions with the Company's transfer agent and registrar against the transfer of the Undersigned's Shares except in compliance with the foregoing restrictions.

The undersigned understands that the Company and the Underwriters are relying upon this Lock-Up Agreement in proceeding toward consummation of the offerings. The

undersigned further understands that this Lock-Up Agreement is irrevocable and shall be binding upon the undersigned's heirs, legal representatives, successors, and assigns.

Very truly yours,

Exact Name of Shareholder

Authorized Signature

Title

Exhibit 1.2

COMMUNITY HEALTH SYSTEMS, INC.

(a Delaware corporation)

$250,000,000 % Convertible Subordinated Notes due 2008

UNDERWRITING AGREEMENT

Dated: October ___, 2001

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COMMUNITY HEALTH SYSTEMS, INC.

(a Delaware corporation)

$250,000,000 % Convertible Subordinated Notes due 2008

UNDERWRITING AGREEMENT

October __, 2001

Goldman, Sachs & Co.
Merrill Lynch, Pierce, Fenner & Smith Incorporated
Credit Suisse First Boston Corporation
Banc of America Securities LLC
J.P. Morgan Securities Inc.
UBS Warburg LLC
c/o Goldman, Sachs & Co.
85 Broad Street
New York, NY 10004

Ladies and Gentlemen:

Community Health Systems, Inc., a Delaware corporation (the "Company") and CHS/Community Health Systems, Inc., a Delaware corporation ("CHS"), confirm their respective agreements with Goldman, Sachs & Co. ("Goldman Sachs"), and each of the other Underwriters named in Schedule A hereto (collectively, the "Underwriters", which term shall also include any underwriter substituted as hereinafter provided in Section 10 hereof), with respect to the issue and sale by the Company, and the purchase by the Underwriters, acting severally and not jointly, of an aggregate of $250,000,000 principal amount of the convertible subordinated notes of the Company due 2008 (the "Convertible Notes"), convertible into shares of common stock, par value $.01 per share, of the Company ("Common Stock"), set forth in said Schedules A hereto, and with respect to the grant by the Company to the Underwriters, acting severally and not jointly, of the option described in Section 2(b) hereof to purchase all or any part of up to an aggregate of $37,500,000 principal amount of the Convertible Notes for the sole purpose of covering sales of Convertible Notes in excess of the aggregate principal amount of the Initial Securities (as hereinafter defined). The aforesaid aggregate of $250,000,000 principal amount of the Convertible Notes (the "Initial Securities") to be purchased by the Underwriters and all or any part of the aggregate of $37,500,000 principal amount of the Convertible Notes subject to the option described in Section 2(b) hereof (the "Option Securities") are hereinafter called, collectively, the "Securities".

The Underwriters will concurrently enter into an Agreement Among Underwriters dated the date hereof providing for the coordination of certain transactions among the Underwriters under the direction of Goldman Sachs.

The Company and CHS understand that the Underwriters propose to make a public offering of the Securities as soon as the Underwriters deem advisable after this Agreement has been executed and delivered. It is also understood and agreed by all parties that the Company and CHS are concurrently entering into an agreement (the "Common Stock Agreement") with the underwriters named in Schedule A thereto, providing for the sale by the Company of up to a total of 13,800,000 shares of Common Stock (the "Shares"), including the over-allotment option thereunder. The offering of the Securities and the offering of the Shares, however, are independent offerings and are not conditioned on each other. Two forms of prospectuses are to be used in connection with the offering and sale of the Securities and the Shares contemplated by the foregoing, one relating to the Securities hereunder and the other relating to the Shares. No requirement exists that the Underwriters sell the Shares in order to sell the Securities.

The Company has filed with the Securities and Exchange Commission (the "Commission") a registration statement on Form S-1 (No. 333-69064), as amended by Amendment No. 1 filed on September 21, 2001, covering the registration of the Securities and the Common Stock issuable upon conversion thereof (the "Conversion Shares") under the Securities Act of 1933, as amended (the "1933 Act"), including the related preliminary prospectus or prospectuses related to the Securities. Promptly after execution and delivery of this Agreement, the Company will prepare and file a prospectus related to the Securities in accordance with the provisions of Rule 430A ("Rule 430A") of the rules and regulations of the Commission under the 1933 Act (the "1933 Act Regulations") and paragraph (b) of Rule 424 ("Rule 424(b)") of the 1933 Act Regulations. The information included in any such prospectus that was omitted from such registration statement at the time it became effective but that is deemed to be part of such registration statement at the time it became effective pursuant to paragraph (b) of Rule 430A is referred to as "Rule 430A Information." Each form of prospectus related to the Securities used before such registration statement became effective, and any prospectus that omitted the Rule 430A Information that was used after such effectiveness and prior to the execution and delivery of this Agreement, is herein called a "preliminary prospectus." Such registration statement, including the exhibits thereto and schedules thereto at the time it became effective and including the Rule 430A Information, is herein called the "Registration Statement." Any registration statement filed pursuant to Rule 462(b) of the 1933 Act Regulations is herein referred to as the "Rule 462(b) Registration Statement," and after such filing the term "Registration Statement" shall include the Rule 462(b) Registration Statement. The final Form of Prospectus related to the Securities in the forms first furnished to the Underwriters for use in connection with the offering of the Securities are herein called the "Prospectus". For purposes of this Agreement, all references to the Registration Statement, any preliminary prospectus, the Prospectus or

any amendment or supplement to any of the foregoing shall be deemed to include the copy filed with the Commission pursuant to its Electronic Data Gathering, Analysis and Retrieval system ("EDGAR").

SECTION 1. REPRESENTATIONS AND WARRANTIES.

(a) REPRESENTATIONS AND WARRANTIES BY THE COMPANY. The Company and CHS represent and warrant to each Underwriter as of the date hereof, as of the Closing Time referred to in Section 2(c) hereof, and if any Option Securities are purchased, as of each Date of Delivery referred to in Section 2(b) hereof, and agrees with each Underwriter, as follows:

(i) COMPLIANCE WITH REGISTRATION REQUIREMENTS. Each of the Registration Statement and any Rule 462(b) Registration Statement has become effective under the 1933 Act and no stop order suspending the effectiveness of the Registration Statement or any Rule 462(b) Registration Statement has been issued under the 1933 Act and no proceedings for that purpose have been instituted or are pending or, to the knowledge of the Company, are contemplated by the Commission, and any request on the part of the Commission for additional information has been complied with in all material respects.

At the respective times the Registration Statement, any Rule 462(b) Registration Statement and any post-effective amendments thereto became effective and at the Closing Time (and, if any Option Securities are purchased, at the Date of Delivery), the Registration Statement, the Rule 462(b) Registration Statement and any amendments and supplements thereto complied and will comply in all material respects with the requirements of the 1933 Act and the 1933 Act Regulations and the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act"), including the rules and regulations of the Commission under the Trust Indenture Act (the "Trust Indenture Act Regulations"), and did not and will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading. Neither the Prospectus nor any amendments or supplements thereto (including any prospectus wrapper), at the time the Prospectus or any amendments or supplements thereto were issued and at the Closing Time (and, if any Option Securities are purchased, at each Date of Delivery), included or will

include an untrue statement of a material fact or omitted or will omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The representations and warranties in this subsection shall not apply to statements in or omissions from the Registration Statement or the Prospectus made in reliance upon and in conformity with information furnished to

the Company in writing by any Underwriter expressly for use in the Registration Statement or the Prospectus.

Each preliminary prospectus and the Prospectus filed as part of the Registration Statement as originally filed or as part of any amendment thereto, or filed pursuant to Rule 424 under the 1933 Act, complied when so filed in all material respects with the 1933 Act Regulations, the Trust Indenture Act and the Trust Indenture Act Regulations and each preliminary prospectus and the Prospectus delivered to the Underwriters for use in connection with this offering was identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T.

(ii) INDEPENDENT ACCOUNTANTS. The accountants who certified the financial statements and supporting schedules included in the Registration Statement are independent public accountants as required by the 1933 Act and the 1933 Act Regulations.

(iii) FINANCIAL STATEMENTS. The consolidated financial statements included in the Registration Statement and the Prospectus, together with the related schedules and notes, present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries at the dates indicated and the statement of operations, stockholders' equity and cash flows of the Company and its consolidated subsidiaries for the periods specified; said financial statements have been prepared in conformity with generally accepted accounting principles ("GAAP") applied, except as set forth in the notes to the financial statements, on a consistent basis throughout the periods involved. The supporting schedules included in the Registration Statement present fairly, in all material respects, in accordance with GAAP the information required to be stated therein. The selected consolidated financial and other data and the summary consolidated financial and other data included in the Prospectus present fairly, in all material respects, the information shown therein and have been compiled on a basis consistent with that of the audited consolidated financial statements included in the Registration Statement. The pro forma financial information included in the Registration Statement and the Prospectus present fairly, in all material respects, the information shown therein, and have been properly compiled on the bases described therein, and the assumptions used in the preparation thereof are reasonable and the adjustments used therein are appropriate to give effect to the transactions and circumstances referred to therein.

(iv) NO MATERIAL ADVERSE CHANGE IN BUSINESS. Since the respective dates as of which information is given in the Registration Statement and the Prospectus, except as otherwise stated therein, (A) there has been no material

adverse change in the condition, financial or otherwise, or in the earnings, business affairs or business prospects of the Company and its subsidiaries considered as one enterprise, whether or not arising in the ordinary course of business (a "Material Adverse Effect"), (B) there have been no transactions entered into by the Company or any of its subsidiaries, other than those in the ordinary course of business, which are material with respect to the Company and its subsidiaries considered as one enterprise, and (C) there has been no dividend or distribution of any kind declared, paid or made by the Company on any class of its capital stock.

(v) GOOD STANDING OF THE COMPANY. The Company has been duly organized and is validly existing as a corporation in good standing under the laws of the State of Delaware and has corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectus and to enter into and perform its obligations under this Agreement, the Securities and the Indenture (as hereinafter defined) and the Company is duly qualified as a foreign corporation to transact business and is in good standing in each other jurisdiction in which such qualification is required, whether by reason of the ownership or leasing of property or the conduct of business, except where the failure so to qualify or to be in good standing could not result in a Material Adverse Effect.

(vi) GOOD STANDING OF SUBSIDIARIES. (A) Each "significant subsidiary" of the Company (as such term is defined in Rule 1-02 of

Regulation S-X) and CHS, Community Health Investment Corporation, CHS Professional Service Corporation and Hallmark Healthcare Corporation and each other subsidiary which is a hospital holding company or an operating hospital (each a "Subsidiary" and, collectively, the "Subsidiaries") has been duly organized and is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, has corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectus and is duly qualified as a foreign corporation to transact business and is in good standing in each jurisdiction in which such qualification is required, whether by reason of the ownership or leasing of property or the conduct of business, except where the failure so to qualify or to be in good standing would not reasonably be expected to result in a Material Adverse Effect. Except as otherwise disclosed in Exhibit 21 to the Registration Statement, all of the issued and outstanding capital stock of each such Subsidiary has been duly authorized and validly issued, is fully paid and non-assessable and is owned by the Company, directly or through subsidiaries, free and clear of any security interest, mortgage, pledge, lien, encumbrance, claim or equity and none of the outstanding shares of capital stock of any Subsidiary was issued in violation of the preemptive or similar rights of any securityholder of such Subsidiary. The only subsidiaries of the Company are

(a) the subsidiaries listed on Exhibit 21 to the Registration Statement and (b) certain other subsidiaries which, considered in the aggregate as a single Subsidiary, do not constitute a "significant subsidiary" as defined in Rule 1-02 of Regulation S-X.

(B) Except to the extent disclosed in Exhibit 21 to the Registration Statement, each of the hospitals described in the Prospectus as owned or leased by the Company is owned or leased and operated by a Subsidiary of which the Company directly or indirectly owns 100% of the outstanding ownership interests. Except as disclosed in the Prospectus, there are no encumbrances or restrictions on the ability of any Subsidiary (i) to pay any dividends or make any distributions on such Subsidiary's capital stock, (ii) to make any loans or advances to, or investments in, the Company, CHS or any other Subsidiary, or (iii) to transfer any of its property or assets to the Company, CHS or any other Subsidiary.

(vii) CAPITALIZATION. The authorized, issued and outstanding capital stock of the Company is as set forth in the Prospectus in the column entitled "Actual" under the caption "Capitalization" (except for subsequent issuances, if any, pursuant to this Agreement, pursuant to reservations, agreements or employee benefit plans referred to in the Prospectus or pursuant to the exercise of convertible securities or options referred to in the Prospectus). The shares of issued and outstanding capital stock of the Company have been duly authorized and validly issued and are fully paid and non-assessable; none of the outstanding shares of capital stock of the Company was issued in violation of the preemptive or other similar rights of any securityholder of the Company. The shares of issued and outstanding capital stock of the Company have been issued in compliance, in all material respects, with all federal and state securities laws. Except as disclosed in the Prospectus, there are no outstanding options or warrants to purchase, or any preemptive rights or other rights to subscribe for or to purchase, any securities or obligations convertible into, or any contracts or commitments to issue or sell, shares of the Company's capital stock or any such options, warrants, rights, convertible securities or obligations. The description of the Company's stock option and purchase plans and the options or other rights granted and exercised thereunder set forth in the Prospectus accurately and fairly describe, in all material respects, the information required to be shown with respect to such plans, arrangements, options and rights.

(viii) AUTHORIZATION OF AGREEMENT. This Agreement has been duly authorized, executed and delivered by the Company.

(ix) AUTHORIZATION AND DESCRIPTION OF SECURITIES. The Securities to be purchased by the Underwriters from the Company have been duly authorized for

issuance and sale to the Underwriters pursuant to this Agreement, and, when issued and delivered by the Company pursuant to this Agreement and the Indenture against payment of the consideration set forth herein, will be validly executed, authenticated, issued and delivered and will constitute valid and legally binding obligations of the Company, entitled to the benefits provided by the Indenture, to be dated as of October , 2001 (the "Indenture"), between the Company and First Union National Bank as trustee (the "Trustee), under which the Securities are to be issued which will be substantially in the form filed as an exhibit to the Registration Statement; the Conversion Shares have been

duly authorized and reserved for issuance and, when issued and delivered in accordance with the provisions of the Securities and the Indenture, will be validly issued, fully paid and non-assessable and will conform, in all material respects, to all statements relating to Common Stock contained in the Prospectus and such description conforms to the rights set forth in the Company's Restated Certificate of Incorporation; the Indenture has been duly authorized and duly qualified under the Trust Indenture Act and when executed by the Company and the Trustee will constitute a valid and legally binding instrument, enforceable in accordance with its terms, subject, as to enforcement, to bankruptcy, insolvency, reorganization and other laws of general applicability relating to or affecting creditors' rights and to general equity principles; and the Securities and the Indenture conform, in all material respects, to all statements relating thereto contained in the Prospectus. No holder of the Securities or the Conversion Shares will be subject to personal liability by reason of being such a holder; and the issuance of neither the Securities nor the Conversion Shares is subject to the preemptive or other similar rights of any securityholder of the Company.

(x) ABSENCE OF DEFAULTS AND CONFLICTS. Neither the Company nor any of its subsidiaries is in violation of its charter or by-laws or in default in the performance or observance of any obligation, agreement, covenant or condition contained in any contract, indenture, mortgage, deed of trust, loan or credit agreement, note, lease or other agreement or instrument to which the Company or any of its subsidiaries is a party or by which it or any of them may be bound, or to which any of the property or assets of the Company or any subsidiary is subject (collectively, "Agreements and Instruments"), except for such defaults under Agreements and Instruments that would not reasonably be expected to result in a Material Adverse Effect; the execution, delivery and performance of this Agreement, the Securities and the Indenture and the consummation of the transactions contemplated in this Agreement, the Securities, the Indenture and in the Registration Statement (including the issuance and sale of the Securities and the Conversion Shares (when issued and delivered in accordance with the terms of the Securities and the Indenture) and the use of the proceeds from the sale of the Securities as described in the Prospectus under the caption "Use of Proceeds") and compliance by the Company and CHS with their obligations under this

Agreement, the Securities and the Indenture have been duly authorized by all necessary corporate action and, after giving effect to the use of proceeds as contemplated in the Prospectus under the caption "Use of Proceeds," do not and will not, whether with or without the giving of notice or passage of time or both, conflict with or constitute a breach of, or default or Repayment Event (as defined below) under, or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company, CHS or any of their subsidiaries pursuant to, the Agreements and Instruments (except for such conflicts, breaches or defaults or liens, charges or encumbrances that would not reasonably be expected to result in a Material Adverse Effect), nor will such action result in any violation of the provisions of the charter or by-laws of the Company, CHS or any of their subsidiaries or, any applicable law, statute, rule, regulation, judgment, order, writ or decree of any government, government instrumentality or court, domestic or foreign, having jurisdiction over the Company, CHS or any of their subsidiaries or any of their assets, properties or operations. As used herein, a "Repayment Event" means any event or condition which gives the holder of any note, debenture or other evidence of indebtedness (or any person acting on such holder's behalf) the right to require the repurchase, redemption or repayment of all or a portion of such indebtedness by the Company, CHS or any of their subsidiaries.

(xi) ABSENCE OF LABOR DISPUTE. No material labor dispute with the employees of the Company, CHS or any of their subsidiaries exists or, to the knowledge of the Company or CHS, is imminent, and neither the Company nor CHS is aware of any existing or imminent labor disturbance by the employees of any of their or any of their subsidiaries' principal suppliers or contractors, which would reasonably be expected to result in a Material Adverse Effect.

(xii) ABSENCE OF PROCEEDINGS. There is no action, suit, proceeding, inquiry or investigation before or brought by any court or governmental agency or body, domestic or foreign, now pending (other than any sealed "qui tam" actions of which neither the Company nor CHS has any knowledge), or, to the knowledge of the Company or CHS, threatened, against or affecting the Company, CHS or any of their subsidiaries, which is required to be disclosed in the Registration Statement (other than as disclosed therein), or which would reasonably be expected to result in a Material Adverse Effect, or which could materially and adversely affect the properties or assets thereof or the consummation of the transactions contemplated in this Agreement, or the performance by the Company or CHS of their obligations hereunder; the aggregate of all pending legal or governmental proceedings to which the Company, CHS or any of their subsidiaries is a party or of which any of their respective property or assets is the subject which are not

described in the Registration Statement, including ordinary

routine litigation incidental to the business, would not reasonably be expected to result in a Material Adverse Effect.

(xiii) ACCURACY OF EXHIBITS. There are no contracts or documents which are required to be described in the Registration Statement or the Prospectus or to be filed as exhibits to the Registration Statement which have not been so described and/or filed as required.

(xiv) POSSESSION OF INTELLECTUAL PROPERTY. The Company, CHS and their subsidiaries own or possess, or can acquire on reasonable terms, adequate patents, patent rights, licenses, inventions, copyrights, know-how (including trade secrets and other unpatented and/or unpatentable proprietary or confidential information, systems or procedures), trademarks, service marks, trade names or other intellectual property (collectively, "Intellectual Property") necessary to carry on in all material respects the business now operated by them, and none of the Company, CHS or any of their subsidiaries has received any notice or is otherwise aware of any infringement of or conflict with asserted rights of others with respect to any Intellectual Property or of any facts or circumstances which could render any Intellectual Property invalid or inadequate to protect the interest of the Company, CHS or any of their subsidiaries therein, except for such infringements or conflicts (if the subject of any unfavorable decision, ruling or finding) or invalidities or inadequacies which would not, singly or in the aggregate, reasonably be expected to result in a Material Adverse Effect.

(xv) ABSENCE OF FURTHER REQUIREMENTS. No filing with, or authorization, approval, consent, license, order, registration, qualification or decree of, any court or governmental authority or agency is necessary or required for the performance by the Company or CHS of their obligations hereunder, in connection with the offering, issuance or sale of the Securities or the Conversion Shares (when issued and delivered in accordance with the terms of the Securities and the Indenture) under this Agreement, the consummation of the transactions contemplated by this Agreement, the Securities or the Indenture, except such as have been already obtained or as may be required under the 1933 Act, the 1933 Act Regulations, the Trust Indenture Act or the Trust Indenture Act Regulations and foreign or state securities or blue sky laws.

(xvi) POSSESSION OF LICENSES AND PERMITS. The Company, CHS and their subsidiaries possess such permits, licenses, provider numbers, certificates, approvals (including, without limitation, certificate of need approvals), consents, orders, certifications (including, without limitation, certification under the Medicare and Medicaid programs), accreditations (including, without limitation, accreditation by the Joint Commission on Accreditation of Healthcare Organizations) and other authorizations (collectively, "Governmental Licenses")

issued by, and have made all declarations and filings with, the appropriate federal, state, local or foreign regulatory agencies or bodies necessary to conduct the business now operated by them (including, without limitation, Governmental Licenses as are required (i) under such federal and state healthcare laws as are applicable to the Company, CHS and their subsidiaries and (ii) with respect to those facilities operated by the Company, CHS or any of their subsidiaries that participate in the Medicare and/or Medicaid programs, to receive reimbursement thereunder), except where the failure to poses such Government Licenses or to make such declarations and filings would not reasonably be expected to result in a Material Adverse Effect; the Company, CHS and their subsidiaries are in compliance with the terms and conditions of all such Governmental Licenses, except where the failure so to comply would not, singly or in the aggregate, reasonably be expected to result in a Material Adverse Effect; all of the Governmental Licenses are valid and in full force and effect, except when the invalidity of such Governmental Licenses or the failure of such Governmental Licenses to be in full force and effect would not reasonably be expected to result in a Material Adverse Effect; and none of the Company, CHS or any of their subsidiaries has received any notice of proceedings relating to the revocation or modification of any such Governmental Licenses which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would reasonably be expected to result in a Material Adverse Effect. All of the hospitals operated by the Company, CHS and their subsidiaries are "providers of services" as defined in the Social Security Act and the regulations promulgated thereunder and are eligible to participate in the Medicare and Medicaid programs (it being understood that this representation and warranty is to the best of the Company's and CHS's knowledge with respect to the three hospitals acquired by the Company

since May 1, 2001).

(xvii) ACCOUNTS RECEIVABLE. The accounts receivable of the Company, CHS and their subsidiaries have been and will continue to be adjusted to reflect material changes in the reimbursement policies of third party payors such as Medicare, Medicaid, private insurance companies, health maintenance organizations, preferred provider organizations, managed care systems and other third party payors (including, without limitation, Blue Cross plans). The accounts receivable, after giving effect to the allowance for doubtful accounts, relating to such third party payors do not and shall not materially exceed amounts the Company, CHS and their subsidiaries are entitled to receive.

(xviii) COMPLIANCE WITH SOCIAL SECURITY ACT AND OTHER FEDERAL ENFORCEMENT INITIATIVES. Neither the Company and CHS nor, to the knowledge of the Company and CHS, any officers, directors or stockholders, employees or other agents of the Company, CHS or any of their subsidiaries or the hospitals operated by them, has engaged in any activities which are prohibited under

Federal Medicare and Medicaid statutes including, but not limited to, 42 U.S.C. ss.ss. 1320a-7 (Program Exclusion), 1320a-7a (Civil Monetary Penalties), 1320a-7b (the Anti-kickback Statute), 42 U.S.C. ss. 1395nn and 1396b (the "Stark" law, prohibiting certain self-referrals), or any other federal law, including, but not limited to, the federal TRICARE statute, 10 U.S.C. ss.1071 ET SEQ., the Federal Civil False Claims Act, 31 U.S.C. ss.ss. 3729-32, Federal Criminal False Claims Act, 18 U.S.C. ss. 287, False Statements Relating to Health Care Matters, 18 U.S.C. ss. 1035, Health Care Fraud, 18 U.S.C. ss. 1347, or the federal Food, Drug & Cosmetics Act, 21 U.S.C. ss. 360aaa, or any regulations promulgated pursuant to such statutes, or related state or local statutes or regulations or any rules of professional conduct, including but not limited to the following: (i) knowingly and willfully making or causing to be made a false statement or representation of a material fact in any applications for any benefit or payment under the Medicare or Medicaid program or from any third party (where applicable federal or state law prohibits such payments to third parties); (ii) knowingly and willfully making or causing to be made any false statement or representation of a material fact for use in determining rights to any benefit or payment under the Medicare or Medicaid program or from any third party (where applicable federal or state law prohibits such payments to third parties); (iii) failing to disclose knowledge by a claimant of the occurrence of any event affecting the initial or continued right to any benefit or payment under the Medicare or Medicaid program or from any third party (where applicable federal or state law prohibits such payments to third parties) on its own behalf or on behalf of another, with intent to secure such benefit or payment fraudulently; (iv) knowingly and willfully offering, paying, soliciting or receiving any remuneration (including any kickback, bribe or rebate), directly or indirectly, overtly or covertly, in cash or in kind (a) in return for referring an individual to a Person for the furnishing or arranging for the furnishing of any item or service for which payment may be made in whole or in part by Medicare or Medicaid or any third party (where applicable federal or state law prohibits such payments to third parties), or (b) in return for purchasing, leasing or ordering or arranging for or recommending the purchasing, leasing or ordering of any good, facility, service, or item for which payment may be made in whole or in part by Medicare or Medicaid or any third party (where applicable federal or state law prohibits such payments to third parties); (v) knowingly and willfully referring an individual to a person with which they have ownership or certain other financial arrangements (where applicable federal law prohibits such referrals); and (vi) knowingly and willfully violating any enforcement initiative instituted by any governmental agency (including, without limitation, the Office of the Inspector General and the Department of Justice), except for any such activities which are specifically described in the Prospectus or which would not, singly or in the aggregate, reasonably be expected to result in a Material Adverse Effect.

(xix) REGULATORY FILINGS. None of the Company, CHS or any of their subsidiaries or any of the hospitals operated by any of them has failed to file with applicable regulatory authorities any statement, report, information or form required by any applicable law, regulation or order, except where the failure to be so in compliance could not, individually or in the aggregate, have a Material Adverse Effect. Except as described in the Prospectus, all such filings or submissions were in compliance with applicable laws when filed and no deficiencies have been asserted by any regulatory commission, agency or authority with respect to any such filings or submissions, except for any such failures to be in compliance or deficiencies which would not, singly or in the aggregate, reasonably be expected to have a Material Adverse

Effect.

(xx) TITLE TO PROPERTY. The Company, CHS and their subsidiaries have good and marketable title to all real property owned by them and good title to all other properties owned by them, in each case, free and clear of all mortgages, pledges, liens, security interests, claims, restrictions or encumbrances of any kind except such as (a) are described in the Prospectus or (b) do not, singly or in the aggregate, in a manner that would reasonably be expected to result in a Material Adverse Effect, affect the value of such property or interfere with the use made or proposed to be made of such property by the Company, CHS or any of their subsidiaries; and all of the leases and subleases of the Company and their subsidiaries, considered as one enterprise, and under which the Company, CHS or any of their subsidiaries holds properties described in the Prospectus, are in full force and effect, and none of the Company, CHS or any of their subsidiaries has any notice of any claim of any sort that has been asserted by anyone adverse to the rights of the Company, CHS or any of their subsidiaries under any of the leases or subleases mentioned above, or affecting or questioning the rights of the Company, CHS or such subsidiary to the continued possession of the leased or subleased premises under any such lease or sublease, except where the failure to be in full force and effect or such claim would not reasonably be expected to have a Material Adverse Effect.

(xxi) INVESTMENT COMPANY ACT. None of the Company, CHS or their subsidiaries is, and upon the issuance and sale of the Securities and the Conversion Shares (when issued and delivered in accordance with the terms of the Securities and the Indenture) as herein contemplated and the application of the net proceeds therefrom as described in the Prospectus none of them will be, an "investment company" or an entity "controlled" by an "investment company" as such terms are defined in the Investment Company Act of 1940, as amended (the "1940 Act").

(xxii) ENVIRONMENTAL LAWS. Except as described in the Registration Statement and except as would not, singly or in the aggregate, reasonably be

expected to result in a Material Adverse Effect, (A) none of the Company, CHS, their subsidiaries or any of the hospitals owned, leased or operated by them is in violation of any federal, state, local or foreign statute, law, rule, regulation, standard, guide, ordinance, code, policy or rule of common law or any judicial or administrative interpretation thereof, including any judicial or administrative order, consent, decree or judgment, relating to pollution or protection of human health or safety, the environment (including, without limitation, ambient air, surface water, groundwater, land surface or subsurface strata) or wildlife, including, without limitation, laws and regulations relating to the release or threatened release of chemicals, pollutants, contaminants, wastes, toxic substances, hazardous substances (including, without limitation, asbestos, polychlorinated biphenyls, urea-formaldehyde insulation, petroleum or petroleum products) (collectively, "Hazardous Materials") or to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling, release or threatened release of Hazardous Materials (collectively, "Environmental Laws"), (B) the Company, CHS, their subsidiaries and each of the hospitals owned, leased or operated by them have all permits, authorizations and approvals required under any applicable Environmental Laws and are each in compliance with their requirements, (C) there are no pending or threatened administrative, regulatory or judicial actions, suits, demands, demand letters, claims, liens, notices of noncompliance or violation, investigation or proceedings relating to any Environmental Law against the Company, CHS, their subsidiaries or any of the hospitals owned, leased or operated by them and (D) there are no events or circumstances that might reasonably be expected to form the basis of an order for clean-up or remediation, or an action, suit or proceeding by any private party or governmental body or agency, against or affecting the Company, CHS, any of their subsidiaries or any of the hospitals owned, leased or operated by them relating to Hazardous Materials or any Environmental Laws.

(xxiii) REGISTRATION RIGHTS. Except as disclosed in the Prospectus under the caption "Shares Eligible for Future Sale-Registration Rights," there are no persons with registration rights or other similar rights to have any securities of the Company, CHS or any of their subsidiaries registered pursuant to the Registration Statement or otherwise registered by the Company or any other person under the 1933 Act.

(xxiv) INSURANCE. The Company, CHS and each of their subsidiaries and each of the hospitals owned, leased or operated by them are insured by insurers of recognized financial responsibility against such loses and risks and in such amounts as are prudent and customary in the healthcare industry; none of the Company, CHS, their subsidiaries or any of the hospitals owned, leased or operated by them has been refused any material insurance coverage sought or applied for since January 1, 2000; and neither the Company nor CHS has any

reason to believe that it or any of the hospitals owned, leased or operated by them, will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its operations except where the failure to renew or maintain such coverage would not reasonably be expected to result in a Material Adverse Effect. The officers and directors of the Company are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as the Company believes are prudent and customary for officers' and directors' liability insurance of a public company and as the Company believes would cover claims which would reasonably be expected to be made in connection with the issuance of the Securities; and the Company has no reason to believe that it will not be able to renew its existing directors' and officers' liability insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to cover its officers and directors.

(xxv) TAX RETURNS AND PAYMENT OF TAXES. The Company, CHS and their subsidiaries have timely filed all federal, state, local and foreign tax returns that are required to be filed or has duly requested extensions thereof and all such tax returns are true, correct and complete, except to the extent that any failure to file or request an extension, or any incorrectness would not reasonably be expected to result in a Material Adverse Effect. The Company, CHS and their subsidiaries have timely paid all taxes shown as due on such filed tax returns (including any related assessments, fines or penalties), except to the extent that any such taxes are being contested in good faith and by appropriate proceedings, or to the extent that any failure to pay would not reasonably be expected to result in a Material Adverse Effect; and adequate charges, accruals and reserves have been provided for in the financial statements referred to in Section 1(a)(iii) above in accordance with GAAP in respect of all Federal, state, local and foreign taxes for all periods as to which the tax liability of the Company, CHS and their subsidiaries has not been finally determined or remains open to examination by applicable taxing authorities except (A) for taxes incurred after the date of the financial statements referred to in Section 1(a)(iii) or (B) where the failure to provide for such charges, accruals and reserves would not reasonably be expected to result in a Material Adverse Effect. None of the Company, CHS or their subsidiaries is a "United States real property holding corporation" within the meaning of Section 897(c)(2) of the Internal Revenue Code of 1986, as amended (the "Code").

(xxvi) NO STABILIZATION OR MANIPULATION. None of the Company, CHS or their subsidiaries or, to the best of their knowledge, any of their directors, officers or affiliates has taken or will take, directly or indirectly, any action designed to, or that could be reasonably expected to, cause or result in stabilization or

manipulation of the price of the Securities in violation of Regulation M under the Securities Exchange Act of 1934, as amended (the "1934 Act").

(xxvii) CERTAIN TRANSACTIONS. Except as disclosed in the Prospectus, there are no outstanding loans, advances, or guarantees of indebtedness by the Company, CHS or any of their subsidiaries to or for the benefit of any of the executive officers or directors of the Company or any of the members of the families of any of them that would be required to be so disclosed under the 1933 Act, the 1933 Act Regulations or Form S-1.

(xxviii) STATISTICAL AND MARKET DATA. The statistical and market-related data included in the Prospectus are derived from sources which the Company and CHS reasonably and in good faith believe to be accurate, reasonable and reliable in all material respects and the statistical and market-related data included in the Prospectus agrees with the sources from which it was derived in all material respects.

(xxix) ACCOUNTING AND OTHER CONTROLS. The Company has established a system of internal accounting controls sufficient to provide reasonable assurances that (i) transactions were, are and will be executed in accordance with management's general or specific authorization; (ii) transactions were, are and will be recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain accountability for assets; (iii) access to assets was, is and will be permitted only in accordance with a management's general or specific authorizations; and (iv) the recorded accountability for assets was, is and will be compared with existing assets at reasonable intervals and appropriate action was, is and will be taken with respect to any differences.

(b) OFFICER'S CERTIFICATES. Any certificate signed by any officer of the Company delivered to Goldman Sachs, the Underwriters or to counsel for the Underwriters shall be deemed a representation and warranty by the Company to each Underwriter as to the matters covered thereby.

SECTION 2. SALE AND DELIVERY TO UNDERWRITERS; CLOSING.

(a) INITIAL SECURITIES. On the basis of the representations and warranties herein contained and subject to the terms and conditions herein set forth, the Company agrees to sell to each Underwriter, severally and not jointly, and each Underwriter, severally and not jointly, agrees to purchase from the Company, at a purchase price of __% of the principal amount thereof the principal amount of Initial Securities set forth in Schedule A opposite the name of such Underwriter, plus any additional number of Initial Securities which such Underwriter may become obligated to purchase pursuant to the provisions of Section 10 hereof.

(b) OPTION SECURITIES. In addition, on the basis of the representations and warranties herein contained and subject to the terms and conditions herein set forth, the Company hereby grants an option to the Underwriters, severally and not jointly, to purchase from the Company an additional principal amount of Option Securities, at a purchase price of % of the principal amount thereof. The option hereby granted will expire 30 days after the date hereof and may be exercised in whole or in part from time to time for the sole purpose of covering sales of Securities in excess of the aggregate principal amount of the Initial Securities which may be made in connection with the offering and distribution of the Initial Securities upon notice by Goldman Sachs to the Company setting forth the principal amount of Option Securities as to which the several Underwriters are then exercising the option and the time and date of payment and delivery for such Option Securities. Any such time and date of delivery for the Option Securities (a "Date of Delivery") shall be determined by Goldman Sachs, but shall not be later than seven full business days after the exercise of said option, nor in any event prior to the Closing Time, as hereinafter defined. If the option is exercised as to all or any principal amount of the Option Securities, each of the Underwriters, acting severally and not jointly, will purchase that proportion of the total principal amount of Option Securities then being purchased which the principal amount of Initial Securities set forth in Schedule A opposite the name of such Underwriter bears to the total principal amount of Initial Securities, subject in each case to such adjustments as Goldman Sachs in its discretion shall make to eliminate any sales or purchases of fractional shares.

(c) PAYMENT. Payment of the purchase price for, and delivery of certificates for, the Initial Securities shall be made at the offices of Debevoise & Plimpton, 919 Third Avenue, New York, New York 10022, or at such other place as shall be agreed upon by Goldman Sachs and the Company, at 9:00 A.M. (Eastern time) on the third (fourth, if the pricing occurs after 4:30 P.M. (Eastern time) on any given day) business day after the date hereof (unless postponed in accordance with the provisions of Section 10), or such other time not later than ten business days after such date as shall be agreed upon by Goldman Sachs and the Company (such time and date of payment and delivery being herein called "Closing Time").

In addition, in the event that any or all of the Option Securities are purchased by the Underwriters, payment of the purchase price for, and delivery of certificates for, such Option Securities shall be made at the above-mentioned offices, or at such other place as shall be agreed upon by Goldman Sachs and the Company, on each Date of Delivery as specified in the notice from Goldman Sachs to the Company.

The Securities to be purchased by each Underwriter hereunder will be represented by one or more definitive global securities in book-entry form which will be deposited by or on behalf of the Company with The Depository Trust Company ("DTC") or its designated custodian. The Company will deliver the Securities to Goldman Sachs, for the account of each Underwriter, against payment by or on behalf of such Underwriter of

the purchase price therefore by wire transfer of Federal (same-day) funds to the account specified by the Company to Goldman Sachs at least forty-eight hours in advance, by causing DTC to credit the Securities to the account of Goldman Sachs at DTC. The Company will cause the certificates representing the Securities to be made available to Goldman Sachs for checking at least twenty-four hours prior to the Date of Delivery at the office of DTC or its designated custodian (the "Designated Office").

SECTION 3. COVENANTS OF THE COMPANY.

The Company covenants with each. Underwriter as follows:

(a) COMPLIANCE WITH SECURITIES REGULATIONS AND COMMISSION REQUESTS. The Company, subject to Section 3(b), will comply with the requirements of Rule 430A and will notify Goldman Sachs immediately, and confirm the notice in writing, (i) when any post-effective amendment to the Registration Statement shall become

effective, or any supplement to the Prospectus or any amended Prospectus shall have been filed, (ii) of the receipt of any comments from the Commission, (iii) of any request by the Commission for any amendment to the Registration Statement or any amendment or supplement to the Prospectus or for additional information, and (iv) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or of any order preventing or suspending the use of any preliminary prospectus, or of the suspension of the qualification of the Securities or the Conversion Shares for offering or sale in any jurisdiction, or of the initiation or threatening of any proceedings for any of such purposes. The Company will promptly effect the filings necessary pursuant to Rule 424(b) and will take such steps as it deems necessary to ascertain promptly whether the form of prospectus transmitted for filing under Rule 424(b) was received for filing by the Commission and, in the event that it was not, it will promptly file such prospectus. The Company will make every reasonable effort to prevent the issuance of any stop order or suspension of the qualification of the Securities and the Conversion Shares and, if any stop order or suspension is issued, to obtain the lifting thereof at the earliest possible moment.

(b) FILING OF AMENDMENTS. The Company will give Goldman Sachs notice of its intention to file or prepare any amendment to the Registration Statement (including any filing under Rule 462(b)), or any amendment, supplement or revision to either the prospectus included in the Registration Statement at the time it became effective or to the Prospectus, will furnish Goldman Sachs with copies of any such documents a reasonable amount of time prior to such proposed filing or use, as the case may be, and will not file or use any such document to which Goldman Sachs or counsel for Goldman Sachs shall reasonably object.

(c) DELIVERY OF REGISTRATION STATEMENTS. The Company has furnished or will deliver to the Underwriters and counsel for the Underwriters, without charge, signed

copies of the Registration Statement as originally filed and of each amendment thereto (including exhibits filed therewith or incorporated by reference therein) and copies of all signed consents and certificates of experts, and will also deliver to the Underwriters, without charge, a conformed copy of the Registration Statement as originally filed and of each amendment thereto (without exhibits) for each of the Underwriters. The copies of the Registration Statement and each amendment thereto furnished to the Underwriters will be identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T.

(d) DELIVERY OF PROSPECTUSES. The Company has delivered to each Underwriter, without charge, as many copies of each preliminary prospectus as such Underwriter reasonably requested, and the Company hereby consents to the use of such copies for purposes permitted by the 1933 Act. The Company will furnish to each Underwriter, without charge, during the period when the Prospectus is required to be delivered under the 1933 Act or the 1934 Act, such number of copies of the Prospectus (as amended or supplemented) as such Underwriter may reasonably request. The Prospectus and any amendments or supplements thereto furnished to the Underwriters will be identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T.

(e) CONTINUED COMPLIANCE WITH SECURITIES LAWS. The Company will comply with the 1933 Act, the 1933 Act Regulations, the Trust Indenture Act and the Trust Indenture Act Regulations so as to permit the completion of the distribution of the Securities as contemplated in this Agreement and in the Prospectus. If at any time when a prospectus is required by the 1933 Act to be delivered in connection with sales of the Securities, any event shall occur or condition shall exist as a result of which it is necessary, in the opinion of counsel for the Underwriters or for the Company, to amend the Registration Statement or amend or supplement any Prospectus in order that the Prospectus will not include any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein not misleading in the light of the circumstances existing at the time it is delivered to a purchaser, or if it shall be necessary, in the opinion of such counsel, at any such time to amend the Registration Statement or amend or supplement any Prospectus in order to comply with the requirements of the 1933 Act, the 1933 Act Regulations, the Trust Indenture Act or the Trust Indenture Act Regulations, the Company will promptly prepare and file with the Commission, subject to Section 3(b), such amendment or supplement as may be necessary to correct such statement or omission or to make the Registration Statement or the Prospectus comply with such requirements, and the Company will furnish to the Underwriters such number of copies of such amendment or supplement as the Underwriters may reasonably request.

(f) BLUE SKY QUALIFICATIONS. The Company will use its best efforts, in cooperation with the Underwriters, to qualify the Securities for offering and sale under

the applicable securities laws of such states and other jurisdictions (domestic or foreign) as Goldman Sachs may designate and to maintain such qualifications

in effect for a period of not less than one year from the later of the effective date of the Registration Statement and any Rule 462(b) Registration Statement; provided, however, that the Company shall not be obligated to file any general consent to service of process or to qualify as a foreign corporation or as a dealer in securities in any jurisdiction in which it is not so qualified or to subject itself to taxation in respect of doing business in any jurisdiction in which it is not otherwise so subject. In each jurisdiction in which the Securities have been so qualified, the Company will file such statements and reports as may be required by the laws of such jurisdiction to continue such qualification of the Securities in effect for a period of not less than one year from the effective date of the Registration Statement and any Rule 462(b) Registration Statement.

(g) RULE 158. The Company will timely file such reports pursuant to the 1934 Act as are necessary in order to make generally available to its securityholders as soon as practicable an earnings statement for the purposes of, and to provide the benefits contemplated by, the last paragraph of Section 11(a) of the 1933 Act.

(h) USE OF PROCEEDS. The Company will use the net proceeds received by it from the sale of the Securities in the manner specified in the Prospectus under "Use of Proceeds".

(i) LISTING. The Company will use its best efforts to maintain the quotation of the Common Stock on the New York Stock Exchange.

(j) RESERVE CONVERSION SHARES. The Company will reserve and keep available at all times, free of preemptive rights, shares of Common Stock for the purpose of enabling the Company to satisfy any obligations to issue Conversion Shares.

(k) RESTRICTION ON SALE OF SECURITIES. During a period of 90 days from the date of the Prospectuses, the Company will not, without the prior written consent of Goldman Sachs, (i) directly or indirectly, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of any share of Common Stock or securities that are substantially similar to the Common Stock, including, but not limited to, any securities convertible into or exercisable or exchangeable for Common Stock or file any registration statement under the 1933 Act with respect to any of the foregoing or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of the Common Stock, whether any such swap or transaction described in clause (i) or (ii) above is to be settled by delivery of Common Stock or such other securities, in cash or otherwise. The foregoing sentence shall not apply to (A) the Securities to be sold hereunder, (B) any shares of Common Stock issued by the Company upon the exercise of an option or

warrant or the conversion of a security outstanding on the date hereof and referred to in the Prospectus, (C) any shares of Common Stock issued or options to purchase Common Stock granted pursuant to existing employee benefit plans of the Company referred to in the Prospectus, (D) any shares of Common Stock issued pursuant to any non-employee director stock plan or dividend reinvestment plan, (E) any Conversion Shares, or (F) any Common Stock to be sold pursuant to the Common Stock Agreement.

