SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2001

Commission file number 001-15925

COMMUNITY HEALTH SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

Delaware	13-3893191
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

155 Franklin Road, Suite 400
Brentwood, Tennessee
(Address of principal executive offices)

37027
(Zip Code)

615-373-9600
(Registrant's telephone number)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

As of November 12, 2001, there were outstanding 99,439,463 shares of the Registrant's Common Stock, $.01 par value.

COMMUNITY HEALTH SYSTEMS, INC.

Form 10-Q

For the Quarter and Nine Months Ended September 30, 2001

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT SHARE DATA)

	September 30, 2001	December 31, 2000
	(UNAUDITED)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 17,699	$ 13,740
Patients accounts receivable, net	334,538	309,826
Supplies	42,669	39,679
Prepaid expenses and income taxes	13,181	19,989
Current deferred income taxes	2,233	2,233
Other current assets	17,510	23,110
Total current assets	427,830	408,577
PROPERTY AND EQUIPMENT	964,637	850,201
Less accumulated depreciation and amortization	(186,693)	(142,120)
Property and equipment, net	777,944	708,081
GOODWILL, NET	986,686	985,568
OTHER ASSETS, NET	106,143	111,611
TOTAL ASSETS	$ 2,298,603	$ 2,213,837

LIABILITIES

AND
STOCKHOLDERS'
EQUITY
CURRENT
LIABILITIES
Current
maturities
of long-term
debt $
42,182 $
17,433
Accounts
payable
91,810
83,191
Current
income taxes
payable
26,023 --
Accrued
interest
14,797
27,389
Accrued
liabilities
105,703
112,860 ----
------- ----

Total
current
liabilities
280,515
240,873 ----
------- ----

LONG-TERM
DEBT
1,211,586
1,201,590 --
--------- --

OTHER LONG-
TERM
LIABILITIES
12,882
15,200 -----
------ -----

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;
87,438,097
shares
issued and
86,462,548
shares
outstanding
at September
30, 2001;
and
87,105,562
shares
issued and
86,137,582
shares
outstanding

at December
31, 2000 874
871
Additional
paid-in
capital
1,004,930
998,092
Accumulated
deficit
(205,243)
(235,783)
Treasury
stock, at
cost,
975,549
shares at
September
30, 2001 and
967,980
shares at
December 31,
2000 (6,678)
(6,587)
Notes
receivable
for common
stock (211)
(334)
Unearned
stock
compensation
(52) (85) --
--------- --

Total
stockholders'
equity
793,620
756,174 ----
------- ----

TOTAL
LIABILITIES
AND
STOCKHOLDERS'
EQUITY $
2,298,603 $
2,213,837
===========
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See accompanying notes.

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

THREE
MONTHS
ENDED NINE
MONTHS
ENDED
SEPTEMBER
30,
SEPTEMBER
30, -------

--------- -

---- 2001
2000 2001
2000 ------
----- -----

NET OPERATING REVENUES	$ 416,569	$ 342,447	$ 1,216,123	$ 968,234
OPERATING COSTS AND EXPENSES:				
Salaries and benefits	163,320	132,431	473,101	376,653
Provision for bad debts	38,384	31,192	112,343	87,786
Supplies	48,142	40,006	141,030	112,416
Other operating expenses	81,741	67,917	233,902	186,085
Rent	10,956	8,132	30,643	22,669
Depreciation and amortization	23,318	18,655	66,412	52,565
Amortization of goodwill	7,313	6,542	21,387	18,920
Total operating costs and expenses	373,174	304,875	1,078,818	857,094
INCOME FROM OPERATIONS	43,395	37,572	137,305	111,140

INTEREST EXPENSE, NET	23,541	32,409	76,715	97,714
INCOME BEFORE INCOME TAXES	19,854	5,163	60,590	13,426
PROVISION FOR INCOME TAXES	9,813	3,905	30,050	11,069
NET INCOME	$ 10,041	$ 1,258	$ 30,540	$ 2,357
NET INCOME PER COMMON SHARE:				
Basic	$ 0.12	$ 0.02	$ 0.36	$ 0.04
Diluted	$ 0.11	$ 0.02	$ 0.35	$ 0.04
WEIGHTED-AVERAGE NUMBER OF SHARES OUTSTANDING:				
Basic	85,944,773	75,120,860	85,809,995	62,740,932
Diluted	87,833,430	77,193,350	87,648,100	64,146,143

See accompanying notes.

