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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2003

Commission file number 001-15925

COMMUNITY HEALTH SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

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

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

37027
(Zip Code)

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

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

Yes ☒ No o

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act)

Yes ☒ No o

As of November 3, 2003, there were outstanding 98,491,650 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, 2003

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2003	December 31, 2002
ASSETS		
Current assets		
Cash and cash equivalents	$ 62,642	$ 132,844
Patient accounts receivable, net of allowance for doubtful accounts of $98,721 and $73,110 at September 30, 2003 and December 31, 2002, respectively	492,122	400,442
Supplies	70,536	60,456
Prepaid expenses and taxes	25,416	22,107
Current deferred income taxes	15,684	15,684
Other current assets	19,160	16,193
Total current assets	685,560	647,726
Property and equipment	1,606,773	1,310,738
Less accumulated depreciation and amortization	(355,974)	(281,401)
Property and equipment, net	1,250,799	1,029,337
Goodwill, net	1,154,481	1,029,975
Other Assets, net	96,885	102,458
Total assets	$ 3,187,725	$ 2,809,496
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current maturities of long-term debt	$ 17,443	$ 18,529
Accounts payable	125,207	111,677
Current income taxes payable	50,160	6,559
Accrued interest	10,775	6,781
Accrued liabilities	191,251	174,884
Total current liabilities	394,836	318,430
Long-term debt	1,371,097	1,173,929
Deferred income taxes	65,295	65,120
Other long-term liabilities	49,486	37,712
Stockholders' equity		
Preferred stock, $.01 par value per share, 100,000,000 shares authorized, none issued	—	—
Common stock, $.01 par value per share, 300,000,000 shares authorized; 99,462,195 shares issued and 98,486,646 shares outstanding at September 30, 2003 and 99,787,034 shares issued and 98,811,485 shares outstanding at December 31, 2002	995	998
Additional paid-in capital	1,312,286	1,319,370
Treasury stock, at cost, 975,549 shares at September 30, 2003 and December 31, 2002	(6,678)	(6,678)
Unearned stock compensation	(5)	(15)
Accumulated other comprehensive income (loss)	(4,369)	(8,314)
Retained earnings (deficit)	4,782	(91,056)
Total stockholders' equity	1,307,011	1,214,305

Total liabilities and stockholders' equity	$ 3,187,725	$ 2,809,496

See accompanying notes.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	**2002**	**2003**	**2002**
Net operating revenues	$ 723,022	$ 552,841	$ 2,039,592	$ 1,616,942
Operating costs and expenses:				
Salaries and benefits	288,328	221,459	820,407	652,838
Provision for bad debts	70,690	52,351	195,109	149,970
Supplies	84,229	62,960	237,201	188,865
Other operating expenses	153,478	114,760	418,215	318,414
Rent	18,004	13,997	51,060	39,621
Depreciation and amortization	36,374	28,982	103,974	86,417
Minority interest in earnings	651	345	1,703	1,861
Total operating costs and expenses	651,754	494,854	1,827,669	1,437,986
Income from operations	71,268	57,987	211,923	178,956
Interest expense, net	18,468	14,788	52,151	48,039
Loss from early extinguishment of debt	—	8,646	—	8,646
Income before income taxes	52,800	34,553	159,772	122,271
Provision for income taxes	21,117	14,397	63,934	50,698
Net income	$ 31,683	$ 20,156	$ 95,838	$ 71,573
Net income per common share:				
Basic	$ 0.32	$ 0.21	$ 0.97	$ 0.73
Diluted	$ 0.31	$ 0.21	$ 0.95	$ 0.72
Weighted-average number of shares outstanding:				
Basic	98,409,888	98,533,822	98,437,932	98,349,745
Diluted	108,123,167	108,512,718	107,979,647	108,371,327

See accompanying notes.

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

	Nine Months Ended September 30,	
	2003	**2002**
Cash flows from operating activities		
Net income	$ 95,838	$ 71,573
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	103,974	86,417
Deferred income taxes	175	—
Minority interest in earnings	1,703	1,861