(l) REPORTING REQUIREMENTS. The Company, during the period when the Prospectus are required to be delivered under the 1933 Act or the 1934 Act, will file all documents required to be filed with the Commission pursuant to the 1934 Act within the time periods required by the 1934 Act and the rules and regulations of the Commission thereunder.

SECTION 4. PAYMENT OF EXPENSES.

(a) EXPENSES. The Company and CHS will pay all expenses incident to the performance of their obligations under this Agreement, including (i) the preparation, printing and filing of the Registration Statement (including financial statements and exhibits) as originally filed and of each amendment thereto and the Indenture, (ii) the preparation, printing and delivery to the Underwriters of this Agreement, any Agreement among Underwriters and such other documents as may be required in connection with the offering, purchase, sale, issuance or delivery of the Securities, (iii) the preparation, issuance and delivery of the Securities to the Underwriters, including any transfer taxes and any stamp or other duties payable upon the sale, issuance or delivery of the Securities to the Underwriters, (iv) the fees and disbursements of the Company's counsel, accountants and other advisors, (v) the qualification of the Securities and the Conversion Shares under securities laws in accordance with the provisions of Section 3(f) hereof, including filing fees and the reasonable fees and disbursements of counsel for the Underwriters in connection therewith and in connection with the preparation of the Blue Sky Survey and any supplement thereto, (vi) the printing and delivery to the Underwriters of copies of each preliminary prospectus and of the Prospectus and any amendments or supplements thereto, (vii) the preparation, printing and delivery to the Underwriters of copies of the Blue Sky Survey and any supplement thereto, (viii) the fees and expenses of the Trustee and any agent of the Trustee and the fees and disbursements of counsel for the Trustee in connection with the Indenture and the Securities; (ix) the fees and expenses of any transfer agent or registrar

for the Securities, (x) the filing fees incident to, and the reasonable fees and disbursements of counsel to the Underwriters in connection with, the review by the National Association of Securities Dealers, Inc. (the "NASD") of the terms of the sale of the Securities, and (xi) the fees and expenses incurred in connection with the listing of the Securities on the New York Stock Exchange. In addition, each of the Company and the Underwriters will pay 50% of the fees and expenses related to the use of chartered aircraft by the Company in connection with the offering of the Securities.

(b) TERMINATION OF AGREEMENT. If this Agreement is terminated by the Underwriters in accordance with the provisions of Section 5 or Section 9(a)(i) hereof, the Company and CHS shall reimburse the Underwriters for all of their out-of-pocket expenses, including the reasonable fees and disbursements of counsel for the Underwriters.

SECTION 5. CONDITIONS OF UNDERWRITERS' OBLIGATIONS.

The obligations of the several Underwriters hereunder are subject to the accuracy of the representations and warranties of the Company and CHS contained in Section 1 hereof or in certificates of any officer of the Company, CHS or any of their subsidiaries the Company delivered pursuant to the provisions hereof, to the performance by the Company of its covenants and other obligations hereunder, and to the following further conditions:

(a) EFFECTIVENESS OF REGISTRATION STATEMENT. The Registration Statement, including any Rule 462(b) Registration Statement, has become effective and at Closing Time no stop order suspending the effectiveness of the Registration Statement shall have been issued under the 1933 Act or proceedings therefor initiated or threatened by the Commission, and any request on the part of the Commission for additional information shall have been complied with to the reasonable satisfaction of counsel to the Underwriters. A prospectus containing the Rule 430A Information shall have been filed with the Commission in accordance with Rule 424(b) (or a post-effective amendment providing such information shall have been filed and declared effective in accordance with the requirements of Rule 430A).

(b) OPINION OF COUNSEL FOR THE COMPANY. At Closing Time, the Underwriters shall have received the favorable opinion, dated as of Closing Time, of:

(i) Rachel A. Seifert, Senior Vice President, Secretary and General Counsel of the Company, in form and substance reasonably satisfactory to counsel for the Underwriters, together with signed or reproduced copies of such letter for each of the other Underwriters to the effect set forth in Exhibit A-1 hereto and to such further effect as counsel to the Underwriters may reasonably request; and

(ii) Fried, Frank, Harris, Shriver & Jacobson, special counsel for the Company, in form and substance reasonably satisfactory to counsel for the Underwriters, together with signed or reproduced copies of such letter for each of the other Underwriters to the effect set forth in Exhibit A-2 hereto and to such further effect as counsel to the Underwriters may reasonably request.

(c) OPINION OF COUNSEL FOR THE UNDERWRITERS. At Closing Time, the Underwriters shall have received the favorable opinion, dated as of Closing Time, of Debevoise & Plimpton, counsel for the Underwriters, together with signed or reproduced copies of such letter for each of the other Underwriters in form and substance reasonably satisfactory to the Underwriters.

(d) OFFICERS' CERTIFICATE. At Closing Time, there shall not have been, since the date hereof or since the respective dates as of which information is given in the Prospectus, any material adverse change in the condition, financial or otherwise, or in the earnings, business affairs or business prospects of the Company, CHS and their subsidiaries considered as one enterprise, whether or not arising in the ordinary course of business, and the Underwriters shall have received a certificate of the President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer of the Company, dated as of Closing Time, to the effect that (i) there has been no such material adverse change, (ii) the representations and warranties in Section 1(a) hereof are true and correct with the same force and effect as though expressly made at and as of Closing Time, (iii) the Company and CHS have complied with all agreements and satisfied all conditions on their part to be performed or satisfied at or prior to Closing Time, and (iv) no stop order suspending the effectiveness of the Registration Statement has been issued and, to such person's knowledge after due inquiry, no proceedings for that purpose have been instituted or are pending or are contemplated by the Commission.

(e) ACCOUNTANT'S COMFORT LETTER. At the time of the execution of this Agreement, the Underwriters shall have received from Deloitte & Touche LLP a letter, dated such date, in form and substance reasonably satisfactory to the Underwriters, together with signed or reproduced copies of such letter for each of the other. Underwriters, containing statements and information of the type

ordinarily included in accountants' "comfort letters" to underwriters with respect to the financial statements and certain financial information contained in the Registration Statement and the Prospectus.

(f) BRING-DOWN COMFORT LETTER. At Closing Time, the Underwriters shall have received from Deloitte & Touche LLP a letter, dated as of Closing Time, to the effect that they reaffirm the statements made in the letter furnished pursuant to subsection (e) of this Section, except that the specified date referred to shall be a date not more than three business days prior to Closing Time.

(g) APPROVAL OF LISTING. At Closing Time, the Conversion Shares shall have been approved for listing upon conversion of the Securities on the New York Stock Exchange, subject only to official notice of issuance.

(h) DEBT RATING. On or after the date hereof (i) no downgrading shall have occurred in the rating accorded the Company's debt securities by any "nationally recognized statistical rating organization", as that term is defined by the Commission for

purposes of Rule 436(g)(2) under the 1933 Act, and (ii) no such organization shall have publicly announced that it has under surveillance or review, with possible negative implications, its rating of any of the Company's debt securities.

(i) NO OBJECTION. The NASD shall have confirmed that it has not raised any objection with respect to the fairness and reasonableness of the underwriting terms and arrangements with respect to the Securities.

(j) LOCK-UP AGREEMENTS. At the date of this Agreement, the Underwriters shall have received an agreement substantially in the form of Exhibit B hereto signed by the persons listed on Schedule B hereto.

(k) INDENTURE AND SECURITIES. The Indenture shall have been duly executed and delivered by the Company and the Trustee and the Securities shall have been duly executed and delivered by the Company and authenticated by the Trustee.

(l) CONDITIONS TO PURCHASE OF OPTION SECURITIES. In the event that the Underwriters exercise their option provided in Section 2(b) hereof to purchase all or any portion of the Option Securities, the representations and warranties of the Company contained herein and the statements in any certificates furnished by the Company or any subsidiary of the Company hereunder shall be true and correct as of each Date of Delivery and, at the relevant Date of Delivery, the Underwriters shall have received:

(i) OFFICERS' CERTIFICATE. A certificate, dated such Date of Delivery, of the President and Chief Executive Officer, and of the Executive Vice President and Chief Financial Officer of the Company, confirming that the certificate delivered at the Closing Time pursuant to Section 5(d) hereof remains true and correct as of such Date of Delivery.

(ii) OPINION OF COUNSEL FOR COMPANY. The favorable opinion of Fried, Frank, Harris, Shriver & Jacobson, special counsel for the Company, together with the favorable opinion of Rachel A. Siefert, Senior Vice President, Secretary and General Counsel of the Company, each in form and substance reasonably satisfactory to counsel for the Underwriters, dated such Date of Delivery, relating to the Option Securities to be purchased on such Date of Delivery and otherwise to the same effect as the opinions required by Section 5(b) hereof.

(iii) OPINION OF COUNSEL FOR UNDERWRITERS. The favorable opinion of Debevoise & Plimpton, counsel for the Underwriters, dated such Date of Delivery, relating to the Option Securities to be purchased on such Date of Delivery and otherwise to the same effect as the opinion required by Section 5(c) hereof.

(iv) BRING-DOWN COMFORT LETTER. A letter from Deloitte & Touche LLP, in form and substance reasonably satisfactory to the Underwriters and dated such Date of Delivery, substantially in the same form and substance as the letter furnished to the Underwriters pursuant to Section 5(f) hereof, except that the "specified date" in the letter furnished pursuant to this paragraph shall be a date not more than five days prior to such Date of Delivery.

(m) ADDITIONAL DOCUMENTS. At Closing Time and at each Date of Delivery, counsel for the Underwriters shall have been furnished with such documents and opinions as they may reasonably require for the purpose of enabling them to pass upon the issuance and sale of the Securities as herein contemplated, or in order to evidence the accuracy of any of the representations or warranties, or the fulfillment of any of the conditions, herein contained; and all proceedings taken by the Company in connection with the issuance and sale of the Securities

as herein contemplated shall be reasonably satisfactory in form and substance to the Underwriters and counsel for the Underwriters.

(n) TERMINATION OF AGREEMENT. If any condition specified in this Section shall not have been fulfilled when and as required to be fulfilled, this Agreement, or, in the case of any condition to the purchase of Option Securities on a Date of Delivery which is after the Closing Time, the obligations of the several Underwriters to purchase the relevant Option Securities, may be terminated by the Underwriters by notice to the Company at any time at or prior to Closing Time or such Date of Delivery, as the case may be, and such termination shall be without liability of any party to any other party except as provided in Section 4 and except that Sections 1, 6, 7 and 8 shall survive any such termination and remain in full force and effect.

SECTION 6. INDEMNIFICATION.

(a) INDEMNIFICATION OF THE UNDERWRITERS BY THE COMPANY AND CHS. (1) The Company and CHS jointly and severally agree to indemnify and hold harmless each Underwriter and each person, if any, who controls any Underwriter within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act as follows:

(i) against any and all loss, liability, claim, damage and expense whatsoever, as incurred, arising out of any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement (or any amendment thereto), including the Rule 430A Information, or the omission or alleged omission therefrom of a material fact required to be stated therein or necessary to make the statements therein not misleading or arising out of any untrue statement or alleged untrue statement of a material fact included in any preliminary prospectus or the Prospectus (or any amendment or supplement thereto), or the omission or alleged omission therefrom of a material fact

necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(ii) against any and all loss, liability, claim, damage and expense whatsoever, as incurred, to the extent of the aggregate amount paid in settlement of any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or of any claim whatsoever based upon any such untrue statement or omission; provided that (subject to Section 6(c) below) any such settlement is effected with the written consent of the Company; and

(iii) against any and all expense whatsoever, as incurred (including the fees and disbursements of counsel chosen by Goldman Sachs), reasonably incurred in investigating, preparing or defending against any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever based upon any such untrue statement or omission, or any such alleged untrue statement or omission, to the extent that any such expense is not paid under (i) or (ii) above;

PROVIDED, HOWEVER, that this indemnity agreement shall not apply to any loss, liability, claim, damage or expense to the extent (A) arising out of any untrue statement or omission or alleged untrue statement or omission made in reliance upon and in conformity with written information furnished to the Company by any Underwriter through Goldman Sachs expressly for use in the Registration Statement (or any amendment thereto), including the Rule 430A Information, or any preliminary prospectus or the Prospectus (or any amendment or supplement thereto) or (B) resulting from the fact that a court of competent jurisdiction shall have made a final, non-appealable determination that (1) the untrue statement or omission was corrected in the Prospectus, (2) that at a time sufficiently prior to the Closing Time, the Company furnished copies of the Prospectus in sufficient quantities to such Underwriter, (3) that such Underwriter failed to send or give a copy of the Prospectus to the person asserting such loss, liability, claim, damage or expense prior to the written confirmation or the sale of Securities to such person by such Underwriter as required by the 1933 Act or the 1933 Act Regulations, and (4) that the sending of the Prospectus to the person asserting such loss, liability, claim, damage or expense would have constituted a defense to the claim asserted by such person or persons.

(2) Insofar as this indemnity agreement may permit indemnification for liabilities under the 1933 Act of any person who is a partner of a Underwriter or who controls an underwriter within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act and who, at the date of this Agreement, is a director or officer of the Company or controls the Company within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act, such indemnity agreement is subject to the undertaking of the Company in the Registration Statement under Item 14.

(b) INDEMNIFICATION OF COMPANY, DIRECTORS AND OFFICERS. Each

Underwriter severally agrees to indemnify and hold harmless the Company, CHS and their respective directors, each of the officers of the Company who signed the Registration Statement, and each person, if any, who controls the Company within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act, against any and all loss, liability, claim, damage and expense described in the indemnity contained in subsection (a)(1) of this Section, as incurred, but only with respect to untrue statements or omissions, or alleged untrue statements or omissions, made in the Registration Statement (or any amendment thereto), including the Rule 430A Information, or any preliminary prospectus or the Prospectus (or any amendment or supplement thereto) in reliance upon and in conformity with written information furnished to the Company by such Underwriter through Goldman Sachs expressly for use in the Registration Statement (or any amendment thereto) or such preliminary prospectus or the Prospectus (or any amendment or supplement thereto).

(c) ACTIONS AGAINST PARTIES; NOTIFICATION. Each indemnified party shall give notice as promptly as reasonably practicable to each indemnifying party of any action commenced against it in respect of which indemnity may be sought hereunder, but failure to so notify an indemnifying party shall not relieve such indemnifying party from any liability hereunder to the extent it is not materially prejudiced as a result thereof and in any event shall not relieve it from any liability which it may have otherwise than on account of this indemnity agreement. In the case of parties indemnified pursuant to Section 6(a)(1) above, counsel to the indemnified parties shall be selected by Goldman Sachs, and, in the case of parties indemnified pursuant to Section 6(b) above, counsel to the indemnified parties shall be selected by the Company. An indemnifying party may participate at its own expense in the defense of any such action; provided, however, that counsel to the indemnifying party shall not (except with the consent of the indemnified party) also be counsel to the indemnified party. In no event shall the indemnifying parties be liable for fees and expenses of more than one counsel (in addition to any local counsel) separate from their own counsel for all indemnified parties in connection with any one action or separate but similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances. No indemnifying party shall, without the prior written consent of the indemnified parties, settle or compromise or consent to the entry of any judgment with respect to any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever in respect of which indemnification or contribution could be sought under this Section 6 or Section 7 hereof (whether or not the indemnified parties are actual or potential parties thereto), unless such settlement, compromise or consent (i) includes an unconditional release of each indemnified party from all liability arising out of such litigation, investigation, proceeding or claim and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act by or on behalf of any indemnified party.

(d) SETTLEMENT WITHOUT CONSENT IF FAILURE TO REIMBURSE. If at any time an indemnified party shall have requested an indemnifying party to reimburse the indemnified party for fees and expenses of counsel, such indemnifying party agrees that it shall be liable for any settlement of the nature contemplated by Section 6(a)(1)(ii) effected without its written consent if (i) such settlement is entered into more than 45 days after receipt by such indemnifying party of the aforesaid request, (ii) such indemnifying party shall have received notice of the terms of such settlement at least 30 days prior to such settlement being entered into and (iii) such indemnifying party shall not have reimbursed such indemnified party in accordance with such request prior to the date of such settlement.

SECTION 7. CONTRIBUTION.

If the indemnification provided for in Section 6 hereof is for any reason unavailable to or insufficient to hold harmless an indemnified party in respect of any losses, liabilities, claims, damages or expenses referred to therein, then each indemnifying party shall contribute to the aggregate amount of such losses, liabilities, claims, damages and expenses incurred by such indemnified party, as incurred, (i) in such proportion as is appropriate to reflect the relative benefits received by the Company and CHS on the one hand and the Underwriters on the other hand from the offering of the Securities pursuant to this Agreement or (ii) if the allocation provided by clause (i) is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company and CHS on the one hand and of the Underwriters on the other hand in connection with the statements or omissions, which resulted in such losses, liabilities, claims, damages or expenses, as well as any other relevant equitable considerations.

The relative benefits received by the Company and CHS on the one hand and the Underwriters on the other hand in connection with the offering of the Securities pursuant to this Agreement shall be deemed to be in the same respective proportions as the total net proceeds from the offering of the Securities pursuant to this Agreement (before deducting expenses) received by the Company and the total underwriting discount received by the Underwriters, in each case as set forth on the cover of the Prospectus bear to the aggregate initial public offering price of the Securities as set forth on such cover.

The relative fault of the Company and CHS on the one hand and the Underwriters on the other hand shall be determined by reference to, among other

things, whether any such untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact relates to information supplied by the Company or by the Underwriters and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

The Company, CHS and the Underwriters agree that it would not be just and equitable if contribution pursuant to this Section 7 were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to above in this Section 7. The aggregate amount of losses, liabilities, claims, damages and expenses incurred by an indemnified party and referred to above in this Section 7 shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in investigating, preparing or defending against any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever based upon any such untrue or alleged untrue statement or omission or alleged omission.

Notwithstanding the provisions of this Section 7, no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Securities underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages which such Underwriter has otherwise been required to pay by reason of any such untrue or alleged untrue statement or omission or alleged omission.

No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the 1933 Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

For purposes of this Section 7, each person, if any, who controls Underwriter within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act shall have the same rights to contribution as such Underwriter, and each director of the Company or CHS, each officer of the Company who signed the Registration Statement, and each person, if any, who controls the Company within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act shall have the same rights to contribution as the Company and CHS. The Underwriters' respective obligations to contribute pursuant to this Section 7 are several in proportion to the number of Initial Securities set forth opposite their respective names in Schedule A hereto and not joint.

SECTION 8. REPRESENTATIONS, WARRANTIES AND AGREEMENTS TO SURVIVE DELIVERY.

All representations, warranties and agreements contained in this Agreement or in certificates of officers of the Company, CHS or any of their subsidiaries submitted pursuant hereto, shall remain operative and in full force and effect, regardless of any investigation made by or on behalf of any Underwriter or controlling person, or by or on behalf of the Company, and shall survive delivery of the Securities to the Underwriters.

SECTION 9. TERMINATION OF AGREEMENT.

(a) TERMINATION; GENERAL. The Underwriters may terminate this Agreement, by notice to the Company, at any time at or prior to Closing Time (i) if there has been, since the time of execution of this Agreement or since the respective dates as of which information is given in the Prospectus, any material adverse change in the condition, financial or otherwise, or in the earnings, business affairs or business prospects of the Company and its subsidiaries considered as one enterprise, whether or not arising in the ordinary course of business, or (ii) if there has occurred any material adverse change in the financial markets in the United States or the international financial markets, any outbreak of hostilities or escalation thereof or other calamity or crisis or any change or development involving a prospective change in national or international political, financial or economic conditions, in each case the effect of which is such as to make it, in the judgment of Goldman Sachs, impracticable to market the Securities or to enforce contracts for the sale of the Securities, or (iii) if trading in any securities of the Company has been suspended or materially limited by the Commission or the New York Stock Exchange, or if trading generally on the American Stock Exchange or the New York Stock Exchange or in the Nasdaq National Market has been suspended or materially limited, or minimum or maximum prices for trading have been fixed, or maximum ranges for prices have been required, by any of said exchanges or by such system or by order of the Commission, the NASD or any other governmental authority, or (iv) if a banking moratorium has been declared by either Federal or New York authorities.

(b) LIABILITIES. If this Agreement is terminated pursuant to this Section, such termination shall be without liability of any party to any other party except as provided in Section 4 hereof, and provided further that Sections 1, 6, 7 and 8 shall survive such termination and remain in full force and effect.

SECTION 10. DEFAULT BY ONE OR MORE OF THE UNDERWRITERS.

If one or more of the Underwriters shall fail at Closing Time or a Date of Delivery to purchase the Securities which it or they are obligated to purchase under this Agreement (the "Defaulted Securities"), the Underwriters shall have the right, within 24 hours thereafter, to make arrangements for one or more of the non-defaulting Underwriters, or any other underwriters, to purchase all, but not less than all, of the Defaulted Securities in such amounts as may be agreed upon and upon the terms herein set forth; if, however, the Underwriters shall not have completed such arrangements within such 24-hour period, then:

(a) if the principal amount of Defaulted Securities does not exceed 10% of the principal amount of Securities to be purchased on such date, each of the non-defaulting Underwriters shall be obligated, severally and not jointly, to purchase the full amount

thereof in the proportions that their respective underwriting obligations hereunder bear to the underwriting obligations of all non-defaulting Underwriters, or

(b) if the principal amount of Defaulted Securities exceeds 10% of the principal amount of Securities to be purchased on such date, this Agreement or, with respect to any Date of Delivery which occurs after Closing Time, the obligation of the Underwriters to purchase and of the Company to sell the Option Securities to be purchased and sold on such Date of Delivery, shall terminate without liability on the part of any non-defaulting Underwriter.

No action taken pursuant to this Section shall relieve any defaulting Underwriter from liability in respect of its default.

In the event of any such default which does not result in a termination of this Agreement or, in the case of a Date of Delivery which occurs after Closing Time, which does not result in a termination of the obligation of the Underwriters to purchase and the Company to sell the relevant Option Securities, as the case may be, either the Underwriters or the Company shall have the right to postpone Closing Time or the relevant Date of Delivery, as the case may be, for a period not exceeding seven days in order to effect any required changes in the Registration Statement or Prospectus or in any other documents or arrangements. As used herein, the term "Underwriter" includes any person substituted for an Underwriter under this Section 10.

SECTION 11. NOTICES.

All notices and other communications hereunder shall be in writing and shall be deemed to have been duly given if mailed or transmitted by any standard form of telecommunication. Notices to the Underwriters shall be directed to the Underwriters at 32 Old Slip, 21st Floor, New York, New York 10005, Attention: Registration Department, with a copy to Debevoise & Plimpton, 919 Third Avenue, New York, New York, Attention: Michael W. Blair and Steven J. Slutzky; and notices to the Company or CHS shall be directed to them at 155 Franklin Road, Suite 400, Brentwood, Tennessee 37027, Attention: Rachel A. Seifert, Senior Vice President, Secretary and General Counsel, with a copy to Fried, Frank, Harris, Shriver & Jacobson, One New York Plaza, New York, New York 10004, Attention: Jeffrey Bagner.

SECTION 12. PARTIES.

This Agreement shall inure to the benefit of and be binding upon the Underwriters and the Company and their respective successors. Nothing expressed or mentioned in this Agreement is intended or shall be construed to give any person, firm or corporation, other than the Underwriters and the Company and CHS and their respective successors and the controlling persons and officers and directors referred to in Sections 6 and 7 and

their heirs and legal representatives, any legal or equitable right, remedy or claim under or in respect of this Agreement or any provision herein contained. This Agreement and all conditions and provisions hereof are intended to be for the sole and exclusive benefit of the Underwriters and the Company and their respective successors, and said controlling persons and officers and directors and their heirs and legal representatives, and for the benefit of no other person, firm or corporation. No purchaser of Securities from any Underwriter shall be deemed to be a successor by reason merely of such purchase.

SECTION 13. GOVERNING LAW AND TIME.

THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK WITHOUT GIVING EFFECT TO CONFLICTS OF LAW PRINCIPLES THEREOF. EXCEPT AS OTHERWISE SET FORTH HEREIN, SPECIFIED TIMES OF DAY REFER TO NEW YORK CITY TIME.

SECTION 14. EFFECT OF HEADINGS.

The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

If the foregoing is in accordance with your understanding of our agreement, please sign and return to the Company a counterpart hereof, whereupon this instrument, along with all counterparts, will become a binding agreement between the Underwriters, the Company and CHS in accordance with its terms.

Very truly yours,

COMMUNITY HEALTH SYSTEMS, INC.

By: _____
Name:
Title:

CHS/COMMUNITY HEALTH SYSTEMS, INC.

By: _____
Name:
Title:

CONFIRMED AND ACCEPTED,
as of the date first above written:

GOLDMAN, SACHS & CO.
MERRILL LYNCH, PIERCE, FENNER
& SMITH INCORPORATED
CREDIT SUISSE FIRST BOSTON CORPORATION
BANC OF AMERICA SECURITIES LLC
J.P. MORGAN SECURITIES INC.
UBS WARBURG LLC

BY: GOLDMAN, SACHS & CO.

By:

Authorized Signatory

SCHEDULE A

Name of Underwriter	Principal Amount of Initial Securities to Be Purchased
Goldman, Sachs & Co.	$
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
Credit Suisse First Boston Corporation	
Banc of America Securities LLC	
J.P. Morgan Securities Inc.	
UBS Warburg LLC	
Total	$250,000,000

SCHEDULE B

LIST OF PERSONS SUBJECT TO LOCK-UP

Forstmann Little & Co. Equity Partnership - V, L.P.
Forstmann Little & Co. Subordinated Debt and
Equity Management Buyout Partnership - V-I, L.P.
Sheila P. Burke
Robert J. Dole
J. Anthony Forstmann
Theodore J. Forstmann
Dale F. Frey
Sandra A. Horbach
Harvey Klein, M.D.
Thomas H. Lister
Michael A. Miles
Wayne T. Smith
W. Larry Cash

John Fromhold
David Miller
Gary Newsome
Michael T. Portacci
Martin G. Schweinhart
T. Mark Buford
Rachael A. Seifert

Exhibit A-1

FORM OF OPINION OF COMPANY'S GENERAL COUNSEL

TO BE DELIVERED PURSUANT TO

SECTION 5(b)(i)

[OPINION OF GENERAL COUNSEL OF COMMUNITY HEALTH SYSTEMS, INC.]

October ___, 2001

Goldman, Sachs & Co.
Merrill Lynch, Pierce, Fenner & Smith
Incorporated
Credit Suisse First Boston Corporation
Banc of America Securities LLC
J.P. Morgan Securities Inc.
UBS Warburg LLC
c/o Goldman, Sachs & Co.
85 Broad Street
New York, NY 10004

Ladies and Gentlemen:

I am Senior Vice President, Secretary and General Counsel of Community Health Systems, Inc., a Delaware corporation (the "Company"), and CHS/Community Health Systems, Inc., a Delaware corporation and a wholly owned subsidiary of the Company ("CHS"). I am delivering this opinion pursuant to Section 5(b)(i) of the Underwriting Agreement, dated October , 2001 (the "Underwriting Agreement"), among the Company, CHS and Goldman, Sachs & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Credit Suisse First Boston Corporation, Banc of America Securities LLC, J.P. Morgan Securities Inc., and UBS Warburg LLC. All capitalized terms used herein that are defined in, or by reference in, the Underwriting Agreement have the meanings assigned to such terms therein, or by reference therein, unless otherwise defined herein. With your permission, all assumptions and statements of reliance expressly set forth herein have been made without any independent investigation or verification on my part except to the extent otherwise expressly stated, and, except to the extent otherwise expressly stated, I express no opinion with respect to the subject matter or accuracy of such assumptions or items relied upon.

In connection with this opinion, I have (i) investigated such questions of law, (ii) examined originals or certified, conformed or reproduction copies of such agreements, instruments, documents and records of the Company and CHS, such certificates of public officials and such other documents and (iii) received such information from officers and representatives of the Company, CHS and others, in each case as I have deemed necessary or appropriate for the purposes of this opinion.

In all such examinations, I have assumed the legal capacity of all natural persons, the genuineness of all signatures, the authenticity of original and certified documents and the conformity to original or certified copies of all copies submitted to me as conformed or reproduction copies. As to various questions of fact relevant to the opinions expressed herein, I have relied upon, and assume the accuracy of, the representations and warranties contained in the Underwriting Agreement and certificates and oral or written statements and other information of or from public officials, officers or representatives of the Company, CHS and others and assume compliance on the part of all parties to the Underwriting Agreement with the covenants and agreements contained therein.

Based upon the foregoing, and subject to the limitations, qualifications and assumptions set forth herein, I am of the opinion that:

1. The Company is duly qualified as a foreign corporation to transact business and is in good standing in each jurisdiction in which such qualification is required, whether by reason of the ownership or leasing of property or the conduct of business, except where the failure so to qualify or to be in good standing would not result in a Material Adverse Effect.

2. Each subsidiary of the Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, has corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectus and is duly qualified as a foreign corporation to transact business and is in good standing in each jurisdiction in which such qualification is required, whether by reason of the ownership or leasing of property or the conduct of business, except where the failure so to qualify or to be in good standing would not result in a Material Adverse Effect.

3. Except as otherwise disclosed in the Registration Statement, all of the issued and outstanding capital stock of each Subsidiary has been duly authorized and validly issued, is fully paid and non-assessable and, to the best of my knowledge, is owned by the Company, directly or through subsidiaries, free and clear of any security interest, mortgage, pledge, lien, encumbrance, claim or equity; none of the outstanding shares of capital stock of any Subsidiary was issued in violation of the preemptive or similar rights of any securityholder of such Subsidiary.

4. All descriptions in the Prospectus of contracts and other documents to which the Company, CHS or their subsidiaries are a party, are accurate

in all material respects; to the best of my knowledge, there are no franchises, contracts, indentures, mortgages, loan agreements, notes, leases or other instruments required to be described or referred to in the Registration Statement or to be filed as exhibits thereto other than those described or referred to therein or filed as exhibits thereto, and the descriptions thereof or references thereto are correct in all material respects.

5. None of the Company or CHS is in violation of its charter or by-laws.

6. The Company, CHS and each of their subsidiaries and each of the hospitals owned, leased or operated by any of them have all necessary permits, licenses, certificates, approvals (including, without limitation, certification under the Medicare and Medicaid programs), accreditations (including, without limitation, accreditation by the Joint Commission on Accreditation of Healthcare Organizations) and other authorizations ("Governmental Licenses") (except where the failure to have such Governmental Licenses, individually or in the aggregate, would not reasonably be expected to have a material adverse effect on the business, operations or financial condition of the Company, CHS and their subsidiaries taken as a whole), to own their respective properties and to conduct their respective businesses as now being conducted.

7. No filing, consent, approval, authorization, order, registration or qualification of or with any Tennessee court or governmental agency or body is required by or on behalf of the Company for the sale of the Securities or the Conversion Shares (when issued and delivered in accordance with the terms of the Securities and Indenture) or the consummation by the Company and CHS of the transactions contemplated by the Underwriting Agreement, the Securities or the Indenture, expect for such consents, approvals, authorizations, orders, registrations or qualifications as may be required under state or foreign securities or Blue Sky laws, rules and regulations in connection with the purchase and distribution of the Securities by the Underwriters.

8. There is not pending or, to my knowledge, threatened any action, suit, proceeding, inquiry or investigation to which the Company or any subsidiary is a party, or to which the property of the Company or any subsidiary is subject, before or brought by any court or governmental agency or body, domestic or foreign, which would reasonably result in a Material Adverse Effect, or which might reasonably be expected to materially and adversely affect the transactions contemplated in the Underwriting Agreement, the Securities or the Indenture or the performance by the Company of its obligations thereunder; it being understood that I express no opinion with respect to any "qui tam" action as to which I have no knowledge of its pendency.

9. The statements in the Prospectus under "Business of Community Health Systems - Legal Proceedings," "Business of Community Health Systems - Government Regulations," "Business of Community Health Systems - Payment" and "Business of Community Health Systems - Compliance Program," in so far as they constitute summaries of legal matters or documents referred to therein, fairly summarize in all material respects the matters referred to therein.

In the course of the preparation by the Company of the Registration Statement and the Prospectus, I attended conferences with certain of the officers and representatives of the Company and CHS, representatives of the independent public accountants for the Company and CHS and representatives of the Underwriter, at which the contents of the Registration Statement and the Prospectus were discussed. Between the date of effectiveness of the Registration Statement and the time of delivery of this opinion, I attended additional conferences with certain of the officers and representatives of, and the independent public accountants for, the Company and CHS, at which the contents of the Prospectus were discussed to a limited extent. Given the limitations inherent in the independent verification of factual matters and the character of determinations involved in the registration process, I am not passing upon and do not assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Registration Statement and the Prospectus, other than as set forth in paragraph 4 above. Subject to the foregoing and on the basis of the information I gained in the performance of the services referred to above, including information obtained from officers and other representatives of, and the independent accountants for, the Company and CHS, nothing has come to my attention that causes me to believe that, as of the time it became

effective, the Registration Statement contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or that the Prospectus as of their dates contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. Also, subject to the foregoing, nothing has come to my attention in the course of proceedings described in the second sentence of this paragraph that causes me to believe that the Prospectus on the date and time of delivery of this letter contain an untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. I express no view or belief, however, with respect to the financial statements, related notes and schedules thereto and other financial data included in or omitted from the Registration Statement or the Prospectus.

The opinions expressed herein are limited to the federal laws of the United States of America, the laws of the State of Tennessee and, to the extent relevant to the opinions expressed herein, the General Corporation Law of the State of Delaware, each as currently in effect. The opinions expressed herein are given as of the date hereof, and I undertake no obligation to supplement this letter if any applicable laws change after the

date hereof or if I become aware of any facts that might change the opinions expressed herein after the date hereof or for any other reason.

The opinions expressed herein are solely for your benefit in connection with the Underwriting Agreement and may not be relied on in any manner or for any purpose by any other person or entity and may not be quoted in whole or in part without my prior written consent.

Very truly yours,

Rachel A. Seifert
Senior Vice President,
Secretary and General
Counsel

Exhibit A-2

FORM OF OPINION OF FRIED, FRANK,

HARRIS, SHRIVER & JACOBSON

TO BE DELIVERED PURSUANT TO

SECTION 5(b)(ii)

October __, 2001

Goldman, Sachs & Co.
Merrill Lynch, Pierce, Fenner & Smith
Incorporated
Credit Suisse First Boston Corporation
Banc of America Securities LLC
J.P. Morgan Securities Inc.
UBS Warburg LLC
c/o Goldman, Sachs & Co.
85 Broad Street
New York, NY 10004

Ladies and Gentlemen:

We are acting as special counsel to Community Health Systems, Inc., a Delaware corporation (the "Company"), and CHS/Community Health Systems, Inc., a Delaware corporation and a wholly owned subsidiary of the Company ("CHS"), in connection with the underwritten public offering of $250,000,000 or _____% convertible subordinated notes due _____, 2008 of the Company (the "Securities") convertible into shares of common stock, par value $.01 per share (the "Common Stock"), of the Company. This opinion is delivered to you at the Company's request pursuant to Section 5(b)(ii) of the Underwriting Agreement, dated October __, 2001 (the "Underwriting Agreement"), among the Company, CHS and Goldman Sachs & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Credit Suisse First Boston Corporation, Banc of America Securities LLC, J.P. Morgan Securities Inc., and UBS Warburg LLC. All capitalized terms used herein that are defined in, or by reference in, the Underwriting Agreement have the meanings assigned to such terms therein, or by reference therein, unless otherwise defined herein. With your permission, all assumptions and statements of reliance expressly set forth herein have been made without any independent investigation or verification on our part except to the extent otherwise expressly stated, and we express no opinion

with respect to the subject matter or accuracy of such assumptions or items relied upon.

In connection with this opinion, we have (i) investigated such questions of law, (ii) examined originals or certified, conformed or reproduction copies of such agreements, instruments, documents and records of the Company and CHS, such certificates of public officials and such other documents and (iii) received such information from officers and representatives of the Company, CHS and others, in each case as we have deemed necessary or appropriate for the purposes of this opinion.

In all such examinations, we have assumed the legal capacity of all natural persons, the genuineness of all signatures, the authenticity of original and certified documents and the conformity to original or certified copies of all copies submitted to us as conformed or reproduction copies. As to various questions of fact relevant to the opinions expressed herein, we have relied upon, and assume the accuracy of, the representations and warranties contained in the Underwriting Agreement and certificates and oral or written statements and other information of or from public officials, officers or representatives of the Company, CHS and others, and assume compliance on the part of all parties to the Underwriting Agreement with the covenants and agreements contained therein. Insofar as statements herein are based upon our knowledge, such phrase means and is limited to the conscious awareness of facts or other information by lawyers in this Firm who gave substantive attention to the representation of the Company and CHS in connection with the Underwriting Agreement.

With respect to the opinion expressed in the second sentence of paragraph 3 below, we have relied solely on the stock transfer records of the Company. With respect to the opinions expressed in paragraphs 11 and 12 below, our opinions are limited to our review of only those laws and regulations that, in our experience, are normally applicable to transactions of the type contemplated in the Underwriting Agreements. With respect to the opinion expressed in paragraph 8, we have relied solely on the oral advice of the Staff of the Securities and Exchange Commission (the "Commission") that the Commission has issued an order declaring the registration under the 1933 Act of the Securities effective and as to the absence of any stop order or any proceeding relating thereto.

To the extent it may be relevant to the opinions expressed herein, we have assumed that the Trustee has the power and authority to enter into and perform its obligations under the Indenture and to consummate the transactions contemplated thereby and that the Indenture has been duly authorized, executed and delivered by, and constitutes the legal, valid and binding obligations of, the Trustee and is enforceable against the Trustee in accordance with its terms.

Based upon the foregoing, and subject to the limitations, qualifications and assumptions set forth herein, we are of the opinion that:

1. The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Delaware. CHS has been incorporated and is validly existing as a corporation in good standing under the laws of the State of Delaware.

2. Each of the Company and CHS has the corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectus and to enter into and perform its obligations under the Underwriting Agreement, and, in the case of the Company, the Securities and the Indenture.

3. The Company has an authorized capitalization as set forth in the Prospectus under the caption "Capitalization". The outstanding shares of Common Stock have been duly authorized and validly issued and are fully paid and non-assessable.

4. The Securities to be purchased by the Underwriters from the Company pursuant to the Underwriting Agreement have been duly authorized and when executed by the Company and authenticated by the Trustee in accordance with the terms of the Indenture and delivered to and paid for by the Underwriters in accordance with the terms of the Underwriting Agreement will be valid and binding obligations of the Company enforceable against the Company in accordance with their terms and entitled to the benefits provided by the Indenture. The shares of capital stock of the Company initially issuable upon conversion of the Securities have been duly authorized and reserved for issuance and, when issued and delivered in accordance with the terms of the Securities and the Indenture, will be validly issued, fully paid and non-assessable. No holder of the Securities or the Conversion Shares will be subject to personal liability under the Delaware General Corporation Law by reason of being such a holder.

5. The outstanding shares of Common Stock were not issued in violation of, and the issuance and sale of the Securities by the Company and the issuance of the Conversion Shares upon conversion of the Securities is not subject to preemptive or other similar rights arising under (i) the

Delaware General Corporation Law, (ii) the Restated Certificate of Incorporation or the Amended and Restated By-laws of the Company, or (iii) any indenture, mortgage, deed of trust, loan agreement, other agreement or instrument, or court decree or order (including, without limitation, any settlement agreement) which has been filed as an exhibit to the Registration Statement or otherwise identified to us in a certificate provided by the Chief Financial Officer and the General Counsel of the Company as material to the Company and its subsidiaries taken as a whole (collectively, the "Identified Documents").

6. The Underwriting Agreement has been duly authorized, executed and delivered by the Company and CHS.

7. The Indenture has been duly authorized, executed and delivered by the Company and constitutes a valid and binding instrument of the Company, enforceable against the Company in accordance with its terms.

8. The Registration Statement, [including any Rule 462(b) Registration Statement,] has been declared effective under the 1933 Act. No stop order suspending the effectiveness of the Registration Statement has been issued under the 1933 Act and no proceedings for that purpose have been instituted or are pending or, to our knowledge, threatened by the Commission. The Indenture has been qualified under the Trust Indenture Act. Any required filing of the Prospectus pursuant to Rule 424(b) has been made in the manner and within the time period required by Rule 424(b).

9. The Registration Statement, [including any Rule 462(b) Registration Statement,] the Prospectus, [and each amendment or supplement to the Registration Statement and the Prospectus,] as of their respective effective or issue dates (other than the financial statements, related notes, supporting schedules and other financial data included therein or omitted therefrom, as to which we express no opinion) appeared on their face to be responsive as to form in all material respects with the requirements of the 1933 Act and the 1933 Act Regulations and the Trust Indenture Act and the Trust Indenture Act Regulations.

10. The statements in the Prospectus under "Description of Notes," "Description of Capital Stock," "Description of Indebtedness," "Shares Eligible for Future Sale" and "Certain United States Federal Tax Consequences--Non-U.S. Holders" and the statements in the Registration Statement under Item 14, in so far as they constitute summaries of legal matters or documents referred to therein, fairly summarize in all material respects the matters referred to therein.

11. No filing, consent, approval, authorization, order, registration or qualification of or with any United States, New York or, with respect to matters arising under the Delaware General Corporation Law, Delaware court or governmental agency or body is required by or on behalf of the Company for the issue or sale of the Securities or the Conversion Shares (when issued and delivered in accordance with the terms of the Securities and the Indenture) or the consummation by the Company and CHS of the transactions contemplated by the Underwriting Agreement or the Indenture, except the registration under the 1933 Act of the Securities and such consents, approvals, authorizations, orders, registrations or qualifications as (i) have been obtained under the Trust Indenture Act, (ii) may be required under the 1933 Act in connection with the shares of common stock of the Company issuable upon conversion of the Securities and (iii) may be required under state or foreign securities or Blue Sky laws, rules and regulations in connection with the purchase and distribution of the Securities by the Underwriters.

12. The execution, delivery and performance by the Company and CHS of the Underwriting Agreement, the Securities and the Indenture, the consummation of the transactions contemplated by the Underwriting Agreement, the Securities and the Indenture and the issuance of the Conversion Shares (when issued and delivered in accordance with the terms of the Securities and the Indenture) do not and will not conflict with, or result in a breach or violation of, any of the terms or provisions of, or

constitute a default or a Repayment Event under, or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company, CHS or any of their subsidiaries pursuant to (i) any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries is bound or to which any of the property or assets of the Company or any of its subsidiaries is subject, (ii) the provisions of the Restated Certificate of Incorporation or the Amended and Restated By-laws of the Company, (iii) the Delaware General Corporation Law or any present law, or present regulation of any government agency or authority, of the State of New York or the United States of America known by us to be applicable to the Company or any of its subsidiaries or their respective properties (except that we express no opinion in this paragraph 12 with regard to the anti-fraud provisions of any federal or state Securities laws or rules or regulations promulgated thereunder) or (iv) any court decree or order binding upon the Company or any of its subsidiaries or their respective properties (it being understood that with respect to the opinions

in clauses (i) and (iv) of this paragraph, such opinions are limited to the Identified Documents).

13. Other than as disclosed in the Prospectus, to our knowledge, there are no persons with registration rights or other similar rights to have any securities of the Company registered pursuant to the Registration Statement or otherwise registered by the Company under the 1933 Act.