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

	NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 30,540	$ 2,357
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	87,799	71,485
Stock compensation expense	33	43
Other non-cash expenses (income), net	3,021	(447)
Changes in operating assets and liabilities, net of effects of acquistions and divestitures:		
Patient accounts receivable	(9,945)	(42,324)
Supplies, prepaid expenses and other current assets	10,026	(6,064)
Accounts payable, accrued liabilities and income taxes	2,991	(10,406)
Compliance settlement payable	--	(30,900)
Other		

(10,399)
(15,733) ---
------ -----
---- Net
cash
provided by
(used in)
operating
activities
114,066
(31,989) ---
------ -----
---- CASH
FLOWS FROM
INVESTING
ACTIVITIES
Acquistions
of
facilities,
pursuant to
purchase
agreements
(55,066)
(75,654)
Purchases of
property and
equipment
(64,763)
(36,748)
Proceeds
from sale of
equipment
168 85
Increase in
other assets
(25,257)
(16,761) ---
------ -----
---- Net
cash used in
investing
activities
(144,918)
(129,078) --
------- ----
----- CASH
FLOWS FROM
FINANCING
ACTIVITIES
Proceeds
from
issuance of
common
stock, net
of expenses
3 245,699
Proceeds
from
exercise of
stock
options
5,713 --
Common stock
purchased
for treasury
(91) --
Borrowings
under credit
agreement
70,012
196,731
Repayments
of long-term
indebtedness
(40,826)
(277,703) --
------- ----
----- Net
cash
provided by
financing

activities
34,811
164,727 ----
----- ------
--- NET
CHANGE IN
CASH AND
CASH
EQUIVALENTS
3,959 3,660
CASH AND
CASH
EQUIVALENTS
AT BEGINNING
OF PERIOD
13,740 4,282
--------- --
------- CASH
AND CASH
EQUIVALENTS
AT END OF
PERIOD $
17,699 $
7,942
=========
=========

See accompanying notes.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO 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 three and nine month periods ended September 30, 2001 and September 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 nine months ended September 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 consolidated 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

During the nine months ended September 30, 2001, the Company acquired, through two purchase transactions, effective in June and September, respectively, most of the assets, including working capital, of two hospitals. The consideration for the two hospitals totaled $65.7 million. The consideration consisted of $53.6 million in cash, which a substantial portion was borrowed under the acquisition loan facilities, and assumed liabilities of $12.1 million. Licensed beds at these two facilities totaled 271.

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 than December 31, 2002. In addition, SFAS No. 142 requires that intangible assets and goodwill be tested at least annually for impairment of carrying value; impairment of value would be evaluated more frequently if certain indicators are encountered.

The provisions of SFAS No. 142 effective for acquisitions after June 30, 2001 have been adopted and we expect to adopt the remaining provisions of 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 costs. 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. We are evaluating the impact, if any, of adopting SFAS No. 143.

On August 1, 2001, the Financial Accounting Standards Board issued SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets." This Statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets To Be Disposed Of," and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business. This Statement also amends ARB No. 51 "Consolidated Financial Statements", to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. The provisions of this Statement are effective for financial statements issued for fiscal years beginning after December 15, 2001. The provisions are generally to be applied prospectively. The Company is evaluating the impact, if any, of adopting SFAS No. 144.