Stock compensation expense	10	20
Other non-cash (income) expenses, net	(43)	3,368
Changes in operating assets and liabilities, net of effects of acquistions and divestitures:		
Patient accounts receivable	(79,493)	(10,616)
Supplies, prepaid expenses and other current assets	(8,899)	(7,644)
Accounts payable, accrued liabilities and income taxes	59,097	41,907
Other	25,994	9,970
Net cash provided by operating activities	198,356	196,856
Cash flows from investing activities		
Acquisitions of facilities and other related equipment	(320,233)	(127,693)
Purchases of property and equipment	(100,909)	(81,592)
Proceeds from sale of equipment	1,036	440
Increase in other assets	(21,210)	(23,399)
Net cash used in investing activities	(441,316)	(232,244)
Cash flows from financing activities		
Proceeds from issuance of common stock, net of expenses	—	3
Proceeds from exercise of stock options	1,479	2,364
Stock repurchases	(14,060)	—
Proceeds from minority investments	—	1,770
Redemption of minority investments	(336)	(708)
Distribution to minority investors	(1,836)	(863)
Borrowings under credit agreement	280,000	905,900
Repayments of long-term indebtedness	(92,489)	(763,934)
Net cash provided by financing activities	172,758	144,532
Net change in cash and cash equivalents	(70,202)	109,144
Cash and cash equivalents at beginning of period	132,844	8,386
Cash and cash equivalents at end of period	$ 62,642	$ 117,530

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, 2003 and September 30, 2002, have been prepared in accordance with accounting principles generally accepted in the United States of America. In the opinion of management, such information contains all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for such periods. All intercompany transactions and balances have been eliminated. The results of operations for the nine months ended September 30, 2003 are not necessarily indicative of the results to be expected for the full fiscal year ending December 31, 2003.

Certain information and disclosures normally included in the notes to consolidated financial statements have been condensed or omitted as permitted by the rules and regulations of the Securities and Exchange Commission, although the Company believes the disclosure is adequate to make the information presented not misleading. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2002 contained in the Company's Annual Report on Form 10-K.

2. USE OF ESTIMATES

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

3. RECENT ACCOUNTING PRONOUNCEMENT

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities ("VIE's")" ("FIN No. 46"). This interpretation clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN No. 46 applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. Effective with the quarter beginning July 1, 2003, the interpretation applies immediately to VIE's created before February 1, 2003, and to interest obtained in VIE's before February 1, 2003. Under certain conditions, the effective date has been delayed to the first year

or interim period ending after December 15, 2003. The Company does not expect the adoption of this interpretation to have a material effect on our consolidated financial position or consolidated results of operations. As of September 30, 2003 the Company has no investments in VIE's.

In May 2003, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 149 "Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities". SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments and for hedging activities. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003. The Company does not anticipate a material impact on its results of operations or financial position from the adoption of SFAS No. 149.

In May 2003, the FASB issued SFAS No. 150 "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for classifying and measuring as liabilities certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity. SFAS No. 150 is effective immediately for instruments entered into or modified after May 15, 2003, and to all other instruments that exist as of the beginning of the first interim reporting period beginning after June 15, 2003. The Company does not anticipate a material impact on its results of operations or financial position from the adoption of SFAS No. 150.

4. ACQUISITIONS

Effective January 1, 2003, the Company acquired seven hospitals located in West Tennessee from Methodist Healthcare Corporation of Memphis, Tennessee in a single purchase transaction. The aggregate consideration for the seven hospitals totaled approximately $150 million of which approximately $141 million was paid in cash and approximately $9 million was assumed in liabilities. Combined licensed beds at these seven facilities total 676.

Effective July 1, 2003, the Company acquired Pottstown Memorial Center located in Pottstown, Pennsylvania, approximately 50 miles west of Philadelphia and 25 miles east of Reading, Pennsylvania. The hospital, which has a total of 222 beds, was acquired from a local not-for-profit organization. The aggregate consideration for the hospital totaled approximately $87 million of which approximately $80 million was paid in cash and approximately $7 million was assumed in liabilities. Licensed beds at this facility total 222.

Effective August 1, 2003, the Company acquired Southside Regional Medical Center in Petersburg, Virginia in a capital lease transaction. The aggregate consideration for the hospital totaled approximately $92 million of which $81 million was paid in cash and approximately $11 million was assumed in liabilities. Licensed beds at this facility total 408. As part of this transaction, the Company has agreed to build a replacement hospital. This hospital was acquired from a public hospital authority.

Substantially all cash paid for acquisitions in 2003 was borrowed under the Company's Credit Agreement.

5. LONG-TERM DEBT

On July 2, 2003, the Company amended its senior secured credit facility by exercising the feature allowing the Company to add up to $200 million of funded term loans with the same interest rate per annum as the existing term loans. After borrowing the full $200 million of the incremental term loans, the amended facility consists of $850 million in term loans that mature in 2010, $200 million in incremental term loans that mature in 2011, and a $350 million revolving credit facility that expires in 2008.

6. ACCOUNTING FOR STOCK-BASED COMPENSATION

The Company accounts for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Compensation cost for stock-based compensation, which is an insignificant amount for the Company, 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 and SFAS No. 148.