14. The Company is not an "investment company," as such term is defined in the Investment Company Act of 1940, as amended.

In the course of our engagement to represent or to advise the Company, we have not become aware of any pending legal proceeding before, or pending investigation by, any court or administrative agency or authority or any arbitration tribunal of the United States or the State of New York against or directly affecting the Company, CHS or any of their respective subsidiaries or properties which seeks to enjoin or otherwise prevent the consummation of, or to recover any damages or obtain relief in connection with or which would materially adversely affect the legality, validity or enforceability of, the Underwriting Agreement or the transactions contemplated thereby. In making the foregoing statement, we have endeavored, to the extent we have believed necessary, to determine from lawyers currently in our Firm who have performed substantive legal services for the Company, whether such services involved substantive attention in the form of legal representation concerning pending legal proceedings or pending investigations of the nature referred to above. Beyond that, we have not made any review, search or investigation of public files or records or files or records of the Company, CHS or any of their respective subsidiaries or of their transactions, or any other investigation or inquiry with respect to the foregoing statement.

In the course of the preparation by the Company of the Registration Statement and the Prospectus, we attended conferences with certain of the officers and other representatives of the Company and CHS, representatives of the independent public

accountants for the Company and CHS and representatives of the Underwriters, at which the contents of the Registration Statement and the Prospectus were discussed. Between the date of effectiveness of the Registration Statement and the time of delivery of this opinion, we attended additional conferences with certain of the officers and representatives of, and the independent public accountants for, the Company and CHS, at which the contents of the Prospectus were discussed to a limited extent. Given the limitations inherent in the independent verification of factual matters and the character of determinations involved in the registration process, we are not passing upon and do not assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Registration Statement and the Prospectus, other than as set forth in paragraph 10 above. Subject to the foregoing and on the basis of the information we gained in the performance of the services referred to above, including information obtained from officers and other representatives of, and the independent accountants for, the Company and CHS, nothing has come to our attention that causes us to believe that, as of the time it became effective, the Registration Statement contained an untrue statement of a material fact or omitted to state a material fact necessary to make the statements therein not misleading, or that the Prospectus as of its dates contained any untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. Also, subject to the foregoing, nothing has come to our attention in the course of proceedings described in the second sentence of this paragraph that causes us to believe that the Prospectus on the date and at the time of delivery of this letter contains an untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. We express no view or belief, however, with respect to the financial statements, related notes and schedules thereto and other financial data included in or omitted from the Registration Statement or the Prospectus.

The opinions set forth above are subject to the following qualifications:

A. With respect to the opinion expressed in paragraph 12 above: (i) we have made no independent investigation as to whether the Identified Documents, which are governed by the laws of any jurisdiction other than the State of New York, will be enforced as written under the laws of such jurisdiction; and (ii) we express no opinion with respect to any conflict with or any breach or violation of, or default under, any Identified Document (x) not readily ascertainable from the face of such document, (y) arising under or based upon any cross-default provisions insofar as such conflict, breach, violation or default relates to a default under a document which is not an Identified Document, or (z) arising under or based upon any covenant of a financial or numerical nature or which requires arithmetic computation.

B. We express no opinion as to the validity, binding effect or enforceability of any provision of any agreement containing any purported

waiver, release, variation of rights, or other agreement of similar effect (all of the foregoing, collectively, a "Waiver") by the Company under any of such agreements to the extent limited by provisions of applicable law (including judicial decisions), or to the extent that such a Waiver applies to a right, claim, duty, defense or ground for discharge otherwise existing or occurring as a matter of law (including judicial decisions), except to the extent that such a Waiver is effective under, and is not prohibited by or void or invalid under provisions of applicable law (including judicial decisions).

C. We express no opinion as to the indemnity, contribution or exculpation law provisions of any agreement.

D. The opinions expressed above are subject to the effect of, and we express no opinions herein as to, the application of state or foreign securities or Blue Sky laws or any rules and regulations thereunder.

E. We express no opinion as to the enforceability of any provision of any agreement specifying that provisions thereof may be waived only in writing, to the extent that an oral agreement or an implied agreement by trade practice or course of conduct has been created that modifies any provision of such agreement.

F. We express no opion as to the validity, binding effect or enforceability of any provision of any agreement relating to (i) forum selection or submission to jurisdiction (including any waiver of any objection to venue in any court or that a court is an inconvenient forum) to the extent the forum is a federal court or such provision is to be considered by any court other than a court of the State of New York, or (ii) choice of governing law to the extent that such provision is to be considered by any court other than a court of the State of New York or a federal district court sitting in the State of New York, in each case, applying the choice of law principles of the State of New York, or (iii) waivers of any rights to trial by jury.

G. The opinions expressed herein are subject to (i) applicable bankruptcy, insolvency, moratorium, reorganization, fraudulent conveyance and other similar laws affecting creditors' rights and remedies generally and (ii) general principles of equity including, without limitation, standards of materiality, good faith, fair dealing and reasonableness, equitable defenses and limits as to the availability of equitable remedies, whether such principles are considered in a proceeding at law or in equity.

The opinions expressed herein are limited to the federal laws of the United States of America, the laws of the State of New York and, to the extent relevant to the opinions expressed herein, the General Corporation Law of the State of Delaware, each as currently in effect. The opinions expressed herein are given as of the date hereof, and we undertake no obligation to supplement this letter if any applicable laws change after the date hereof or if we become aware of any facts that might change the opinions expressed herein after the date hereof or for any other reason.

The opinions expressed herein are solely for your benefit in connection with the Underwriting Agreement and may not be relied on in any manner or for any purpose by any other person or entity and may not be quoted in whole or in part without our prior written consent.

Very truly yours,

FRIED, FRANK, HARRIS, SHRIVER & JACOBSON

By: _____
Jeffrey Bagner

[FORM OF LOCK-UP FROM DIRECTORS, OFFICERS OR OTHER STOCKHOLDERS PURSUANT TO SECTION 5(J)]

Exhibit B

COMMUNITY HEALTH SYSTEMS, INC.

LOCK-UP AGREEMENT

SEPTEMBER __, 2001

Goldman, Sachs & Co.
and to each of the Underwriters
named in the Underwriting Agreements
c/o Goldman, Sachs & Co.
85 Broad Street
New York, NY 10004

Re: Community Health Systems, Inc.- Lock-Up Agreement

Ladies and Gentlemen:

The undersigned understands that Goldman, Sachs & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Credit Suisse First Boston Corporation, Banc of America Securities, LLC, J.P. Morgan Securities, Inc., and UBS Warburg LLC as the representatives (the "Representatives"), propose to enter into an Underwriting Agreement on behalf of the several Underwriters named in Schedule I to such agreement (collectively, the "Syndicate Members"), with Community Health Systems, Inc., a Delaware corporation (the "Company"), providing for a public offering of the Common Stock of the Company (the "Shares"). The undersigned further understands that Goldman, Sachs & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Credit Suisse First Boston Corporation, Banc of America Securities, LLC, J.P. Morgan Securities, Inc., and UBS Warburg LLC (together with the Syndicate Members, the "Underwriters"), propose to enter into an Underwriting Agreement with the Company, providing for a public offering of convertible subordinated notes of the Company (the "Convertible Notes"). Each such offering will be made pursuant to a Registration Statement on Form S-1 filed on September 7, 2001 with the Securities and Exchange Commission (the "SEC"), as amended by Amendment No. 1 on September 21, 2001.

In consideration of the agreement by the Underwriters to offer and sell the Shares and the Convertible Notes, and of other good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, the undersigned agrees that, during the period beginning from the date of the final Prospectus covering the public offering of the Shares and the date of the final Prospectus covering the public offering of the Convertible

Notes and continuing to and including the date 90 days after the date of each such final Prospectus, the undersigned will not, directly or indirectly, offer, sell, contract to sell, pledge, grant any option to purchase, make any short sale or otherwise dispose of any shares of Common Stock of the Company, or any options or warrants to purchase any shares of Common Stock of the Company, or any securities convertible into, exchangeable for or that represent the right to receive shares of Common Stock of the Company, whether now owned or hereinafter acquired by the undersigned or with respect to which the undersigned has or hereafter acquires the power of disposition (collectively the "Undersigned's Shares"), or file any registration statement under the Securities Act of 1933, as amended, with respect to any of the foregoing.

The foregoing restriction is expressly agreed to preclude the undersigned from engaging in any hedging or other transaction which is designed to or which reasonably could be expected to lead to or result in a sale or disposition of the Undersigned's Shares even if such Shares would be disposed of by someone other than the undersigned. Such prohibited hedging or other transactions would include without limitation any short sale or any purchase, sale or grant of any right (including without limitation any put or call option) with respect to any of the Undersigned's Shares or with respect to any security that includes, relates to, or derives any significant part of its value from such Shares.

Notwithstanding the foregoing, the undersigned may transfer the Undersigned's Shares (i) as a BONA FIDE gift or gifts, provided that the donee or donees thereof agree to be bound in writing by the restrictions set forth herein, (ii) to any trust for the direct or indirect benefit of the undersigned or the immediate family of the undersigned, provided that the trustee of the trust agrees to be bound in writing by the restrictions set forth herein, and provided further that any such transfer shall not involve a disposition for value, (iii) if such transfer occurs by operation of law, such as rules of descent and distribution, statutes governing the effects of a merger or a qualified domestic order, provided that the transferee agrees to be bound in writing by the restrictions set forth herein or (iv) with the prior written consent of Goldman, Sachs & Co. on behalf of the Underwriters. For purposes of this Lock-Up Agreement, "immediate family" shall mean any relationship by blood, marriage or adoption, not more remote than first cousin. In addition, notwithstanding the foregoing, if the undersigned is a corporation, the corporation may transfer the capital stock of the Company to any wholly-owned subsidiary of such corporation; PROVIDED, HOWEVER, that in any such case, it shall be a condition to the transfer that the transferee execute an agreement stating that the transferee is receiving and holding such capital stock subject to the provisions of this Agreement and there shall be no further transfer of such capital stock except in accordance with this Agreement, and provided further that any such transfer shall not involve a disposition for value. The undersigned also agrees and consents to the entry of stop transfer instructions with the Company's transfer agent and registrar against the transfer of the Undersigned's Shares except in compliance with the foregoing restrictions.

The undersigned understands that the Company and the Underwriters are relying upon this Lock-Up Agreement in proceeding toward consummation of the offerings. The

undersigned further understands that this Lock-Up Agreement is irrevocable and shall be binding upon the undersigned's heirs, legal representatives, successors, and assigns.

Very truly yours,

Exact Name of Shareholder

Authorized Signature

Title

Exhibit 4.1

==========

COMMUNITY HEALTH SYSTEMS, INC.

and

First Union National Bank,

as Trustee

INDENTURE

Dated as of October __, 2001

__% Convertible Subordinated Notes due 2008

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CROSS-REFERENCE TABLE*

TRUST INDENTURE ACT SECTION	INDENTURE SECTION
310(a)(1)	7.10
(a)(2)	7.10
(a)(3)	N.A.
(a)(4)	N.A.
(a)(5)	7.10
(b)	7.10
(c)	N.A.
311(a)	7.11
(b)	7.11
(c)	N.A.
312(a)	2.05
(b)	12.03
(c)	12.03
313(a)	7.06
(b)(1)	12.03
(b)(2)	7.07;12.03
(c)	7.06;12.02
(d)	7.06
314(a)	4.03;12.02
(b)	N.A.
(c)(1)	12.04
(c)(2)	12.04
(c)(3)	N.A.
(d)	N.A.
(e)	12.05
(f)	N.A.
315(a)	7.01
(b)	7.05;12.02
(c)	7.01
(d)	7.01
(e)	6.12
316(a)(last sentence)	2.10
(a)(1)(A)	6.05
(a)(1)(B)	6.04
(a)(2)	N.A.
(b)	6.07
(c)	2.13

* This Cross-Reference Table is not part of the Indenture.

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INDENTURE dated as of October __, 2001 between Community Health Systems, Inc., a Delaware corporation (as further defined below, the "Company"), and First Union National Bank, as trustee (the "Trustee").

The Company and the Trustee agree as follows for the benefit of each other and for the equal and ratable benefit of the Holders of the Notes:

ARTICLE 1

DEFINITIONS AND INCORPORATION BY REFERENCE

Section 1.01 DEFINITIONS.

"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, "control," as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise; provided that beneficial ownership of 10% or more of the Voting Stock of a Person shall be deemed to be control. For purposes of this definition, the terms "controlling, "controlled by" and "under common control with" shall have correlative meanings.

"Agent" means any Registrar, Paying Agent or Conversion Agent.

"Agent Member" means any member of, or participant in, the Depositary.

"Applicable Procedures" means, with respect to any transfer or transaction involving a Global Note or beneficial interest therein, the rules and procedures of DTC, in each case to the extent applicable to such transaction and as in effect from time to time.

"Bankruptcy Law" means Title 11, U.S. Code or any similar Federal or state law of any jurisdiction relating to bankruptcy, insolvency, winding up, liquidation, reorganization or relief of debtors.

"Beneficial Owner" has the meaning assigned to such term in Rule 13d-3 and Rule 13d-5 under the Exchange Act. The terms "Beneficially Owns" and "Beneficially Owned" shall have correlative meanings.

"Board of Directors" means (1) with respect to a corporation, the board of directors of the corporation or any duly authorized committee of such board of directors and, (2) with respect to any other Person, the board or committee of such Person serving a similar function.

"Board Resolution" means a copy of a resolution certified by the Secretary or an Assistant Secretary of the Company to have been duly adopted by the Board of Directors of the Company and to be in full force and effect on the date of such certification and delivered to the Trustee.

"Business Day" means any day other than a Legal Holiday.

"Capital Stock" of any Person means any and all shares, interests, participations or other equivalents, however designated, of corporate stock or other equity participations, including partnership interests, whether general or limited, of the Person.

"Change of Control" means the occurrence of any of the following after the Notes are originally issued:

(1) any Person, including any syndicate or group deemed to be a "person" under Section 13(d)(3) of the Exchange Act, becomes the Beneficial Owner, directly or indirectly, through a purchase, merger or other acquisition transaction or series of transactions, of shares of the Company's capital stock entitling that Person to exercise 50% or more of the total voting power of all shares of the Company's capital stock entitled to vote generally in elections of directors; however, any acquisition by the Company, any Subsidiary of the Company, the Principals and their Related Parties or any employee benefit plan of the Company and any merger or consolidation that is not a Change of Control under clause (2) below will not trigger this provision;

(2) the Company consolidates with or merges with or into any other Person or another Person merges into the Company, except if the transaction satisfies any of the following: (i) the Principals and their Related Parties have, directly or indirectly, 50% or more of the total voting power of all shares of capital stock of the continuing or surviving corporation entitled to vote generally in elections of directors of the continuing or surviving corporation immediately after the transaction; (ii) the transaction is a merger which does not result in any reclassification, conversion, exchange or cancellation of outstanding shares of the Company's capital stock; or (iii) the transaction is a merger effected only to change the Company's jurisdiction of incorporation and it results in a reclassification, conversion or exchange of outstanding shares of the Company's common stock only into other shares of Common Stock or shares of common stock of another corporation;

(3) the Company conveys, transfers, sells, leases or otherwise disposes, in one or a series of transactions, of all or substantially all of its assets to another Person, other than a Principal or a Related Party, directly or indirectly, 50% or more of the total voting power of all shares of capital stock of such Person

entitled to vote generally in elections of directors immediately after the consummation of such transaction; or

(4) the first day on which a majority of the members of the Board of Directors of the Company are not Continuing Directors.

Notwithstanding the foregoing, a Change of Control shall not be deemed to have occurred if (i) the Closing Price Per Share of the Common Stock for any five Trading Days within the period of 10 consecutive Trading Days ending immediately after the later of the Change of Control or the date of the public announcement of the Change of Control (in the case of a Change of Control under clause (1) above) or the period of 10 consecutive Trading Days ending immediately before the Change of Control (in the case of a Change of Control under clause (2) or (3) above) shall equal or exceed 105% of the Conversion Price of the Notes in effect on each such Trading Day or (ii) all of the consideration (excluding cash payments for fractional shares and cash payments made pursuant to dissenters' appraisal rights) in a merger or consolidation otherwise constituting a Change of Control under clause (1) or (2) above issuable to holders of Common Stock consists of shares of common stock traded on a national securities exchange or quoted on the Nasdaq National Market (or will be so traded or quoted immediately following such merger or consolidation) and as a result of such merger or consolidation the Notes become convertible into such common stock.

"Closing Price Per Share" means, with respect to the Common Stock, for any day, (i) the closing sale price (or, if no closing sale price is reported, the last reported sale price) (regular way) on the New York Stock Exchange or, (ii) if the Common Stock is not listed for trading on the New York Stock Exchange, the last reported sale price (regular way) per share or, in case no such reported sale takes place on such day, the average of the reported closing bid and asked prices regular way, in either case, on the principal national securities exchange on which the Common Stock is listed or admitted to trading, (iii) if the Common Stock is not so listed or admitted to trading on a national securities exchange, the last reported bid price (regular way) on the Nasdaq National Market, or (iv) if the Common Stock is not quoted on the Nasdaq National Market or listed or admitted to trading on any national securities exchange, the average of the closing bid prices in the over-the-counter market as furnished by any New York Stock Exchange member firm selected from time to time by the Company for that purpose.

"Commission" or "SEC" means the Securities and Exchange Commission.

"common stock" includes any stock of any class of capital stock which has no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation, dissolution or winding up of the issuer thereof and which is not subject to redemption by the issuer thereof.

"Common Stock" means the Common Stock, par value $.01 per share, of the Company of the type authorized at the date of this instrument as originally executed. Subject to the provisions of Section 10.11, shares issuable on conversion or repurchase of Notes shall include only shares of Common Stock or shares of any class or classes of common stock resulting from any reclassification or reclassifications thereof; provided, however, that if at any time there shall be more than one such resulting class, the shares so issuable on conversion of Notes shall include shares of all such classes, and the shares of each such class then so issuable shall be substantially in the proportion which the total number of shares of such class resulting from all such reclassifications bears to the total number of shares of all such classes resulting from all such reclassifications.

"Company" means the Person named as the "Company" in the first paragraph of this instrument until a successor Person shall have become such pursuant to the applicable provisions of this Indenture, and thereafter "Company" shall mean such successor Person.

"Continuing Directors" means, as of any date of determination, any member of the Board of Directors of the Company who:

(1) was a member of the Board of Directors on the Issue Date;

(2) was nominated for election or elected to the Board of Directors with the approval of a majority of the Continuing Directors who were members of such board of directors at the time of such nomination or election; or

(3) is a designee of a Principal or a Related Party of a Principal or was nominated by a Principal or Related Party.

"Conversion Agent" means any Person authorized by the Company to convert Notes in accordance with Article 10. The Company has initially appointed the Trustee as its Conversion Agent pursuant to Section 2.03 hereof.

"Conversion Price" shall equal U.S. $1,000 divided by the Conversion Rate (rounded to the nearest cent).

"Corporate Trust Office of the Trustee" means the following office of the Trustee or such other address as to which the Trustee may give notice: First Union National Bank, 12 East 49th Street, 37th Floor, New York, NY 10017, Attention: Corporate Trust Department.

"Default" means any event that is, or with the passage of time or the giving of notice or both would be, an Event of Default.

"Depositary" means, with respect to any Notes (including any Global Notes), a clearing agency that is registered under the Exchange Act and is designated by the

Company to act as Depositary for such Notes (or any successor securities clearing agency so registered).

"Designated Senior Debt" means the Company's obligations under any particular Senior Debt in which the instrument creating or evidencing the same or the assumption or guarantee thereof, or related agreements or documents to which the Company is a party, expressly provides that such indebtedness shall be "Designated Senior Debt" for purposes of this Indenture. The instrument, agreement or other document evidencing any Designated Senior Debt may place limitations and conditions on the right of such Senior Debt to exercise the rights of Designated Senior Debt.

"Disqualified Stock" means any Capital Stock that, by its terms (or by the terms of any security into which it is convertible, or for which it is exchangeable, in each case at the option of the holder thereof), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder thereof, in whole or in part, on or prior to the date that is 91 days after the date on which the Notes mature.

"DTC" means The Depository Trust Company, a New York corporation.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Global Note" means a Note that is registered in the Note Register for the Notes in the name of a Depositary or a nominee thereof.

"Guarantee" or "guarantee" means a guarantee (other than by endorsement of negotiable instruments for collection in the ordinary course of business), direct or indirect, in any manner including, without limitation, by way of a pledge of assets or through letters of credit or reimbursement agreements in respect thereof, of all or any part of any Indebtedness, measured as the lesser of the aggregate outstanding amount of the Indebtedness so guaranteed and the face amount of the Guarantee.

"Holder" means the Person in whose name the Note is registered in the Note Register.

"Indebtedness" means, with respect to any specified Person, whether or not contingent:

(1) all indebtedness evidenced by a credit or loan agreement, note, bond, debenture or other written obligation;

(2) all obligations for money borrowed;

(3) all obligations evidenced by a note or similar instrument given in connection with the acquisition of any businesses, properties or assets of any kind;

(4) all obligations (i) as lessee under leases required to be capitalized on the balance sheet of the lessee under generally accepted accounting principles or (ii) as lessee under other leases for facilities, capital equipment or related assets, whether or not capitalized, entered into or leased for financing purposes;

(5) all obligations under interest rate and currency swaps, caps, floors, collars, hedge agreements, forward contracts or similar agreements or arrangements;

(6) all obligations with respect to letters of credit, bank guarantees, bankers' acceptances and similar facilities, including reimbursement obligations with respect to the foregoing;

(7) all obligations issued or assumed as the deferred purchase price of any business, property, assets (including intangibles) or services, excluding trade accounts payable and accrued expenses arising in the ordinary course of business as determined in good faith by the Company;

(8) all obligations of the type referred to in the above clauses of another person and all dividends of another person, the payment of which, in either case, the Company has assumed or guaranteed, or for which the Company is responsible or liable, directly or indirectly, jointly or severally, as obligor, guarantor or otherwise, or which are secured by a lien on our property; and

(9) renewals, extensions, modifications, replacements, restatements and refundings of, or any indebtedness or obligation issued in exchange for, any such indebtedness or obligation described in the above clauses of this definition.

The amount of any Indebtedness outstanding as of any date shall be (i) the accreted value thereof, in the case of any Indebtedness issued with original issue discount; and (ii) the principal amount (or portion of the discounted rental stream attributable to principal in the case of capitalized leases) thereof, together with any interest thereon that is more than 30 days past due, in the case of any other Indebtedness.

"Indenture" means this Indenture, as amended or supplemented from time to time.

"Interest Payment Date" means the Stated Maturity of an installment of interest on the Notes.

"Issue Date" means October __, 2001.

"Legal Holiday," when used with respect to any place of payment or Place of Conversion, as the case may be, means a Saturday, a Sunday or a day on which banking institutions in The City of New York or Nashville, Tennessee, at such place of payment or Place of Conversion, as the case may be, are authorized by law, regulation or executive order to remain closed. If a payment date is a Legal Holiday at a place of payment, payment may be made at that place on the next succeeding day that is not a Legal Holiday, and no interest shall accrue on such payment for the intervening period.

"Make-Whole Payment" has the meaning specified in Section 3.08.

"Maturity," when used with respect to any Notes, means the date on which the principal of such Notes becomes due and payable as provided in the Notes or herein provided, whether at the Stated Maturity or by declaration of acceleration, call for redemption, exercise of the repurchase right set forth in Article 11 or otherwise.

"Non-global Note" means a Note that is in definitive, full registered form, without interest coupons, and that is not a Global Note.

"Notes" means the Company's __% Convertible Subordinated Notes due 2008 and more particularly means any Notes authenticated and delivered under this Indenture.

"Notice Date" has the meaning specified in Section 3.08.

"Officer" means, with respect to any Person, the Chairman of the Board, the Chief Executive Officer, the President, the Chief Operating Officer, the Chief Financial Officer, the Treasurer, any Assistant Treasurer, the Controller, the Secretary or any Vice-President of such Person.

"Officers' Certificate" means a certificate signed on behalf of the Company by two Officers of the Company, one of whom must be the principal executive officer, the chief financial officer or the treasurer of the Company that meets the requirements of Section 12.05.

"Opinion of Counsel" means an opinion from legal counsel, who is reasonably acceptable to the Trustee, that meets the requirements of Section 12.05. The counsel may be an employee of or counsel to the Company or any Subsidiary of the Company.

"Optional Redemption" has the meaning specified in Section 3.09.

"Payment Blockage Notice" has the meaning specified in Section 14.02.

"Person" means any individual, corporation, partnership, joint venture, association, limited liability company, joint-stock company, trust, unincorporated organization, government subdivision thereof or any other entity.

"Place of Conversion" means any city in which any Conversion Agent is located.

"Predecessor Note" of any particular Note means every previous Note evidencing all or a portion of the same debt as that evidenced by such particular Note; and, for the purposes of this definition, any Note authenticated and delivered under Section 2.08 in exchange for or in lieu of a mutilated, destroyed, lost or stolen Note shall be deemed to evidence the same debt as the mutilated, destroyed, lost or stolen Note.

"Principal" means Forstmann Little & Co. Equity Partnership - V, L.P. or any of its Affiliates, Forstmann Little & Co. Subordinated Debt and

Equity Management Buyout Partnership - VI, L.P. or any of its Affiliates and each executive officer of the Company as set forth in the Prospectus as of the date of this Indenture.

"Provisional Redemption" has the meaning specified in Section 3.08.

"Record Date Period" means the period from the close of business of any Regular Record Date next preceding any Interest Payment Date to the opening of business on such Interest Payment Date.

"Redemption Date," when used with respect to any Note to be redeemed, means the date fixed for redemption by or pursuant to this Indenture.

"Redemption Price," when used with respect to any Note to be redeemed, means the price at which it is to be redeemed pursuant to this Indenture.

"Regular Record Date" for interest payable in respect of any Note on any Interest Payment Date means the __ or __ (whether or not a Business Day), as the case may be, next preceding such Interest Payment Date.

"Related Party" means:

(1) any controlling stockholder, 80% (or more) owned Subsidiary, or immediate family member (in the case of an individual) of any Principal; or

(2) any trust, corporation, partnership or other entity, the beneficiaries, stockholders, partners, owners or Persons beneficially holding an 80% or more interest of which consist of any one or more Principals and/or such other Persons referred to in the immediately preceding clause (1).

"Representative" means (1) the indenture trustee or other trustee, agent or representative for any Senior Debt or (2) with respect to any Senior Debt that does not have any such trustee, agent or other representative, (a) in the case of such Senior Debt issued pursuant to an agreement providing for voting arrangements as among the holders or owners of such Senior Debt, any holder or owner of such Senior Debt acting with the

consent of the required persons necessary to bind such holders or owners of such Senior Debt and (b) in the case of all other such Senior Debt, the holder or owner of such Senior Debt.

"Responsible Officer" when used with respect to the Trustee, means any officer within the Corporate Trust Administration of the Trustee (or any successor group of the Trustee) with direct responsibility for the administration of this Indenture and also means, with respect to a particular corporate trust matter, any other officer of the Trustee to whom such matter is referred because of his or her knowledge of and familiarity with the particular subject.

"Rule 144" means Rule 144 promulgated under the Securities Act.

"Securities Act" means the Securities Act of 1933, as amended.

"Senior Debt" means the principal of, and premium, if any, and interest on (including all interest accruing subsequent to the commencement of any bankruptcy or similar proceeding, whether or not a claim for post-petition interest is allowable as a claim in any such proceeding) and rent payable on or termination payment with respect to or in connection with, and all fees, costs, expenses and other amounts accrued or due on or in connection with, Indebtedness of the Company, whether absolute or contingent, secured or unsecured, due or to become due, outstanding on the date of this Indenture or thereafter created, incurred, assumed, guaranteed or in effect guaranteed by the Company (including all deferrals, renewals, extensions or refundings of, or amendments, modifications or supplements to, the foregoing). The term "Senior Debt" also includes all Designated Senior Debt and shall not include Indebtedness of the Company to any of its Subsidiaries. Senior Debt will not include any other Indebtedness or obligations if its terms or the terms of the instrument under which or pursuant to which it is issued expressly provide that such Indebtedness shall not be senior in right of payment to the Notes or expressly provides that such Indebtedness is equal with or junior to the Notes.

"Significant Subsidiary" means any Subsidiary of the Company which is a "Significant Subsidiary" as defined in Rule 1-02(w) of Regulation S-X under the Exchange Act.

"Stated Maturity," when used with respect to the principal amount of any Note or such payment of interest thereon, means the date specified in such Note as the fixed date on which the principal of such Note or such installment of interest is due and payable.

"Subsidiary" means, with respect to any Person:

(1) any corporation, association or other business entity of which at least 50% of the total voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency) to vote

in the election of directors,

managers or trustees thereof is at the time owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person (or a combination thereof) and, in the case of any such entity of which 50% of the total voting power of shares of Capital Stock is so owned or controlled by such Person or one or more of the other Subsidiaries of such Person, such Person and its Subsidiaries also has the right to control the management of such entity pursuant to contract or otherwise; and

(2) any partnership (a) the sole general partner or the managing general partner of which is such Person or a Subsidiary of such Person or (b) the only general partners of which are such Person or of one or more Subsidiaries of such Person (or any combination thereof).

"Successor Note" of any particular Note means every Note issued after, and evidencing all or a portion of the same debt as that evidenced by, such particular Note; and, for the purposes of this definition, any Note authenticated and delivered under Section 2.08 in exchange for or in lieu of a mutilated, destroyed, lost or stolen Note shall be deemed to evidence the same debt as the mutilated, destroyed, lost or stolen Note.

"TIA" means the Trust Indenture Act of 1939 (15 U.S.C. Section 77aaa-77bbbb) as in effect on the date on which this Indenture is qualified under the TIA; provided, however, that in the event the Trust Indenture Act of 1939 is amended after such date, then "TIA" means, to the extent required by such amendment, the Trust Indenture Act of 1939 as so amended.

"Trading Day" means (i) if the Common Stock is listed or admitted for trading on the New York Stock Exchange or any other national or regional securities exchange, days on which such national or regional securities exchange is open for business, or (ii) if the Common Stock is quoted on the Nasdaq National Market or any other system of automated dissemination of quotations of securities prices, days on which trades may be effected through such system, or (iii) if the Common Stock is not listed on a national or regional securities exchange or quoted on the Nasdaq National Market or any other system of automated dissemination of quotation of securities prices, days on which the Common Stock is traded regular way in the over-the-counter market and for which a closing bid and a closing asked price for the Common Stock are available.

"Trustee" means First Union National Bank until a successor replaces First Union National Bank in accordance with the applicable provisions of this Indenture and thereafter means the successor serving hereunder.

"Underwriters" means Goldman, Sachs & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Credit Suisse First Boston Corporation, Banc America Securities LLC, J.P. Morgan Securities Inc., and UBS Warburg LLC.

"Underwriting Agreement" means the Underwriting Agreement, dated as of October __ , 2001, among the Company and the Underwriters, as such agreement may be amended from time to time.

"Voting Stock" of any Person as of any date means the Capital Stock of such Person that is at the time entitled to vote in the election of the Board of Directors or all interests in such Person with the ability to control the management or actions of such Person.

Section 1.02 OTHER DEFINITIONS.

Defined in TERM	SECTION
"Arrangement Purchaser"	3.10
"Authentication Order"	2.02
"Change of Control Offer"	11.01
"Constituent Person"	10.11
"Conversion Rate"	10.01
"Event of Default"	6.01
"Non-Electing Share"	10.11
"Note Register"	2.03
"Paying Agent"	2.03
"Payment Default"	6.01
"Registrar"	2.03
"Repurchase Date"	11.03

Section 1.03 INCORPORATION BY REFERENCE OF TRUST INDENTURE ACT. Whenever this Indenture refers to a provision of the TIA, the provision is incorporated by reference in and made a part of this Indenture.

The following TIA terms used in this Indenture have the following meanings:

"indenture securities" means the Notes;

"indenture security Holder" means a Holder;

"indenture to be qualified" means this Indenture;

"indenture trustee" or "institutional trustee" means the Trustee; and

"obligor" on the Notes means the Company and any successor obligor upon the Notes.

All other terms used in this Indenture that are defined by the TIA, defined by TIA reference to another statute or defined by SEC rule under the TIA have the meanings so assigned to them.

Section 1.04 RULES OF CONSTRUCTION. Unless the context otherwise requires:

(a) a term has the meaning assigned to it;

(b) an accounting term not otherwise defined has the meaning assigned to it in accordance with GAAP;

(c) "or" is not exclusive;

(d) words in the singular include the plural, and in the plural include the singular;

(e) provisions apply to successive events and transactions;

(f) references to sections of or rules under the Securities Act or the Exchange Act shall be deemed to include substitute, replacement of successor sections or rules adopted by the Commission from time to time;

(g) references to any statute, law, rule or regulation shall be deemed to refer to the same as from time to time amended and in effect and to any successor statute, law, rule or regulation; and

(h) references to any contract, agreement or instrument shall mean the same as amended, modified, supplemented or amended and restated from time to time, in each case, in accordance with any applicable restrictions contained in this Indenture.

ARTICLE 2

THE NOTES

Section 2.01 FORM AND DATING. The Notes, the Trustee's certificate of authentication and the conversion notices shall be substantially in the form of Exhibit A hereto. The Notes may have notations, legends or endorsements required by law, stock exchange rule or usage. Each Note shall be dated the date of its authentication. The Notes shall be in denominations of U.S. $1,000 and integral multiples thereof.

The terms and provisions contained in the Notes shall constitute, and are hereby expressly made, a part of this Indenture and the Company and the Trustee, by their execution and delivery of this Indenture, expressly agree to such terms and provisions

and to be bound thereby. However, to the extent any provision of any Note conflicts with the express provisions of this Indenture, the provisions of this Indenture shall govern and be controlling.

Upon their original issuance, Notes issued as contemplated by the Underwriting Agreement shall be issued in the form of one or more Global Notes in definitive, fully registered form without interest coupons. Such Global Note shall be registered in the name of DTC, as Depositary, or its nominee and deposited with the Trustee, as custodian for DTC, for credit by DTC to the

respective accounts of beneficial owners of the Notes represented thereby (or such other accounts as they may direct).

Section 2.02 EXECUTION AND AUTHENTICATION. Two Officers shall sign the Notes for the Company by manual or facsimile signature.

If an Officer whose signature is on a Note no longer holds that office at the time a Note is authenticated, the Note shall nevertheless be valid.

A Note shall not be valid until authenticated by the manual signature (which may be by facsimile) of the Trustee. The signature shall be conclusive evidence that the Note has been authenticated under this Indenture.

At any time and from time to time after the execution and delivery of this Indenture, the Company may deliver Notes executed by the Company to the Trustee for authentication; and the Trustee shall authenticate and deliver such Notes upon a written order of the Company signed by an Officer of the Company (an "Authentication Order"). Such Authentication Order shall specify the amount of Notes to be authenticated and the date on which the Notes are to be authenticated and whether the Notes are to be issued as one or more Global Notes and such other information as the Company may include or the Trustee may reasonably request. The aggregate principal amount of Notes that may be outstanding under this Indenture at any time may not exceed $250,000,000 (or up to $287,500,000 to the extent the Underwriters exercise their over-allotment option pursuant to the Underwriting Agreement), except as provided in Section 2.08.

The Trustee may appoint an authenticating agent acceptable to the Company to authenticate Notes. An authenticating agent may authenticate Notes whenever the Trustee may do so. Each reference in this Indenture to authentication by the Trustee includes authentication by such agent. An authenticating agent has the same rights as an Agent to deal with Holders or an Affiliate of the Company.

Section 2.03 REGISTRAR; CONVERSION AGENT; AND PAYING AGENT. The Company shall maintain an office or agency where Notes may be presented for registration of transfer or for exchange or conversion ("Registrar" and with respect to conversion, "Conversion Agent") and an office or agency where Notes may be presented for payment

("Paying Agent"). The Registrar shall keep a register of the Notes and of their transfer, exchange and conversion (the register maintained in such office, the "Note Register"). The Company may appoint one or more co-registrars or conversion agents and one or more additional paying agents. The term "Registrar" includes any co-registrar, the term "Conversion Agent" includes any co-conversion agent and the term "Paying Agent" includes any additional paying agent. The Company may change any Paying Agent, Registrar or Conversion Agent without notice to any Holder. The Company shall promptly notify the Trustee in writing of the name and address of any Agent not a party to this Indenture. If the Company fails to appoint or maintain another entity as Registrar, Paying Agent or Conversion Agent, the Trustee shall act as such. The Company or any of its Subsidiaries may act as Paying Agent, Registrar or Conversion Agent.

The Company initially appoints DTC to act as Depositary with respect to the Global Notes.

The Company initially appoints the Trustee to act as the Registrar, Paying Agent and Conversion Agent and to act as custodian with respect to the Global Notes.

Section 2.04 PAYING AGENT TO HOLD MONEY IN TRUST. The Company shall require each Paying Agent other than the Trustee to agree in writing that the Paying Agent shall hold in trust for the benefit of Holders or the Trustee all money held by the Paying Agent for the payment of principal, premium, if any (including the Make-Whole Payment, if any), or interest on the Notes, and shall notify the Trustee of any default by the Company in making any such payment. While any such default continues, the Trustee may require a Paying Agent to pay all money held by it to the Trustee. The Company at any time may require a Paying Agent to pay all money held by it to the Trustee. Upon payment over to the Trustee, the Paying Agent (if other than the Company or a Subsidiary) shall have no further liability for the money. If the Company or a Subsidiary acts as Paying Agent, it shall segregate and hold in a separate trust fund for the benefit of the Holders all money held by it as Paying Agent. Upon any bankruptcy or reorganization proceedings relating to the Company, the Trustee shall serve as Paying Agent for the Notes.

Section 2.05 HOLDER LISTS. The Trustee shall preserve in as current a form as is reasonably practicable the most recent list available to it of the names and addresses of all Holders and shall otherwise comply with TIA Section 312(a). If the Trustee is not the Registrar, the Company shall furnish to the Trustee at least seven Business Days before each interest payment date and at such other times as the Trustee may request in writing, a list in such form and as of such date as the Trustee may reasonably require of the names and addresses of the Holders and the Company shall otherwise comply with TIA Section 312(a).

Section 2.06 GLOBAL NOTES; NON-GLOBAL NOTES; BOOK-ENTRY PROVISIONS.

(1) GLOBAL NOTES.

(i) Each Global Note authenticated under this Indenture shall be registered in the name of the Depositary designated by the Company for such Global Note or a nominee thereof and delivered to such Depositary or a nominee thereof or custodian therefor, and each such Global Note shall constitute a single Note for all purposes of this Indenture.

(ii) Except for exchanges of Global Notes for definitive, Non-global Notes at the sole discretion of the Company, no Global Note may be exchanged in whole or in part for Notes registered, and no transfer of a Global Note in whole or in part may be registered, in the name of any Person other than the Depositary for such Global Note or a nominee thereof unless (A) such Depositary (i) has notified the Company that it is unwilling or unable to continue as Depositary for such Global Note or (ii) has ceased to be a clearing agency registered as such under the Exchange Act or announces an intention permanently to cease business or does in fact do so or (B) there shall have occurred and be continuing an Event of Default with respect to such Global Note. In case of an event under clause (A) of the preceding sentence, if a successor Depositary for such Global Note is not appointed by the Company within 90 days after the Company receives such notice or becomes aware of such ineligibility, the Company will execute, and the Trustee, upon receipt of an Officers' Certificate directing the authentication and delivery of Notes, will authenticate and deliver, Notes in any authorized denominations in an aggregate principal amount equal to the principal amount of such Global Note in exchange for such Global Note.

(iii) If any Global Note is to be exchanged for other Notes or canceled in whole, it shall be surrendered by or on behalf of the Depositary or its nominee to the Registrar, for exchange or cancellation, as provided in this Article 2. If any Global Note is to be exchanged for other Notes or canceled in part, or if another Note is to be exchanged in whole or in part for a beneficial interest in any Global Note, in each case, as provided in Section 2.07, then either (A) such Global Note shall be so surrendered for exchange or cancellation, as provided in this Article 2, or (B) the principal amount thereof shall be reduced or increased by an amount equal to the portion thereof to be so exchanged or canceled, or equal to the principal amount of such other Note to be so exchanged for a beneficial interest therein, as the case may be, by means of an appropriate

adjustment made on the records of the Registrar, whereupon the Trustee, in accordance with the Applicable Procedures, shall instruct the Depositary or its authorized representative to make a corresponding adjustment to its records. Upon any such surrender or adjustment of a Global Note, the Trustee shall, as provided in this Article 2, authenticate and deliver any Notes issuable in exchange for such Global Note (or any portion thereof) to or upon the order of, and registered in such names as may be directed by, the Depositary or its authorized representative. Upon the request of the Trustee in connection with the occurrence of any of the events specified in the preceding paragraph, the Company shall promptly make available to the Trustee a reasonable supply of Notes that are not in the form of Global Notes. The Trustee shall be entitled to rely upon any order, direction or request of the Depositary or its authorized representative which is given or made pursuant to this Article 2 if such order, direction or request is given or made in accordance with the Applicable Procedures.

(iv) Every Note authenticated and delivered upon registration of transfer of, or in exchange for or in lieu of, a Global Note or any portion thereof, whether pursuant to this Article 2 or otherwise, shall be authenticated and delivered in the form of, and shall be, a registered Global Note, unless such Note is registered in the name of a Person other than the Depositary for such Global Note or a nominee thereof, in which case such Note shall be authenticated and delivered in definitive, fully registered form, without interest coupons.

The Depositary or its nominee, as registered owner of a Global Note, shall be the Holder of such Global Note for all purposes under this Indenture and the Notes, and owners of beneficial interests in a Global Note shall hold such interests pursuant to the Applicable Procedures. Accordingly, any such

owner's beneficial interest in a Global Note will be shown only on, and the transfer of such interest shall be effected only through, records maintained by the Depositary or its nominee or its Agent Members and such owners of beneficial interests in a Global Note will not be considered the owners or holders thereof.

(2) NON-GLOBAL NOTES. Notes issued upon the events described in Section 2.06(1)(ii) shall be in definitive, fully registered form, without interest coupons.

Section 2.07 REGISTRATION; REGISTRATION OF TRANSFER AND EXCHANGE.

(1) Upon surrender for registration of transfer of any Note at an office or agency of the Company designated pursuant to Section 2.03 for such purpose,

the Company shall execute, and the Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Notes of any authorized denominations and of a like aggregate principal amount and bearing such restrictive legends as may be required by this Indenture.

At the option of the Holder, and subject to the other provisions of this Section 2.07, Notes may be exchanged for other Notes of any authorized denomination and of a like aggregate principal amount, upon surrender of the Notes to be exchanged at any such office or agency. Whenever any Notes are so surrendered for exchange, and subject to the other provisions of this Section 2.07, the Company shall execute, and the Trustee shall authenticate and deliver, the Notes which the Holder making the exchange is entitled to receive. Every Note presented or surrendered for registration of transfer or for exchange shall (if so required by the Company or the Registrar) be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Company, the Trustee and the Registrar duly executed by the Holder thereof or his attorney duly authorized in writing.

All Notes issued upon any registration of transfer or exchange of Notes shall be the legal, valid and binding obligations of the Company, evidencing the same debt and entitled to the same benefits under this Indenture as the Notes surrendered upon such registration of transfer or exchange.

No service charge shall be made to a Holder for any registration of transfer or exchange of Notes except as provided in Section 2.08, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any registration of transfer or exchange of Notes, other than exchanges pursuant to Sections 2.06, 9.05, 10.02 or 11.03 hereof, except where the shares of Common Stock are to be issued or delivered in a name other than that of the Holder.