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):

THREE
MONTHS

	ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000	2001	2000
NUMERATOR:				
Net income	$ 10,041	$ 1,258	$ 30,540	$ 2,357
DENOMINATOR:				
Weighted-average number of shares outstanding--basic	85,944,773	75,120,860	85,809,995	62,740,932
Effect of dilutive options	1,888,657	2,072,490	1,838,105	1,405,211
Weighted-average number of shares outstanding--diluted	87,833,430	77,193,350	87,648,100	64,146,143
Basic earnings per share	$ 0.12	$ 0.02	$ 0.36	$ 0.04
Diluted earnings per share	$ 0.11	$ 0.02	$ 0.35	$ 0.04

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7. SUBSEQUENT EVENTS

The Company acquired, through three separate purchase transactions effective in October and November, most of the assets, including working capital, of three hospitals. The consideration for the three hospitals totaled

approximately $136 million. The consideration consisted of $77.2 million in cash, which a substantial portion was borrowed under the acquisition loan facilities, and assumed liabilities of approximately $58.8 million including a mortgage note payable of $7.7 million and other notes payable of $15.3 million. Licensed beds at the three hospitals totaled 495.

On October 9, 2001, we completed a public offering of 12,000,000 shares of its common stock and the sale of $287.5 million of 4 1/4 % convertible subordinated notes, due October 2008, including the exercise of the notes overallotment. Net proceeds from these offerings of approximately $585 million were used to pay off $500 million of 7 1/2 % subordinated debt plus accrued interest and the remainder used to repay other long term debt under our credit agreement.

On November 2, 2001, we signed a definitive agreement to acquire a 152 bed hospital. This pending transaction is subject to regulatory approvals and licensing, including application for a certificate of need with the Department of Health and Senior Services and approval by the Attorney General. The execution of a definitive agreement is a precondition to the filing of the certificate of need application. Due diligence will continue during the regulatory approval process, which is expected to be completed in three to six months.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion should be read in conjunction with the unaudited Condensed Consolidated Financial Statements included herein.

SOURCES OF OPERATING 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, 46% for the year ended December 31, 2000 and 45% for the nine month period ended September 30, 2001, 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 three-month and nine-month periods ended September 30, 2001 and 2000.

We expect the percentage of our net 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 Benefit and Improvement 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 annually for inflation, 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, but not material impact to our overall operating results.

In December 2000, the Benefit 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 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. The trend toward increased enrollment in managed care may 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.

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000	2001	2000
	(EXPRESSED AS A PERCENTAGE OF NET OPERATING REVENUES)			
Net operating revenues	100.0	100.0	100.0	100.0
Operating expenses (a)	82.2	81.7	81.5	81.1
EBITDA (b)	17.8	18.3	18.5	18.9
Depreciation and amortization	5.6	5.4	5.5	5.4
Amortization of goodwill	1.8	1.9	1.7	2.0
Income from operations	10.4	11.0	11.3	11.5
Interest, net	5.6	9.5	6.3	10.1

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Income
before
income
taxes 4.8
1.5 5.0 1.4
Provision
for income
taxes 2.4
1.1 2.5 1.2
------- ---
---- ------
- -------
Net income
2.4 0.4 2.5
0.2 =======
=======
=======
=======

THREE
MONTHS NINE
MONTHS
ENDED ENDED
SEPTEMBER
30, 2001
SEPTEMBER
30, 2001 --

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--
(EXPRESSED
IN
PERCENTAGES)
PERCENTAGE
CHANGE FROM
SAME PERIOD
PRIOR YEAR:
Net
operating
revenues
21.6 25.6
Admissions
11.5 17.6
Adjusted
admissions
(c) 13.8
17.0
Average
length of
stay -- --
EBITDA 17.9
23.3 SAME
HOSPITALS
PERCENTAGE
CHANGE FROM
PRIOR
PERIOD (d):
Net
operating
revenues
10.8 11.0
Admissions
1.9 4.6
Adjusted
admissions
(c) 4.4 4.3
EBITDA 13.3
14.0

- ----------
(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 EBITDA as discussed in footnote (b) below.