Had the fair value based method under SFAS No. 123 been used to value options granted and compensation expense recognized on a straight line basis over the vesting period of the grant, the

Company's net income and income per share would have been reduced to the pro-forma amounts indicated below (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Net income:	$ 31,683	$ 20,156	$ 95,838	$ 71,573
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	2,218	1,078	4,064	3,234
Pro-forma net income	$ 29,465	$ 19,078	$ 91,774	$ 68,339
Net income per share:				
Basic—as reported	$ 0.32	$ 0.21	$ 0.97	$ 0.73
Basic—pro-forma	$ 0.30	$ 0.19	$ 0.93	$ 0.69

Diluted—as reported	$	0.31	$	0.21	$	0.95	$	0.72
Diluted—pro-forma	$	0.29	$	0.20	$	0.91	$	0.69

7. GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill for the nine months ended September 30, 2003, are as follows (in thousands):

Balance as of December 31, 2002	$	1,029,975
Goodwill acquired as part of acquisitions during 2003		116,486
Consideration adjustments and finalization of purchase price allocations for acquisitions completed prior to 2003		8,020
Balance as of September 30, 2003	$	1,154,481

The Company completed its annual goodwill impairment test as required by SFAS No. 142, using a measurement date of September 30, 2002. Based on the results of the impairment test, the Company was not required to recognize an impairment of goodwill for the year ended December 31, 2002. The annual goodwill impairment test for 2003 is currently being performed using a measurement date of September 30, 2003.

The gross carrying amount of the Company's other intangible assets was $4.5 million as of September 30, 2003 and $3.7 million as of December 31, 2002, and the net carrying amount was $3.0 million and $2.6 million as of September 30, 2003 and December 31, 2002, respectively. Other intangible assets are included in Other assets, net on the Company's balance sheet.

The weighted-average amortization period for the intangible assets subject to amortization is approximately 6 years. There are no expected residual values related to these intangible assets. Amortization expense on intangible assets during the three and nine months ended September 30, 2003 was $0.1 million and $0.3 million, respectively. Amortization expense on existing intangible assets is estimated to be $0.2 million for the remainder of 2003, $0.6 million in fiscal 2004, $0.5 million in fiscal 2005, $0.3 million in fiscal 2006, $0.1 million in fiscal 2007, and $0.1 million in fiscal 2008.

8. 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,			
		2003		2002		2003		2002
Numerator:								
Net income	$	31,683	$	20,156	$	95,838	$	71,573
Convertible notes, interest, net of taxes		2,189		2,189		6,567		6,568
Adjusted net income	$	33,872	$	22,345	$	102,405	$	78,141
Denominator:								
Weighted—average number of shares outstanding-basic		98,409,888		98,533,822		98,437,932		98,349,745
Basic shares not vested		93,368		248,929		97,870		248,929
Effect of dilutive securities:								
Employee stock options		1,037,835		1,147,891		861,769		1,190,577
Convertible notes		8,582,076		8,582,076		8,582,076		8,582,076
Weighted—average number of shares diluted		108,123,167		108,512,718		107,979,647		108,371,327
Basic earnings per share	$	0.32	$	0.21	$	0.97	$	0.73
Diluted earnings per share	$	0.31	$	0.21	$	0.95	$	0.72

Since the net income per share impact of the conversion of the convertible notes is less than the basic net income per share for the three and nine months ended September 30, 2003, and the three and nine months ended September 30, 2002, the convertible notes are dilutive for the periods and accordingly, must be included in the fully diluted calculation.

9. STOCKHOLDERS' EQUITY

On January 23, 2003, the Company announced an open market share repurchase program for up to five million shares of its common stock. The share repurchase program will conclude at the earlier of three years or when the maximum number of shares have been repurchased. As of September 30, 2003, the Company has repurchased 760,000 shares at an average cost of $18.45 per share.

10. COMPREHENSIVE INCOME

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Net income	$ 31,683	$ 20,156	$ 95,838	$ 71,573
Net change in fair value of interest rate swaps	4,768	(4,804)	3,945	(7,937)
Comprehensive Income	$ 36,451	$ 15,352	$ 99,783	$ 63,636

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

11. SUBSEQUENT EVENTS

Effective October 1, 2003, the Company completed the acquisition of Laredo Medical Center in Laredo, Texas. The acquisition includes a 326 bed hospital, an ambulatory care center, a diagnostic center, a cancer center and several medical office buildings. The consideration for this hospital totaled approximately $129 million of which approximately $121 million was paid in cash and approximately $8 million was assumed in liabilities. This hospital is located approximately 140 miles south of San Antonio, Texas.