In the event of a redemption of the Notes, neither the Company nor the Registrar will be required (a) to register the transfer of or exchange Notes for a period of 15 days immediately preceding the date notice is given identifying the serial numbers of the Notes called for such redemption or (b) to register the transfer of or exchange any Note, or portion thereof, called for redemption.

(2) Certain Transfers and Exchanges. Notwithstanding any other provision of this Indenture or the Notes, transfers and exchanges of Notes and beneficial interests in a Global Note of the kinds specified in this Section 2.07(2) shall be made only in accordance with this Section 2.07(2).

(i) A beneficial interest in a Global Note may be exchanged for a Non-global Note only as provided in Section 2.06(1)(ii).

(3) Neither the Trustee, the Paying Agent nor any of their agents shall (i) have any duty to monitor compliance with or with respect to any federal or state or other securities or tax laws or (ii) have any duty to obtain documentation on any transfers or exchanges other than as specifically required hereunder.

Section 2.08 REPLACEMENT NOTES. If any mutilated Note is surrendered to the Trustee or the Company or the Trustee receives evidence to its satisfaction of the destruction, loss or theft of any Note, the Company shall issue and the Trustee, upon receipt of an Authentication Order, shall authenticate a replacement Note if the Trustee's requirements are met. If required by the Trustee or the Company, an indemnity bond must be supplied by the Holder that is sufficient in the judgment of the Trustee and the Company to protect the Company, the Trustee, any Agent and any authenticating agent from any loss that any of them may suffer if a lost, stolen or destroyed Note is replaced. The Company and the Trustee may charge for their expenses in replacing a Note.

Every replacement Note is an additional legally binding obligation of the Company and shall be entitled to all of the benefits of this Indenture

equally and proportionately with all other Notes duly issued hereunder.

Section 2.09 OUTSTANDING NOTES. The Notes outstanding at any time are all the Notes authenticated by the Trustee except for those canceled by it, those delivered to it for cancellation, those reductions in the interest in a Global Note effected by the Trustee in accordance with the provisions of this Indenture, and those described in this Section as not outstanding. Except as set forth in Section 2.10, a Note does not cease to be outstanding because either of the Company or an Affiliate of the Company holds the Note.

If a Note is replaced pursuant to Section 2.08, it ceases to be outstanding unless the Trustee receives proof satisfactory to it that the replaced Note is held by a bona fide purchaser.

If the principal amount of any Note is considered paid under Section 4.01, it ceases to be outstanding and interest on it ceases to accrue.

If the Paying Agent (other than the Company, a Subsidiary of the Company or an Affiliate of any thereof) holds, on a Redemption Date, Repurchase Date or date of maturity, money, or in the case of a repurchase upon the occurrence of a Change of Control and subject to the conditions set forth in Article 11, or in the case of a Provisional Redemption and subject to the conditions set forth in Section 3.12, shares of Common Stock, sufficient to pay Notes payable on that date, then on and after that date such Notes shall be deemed to be no longer outstanding and shall cease to accrue interest.

If a Note is converted into Common Stock pursuant to Article 10, it ceases to be outstanding and interest on it ceases to accrue on the day of surrender of such Note for Conversion.

Section 2.10 TREASURY NOTES. In determining whether the Holders of the required principal amount of Notes have concurred in any direction, waiver or consent, or whether the Holders of the requisite principal amount of then outstanding Notes are present at a meeting of Holders for quorum purposes, Notes owned by the Company, or by any Person directly or indirectly controlling or controlled by or under direct or indirect common control with the Company, shall be considered as though not outstanding, except that for the purposes of determining whether the Trustee shall be protected in relying on any such direction, waiver or consent, or any such determination as to the presence of a quorum, only Notes that a Responsible Officer of the Trustee actually knows are so owned shall be so disregarded.

Section 2.11 TEMPORARY NOTES. Until certificates representing Notes are ready for delivery, the Company may prepare and the Trustee, upon receipt of an Authentication Order, shall authenticate temporary Notes. Temporary Notes shall be substantially in the form of certificated Notes but may have variations that the Company considers appropriate for temporary Notes and as shall be reasonably acceptable to the Trustee. Without unreasonable delay, the Company shall prepare and the Trustee shall authenticate definitive Notes in exchange for temporary Notes.

Holders of temporary Notes shall be entitled to all of the benefits of this Indenture.

Section 2.12 CANCELLATION. The Company at any time may deliver Notes to the Trustee for cancellation. The Registrar, Conversion Agent and Paying Agent shall forward to the Trustee any Notes surrendered to them for registration of transfer, exchange, conversion or payment. The Trustee and no one else shall cancel any Notes surrendered for registration of transfer, exchange, conversion, payment, replacement or cancellation and shall dispose of such canceled Notes in its customary manner. The Company may not issue new Notes to replace Notes that they have paid or that have been delivered to the Trustee for cancellation.

Section 2.13 DEFAULTED INTEREST. If the Company defaults in a payment of interest on the Notes, it shall pay the defaulted interest in any lawful manner plus, to the extent lawful, interest payable on the defaulted interest, to the Persons who are Holders on a subsequent special record date, in each case at the rate provided in the Notes and in Section 4.01. The Company shall notify the Trustee in writing of the amount of defaulted interest proposed to be paid on each Note and the date of the proposed payment. The Company shall fix or cause to be fixed each such special record date and payment date; provided that no such special record date shall be less than 10 days prior to the related

payment date for such defaulted interest. At least 15 days before the special record date, the Company (or, upon the written request of the Company, the Trustee in the name and at the expense of the Company) shall mail or cause to be mailed to Holders a notice that states the special record date, the related payment date and the amount of such interest to be paid.

Section 2.14 COMPUTATION OF INTEREST. Interest on the Notes shall be computed on the basis of a 360-day year of twelve 30-day months.

Section 2.15 CUSIP NUMBERS. The Company in issuing the Notes may use "CUSIP" numbers (if then generally in use), and, if so, the Trustee shall use "CUSIP" numbers in notices of redemption as a convenience to Holders; provided that any such notice may state that no representation is made as to the correctness of such numbers either as printed in the Notes or as contained in any notice of a redemption and that reliance may be placed only on the other identification numbers printed on the Notes, and any such redemption shall not be affected by any defect in or omission of such numbers. The Company will promptly notify the Trustee of any change in the "CUSIP" numbers.

ARTICLE 3

REDEMPTION AND PREPAYMENT

Section 3.01 NOTICES TO TRUSTEE. If the Company elects to redeem Notes pursuant to the redemption provisions of Sections 3.08 or 3.09, it shall furnish to the Trustee, at least 45 days but not more than 60 days before a Redemption Date, an Officers' Certificate setting forth (i) the paragraph of the Notes or the clause of this Indenture pursuant to which the redemption shall occur, (ii) the Redemption Date, (iii) the principal amount of Notes to be redeemed and (iv) the Redemption Price.

Section 3.02 SELECTION OF NOTES TO BE REDEEMED. If less than all of the Notes are to be redeemed or purchased in an offer to purchase at any time, the Trustee shall select the Notes to be redeemed or purchased among the Holders of the Notes in compliance with the requirements of the principal national securities exchange, if any, on which the Notes are listed or, if the Notes are not so listed, on a pro rata basis, by lot or in accordance with any other method the Trustee considers fair and appropriate. In the event of partial redemption by lot, the particular Notes to be redeemed shall be selected, unless otherwise provided herein, not less than 30 nor more than 60 days prior to the Redemption Date by the Trustee from the then outstanding Notes not previously called for redemption. If any Note selected for partial redemption is converted in part before termination of the conversion right with respect to the portion of the Note so selected, the converted portion of such Note shall be deemed (so far as may be) to be the portion selected for redemption. Notes which have been converted during a selection of Notes to

be redeemed may be treated by the Trustee as outstanding for the purpose of such selection.

The Trustee shall promptly notify the Company in writing of the Notes selected for redemption and, in the case of any Note selected for partial redemption, the principal amount thereof to be redeemed. Notes and portions of Notes selected shall be in amounts of U.S. $1,000 or whole multiples of U.S. $1,000; except that if all of the Notes of a Holder are to be redeemed, the entire outstanding amount of Notes held by such Holder, even if not a multiple of U.S. $1,000, shall be redeemed. Except as provided in the preceding sentence, provisions of this Indenture that apply to Notes called for redemption also apply to portions of Notes called for redemption.

Section 3.03 NOTICE OF REDEMPTION. At least 30 days but not more than 60 days before a Redemption Date, the Company shall mail or cause to be mailed, by first class mail, a notice of redemption to each Holder whose Notes are to be redeemed at its registered address.

The notice shall identify the Notes (including applicable CUSIP numbers) to be redeemed and shall state:

(a) the Redemption Date;

(b) the Redemption Price;

(c) if any Note is being redeemed in part, the portion of the principal amount of such Note to be redeemed and that, after the Redemption Date upon surrender of such Note, a new Note or Notes in principal amount equal to the unredeemed portion shall be issued upon cancellation of the original Note;

(d) the name and address of the Paying Agent;

(e) that Notes called for redemption must be surrendered to the Paying Agent to collect the Redemption Price;

(f) that, unless the Company defaults in making such redemption payment, interest on Notes called for redemption ceases to accrue on and after the Redemption Date;

(g) the paragraph of the Notes and/or Section of this Indenture pursuant to which the Notes called for redemption are being redeemed;

(h) that no representation is made as to the correctness or accuracy of the CUSIP number, if any, listed in such notice or printed on the Notes;

(i) the Conversion Rate, the date on which the right to convert the Notes to be redeemed will terminate and the places where Notes may be surrendered for conversion or the procedures for surrendering Notes;

(j) whether the redemption is a Provisional Redemption or an Optional Redemption;

(k) if such a redemption is a Provisional Redemption, the amount of the Make-Whole Payment; and

(l) whether the Make-Whole Payment will be paid in Common Stock, cash or a combination of cash and Common Stock.

At the Company's request, the Trustee shall give the notice of redemption in the Company's name and at its expense; provided, however, that the Company shall have delivered to the Trustee, at least 45 days prior to the Redemption Date, an Officers' Certificate requesting that the Trustee give such notice and setting forth the information to be stated in such notice as provided in the preceding paragraph.

Section 3.04 EFFECT OF NOTICE OF REDEMPTION. Once notice of redemption is mailed in accordance with Section 3.03, Notes called for redemption become irrevocably due and payable on the Redemption Date at the Redemption Price. A notice of redemption may not be conditional.

Section 3.05 DEPOSIT OF REDEMPTION PRICE. At or prior to 10:00 a.m., New York City time, on the Redemption Date, the Company shall deposit with the Trustee or with the Paying Agent (if the Company is acting as its own Paying Agent, segregate and hold in trust as provided in Section 2.04) (I) an amount of money (which shall be in immediately available funds on such Redemption Date) sufficient to pay the Redemption Price of and accrued interest on all Notes to be redeemed on that date and (II) with respect to Notes called for Provisional Redemption pursuant to Section 3.08, an amount of money (which shall be in immediately available funds on such Redemption Date) or, if the Company has satisfied the conditions of Section 3.12, Common Stock sufficient to pay the Make-Whole Payment for all the Notes (or portions thereof) called for redemption (including those surrendered for conversion into Common Stock after the Notice Date and prior to the Redemption Date in respect thereof). The Trustee or the Paying Agent shall promptly return to the Company any money deposited with the Trustee or the Paying Agent by the Company or so segregated and held in trust for the redemption of such Notes in excess of the amounts, including but not limited to any amounts in respect of Notes that are converted (subject to Section 10.02), necessary to pay the Redemption Price of, and accrued interest on, all Notes to be redeemed; provided that, with respect to a Provisional Redemption, any money or Common Stock so deposited for payment of the Make-Whole Payment shall remain segregated and held in trust for payment of the Make-Whole Payment which shall be made on all Notes called for Provisional Redemption (including

Notes converted into Common Stock after the Notice Date and prior to the Redemption Date in respect of such Provisional Redemption).

Section 3.06 NOTES PAYABLE ON REDEMPTION DATE.

(a) Notice of redemption having been given pursuant to Section 3.03, the Notes so to be redeemed shall, on the Redemption Date, become due and payable at the Redemption Price therein specified, and, with respect to Notes called for Provisional Redemption, the Make-Whole Payment, and from and after such date (unless the Company shall default in the payment of the Redemption Price, including accrued interest or the Make-Whole Payment, if any) such Notes shall cease to bear or accrue any interest. Upon surrender of any such Note for redemption in accordance with said notice, such Note shall be paid by the Company at the Redemption Price, together with any accrued and unpaid interest to (but not including) the Redemption Date and, with respect to Notes called for Provisional Redemption (including Notes converted into Common Stock pursuant to the terms hereof after the Notice Date and prior to the Redemption Date in respect thereof), the Make-Whole Payment; provided, however, that installments of accrued and unpaid interest whose Stated Maturity is on or prior to the Redemption Date shall be payable to the Holders of such Notes, or one or more Predecessor Notes, registered as such at the close of business on the relevant Regular Record Date according to their terms and the terms of this Indenture; and provided further that, with respect to a Provisional Redemption, the Holder of any Notes converted into Common Stock pursuant to the terms of this Indenture after the Notice Date and prior to the Redemption Date in respect thereof shall have the right to the Make-Whole Payment, if any, with respect to such Notes regardless of the conversion of such Notes.

If the Company shall fail to deposit the Redemption Price (and Make-Whole Payment, if any) with the Trustee and any Note called for redemption shall not be so paid upon surrender thereof for redemption, the principal and premium, if any (including the Make-Whole Payment, if any) shall, until paid, bear and accrue interest from the Redemption Date at the rate provided in the Note and in Section 4.01.

(b) Any issuance of shares of Common Stock in respect of the Make-Whole Payment shall be deemed to have been effected immediately prior to the close of business on the Redemption Date and the Person or Persons in whose name or names any certificate or certificates for shares of Common Stock shall be issuable upon such repurchase shall be deemed to have become on the Redemption Date the holder or holders of record of the shares of Common Stock represented thereby.

(c) No fractions of shares shall be issued upon Provisional Redemption of Notes. If more than one Note shall be so redeemed from the same Holder and all or any portion of the Make-Whole Payment shall be payable in shares of Common Stock, the number of full shares which shall be issuable upon such repurchase shall be computed on

the basis of the aggregate principal amount of the Notes so repurchased. Instead of any fractional share of Common Stock which would otherwise be issuable on the Provisional Redemption of any Note or Notes, the Company shall calculate and pay a cash adjustment in respect of such fraction (calculated to the nearest 1/100th of a share) or round up the number of shares of Common Stock issuable upon payment of the Make-Whole Payment to the nearest whole share. The value of a fraction of a share shall be determined by multiplying the value of a share of Common Stock for purposes of the Provisional Redemption, as computed in accordance with Section 3.08, by the fraction, and rounding the result to the nearest cent.

(d) Any issuance and delivery of certificates for shares of Common Stock on Provisional Redemption of Notes shall be made without charge to the Holder subject to such Provisional Redemption or for any tax or duty in respect of the issuance or delivery of such certificates or the securities represented thereby; provided, however, that the Company shall not be required to pay any tax or duty which may be payable in respect of (I) income of the Holder or (II) any transfer involved in the issuance or delivery of certificates for shares of Common Stock in the name other than that of the Holder of the Notes being redeemed, and no such issuance or delivery shall be made unless and until the Person requesting such issuance or delivery has paid to the Company the amount of any such tax or duty or has established, to the satisfaction of the Company, that such tax or duty has been paid.

Section 3.07 NOTES REDEEMED IN PART. Upon surrender of a Note that is redeemed in part, the Company shall issue and, upon the Company's written request, the Trustee shall authenticate for the Holder at the expense of the Company a new Note equal in principal amount to the unredeemed portion of the Note surrendered.

Section 3.08 PROVISIONAL REDEMPTION. (a) Prior to _____, 2005, if the Closing Price of the Common Stock shall have exceeded 150% of the Conversion Price then in effect for at least 20 Trading Days in any consecutive 30-day Trading Day period ending on the Trading Day prior to the date mailing of the notice of Provisional Redemption pursuant to Section 3.03 (the "Notice Date"), the Company may redeem the Notes ("Provisional Redemption"), in whole or from time to time in part, upon not less than 30 nor more than 60 days' notice prior to the Redemption Date, at a Redemption Price equal to the principal amount of the Notes to be redeemed plus accrued and unpaid interest, if any, to the Redemption Date. Upon any such Provisional Redemption, the Company shall make an additional payment (the "Make-Whole Payment") in cash or, at the election of the Company upon satisfaction of the conditions in Section 3.12, in Common Stock or a combination of cash and Common Stock, as specified in the notice of redemption, with respect to the Notes called for redemption to Holders on the Notice Date in an amount equal to $___ per $1,000 aggregate principal amount of Notes, less the amount of any interest actually paid or accrued and unpaid since the Issue Date on each $1,000 aggregate principal amount of Notes so redeemed (including any predecessor

Notes) prior to the Redemption Date. The Company shall make the Make-Whole Payment on all Notes called for Provisional Redemption, including any Notes converted into Common Stock pursuant to the terms of this Indenture after the Notice Date and prior to the Redemption Date. For purposes of this paragraph, the payments made in Common Stock will be determined by the Company and each share of Common Stock to be delivered shall be valued at an amount equal to 95% of the average of the Closing Price Per Share of the Common Stock for the five consecutive Trading Days immediately preceding and including the third Trading Day prior to the Redemption Date.

(b) Any redemption pursuant to this Section 3.08 shall be made pursuant to the provisions of Section 3.01 through 3.07.

Section 3.09 OPTIONAL REDEMPTION. The Company shall not have the option to redeem the Notes pursuant to this Section 3.09 prior to ____, 2005. On or after ____, 2005, the Company may redeem the Notes ("Optional Redemption"), in whole or from time to time in part, in cash upon not less than 30 nor more than 60 days' notice, at the Redemption Prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest thereon, if any, to the applicable Redemption Date, if redeemed during the twelve-month period beginning

on ____ of the years indicated below:

YEAR	PERCENTAGE
____, 2005	____%
____, 2006	____%

and thereafter is equal to 100% of the principal amount, in each case together with accrued and unpaid interest to the applicable Redemption Date.

(a) Any redemption pursuant to this Section 3.09 shall be made pursuant to the provisions of Section 3.01 through 3.07.

Section 3.10 CONVERSION ARRANGEMENT ON CALL FOR REDEMPTION. In connection with any redemption of Notes, the Company may arrange for the purchase and conversion of any Notes by an agreement with one or more investment banks or other purchasers (the "Arrangement Purchasers") to purchase such securities by such Arrangement Purchasers paying to the Trustee in trust for the Holders, on or before the Redemption Date, an amount not less than the applicable Redemption Price, together with interest accrued to the Redemption Date of such Notes, and, in connection with a Provisional Redemption, the Make-Whole Payment. Notwithstanding anything to the contrary contained in this Article 3, the obligation of the Company to pay the Redemption Price, together with the interest accrued to the Redemption Date, and, in connection with a Provisional Redemption, the Make-Whole Payment, shall be deemed to be satisfied and discharged to the extent such amount is so paid by such Arrangement

Purchasers. If such an agreement is entered into (a copy of which shall be filed with the Trustee prior to the close of business on the Business Day immediately prior to the Redemption Date), any Notes called for redemption that are not duly surrendered for conversion by the Holders thereof may, at the option of the Company, be deemed, to the fullest extent permitted by law and consistent with any agreement or agreements with such Arrangement Purchasers, to be acquired by such Arrangement Purchasers from such Holders and (notwithstanding anything to the contrary contained in Article 10) surrendered by such Arrangement Purchasers for conversion, all as of immediately prior to the close of business on the Redemption Date (and the right to convert any such Notes shall be extended through such time), subject to payment of the above amount as aforesaid, including the Make-Whole Payment, if any, with respect to all Notes called for Provisional Redemption. At the direction of the Company, the Trustee shall hold and dispose of any such amount paid to it by the Arrangement Purchasers to the Holders in the same manner as it would monies deposited with it by the Company for the redemption of Notes. Without the Trustee's prior written consent, no arrangement between the Company and such Arrangement Purchasers for the purchase and conversion of any Notes shall increase or otherwise affect any of the powers, duties, responsibilities or obligations of the Trustee as set forth in this Indenture, and the Company agrees to indemnify the Trustee from, and hold it harmless against, any loss, liability or expense arising out of or in connection with any such arrangement for the purchase and conversion of any Notes between the Company and such Arrangement Purchasers, including the costs and expenses, including reasonable legal fees, incurred by the Trustee in the defense of any claim or liability arising out of or in connection with the exercise or performance of any of its powers, duties, responsibilities or obligations under this Indenture.

Section 3.11 MANDATORY REDEMPTION. The Company shall not be required to make mandatory redemption payments with respect to the Notes.

Section 3.12 CONDITIONS TO THE COMPANY'S ELECTION TO PAY THE MAKE-WHOLE PAYMENT IN COMMON STOCK. The Company may elect to pay all or a portion of the Make-Whole Payment by delivery of shares of Common Stock if and only if the following conditions shall have been satisfied:

(a) the shares of Common Stock deliverable in payment of the Make-Whole Payment shall have a fair market value, as determined in the following sentence, as of the Redemption Date of not less than the amount of the Make-Whole Payment being paid in Common Stock. For purposes of this Section 3.12, the fair market value of shares of Common Stock shall be equal to 95% of the average of the Closing Price Per Share for the five consecutive Trading Days immediately preceding and including the third Trading Day prior to the Redemption Date in respect of such Provisional Redemption as determined by the Company;

(b) in the event any shares of Common Stock to be issued upon redemption of Notes under Section 3.08 (i) require registration under any federal securities law before such shares may be freely transferable without being subject to any transfer restrictions under the Securities Act upon redemption, such registration is effective prior to the Redemption Date in respect of such Provisional Redemption, and/or (ii) require registration with or approval of any governmental authority under any state law or any other federal law before such shares may be validly issued or delivered upon repurchase, such registration is effective or such

approval is obtained prior to the Redemption Date in respect of such Provisional Redemption (it being understood that, in the case of this clause (ii) only, if (with respect to any particular holder) (x) the Company has been unable so to effect such registration or obtain such approval after having used its reasonable best efforts to do so and, as a result, such Holder would be unable to receive shares of Common Stock or would receive shares of Common Stock that are not free from restrictions on transfer and (y) the Company pays the full amount of the Make-Whole Payment to such Holder in cash as provided in Section 3.08, the condition set forth in this clause (ii) will be deemed to be satisfied);

(c) the Common Stock is, or shall have been, approved for listing on the New York Stock Exchange or another national securities exchange, or approval for quotation on the Nasdaq National Market or, in any such case, prior to the Redemption Date in respect of such Provisional Redemption; and

(d) all shares of Common Stock which may be issued upon Provisional Redemption of Notes are issued out of the Company's authorized but unissued Common Stock and, upon issuance, will be duly and validly issued and fully paid and non-assessable and free of any preemptive or similar rights.

Prior to making all or any portion of a Make-Whole Payment in Common Stock, the Company shall certify to the Trustee in an Officer's Certificate that all of the conditions set forth in this Section 3.12 are satisfied in accordance with the terms thereof and shall deliver to the Trustee an opinion of counsel to the Company to the effect that the shares of Common Stock to be issued upon Provisional Redemption are not subject to any restrictions on transfer under the Securities Act.

ARTICLE 4

COVENANTS

Section 4.01 PAYMENT OF NOTES. The Company shall pay or cause to be paid the principal, premium, if any (including the Make-Whole Payment, if any), and interest on the Notes on the dates and in the manner provided in the Notes. Principal, premium, if any (including the Make-Whole Payment, if any), and interest shall be considered paid on

the date due if the Paying Agent, if other than the Company or a Subsidiary thereof, holds as of 10:00 a.m. New York City time on the due date money deposited by the Company in immediately available funds and designated for and sufficient to pay all principal, premium, if any (including the Make-Whole Payment, if any), and interest then due.

The Company shall pay interest (including post-petition interest in any proceeding under any Bankruptcy Law) on overdue principal at the rate equal to 5% per annum in excess of the then applicable interest rate on the Notes to the extent lawful; the Company shall pay interest (including post-petition interest in any proceeding under any Bankruptcy Law) on overdue installments of interest (without regard to any applicable grace period) at the rate of 5% per annum to the extent lawful.

Section 4.02 MAINTENANCE OF OFFICE OR AGENCY. The Company shall maintain in the Borough of Manhattan, The City of New York, an office or agency (which may be an office of the Trustee or an affiliate of the Trustee, Registrar or co-registrar) where Notes may be surrendered for conversion, redemption, repurchase, registration of transfer or for exchange and where notices and demands to or upon the Company in respect of the Notes and this Indenture may be served. The Company shall give prompt written notice to the Trustee of the location, and any change in the location, of such office or agency. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Office of the Trustee.

The Company may also from time to time designate one or more other offices or agencies where the Notes may be presented or surrendered for any or all such purposes and may from time to time rescind such designations; provided, however, that no such designation or rescission shall in any manner relieve the Company of its obligation to maintain an office or agency in the Borough of Manhattan, The City of New York for such purposes. The Company shall give prompt written notice to the Trustee of any such designation or rescission and of any change in the location of any such other office or agency.

The Company hereby designates the Corporate Trust Office of the Trustee as one such office or agency of the Company in accordance with Section 2.03.

Section 4.03 REPORTS. After this Indenture has been qualified under the TIA, the Company shall file with the Trustee and the Commission, and transmit to Holders, such information, documents and other reports, and such summaries thereof, as may be required pursuant to the TIA at the times and in the manner provided pursuant to the TIA; provided that any such information, documents or reports required to be filed with the Commission pursuant to Section 13 or 15(d) of the Exchange Act shall be filed with the Trustee within 15 days after the

same is so required to be filed with the Commission.

Delivery of such reports, information and documents to the Trustee is for informational purposes only and the Trustee's receipt of such shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Company's compliance with any of its covenants hereunder (as to which the Trustee is entitled to rely exclusively on Officers' Certificates).

Section 4.04 COMPLIANCE CERTIFICATE.

(a) The Company shall deliver to the Trustee, within 90 days after the end of each fiscal year, an Officers' Certificate stating that a review of the activities of the Company and its Subsidiaries during the preceding fiscal year has been made under the supervision of the signing Officers with a view to determining whether the Company has kept, observed, performed and fulfilled its obligations under this Indenture, and further stating, as to each such Officer signing such certificate, that to the best of his or her knowledge the Company has kept, observed, performed and fulfilled each and every covenant contained in this Indenture and is not in default in the performance or observance of any of the terms, provisions and conditions of this Indenture (or, if a Default or Event of Default shall have occurred, describing all such Defaults or Events of Default of which he or she may have knowledge and what action the Company is taking or proposes to take with respect thereto) and that to the best of his or her knowledge no event has occurred and remains in existence by reason of which payments on account of the principal of or interest, if any, on the Notes is prohibited or if such event has occurred, a description of the event and what action the Company is taking or proposes to take with respect thereto.

The Company shall, so long as any of the Notes are outstanding, deliver to the Trustee, forthwith upon any Officer becoming aware of any Default or Event of Default, an Officers' Certificate specifying such Default or Event of Default and what action the Company is taking or proposes to take with respect thereto.

Section 4.05 TAXES. The Company shall pay, and shall cause each of its Subsidiaries to pay, prior to delinquency, all material taxes, assessments, and governmental levies except such as are contested in good faith and by appropriate proceedings or where the failure to effect such payment is not adverse in any material respect to the Holders.

Section 4.06 STAY, EXTENSION AND USURY LAWS. The Company covenants (to the extent that it may lawfully do so) that it shall not at any time insist upon, plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay, extension or usury law wherever enacted, now or at any time hereafter in force, that may affect the covenants or the performance of this Indenture; and the Company (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law,

and covenants that it shall not, by resort to any such law, hinder, delay or impede the execution of any power herein granted to the Trustee, but shall suffer and permit the execution of every such power as though no such law has been enacted.

Section 4.07 CORPORATE EXISTENCE. Subject to Article 5, the Company shall do or cause to be done all things necessary to preserve and keep in full force and effect (i) its corporate existence, and the corporate, partnership or other existence of each of its Significant Subsidiaries, in accordance with the respective organizational documents (as the same may be amended from time to time) of the Company or any such Significant Subsidiary and (ii) the rights (charter and statutory), licenses and franchises of the Company and its Significant Subsidiaries; provided, however, that the Company shall not be required to preserve any such right, license or franchise, or the corporate, partnership or other existence of any of its Significant Subsidiaries, if the Board of Directors of the Company shall determine that the preservation thereof is no longer desirable in the conduct of the business of the Company and its Significant Subsidiaries, taken as a whole, and that the loss thereof is not adverse in any material respect to the Holders.

Section 4.08 PAYMENTS FOR CONSENT. The Company shall not, and shall not permit any of its Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration to or for the benefit of any Holder for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of this Indenture or the Notes unless such consideration is offered to be paid and is paid to all Holders of the Notes that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement.

Section 4.09 REGISTRATION AND LISTING. The Company (i) will effect all registrations with, and obtain all approvals by, all governmental authorities that may be necessary under any United States Federal or state law (including the Securities Act, the Exchange Act and state securities and Blue Sky laws)

before the shares of Common Stock issuable upon conversion of Notes are issued and delivered, and qualified or listed as contemplated by clause (ii); and (ii) will qualify the shares of Common Stock required to be issued and delivered upon conversion of Notes, prior to such issuance or delivery, for trading on the New York Stock Exchange or, if the Common Stock is not then traded on the New York Stock Exchange, list the Common Stock on each national securities exchange or quotation system on which outstanding Common Stock is listed or quoted at the time of such delivery.

Section 4.10 WAIVER OF CERTAIN COVENANTS. The Company may omit in any particular instance to comply with any covenant or condition set forth in Section 4.05 or 4.07 (other than with respect to the existence of the Company (subject to Article 5)) (other than a covenant or condition which under Article 9 cannot be modified or amended without the consent of the Holder of each outstanding Note affected), if before the time for such compliance the Holders shall either (i) through the written consent (or as

otherwise in accordance with the Applicable Procedures) of the Holders of at least a majority in aggregate principal amount of the Notes then outstanding or (ii) by the adoption of a resolution, at a meeting of Holders of the then outstanding Notes at which a quorum is present, by the Holders of at least 66?% in principal amount of the outstanding Notes represented at such meeting or, if less, by the Holders of at least a majority in aggregate principal amount of all then outstanding Notes, either waive such compliance in such instance or generally waive compliance with such covenant or condition, but no such waiver shall extend to or affect such covenant or condition except to the extent so expressly waived and, until such waiver shall become effective, the obligations of the Company and the duties of the Trustee or any Paying or Conversion Agent in respect of any such covenant or condition shall remain in full force and effect.

ARTICLE 5

SUCCESSORS

Section 5.01 MERGER, CONSOLIDATION, OR SALE OF ASSETS.

The Company may not, directly or indirectly: (a) (1) consolidate or merge with or into another Person (whether or not the Company is the surviving corporation); or (2) sell, assign, transfer, convey or otherwise dispose of all or substantially all of its properties or assets, in one or more related transactions, to another Person; or (b) permit any Person to (1) consolidate or merge with or into the Company (whether or not the Company is the surviving corporation); or (2) sell, assign, transfer, convey or otherwise dispose of all or substantially all of its properties or assets, in one or more related transactions, to the Company; unless:

(1) either: (a) the Company is the surviving corporation; or (b) the Person formed by or surviving any such consolidation or merger (if other than the Company) or to which such sale, assignment, transfer, conveyance or other disposition shall have been made is a Person organized or existing under the laws of the United States, any state thereof or the District of Columbia (provided that if the Person formed by or surviving any such consolidation or merger with the Company is not a corporation, a corporate co-issuer shall also be an obligor with respect to the Notes);

(2) the Person formed by or surviving any such consolidation or merger (if other than the Company) or the Person to which such sale, assignment, transfer, conveyance or other disposition shall have been made assumes all the obligations of the Company under the Notes and this Indenture pursuant to agreements reasonably satisfactory to the Trustee; and

(3) immediately after such transaction, no Default or Event of Default exists, and no event that after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing.

In addition, the Company may not, directly or indirectly, lease all or substantially all of its properties or assets, in one or more related transactions, to any other Person.

This Section 5.01 shall not apply to a sale, assignment, transfer, conveyance or other disposition of assets between or among the Company and any of its Subsidiaries.

Section 5.02 SUCCESSOR CORPORATION SUBSTITUTED. Upon any consolidation or merger, or any sale, assignment, transfer, lease, conveyance or other disposition of all or substantially all of the assets of the Company in accordance with Section 5.01, the successor Person (if other than the Company) formed by such consolidation or into

which the Company is merged or to which such transfer is made shall succeed to and (except in the case of a lease) be substituted for, and may exercise every right and power of, the Company under this Indenture with the same effect as if such successor Person had been named therein as the Company, and (except in the case of a lease) the Company shall be released from the obligations under the Notes and this Indenture, except with respect to any obligations that arise from, or are related to, such transaction.

ARTICLE 6

DEFAULTS AND REMEDIES

Section 6.01 EVENTS OF DEFAULT. An "Event of Default" occurs if:

(a) the Company defaults in the payment when due of interest on the Notes and such default continues for a period of 30 days, whether or not such payment is prohibited by the subordination provisions of the Notes or of this Indenture;

(b) the Company defaults in payment when due of the principal of or premium, if any (including the Make-Whole Payment, if any), on the Notes, whether or not such payment is prohibited by the subordination provisions of the Notes or of this Indenture;

(c) the Company fails to comply with any of the notice or repurchase provisions of Article 11, whether or not the compliance with such notice or repurchase provisions is prohibited by the subordination provisions of the Notes or of this Indenture;

(d) the Company fails to deliver shares of Common Stock, together with cash instead of fractional shares, when those shares of Common Stock or

cash instead of fractional shares are required to be delivered following conversion of a Note pursuant to the provisions of Article 10 and that failure continues for 10 days;

(e) the Company fails to comply with any of its other covenants or agreements in this Indenture for 60 days after written notice thereof has been given to the Company by the Trustee or to the Company and the Trustee by Holders of at least 25% of the aggregate principal amount of the then outstanding Notes;

(f) the Company or any of its Significant Subsidiaries defaults under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed (or the payment of which is guaranteed by the Company or any of its Significant Subsidiaries) whether such Indebtedness or guarantee now exists or is created after the Issue Date, if that default:

(1) is caused by a failure to pay at final stated maturity the principal amount on such Indebtedness by the end of the applicable grace period provided in such Indebtedness on the date of such default (a "Payment Default"); or

(2) results in the acceleration of such Indebtedness prior to its express maturity,

and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated, aggregates $15 million or more, and (1) the indebtedness is not discharged, or (2) the acceleration is not annulled, within 30 days after written notice of such Event of Default to the Company by the Trustee or the holders of at least 25% in aggregate principal amount of the then outstanding Notes;

(g) the Company or any of its Significant Subsidiaries pursuant to or within the meaning of Bankruptcy Law:

(i) commences a voluntary case,

(ii) consents to the entry of an order for relief against it in an involuntary case,

(iii) consents to the appointment of a custodian of it or for all or substantially all of its property, or

(iv) makes a general assignment for the benefit of its creditors; or

(h) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that:

(i) is for relief against the Company or any of its Significant Subsidiaries in an involuntary case;

(ii) appoints a custodian of the Company or any of its Significant Subsidiaries or for all or substantially all of the property of the Company or any of its Significant Subsidiaries; or

(iii) orders the liquidation of the Company or any of its Significant Subsidiaries;

and the order or decree remains unstayed and in effect for 60 consecutive days.

Section 6.02 ACCELERATION. In the case of an Event of Default arising from clause (f) or (g) of Section 6.01 with respect to the Company, all then outstanding Notes shall, subject to the provisions of Article 14, become due and payable immediately without further action or notice. If any other Event of Default occurs and is continuing, the Trustee by notice to the Company or the Holders of at least 25% in principal amount of the then outstanding Notes by notice to the Company and the Trustee may, subject to the provisions of Article 14, declare all the Notes to be due and payable immediately. The Holders of a majority in aggregate principal amount of the Notes then outstanding by written notice to the Trustee may on behalf of all of the Holders rescind an acceleration and its consequences if:

(1) the Company has paid or deposited with the Trustee a sum sufficient to pay:

(i) all overdue interest on all the Notes,

(ii) the principal of and premium, if any (including the Make-Whole Payment, if any), on the Notes which have become due otherwise than by such declaration of acceleration and any interest thereon at the rate borne by the Notes,

(iii) to the extent permitted by applicable law, interest upon overdue interest at a rate of 5% per annum, and

(iv) all sums paid or advanced by the Trustee hereunder and the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel;

(2) all Events of Default, other than the nonpayment of the principal of and any premium and interest on, the Notes which have become due solely by such declaration of acceleration, have been cured or waived as provided in Section 6.04; and

(3) such rescission and annulment would not conflict with any judgment or decree issued in appropriate judicial proceedings regarding the payment by the Trustee to the Holders of the amounts referred to in Section 6.02(1).

No rescission or annulment referred to above shall affect any subsequent default or impair any right consequent thereon.

Section 6.03 OTHER REMEDIES. If an Event of Default occurs and is continuing, the Trustee may pursue any available remedy to collect the payment of principal, premium, if any (including the Make-Whole Payment, if any), and interest on the Notes or to enforce the performance of any provision of the Notes or this Indenture.

The Trustee may maintain a proceeding even if it does not possess any of the Notes or does not produce any of them in the proceeding. A delay or omission by the Trustee or any Holder in exercising any right or remedy accruing upon an Event of Default shall not impair the right or remedy or constitute a waiver of or acquiescence in the Event of Default. All remedies are cumulative to the extent permitted by law.

Section 6.04 WAIVER OF EXISTING DEFAULTS. Holders, either (i) through the written consent (or as otherwise in accordance with the Applicable Procedures) of the Holders of at least a majority in aggregate principal amount of the then outstanding Notes by notice to the Trustee or (ii) by the adoption of a resolution, at a meeting of Holders of the outstanding Notes at which a quorum is present, by the Holders of at least 66?% in principal amount of the then outstanding Notes represented at such meeting or, if less, by the Holders of at least a majority in aggregate principal amount of all then outstanding Notes by notice to the Trustee, may on behalf of the Holders of all of the Notes waive an existing Default or Event of Default and its consequences hereunder, except (x) a continuing Default or Event of Default in the payment of the principal of, premium, if any (including the Make-Whole Payment, if any), or

interest on, the Notes (including in connection with a Change of Control Offer), (y) a continuing Default or Event of Default in respect of a Holder's right to convert any Note in accordance with Article 10 or (z) in respect of a covenant or provision hereof which under Article 9 cannot be modified or amended without the consent of each Holder of each outstanding Note affected

(provided, however, that the Holders of a majority in aggregate principal amount of the then outstanding Notes may rescind an acceleration and its consequences, including any related payment default that resulted from such acceleration). Upon any such waiver, such Default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other Default or impair any right consequent thereon.

Section 6.05 CONTROL BY MAJORITY. Subject to Section 7.02, holders of a majority in principal amount of the then outstanding Notes may direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee or exercising any trust or power conferred on it. However, the Trustee may refuse to follow any direction that conflicts with law or this Indenture, that the Trustee determines may be prejudicial to the rights of other Holders or that may involve the Trustee in personal liability. The Trustee may take any other action which it deems proper that is not inconsistent with any such directive.

Section 6.06 LIMITATION ON SUITS. No Holder will have any right to institute any proceeding under this Indenture, or for the appointment of a receiver or a trustee or for any other remedy under this Indenture or the Notes unless:

(a) the Holder gives to the Trustee written notice of a continuing Event of Default;

(b) the Holders of at least 25% in aggregate principal amount of the then outstanding Notes make a written request to the Trustee to pursue the remedy;

(c) such Holder or Holders offer and, if requested, provide to the Trustee indemnity reasonably satisfactory to the Trustee against any loss, liability or expense;

(d) the Trustee does not comply with the request within 60 days after the later of (1) receipt of the request (specified in clause (b) above), and the offer (specified in clause (c) above), and (2) if requested, the provision of indemnity (specified in clause (c) above); and

(e) during such 60-day period the Holders of a majority in principal amount of the then outstanding Notes do not give the Trustee a direction inconsistent with the request and offer.

A Holder may not use this Indenture to prejudice the rights of another Holder or to obtain a preference or priority over another Holder.

Section 6.07 RIGHTS OF HOLDERS TO RECEIVE PAYMENT AND TO CONVERT. Notwithstanding any other provision of this Indenture, but subject to the provisions of

Article 14, the right of any Holder to receive payment of principal, premium, if any (including the Make-Whole Payment, if any), and interest on a Note, on or after the Maturity dates (including in connection with a redemption or a Change of Control Offer), or to convert such Note in accordance with Article 10, or to bring suit for the enforcement of any such payment on or after such respective dates or of such right to convert, shall be absolute and unconditional and shall not be impaired or affected without the consent of such Holder.

Section 6.08 COLLECTION SUIT BY TRUSTEE. If an Event of Default specified in Section 6.01(a) or (b) occurs and is continuing, the Trustee is authorized to recover judgment in its own name and as trustee of an express trust against the Company for the whole amount of principal of, premium, if any (including the Make-Whole Payment, if any), and interest remaining unpaid on the Notes and interest on overdue principal and, to the extent lawful, interest and such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel.

If an Event of Default occurs and is continuing, the Trustee may in its discretion proceed to protect and enforce its rights and the rights of the Holders of the Notes by such appropriate judicial proceedings as the Trustee shall deem most effectual to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy.

Section 6.09 TRUSTEE MAY FILE PROOFS OF CLAIM. The Trustee is authorized to file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel) and the Holders allowed in any judicial proceedings relative to the Company (or any other obligor upon the Notes), their creditors or their property and shall be entitled and empowered to collect, receive and distribute any money or other property payable or deliverable on any such claims and any custodian in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Trustee, and in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee any amount due to it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 7.07. To the extent that the payment of any such compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 7.07 out of the estate in any such proceeding, shall be denied for any reason, payment of the same shall be secured by a lien on, and shall be paid out of, any and all distributions, dividends, money, securities and other properties that the Holders may be entitled to receive in such proceeding whether in liquidation or under any plan of reorganization or arrangement or

otherwise. Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting the Notes or the rights of any Holder, or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding.

Section 6.10 TRUSTEE MAY ENFORCE CLAIMS WITHOUT POSSESSION OF SECURITIES. All rights of action and claims under this Indenture or the Notes may be prosecuted and enforced by the Trustee without the possession of any of the Notes or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Holders in respect of which judgment has been recovered.

Section 6.11 PRIORITIES. Subject to Article 14, if the Trustee collects any money pursuant to this Article, it shall pay out the money in the following order:

> First: to the Trustee, its agents and attorneys for amounts due under Section 7.07, including payment of all compensation, expense and liabilities incurred, and all advances made, by the Trustee and the costs and expenses of collection;
>
> Second: to Holders for amounts due and unpaid on the Notes for principal, premium, if any (including the Make-Whole Payment, if any), and interest, ratably, without preference or priority of any kind, according to the amounts due and payable on the Notes for principal, premium, if any (including the Make-Whole Payment, if any), and interest, respectively; and
>
> Third: to the Company or to such party as a court of competent jurisdiction shall direct.

The Trustee may fix a record date and payment date for any payment to Holders pursuant to this Section 6.11.