(b) EBITDA consists of income before interest, income taxes, depreciation and amortization, and amortization of goodwill. EBITDA should not be considered a measure of financial performance under GAAP. Items excluded from EBITDA are significant components in understanding and assessing financial performance. EBITDA is a key measure used by management to evaluate our operations and provide useful information to investors. EBITDA should not be considered in isolation or as an alternative 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 is not a measurement determined in accordance with GAAP and is thus susceptible to varying calculations, EBITDA as presented may not be comparable to other similarly titled measures of other companies.

(c) 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.

(d) Includes acquired hospitals to the extent we operated them during comparable periods in both years. The nine months ended September 30, 2000 includes one more business day in the period due to leap year.

THREE MONTHS ENDED SEPTEMBER 30, 2001 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2000

Net operating revenues increased by 21.6% to $416.6 million for the three months ended September 30, 2001 from $342.4 million for the three months ended September 30, 2000. Of the $74.2 million increase in net operating revenues, the four hospitals we acquired after September 30, 2000 contributed approximately $37.3 million, and hospitals we owned throughout both periods contributed $36.9 million, an increase of 10.8%. 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.

Inpatient admissions increased by 11.5%. Adjusted admissions increased by 13.8%. 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 remained unchanged. On a same-hospital basis, inpatient admissions increased by 1.9% and adjusted admissions increased by 4.4%. 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 10.7%. The increase in net outpatient revenues was attributable primarily to an increase in outpatient volume as well as rate increases from managed care and other payors.

Operating expenses, as a percentage of net operating revenues, increased from 81.7% for the three months ended September 30, 2000 to 82.2% for the three months ended September 30, 2001, primarily due to efficiency and productivity gains in payroll and supplies expenses offset by lower initial EBITDA margins associated with recently acquired hospitals and one recently constructed hospital. Operating expenses include salaries and benefits, provision for bad debts, supplies, rent and other operating expenses. Salaries and benefits, as a percentage of net operating revenues, increased to 39.2% from 38.7% for the comparable periods, due to the realization of savings from improvements made at the hospitals acquired in 2000, offset by the acquisitions made in 2001 having higher salaries and benefits as a percentage of net operating revenues. EBITDA margin decreased from 18.3% for the three months ended September 30, 2000 to 17.8% for the three months ended September 30, 2001. Provision for bad debts, as a percentage of net operating revenues, increased to 9.2% for the three months ended September 30, 2001 from 9.1% for the comparable period in 2000. Supplies as a percentage of net operating revenues, decreased to 11.6% for the three months ended September 30, 2001 from 11.7% for the comparable period in 2000. Rent and other operating expenses, as a percentage of net operating revenues, remained at 22.2% for the comparable periods.

On a same-hospital basis, operating expenses as a percentage of net operating revenues decreased from 82.0% for the three months ended September 30, 2000 to 81.6% for the three months ended September 30, 2001. We achieved this through efficiency and productivity gains in payroll and supplies expense reductions, offset by an increase in other expenses.

Depreciation and amortization increased by $4.6 million from $18.7 million for the three months ended September 30, 2000 to $23.3 million for the three months ended September 30, 2001. The four hospitals acquired after September 30, 2000 accounted for $1.1 million of the increase; hospital 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 $3.5 million.

Amortization of goodwill increased from $6.5 million for the three months ended September 30, 2000 to $7.3 million for the comparable period in 2001 related to acquired hospitals.

Interest, net decreased by $8.9 million from $32.4 million for the three months ended September 30, 2000 to $23.5 million for the three months ended September 30, 2001. The decrease in average outstanding long-term debt during the comparable periods in 2000 and 2001 accounted for approximately $3.0 million of the decrease while a net decrease in interest rates accounted for the remaining difference. The decrease in average outstanding 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 and capital expenditures.

Income before income taxes increased from $5.2 million for the three months ended September 30, 2000 to $19.8 million for the three months ended September 30, 2001 primarily as a result of the increases in revenue and decreases in expenses as discussed above.