Effective October 3, 2003, the Company entered into an additional $100 million interest rate swap agreement to limit the cash flow effect of changes in interest rates on a portion of our long-term borrowings. Under this agreement, the Company pays interest quarterly at an annualized fixed interest rate of 2.31% for a term ending October 3, 2006. On payment dates, the Company receives an offsetting variable rate of interest payment from a counterparty based on the three month London Inter-Bank Offer Rate, excluding the margin paid under the Company's credit agreement on a quarterly basis, which is currently 250 basis points.

At the time of acquisition of the hospitals from Methodist Healthcare Corporation of Memphis, Tennessee, the hospital in Jackson, Tennessee was defending a long standing certificate of need challenge by its competitor against the hospital's interventional cardiology and open heart surgery program. The litigation concluded in October 2003 and resulted in the voiding of the previously issued certificate of need and a discontinuation of these services. Further action at the agency level is being pursued by the hospital but there can be no assurance it will be able to reinstate these services.

On November 10, 2003, the Company entered into an agreement that provided for the sale of Berrien County Hospital (63 licensed beds) located in Nashville, Georgia for approximately $5 million in cash plus liabilities. This transaction was effective November 1, 2003. The results from this transaction are not expected to have a material impact on the Company's results of operations.

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.

Acquisitions and Dispositions

Effective January 1, 2003, we acquired seven hospitals located in West Tennessee from Methodist Healthcare Corporation of Memphis, Tennessee in a single purchase transaction. The aggregate consideration for the seven hospitals totaled approximately $150 million of which approximately $141 million was paid in cash and approximately $9 million was assumed in liabilities. Combined licensed beds at these seven facilities totaled 676.

Effective July 1, 2003, we acquired Pottstown Memorial Medical Center located in Pottstown, Pennsylvania, approximately 50 miles west of Philadelphia and 25 miles east of Reading, Pennsylvania. The hospital, which has a total of 222 beds, was acquired from a local not-for-profit organization. The consideration for this hospital totaled approximately $87 million of which approximately $80 million was paid in cash and approximately $7 million was assumed in liabilities.

Effective August 1, 2003, we acquired Southside Regional Medical Center (408 beds) in Petersburg, Virginia located 22 miles south of Richmond, Virginia. The consideration for this hospital totaled approximately $92 million of which approximately $81 million was paid in cash and approximately $11 million was assumed in liabilities. As part of the transaction, we have agreed to build a replacement hospital. This hospital was acquired from a public hospital authority.

Effective October 1, 2003, the Company completed the acquisition of Laredo Medical Center (326 beds) in Laredo, Texas. The consideration for this hospital totaled approximately $129 million of which approximately $121 million was paid in cash and approximately $8 million was assumed in liabilities. This hospital was acquired from the Sisters of Mercy Health System, in St. Louis, Missouri.

On November 10, 2003, the Company entered into an agreement that provided for the sale of Berrien County Hospital (63 licensed beds) located in Nashville, Georgia for approximately $5 million in cash plus liabilities. This transaction was effective November 1, 2003.

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 41.9% and 42.8% of net operating revenues for the three month periods ended September 30, 2003 and September 30, 2002, respectively, and 43.0% and 44.1% of net operating revenues for the nine month periods ended September 30, 2003 and September 30, 2002, respectively, 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 account for adjustments to previous program reimbursement estimates as contractual adjustments and report them in the periods that such adjustments become known. Adjustments related to final settlements or appeals that increased revenue were insignificant in each of the three and nine month periods ended September 30, 2003 and 2002.

In the future, we expect the percentage of revenues received from the Medicare program to increase due to the general aging of the population. The payment rates under the Medicare program for inpatients are based on a prospective payment system, depending upon the diagnosis of a patient's condition. While these rates are indexed for inflation annually, the increases have historically been less than actual inflation. Reductions in the rate of increase in Medicare reimbursement may have an adverse impact on our net operating revenue growth. Effective April 1, 2002, Centers for Medicare and Medicaid Services implemented changes to the Medicare outpatient prospective payment system. Also beginning April 1, 2003, and extending through September 30, 2003, the Consolidated Appropriations Resolution of 2003 equalized the rural and urban standardized payment amounts under the Medicare inpatient prospective payment system. Congress further approved an extension of this measure through March 31, 2004, through an amendment to the Temporary Assistance for Needy Families Block Grant Extension bill. These changes should not materially affect our net operating revenue growth. In addition, Congress is considering passage of a Medicare Prescription Drug bill that contains provider payment provisions. The outcome of the bill and impact of its provisions are unknown at this time.