Section 6.12 UNDERTAKING FOR COSTS. In any suit for the enforcement of any right or remedy under this Indenture or in any suit against the Trustee for any action taken or omitted by it as a Trustee, a court in its discretion may require the filing by any party litigant in the suit of an undertaking to pay the costs of the suit, and the court in its discretion may assess reasonable costs, including reasonable attorneys' fees and expenses, against any party litigant in the suit, having due regard to the merits and good faith of the claims or defenses made by the party litigant. This Section does not apply to

a suit by the Trustee, a suit by a Holder pursuant to Section 6.07, or a suit by Holders of more than 10% in principal amount of the then outstanding Notes.

If any Trustee or any Holder has instituted any proceeding to enforce any right or remedy under this Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee or such Holder, then, and in every case, subject to any determination in such proceeding, the Company, the Trustee and the Holders shall be restored severally and respectively to their former positions hereunder and thereafter all rights and remedies of the Company, Trustee and the Holders shall continue as though no such proceeding had been instituted.

ARTICLE 7

Section 7.01 DUTIES OF TRUSTEE.

(a) If an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in its exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

(b) Except during the continuance of an Event of Default:

(i) the duties of the Trustee shall be determined solely by the express provisions of this Indenture and the Trustee need perform only those duties that are specifically set forth in this Indenture and no others, and no implied covenants or obligations shall be read into this Indenture against the Trustee; and

(ii) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions required to be furnished to the Trustee hereunder and conforming to the requirements of this Indenture. However, the Trustee shall examine the certificates and opinions to determine whether or not they conform to the requirements of this Indenture (but need not confirm or investigate the accuracy of any mathematical calculations or other facts stated therein).

(c) The Trustee may not be relieved from liabilities for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that:

(i) this paragraph does not limit the effect of paragraph (b) of this Section;

(ii) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it is proved that the Trustee was negligent in ascertaining the pertinent facts; and

(iii) the Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it pursuant to Section 6.05.

(d) Whether or not therein expressly so provided, every provision of this Indenture that in any way relates to the Trustee is subject to paragraphs (a), (b), and (c) of this Section 7.01.

(e) No provision of this Indenture shall require the Trustee to expend or risk its own funds or incur any liability. The Trustee shall be under no obligation to exercise any of its rights and powers under this Indenture at the request or direction of any Holders unless such Holders shall have offered to the Trustee security and indemnity satisfactory to it against any loss, liability, claim, damage or expense.

(f) The Trustee shall not be liable for interest on any money received by it except as the Trustee may agree in writing with the Company. Money held in trust by the Trustee need not be segregated from other funds except to the extent required by law.

(g) The Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture or other paper or documents.

Section 7.02 RIGHTS OF TRUSTEE.

(a) The Trustee may conclusively rely upon any document (whether in its original or facsimile form) believed by it to be genuine and to have been signed or presented by the proper Person. The Trustee need not investigate any fact or matter stated in the document.

(b) Before the Trustee acts or refrains from acting, it may require an Officers' Certificate or an Opinion of Counsel or both. The Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on such Officers' Certificate or Opinion of Counsel. The Trustee may consult with counsel of its own selection and the written advice or opinion of such counsel or any Opinion of Counsel shall be full and complete authorization and protection from liability in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon.

(c) The Trustee may act through its attorneys and agents and shall not be responsible for the misconduct or negligence of any agent appointed with due care.

(d) The Trustee shall not be liable for any action it takes or omits to take in good faith that it believes to be authorized or within the rights or powers conferred upon it by this Indenture.

(e) Unless otherwise specifically provided in this Indenture, any demand, request, direction or notice from the Company shall be sufficient if signed by an Officer of the Company.

(f) The Trustee shall be under no obligation to exercise any of the rights and powers vested in it by this Indenture at the request or direction of any of the Holders unless such Holders shall have offered to the Trustee reasonable security or indemnity satisfactory to it against any loss, liability, claim, damage or expense incurred by it in compliance with such request.

(g) The Trustee shall not be charged with knowledge of any Default or Event of Default unless either (i) a Responsible Officer of the Trustee shall have actual knowledge of such Default or Event of Default or (ii) written notice of such Default or Event of Default shall have been given by the Company or any Holder and received by a Responsible Officer of the Trustee.

Section 7.03 INDIVIDUAL RIGHTS OF TRUSTEE. The Trustee in its individual or any other capacity may become the owner or pledgee of Notes and may otherwise deal with the Company or any Affiliate of the Company with the same rights it would have if it were not Trustee. However, in the event that the Trustee acquires any conflicting interest it must eliminate such conflict within 90 days, apply to the Commission for permission to continue as trustee or resign. Any Agent may do the same with like rights and duties. The Trustee is also subject to Sections 7.10 and 7.11.

Section 7.04 TRUSTEE'S DISCLAIMER. The Trustee shall not be responsible for and makes no representation as to the validity or adequacy of this Indenture or the Notes, it shall not be accountable for the Company's use of the proceeds from the Notes or any money paid to the Company or upon the Company's direction under any provision of this Indenture, it shall not be responsible for the use or application of any money received by any Paying Agent other than the Trustee or an Affiliate of the Trustee, and it shall not be responsible for any statement or recital herein or any statement in the Notes or any other document in connection with the sale of the Notes or pursuant to this Indenture other than its certificate of authentication.

Section 7.05 NOTICE OF DEFAULTS. If a Default or Event of Default occurs and is continuing and if it is known to a Responsible Officer of the Trustee, the Trustee shall mail to Holders a notice of the Default or Event of Default within 90 days after the Trustee acquires knowledge thereof. Except in the case of a Default or Event of Default in payment of principal of, premium, if any (including the Make-Whole Payment, if any), or interest on any Note, the Trustee may withhold the notice if and so long as a

committee of its Responsible Officers in good faith determines that withholding the notice is in the interests of the Holders.

Section 7.06 REPORTS BY TRUSTEE TO HOLDERS. Within 60 days after each __ beginning with the __ following the date of this Indenture, and for so long as Notes remain outstanding, the Trustee shall mail to the Holders a brief report dated as of such reporting date that complies with TIA Section 313(a) (but if no event described in TIA Section 313(a) has occurred within the twelve months preceding the reporting date, no report need be transmitted). The Trustee also shall comply with TIA Section 313(b)(2). The Trustee shall also transmit by mail all reports as required by TIA Section 313(c).

A copy of each report at the time of its mailing to the Holders shall be mailed to the Company and filed with the Commission and each stock exchange on which the Notes are listed in accordance with TIA Section 313(d). The Company shall promptly notify the Trustee when the Notes are listed on any stock exchange or delisted therefrom.

Section 7.07 COMPENSATION AND INDEMNITY. The Company shall pay to the Trustee from time to time reasonable compensation for its acceptance of this Indenture and services hereunder. The Trustee's compensation shall not be limited by any law on compensation of a trustee of an express trust. The Company shall reimburse the Trustee promptly upon request for all reasonable disbursements, advances and expenses incurred or made by it in addition to the compensation for its services. Such expenses shall include the reasonable compensation, disbursements and expenses of the Trustee's agents and counsel.

The Company shall fully indemnify the Trustee against any and all losses, liabilities, claims, damages or expenses (including reasonable legal fees and expenses) incurred by it arising out of or in connection with the acceptance or administration of its duties under this Indenture, including the costs and expenses of enforcing this Indenture against the Company (including this Section 7.07) and defending itself against any claim (whether asserted by the Company or any Holder or any other person) or liability in connection with the exercise or performance of any of its powers or duties hereunder, except to

the extent any such loss, liability or expense may be attributable to its gross negligence or willful misconduct. The Trustee shall notify the Company promptly of any claim for which it may seek indemnity. Failure by the Trustee to so notify the Company shall not relieve the Company of its obligations hereunder. The Company shall defend the claim and the Trustee shall cooperate in the defense. The Trustee may have separate counsel and the Company shall pay the reasonable fees and expenses of such counsel. The Company need not pay for any settlement made without its consent, which consent shall not be unreasonably withheld.

The obligations of the Company in this Section 7.07 shall survive resignation or removal of the Trustee and the satisfaction and discharge of this Indenture.

To secure the Company's payment obligations in this Section, the Trustee shall have a lien prior to the Notes on all money or property held or collected by the Trustee, except that held in trust to pay principal and interest on particular Notes. Such lien shall survive the resignation or removal of the Trustee and the satisfaction and discharge of this Indenture.

When the Trustee incurs expenses or renders services after an Event of Default specified in Section 6.01(f) or (g) occurs, the expenses and the compensation for the services (including the fees and expenses of its agents and counsel) are intended to constitute expenses of administration under any Bankruptcy Law.

The Trustee shall comply with the provisions of TIA Section 313(b)(2) to the extent applicable.

Section 7.08 REPLACEMENT OF TRUSTEE. A resignation or removal of the Trustee and appointment of a successor Trustee shall become effective only upon the successor Trustee's acceptance of appointment as provided in this Section.

The Trustee may resign in writing at any time and be discharged from the trust hereby created by so notifying the Company. The Holders of a majority in principal amount of the then outstanding Notes may remove the Trustee by so notifying the Trustee and the Company in writing. The Company may remove the Trustee if:

(a) the Trustee fails to comply with Section 7.10;

(b) the Trustee is adjudged a bankrupt or an insolvent or an order for relief is entered with respect to the Trustee under any Bankruptcy Law;

(c) a custodian or public officer takes charge of the Trustee or its property; or

(d) the Trustee becomes incapable of acting.

If the Trustee resigns or is removed or if a vacancy exists in the office of Trustee for any reason, the Company shall promptly appoint a successor Trustee. Within one year after the successor Trustee takes office, the Holders of a majority in principal amount of the then outstanding Notes may appoint a successor Trustee to replace the successor Trustee appointed by the Company.

If a successor Trustee does not take office within 60 days after the retiring Trustee resigns or is removed, the retiring Trustee, the Company, or the Holders of at least 10% in principal amount of the then outstanding Notes may petition at the expense of the Company any court of competent jurisdiction for the appointment of a successor Trustee.

If the Trustee, after written request by any Holder who has been a Holder for at least six months, fails to comply with Section 7.10, such Holder may petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

A successor Trustee shall deliver a written acceptance of its appointment to the retiring Trustee and to the Company. Thereupon, the resignation or removal of the retiring Trustee shall become effective, and the successor Trustee shall have all the rights, powers and duties of the Trustee under this Indenture. The successor Trustee shall mail a notice of its succession to Holders. The retiring Trustee shall promptly transfer all property held by it as Trustee to the successor Trustee; provided all sums owing to the Trustee hereunder have been paid and subject to the lien provided for in Section 7.07. Notwithstanding replacement of the Trustee pursuant to this Section 7.08, the Company's obligations under Section 7.07 shall continue for the benefit of the retiring Trustee.

Section 7.09 SUCCESSOR TRUSTEE BY MERGER, ETC. If the Trustee consolidates, merges or converts into, or transfers all or substantially all of

its corporate trust business to, another corporation, the successor corporation without any further act shall be the successor Trustee.

Section 7.10 ELIGIBILITY; DISQUALIFICATION. There shall at all times be a Trustee hereunder that is a corporation organized and doing business under the laws of the United States of America or of any state thereof that is authorized under such laws to exercise corporate trust powers, that is subject to supervision or examination by federal or state authorities and that has a combined capital and surplus of at least $50 million as set forth in its most recent published annual report of condition.

This Indenture shall always have a Trustee who satisfies the requirements of TIA Section 310(a)(1), (2) and (5). The Trustee is subject to TIA Section 310(b).

Section 7.11 PREFERENTIAL COLLECTION OF CLAIMS AGAINST THE COMPANY. The Trustee is subject to TIA Section 311(a), excluding any creditor relationship listed in TIA Section 311(b). A Trustee who has resigned or been removed shall be subject to TIA Section 311(a) to the extent indicated therein.

Section 7.12 OTHER CAPACITIES. All references in this Indenture to the Trustee shall be deemed to refer to the Trustee in its capacity as Trustee and in its capacities as Agent, to the extent acting under such capacities, and every provision of this Indenture relating to the conduct or affecting the liability or offering protection, immunity or indemnity to the Trustee shall be deemed to apply with the same force and effect to the Trustee acting in its capacities as any Agent.

ARTICLE 8

MEETINGS OF HOLDERS

Section 8.01 PURPOSES FOR WHICH MEETINGS MAY BE CALLED. A meeting of Holders may be called at any time and from time to time pursuant to this Article to make, give or take any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be made, given or taken by Holders.

Section 8.02 CALL, NOTICE AND PLACE OF MEETINGS.

(1) The Trustee may at any time call a meeting of Holders for any purpose specified in Section 8.01, to be held at such time and at such place in the Borough of Manhattan, The City of New York, as the Trustee shall determine. Notice of every meeting of Holders, setting forth the time and the place of such meeting and in general terms the action proposed to be taken at such meeting, shall be given, in the manner provided in Section 12.02, not less than 21 nor more than 180 days prior to the date fixed for the meeting.

(2) In case at any time the Company, pursuant to a Board Resolution, or the Holders of at least 10% in principal amount of the then outstanding Notes shall have requested the Trustee to call a meeting of the Holders for any purpose specified in Section 8.01, by written request setting forth in reasonable detail the action proposed to be taken at the meeting, and the Trustee shall not have mailed the notice of such meeting within 21 days after receipt of such request or shall not thereafter proceed to cause the meeting to be held as provided herein, then the Company or the Holders in the amount specified, as the case may be, may determine the time and the place in the Borough of Manhattan, The City of New York, for such meeting and may call such meeting for such purposes by giving notice thereof as provided in paragraph (1) of this Section.

Section 8.03 PERSONS ENTITLED TO VOTE AT MEETINGS. To be entitled to vote at any meeting of Holders, a Person shall be (i) a Holder of one or more then outstanding Notes, or (ii) a Person appointed by an instrument in writing as proxy for a Holder or Holders of one or more then outstanding Notes by such Holder or Holders. The only Persons who shall be entitled to be present or to speak at any meeting of Holders shall be the Persons entitled to vote at such meeting and their counsel, any representatives of the Trustee and its counsel and any representatives of the Company and its counsel.

Section 8.04 QUORUM; ACTION. The Persons entitled to vote a majority in principal amount of the then outstanding Notes shall constitute a quorum. In the absence of a quorum within 30 minutes of the time appointed for any such meeting, the meeting shall, if convened at the request of Holders, be dissolved. In any other case, the meeting

may be adjourned for a period of not less than 10 days as determined by the chairman of the meeting prior to the adjournment of such meeting. In the absence of a quorum at any such adjourned meeting, such adjourned meeting may be further adjourned for a period not less than 10 days as determined by the chairman of

the meeting prior to the adjournment of such adjourned meeting (subject to repeated applications of this sentence). Notice of the reconvening of any adjourned meeting shall be given as provided in Section 8.02(1), except that such notice need be given only once not less than five days prior to the date on which the meeting is scheduled to be reconvened. Notice of the reconvening of an adjourned meeting shall state expressly the percentage of the principal amount of the then outstanding Notes which shall constitute a quorum.

Subject to the foregoing, at the reconvening of any meeting adjourned for a lack of a quorum, the Persons entitled to vote 25% in principal amount of the then outstanding Notes at the time shall constitute a quorum for the taking of any action set forth in the notice of the original meeting.

At a meeting or an adjourned meeting duly reconvened and at which a quorum is present as aforesaid, any resolution and all matters (other than a covenant or condition which under Section 9.02 cannot be modified or amended without the consent of the Holder of each outstanding Note affected) shall be effectively passed and decided if passed or decided by the lesser of (i) the Holders of not less than a majority in principal amount of then outstanding Notes and (ii) the Persons entitled to vote not less than 66-?% in principal amount of then outstanding Notes represented and entitled to vote at such meeting.

Any resolution passed or decisions taken at any meeting of Holders duly held in accordance with this Section shall be binding on all the Holders whether or not present or represented at the meeting. The Trustee shall, in the name and at the expense of the Company, notify all the Holders of any such resolutions or decisions in accordance with Section 12.02.

Section 2.09 shall determine which Notes are considered to be "outstanding" for purposes of this Section 8.04.

Section 8.05 DETERMINATION OF VOTING RIGHTS; CONDUCT AND ADJOURNMENT OF MEETINGS.

(1) Notwithstanding any other provisions of this Indenture, the Trustee may make such reasonable regulations as it may deem advisable for any meeting of Holders in regard to proof of the holding of Notes and of the appointment of proxies and in regard to the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidence of the

right to vote, and such other matters concerning the conduct of the meeting as it shall deem appropriate.

(2) The Trustee shall, by an instrument in writing, appoint a temporary chairman (which may be the Trustee) of the meeting, unless the meeting shall have been called by the Company or by Holders as provided in Section 8.02(2), in which case the Company or the Holders calling the meeting, as the case may be, shall in like manner appoint a temporary chairman. A permanent chairman and a permanent secretary of the meeting shall be elected by vote of the Persons entitled to vote a majority in principal amount of the then outstanding Notes represented at the meeting.

(3) At any meeting, each Holder or proxy shall be entitled to one vote for each U.S. $1,000 principal amount of Notes held or represented by him or her; provided, however, that no vote shall be cast or counted at any meeting in respect of any Note challenged as not outstanding and ruled by the chairman of the meeting to be not outstanding. The chairman of the meeting shall have no right to vote, except as a Holder or proxy.

(4) Any meeting of Holders duly called pursuant to Section 8.02 at which a quorum is present may be adjourned from time to time by Persons entitled to vote a majority in principal amount of the then outstanding Notes represented at the meeting, and the meeting may be held as so adjourned without further notice.

Section 8.06 COUNTING VOTES AND RECORDING ACTION OF MEETINGS. The vote upon any resolution submitted to any meeting of Holders shall be by written ballots on which shall be subscribed the signatures of the Holders or of their representatives by proxy and the principal amounts at Stated Maturity and serial numbers of the then outstanding Notes held or represented by them. The permanent chairman of the meeting shall appoint two inspectors of votes who shall count all votes cast at the meeting for or against any resolution and who shall make and file with the secretary of the meeting their verified written reports in duplicate of all votes cast at the meeting. A record, at least in duplicate, of the proceedings of each meeting of Holders shall be prepared by the secretary of the meeting and there shall be attached to said record the original reports of the inspectors of votes on any vote by ballot taken thereat and affidavits by one or more Persons having knowledge of the facts setting forth a copy of the notice of the meeting and showing that said notice was given as provided in Section 8.02 and, if applicable, Section 8.04. Each copy shall be signed and verified by the affidavits of the permanent chairman and secretary of the meeting and one such copy shall be delivered to the Company and another to the Trustee to be preserved by the Trustee, the latter to have attached thereto the

ballots voted at the meeting. Any record so signed and verified shall be conclusive evidence of the matters therein stated.

ARTICLE 9

AMENDMENT, SUPPLEMENT AND WAIVER

Section 9.01 WITHOUT CONSENT OF HOLDERS. Notwithstanding Section 9.02 of this Indenture, the Company and the Trustee may amend or supplement this Indenture or the Notes without the consent of any Holder:

(a) to cure any ambiguity, to correct or supplement any provision herein which may be inconsistent with any other provision herein or which is otherwise defective, or to make any other provisions with respect to matters or questions arising under this Indenture as the Company and the Trustee may deem necessary or desirable, provided such action pursuant to this clause (a) shall not adversely affect the interests of the Holders in any material respect;

(b) to provide for uncertificated Notes in addition to or in place of certificated Notes;

(c) to provide for the assumption of the Company's obligations to Holders in the case of a merger or consolidation or sale of all or substantially all of the assets of the Company pursuant to Article 5;

(d) to make any change that would provide any additional rights or benefits to the Holders or that does not adversely affect the legal rights under this Indenture of any such Holder;

(e) to comply with requirements of the Commission in order to effect or maintain the qualification of this Indenture under the TIA or otherwise as necessary to comply with applicable law;

(f) to make provision with respect to the conversion rights of Holders pursuant to Section 10.11 or to make provision with respect to the repurchase rights of Holders pursuant to Section 11.04;

(g) to evidence and provide for the acceptance of appointment hereunder by a successor Trustee; or

(h) subject to Section 14.12, to make any change in Article 14 that would limit or terminate the benefits available to any holder of Senior Debt under such Article.

Upon the request of the Company accompanied by a resolution of its Board of Directors authorizing the execution of any such amended or supplemental Indenture, and upon receipt by the Trustee of the documents described in Section 7.02, the Trustee shall

join with the Company in the execution of any amended or supplemental Indenture authorized or permitted by the terms of this Indenture and to make any further appropriate agreements and stipulations that may be therein contained, but the Trustee shall not be obligated to enter into such amended or supplemental Indenture that affects its own rights, duties or immunities under this Indenture or otherwise.

Section 9.02 WITH CONSENT OF HOLDERS. Except as provided below in this Section 9.02, this Indenture or the Notes may be amended or supplemented with either (i) the written consent (or as otherwise in accordance with the Applicable Procedures) of the Holders of at least a majority in aggregate principal amount of the Notes then outstanding (including, without limitation, consents obtained in connection with a purchase of, or a tender offer or exchange offer for, Notes), or (ii) by the adoption of a resolution, at a meeting of Holders of the then outstanding Notes at which a quorum is present, by the Holders of at least 66?% in principal amount of the then outstanding Notes represented at such meeting or, if less, by the Holders of at least a majority in aggregate principal amount of all then outstanding Notes. Section 2.09 shall determine which Notes are considered to be "outstanding" for purposes of this Section 9.02.

Upon the request of the Company accompanied by a resolution of its Board of Directors authorizing the execution of any such amended or supplemental Indenture, and upon the filing with the Trustee of evidence satisfactory to the Trustee of the consent of the Holders as aforesaid, and upon receipt by the Trustee of the documents described in Section 7.02, the Trustee shall join with the Company in the execution of such amended or supplemental Indenture unless such amended or supplemental Indenture directly affects the Trustee's own rights, duties or immunities under this Indenture or otherwise, in which case the Trustee may in its discretion, but shall not be obligated to, enter into such amended or supplemental Indenture.

It shall not be necessary for the consent of the Holders under this Section 9.02 to approve the particular form of any proposed amendment or supplement, but it shall be sufficient if such consent approves the substance thereof.

After an amendment or supplement under this Section 9.02 becomes effective, the Company shall mail to the Holders affected thereby a notice briefly describing the amendment or supplement. Any failure of the Company to mail such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such amended or supplemental Indenture.

However, without the consent or affirmative vote of each Holder affected, an amendment or supplement under this Section 9.02 may not (with respect to any Notes held by a non-consenting Holder):

(a) change the Stated Maturity of the principal of, or any installment of interest on, any Note, or reduce the principal amount of, or the premium, if any (including the Make-Whole Payment, if any), or the rate of interest payable thereon, or reduce the amount payable upon a redemption or Change of Control, or change the place or currency of payment of the principal of, premium, if any (including the Make-Whole Payment, if any), or interest on any Note (including any payment of Redemption Price or Repurchase Price in respect of such Note) or impair the right to institute suit for the enforcement of any payment in respect of any Note on or after the Stated Maturity thereof (or, in the case of redemption or any repurchase, on or after the Redemption Date or Repurchase Date, as the case may be) or, except as permitted by Section 10.11, adversely affect the right of Holders to convert any Note as provided in Article 10 or modify the provisions of this Indenture with respect to the subordination of the Notes in a manner adverse to the Holders; or

(b) reduce the requirements of Section 8.04 for quorum or voting, or reduce the percentage in principal amount of the then outstanding Notes the consent of whose Holders is required for any such supplemental indenture or the consent of whose Holders is required for any waiver of compliance with certain provisions of this Indenture or certain defaults hereunder and their consequences provided for in this Indenture; or

(c) modify the obligation of the Company to maintain an office or agency in the Borough of Manhattan, The City of New York, pursuant to Section 4.02; or

(d) modify any of the provisions of this Section or Section 4.10 or 6.04, except to increase any percentage contained herein or therein or to provide that certain other provisions of this Indenture cannot be modified or waived without the consent of the Holder of each outstanding Note affected thereby; or

(e) modify the provisions of Article 11 relating to notice and repurchase (including, without limitation, those relating to the Repurchase Date and the Repurchase Price (whether payable in cash or shares of Common Stock)) in a manner adverse to the Holders.

Section 9.03 COMPLIANCE WITH TRUST INDENTURE ACT. Every amendment or supplement to this Indenture or the Notes shall be set forth in an amended or supplemental Indenture that complies with the TIA as then in effect.

Section 9.04 REVOCATION AND EFFECT OF CONSENTS. Until an amendment or supplement becomes effective, a consent to it by a Holder is a continuing consent by the Holder and every subsequent Holder that evidences the same debt as the consenting

Holder's Note, even if notation of the consent is not made on any Note. However, any such Holder or subsequent Holder may revoke the consent as to its Note if the Trustee receives written notice of revocation before the date the supplement or amendment becomes effective. An amendment or supplement becomes effective in accordance with its terms and thereafter binds every Holder.

Section 9.05 NOTATION ON OR EXCHANGE OF NOTES. The Trustee may place an appropriate notation about an amendment or supplement on any Note thereafter authenticated. The Company in exchange for all Notes may issue and the Trustee shall, upon receipt of an Authentication Order, authenticate new Notes that reflect the amendment or supplement.

Failure to make the appropriate notation or issue a new Note shall not affect the validity and effect of such amendment or supplement.

Section 9.06 TRUSTEE TO SIGN AMENDMENTS, ETC. The Trustee shall sign any amended or supplemental Indenture authorized pursuant to this Article 9 if the amendment or supplement does not adversely affect the rights, duties,

liabilities or immunities of the Trustee. The Company may not sign an amendment or supplemental Indenture until the Board of Directors approves it. In executing any amended or supplemental indenture, the Trustee shall be entitled to receive and (subject to Section 7.01) shall be fully protected in relying upon, in addition to the documents required by Section 10.04, an Officer's Certificate and an Opinion of Counsel stating that the execution of such amended or supplemental indenture is authorized or permitted by this Indenture.

ARTICLE 10

CONVERSION OF NOTES

Section 10.01 CONVERSION PRIVILEGE AND CONVERSION RATE. Subject to and upon compliance with the provisions of this Article, at the option of the Holder thereof, any Note may be converted into fully paid and nonassessable shares (calculated as to each conversion to the nearest 1/100th of a share) of Common Stock of the Company at the Conversion Rate, determined as hereinafter provided, in effect at the time of conversion. Such conversion right shall commence on the initial issuance date of the Notes and expire at the close of business on the Business Day prior to the date of Maturity of the Notes, subject, in the case of conversion of any Global Note, to any Applicable Procedures. In case a Note or portion thereof is called for redemption at the election of the Company or the Holder thereof exercises his right to require the Company to repurchase the Note following a Change of Control, such conversion right in respect of the Note, or portion thereof so called, shall expire at the close of business on the Business Day prior to the Redemption Date or the Repurchase Date, as the case may be, unless the Company

defaults in making the payment due upon redemption or repurchase, as the case may be (in each case subject as aforesaid to any Applicable Procedures with respect to any Global Note).

The rate at which shares of Common Stock shall be delivered upon conversion (herein called the "Conversion Rate") shall be initially ___ shares of Common Stock for each U.S. $1,000 principal amount of Notes. The Conversion Rate shall be adjusted in certain instances as provided in this Article 10.

Section 10.02 EXERCISE OF CONVERSION PRIVILEGE. In order to exercise the conversion privilege, the Holder of any Note to be converted shall surrender such Note, duly endorsed in blank, at any office or agency of the Company maintained for that purpose pursuant to Section 4.02, accompanied by a duly signed conversion notice substantially in the form set forth in Exhibit A stating that the Holder elects to convert such Note or, if less than the entire principal amount thereof is to be converted, the portion thereof to be converted. Each Note surrendered for conversion (in whole or in part) during the period between the close of business during the Record Date Period shall (except in the case of any Note or portion thereof which has been called for redemption on a Redemption Date occurring within such Record Date Period and, as a result, the right to convert would terminate in such period) be accompanied by payment in New York Clearing House funds or other funds acceptable to the Company of an amount equal to the interest payable on the applicable Interest Payment Date on the principal amount of such Note (or part thereof, as the case may be) being surrendered for conversion, provided that if any Note (or portion thereof) has been called for redemption on a Redemption Date occurring during the Record Date Period, and is surrendered for conversion during such period, the Holder of such Note on the related Regular Record Date will be entitled to receive the interest accruing on such Note from the Interest Payment Date next preceding the date of such conversion to such succeeding Interest Payment Date and the Holder of such Note who converts such Note or portion thereof during such period shall not be required to pay such interest upon surrender of such Note for conversion. The interest so payable on such Interest Payment Date with respect to any Note (or portion thereof, if applicable) which is surrendered for conversion during the Record Date Period shall be paid to the Holder of such Note as of such Regular Record Date in an amount equal to the interest that would have been payable on such Note if such Note had been converted as of the close of business on such Interest Payment Date. Except as provided in this paragraph, no cash payment or adjustment shall be made upon any conversion on account of any interest accrued from the Interest Payment Date next preceding the conversion date, in respect of any Note (or part thereof, as the case may be) surrendered for conversion, or on account of any dividends on the Common Stock issued upon conversion. The Company's delivery to the Holder of the number of shares of Common Stock (and cash in lieu of fractions thereof, as provided in this Indenture) into which a Note is convertible will be deemed to satisfy the Company's obligation to pay the principal amount of the Note.

Notes shall be deemed to have been converted immediately prior to the close of business on the day of surrender of such Notes for conversion in accordance with the foregoing provisions, and at such time the rights of the Holders of such Notes as Holders shall cease, and the Person or Persons entitled to receive the Common Stock issuable upon conversion shall be treated for all purposes as the record holder or holders of such Common Stock at such time. As promptly as practicable on or after the conversion date, the Company shall issue and deliver to the Trustee, for delivery to the Holder, a certificate or

certificates for the number of full shares of Common Stock issuable upon conversion, together with payment in lieu of any fraction of a share, as provided in Section 10.03.

In the case of any Note which is converted in part only, upon such conversion the Company shall execute and the Trustee shall authenticate and deliver to the Holder thereof, at the expense of the Company, a new Note or Notes of authorized denominations in an aggregate principal amount equal to the unconverted portion of the principal amount of such Note. A Note may be converted in part, but only if the principal amount of such Note to be converted is any integral multiple of U.S. $1,000 and the principal amount of such Note to remain outstanding after such conversion is equal to U.S. $1,000 or any integral multiple of U.S. $1,000 in excess thereof.

Section 10.03 FRACTIONS OF SHARES. No fractional shares of Common Stock shall be issued upon conversion of any Note or Notes. If more than one Note shall be surrendered for conversion at one time by the same Holder, the number of full shares which shall be issuable upon conversion thereof shall be computed on the basis of the aggregate principal amount of the Notes (or specified portions thereof) so surrendered. Instead of any fractional share of Common Stock which would otherwise be issuable upon conversion of any Note or Notes (or specified portions thereof), the Company shall calculate and pay a cash adjustment in respect of such fraction (calculated to the nearest 1/100th of a share) in an amount equal to the same fraction of the Closing Price Per Share at the close of business on the day of conversion (or round up the number of shares of Common Stock issuable upon conversion of any Note or Notes to the nearest whole share).

Section 10.04 ADJUSTMENT OF CONVERSION RATE. The Conversion Rate shall be subject to adjustments from time to time as follows:

(1) In case the Company shall pay or make a dividend or other distribution on shares of any class of capital stock payable in shares of Common Stock, the Conversion Rate in effect at the opening of business on the day following the date fixed for the determination of shareholders entitled to receive such dividend or other distribution shall be increased by dividing such Conversion Rate by a fraction of which the numerator shall be the number of shares of Common Stock outstanding at the close of business on the date fixed for such

determination and the denominator shall be the sum of such number of shares and the total number of shares constituting such dividend or other distribution, such increase to become effective immediately after the opening of business on the day following the date fixed for such determination. If, after any such date fixed for determination, any dividend or distribution is not in fact paid, the Conversion Rate shall be immediately readjusted, effective as of the date the Board of Directors determines not to pay such dividend or distribution, to the Conversion Rate that would have been in effect if such determination date had not been fixed. For the purposes of this paragraph (1), the number of shares of Common Stock at any time outstanding shall not include shares held in the treasury of the Company but shall include shares issuable in respect of scrip certificates issued in lieu of fractions of shares of Common Stock. The Company will not pay any dividend or make any distribution on shares of Common Stock held in the treasury of the Company.

(2) Subject to the last sentence of paragraph (7) below, in case the Company shall issue rights, options or warrants to all or substantially all holders of its Common Stock entitling them to subscribe for or purchase shares of Common Stock, or securities convertible into shares of Common Stock, at a price per share less than the current market price per share (determined as provided in paragraph (8) of this Section 10.04) of the Common Stock on the date fixed for the determination of stockholders entitled to receive such rights, options or warrants (other than any rights, options or warrants that by their terms will also be issued to any Holder upon conversion of a Note into shares of Common Stock without any action required by the Company or any other Person), the Conversion Rate in effect at the opening of business on the day following the date fixed for such determination shall be increased by dividing such Conversion Rate by a fraction of which the numerator shall be the number of shares of Common Stock outstanding at the close of business on the date fixed for such determination plus the number of shares of Common Stock which the aggregate of the offering price of the total number of shares of Common Stock so offered for subscription or purchase would purchase at such current market price and the denominator shall be the number of shares of Common Stock outstanding at the close of business on the date fixed for such determination plus the number of shares of Common Stock so offered for subscription or purchase, such increase to become effective immediately after the opening of business on the day following the date fixed for such determination. If, after any such date fixed for determination, any such rights, options or warrants are not in fact issued, or are not exercised, prior to the expiration thereof, the Conversion Rate shall be immediately readjusted, effective as of the date such rights, options or warrants expire, or the date the Board of Directors determines not to issue such rights, options or warrants, to

the Conversion Rate that would have been in effect if the unexercised rights, options or warrants had never been granted or such determination date had not been fixed,

as the case may be. For the purposes of this paragraph (2), the number of shares of Common Stock at any time outstanding shall not include shares held in the treasury of the Company but shall include shares issuable in respect of scrip certificates issued in lieu of fractions of shares of Common Stock. The Company will not issue any rights, options or warrants in respect of shares of Common Stock held in the treasury of the Company.

(3) In case outstanding shares of Common Stock shall be subdivided into a greater number of shares of Common Stock, the Conversion Rate in effect at the opening of business on the day following the day upon which such subdivision becomes effective shall be proportionately increased, and, conversely, in case outstanding shares of Common Stock shall be combined into a smaller number of shares of Common Stock, the Conversion Rate in effect at the opening of business on the day following the day upon which such subdivision or combination becomes effective shall be proportionately reduced, such increase or reduction, as the case may be, to become effective immediately after the opening of business on the day following the day upon which such subdivision or combination becomes effective.

(4) In case the Company shall, by dividend or otherwise, distribute to all or substantially all holders of its Common Stock evidences of its indebtedness, shares of any class of capital stock or other property (including cash or assets or securities, but excluding (i) any rights, options or warrants referred to in paragraph (2) of this Section and any other rights, options or warrants that by their terms will also be issued to any Holder upon conversion of a Note into shares of Common Stock without any action required by the Company or any other Person, (ii) any dividend or distribution paid exclusively in cash, (iii) any dividend or distribution referred to in paragraph (1) of this Section and (iv) mergers or consolidations to which Section 10.11 applies), the Conversion Rate shall be adjusted so that the same shall equal the rate determined by dividing the Conversion Rate in effect immediately prior to the close of business on the date fixed for the determination of stockholders entitled to receive such distribution by a fraction of which the numerator shall be the current market price per share (determined as provided in paragraph (8) of this Section 10.04) of the Common Stock on the date fixed for such determination less the then fair market value (as determined by the Board of Directors, whose determination shall be conclusive and described in a Board Resolution filed with the Trustee) of the portion of the assets, shares or evidences of indebtedness so distributed applicable to one share of Common Stock and the denominator shall be such current market price per share of the Common Stock, such adjustment to become effective immediately prior to the opening of business on the day following the date fixed for the determination of stockholders entitled to receive such distribution. If after any such date fixed for determination, any such distribution is not in fact made, the

Conversion Rate shall be immediately readjusted, effective as of the date the Board of Directors determines not to make such distribution, to the Conversion Rate that would have been in effect if such determination date had not been fixed.

(5) In case the Company shall, by dividend or otherwise, distribute to all holders of its Common Stock exclusively cash (excluding any cash that is distributed as part of a distribution referred to in paragraph (4) of this Section or cash distributed upon a merger or consolidation to which Section 10.11 applies) in an aggregate amount that, combined together with (i) the aggregate amount of any such other all-cash distributions to all holders of its Common Stock within the 365-day period preceding the date of payment of such distribution and in respect of which no adjustment pursuant to paragraphs (5) and (6) of this Section 10.04 has been made and (ii) the aggregate of any cash plus the fair market value (as determined by the Board of Directors, whose determination shall be conclusive and described in a Board Resolution) of consideration payable in respect of any tender offer by the Company or any of its Subsidiaries for all or any portion of the Common Stock concluded within the 365-day period preceding the date of payment of such distribution and in respect of which no adjustment pursuant to paragraphs (5) and (6) of this Section 10.04 has been made (the "combined cash and tender amount") exceeds 10.0% of the product of the current market price per share (determined as provided in paragraph (8) of this Section 10.04) of the Common Stock on the date for the determination of holders of shares of Common Stock entitled to receive such distribution times the number of shares of Common Stock outstanding on such date (the "aggregate current market price"), then, and in each such case, immediately after the close of

business on such date for determination, the Conversion Rate shall be adjusted so that the same shall equal the rate determined by dividing the Conversion Rate in effect immediately prior to the close of business on the date fixed for determination of the stockholders entitled to receive such distribution by a fraction (i) the numerator of which shall be equal to the current market price per share (determined as provided in paragraph (8) of this Section 10.04) of the Common Stock on the date fixed for such determination less an amount equal to the quotient of (x) the excess of such combined cash and tender amount over such aggregate current market price divided by (y) the number of shares of Common Stock outstanding on such date for determination and (ii) the denominator of which shall be equal to the current market price per share (determined as provided in paragraph (8) of this Section 10.04) of the Common Stock on such date fixed for determination.

(6) In case a tender offer made by the Company or any Subsidiary for all or any portion of the Common Stock shall expire and such tender offer (as amended upon the expiration thereof) shall require the payment to stockholders (based on the acceptance (up to any maximum specified in the terms of the tender offer) of Purchased Shares (as defined below)) of an aggregate consideration

having a fair market value (as determined by the Board of Directors, whose determination shall be conclusive and described in a Board Resolution) that combined together with (i) the aggregate of the cash plus the fair market value (as determined by the Board of Directors, whose determination shall be conclusive and described in a Board Resolution), as of the expiration of such tender offer, of consideration payable in respect of any other tender offer by the Company or any Subsidiary for all or any portion of the Common Stock expiring within the 365-day period preceding the expiration of such tender offer and in respect of which no adjustment pursuant to paragraphs (5) and (6) of this Section 10.04 has been made and (ii) the aggregate amount of any cash distributions to all holders of the Common Stock within the 365-day period preceding the expiration of such tender offer and in respect of which no adjustment pursuant to paragraphs (5) and (6) of this Section 10.04 has been made (the "combined tender and cash amount") exceeds 10.0% of the product of the current market price per share of the Common Stock (determined as provided in paragraph (8) of this Section 10.04) as of the last time (the "Expiration Time") tenders could have been made pursuant to such tender offer (as it may be amended) times the number of shares of Common Stock outstanding (including any tendered shares) as of the Expiration Time, then, and in each such case immediately prior to the opening of business on the day after the date of the Expiration Time, the Conversion Rate shall be adjusted so that the same shall equal the rate determined by dividing the Conversion Rate immediately prior to close of business on the date of the Expiration Time by a fraction (i) the numerator of which shall be equal to (A) the product of (I) the current market price per share of the Common Stock (determined as provided in paragraph (8) of this Section 10.04) on the date of the Expiration Time multiplied by (II) the number of shares of Common Stock outstanding (including any tendered shares) on the Expiration Time less (B) the combined tender and cash amount, and (ii) the denominator of which shall be equal to the product of (A) the current market price per share of the Common Stock (determined as provided in paragraph (8) of this Section 10.04) as of the Expiration Time multiplied by (B) the number of shares of Common Stock outstanding (including any tendered shares) as of the Expiration Time less the number of all shares validly tendered and not withdrawn as of the Expiration Time (the shares deemed so accepted up to any such maximum, being referred to as the "Purchased Shares").

(7) The reclassification of Common Stock into securities other than Common Stock (other than any reclassification upon a consolidation or merger to which Section 10.11 applies) shall be deemed to involve (a) a distribution of such securities other than Common Stock to all holders of Common Stock (and the effective date of such reclassification shall be deemed to be "the date fixed for the determination of stockholders entitled to receive such distribution" and "the date fixed for such determination" within the meaning of paragraph (4) of this Section 10.04), and (b) a subdivision or combination, as the case may be, of the number of

shares of Common Stock outstanding immediately prior to such reclassification into the number of shares of Common Stock outstanding immediately thereafter (and the effective date of such reclassification shall be deemed to be "the day upon which such subdivision becomes effective" or "the day upon which such combination becomes effective," as the case may be, and "the day upon which such subdivision or combination becomes effective" within the meaning of paragraph (3) of this Section 10.04). Rights, options or warrants issued by the Company to all holders of its Common Stock entitling the holders thereof to

subscribe for or purchase shares of capital stock of the Company, which rights, options or warrants (i) are deemed to be transferred with such shares of Common Stock, (ii) are not exercisable and (iii) are also issued in respect of future issuances of shares of capital stock, in each case in clauses (i) through (iii) until the occurrence of a specified event or events ("Trigger Event"), shall for purposes of this Section 10.04 not be deemed issued or distributed until the occurrence of the earliest Trigger Event.

(8) For the purpose of any computation under paragraph (2), (4), (5) or (6) of this Section 10.04, the current market price per share of Common Stock on any date shall be calculated by the Company and shall be the average of the daily Closing Price Per Share for the five consecutive Trading Days selected by the Company commencing not more than 10 Trading Days before, and ending not later than the earlier of the day in question and the day before the "ex" date with respect to the issuance or distribution requiring such computation. For purposes of this paragraph, the term "`ex' date," when used with respect to any issuance or distribution, means the first date on which the Common Stock trades the regular way in the applicable securities market or on the applicable securities exchange without the right to receive such issuance or distribution.

(9) No adjustment in the Conversion Rate shall be required unless such adjustment (plus any adjustments not previously made by reason of this paragraph (9)) would require an increase or decrease of at least one percent in such rate; provided, however, that any adjustments which by reason of this paragraph (9) are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this Article shall be made to the nearest cent or to the nearest one-hundredth of a share, as the case may be.

(10) The Company may make such increases in the Conversion Rate, for the remaining term of the Notes or any shorter term, in addition to those required by paragraphs (1), (2), (3), (4), (5) and (6) of this Section 10.04, as it considers to be advisable in order to avoid or diminish any income tax to any holders of shares of Common Stock resulting from any dividend or distribution of stock or issuance of rights or warrants to purchase or subscribe for stock or from

any event treated as such for income tax purposes. The Company shall have the power to resolve any ambiguity or correct any error in this paragraph (10) and its actions in so doing shall, absent manifest error, be final and conclusive.

(11) Notwithstanding the foregoing provisions of this Section 10.04, no adjustment of the Conversion Rate shall be required to be made (a) upon the issuance of shares of Common Stock pursuant to any present or future plan for the reinvestment of dividends or (b) because of a tender or exchange offer of the character described in Rule 13e-4(h)(5) under the Exchange Act or any successor rule thereto.