Provision for income taxes increased from $3.9 million for the three months ended September 30, 2000 to $9.8 million for the three months ended September 30, 2001 as a result of the increase in pre-tax income.

Net income was $10.0 million for the three months ended September 30, 2001 compared to $1.3 million for the three months ended September 30, 2000.

NINE MONTHS ENDED SEPTEMBER 30, 2001 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2000

Net operating revenues increased 25.6% to $1.2 billion for the nine months ended September 30, 2001 from $968.2 million for the nine months ended September 30, 2000. Of the $247.9 million increase in net operating revenues, the seven hospitals we acquired in 2000 and two hospitals acquired in 2001 contributed approximately $142.1 million, and hospitals we owned throughout both periods contributed $105.8 million, an increase of 11.0%. 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 17.6%. Adjusted admissions increased by 17.0%. Average length of stay remained unchanged. On a same hospital basis, inpatient admissions increased by 4.6% 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 by 11.9% primarily as a result of an increase in outpatient volume as well as rate increases from managed care and other payors.

Operating expenses, as a percentage of net operating revenues, increased from 81.1% for the nine months ended September 30, 2000, to 81.5% for the nine months ended September 30, 2001, primarily due to an increase in provision for bad debts, increases in utility expense, an increase in rent expense and recent acquisitions having higher salaries and benefits as a percentage of net revenue, offset by improvements in salaries and benefits and supplies expense at hospitals we have owned throughout both periods. Salaries and benefits, as a percentage of net operating revenues, remained at 38.9% for the comparable periods, due to the continued realization of savings from improvements made at 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 9.2% from 9.1% for the comparable periods 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 21.5% for the nine months ended September 30, 2000 to 21.8% for the nine months ended September 30, 2001, due primarily to initial higher costs from recently acquired hospitals and an increase in utilities expense. These fluctuations have led to EBITDA margins decreasing from 18.9% for the nine months ended September 30, 2000 to 18.5% for the nine months ended September 30, 2001.

On a same hospital basis, operating expenses as a percentage of net operating revenues decreased from 81.5% for the nine months ended September 30, 2000 to

81.0% for the nine months ended September 30, 2001. We achieved this reduction through efficiency and productivity gains in payroll and supplies expense reductions, offset by increases in other expenses.

Depreciation and amortization increased by $13.8 million from $52.6 million for the nine months ended September 30, 2000 to $66.4 million for the nine months ended September 30, 2001. The seven hospitals acquired in 2000 and two hospitals acquired in 2001 accounted for $3.6 million of the increase; hospital renovations and purchases of equipment, information systems upgrades, the inclusion of a hospital previously held for divestiture and other deferred items accounted for the remaining $10.2 million.

Amortization of goodwill increased by $2.5 million from $18.9 million for the nine months ended September 30, 2000 to $21.4 million for the comparable period in 2001 related to acquired hospitals.

Interest, net decreased by $21.0 million from $97.7 million for the nine months ended September 30, 2000 to $76.7 million for the nine months ended September 30, 2001. The decrease in average outstanding long-term debt during the comparable periods in 2000 and 2001 accounted for approximately $13.5 million of the decrease while a net decrease in interest rates accounted for the remaining difference. The decrease in average outstanding 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 and capital expenditures.

Income before income taxes increased from $13.4 million for the nine months ended September 30, 2000 to $60.6 million for the nine months ended September 30, 2001 primarily as a result of the increases in revenue and decreases in expenses as discussed above.

Provision for income taxes increased from $11.1 million for the nine months ended September 30, 2000 to $30.0 million for the nine months ended September 30, 2001 as a result of the increase in pre-tax income.

Net income increased from $2.4 million for the nine months ended September 30, 2000 to income of $30.5 million for the nine months ended September 30, 2001.