In addition, certain managed care programs, insurance companies, and employers are actively negotiating the amounts paid to hospitals. The trend toward increased enrollment in managed care may adversely effect 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, diagnostic services, emergency services, rehabilitation treatment, home health, and skilled nursing. The strongest demand for hospital services generally occurs during January through April and the weakest demand for these services occurs during the summer months. Accordingly, eliminating the effect of new acquisitions, our net operating revenues and earnings are historically highest during the first quarter and lowest during the third quarter.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
	(expressed as a percentage of net operating revenues)			
Net operating revenues	100.0	100.0	100.0	100.0
Operating expenses(a)	(85.0)	(84.2)	(84.4)	(83.5)
ADJUSTED EBITDA(b)	15.0	15.8	15.6	16.5
Depreciation and amortization	(5.0)	(5.2)	(5.1)	(5.3)
Minority interest in earnings	(0.1)	(0.1)	(0.1)	(0.1)
Income from operations	9.9	10.5	10.4	11.1
Interest expense, net	(2.6)	(2.7)	(2.6)	(3.0)
Loss from early extinguishment of debt	—	(1.6)	—	(0.6)
Income before income taxes	7.3	6.2	7.8	7.5
Provision for income taxes	(2.9)	(2.6)	(3.1)	(3.1)
Net income	4.4	3.6	4.7	4.4

For footnotes (a) and (b), see page 12.

	Three Months Ended September 30, 2003	Nine Months Ended September 30, 2003
	(expressed in percentages)	
Percentage increase from same period prior year:		
Net operating revenues	30.8	26.1
Admissions	23.5	17.6
Adjusted admissions(c)	22.3	16.8
Average length of stay	2.6	—
ADJUSTED EBITDA(b)	24.0	18.8
Net Income	57.2	33.9

Same-store percentage increase (decrease) from same period prior year(d):

Net operating revenues	8.1	8.2
Admissions	1.0	(0.1)
Adjusted admissions(c)	(1.0)	(1.4)
ADJUSTED EBITDA(b)(e)	9.2	8.9
Income from operations	7.9	10.1

(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) EBITDA consists of income before interest, income taxes, depreciation and amortization. ADJUSTED EBITDA is EBITDA adjusted to exclude loss from early extinguishment of debt and minority interest in earnings. ADJUSTED EBITDA should not be considered a measure of financial performance under generally accepted accounting principles. Items excluded from ADJUSTED EBITDA are significant components in understanding and assessing financial performance. ADJUSTED EBITDA is an analytical indicator used by management and the health care industry to evaluate hospital performance, allocate resources and measure leverage and debt service capacity. ADJUSTED 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 ADJUSTED EBITDA is not a measurement determined in accordance with generally accepted accounting principles and is thus susceptible to varying calculations, ADJUSTED EBITDA as presented may not be comparable to other similarly titled measures of other companies.

Net income is the financial measure calculated and presented in accordance with generally accepted accounting principles that is most comparable to ADJUSTED EBITDA, as defined. The following table reconciles ADJUSTED EBITDA, as defined, with our net income as derived directly from our financial statements for the three and nine months ended September 30, 2003 and 2002 (in 000's):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Net Income	$ 31,683	$ 20,156	$ 95,838	$ 71,573
Provision for income taxes	21,117	14,397	63,934	50,698
Interest expense, net	18,468	14,788	52,151	48,039
Loss from early extinguishment of debt	—	8,646	—	8,646
Depreciation and amortization	36,374	28,982	103,974	86,417
Minority interest in earnings	651	345	1,703	1,861
ADJUSTED EBITDA	$ 108,293	$ 87,314	$ 317,600	$ 267,234

(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.

(e) On a same-store basis, we believe income from operations is the most meaningful measure with which to reconcile ADJUSTED EDITDA since we do not allocate income taxes and interest expense to our individual hospitals. We believe that any allocation of these expenses to our individual hospitals would be arbitrary and accordingly not meaningful for an understanding of our financial results. The following table reconciles ADJUSTED EBITDA, as defined, for our same-stores with our same-stores income from operations for the three and nine months ended September 30, 2003, and 2002 (in 000's):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2003	%	2002	%	2003	%	2002	%
Net operating revenue	$ 597,351	100.0	$ 552,749	100.0	$ 1,749,188	100.0	$ 1,616,659	100.0
Income from operations	62,580	10.5	57,978	10.5	197,041	11.2	178,893	11.1
Depreciation and amortization	32,146	5.4	28,982	5.2	92,196	5.3	86,417	5.3
Minority interest in earnings	651	0.1	345	0.1	1,703	0.1	1,861	0.1
ADJUSTED EBITDA	$ 95,377	16.0	$ 87,305	15.8	$ 290,940	16.6	$ 267,171	16.5