(12) In addition to increases in the Conversion Rate permitted pursuant to Paragraph (10) above, to the extent permitted by applicable law, the Company from time to time may increase the Conversion Rate by any amount for any period of time if the period is at least twenty (20) days, the increase is irrevocable during such period, and the Board of Directors shall have made a determination that such increase would be in the best interests of the Company, which determination shall be conclusive; provided, however, that no such increase shall be taken into account for purposes of determining whether the Closing Price Per Share of the Common Stock equals or exceeds 105% of the Conversion Price in connection with an event which would otherwise be a Change of Control. Whenever the Conversion Rate is increased pursuant to the preceding sentence, the Company shall give notice of the increase to the Holders in the manner provided in Section 12.02 at least fifteen (15) days prior to the date the increased Conversion Rate takes effect, and such notice shall state the increased Conversion Rate and the period during which it will be in effect.

Section 10.05 NOTICE OF ADJUSTMENTS OF CONVERSION RATE. Whenever the Conversion Rate is adjusted as herein provided:

(1) the Company shall compute the adjusted Conversion Rate in accordance with Section 10.04 and shall prepare a certificate signed by the Chief Financial Officer of the Company setting forth the adjusted Conversion Rate and showing in reasonable detail the facts upon which such adjustment is based, and such certificate shall promptly be filed with the Trustee and with each Conversion Agent; and

(2) upon each such adjustment, a notice stating that the Conversion Rate has been adjusted and setting forth the adjusted Conversion Rate shall be required, and as soon as practicable after it is required, such notice shall be provided by the Company to all Holders in accordance with Section 12.02.

Neither the Trustee nor any Conversion Agent shall be under any duty or responsibility with respect to any such certificate or the information and calculations contained therein, except to exhibit the same to any Holder desiring inspection thereof at its office during normal business hours, and shall not be deemed to have knowledge of any adjustment in the Conversion Rate unless and until a Responsible Officer of the Trustee shall have received such a certificate. Until a Responsible Officer of the Trustee receives such a certificate, the Trustee and each Conversion Agent may assume without inquiry that the last Conversion Rate of which the Trustee has knowledge of remains in effect.

Section 10.06 NOTICE OF CERTAIN CORPORATE ACTION. In case:

(1) the Company shall declare a dividend (or any other distribution) on its Common Stock payable (i) otherwise than exclusively in cash or (ii) exclusively in cash in an amount that would require any adjustment pursuant to Section 10.04; or

(2) the Company shall authorize the granting to all or substantially all of the holders of its Common Stock of rights, options or warrants to subscribe for or purchase any shares of capital stock of any class or of any other rights; or

(3) of any reclassification of the Common Stock, or of any consolidation, merger or share exchange to which the Company is a party and for which approval of any stockholders of the Company is required, or of the conveyance, sale, transfer or lease of all or substantially all of the assets of the Company; or

(4) of the voluntary or involuntary dissolution, liquidation or winding up of the Company;

then the Company shall cause to be filed at each office or agency maintained for the purpose of conversion of Notes pursuant to Section 4.02, and shall cause to be provided to all Holders in accordance with Section 12.02, at least 20 days (or 10 days in any case specified in clause (1) or (2) above) prior to the applicable record or effective date hereinafter specified, a notice stating (x) the date on which a record is to be taken for the purpose of such dividend, distribution, rights, options or warrants, or, if a record is not to be taken, the date as of which the holders of Common Stock of record to be entitled to such dividend, distribution, rights, options or warrants are to be determined or (y) the date on which such reclassification, consolidation, merger, conveyance, transfer, sale, lease, dissolution, liquidation or winding up is expected to become effective, and the date as of which it is expected that holders of Common Stock of record shall be

entitled to exchange their shares of Common Stock for securities, cash or other property deliverable upon such reclassification, consolidation, merger, conveyance, transfer, sale, lease, dissolution, liquidation or winding up. Neither the failure to give such notice or the notice referred to in the following paragraph nor any defect therein shall affect the legality or validity of the proceedings described in clauses (1) through (4) of this Section 10.06. If at the time the Trustee shall not be the Conversion Agent, a copy of such notice shall also forthwith be filed by the Company with the Trustee.

The Company shall cause to be filed at the Corporate Trust Office and each office or agency maintained for the purpose of conversion of Notes pursuant to Section 4.02, and shall cause to be provided to all Holders in accordance with Section 12.02, notice of any tender offer by the Company or any Subsidiary for all or any portion of the Common Stock at or about the time that such notice of tender offer is provided to the public generally.

Section 10.07 COMPANY TO RESERVE COMMON STOCK. The Company shall at all times reserve and keep available, free from preemptive rights, out of its authorized but unissued Common Stock (including treasury stock), for the purpose of effecting the conversion of Notes, the full number of shares of Common Stock then issuable upon the conversion of all then outstanding Notes.

Section 10.08 TAXES ON CONVERSIONS. Except as provided in the next sentence, the Company will pay any and all taxes and duties that may be payable in respect of the issue or delivery of shares of Common Stock on conversion of Notes pursuant hereto. The Company shall not, however, be required to pay any tax or duty which may be payable in respect of any transfer involved in the issue and delivery of shares of Common Stock in a name other than that of the Holder of the Note or Notes to be converted, and no such issue or delivery shall be made unless and until the Person requesting such issue has paid to the Company the amount of any such tax or duty, or has established to the satisfaction of the Company that such tax or duty has been paid.

Section 10.09 COVENANT AS TO COMMON STOCK. The Company agrees that all shares of Common Stock which may be delivered upon conversion of Notes, upon such delivery, will have been duly authorized and validly issued and will be fully paid and nonassessable and, except as provided in Section 10.08, the Company will pay all taxes, liens and charges with respect to the issue thereof.

Section 10.10 CANCELLATION OF CONVERTED NOTES. All Notes delivered for conversion shall be delivered to the Trustee or its agent to be canceled by or at the direction of the Trustee, which shall dispose of the same as provided in Section 2.12.

Section 10.11 PROVISION IN CASE OF CONSOLIDATION, MERGER OR SALE OF ASSETS. In case of any consolidation or merger of the Company with or into any other Person or any merger of another Person with or into the Company (in either case, other than a merger which does not result in any reclassification, conversion, exchange or cancellation of outstanding shares of Common Stock of the Company) or any conveyance, sale, transfer or lease of all or substantially all of the assets of the Company, the Person formed by such consolidation or resulting from such merger or which acquires such assets, as the case may be, shall execute and deliver to the Trustee a supplemental indenture providing that the Holder of each Note then outstanding shall have the right thereafter, during the period such Note shall be convertible as specified in Section 10.01, to convert such Note only into the kind and amount of securities, cash and other property receivable upon such consolidation, merger, conveyance, sale, transfer or lease by a holder of the number of shares of Common Stock of the Company into which such Note might have been converted immediately prior to such consolidation, merger, conveyance, sale, transfer or lease, assuming such holder of Common Stock (i) is not (A) a Person with which the Company consolidated or merged with or into or which merged into or with the Company or to which such conveyance, sale, transfer or lease was made, as the case may be (a "Constituent Person"), or (B) an Affiliate of a Constituent Person and (ii) failed to exercise his or her rights of election, if any, as to the kind or amount of securities, cash and other property receivable upon such consolidation, merger, conveyance, sale, transfer or lease (provided that if the kind or amount of securities, cash and other property receivable upon such consolidation, merger, conveyance, sale, transfer, or lease is not the same for each share of Common Stock held immediately prior to such consolidation, merger, conveyance, sale, transfer or lease by others than a Constituent Person or an Affiliate thereof and in respect of which such rights of election shall not have been exercised ("Non-electing Share"), then for the purpose of this Section 10.11 the kind and amount of securities, cash and other property receivable upon such consolidation, merger, conveyance, sale, transfer or lease by the holders of each Non-electing Share shall be deemed to be the kind and amount so receivable per share by a plurality of the Non-electing Shares). Such supplemental indenture shall provide for adjustments which, for events subsequent to the effective date of such supplemental indenture, shall be as nearly equivalent as may be practicable to the adjustments provided for in this Article. The above provisions of this Section 10.11 shall similarly apply to successive consolidations, mergers, conveyances, sales, transfers or leases. Notice of the execution of such a supplemental indenture shall be given by the Company to the Holder as provided in Section 12.02 promptly upon such execution.

Neither the Trustee nor any Conversion Agent shall be under any responsibility to determine the correctness of any provisions contained in any such supplemental indenture relating either to the kind or amount of shares of stock or other securities or property or cash receivable by Holders upon the conversion of their Notes after any such consolidation, merger, conveyance, transfer, sale or lease or to any such adjustment, but may accept as conclusive evidence of the correctness of any such provisions, and shall be

protected in relying upon, an Opinion of Counsel with respect thereto, which the Company shall cause to be furnished to the Trustee.

Section 10.12 RIGHTS ISSUED IN RESPECT OF COMMON STOCK. Rights or warrants distributed by the Company to all holders of Common Stock entitling the holders thereof to subscribe for or purchase shares of the Company's capital stock (either initially or under certain circumstances), which rights or warrants, until the occurrence of a specified event or events ("Trigger Event"):

(i) are deemed to be transferred with such shares of Common Stock,

(ii) are not exercisable, and

(iii) are also issued in respect of future issuances of Common Stock

shall not be deemed distributed for purposes of Section 10.04(2) until the occurrence of the earliest Trigger Event. In addition, in the event of any

distribution of rights or warrants, or any Trigger Event with respect thereto, that shall have resulted in an adjustment to the Conversion Rate under Section 10.04(2), (1) in the case of any such rights or warrants which shall all have been redeemed or repurchased without exercise by any holders thereof, the Conversion Rate shall be readjusted upon such final redemption or repurchase to give effect to such distribution or Trigger Event, as the case may be, as though it were a cash distribution, equal to the per share redemption or repurchase price received by a holder of Common Stock with respect to such rights or warrants (assuming such holder had retained such rights or warrants), made to all holders of Common Stock as of the date of such redemption or repurchase, and (2) in the case of any such rights or warrants all of which shall have expired without exercise by any holder thereof, the Conversion Price shall be readjusted as if such issuance had not occurred.

Section 10.13 RESPONSIBILITY OF TRUSTEE FOR CONVERSION PROVISIONS. The Trustee, subject to the provisions of Section 7.01, and any Conversion Agent shall not at any time be under any duty or responsibility to any Holder to determine whether any facts exist which may require any adjustment of the Conversion Rate, or with respect to the nature or extent of any such adjustment when made, or with respect to the method employed, herein or in any supplemental indenture provided to be employed, in making the same, or whether a supplemental indenture need be entered into. Neither the Trustee, subject to the provisions of Section 7.01, nor any Conversion Agent shall be accountable with respect to the validity or value (or the kind or amount) of any Common Stock, or of any other Notes or property or cash, which may at any time be issued or delivered upon the conversion of any Note; and it or they do not make any representation with respect thereto. Neither the Trustee, subject to the provisions of Section 7.01, nor any

Conversion Agent shall be responsible for any failure of the Company to make or calculate any cash payment or to issue, transfer or deliver any shares of Common Stock or share certificates or other Notes or property or cash upon the surrender of any Note for the purpose of conversion; and the Trustee, subject to the provisions of Section 7.01, and any Conversion Agent shall not be responsible for any failure of the Company to comply with any of the covenants of the Company contained in this Article.

ARTICLE 11

REPURCHASE OF NOTES AT THE OPTION OF THE HOLDER UPON A CHANGE OF CONTROL

Section 11.01 RIGHT TO REQUIRE REPURCHASE. If a Change of Control occurs, each Holder shall have the right, at the Holder's option, but subject to the provisions of Section 11.02, to require the Company to repurchase, and upon the exercise of such right the Company shall repurchase, all of such Holder's Notes not theretofore called for redemption, or any portion of the principal amount thereof that is equal to U.S. $1,000 or any integral multiple of U.S. $1,000 in excess thereof (provided that no single Note may be repurchased in part unless the portion of the principal amount of such Note to be outstanding after such repurchase is equal to U.S. $1,000 or integral multiples of U.S. $1,000 in excess thereof), pursuant to a Change of Control Offer. Upon the occurrence of a Change of Control, the Company shall offer (a "Change of Control Offer") a payment equal to 100% of the aggregate principal amount of the Notes to be repurchased plus interest accrued and unpaid to but excluding the Repurchase Date (the "Repurchase Price"); provided, however, that installments of interest on Notes whose Stated Maturity is on or prior to the Repurchase Date shall be payable to the Holders of such Notes, or one or more Predecessor Notes, registered as such on the relevant Regular Record Date according to their terms. At the option of the Company, the Repurchase Price may be paid in cash or, subject to the fulfillment by the Company of the conditions set forth Section 11.02, by delivery of shares of Common Stock having a fair market value equal to the Repurchase Price. Whenever in this Indenture there is a reference, in any context, to the principal of any Note as of any time, such reference shall be deemed to include reference to the Repurchase Price payable in respect of such Note to the extent that such Repurchase Price is, was or would be so payable at such time, and express mention of the Repurchase Price in any provision of this Indenture shall not be construed as excluding the Repurchase Price in those provisions of this Indenture when such express mention is not made; provided, however, that for the purposes of Article 14, such reference shall be deemed to include reference to the Repurchase Price only to the extent the Repurchase Price is payable in cash.

Section 11.02 CONDITIONS TO THE COMPANY'S ELECTION TO PAY THE REPURCHASE PRICE IN COMMON STOCK. Except as provided in the last paragraph of this Section 11.02, the

Company may elect to pay the Repurchase Price by delivery of shares of Common Stock pursuant to Section 11.01 if and only if the following conditions shall have been satisfied:

(1) the shares of Common Stock deliverable in payment of the

Repurchase Price shall have a fair market value as of the Repurchase Date of not less than the Repurchase Price. For purposes of Section 11.01 and this Section 11.02, the fair market value of shares of Common Stock shall be equal to 95% of the average of the Closing Price Per Share of the Common Stock for the five consecutive Trading Days immediately preceding and including the fifth Trading Day prior to the Repurchase Date as determined by the Company;

(2) in the event any shares of Common Stock to be issued upon repurchase of Notes under Section 11.01 (i) require registration under any federal securities law before such shares may be freely transferable without being subject to any transfer restrictions under the Securities Act upon repurchase, such registration is effective prior to the Repurchase Date, and/or (ii) require registration with or approval of any governmental authority under any state law or any other federal law before such shares may be validly issued or delivered upon repurchase, such registration is effective or such approval is obtained prior to the Repurchase Date (it being understood that, in the case of this clause (ii) only, if (with respect to any particular Holder) (x) the Company has been unable so to effect such registration or obtain such approval after having used its reasonable best efforts to do so and, as a result, such Holder would be unable to receive shares of Common Stock or would receive shares of Common Stock that are not free from restrictions on transfer and (y) the Company pays the full amount of the Repurchase Price to such Holder in cash as provided in Section 11.01, the condition set forth in this clause (ii) will be deemed to be satisfied);

(3) the Common Stock is listed, or shall have been, approved for listing on the New York Stock Exchange or another national securities exchange, or approved for quotation on the Nasdaq National Market, in any such case, prior to the Repurchase Date; and

(4) all shares of Common Stock which may be issued upon repurchase of Notes are issued out of the Company's authorized but unissued Common Stock (including treasury stock) and, upon issuance, will be duly and validly issued and fully paid and non-assessable and free of any preemptive or similar rights.

If all of the conditions set forth in this Section 11.02 are not satisfied in accordance with the terms thereof, the Repurchase Price shall be paid by the Company only in cash.

Section 11.03 NOTICES; METHOD OF EXERCISING REPURCHASE RIGHT, ETC.

(1) Within 30 days following any Change of Control, the Company shall mail a notice to each Holder (with a copy to the Trustee) describing the transaction or transactions that constitute the Change of Control and stating:

(i) the Repurchase Date, which shall not be less than 20 Business Days, nor will it exceed 30 Business Days from the date such notice is mailed (the "Repurchase Date");

(ii) the date by which the repurchase right must be exercised;

(iii) the Repurchase Price, and whether the Repurchase Price shall be paid by the Company in cash or by delivery of shares of Common Stock;

(iv) a description of the procedure which a Holder must follow to exercise a repurchase right, and the place or places where, or procedures by which, such Notes are to be surrendered for payment of the Repurchase Price and accrued interest, if any, to the Repurchase Date;

(v) that on the Repurchase Date the Repurchase Price, and accrued interest, if any, to the Repurchase Date, will become due and payable upon each such Note designated by the Holder to be repurchased, and that interest thereon shall cease to accrue on and after said date;

(vi) the Conversion Rate then in effect, the date on which the right to convert the principal amount of the Notes to be repurchased will terminate and the place or places where, or procedures by which, such Notes may be surrendered for conversion;

(vii) the place or places that the Note with the "Option of Holder to Elect Purchase" as specified on the reverse of the Note shall be delivered;

(viii) that any Note not tendered shall continue to accrue interest;

(ix) that Holders shall be entitled to withdraw their election if the Paying Agent receives, not later than the close of business on the second Business Day preceding the Repurchase Date, a telegram, telex,

facsimile transmission or letter setting forth the name of the Holder, the principal amount of Notes delivered for purchase, and a statement that such Holder is withdrawing his election to have the Notes purchased; and

(x) that Holders whose Notes are being purchased only in part shall be issued new Notes equal in principal amount to the unpurchased portion of the Notes surrendered, which unpurchased portion must be equal to U.S. $1,000 in principal amount or an integral multiple thereof.

No failure of the Company to give the foregoing notices or defect therein shall limit any Holder's right to exercise a repurchase right or affect the validity of the proceedings for the repurchase of Notes.

If any of the foregoing provisions or other provisions of this Article 11 are inconsistent with applicable law, such law shall govern.

(2) To exercise a repurchase right, a Holder shall deliver to the Trustee on or before the date specified in the repurchase notice (i) written notice of the Holder's exercise of such right, which notice shall set forth the name of the Holder, the principal amount of the Notes to be repurchased (and, if any Note is to repurchased in part, the serial number thereof, the portion of the principal amount thereof to be repurchased and the name of the Person in which the portion thereof to remain outstanding after such repurchase is to be registered) and a statement that an election to exercise the repurchase right is being made thereby, and, in the event that the Repurchase Price shall be paid in shares of Common Stock, the name or names (with addresses) in which the certificate or certificates for shares of Common Stock shall be issued, and (ii) the Notes with respect to which the repurchase right is being exercised. The right of the Holder to convert the Notes with respect to which the repurchase right is being exercised shall continue until the close of business on the Business Day prior to the Repurchase Date.

(3) In the event a repurchase right shall be exercised in accordance with the terms hereof, on the Repurchase Date, the Company shall accept for payment all Notes or portions thereof properly tendered pursuant to the Change of Control Offer, deposit with or pay or cause to be paid to the Trustee the Repurchase Price in cash or shares of Common Stock, as provided above, for payment by the Trustee to the Holder on the Repurchase Date or, if shares of Common Stock are to be paid, as promptly after the Repurchase Date as practicable; provided, however, that installments of interest with a Stated Maturity on or prior to the Repurchase Date shall be payable in cash to the Holders of such Notes, or one or more Predecessor Notes, registered as such at the close of business on the relevant Regular Record Date; and deliver or cause to be delivered to the Trustee the Notes so accepted together with an Officers'

Certificate stating the aggregate principal amount of Notes or portions thereof being purchased by the Company.

(4) If any Note (or portion thereof) surrendered for repurchase shall not be so paid on the Repurchase Date, the principal amount of such Note (or portion thereof, as the case may be) shall, until paid, bear interest to the extent permitted by applicable law from the Repurchase Date at the rate specified therein, and each Note shall remain convertible into Common Stock until the principal of such Note (or portion thereof, as the case may be) shall have been paid or duly provided for.

(5) Any Note which is to be repurchased only in part shall be surrendered to the Trustee (with, if the Company or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder thereof or his attorney duly authorized in writing), and the Company shall execute, and the Trustee shall authenticate and mail (or cause to be transferred by book entry) to the Holder without service charge, a new Note or Notes, containing identical terms and conditions, each in an authorized denomination in aggregate principal amount equal to and in exchange for the unrepurchased portion of the principal of the Note so surrendered; provided that each such new Note shall be in principal amount of U.S. $1,000 or an integral multiple thereof.

(6) Any issuance of shares of Common Stock in respect of the Repurchase Price shall be deemed to have been effected immediately

prior to the close of business on the Repurchase Date and the Person or Persons in whose name or names any certificate or certificates for shares of Common Stock shall be issuable upon such repurchase shall be deemed to have become on the Repurchase Date the holder or holders of record of the shares represented thereby; provided, however, that any surrender for repurchase on a date when the stock transfer books of the Company shall be closed shall constitute the Person or Persons in whose name or names the certificate or certificates for such shares are to be issued as the record holder or holders thereof for all purposes at the opening of business on the next succeeding day on which such stock transfer books are open. No payment or adjustment shall be made for dividends or distributions on any Common Stock issued upon repurchase of any Note declared prior to the Repurchase Date.

(7) No fractions of shares shall be issued upon repurchase of Notes. If more than one Note shall be repurchased from the same Holder and the Repurchase Price shall be payable in shares of Common Stock, the number of full shares which shall be issuable upon such repurchase shall be computed on the basis of the aggregate principal amount of the Notes so repurchased. Instead of

any fractional share of Common Stock which would otherwise be issuable on the repurchase of any Note or Notes, the Company shall calculate and pay a cash adjustment in respect of such fraction (calculated to the nearest 1/100th of a share) or round up the number of shares of Common Stock issuable upon conversion to the nearest whole share. The current market value of a fraction of a share is determined by multiplying the current market price of a full share by the fraction, and rounding the result to the nearest cent. For purposes of this Section, the current market price of a share of Common Stock is the Closing Price Per Share of the Common Stock on the Trading Day immediately preceding the Repurchase Date.

(8) Any issuance and delivery of certificates for shares of Common Stock on repurchase of Notes shall be made without charge to the Holder being repurchased for such certificates or for any tax or duty in respect of the issuance or delivery of such certificates or the Notes represented thereby; provided, however, that the Company shall not be required to pay any tax or duty which may be payable in respect of (i) income of the Holder or (ii) any transfer involved in the issuance or delivery of certificates for shares of Common Stock in a name other than that of the Holder of the Notes being repurchased, and no such issuance or delivery shall be made unless and until the Person requesting such issuance or delivery has paid to the Company the amount of any such tax or duty or has established, to the satisfaction of the Company, that such tax or duty has been paid.

(9) All Notes delivered for repurchase shall be delivered to the Trustee to be canceled at the direction of the Trustee, which shall dispose of the same as provided in Section 2.12.

Notwithstanding any other provision of this Article 11, the Company shall not be required to make a Change of Control Offer upon a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in this Indenture applicable to a Change of Control Offer made by the Company and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer.

Section 11.04 CONSOLIDATION, MERGER, ETC. In the case of any merger, consolidation, conveyance, sale, transfer or lease of all or substantially all of the assets of the Company to which Section 10.11 applies, in which the Common Stock of the Company is changed or exchanged as a result into the right to receive shares of stock and other Notes or property or assets (including cash) which includes shares of Common Stock or common stock of another Person that are, or upon issuance will be, traded on a United States national securities exchange or approved for trading on an established automated over-the-counter trading market in the United States and such shares of

common stock of such Person constitute at the time such change or exchange becomes effective in excess of 50% of the aggregate fair market value of such shares of common stock of such Person and other securities, property and assets (including cash) (as determined by the Company, which determination shall be conclusive and binding), then the Person formed by such consolidation or resulting from such merger or combination or which acquires the properties or assets (including cash) of the Company, as the case may be, shall execute and deliver to the Trustee a supplemental indenture (which shall comply with the Trust Indenture Act as in force at the date of execution of such supplemental indenture) modifying the provisions of this Indenture relating to the right of Holders to cause the Company to repurchase the Notes following a Change of Control, including without limitation the applicable provisions of this Article 11 and the definitions of the Common Stock and Change of Control, as appropriate, and such other related definitions set forth herein as determined in good faith by the Company (which determination shall be conclusive and

binding), to make such provisions apply in the event of a subsequent Change of Control to the common stock and the issuer thereof if different from the Company and Common Stock of the Company (in lieu of the Company and the Common Stock of the Company).

ARTICLE 12

MISCELLANEOUS

Section 12.01 TRUST INDENTURE ACT CONTROLS. If any provision of this Indenture limits, qualifies or conflicts with the duties imposed by TIA Sections 318(c), the imposed duties shall control.

Section 12.02 NOTICES. Any notice or communication by the Company or the Trustee to the others is duly given if in writing and delivered in person or mailed by first class mail (registered or certified, return receipt requested), telex, telecopier or overnight air courier guaranteeing next day delivery, to the others' address:

If to the Company:

Community Health Systems, Inc.
155 Franklin Road, Suite 400
Brentwood, TN 37027
Telecopier No.: (615) 376-3447
Attention: Rachel Seifert

With a copy to:

Fried, Frank, Harris, Shriver & Jacobson
One New York Plaza
New York, New York 10004-1980
Telecopier No.: (212) 859-4000
Attention: Jeffrey Bagner

If to the Trustee:

First Union National Bank
2525 West End Avenue, Suite 1200
Nashville, TN 37203
Telecopier No.: (615) 341-3927
Attention: Susan Baker

The Company or the Trustee, by notice to the others, may designate additional or different addresses for subsequent notices or communications.

All notices and communications (other than those sent to Holders) shall be deemed to have been duly given: at the time delivered by hand, if personally delivered; five Business Days after being deposited in the mail, postage prepaid, if mailed; when answered back, if telexed; when receipt acknowledged, if telecopied; and the next Business Day after timely delivery to the courier, if sent by overnight air courier guaranteeing next day delivery (except that a notice of change of address and a notice to the Trustee shall not be deemed to have been given until actually received by the addressee).

Any notice or communication to a Holder shall be mailed by first class mail, certified or registered, return receipt requested, or by overnight air courier guaranteeing next day delivery to its address shown on the register kept by the Registrar. Any notice or communication shall also be so mailed to any Person described in TIA Section 313(c), to the extent required by the TIA. Failure to mail a notice or communication to a Holder or any defect in it shall not affect its sufficiency with respect to other Holders.

If a notice or communication is mailed in the manner provided above within the time prescribed, it is duly given, whether or not the addressee receives it. If the Company mails a notice or communication to Holders, it shall mail a copy to the Trustee and each Agent at the same time.

Section 12.03 COMMUNICATION BY HOLDERS WITH OTHER HOLDERS. Holders may communicate pursuant to TIA Section 312(b) with other Holders with respect to their

rights under this Indenture or the Notes. The Company, the Trustee, the Registrar and anyone else shall have the protection of TIA Section 312(c).

Section 12.04 CERTIFICATE AND OPINION AS TO CONDITIONS PRECEDENT. Upon any request or application by the Company to the Trustee to take any action under this Indenture, the Company shall furnish to the Trustee:

(a) an Officers' Certificate in form and substance reasonably satisfactory to the Trustee (which shall include the statements set forth in Section 12.05) stating that, in the opinion of the signers, all conditions precedent and covenants, if any, provided for in this Indenture relating to the proposed action have been satisfied; and

(b) an Opinion of Counsel in form and substance reasonably satisfactory to the Trustee (which shall include the statements set forth in Section 12.05) stating that, in the opinion of such counsel, all such conditions precedent and covenants have been satisfied.

Section 12.05 STATEMENTS REQUIRED IN CERTIFICATE OR OPINION. Each certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture (other than a certificate provided pursuant to TIA Section 314(a)(4)) shall comply with the provisions of TIA Section 314(e) and shall include:

(a) a statement that the Person making such certificate or opinion has read such covenant or condition;

(b) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(c) a statement that, in the opinion of such Person, he or she has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been satisfied; and

(d) a statement as to whether or not, in the opinion of such Person, such condition or covenant has been satisfied.

Section 12.06 RULES BY TRUSTEE AND AGENTS. The Trustee may make reasonable rules for action by or at a meeting of Holders. The Registrar or Paying Agent may make reasonable rules and set reasonable requirements for its functions.

Section 12.07 NO PERSONAL LIABILITY OF DIRECTORS, OFFICERS, EMPLOYEES, MEMBERS AND STOCKHOLDERS. No director, officer, employee, incorporator, member or stockholder

of the Company, as such, shall have any liability for any obligations of the Company under the Notes, this Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes.

Section 12.08 GOVERNING LAW. THE INTERNAL LAW OF THE STATE OF NEW YORK SHALL GOVERN AND BE USED TO CONSTRUE THIS INDENTURE AND THE NOTES WITHOUT GIVING EFFECT TO APPLICABLE PRINCIPLES OF CONFLICTS OF LAW TO THE EXTENT THAT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY. EACH OF THE PARTIES HERETO AGREES TO SUBMIT TO THE JURISDICTION OF THE COURTS OF THE STATE OF NEW YORK SITTING IN THE CITY OF NEW YORK IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS INDENTURE OR THE NOTES.

Section 12.09 NO ADVERSE INTERPRETATION OF OTHER AGREEMENTS. This Indenture may not be used to interpret any other indenture, loan or debt agreement of the Company or its Subsidiaries or of any other Person. Any such indenture, loan or debt agreement may not be used to interpret this Indenture.

Section 12.10 SUCCESSORS. All agreements of the Company in this Indenture and the Notes, as the case may be, shall bind its successors. All agreements of the Trustee in this Indenture shall bind its successors.

Section 12.11 SEVERABILITY. In case any provision in this Indenture or the Notes, as the case may be, shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 12.12 COUNTERPART ORIGINALS. The parties may sign any number of copies of this Indenture. Each signed copy shall be an original, but all of them together represent the same agreement.

Section 12.13 TABLE OF CONTENTS, HEADINGS, ETC. The Table of Contents, Cross-Reference Table and Headings of the Articles and Sections of this Indenture have been inserted for convenience of reference only, are not to be considered a part of this Indenture and shall in no way modify or restrict any of the terms or provisions.

ARTICLE 13

SATISFACTION AND DISCHARGE

Section 13.01 SATISFACTION AND DISCHARGE OF INDENTURE. This Indenture shall cease to be of further effect (except as to any surviving rights of registration of transfer or exchange or conversion of Notes herein expressly provided for), and the Trustee, on demand of and at the expense of the Company,

shall execute proper instruments acknowledging satisfaction and discharge of this Indenture, when

(1) either

(A) all Notes theretofore authenticated and delivered (other than (i) Notes which have been destroyed, lost or stolen and which have been replaced or paid as provided in Section 2.08 and (ii) Notes for whose payment money has theretofore been deposited in trust or segregated and held in trust by the Company and thereafter repaid to the Company or discharged from such trust,) have been delivered to the Trustee for cancellation; or

(B) all such Notes not theretofore delivered to the Trustee for cancellation

(i) have become due and payable, or

(ii) will become due and payable at their Stated Maturity within one year, or

(iii) are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name, and at the expense, of the Company,

and the Company, in the case of (i), (ii) or (iii) above, has deposited or caused to be deposited with the Trustee as trust funds an amount sufficient to pay and discharge the entire indebtedness on such Notes not theretofore delivered to the Trustee for cancellation, for principal and premium, if any (including the Make-Whole Payment, if any), and interest to the date of such deposit (in the case of Notes which have become due and payable) or to the maturity or redemption thereof, as the case may be;

(2) the Company has paid or caused to be paid all other sums payable hereunder by the Company; and

(3) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture have been complied with.

Notwithstanding the satisfaction and discharge of this Indenture pursuant to this Article 13, the obligations of the Company to the Trustee under Section 7.07, and, if money shall have been deposited with the Trustee pursuant to subclause (B) of clause (1) of this Section, the obligations of the Trustee under Section 13.02 and the obligations of the Company and the Trustee under Section 2.07 and Article 10 shall survive such satisfaction and discharge. Funds held in trust pursuant to this Section are not subject to the provisions of Article 14.

Section 13.02 APPLICATION OF TRUST MONEY. All money deposited with the Trustee pursuant to Section 13.01 and in accordance with the provisions of Article 14 shall be held in trust for the sole benefit of the Holders and not be subject to the subordination provisions of Article 14, and such money shall be applied by the Trustee, in accordance with the provisions of the Notes and this Indenture, to the payment, either directly or through any Paying Agent as the Trustee may determine, to the Persons entitled thereto, of the principal and premium, if any (including the Make-Whole Payment, if any), and interest for whose payment such money has been deposited with the Trustee.

All moneys deposited with the Trustee pursuant to Section 13.01 (and held by it or any Paying Agent) for the payment of Notes subsequently converted shall be returned to the Company upon a written request signed in the name of the Company by an Officer.

ARTICLE 14

SUBORDINATION OF NOTES

Section 14.01 NOTES SUBORDINATE TO SENIOR DEBT. The Company covenants and agrees, and each Holder, by its acceptance thereof, likewise covenants and agrees, that, to the extent and in the manner hereinafter set forth in this Article (subject to the provisions of Article 13), the indebtedness represented by the Notes and the payment of the principal of, or premium, if any (including the Make-Whole Payment, if any), or interest on, each and all of the Notes (including, but not limited to, the Redemption Price with respect to the Notes to be called for redemption in accordance with Article 3 or the Repurchase Price with respect to Notes submitted for repurchase in accordance with Article 11), are hereby expressly made subordinate and subject in right of payment to the

prior payment in full of all Senior Debt.

Section 14.02 NO PAYMENT IN CERTAIN CIRCUMSTANCES, PAYMENT OVER OF PROCEEDS UPON DISSOLUTION, ETC. No payment shall be made with respect to the principal of, or premium, if any (including the Make-Whole Payment, if any), or interest on the Notes (including, but not limited to, the Redemption Price with respect to the Notes to be called for redemption in accordance with Article 3 or the Repurchase Price with respect to Notes submitted for repurchase in accordance with Article 11), except payments and distributions made by the Trustee as permitted by Section 14.09, if: (i) a default in the payment of principal, premium, if any, or interest (including a default under any repurchase or redemption obligation) or other amounts with respect to any Senior Debt occurs and is continuing (or, in the case of Senior Debt for which there is a period of grace, in the event of such a default that continues beyond the period of grace, if any, specified in the instrument or lease evidencing such Senior Debt) unless and until such default shall have been cured or waived or shall have ceased to exist; or (ii) any other default occurs and is continuing with respect to Designated Senior Debt and (1) the default permits holders of such Designated Senior Debt to accelerate its maturity and (2) the Trustee receives a notice of the default (a "Payment Blockage Notice") from a Representative or holder of Designated Senior Debt or the Company.

If the Trustee receives any Payment Blockage Notice pursuant to clause (ii) above, no subsequent Payment Blockage Notice shall be effective for purposes of this Section unless and until (A) at least 365 days shall have elapsed since the initial effectiveness of the immediately prior Payment Blockage Notice, and (B) all scheduled payments of principal, premium, if any (including the Make-Whole Payment, if any), and interest on the Notes that have come due have been paid in full. No default, other than a payment default, that existed or was continuing on the date of delivery of any Payment Blockage Notice to the Trustee shall be, or be made, the basis for a subsequent Payment Blockage Notice.

The Company may and shall resume payments on and distributions in respect of the Notes upon the earlier of:

(1) in the case of a default referred to in clause (i) above, the date upon which the default is cured or waived or ceases to exist, or

(2) in the case of a default referred to in clause (ii) above, the date upon which the default is cured or waived or ceases to exist or 179 days pass after notice is received if the maturity of such Designated Senior Debt has not been accelerated, unless this Article 14 otherwise prohibits the payment or distribution at the time of such payment or distribution.

In the event of (a) any acceleration of the principal amount due on the Notes, (b) any insolvency or bankruptcy case or proceeding, or any receivership, liquidation, reorganization or other similar case or proceeding in connection therewith, relative to the

Company or to its creditors, as such, or to its assets, or (b) any liquidation, dissolution or other winding up of the Company, whether voluntary or involuntary and whether or not involving insolvency, bankruptcy, receivership or other proceedings, or (c) any assignment for the benefit of creditors or any other marshaling of assets and liabilities of the Company, then and in any such event the holders of Senior Debt shall be entitled to receive payment in full of all amounts due or to become due on or in respect of all Senior Debt before the Holders are entitled to receive any payment on account of principal of or premium, if any (including the Make-Whole Payment, if any), or interest on the Notes or on account of the purchase, redemption or other acquisition of Notes, and to that end the holders of Senior Debt shall be entitled to receive, for application to the payment thereof, any payment or distribution of any kind or character, whether in cash, property or securities, which may be payable or deliverable in respect of the Notes in any such case, proceeding, dissolution, liquidation or other winding up or event.

In the event that, notwithstanding the foregoing provisions of this Section, the Trustee or a Holder shall have received any payment or distribution of assets of the Company of any kind or character, whether in cash, securities or other property, before all Senior Debt is paid in full, and if such fact shall, at or prior to the time of such payment or distribution, have been made known to the Trustee or, as the case may be, such Holder, then and in such event such payment or distribution shall be paid over or delivered forthwith to the trustee in bankruptcy, receiver, liquidating trustee, custodian, assignee, agent or other Person making payment or distribution of assets of the Company for application to the payment of all Senior Debt remaining unpaid, to the extent necessary to pay all Senior Debt in full, after giving effect to any concurrent payment or distribution to or for the holders of Senior Debt. For purposes of this Article only, the words "cash, securities or other property" shall not be

deemed to include shares of capital stock of the Company as reorganized or readjusted, or securities of the Company or any other corporation provided for by a plan of reorganization or readjustment, which shares of stock or securities are subordinated in right of payment to all then outstanding Senior Debt to substantially the same extent as, or to a greater extent than, the Notes are so subordinated as provided in this Article. The consolidation of the Company with, or the merger of the Company into, another Person or the liquidation or dissolution of the Company following the conveyance or transfer of its properties and assets substantially as an entirety to another Person upon the terms and conditions set forth in Article 5 shall not be deemed a dissolution, winding up, liquidation, reorganization, assignment for the benefit of creditors or marshaling of assets and liabilities of the Company for the purposes of this Section if the Person formed by such consolidation or into which the Company is merged or which acquires by conveyance or transfer such properties and assets substantially as an entirety, as the case may be, shall, as a part of such consolidation, merger, conveyance or transfer, comply with the conditions set forth in Article 5.

Section 14.03 PRIOR PAYMENT TO SENIOR DEBT UPON ACCELERATION OF NOTES. In the event of the acceleration of the Notes because of an Event of Default, no payment or distribution shall be made to the Trustee or any Holder in respect of the principal of, premium, if any (including the Make-Whole Premium, if any), or interest on the Notes (including, but not limited to, the Redemption Price with respect to the Notes called for redemption in accordance with Article 3 or the Repurchase Price with respect to the Notes submitted for repurchase in accordance with Article 11), except payments and distributions made by the Trustee as permitted by Section 14.09, until all Senior Debt has been paid in full in cash or other payment satisfactory to the holders of Senior Debt or such acceleration is rescinded in accordance with the terms of this Indenture. If payment of the Notes is accelerated because of an Event of Default, the Company shall promptly notify holders of Senior Debt of the acceleration.

Section 14.04 PAYMENT PERMITTED IF NO DEFAULT. Nothing contained in this Article or elsewhere in this Indenture or in any of the Notes shall prevent (a) the Company, at any time except during the pendency of any case, proceeding, dissolution, liquidation or other winding up, assignment for the benefit of creditors or other marshaling of assets and liabilities of the Company referred to in Section 14.02, or during the circumstances referred to in the first paragraph of Section 14.02, or under the conditions described in Section 14.03, from making payments at any time of principal of and premium, if any (including the Make-Whole Payment, if any), or interest on the Notes, or (b) the application by the Trustee of any money deposited with it hereunder to the payment of or on account of the principal of and premium, if any (including the Make-Whole Payment, if any), or interest on the Notes or the retention of such payment by the Holders, if, at the time of such application by the Trustee, it did not have knowledge that such payment would have been prohibited by the provisions of this Article.

Section 14.05 SUBROGATION TO RIGHTS OF HOLDERS OF SENIOR DEBT. Subject to the payment in full of all Senior Debt, the Holders of the Notes shall be subrogated to the extent of the payments or distributions made to the holders of such Senior Debt pursuant to the provisions of this Article to the rights of the holders of such Senior Debt to receive payments and distributions of cash, property and securities applicable to the Senior Debt until the principal of and premium, if any (including the Make-Whole Payment, if any), and interest on the Notes shall be paid in full. For purposes of such subrogation, no payments or distributions to the holders of the Senior Debt of any cash, property or securities to which the Holders or the Trustee would be entitled except for the provisions of this Article, and no payments made pursuant to the provisions of this Article to the holders of Senior Debt by Holders or the Trustee, shall, as among the Company, its creditors other than holders of Senior Debt and the Holders, be deemed to be a payment or distribution by the Company to or on account of the Senior Debt.

Section 14.06 PROVISIONS SOLELY TO DEFINE RELATIVE RIGHTS. The provisions of this Article are and are intended solely for the purpose of defining the relative rights of the Holders on the one hand and the holders of Senior Debt on the other hand. Nothing contained in this Article or elsewhere in this Indenture or in the Notes is intended to or shall (i) impair, as among the Company, its creditors other than holders of Senior Debt and the Holders of the Notes, the obligation of the Company, which is absolute and unconditional, to pay to the Holders of the Notes the principal of and premium, if any (including the Make-Whole Payment, if any), and interest on the Notes as and when the same shall become due and payable in accordance with their terms; or (ii) affect the relative rights against the Company of the Holders and other creditors of the Company (other than the holders of Senior Debt); or (iii) prevent the Trustee or any Holder from exercising all remedies otherwise permitted by applicable law upon default under this Indenture, subject to the rights, if any, under this Article of the holders of Senior Debt to receive cash, property and securities otherwise payable or deliverable to the Trustee or such Holder.

Section 14.07 TRUSTEE TO EFFECTUATE SUBORDINATION. Each Holder by its acceptance thereof authorizes and directs the Trustee on its behalf to take such action as may be necessary or appropriate to effectuate the subordination provided in this Article and appoints the Trustee its attorney-in-fact for any and all such purposes.

Section 14.08 NO WAIVER OF SUBORDINATION PROVISIONS. No right of any present or future holder of any Senior Debt to enforce subordination as herein provided shall at any time in any way be prejudiced or impaired by any act or failure to act on the part of the Company, or by any non-compliance by the Company with the terms, provisions and covenants of this Indenture, regardless of any knowledge thereof any such holder may have or be otherwise charged with. Without in any way limiting the generality of the foregoing paragraph, the holders of Senior Debt may, at any time and from time to time, without the consent of or notice to the Trustee or the Holders, without incurring responsibility to the Holders and without impairing or releasing the subordination provided in this Article or the obligations hereunder of the Holders to the holders of Senior Debt, do any one or more of the following: (i) change the manner, place or terms of payment or extend the time of payment of, or renew or alter, Senior Debt, or otherwise amend or supplement in any manner Senior Debt or any instrument evidencing the same or any agreement under which Senior Debt is outstanding; (ii) sell, exchange, release or otherwise deal with any property pledged, mortgaged or otherwise securing Senior Debt; (iii) release any Person liable in any manner for the collection of Senior Debt; and (iv) exercise or refrain from exercising any rights against the Company and any other Person.

Section 14.09 NOTICE TO TRUSTEE. The Company shall give prompt written notice to the Trustee of any fact known to the Company which would prohibit the making of any payment to or by the Trustee in respect of the Notes. Notwithstanding the provisions of

this Article or any other provision of this Indenture, the Trustee shall not be charged with knowledge of the existence of any facts which would prohibit the making of any payment to or by the Trustee in respect of the Notes, unless and until a Responsible Officer of the Trustee shall have received written notice thereof from the Company or a Representative or a holder of Senior Debt (including, without limitation, a holder of Designated Senior Debt) and, prior to the receipt of any such written notice, the Trustee, subject to the provisions of Section 7.01, shall be entitled in all respects to assume that no such facts exist; provided, however, that if the Trustee shall not have received the notice provided for in this Section 14.09 at least two Business Days prior to the date upon which by the terms hereof any money may become payable for any purpose (including, without limitation, the payment of the principal of and premium, if any (including the Make-Whole Payment, if any), or interest on any Note), then, anything herein contained to the contrary notwithstanding, the Trustee shall have full power and authority to receive such money and to apply the same to the purpose for which such money was received and shall not be affected by any notice to the contrary which may be received by it within one Business Day prior to such date.