LIQUIDITY AND CAPITAL RESOURCES

Net cash from operating activities increased $146.1 million from a use of $32.0 million for the nine months ended September 30, 2000 to cash provided of $114.1 million for the nine months ended September 30, 2001. This increase represents an increase in net income of $28.2 million, an increase in non-cash expenses of $19.8 million, an increase of cash from working capital of $67.2 million and the absence of the one-time compliance settlement payment of $30.9 million made in 2000, when comparing the nine month period ended September 30, 2000 and the nine month period ended September 30, 2001. The increase of cash from working capital can be attributed primarily to improvement in collections of accounts receivable, a decrease in the amount of interest paid, and overall better management of other working capital items. The use of cash from investing activities increased from $129.1 million for the nine months ended September 20, 2000 to $144.9 million for the nine months ended September 20, 2001. This increase is the result of additional purchases of property and equipment, ongoing construction of a replacement facility and information system upgrades, primarily at recently acquired facilities, offset by a decrease in cash paid for acquisitions for the comparable periods. Net cash provided by financing activities decreased $129.9 million during the comparable periods as a result of not borrowing to meet capital expenditure and working capital needs during the 2001 period, a reduction in cash paid for acquisitions in the comparable periods and not borrowing for the compliance settlement as was done in the 2000 period.

CAPITAL EXPENDITURES

We expect to incur total capital expenditures of approximately $93 million in 2001, including $60 million for renovation and equipment purchases and $30 million for construction of replacement hospitals. Pursuant to hospital purchase agreements in effect as of September 30, 2001, we are obligated to construct four replacement hospitals through 2005 with an aggregate estimated construction cost including equipment, of approximately $120 million. During the nine months ended September 20, 2001, we incurred expenditures of approximately $14 million related to these replacement hospitals.

CAPITAL RESOURCES

Net working capital was $147.3 million at September 30, 2001 compared to $167.7 million at December 31, 2000. The $20.4 million decrease in net working capital from December 31, 2000 to September 30, 2001 was attributable primarily to an increase in our current income taxes payable and an increase in current maturities on long-term debt in accordance with our scheduled payments, offset by an increase in accounts receivable, primarily due to acquisitions, and a decrease in accrued interest. We anticipate settling substantially all of our current tax liability using net operating loss carry forwards, therefore, in accordance with accounting standards the current income taxes payable will be offset against deferred tax assets from net operating loss carry forwards in the fourth quarter of 2001.

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 $251.9 million at September 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 a financial covenant ratio test. As of September 30, 2001 using amended rates, our weighted average interest rate under our credit agreement was 6.64%. As of September 30, 2001, we had availability to borrow an additional $164.1 million under the working capital revolving facility and an additional $132.9 million under the acquisition loan revolving facility.

We are required to pay a quarterly commitment fee at a rate of 0.375% to 0.500% 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.

The provisions of SFAS No. 142 effective for acquisitions after June 30, 2001 have been adopted and we expect to adopt the remaining provisions of 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 costs. 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. We are evaluating the impact, if any, of adopting SFAS No. 143.

On August 1, 2001, the Financial Accounting Standards Board issued SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets." This Statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets To Be Disposed Of," and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business. This Statement also amends ARB No. 51 "Consolidated Financial Statements", to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. The provisions of this Statement are effective for financial statements issued for fiscal years beginning after December 15, 2001. The provisions are generally to be applied prospectively. We are evaluating the impact, if any, of adopting SFAS No. 144.

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.

FORWARD-LOOKING STATEMENTS

Some of the matters discussed in this filing 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 filing. We assume no obligation to update or revise them or provide reasons why actual results may differ.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to interest rate changes, primarily as a result of our credit agreement which bears interest based on floating rates. 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 $1.7 million for the three months ended September 30, 2001 and $5.2 million for the nine months ended September 30, 2001.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

Form 8-K, dated July 25, 2001, in connection with our press release related to second quarter 2001 operating results.

SIGNATURES

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

Date: November 13, 2001

COMMUNITY HEALTH SYSTEMS, INC.
(Registrant)

By: /s/ Wayne T. Smith

Wayne T. Smith
President and Chief Executive Officer
(principal executive officer)

By: /s/ W. Larry Cash

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

By: /s/ T. Mark Buford

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