Three Months Ended September 30, 2003 Compared to Three Months Ended September 30, 2002

Net operating revenues increased by 30.8% to $723.0 million for the three months ended September 30, 2003 from $552.8 million for the three months ended September 30, 2002. Of the $170.2 million increase in net operating revenues, the hospitals we acquired in 2002 and 2003, which are not yet included in same-store revenues, contributed approximately $125.6 million, and hospitals we owned throughout both periods contributed $44.6 million, an increase of 8.1%. The increase from hospitals owned throughout both periods was attributable primarily to rate increases, increased intensity of services, increases in government reimbursement and a slight increase in volume.

Inpatient admissions increased by 23.5%. Adjusted admissions increased by 22.3%. Adjusted admissions is a general measure of combined inpatient and outpatient volume. We compute adjusted admissions by multiplying admissions by gross patient revenues and then dividing that number by gross inpatient revenues. On a same-store basis, inpatient admissions increased by 1.0%, adjusted admissions decreased by 1.0% and patient days increased 3.3%. The decrease in same-store adjusted admissions was due primarily to inpatient revenue growing at a faster rate than outpatient revenue and the slowing of home health and clinic revenue. We anticipate the economy will continue to negatively impact our ability to grow admissions above prior year levels for the remainder of 2003. On a same-store basis, net inpatient revenues increased 4.6% and net outpatient revenues increased 12.1%.

Operating expenses, as a percentage of net operating revenues, increased from 84.2% for the three months ended September 30, 2002 to 85.0% for the three months ended September 30, 2003. Salaries and benefits, as a percentage of net operating revenues, decreased from 40.1% for the three months ended September 30, 2002 to 39.9% for the three months ended September 30, 2003, primarily as a result of improvements at hospitals owned throughout both periods, offset by hospitals acquired in 2002 and 2003 having higher salaries and benefits as a percentage of net operating revenues, for which reductions have not yet been realized and the impact of the nurses strike at Easton Hospital that began in August 2003 and was settled in September, 2003. Provision for bad debts, as a percentage of net revenues, increased from 9.5% for the three months ended September 30, 2002 to 9.8% for the three months ended September 30, 2003, primarily as a result of an increase in self-pay accounts. Supplies, as a percentage of net operating revenues, increased from 11.4% for the three months ended September 30, 2002 to 11.6% for the three months ended September 30, 2003, due mainly to the impact of the larger hospitals recently acquired, which have significantly higher supply expense as a percentage of net revenue, and the timing of converting to contracted vendors in our Broadlane group purchasing arrangement, offset by improvements made to hospitals owned throughout both periods. Rent and other operating expenses, as a percentage of net operating revenues, increased from 23.2% for the three months ended September 30, 2002 to 23.7% for the three months ended September 30, 2003. This increase was caused primarily by an increase of 1.0% of net

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operating revenue in contract labor expense and an increase in malpractice insurance expense of 0.3%, offset by a decrease of 0.8% for other operating expenses. The increase in contract labor expense is primarily attributable to the strike, at Easton Hospital. Adjusted EBITDA margins decreased from 15.8% for the three months ended September 30, 2002 to 15.0% for the three months ended September 30, 2003 due to the lower initial adjusted EDITDA margins associated with hospitals acquired in 2002 and 2003. Net income margins increased from 3.6% for the three months ended September 30, 2002 to 4.4% for the three months ended September 30, 2003 due to decreases in depreciation and interest as a percentage of net operating revenues, offset by the higher operating expenses as a percentage of net operating revenues at the hospitals acquired in 2002 and 2003.

On a same-store basis, operating expenses, as a percentage of net operating revenues, decreased from 84.2% for the three months ended September 30, 2002 to 84.0% for the three months ended September 30, 2003, resulting in an increase in our same-store adjusted EBITDA margin from 15.8% for the three months ended September 30, 2002 to 16.0% for the three months ended September 30, 2003. We achieved this reduction through a decrease in salary and benefits expense of 1.6% of net operating revenue resulting from a combination of operating efficiency gains and the impact of the strike at Easton Hospital, which was offset by an increase in contract labor, to replace the striking workers, of 1.0% of net operating revenue. In addition, the provision for bad debts expense increased 0.9% of net operating revenues and other operating expenses decreased 0.5% of net operating revenue. On a same-store basis, income from operations remained unchanged at 10.5% of net operating revenues for the three months ended September 30, 2002 and September 30, 2003.