Notwithstanding anything in this Article 14 to the contrary, nothing shall prevent any payment by the Trustee to the Holders of monies deposited with it pursuant to Section 13.01, and any such payment shall not be subject to the provisions of Section 14.02 or 14.03.

Subject to the provisions of Section 7.01, the Trustee shall be entitled to rely on the delivery to it of a written notice by a Person representing himself to be a Representative or a holder of Senior Debt (including, without limitation, a holder of Designated Senior Debt) to establish that such notice has been given by a Representative or a holder of Senior Debt (including, without limitation, a holder of Designated Senior Debt). In the event that the Trustee determines in good faith that further evidence is required with respect to the right of any Person as a holder of Senior Debt to participate in any payment or distribution pursuant to this Article, the Trustee may request such Person to furnish evidence to the reasonable satisfaction of the Trustee as to the amount of Senior Debt held by such Person, the extent to which such Person is entitled to participate in such payment or distribution and any other facts pertinent to the rights of such Person under this Article, and if such evidence is not furnished, the Trustee may defer any payment to such Person pending judicial determination as to the right of such Person to receive such payment.

Section 14.10 RELIANCE ON JUDICIAL ORDER OR CERTIFICATE OF LIQUIDATING AGENT. Upon any payment or distribution of assets of the Company referred to in this Article, the Trustee, subject to the provisions of Section 7.01, and the Holders shall be entitled to rely upon any order or decree entered by any court of competent jurisdiction in which such insolvency, bankruptcy, receivership, liquidation, reorganization, dissolution, winding up or similar case or proceeding is pending, or a certificate of the trustee in bankruptcy,

receiver, liquidating trustee, custodian, assignee for the benefit of creditors, agent or other Person making such payment or distribution, delivered to the

Trustee or to the Holders, for the purpose of ascertaining the Persons entitled to participate in such payment or distribution, the holders of the Senior Debt and other indebtedness of the Company, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to this Article.

Section 14.11 TRUSTEE NOT FIDUCIARY FOR HOLDERS OF SENIOR DEBT. The Trustee shall not be deemed to owe any fiduciary duty to the holders of Senior Debt and shall not be liable to any such holders if it shall in good faith mistakenly pay over or distribute to Holders or to the Company or to any other Person cash, property or securities to which any holders of Senior Debt shall be entitled by virtue of this Article or otherwise.

Section 14.12 RELIANCE BY HOLDERS OF SENIOR DEBT ON SUBORDINATION PROVISIONS. Each Holder by accepting a Note acknowledges and agrees that the foregoing subordination provisions are, and are intended to be, an inducement and a consideration to each holder of any Senior Debt, whether such Senior Debt was created or acquired before or after the issuance of the Notes, to acquire and continue to hold, or to continue to hold, such Senior Debt and such holder of Senior Debt shall be deemed conclusively to have relied on such subordination provisions in acquiring and continuing to hold, or in continuing to hold, such Senior Debt, and no amendment or modification of the provisions contained herein shall diminish the rights of such holders of Senior Debt unless such holders shall have agreed in writing thereto.

Section 14.13 RIGHTS OF TRUSTEE AS HOLDER OF SENIOR DEBT; PRESERVATION OF TRUSTEE'S RIGHTS. The Trustee in its individual capacity shall be entitled to all the rights set forth in this Article with respect to any Senior Debt which may at any time be held by it, to the same extent as any other holder of Senior Debt, and nothing in this Indenture shall deprive the Trustee of any of its rights as such holder. Nothing in this Article shall apply to claims of, or payments to, the Trustee under or pursuant to Section 7.07.

Section 14.14 ARTICLE APPLICABLE TO PAYING AGENTS. In case at any time any Paying Agent other than the Trustee shall have been appointed by the Company and be then acting hereunder, the term "Trustee" as used in this Article shall in such case (unless the context otherwise requires) be construed as extending to and including such Paying Agent within its meaning as fully for all intents and purposes as if such Paying Agent were named in this Article in addition to or in place of the Trustee; provided, however, that Section 14.14 shall not apply to the Company or any Affiliate of the Company if it or such Affiliate acts as Paying Agent.

Section 14.15 CERTAIN CONVERSIONS AND REPURCHASES DEEMED PAYMENT. For the purposes of this Article only, (i) the issuance and delivery of junior securities upon conversion of Notes in accordance with Article 10 or upon the repurchase of Notes in

accordance with Article 11 shall not be deemed to constitute a payment or distribution on account of the principal of or premium or interest on Notes or on account of the purchase or other acquisition of Notes, and (ii) the payment, issuance or delivery of cash (except in satisfaction of fractional shares pursuant to Section 3.06(c), 10.03 or 11.03(7)), property or securities (other than junior securities) upon conversion of a Note shall be deemed to constitute payment on account of the principal of such Note. For the purposes of this Section, the term "junior securities" means (a) shares of any stock of any class of the Company and other securities into which the Notes are convertible pursuant to Article 10 and (b) securities of the Company which are subordinated in right of payment to all Senior Debt which may be outstanding at the time of issuance or delivery of such securities to substantially the same extent as, or to a greater extent than, the Notes are so subordinated as provided in this Article. Nothing contained in this Article or elsewhere in this Indenture or in the Notes is intended to or shall impair, as among the Company, its creditors other than holders of Senior Debt and the Holders of the Notes, the right, which is absolute and unconditional, of any Holder to convert any Note in accordance with Article 10 or to exchange such Note for Common Stock in accordance with Article 11 if the Company elects to satisfy the obligations under Article 11 by the delivery of Common Stock.

[Signatures on following page]

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed as of the day and year first above written.

COMMUNITY HEALTH SYSTEMS, INC.

By

Name:
Title:

FIRST UNION NATIONAL BANK, as Trustee

By

Name:
Title:

EXHIBIT A

[FACE OF NOTE]

THE FOLLOWING LEGEND SHALL APPEAR ON THE FACE OF EACH GLOBAL NOTE:

THIS NOTE IS A GLOBAL NOTE WITHIN THE MEANING OF THE INDENTURE HEREINAFTER REFERRED TO AND IS REGISTERED IN THE NAME OF THE DEPOSITARY OR A NOMINEE OF THE DEPOSITARY, WHICH MAY BE TREATED BY THE COMPANY, THE TRUSTEE AND ANY AGENT THEREOF AS OWNER AND HOLDER OF THIS NOTE FOR ALL PURPOSES.

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), TO THE COMPANY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

UNLESS AND UNTIL IT IS EXCHANGED IN WHOLE OR IN PART FOR SECURITIES IN DEFINITIVE REGISTERED FORM IN THE LIMITED CIRCUMSTANCES REFERRED TO IN THE INDENTURE, THIS GLOBAL NOTE MAY NOT BE TRANSFERRED EXCEPT AS A WHOLE BY THE DEPOSITARY TO A NOMINEE OF THE DEPOSITARY OR BY A NOMINEE OF THE DEPOSITARY TO THE DEPOSITARY OR ANOTHER NOMINEE OF THE DEPOSITARY OR BY THE DEPOSITARY OR ANY SUCH NOMINEE TO A SUCCESSOR DEPOSITARY OR A NOMINEE OF SUCH SUCCESSOR DEPOSITARY.

CUSIP NO. [_____]

[_____]% Convertible Subordinated Notes due 2008

No. R-

$[_____]

COMMUNITY HEALTH SYSTEMS, INC.

promises to pay to

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or registered assigns,

the principal amount of _____ Dollars ($_____) (which principal amount may from time to time be increased or decreased to such other principal amount by adjustments made on the records of the Trustee hereinafter referred to in accordance with the Indenture) on [_____], [_____] Interest Payment Dates: [_____] and [_____] Regular Record Dates: [_____] and [_____] Subject to Restrictions set forth in this Note.

Dated:

COMMUNITY HEALTH SYSTEMS, INC.

By

Name:

Title:

By

Name:
Title:

This is one of the Notes referred to
in the within-mentioned Indenture:

First Union National Bank,
as Trustee

By

Authorized Signatory

[BACK OF NOTE]

[_____]% Convertible Subordinated Notes due 2008

Capitalized terms used herein shall have the meanings assigned to them in the Indenture referred to below unless otherwise indicated.

1. INTEREST. Community Health Systems, Inc., a Delaware corporation (as further defined in the Indenture, the "Company"), promises to pay interest on the principal amount of this Note at the rate of [_____]% per annum from [_____], [_____] until Maturity. The Company will pay interest semi-annually in arrears on [_____] and [_____] of each year (each an "Interest Payment Date"), or if any such day is not a Business Day, on the next succeeding Business Day. Interest on the Notes will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from the Issue Date; provided that if there is no existing Default in the payment of interest, and if this Note is authenticated between a Regular Record Date referred to on the face and the next succeeding Interest Payment Date, interest shall accrue from such next succeeding Interest Payment Date. The first Interest Payment Date shall be [_____], [_____]. The Company shall pay interest (including post-petition interest in any proceeding under any Bankruptcy Law) on overdue principal and premium, if any (including the Make-Whole Payment, if any), from time to time on demand at a rate that is 1% per annum in excess of the rate then in effect; and it shall pay interest (including post-petition interest in any proceeding under any Bankruptcy Law) on overdue installments of interest (without regard to any applicable grace periods) from time to time on demand at the same rate to the extent lawful. Interest will be computed on the basis of a 360-day year of twelve 30-day months.

2. METHOD OF PAYMENT. The Company shall pay interest on the Notes (except defaulted interest) to the Persons who are registered Holders at the close of business on the [_____] or [_____] next preceding the Interest Payment Date, even if such Notes are canceled after such record date and on or before such Interest Payment Date, except as provided in Section 2.13 of the Indenture with respect to defaulted interest. The Notes will be payable as to principal, premium, if any (including the Make-Whole Payment, if any), and interest at the office or agency of the Company maintained for such purpose within or without the City and State of New York, or, at the option of the Company, payment of interest may be made by check mailed to the Holders at their addresses set forth in the Note Register, and provided that payment by wire transfer of immediately available funds will be required with respect to principal of and interest and premium on all Global Notes and all other Notes the Holders of which shall have provided wire transfer instructions to the Company or the Paying Agent. Such payment shall be in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts.

3. PAYING AGENT, REGISTRAR AND CONVERSION AGENT. Initially, First Union National Bank, the Trustee under the Indenture, will act as Paying Agent, Registrar and Conversion Agent. The Company may change any Paying Agent, Registrar or Conversion Agent without notice to any Holder. The Company or any of its Subsidiaries may act in any such capacity.

4. INDENTURE. The Company issued the Notes under an Indenture dated as of October, [_____] (the "Indenture") between the Company and the Trustee. The terms of the Notes include those stated in the Indenture and those made part of the Indenture by reference to the TIA. The Notes are subject to all such terms, and Holders are referred to the Indenture and the TIA Act for a statement of such terms. To the extent any provision of this Note conflicts with the express

provisions of the Indenture, the provisions of the Indenture shall govern and be controlling. The Notes are obligations of the Company limited to $250,000,000 million in principal amount (or up to $287,000,000 to the extent the Underwriters exercise their over-allotment option pursuant to the Underwriting Agreement) except as provided in Section 2.08 of the Indenture.

5. PROVISIONAL REDEMPTION. Prior to [____], 2005, if the Closing Price of the Common Stock shall have exceeded 150% of the Conversion Price then in effect for at least 20 Trading Days in any consecutive 30-day Trading Day period ending on the Trading Day prior to the date mailing of the notice of Provisional Redemption pursuant to Section 3.03 of the Indenture (the "Notice Date"), the Company may redeem the Notes ("Provisional Redemption"), in whole or from time to time in part, upon not more than 30 nor more than 60 days' notice prior to the Redemption Date, at a Redemption Price equal to the principal amount of the Notes to be redeemed plus accrued and unpaid interest, if any, to the Redemption Date. Upon any such Provisional Redemption, the Company shall make an additional payment (the "Make-Whole Payment") in cash or, at the election of the Company upon satisfaction of the conditions in Section 3.12 of the Indenture, in Common Stock or a combination of cash and Common Stock, as specified in the notice of redemption, with respect to the Notes called for redemption to holders on the Notice Date in an amount equal to $[__] per $1,000 aggregate principal amount of Notes, less the amount of any interest actually paid or accrued and unpaid since the Issue Date on each $1,000 aggregate principal amount of Notes so redeemed (including any Predecessor Notes) prior to the Redemption Date. The Company shall make the Make-Whole Payment on all Notes called for Provisional Redemption, including any Notes converted into Common Stock pursuant to the terms of this Indenture after the Notice Date and prior to the Redemption Date. For purposes of this paragraph, the payments made in Common Stock will be determined by the Company and each share of Common Stock to be delivered shall be valued at an amount equal to 95% of the average of the Closing Price Per Share of the Common Stock for the five consecutive Trading Days immediately preceding and including the third Trading Day prior to the Redemption Date.

6. OPTIONAL REDEMPTION. Except as provided in paragraph (5) herein, the Company shall not have the option to redeem the Notes prior to [_____], 2005. On or after [_____], 2005, the Company may redeem the Notes, in whole or in part, in cash upon not less than 30 nor more than 60 days' notice, at the Redemption Prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest thereon, if any, to the applicable Redemption Date, if redeemed during the twelve-month period beginning on [_____] of the years indicated below:

YEAR	PERCENTAGE
[_____], 2005	[_____]%
[_____], 2006	[_____]%

and thereafter is equal to 100% of the principal amount, in each case together with accrued but unpaid interest to the applicable Redemption Date.

7. NOTICE OF REDEMPTION. Notice of redemption will be mailed by first class mail at least 30 days but not more than 60 days before the Redemption Date to each Holder whose Notes are to be redeemed at its registered address. Notices of redemption may not be conditional. No Notes of U.S. $1,000 or less may be redeemed in part. Notes in denominations larger than U.S. $1,000 may be redeemed in part but only in whole multiples of U.S. $1,000, unless all of the Notes held by a Holder are to be redeemed. On and after the Redemption Date, interest ceases to accrue on Notes or portions thereof called for redemption.

8. MANDATORY REDEMPTION. Except as otherwise provided in Paragraph 8 below, the Company shall not be required to make mandatory redemption payments with respect to the Notes.

9. REPURCHASE AT OPTION OF HOLDER. If a Change of Control occurs, the Company shall make a Change of Control Offer to repurchase all or any part (equal to U.S. $1,000 or an integral multiple thereof) of each Holder's Notes at a purchase price equal to 100% of the principal amount thereof plus interest accrued and unpaid to the date of purchase. At the option of the Company, the Repurchase Price may be paid in cash or, subject to the provisions of the Indenture, by delivery of shares of Common Stock having a fair market value equal to the Repurchase Price. For purposes of this paragraph, the fair market value of shares of Common Stock shall be equal to 95% of the average of the Closing Prices Per Share for the five consecutive Trading Days immediately preceding and including the fifth Trading Day prior to the Repurchase Date as determined by the Company. Except as otherwise provided in the Indenture, within 30 days following any Change of Control, the Company shall mail a notice to each Holder describing the transaction or transactions that constitute the Change of Control and

offering to repurchase Notes on the Repurchase Date specified in such notice, pursuant to the procedures required by the Indenture and described in such

notice.

10. DENOMINATIONS, TRANSFER, EXCHANGE. The Notes are in registered form without coupons in denominations of U.S. $1,000 and integral multiples of U.S. $1,000. The transfer of Notes may be registered and Notes may be exchanged as provided in the Indenture. The Registrar and the Trustee may require a Holder, among other things, to furnish appropriate endorsements and transfer documents and the Company may require a Holder to pay any taxes and fees required by law or permitted by the Indenture. The Company need not exchange or register the transfer of any Note or portion of a Note selected for redemption, except for the unredeemed portion of any Note being redeemed in part. Also, the Company need not exchange or register the transfer of any Notes for a period of 15 days before a selection of Notes to be redeemed or during the period between a Regular Record Date and the corresponding Interest Payment Date.

11. PERSONS DEEMED OWNERS. The registered Holder may be treated as its owner for all purposes.

12. AMENDMENT AND SUPPLEMENT. Subject to certain exceptions, the Indenture or the Notes may be amended or supplemented with either (i) the written consent (or as otherwise in accordance with the Applicable Procedures) of the Holders of at least a majority in aggregate principal amount of the Notes then outstanding (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes), or (ii) by the adoption of a resolution, at a meeting of Holders of the then outstanding Notes at which a quorum is present, by the Holders of at least 66?% in principal amount of the then outstanding Notes represented at such meeting or, if less, by the Holders of at least a majority in aggregate principal amount of all then outstanding Notes. Without the consent of any Holder, the Company and the Trustee may amend or supplement the Indenture or the Notes to cure any ambiguity, defect or inconsistency, to provide for uncertificated Notes in addition to or in place of certificated Notes, to provide for the assumption of the Company's obligations to Holders in the case of a merger or consolidation or sale of all or substantially all of the assets of the Company, to make any change that would provide any additional rights or benefits to the Holders or that does not adversely affect the legal rights under the Indenture of any such Holder, or to comply with the requirements of the Commission in order to effect or maintain the qualification of the Indenture under the TIA or otherwise as necessary to comply with applicable law.

13. SUBORDINATION. The Indebtedness evidenced by this Note is, to the extent and in the manner provided in the Indenture, subordinate and subject in right of payment to the prior payment in full of all Senior Debt of the Company, and this Note is issued subject to such provisions of the Indenture with respect thereto. Each Holder of this Note, by accepting the same, (a) agrees to and shall be bound by such provisions,

(b) authorizes and directs the Trustee on his behalf to take such action as may be necessary or appropriate to effectuate the subordination so provided and (c) appoints the Trustee his attorney-in-fact for any and all such purposes.

14. DEFAULTS AND REMEDIES. Each of the following is an Event of Default: (i) default for 30 days in the payment when due of interest on the Notes, whether or not such payment is prohibited by the subordination provisions of the Notes or of the Indenture, (ii) default in payment when due of the principal of or premium, if any (including the Make-Whole Payment, if any), on the Notes, whether or not such payment is prohibited by the subordination provisions of the Notes or of the Indenture, (iii) failure by the Company to comply with the notice or repurchase provisions of Article 11 of the Indenture, whether or not the compliance with such notice or repurchase provision is prohibited by the subordination provisions of the Notes or the Indenture, (iv) failure by the Company to deliver shares of Common Stock or cash instead of fractional shares, when those shares of Common stock or cash instead of fractional shares are required to be delivered following conversion of a Note pursuant to the provisions of Article 10 of the Indenture and that failure continues for 10 days, (v) failure by the Company for 60 days after written notice thereof has been given to the Company by the Trustee or to the Company and the Trustee by the Holders of at least 25% of the aggregate principal amount of the Notes then outstanding to comply with any of its other covenants or agreements in the Indenture, (vi) default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by the Company or any of its Significant Subsidiaries (or the payment of which is guaranteed by the Company or any of its Significant Subsidiaries), whether such Indebtedness or guarantee now exists or is created after the Issue Date, if that default: (a) is caused by a failure to pay at final stated maturity the principal amount of such Indebtedness at the end of the applicable expiration of the grace period provided in such Indebtedness on the date of such default (a "Payment Default"); or (b) results in the acceleration of such Indebtedness prior to its express maturity, and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated, aggregates $15 million or more, and (1) the indebtedness is not discharged, or the acceleration is not annulled, within 30 days after written notice of such Event of Default to the Company by the Trustee or (2) the holders of at least 25% in aggregate principal amount of the then outstanding Notes, or (vii) certain events of bankruptcy or insolvency with respect to the Company or

any of its Significant Subsidiaries. In the case of an Event of Default arising from certain events of bankruptcy or insolvency with respect to the Company, all then outstanding Notes will, subject to the provisions of Article 14 of the Indenture, become due and payable without further action or notice. If any other Event of Default occurs and is continuing, the Trustee by notice to the Company or the Holders of at least 25% in principal amount of the then outstanding Notes by notice to the Company and the Trustee may, subject to the provisions of Article 14 of the Indenture, declare all the Notes to be due and payable

immediately. Holders may not enforce the Indenture or the Notes except as provided in the Indenture. Subject to certain limitations, Holders of a majority in aggregate principal amount of the then outstanding Notes may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from Holders notice of any continuing Default or Event of Default (except a Default or Event of Default relating to the payment of principal or interest) if it determines that withholding notice is in their interest. Holders, either (i) through the written consent (or as otherwise in accordance with the Applicable Procedures) of the Holders of at least a majority in aggregate principal amount of the then outstanding Notes by notice to the Trustee or (ii) by the adoption of a resolution, at a meeting of Holders of the then outstanding Notes at which a quorum is present, by the Holders of at least 66?% in the principal amount of then outstanding Notes represented at such meeting or, if less, by the Holders of at least a majority in aggregate principal amount of all then outstanding Notes by notice to the Trustee, may on behalf of the Holders of all of the Notes waive any existing Default or Event of Default and its consequences under the Indenture, except (x) a continuing Default or Event of Default in the payment of the principal of, premium, if any (including the Make-Whole Payment, if any), or interest on the Notes (including in connection with a Change of Control Offer), (y) a continuing Default or Event of Default in respect of a Holder's right to convert any Note in accordance with Article 10 of the Indenture or (z) or in respect of a covenant or provision of the Indenture under Article 9 thereof which cannot be modified or amended without the consent of each outstanding Note affected. The Company is required to deliver to the Trustee annually a statement regarding compliance with the Indenture. Upon becoming aware of any Default or Event of Default, the Company is required to deliver to the Trustee a statement specifying such Default or Event of Default.

15. CONVERSION. Subject to and upon compliance with the provisions of the Indenture, the Holder of this Note is entitled, at his option, at any time on or before the close of business on the Business Day prior to the date of Maturity, or in case this Note or a portion hereof is called for redemption or the Holder hereof has exercised his right to require the Company to repurchase this Note or such portion hereof, then in respect of this Note until and including, but (unless the Company defaults in making the payment due upon redemption or repurchase, as the case may be) not after, the close of business on the Business Day prior to the Redemption Date or the Repurchase Date, as the case may be, to convert this Security (or any portion of the principal amount hereof that is an integral multiple of U.S. $1,000, provided that the unconverted portion of such principal amount is U.S. $1,000 or any integral multiple of U.S. $1,000 in excess thereof) into fully paid and nonassessable shares of Common Stock of the Company at an initial Conversion Rate of [_____] shares of Common Stock for each U.S. $1,000 principal amount of Notes (or at the current adjusted Conversion Rate if an adjustment has been made as provided in the Indenture) by surrender of this Note, duly endorsed or assigned to the Company or in blank and, in case such surrender shall be made during the Record Date Period (except if this Note or portion thereof has been called for redemption on a Redemption Date occurring within such Record Date Period and, as a result, the right to

convert would terminate in such period), also accompanied by payment in New York Clearing House funds or other funds acceptable to the Company of an amount equal to the interest payable on such Interest Payment Date on the principal amount of this Note then being converted, and also the conversion notice hereon duly executed, to the Company at the Corporate Trust Office of the Trustee, or at such other office or agency of the Company, subject to any laws or regulations applicable thereto and subject to the right of the Company to terminate the appointment of any Conversion Agent as may be designated by it pursuant to the Indenture; provided, further, that if this Note or portion hereof has been called for redemption on a Redemption Date occurring during the Record Date Period, and is surrendered for conversion during such period, then the Holder of this Note on the related Regular Record Date will be entitled to receive the interest accruing hereon from the Interest Payment Date next preceding the date of such conversion to such succeeding Interest Payment Date and the Holder of this Note who converts this Note or a portion hereof during such period shall not be required to pay such interest upon surrender of this Note for conversion. Subject to the provisions of the preceding sentence, no cash payment or adjustment is to be made on conversion for interest accrued hereon from the Interest Payment Date next preceding the day of conversion, or for dividends on the Common Stock issued on conversion hereof. The Company shall thereafter deliver to the Holder the fixed number of shares of Common Stock (together with any cash adjustment, as provided in the Indenture) into which this Note is convertible and such delivery will be deemed to satisfy the Company's obligation to pay the principal amount of this Note. No fractions of shares or scrip

representing fractions of shares will be issued on conversion, but instead of any fractional interest (calculated to the nearest 1/100th of a share) the Company shall pay a cash adjustment as provided in the Indenture (or round up the number of shares of Common Stock issuable upon conversion to the nearest whole share).

The Conversion Rate is subject to adjustment as provided in the Indenture.

In addition, the Indenture provides that in case of certain consolidations or mergers to which the Company is a party (other than a consolidation or merger that does not result in any reclassification, conversion, exchange or cancellation of outstanding shares of Common Stock) or any conveyance, transfer, sale or lease of all or substantially all of the property and assets of the Company, the Indenture shall be amended, without the consent of any Holders, so that this Note, if then outstanding, will be convertible thereafter, during the period this Note shall be convertible as specified above, only into the kind and amount of securities, cash and other property receivable upon such consolidation, merger, conveyance, transfer, sale or lease by a holder of the number of shares of Common Stock into which this Note could have been converted immediately prior to such consolidation, merger, conveyance, transfer, sale or lease (assuming such holder of Common Stock is not a Constituent Person or an Affiliate of a Constituent Person, failed to exercise any rights of election and received per share the kind and amount received per share by a plurality of Non-electing Shares). No adjustment in the

Conversion Rate will be made until such adjustment would require an increase or decrease of at least one percent of such rate, provided that any adjustment that would otherwise be made will be carried forward and taken into account in the computation of any subsequent adjustment.

16. TRUSTEE DEALINGS WITH COMPANY. Except as set forth in the Indenture, the Trustee, in its individual or any other capacity, may make loans to, accept deposits from, and perform services for the Company or its Affiliates, and may otherwise deal with the Company or its Affiliates, as if it were not the Trustee.

17. NO RECOURSE AGAINST OTHERS. A director, officer, employee, incorporator or stockholder of the Company, as such, shall not have any liability for any obligations of the Company under the Notes or the Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the Notes.

18. GOVERNING LAW. THE INTERNAL LAW OF THE STATE OF NEW YORK SHALL GOVERN AND BE USED TO CONSTRUE THIS NOTE AND THE INDENTURE WITHOUT GIVING EFFECT TO APPLICABLE PRINCIPLES OF CONFLICTS OF LAW TO THE EXTENT THAT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY.

19. AUTHENTICATION. This Note shall not be valid until authenticated by the manual signature (which may be by facsimile) of the Trustee or an authenticating agent.

20. ABBREVIATIONS. Customary abbreviations may be used in the name of a Holder or an assignee, such as: TEN COM (= tenants in common), TENENT (= tenants by the entireties), JT TEN (= joint tenants with right of survivorship and not as tenants in common), CUST (= Custodian), and U/G/M/A (= Uniform Gifts to Minors Act).

21. CUSIP NUMBERS. No representation is made as to the accuracy of any CUSIP numbers either as printed on the Notes or as contained in any notice of redemption and reliance may be placed only on the other identification numbers placed thereon.

The Company will furnish to any Holder upon written request and without charge a copy of the Indenture. Requests may be made to:

Community Health Systems, Inc.
155 Franklin Road, Suite 400
Brentwood, TN 37027
Attention: Rachel Seifert
Telecopier No.: (615) 376-3447

ASSIGNMENT FORM

To assign this Note, fill in the form below:
(I) or (we) assign and transfer this Note to: _____
(Insert assignee's legal name)

(Insert assignee's soc. sec. or tax I.D. no.)

(Print or type assignee's name, address and zip code)

and irrevocably appoint _____ to transfer this Note on the books of the Company. The agent may substitute another to act for him.

Date:_____

Your Signature:_____
(Sign exactly as your name appears on the face of this Note)

Signature Guarantee*:_____

* Participant in a recognized Signature Guarantee Medallion Program (or other signature guarantor acceptable to the Trustee).

OPTION OF HOLDER TO ELECT PURCHASE

If you want to elect to have this Note purchased by the Company pursuant to Article 11 of the Indenture, check below:

/ / Purchase pursuant to Article 11

If you want to elect to have only part of the Note purchased by the Company pursuant to Article 11 of the Indenture, state the amount you elect to have purchased:

$ _____

Date:_____

Your Signature:

(Sign exactly as your name appears on the face of this Note)

Tax Identification No.:_____

Signature Guarantee*:_____

* Participant in a recognized Signature Guarantee Medallion Program (or other signature guarantor acceptable to the Trustee).

CONVERSION NOTICE

The undersigned Holder of this Note hereby irrevocably exercises the option to convert this Note, or any portion of the principal amount hereof (which is U.S. $1,000 or an integral multiple of U.S. $1,000 in excess thereof, provided that the unconverted portion of such principal amount is U.S. $1,000 or any integral multiple of U.S. $1,000 in excess thereof) below designated, into shares of Common Stock in accordance with the terms of the Indenture referred to in this Note, and directs that such shares, together with a check in payment for any fractional share and any Notes representing any unconverted principal amount hereof, be delivered to and be registered in the name of the undersigned unless a different name has been indicated below. If shares of Common Stock or Notes are to be registered in the name of a Person other than the undersigned, (a) the undersigned will pay all transfer taxes payable with respect thereto and (b) signature(s) must be guaranteed by an Eligible Guarantor Institution with membership in an approved signature guarantee program pursuant to Rule 17Ad-15

under the Securities Exchange Act of 1934. Any amount required to be paid by the undersigned on account of interest accompanies this Note.

Dated:

Signature(s)

If shares or Notes are to be registered in the name of a Person other than the Holder, please print such Person's name and address:

(Name)

(Address)

Social Security or other Identification
Number, if any

[Signature Guaranteed]

If only a portion of the Notes is to be converted, please indicate:

1. Principal amount to be converted: U.S. $ _____

2. Principal amount and denomination of Notes representing unconverted principal amount to be issued:

Amount: U.S. $_____ Denominations: U.S. $_____

(U.S. $1,000 or any integral multiple of U.S. $1,000 in excess thereof, provided that the unconverted portion of such principal amount is U.S. $1,000 or any integral multiple of U.S. $1,000 in excess thereof)

Exhibit 5.1

[FRIED, FRANK, HARRIS, SHRIVER & JACOBSON LETTERHEAD]

October 4, 2001

Community Health Systems, Inc.
155 Franklin Road, Suite 400
Brentwood, Tennessee 37027

Ladies and Gentlemen:

We are acting as special counsel to Community Health Systems, Inc., a Delaware corporation (the "Company"), in connection with the Registration Statement on Form S-1 (File No. 333-69064) (together with any amendments thereto, the "Registration Statement") under the Securities Act of 1933, as amended (the "Securities Act"), covering (i) up to 13,800,000 shares (the "Shares") of common stock, par value $.01 per share (the "Common Stock"), of the Company, (ii) up to $287,500,000 aggregate principal amount of Convertible Notes due 2008 (the "Notes") of the Company to be issued pursuant to an Indenture (the "Indenture") to be executed by the Company and First Union National Bank, as trustee (the "Trustee"), and (iii) shares (the "Conversion Shares") of Common Stock issuable upon conversion of the Notes pursuant to the terms of the Indenture. The Shares will be offered to the public pursuant to an Underwriting Agreement (the "Shares Underwriting Agreement") by and between the Company, Goldman, Sachs & Co. and the other underwriters parties thereto relating to the offering and sale of the Shares. The Notes will be offered to the public pursuant to an Underwriting Agreement (the "Notes Underwriting Agreement") by and between the Company, Goldman, Sachs & Co. and the other underwriters parties thereto relating to the offering and sale of the Notes. With your permission, all assumptions and statements of reliance herein have been made without any independent investigation or verification on our part except to the extent otherwise expressly stated, and we express no opinion with respect to the subject matter or accuracy of such assumptions or items relied upon.

In connection with this opinion, we have (i) investigated such questions of law, (ii) examined originals or certified, conformed or reproduction copies of such agreements, instruments, documents and records of the Company, such certificates of public officials and such other documents, and (iii) received such information from officers and representatives of the Company and others as we have deemed necessary or appropriate for the purposes of this opinion.

In all such examinations, we have assumed the legal capacity of all natural persons, the genuineness of all signatures, the authenticity of original and certified documents and the conformity to original or certified documents of all copies submitted to us as conformed or reproduction copies. As to various questions of fact relevant to the opinion expressed herein, we have relied upon, and assume the accuracy of, representations and warranties contained in the certificates and oral or written statements and other information of or from representatives of the Company and others and assume compliance on the part of all parties to the Indenture with their covenants and agreements contained therein. We have also assumed that the Indenture, the Notes, the Shares Underwriting Agreement and the Notes Underwriting Agreement will be executed by the parties thereto in the forms filed (with the blank spaces appropriately completed) as exhibits to the Registration Statement.

Based upon the foregoing, and subject to the limitations, qualifications and assumptions set forth herein, we are of the opinion that:

(a) The Shares have been duly authorized by the Company and, when delivered to and paid for in accordance with the terms of the Shares Underwriting Agreement, will be validly issued, fully paid and non-assessable;

(b) The Notes have been duly authorized and, when executed by the Company and authenticated by the Trustee in accordance with the terms of the Indenture and delivered and paid for in accordance with the terms of the Notes Underwriting Agreement, will be valid and binding obligations of the Company; and

(c) The Conversion Shares have been duly authorized and reserved for issuance by the Company and, when issued and delivered in accordance with the terms of the Notes and Indenture, will be validly issued, fully paid and non-assessable.

The opinion expressed in paragraph (b) above is subject to (i) applicable bankruptcy, insolvency, moratorium, reorganization, fraudulent conveyance and other similar laws affecting creditors' rights and remedies generally and (ii) general principles of equity including, without limitation, standards of materiality, good faith, fair dealing and reasonableness, equitable defenses and limits as to the availability of equitable remedies, whether such principles are considered in a proceeding at law or in equity.

We express no opinion as to the validity or binding effect of any provision of any agreement containing any purported waiver, release, variation of rights, or other agreement of similar effect (all of the foregoing, collectively, a "Waiver") by the Company under any of such agreements to the extent limited by provisions of applicable law (including judicial decisions), or to the extent that such a Waiver applies to a right, claim, duty, defense or ground for discharge otherwise existing or occurring as a matter of law (including judicial decisions), except to the extent that such a Waiver is effective under, and is not prohibited by or void or invalid under provisions of applicable law (including judicial decisions).

We express no opinion as to the indemnity, contribution or exculpation provisions of any agreement.

We express no opinion as to the validity or binding effect of any provision of any agreement relating to (i) forum selection or submission to jurisdiction (including any waiver of any objection to venue in any court or that a court is an inconvenient forum) to the extent the forum is a federal court or such provision is to be considered by any court other than a court of the State of New York, or (ii) choice of governing law to the extent that such provision is to be

considered by any court other than a court of the State of New York or a federal district court sitting in the State of New York, in each case, applying the choice of law principles of the State of New York, or (iii) waivers of any rights to trial by jury.

We express no opinion as to the validity or binding effect of any provision of any agreement purporting to give any person or entity the power to accelerate obligations without any notice to the obligor.

We express no opinion as to the enforceability of any provision of any agreement specifying that provisions thereof may be waived only in writing, to the extent that an oral agreement or an implied agreement by trade practice or course of conduct has been created that modifies any provision of such agreement.

The opinions expressed herein are limited to the laws of the United States of America and the laws of the State of New York and, to the extent relevant to the opinion expressed above, the General Corporation Law of the State of Delaware, as currently in effect together with applicable provisions of the Constitution of the State of Delaware and relevant decisional law. The opinions expressed herein are given as of the date hereof, and we undertake no obligation to supplement this letter if any applicable laws change after the date hereof or if we become aware of any facts that might change the opinion expressed herein after the date hereof or for any other reason.

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement and to the reference to this firm under the caption "Legal Matters" in each of the Prospectuses forming a part of the Registration Statement. In giving these consents, we do not hereby admit that we are in the category of persons whose consent is required under Section 7 of the Securities Act.

Very truly yours,

FRIED, FRANK, HARRIS, SHRIVER & JACOBSON

By: /s/Jeffrey Bagner

Jeffrey Bagner

EXHIBIT 23.2

INDEPENDENT AUDITORS' CONSENT

We consent to the use in this Amendment No. 2 to the Registration Statement No. 333-69064 of Community Health Systems, Inc. on Form S-1 of our report dated February 20, 2001, appearing in the Prospectuses, which is a part of this Registration Statement, and of our report dated February 20, 2001 relating to the financial statement schedule appearing elsewhere in this Registration Statement.

We also consent to the reference to us under the heading "Experts" in such Prospectuses.

/s/ Deloitte & Touche LLP

Nashville, Tennessee
October 4, 2001

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Exhibit 25.1

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM T-1

STATEMENT OF ELIGIBILITY AND QUALIFICATION
UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED,
OF A CORPORATION DESIGNATED TO ACT AS TRUSTEE

CHECK IF AN APPLICATION TO DETERMINE ELIGIBILITY
OF A TRUSTEE PURSUANT TO SECTION 305 (b) (2)

FIRST UNION NATIONAL BANK
(Exact name of Trustee as specified in its charter)

2 FIRST UNION CENTER CHARLOTTE, NORTH CAROLINA	28288-0201	22-1147033
(Address of principal executive office)	(Zip Code)	(I.R.S. Employer Identification No.)

Susan K. Baker
First Union National Bank
2525 West End Avenue, Suite 1200
Nashville, Tennessee 37203
(615) 341-3921
(Name, Address and Telephone Number of Agent for Service)

COMMUNITY HEALTH SYSTEMS, INC.
(Exact name of obligor as specified in its charter)

DELAWARE
(State or other jurisdiction of incorporation or organization)

13-3893191
(IRS employer identification no.)

155 FRANKLIN ROAD, SUITE 400
BRENTWOOD, TENNESSEE 37027
(Address, including zip code, of principal executive offices)

___% Convertible Subordinated Notes due 2008
(Title of the indenture securities)

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1. General information.

(a) The following are the names and addresses of each examining or supervising authority to which the Trustee is subject:

The Comptroller of the Currency, Washington, D.C.
Federal Reserve Bank of Atlanta, Georgia.
Federal Deposit Insurance Corporation, Washington, D.C.
Securities and Exchange Commission, Division of Market Regulation, Washington, D.C.

(b) The Trustee is authorized to exercise corporate trust powers.

2. Affiliations with obligor.

The obligor is not an affiliate of the Trustee.

3.-14. Because the obligor is not in default on any securities issued under indentures under which the applicant is trustee, Items 3 through 14 are not required herein.

15. Foreign trustee.

Not applicable.

16. List of Exhibits.

(1) Articles of Association of the Trustee as now in effect.

(2) Certificate of Authority of the Trustee to commence business. (See Exhibit 2 of the Form T-1 filed in connection with Registration Statement No. 333-31863, which is incorporated herein by reference)

(3) Authorization of the Trustee to exercise corporate trust powers.

(4) By-Laws of the Trustee, as amended, to date.

(5) Not applicable.

(6) Consent by the Trustee required by Section 321(b) of the Trust Indenture Act of 1939. Included on Page 5 of this Form T-1 Statement.

(7) Most recent report of condition of the Trustee. (See Exhibit 7 of the Form T-1 filed in connection with Registration Statement No. 333-60170, which is incorporated herein by reference)

(8) Not applicable.

(9) Not applicable.

SIGNATURE

Pursuant to the requirements of the Trust Indenture Act of 1939, as amended, the Trustee, FIRST UNION NATIONAL BANK, a national banking association organized and existing under the laws of the United States of America, has duly caused this statement of eligibility and qualification to be signed on its behalf by the undersigned, thereunto duly authorized, all in the City of Nashville, and State of Tennessee on the 2nd day of October, 2001.

FIRST UNION NATIONAL BANK
(Trustee)

BY: /s/ Susan K. Baker

Susan K. Baker, Vice President

CONSENT OF TRUSTEE

Under section 321(b) of the Trust Indenture Act of 1939 and in connection with the proposed issuance of Notes of COMMUNITY HEALTH SYSTEMS,

INC., First Union National Bank, as the Trustee herein named, hereby consents that reports of examinations of said Trustee by Federal, State, Territorial or District authorities may be furnished by such authorities to the Securities and Exchange Commission upon requests therefor.

FIRST UNION NATIONAL BANK

BY: /s/ Susan K. Baker

Susan K. Baker, Vice President

Dated:
October 2, 2001

Exhibit 1
Charter No. 1

FIRST UNION NATIONAL BANK

ARTICLES OF ASSOCIATION

For the purposes of organizing an Association to carry on the business of banking under the laws of the United States, the undersigned do enter into the following Articles of Association:

FIRST. The title of this Association shall be FIRST UNION NATIONAL BANK.

SECOND. The main office of the Association shall be in Charlotte, County of Mecklenburg, State of North Carolina. The general business of the Association shall be conducted at its main office and its branches.

THIRD. The Board of Directors of this Association shall consist of not less than five nor more than twenty-five directors, the exact number of directors within such minimum and maximum limits to be fixed and determined from time to time by resolution of a majority of the full Board of Directors or by resolution of the shareholders at any annual or special meeting thereof. Unless otherwise provided by the laws of the United States, any vacancy in the Board of Directors for any reason, including an increase in the number thereof, may be filled by action of the Board of Directors.

FOURTH. The annual meeting of the shareholders for the election of directors and the transaction of whatever other business may be brought before said meeting shall be held at the main office or such other place as the Board of Directors may designate, on the day of each year specified therefor in the By-Laws, but if no election is held on that day, it may be held on any subsequent day according to the provisions of law; and all elections shall be held according to such lawful regulations as may be prescribed by the Board of Directors.

Nominations for election to the Board of Directors may be made by the Board of Directors or by any stockholder of any outstanding class of capital stock of the bank entitled to vote for election of directors. Nominations, other than those made by or on behalf of the existing management of the bank, shall be made in writing and shall be delivered or mailed to the President of the bank and to the Comptroller of the Currency, Washington, D.C., not less than 14

days nor more than 50 days prior to any meeting of stockholders called for the election of directors; PROVIDED, HOWEVER, that if less than 21 days' notice of the meeting is given to shareholders, such nomination shall be mailed or delivered to the President of the Bank and to the Comptroller of the Currency not later than the close of business on the seventh day following the day on which the notice of meeting was mailed. Such notification shall contain the following information to the extent known to the notifying shareholder: (a) the name and address of each proposed nominee; (b) the principal occupation of each proposed nominee; (c) the total number of shares of capital stock of the bank that will be voted for each proposed

nominee; (d) the name and residence address of the notifying shareholder; and (e) the number of shares of capital stock of the bank owned by the notifying shareholder. Nominations not made in accordance herewith may, in his discretion, be disregarded by the Chairman of the meeting, and upon his instructions, the vote tellers may disregard all votes cast for each such nominee.

FIFTH.

(a) GENERAL. The amount of capital stock of this Association shall be (I) 25,000,000 shares of common stock of the par value of twenty dollars ($20.00) each (the "Common Stock") and (ii) 160,540 shares of preferred stock of the par value of one dollar ($1.00) each (the "Non-Cumulative Preferred Stock"), having the rights, privileges and preferences set forth below, but said capital stock may be increased or decreased from time to time in accordance with the provisions of the laws of the United States.

(b) TERMS OF THE NON-CUMULATIVE PREFERRED STOCK.

1. GENERAL. Each share of Non-Cumulative Preferred Stock shall be identical in all respects with the other shares of Non-Cumulative Preferred Stock. The authorized number of shares of Non-Cumulative Preferred Stock may from time to time be increased or decreased (but not below the number then outstanding) by the Board of Directors. Shares of Non-Cumulative Preferred Stock redeemed by the Association shall be canceled and shall revert to authorized but unissued shares of Non-Cumulative Preferred Stock.