Depreciation and amortization increased by $7.4 million from $29.0 million, or 5.2% of net operating revenues, for the three months ended September 30, 2002 to $36.4 million, or 5.0% of net operating revenues, for the three months ended September 30, 2003. The two hospitals acquired on or after September 30, 2002 and the nine hospitals acquired in 2003 accounted for $4.1 million of the increase, while facility renovations and purchases of equipment, information systems upgrades, and other deferred items accounted for the remaining $3.3 million.

Interest expense, net, increased by $3.7 million from $14.8 million for the three months ended September 30, 2002 to $18.5 million for the three months ended September 30, 2003 as a result of a combination of increased borrowings and interest rates. The increase in average debt balance during the three months ended September 30, 2003 as compared to the three months ended September 30, 2002, due primarily to borrowings to make acquisitions in 2002 and 2003, accounted for a $2.3 million increase and the increase in interest rates during the three months ended September 30, 2003 as compared to the three months ended September 30, 2002 accounted for a $1.4 million increase.

Income before income taxes increased $18.2 million from $34.6 million for the three months ended September 30, 2002 to $52.8 million for the three months ended September 30, 2003, primarily as a result of the continuing execution of our operating strategy and results from hospitals acquired during 2002 and 2003.

Provision for income taxes increased $6.7 million from $14.4 million for the three months ended September 30, 2002 to $21.1 million for the three months ended September 30, 2003, as a result of the increase in pre-tax income.

Net income was $20.2 million for the three months ended September 30, 2002 compared to net income of $31.7 million for the three months ended September 30, 2003, an increase of $11.5 million.

Nine Months Ended September 30, 2003 Compared to Nine Months Ended September 30, 2002

Net operating revenues increased 26.1% to $2,039.6 million for the nine months ended September 30, 2003 from $1,616.9 million for the nine months ended September 30, 2002. Of the $422.7 million increase in net operating revenues, the hospitals acquired in 2002 and 2003, which are not yet included in same-store revenues, contributed approximately $290.2 million, and hospitals we owned throughout both periods

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contributed $132.5 million, an increase of 8.2%. The increase from hospitals owned throughout both periods was attributable primarily to rate increases, increased intensity of services, and increases in government reimbursement, offset by a 0.1% decrease in admissions and 1.4% decrease in adjusted admissions.

Inpatient admissions increased by 17.6% for the nine months ended September 30, 2003, as compared to the nine months ended September 30, 2002. Adjusted admissions increased by 16.8% for the nine months ended September 30, 2003, as compared to the nine months ended September 30, 2002. On a same-store basis, inpatient admissions decreased by 0.1% for the nine months ended September 30, 2003, as compared to the nine months ended September 30, 2002, and adjusted admissions decreased by 1.4% for the nine months ended September 30, 2003, as compared to the nine months ended September 30, 2002. The decrease in same-store inpatient admissions and adjusted admissions was due to the effects of higher unemployment and a continued weak economy, the loss of

admissions from physicians called up for military service and the closure of an obstetrics unit, offset by an increase in services offered and the addition of physicians through our focused recruitment program. On a same-store basis, net inpatient revenues increased 6.4% and net outpatient revenues increased 10.4% for the nine months ended September 30, 2003, as compared to the nine months ended September 30, 2002.

Operating expenses, as a percentage of net operating revenues, increased from 83.5% for the nine months ended September 30, 2002, to 84.4% for the nine months ended September 30, 2003. Salaries and benefits, as a percentage of net operating revenues, decreased from 40.4% for the nine months ended September 30, 2002, to 40.2% for the nine months ended September 30, 2003, primarily as a result of improvements at hospitals owned throughout both periods, offset by the hospitals acquired in 2002 and 2003 having higher salaries and benefits as a percentage of net operating revenues for which reductions have not yet been realized. Provision for bad debts, as a percentage of net operating revenues, increased to 9.6% for the nine months ended September 30, 2003 from 9.3% for the comparable period in 2002, due primarily to an increase in self pay accounts. Supplies as a percentage of net operating revenues decreased to 11.6% for the nine months ended September 30, 2003, from 11.7% for the comparable period in 2002, primarily as a result of improved management of inventory and continued expansion of our Broadlane group purchasing arrangement offset by recent acquisitions having higher supply expense as a percentage of net revenue that have not yet been converted to our contracted vendors. Rent and other operating expenses, as a percentage of net operating revenues, increased from 22.1% for the nine months ended September 30, 2002 to 23.0% for the nine months ended September 30, 2003, due primarily to increases in the use of contract labor and malpractice insurance costs. The strike at Easton Hospital contributed to the increase in contract labor. Adjusted EBITDA margins decreased from 16.5% for the nine months ended September 30, 2002 to 15.6% for the nine months ended September 30, 2003 due to the lower initial adjusted EBITDA margins associated with hospitals acquired in 2002 and 2003. Net income margins increased from 4.4% for the nine months ended September 30, 2002 to 4.7% for the nine months ended September 30, 2003 due to decreases in depreciation and interest as a percentage of net operating revenues offset by the higher operating expenses as a percentage of net operating revenues at the hospitals acquired in 2002 and 2003.