2. DIVIDENDS.

(a) GENERAL. The holders of Non-Cumulative Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors, but only out of funds legally available therefor, non-cumulative cash dividends at the annual rate of $83.75 per share, and no more, payable quarterly on the first days of December, March, June and September, respectively, in

each year with respect to the quarterly dividend period (or portion thereof) ending on the day preceding such respective dividend payment date, to shareholders of record on the respective date, not exceeding fifty days preceding such dividend payment date, fixed for that purpose by the Board of Directors in advance of payment of each particular dividend. Notwithstanding the foregoing, the cash dividend to be paid on the first dividend payment date after the initial issuance of Non-Cumulative Preferred Stock and on any dividend payment date with respect to a partial dividend period shall be $83.75 per share multiplied by the fraction produced by dividing the number of days since such initial issuance or in such partial dividend period, as the case may be, by 360.

(b) NON-CUMULATIVE DIVIDENDS. Dividends on the shares of Non-Cumulative Stock shall not be cumulative and no rights shall accrue to the holders of shares of Non-Cumulative Preferred Stock by reason of the fact that the Association may fail to declare or pay dividends on the shares of Non-Cumulative Preferred Stock in any amount in any quarterly dividend period, whether or not the earnings of the Association in any quarterly dividend period were sufficient to pay such dividends in whole or in part, and the Association shall have no obligation at any time to pay any such dividend.

(c) PAYMENT OF DIVIDENDS. So long as any share of Non-Cumulative Preferred Stock remains outstanding, no dividend whatsoever shall be paid or declared and no distribution made on any junior stock other than a dividend payable in junior stock, and no shares of junior stock shall be purchased, redeemed or otherwise acquired for consideration by the Association, directly or indirectly (other than as a result of a reclassification of junior stock, or the exchange or conversion of one junior stock for or into another junior stock, or other than through the use of the proceeds of a substantially contemporaneous sale of other junior stock), unless all dividends on all shares of non-cumulative Preferred Stock and non-cumulative Preferred Stock ranking on a parity as to dividends with the shares of Non-Cumulative Preferred Stock for the most recent dividend period ended prior to the date of such payment or declaration shall have been paid in full and all dividends on all shares of cumulative Preferred Stock ranking on a parity as to dividends with the shares of Non-Cumulative Stock (notwithstanding that dividends on such stock are cumulative) for all past dividend periods shall have been paid in full. Subject to the foregoing, and not otherwise, such dividends (payable in cash, stock or otherwise) as may be determined by the Board of Directors may be declared and paid on any junior stock from time to time out of any funds legally available therefor, and the Non-Cumulative Preferred

Stock shall not be entitled to participate in any such dividends, whether payable in cash, stock or otherwise. No dividends shall be paid or declared upon any shares of any class or series of stock of the Association ranking on

a parity (whether dividends on such stock are cumulative or non-cumulative) with the Non-Cumulative Preferred Stock in the payment of dividends for any period unless at or prior to the time of such payment or declaration all dividends payable on the Non-Cumulative Preferred Stock for the most recent dividend period ended prior to the date of such payment or declaration shall have been paid in full. When dividends are not paid in full, as aforesaid, upon the Non-Cumulative Preferred Stock and any other series of Preferred Stock ranking on a parity as to dividends (whether dividends on such stock are cumulative or non-cumulative) with the Non-Cumulative Preferred Stock, all dividends declared upon the Non-Cumulative Preferred Stock and any other series of Preferred Stock ranking on a parity as to dividends with the Non-Cumulative Preferred Stock shall be declared pro rata so that the amount of dividends declared per share on the Non-cumulative Preferred Stock and such other Preferred Stock shall in all cases bear to each other the same ratio that accrued dividends per share on the Non-cumulative Preferred Stock (but without any accumulation in respect of any unpaid dividends for prior dividend periods on the shares of Non-Cumulative Stock) and such other Preferred Stock bear to each other. No interest, or sum of money in lieu of interest, shall be payable in respect of any dividend payment or payments on the Non-Cumulative Preferred Stock which may be in arrears.

3. VOTING. The holders of Non-Cumulative Preferred Stock shall not have any right to vote for the election of directors or for any other purpose.

4. REDEMPTION.

(a) OPTIONAL REDEMPTION. The Association, at the option of the Board of Directors, may redeem the whole or any part of the shares of Non-Cumulative Preferred Stock at the time outstanding, at any time or from time to time after the fifth anniversary of the date of original issuance of the Non-Cumulative Preferred Stock, upon notice given as hereinafter specified, at the redemption price per share equal to $1,000 plus an amount equal to the amount of accrued and unpaid dividends from the immediately preceding dividend payment date (but without any accumulation for unpaid dividends for prior dividend periods on the shares of Non-Cumulative Preferred Stock) to the redemption date.

(b) PROCEDURES. Notice of every redemption of shares of Non-Cumulative Preferred Stock shall be mailed by first class mail, postage prepaid,

addressed to the holders of record of the shares to be redeemed at their respective last addresses as they shall appear on the books of the Association. Such mailing shall be at least 10 days and not more than 60 days prior to the date fixed for redemption. Any notice which is mailed in the manner herein provided shall be conclusively presumed to have been duly given, whether or not the shareholder receives such notice, and failure duly to give such notice by mail, or any defect in such notice, to any holder of shares of Non-Cumulative Preferred Stock designated for redemption shall not affect the validity of the proceedings for the redemption of any other shares of Non-Cumulative Preferred Stock.

In case of redemption of a part only of the shares of Non-Cumulative Preferred Stock at the time outstanding the redemption may be either pro rata or by lot or by such other means as the Board of Directors of the Association in its discretion shall determine. The Board of Directors shall have full power and authority, subject to the provisions herein contained, to prescribe the terms and conditions upon which shares of the Non-Cumulative Preferred Stock shall be redeemed from time to time.

If notice of redemption shall have been duly given, and, if on or before the redemption date specified therein, all funds necessary for such redemption shall have been set aside by the Association, separate and apart from its other funds, in trust for the pro rata benefit of the holders of the shares called for redemption, so as to be and continue to be available therefor, then, notwithstanding that any certificate for shares so called for redemption shall not have been surrendered for cancellation, all shares so called for redemption shall no longer be deemed outstanding on and after such redemption date, and all rights with respect to such shares shall forthwith on such redemption date cease and terminate, except only the right of the holders thereof to, receive the amount payable on redemption thereof, without interest.

If such notice of redemption shall have been duly given or if the Association shall have given to the bank or trust company hereinafter referred to irrevocable authorization promptly to give such notice, and, if on or before the redemption date specified therein, the funds necessary for such redemption shall have been deposited by the Association with such bank or trust company in trust for the pro rata benefit of the holders of the shares called for redemption, then, notwithstanding that any certificate for shares so called for redemption shall not have been surrendered for cancellation, from and after the time of such deposit, all shares so called for redemption shall no longer be deemed to be outstanding and all rights with respect to such shares shall forthwith cease and terminate, except

only the right of the holders thereof to receive from such bank or trust company at any time after the time of such deposit the funds so deposited, without interest. The aforesaid bank or trust company shall be organized and in good standing under the laws of the United States of America or any state thereof, shall have capital, surplus and undivided profits aggregating at least $50,000,000 according to its last published statement of condition, and shall be identified in the notice of redemption. Any interest accrued on such funds shall be paid to the Association from time to time. In case fewer than all the shares of Non-Cumulative Preferred Stock represented by a stock certificate are redeemed, a new certificate shall be issued representing the unredeemed shares without cost to the holder thereof.

Any funds so set aside or deposited, as the case may be, and unclaimed at the end of the relevant escheat period under applicable state law from such redemption date shall, to the extent permitted by law, be released or repaid to the Association, after which repayment the holders of the shares so called for redemption shall look only to the Association for payment thereof.

5. LIQUIDATION.

(a) LIQUIDATION PREFERENCE. In the event of any voluntary liquidation, dissolution or winding up of the affairs of the Association, the holders of Non-Cumulative Preferred Stock shall be entitled, before any distribution or payment is made to the holders of any junior stock, to be paid in full an amount per share equal to an amount equal to $1,000 plus an amount equal to the amount accrued and unpaid dividends per share from the immediately preceding dividend payment date (but without any accumulation for unpaid dividends for prior dividend periods on the shares of Non-Cumulative Preferred Stock) per share to such distribution or payment date (the "liquidation amount").

In the event of any involuntary liquidation, dissolution or winding up of the affairs of the Association, then, before any distribution or payment shall be made to the holders of any junior stock, the holders of Non-Cumulative Preferred Stock shall be entitled to be paid in full an amount per share equal to the liquidation amount.

If such payment shall have been made in full to all holders of shares of Non-Cumulative Preferred Stock, the remaining assets of the Association shall be distributed among the holders of junior stock, according to their

respective rights and preferences and in each case according to their respective numbers of shares.

(b) INSUFFICIENT ASSETS. In the event that, upon any such voluntary or involuntary liquidation, dissolution or winding up, the available assets of the Association are insufficient to pay such liquidation amount on all outstanding shares of Non-Cumulative Preferred Stock, then the holders of Non-Cumulative Preferred Stock shall share ratably in any distribution of assets in proportion to the full amounts to which they would otherwise be respectively entitled.

(c) INTERPRETATION. For the purposes of this paragraph 5, the consolidation or merger of the Association with any other corporation or association shall not be deemed to constitute a liquidation, dissolution or winding up of the Association.

6. PREEMPTIVE RIGHTS. The Non-Cumulative Preferred Stock is not entitled to any preemptive, subscription, conversion or exchange rights in respect of any securities of the Association.

7. DEFINITIONS. As used herein with respect to the Non-Cumulative Preferred Stock, the following terms shall have the following meanings:

(a) The term "junior stock" shall mean the Common Stock and any other class or series of shares of the Association hereafter authorized over which the Non-Cumulative Preferred Stock has preference or priority in the payment of dividends or in the distribution of assets on any liquidation, dissolution or winding up of the Association.

(b) The term "accrued dividends", with respect to any share of any class or series, shall mean an amount computed at the annual dividend rate for the class or series of which the particular share is a part, from, if such share is cumulative, the date on which dividends on such share became cumulative to and including the date to which such dividends are to be accrued, less the aggregate amount of all dividends theretofore paid thereon and, if such share is noncumulative, the relevant date designated to and including the date to which such dividends are accrued, less the aggregate amount of all dividends theretofore paid with respect to such period.

(c) The term "Preferred Stock" shall mean all outstanding shares of all series of preferred stock of the Association as defined in this Article

Fifth of the Articles of Association, as amended, of the Association.

8. RESTRICTION ON TRANSFER. No shares of Non-Cumulative Preferred Stock, or any interest therein, may be sold, pledged, transferred, or otherwise disposed of without the prior written consent of the Association. The foregoing restriction shall be stated on any certificate for any shares of Non-Cumulative Preferred Stock.

9. ADDITIONAL RIGHTS. The shares of Non-Cumulative Preferred Stock shall not have any relative, participating, optional or other special rights and powers other than as set forth herein.

SIXTH. The Board of Directors shall appoint one of its members President of this Association, who shall be Chairman of the Board, unless the Board appoints another director to be the Chairman. The Board of Directors shall have the power to appoint one or more Vice Presidents; and to appoint a cashier or such other officers and employees as may be required to transact the business of this Association.

The Board of Directors shall have the power to define the duties of the officers and employees of the Association, to fix the salaries to be paid to them; to dismiss them, to require bonds from them and to fix the penalty thereof; to regulate the manner in which any increase of the capital of the Association shall be made; to manage and administer the business and affairs of the Association; to make all By-Laws that it may be lawful for them to make; and generally to do and perform all acts that it may be legal for a Board of Directors to do and perform.

SEVENTH. The Board of Directors shall have the power to change the location of the main office to any other place within the limits of Charlotte, North Carolina, without the approval of the shareholders but subject to the approval of the Comptroller of the Currency; and shall have the power to establish or change the location of any branch or branches of the Association to any other location, without the approval of the shareholders but subject to the approval of the Comptroller of the Currency.

EIGHTH. The corporate existence of this Association shall continue until terminated in accordance with the laws of the United States.

NINTH. The Board of Directors of this Association, or any three or more shareholders owning, in the aggregate, not less than 10 percent of the stock of this Association, may call a special meeting of shareholders at any time. Unless otherwise provided by the laws of the United States, a notice of the time, place, and purpose of every annual and special meeting of the shareholders shall be given by first-class mail, postage prepaid, mailed at least ten days prior to the

date of such meeting to each shareholder of record at his address as shown upon the books of this Association.

TENTH. Each director and executive officer of this Association shall be indemnified by the association against liability in any proceeding (including without limitation a proceeding brought by or on behalf of the Association itself) arising out of his status as such or his activities in either of the foregoing capacities, except for any liability incurred on account of activities which were at the time taken known or believed by such person to be clearly in conflict with the best interests of the Association. Liabilities incurred by a director or executive officer of the Association in defending a proceeding shall be paid by the Association in advance of the final disposition of such proceeding upon receipt of an undertaking by the director or executive officer to repay such amount if it shall be determined, as provided in the last paragraph of this Article Tenth, that he is not entitled to be indemnified by the Association against such liabilities.

The indemnity against liability in the preceding paragraph of this Article Tenth, including liabilities incurred in defending a proceeding, shall be automatic and self-operative.

Any director, officer or employee of this Association who serves at the request of the Association as a director, officer, employee or agent of a charitable, not-for-profit, religious, educational or hospital corporation, partnership, joint venture, trust or other enterprise, or a trade association, or as a trustee or administrator under an employee benefit plan, or who serves at the request of the Association as a director, officer or employee of a business corporation in connection with the administration of an estate or trust by the Association, shall have the right to be indemnified by the Association, subject to the provisions set forth in the following paragraph of this Article Tenth, against liabilities in any manner arising out of or attributable to such status or activities in any such capacity, except for any liability incurred on account of activities which were at the time taken known or believed by such person to be clearly in conflict with the best interests of the Association, or of the corporation, partnership, joint venture, trust, enterprise, Association or plan being served by such person.

In the case of all persons except the directors and executive officers of the Association, the determination of whether a person is entitled to indemnification under the preceding paragraph of this Article Tenth shall be made by and in the sole discretion of the Chief Executive Officer of the Association. In the case of the directors and executive officers of the Association, the indemnity against

liability in the preceding paragraph of this Article Tenth shall be automatic and self-operative.

For purposes of this Article Tenth of these Articles of Association only, the following terms shall have the meanings indicated:

(a) "Association" means First Union National Bank and its direct and indirect wholly-owned subsidiaries.

(b) "Director" means an individual who is or was a director of the Association.

(c) "Executive officer" means an officer of the Association who by resolution of the Board of Directors of the Association has been determined to be an executive officer of the Association for purposes of Regulation O of the Federal Reserve Board.

(d) "Liability" means the obligation to pay a judgment, settlement, penalty, fine (including an excise tax assessed with respect to an employee benefit plan), or reasonable expenses, including counsel fees and expenses, incurred with respect to a proceeding.

(e) "Party" includes an individual who was, is, or is threatened to be made a named defendant or respondent in a proceeding.

(f) "Proceeding" means any threatened, pending, or completed claim, action, suit, or proceeding, whether civil, criminal, administrative, or investigative and whether formal or informal.

The Association shall have no obligation to indemnify any person for an amount paid in settlement of a proceeding unless the Association consents in writing to such settlement.

The right to indemnification herein provided for shall apply to persons who are directors, officers, or employees of banks or other entities that are hereafter merged or otherwise combined with the Association only after the effective date of such merger or other combination and only as to their status and activities after such date.

The right to indemnification herein provided for shall inure to the benefit of the heirs and legal representatives of any person entitled to such right.

No revocation of, change in, or adoption of any resolution or provision in the Articles of Association or By-laws of the Association inconsistent with, this Article Tenth shall adversely affect the rights of any director, officer, or employee of the Association with respect to (i) any proceeding commenced or threatened prior to such revocation, change, or adoption, or (ii) any proceeding arising out of any act or omission occurring prior to such revocation, change, or adoption, in either case, without the written consent of such director, officer, or employee.

The rights hereunder shall be in addition to and not exclusive of any other rights to which a director, officer, or employee of the Association may be entitled under any statute, agreement, insurance policy, or otherwise.

The Association shall have the power to purchase and maintain insurance on behalf of any person who is or was a director, officer, or employee of the Association, or is or was serving at the request of the Association as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, trade association, employee benefit plan, or other enterprise, against any liability asserted against such director, officer, or employee in any such capacity, or arising out of their status as such, whether or not the Association would have the power to indemnify such director, officer, or employee against such liability, excluding insurance coverage for a formal order assessing civil money penalties against an Association director or employee.

Notwithstanding anything to the contrary provided herein, no person shall have a right to indemnification with respect to any liability (I) incurred in an administrative proceeding or action instituted by an appropriate bank regulatory agency which proceeding or action results in a final order assessing civil money penalties or requiring affirmative action by an individual or individuals in the form of payments to the Association, (II) to the extent such person is entitled to receive payment therefore under any insurance policy or

from any corporation, partnership, joint venture, trust, trade association, employee benefit plan, or other enterprise other than the Association, or (III) to the extent that a court of competent jurisdiction determines that such indemnification is void or prohibited under state or federal law.

ELEVENTH. These Articles of Association may be amended at any regular or special meeting of the shareholders by the affirmative vote of the holders of a majority of the stock of this Association, unless the vote of holders of a greater amount of stock is required by law, and in that case, by the vote of the holders of such greater amount.

TWELFTH. The Association, at any time and from time to time, may authorize and issue debt obligations, whether or not subordinated, without the approval of the shareholders.

Exhibit 3

Certificate of Fiduciary Powers

I, John D. Hawke, Jr., Comptroller of the Currency, do hereby certify that:

1. The Comptroller of the Currency, pursuant to Revised Statutes 324, et seq., as amended, 12 U.S.C. 1, et. seq., as amended, has possession, custody and control of all records pertaining to the chartering of all National Banking Associations.

2. "First Union National Bank," Charlotte, North Carolina, (Charter No. 1), was granted, under the hand and seal of the Comptroller, the right to act in all fiduciary capacities authorized under the provisions of the Act of Congress approved September 28, 1962, 76 Stat. 668, 12 U.S.C. 92a, and that the authority so granted remains in full force and effect on the date of this Certificate.

IN TESTIMONY WHEREOF, I have hereunto subscribed my name and caused my seal of office to be affixed to these presents at the Treasury Department in the City of Washington and District of Columbia, this 3rd day of April, 2000.

/s/ John D. Hawke, Jr.

Comptroller of the Currency

Exhibit 4

BY-LAWS OF

FIRST UNION NATIONAL BANK

Charter No. 1

Effective June 19, 2001

FIRST UNION NATIONAL BANK

ARTICLE I

MEETINGS OF SHAREHOLDERS

SECTION 1.1 ANNUAL MEETING. The annual meeting of the shareholders for the election of directors and for the transaction of such other business as may properly come before the meeting shall be held on the third Tuesday of April in each year, commencing with the year 1998, except that the Board of Directors may, from time to time and upon passage of a resolution specifically setting forth its reasons, set such other date for such meeting during the month of April as the Board of Directors may deem necessary or appropriate; provided, however, that if an annual meeting would otherwise fall on a legal holiday, then such annual meeting shall be held on the second business day following such legal holiday. The holders of a majority of the outstanding shares entitled to vote which are represented at any meeting of the shareholders may choose persons to act as Chairman and as Secretary of the meeting.

SECTION 1.2 SPECIAL MEETINGS. Except as otherwise specifically provided by statute, special meetings of the shareholders may be called for any purpose at any time by the Board of Directors or by any three or more shareholders owning, in the aggregate, not less than ten percent of the stock of the Association. Every such special meeting, unless otherwise provided by law, shall be called by mailing, postage prepaid, not less than ten days prior to the date fixed for such meeting, to each shareholder at his address appearing on the books of the Association, a notice stating the purpose of the meeting.

SECTION 1.3 NOMINATIONS FOR DIRECTORS. Nominations for election to the Board of Directors may be made by the Board of Directors or by any stockholder of any outstanding class of capital stock of the bank entitled to vote for the election of directors. Nominations, other than those made by or on behalf of the existing management of the bank, shall be made in writing and shall be delivered or mailed to the President of the Bank and to the Comptroller of the Currency, Washington, D. C., not less than 14 days nor more than 50 days prior to any meeting of stockholders called for the election of directors, provided however, that if less than 21 days' notice of such meeting is given to

shareholders, such nomination shall be mailed or delivered to the President of the Bank and to the Comptroller of the Currency not later than the close of business on the seventh day following the day on which the notice of meeting was mailed. Such notification shall contain the following information to the extent known to the notifying shareholder: (a) the name and address of each proposed nominee; (b) the principal occupation of each proposed nominee; (c) the total number of shares of capital stock of the bank that will be voted for each proposed nominee; (d) the name and residence address of the notifying shareholder; and (e) the number of shares of capital stock of the bank owned by the notifying shareholder. Nominations not made in accordance herewith may, in his discretion, be disregarded by the chairman of the meeting, and upon his instructions, the vote tellers may disregard all votes cast for each such nominee.

SECTION 1.4 JUDGES OF ELECTION. The Board may at any time appoint from among the shareholders three or more persons to serve as Judges of Election at any meeting of shareholders; to act as judges and tellers with respect to all votes by ballot at such meeting and to file with the Secretary of the meeting a Certificate under their hands, certifying the result thereof.

SECTION 1.5 PROXIES. Shareholders may vote at any meeting of the shareholders by proxies duly authorized in writing, but no officer or employee of this Association shall act as proxy. Proxies shall be valid only for one meeting, to be specified therein, and any adjournments of such meeting. Proxies shall be dated and shall be filed with the records of the meeting.

SECTION 1.6 QUORUM. A majority of the outstanding capital stock, represented in person or by proxy, shall constitute a quorum at any meeting of shareholders, unless otherwise provided by law; but less than a quorum may adjourn any meeting, from time to time, and the meeting may be held, as adjourned, without further notice. A majority of the votes cast shall decide every question or matter submitted to the shareholders at any meeting, unless otherwise provided by law or by the Articles of Association.

ARTICLE II

DIRECTORS

SECTION 2.1 BOARD OF DIRECTORS. The Board of Directors (hereinafter referred to as the "Board"), shall have power to manage and administer the business and affairs of the Association. Except as expressly limited by law, all corporate powers of the Association shall be vested in and may be exercised by said Board.

SECTION 2.2 NUMBER. The Board shall consist of not less than five

nor more than twenty-five directors, the exact number within such minimum and maximum limits to be fixed and determined from time to time by resolution of a majority of the full Board or by resolution of the shareholders at any meeting thereof; provided, however, that a majority of the full Board of Directors may not increase the number of directors to a number which, (1) exceeds by more than two the number of directors last elected by shareholders where such number was fifteen or less, and (2) to a number which exceeds by more than four the number of directors last elected by shareholders where such number was sixteen or more, but in no event shall the number of directors exceed twenty-five.

SECTION 2.3 ORGANIZATION MEETING. The Secretary of the meeting upon receiving the certificate of the judges, of the result of any election, shall notify the directors-elect of their election and of the time at which they are required to meet at the Main Office of the Association for the purpose of organizing the new Board and electing and appointing officers of the Association for the succeeding year. Such meeting shall be held as soon thereafter as practicable. If, at the time fixed for such meeting, there shall not be a quorum present, the directors present may adjourn the meeting from time to time, until a quorum is obtained.

SECTION 2.4 REGULAR MEETINGS. Regular meetings of the Board of Directors shall be held at such place and time as may be designated by resolution of the Board of Directors. Upon adoption of such resolution, no further notice of such meeting dates or the places or times thereof shall be required. Upon the failure of the Board of Directors to adopt such a resolution, regular meetings of the Board of Directors shall be held, without notice, on the third Tuesday in February, April, June, August, October and December, commencing with the year 1997, at the main office or at such other place and time as may be designated by the Board of Directors. When any regular meeting of the Board would otherwise fall on a holiday, the meeting shall be held on the next business day unless the Board shall designate some other day.

SECTION 2.5 SPECIAL MEETINGS. Special meetings of the Board of Directors may be called by the President of the Association, or at the request of three (3) or more directors. Each member of the Board of Directors shall be given notice stating the time and place, by telegram, letter, or in person, of each such special meeting.

SECTION 2.6 QUORUM. A majority of the directors shall constitute a quorum at any meeting, except when otherwise provided by law; but a less

number may adjourn any meeting, from time to time, and the meeting may be held, as adjourned, without further notice.

SECTION 2.7 VACANCIES. When any vacancy occurs among the directors, the remaining members of the Board, in accordance with the laws of the United States, may appoint a director to fill such vacancy at any regular meeting of the Board, or at a special meeting called for that purpose.

SECTION 2.8 ADVISORY BOARDS. The Board of Directors may appoint Advisory Boards for each of the states in which the Association conducts operations. Each such Advisory Board shall consist of as many persons as the Board of Directors may determine. The duties of each Advisory Board shall be to consult and advise with the Board of Directors and senior officers of the Association in such state with regard to the best interests of the Association and to perform such other duties as the Board of Directors may lawfully delegate.

The senior officer in such state, or such officers as directed by such senior officer, may appoint advisory boards for geographic regions within such state and may consult with the State Advisory Boards prior to such appointments.

ARTICLE III

COMMITTEES OF THE BOARD

SECTION 3.1 The Board of Directors, by resolution adopted by a majority of the number of directors fixed by these By-Laws, may designate two or more directors to constitute an Executive Committee and other committees, each of which, to the extent authorized by law and provided in such resolution, shall have and may exercise all of the authority of the Board of Directors and the management of the Association. The designation of any committee and the delegation thereto of authority shall not operate to relieve the Board of Directors, or any member thereof, of any responsibility or liability imposed upon it or any member of the Board of Directors by law. The Board of Directors reserves to itself alone the power to act on (1) dissolution, merger or consolidation, or disposition of substantially all corporate property, (2) designation of committees or filling vacancies on the Board of Directors or on a committee of the Board (except as hereinafter provided), (3) adoption, amendment or repeal of By-laws, (4) amendment or repeal of any resolution of the Board which by its terms is not so amendable or repealable, and (5) declaration of dividends, issuance of stock, or recommendations to stockholders of any action requiring stockholder approval.

The Board of Directors or the Chairman of the Board of Directors of the Association may change the membership of any committee at any time, fill

vacancies therein, discharge any committee or member thereof either with or without cause at any time, and change at any time the authority and responsibility of any such committee.

A majority of the members of any committee of the Board of Directors may fix such committee's rules of procedure. All action by any committee shall be reported to the Board of Directors at a meeting succeeding such action, except such actions as the Board may not require to be reported to it in the resolution creating any such committee. Any action by any committee shall be subject to revision, alteration, and approval by the Board of Directors, except to the extent otherwise provided in the resolution creating such committee; provided, however, that no rights or acts of third parties shall be affected by any such revision or alteration.

ARTICLE IV

OFFICERS AND EMPLOYEES

SECTION 4.1 OFFICERS. The officers of the Association may be a Chairman of the Board, a Vice Chairman of the Board, one or more Chairmen or Vice Chairmen (who shall not be required to be directors of the Association), a President, one or more Vice Presidents, a Secretary, a Cashier or Treasurer, and such other officers, including officers holding similar or equivalent titles to the above in regions, divisions or functional units of the Association, as may be appointed by the Board of Directors. The Chairman of the Board and the President shall be members of the Board of Directors. Any two or more offices may be held by one person, but no officer shall sign or execute any document in more than one capacity.

SECTION 4.2 ELECTION, TERM OF OFFICE, AND QUALIFICATION. Each officer shall be chosen by the Board of Directors and shall hold office until the annual meeting of the Board of Directors held next after his election or until his successor shall have been duly chosen and qualified, or until his death, or until he shall resign, or shall have been disqualified, or shall have been removed from office.

SECTION 4.2(A) OFFICERS ACTING AS ASSISTANT SECRETARY. Notwithstanding Section 1 of these By-laws, any Senior Vice President, Vice President, or Assistant Vice President shall have, by virtue of his office, and by authority of the By-laws, the authority from time to time to act as an Assistant Secretary of the Bank, and to such extent, said officers are appointed to the office of Assistant Secretary.

SECTION 4.3 CHIEF EXECUTIVE OFFICER. The Board of Directors shall designate one of its members to be the President of this Association, and the officer so designated shall be an ex officio member of all committees of the Association except the Examining Committee, and its Chief Executive Officer unless some other officer is so designated by the Board of Directors.

SECTION 4.4 DUTIES OF OFFICERS. The duties of all officers shall be prescribed by the Board of Directors. Nevertheless, the Board of Directors may delegate to the Chief Executive Officer the authority to prescribe the duties of other officers of the corporation not inconsistent with law, the charter, and these By-laws, and to appoint other employees, prescribe their duties, and to dismiss them. Notwithstanding such delegation of authority, any officer or employee also may be dismissed at any time by the Board of Directors.

SECTION 4.5 OTHER EMPLOYEES. The Board of Directors may appoint from time to time such tellers, vault custodians, bookkeepers, and other clerks, agents, and employees as it may deem advisable for the prompt and orderly transaction of the business of the Association, define their duties, fix the salary to be paid them, and dismiss them. Subject to the authority of the Board of Directors, the Chief Executive Officer or any other officer of the Association authorized by him, may appoint and dismiss all such tellers, vault custodians, bookkeepers and other clerks, agents, and employees, prescribe their duties and the conditions of their employment, and from time to time fix their compensation.

SECTION 4.6 REMOVAL AND RESIGNATION. Any officer or employee of the Association may be removed either with or without cause by the Board of Directors.

Any employee other than an officer elected by the Board of Directors may be dismissed in accordance with the provisions of the preceding Section 4.5. Any officer may resign at any time by giving written notice to the Board of Directors or to the Chief Executive Officer of the Association. Any such resignation shall become effective upon its being accepted by the Board of Directors, or the Chief Executive Officer.

ARTICLE V

FIDUCIARY POWERS

SECTION 5.1 CAPITAL MANAGEMENT GROUP. There shall be an area of this Association known as the Capital Management Group which shall be responsible for the exercise of the fiduciary powers of this Association. The Capital Management Group shall consist of four service areas: Fiduciary Services, Retail Services, Investments and Marketing. The Fiduciary Services unit shall consist of

personal trust, employee benefits, corporate trust and operations. The General Office for the Fiduciary Services unit shall be located in Charlotte, N.C., with additional Trust Offices in such locations as the Association shall determine from time to time.

SECTION 5.2 TRUST OFFICERS. There shall be a General Trust Officer of this Association whose duties shall be to manage, supervise and direct all the activities of the Capital Management Group. Further, there shall be one or more Senior Trust Officers designated to assist the General Trust Officer in the performance of his duties. They shall do or cause to be done all things necessary or proper in carrying out the business of the Capital Management Group in accordance with provisions of applicable law and regulation.

SECTION 5.3 GENERAL TRUST COMMITTEE. There shall be a General Trust Committee composed of not less than four (4) members of the Board of Directors or officers of this Association who shall be appointed annually, or from time to time, by the Board of Directors of this Association. Each member shall serve until his successor is appointed. The Board of Directors or the Chairman of the Board may change the membership of the General Trust Committee at any time, fill any vacancies therein, or discharge any member thereof with or without cause at any time. The General Trust Committee shall counsel and advise on all matters relating to the business or affairs of the Capital Management Group and shall adopt overall policies for the conduct of the business of the Capital Management Group, including, but not limited to: general administration, investment policies, new business development, and review for approval of major assignments of functional responsibilities. The General Trust Committee shall appoint the members of the following subcommittees: the Investment Policy Committee, Personal Trust Administration Committee, Account Review Committee, and Corporate and Institutional Accounts Committee. The General Trust Committee shall meet at least quarterly or as called for by its Chairman or any three (3) members of the Committee. A quorum shall consist of three (3) members. In carrying out its responsibilities, the General Trust Committee shall review the fiduciary activities of the Capital Management Group and may assign the administration and performance of any fiduciary powers or duties to any officers or employees of the Capital Management Group or to the Investment Policy Committee, Personal Trust Administration Committee, Account Review Committee, or Corporate and Institutional Accounts Committee, or other committees it may designate. One of the methods to be used in the review process will be the scrutiny of the Reports of Examination by the Office of the Comptroller of the Currency and the reports of the Audit Division of First Union Corporation, as they relate to the activities of the Capital Management Group. The Chairman of the General Trust Committee shall be appointed by the Chairman of the Board of Directors. The Chairman of the General

Trust Committee shall cause to be recorded in appropriate minutes all actions taken by the Committee. The minutes shall be signed by its Secretary, approved by its Chairman and submitted to the Board of Directors at its next regularly scheduled meeting following a meeting of the General Trust Committee. The Board of Directors retains responsibility for the proper exercise of this Association's fiduciary powers.

SECTION 5.4 INVESTMENT POLICY COMMITTEE. There shall be an Investment Policy Committee composed of not less than seven (7) officers and/or employees of this Association, who shall be appointed annually or from time to time by the General Trust Committee. Each member shall serve until his or her successor is appointed. Meetings shall be called by the Chairman or by any two (2) members of the Committee. A quorum shall consist of five (5) members. The Investment Policy Committee shall exercise such fiduciary powers and perform such duties as may be assigned to it by the General Trust Committee. All actions taken by the Investment Policy Committee shall be recorded in appropriate minutes, signed by the Secretary thereof, approved by its Chairman, and submitted to the General Trust Committee at its next ensuing regular meeting for its review and approval."

SECTION 5.5 PERSONAL TRUST ADMINISTRATION COMMITTEE. There shall be a Personal Trust Administration Committee composed of not less than five (5) officers and/or employees of this Association, who shall be appointed annually or from time to time by the General Trust Committee. Each member shall serve until his or her successor is appointed. Meetings shall be called by the Chairman or by any three (3) members of the Committee. A quorum shall consist of three (3) members. The Personal Trust Administration Committee shall exercise such fiduciary powers and perform such duties as may be assigned to it by the General Trust Committee. All actions taken by the Personal Trust Administration Committee shall be recorded in appropriate minutes, signed by the Secretary thereof, approved by its Chairman, and submitted to the General Trust Committee

at its next ensuing regular meeting for its review and approval."

SECTION 5.6 ACCOUNT REVIEW COMMITTEE. There shall be an Account Review Committee composed of not less than four (4) officers and/or employees of this Association, who shall be appointed annually or from time to time by the General Trust Committee. Each member shall serve until his or her successor is appointed. Meetings shall be called by the Chairman or by any two (2) members of the Committee. A quorum shall consist of three (3) members. The Account Review Committee shall exercise such fiduciary powers and perform such duties as may be assigned to it by the General Trust Committee.

All actions taken by the Account Review Committee shall be recorded in appropriate minutes, signed by the Secretary thereof, approved by its Chairman, and submitted to the General Trust Committee at its next ensuing regular meeting for its review and approval."

SECTION 5.7 CORPORATE AND INSTITUTIONAL ACCOUNTS COMMITTEE. There shall be a Corporate and Institutional Accounts Committee composed of not less than five (5) officers and/or employees of this Association, who shall be appointed annually or from time to time by the General Trust Committee. Each member shall serve until his or her successor is appointed. Meetings shall be called by the Chairman or by any two (2) members of the Committee. A quorum shall consist of three (3) members. The Corporate and Institutional Accounts Committee shall exercise such fiduciary powers and perform such duties as may be assigned to it by the General Trust Committee. All actions taken by the Corporate and Institutional Accounts Committee shall be recorded in appropriate minutes, signed by the Secretary thereof, approved by its Chairman, and submitted to the General Trust Committee at its next ensuing regular meeting for its review and approval."

ARTICLE VI

STOCK AND STOCK CERTIFICATES

SECTION 6.1 TRANSFERS. Shares of stock shall be transferable on the books of the Association, and a transfer book shall be kept in which all transfers of stock shall be recorded. Every person becoming a shareholder by such transfer shall, in proportion to his shares, succeed to all rights and liabilities of the prior holder of such shares.

SECTION 6.2 STOCK CERTIFICATES. Certificates of stock shall bear the signature of the Chairman, the Vice Chairman, the President, or a Vice President (which may be engraved, printed, or impressed), and shall be signed manually or by facsimile process by the Secretary, Assistant Secretary, Cashier, Assistant Cashier, or any other officer appointed by the Board of Directors for that purpose, to be known as an Authorized Officer, and the seal of the Association shall be engraved thereon. Each certificate shall recite on its face that the stock represented thereby is transferable only upon the books of the Association properly endorsed.

ARTICLE VII

CORPORATE SEAL

SECTION 7.1 The President, the Cashier, the Secretary, or any Assistant Cashier, or Assistant Secretary, or other officer thereunto designated by the Board of Directors shall have authority to affix the corporate seal to any document requiring such seal, and to attest the same. Such seal shall be substantially in the following form.

ARTICLE VIII

MISCELLANEOUS PROVISIONS

SECTION 8.1 FISCAL YEAR. The fiscal year of the Association shall be the calendar year.

SECTION 8.2 EXECUTION OF INSTRUMENTS. All agreements, indentures, mortgages, deeds, conveyances, transfers, certificates, declarations, receipts, discharges, releases, satisfactions, settlements, petitions, notices, applications, schedules, accounts, affidavits, bonds, undertakings, proxies, and other instruments or documents may be signed, executed, acknowledged, verified, delivered or accepted in behalf of the Association by the Chairman of the Board, the Vice Chairman of the Board, any Chairman or Vice Chairman, the President, any Vice President or Assistant Vice President, the Secretary or any Assistant Secretary, the Cashier or Treasurer or any Assistant Cashier or Assistant Treasurer, or any officer holding similar or equivalent titles to the above in any regions, divisions or functional units of the Association, or, if in connection with the exercise of fiduciary powers of the Association, by any of said officers or by any Trust Officer or Assistant Trust Officer (or equivalent titles); provided, however, that where required, any such instrument shall be attested by one of said officers other than the officer executing such

instrument. Any such instruments may also be executed, acknowledged, verified, delivered or accepted in behalf of the Association in such other manner and by such other officers as the Board of Directors may from time to time direct. The provisions of this Section 8.2 are supplementary to any other provision of these By-laws.

SECTION 8.3 RECORDS. The Articles of Association, the By-laws, and the proceedings of all meetings of the shareholders, the Board of Directors, standing committees of the Board, shall be recorded in appropriate minute books

provided for the purpose. The minutes of each meeting shall be signed by the Secretary, Cashier, or other officer appointed to act as Secretary of the meeting.

ARTICLE IX

BY-LAWS

SECTION 9.1 INSPECTION. A copy of the By-laws, with all amendments thereto, shall at all times be kept in a convenient place at the Head Office of the Association, and shall be open for inspection to all shareholders, during banking hours.

SECTION 9.2 AMENDMENTS. The By-laws may be amended, altered or repealed, at any regular or special meeting of the Board of Directors, by a vote of a majority of the whole number of Directors.

EXHIBIT A

First Union National Bank
Article X
Emergency By-laws

In the event of an emergency declared by the President of the United States or the person performing his functions, the officers and employees of this Association will continue to conduct the affairs of the Association under such guidance from the directors or the Executive Committee as may be available except as to matters which by statute require specific approval of the Board of Directors and subject to conformance with any applicable governmental directives during the emergency.

OFFICERS PRO TEMPORE AND DISASTER

Section 1. The surviving members of the Board of Directors or the Executive Committee shall have the power, in the absence or disability of any officer, or upon the refusal of any officer to act, to delegate and prescribe such officer's powers and duties to any other officer, or to any director, for the time being.

Section 2. In the event of a state of disaster of sufficient severity to prevent the conduct and management of the affairs and business of this Association by its directors and officers as contemplated by these By-laws, any two or more available members of the then incumbent Executive Committee shall constitute a quorum of that Committee for the full conduct and management of the affairs and business of the Association in accordance with the provisions of Article II of these By-laws; and in addition, such Committee shall be empowered to exercise all of the powers reserved to the General Trust Committee under Section 5.3 of Article V hereof. In the event of the unavail- ability, at such time, of a minimum of two members of the then incumbent Executive Committee, any three available directors shall constitute the Executive Committee for the full conduct and management of the affairs and business of the Association in accordance with the foregoing provisions of this section. This By-law shall be subject to implementation by resolutions of the Board of Directors passed from time to time for that purpose, and any provisions of these By-laws (other than this section) and any resolutions which are contrary to the provisions of this section or to the provisions of any such implementary

resolutions shall be suspended until it shall be determined by an interim Executive Committee acting under this section that it shall be to the advantage of this Association to resume the conduct and management of its affairs and business under all of the other provisions of these By-laws.

Officer Succession

BE IT RESOLVED, that if consequent upon war or warlike damage or disaster, the Chief Executive Officer of this Association cannot be located by the then acting Head Officer or is unable to assume or to continue normal executive duties, then the authority and duties of the Chief Executive Officer shall, without further action of the Board of Directors, be automatically assumed by one of the following persons in the order designated:

Chairman
President
Division Head/Area Administrator - Within this officer class, officers shall take seniority on the basis of length of service in such office or, in the event of equality, length of service as an officer of the Association.

Any one of the above persons who in accordance with this resolution assumes the authority and duties of the Chief Executive Officer shall continue to serve until he resigns or until five-sixths of the other officers who are attached to the then acting Head Office decide in writing he is unable to perform said duties or until the elected Chief Executive Officer of this Association, or a person higher on the above list, shall become available to perform the duties of Chief Executive Officer of the Association.

BE IT FURTHER RESOLVED, that anyone dealing with this Association may accept a certification by any three officers that a specified individual is acting as Chief Executive Officer in accordance with this resolution; and that anyone accepting such certification may continue to consider it in force until notified in writing of a change, said notice of change to carry the signatures of three officers of the Association.

Alternate Locations

The offices of the Association at which its business shall be conducted shall be the main office thereof in each city which is designated as a City Office (and branches, if any), and any other legally authorized location which may be leased or acquired by this Association to carry on its business. During an emergency resulting in any authorized place of business of this Association being unable to function, the business ordinarily conducted at such location shall be

relocated elsewhere in suitable quarters, in addition to or in lieu of the locations heretofore mentioned, as may be designated by the Board of Directors or by the Executive Committee or by such persons as are then, in accordance with resolutions adopted from time to time by the Board of Directors dealing with the exercise of authority in the time of such emergency, conducting the affairs of this Association. Any temporarily relocated place of business of this Association shall be returned to its legally authorized location as soon as practicable and such temporary place of business shall then be discontinued.

Acting Head Offices

BE IT RESOLVED, that in case of and provided because of war or warlike damage or disaster, the General Office of this Association, located in Charlotte, North Carolina, is unable temporarily to continue its functions, the Raleigh office, located in Raleigh, North Carolina, shall automatically and without further action of this Board of Directors, become the "Acting Head Office of this Association";

BE IT FURTHER RESOLVED, that if by reason of said war or warlike damage or disaster, both the General Office of this Association and the said Raleigh Office of this Association are unable to carry on their functions, then and in such case, the Asheville Office of this Association, located in Asheville, North Carolina, shall, without further action of this Board of Directors, become the "Acting Head Office of this Association"; and if neither the Raleigh Office nor the Asheville Office can carry on their functions, then the Greensboro Office of this Association, located in Greensboro, North Carolina, shall, without further action of this Board of Directors, become the "Acting Head Office of this Association"; and if neither the Raleigh Office, the Asheville Office, nor the Greensboro Office can carry on their functions, then the Lumberton Office of this Association, located in Lumberton, North Carolina, shall, without further action of this Board of Directors, become the "Acting Head Office of this Association". The Head Office shall resume its functions at its legally authorized location as soon as practicable.