On a same-store basis, operating expenses, as a percentage of net operating revenues, decreased from 83.5% for the nine months ended September 30, 2002 to 83.4% for the nine months ended September 30, 2003, resulting in an increase in our same-store adjusted EBITDA margin from 16.5% for the nine months ended September 30, 2002, to 16.6% for the nine months ended September 30, 2003. We achieved this reduction primarily through efficiency gains resulting in a decrease in salaries and benefits expense of 1.0% of net operating revenue, offset by an increase in other operating expenses due primarily to an increase in malpractice expense of 0.5% of net operating revenues and an increase in contract labor of 0.4% of net operating revenues. On a same-store basis, the improvements made at those hospitals owned throughout both periods led to income from operations increasing from 11.1% of net operating revenues for the nine months ended September 30, 2002 to 11.2% of net operating revenues for the nine months ended September 30, 2003.

Depreciation and amortization increased by $17.6 million from $86.4 million, or 5.3% of net operating revenues, for the nine months ended September 30, 2002 to $104.0 million, or 5.1% of net operating revenues, for the nine months ended September 30, 2003. The five hospitals acquired after January 1, 2002

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and the nine hospitals acquired in 2003 accounted for $11.8 million of the increase, facility renovations and purchases of equipment, information system upgrades, and other deferred items, primarily the amortization of physician recruitment costs, accounted for the remaining $5.8 million.

Interest expense, net increased from $48.0 million for the nine months ended September 30, 2002 to $52.1 million for the nine months ended September 30, 2003 as a result of a combination of increased borrowing and decreased interest rates. The increase in average debt balance during the nine months ended September 30, 2003, as compared to the nine months ended September 30, 2002, accounted for an increase of $6.7 million. The net increase in average debt balance is the result of additional borrowings to finance hospital acquisitions since the end of the third quarter of 2002. This increase was offset by a decrease of $2.6 million related to a decrease in interest rates from the end of the third quarter of 2002.

Income before income taxes increased $37.5 million from $122.3 million for the nine months ended September 30, 2002 to $159.8 million for the nine months ended September 30, 2003, primarily as a result of the continuing execution of our operating strategy and results from hospitals acquired during 2002 and 2003.

Provision for income taxes increased $13.2 million from $50.7 million for the nine months ended September 30, 2002 to $63.9 million for the nine months ended September 30, 2003, as a result of the increase in pre-tax income. The decrease in the effective tax rate from 41.3% for the nine months ended September 30, 2002 to 40.0% for the nine months ended September 30, 2003, is primarily the result of fluctuations in income reported to separate taxing jurisdictions.

Net income was $95.8 million for the nine months ended September 30, 2003 compared to $71.6 million for the nine months ended September 30, 2002, an increase of $24.2 million.

Liquidity and Capital Resources

Net cash provided by operating activities increased $1.5 million to $198.4 million for the nine months ended September 30, 2003 from $196.9 million for the nine months ended September 30, 2002. This increase is attributable to an increase in net income of $24.3 million, a net increase in non-cash expenses of $14.2 million consisting primarily of an increase in depreciation and amortization, offset by net changes in operating assets and liabilities consisting of net cash outflow from the growth in receivables of $68.9 million attributable to an 8.2% growth in same-store revenues and a build up of accounts receivable at current year acquisitions whose accounts receivable were not acquired, and net cash inflow from other assets and liabilities of $32.0 million. The use of cash from investing activities increased from $232.2 million for the nine months ended September 30, 2002 to $441.3 million for the nine months ended September 30, 2003, due primarily to an increase of $192.5 million in cash paid for acquisitions, an increase of $18.7 million in cash paid for purchases of property and equipment and a decrease of $2.1 million in cash paid for other assets. Net cash provided by financing activities increased $28.2 million during the nine months ended September 30, 2003 compared to the nine months ended September 30, 2002 from $144.5 million to $172.8 million, primarily as a result of a decrease in debt repayments, offset by our purchase of common stock through our open market share repurchase program.

Capital Expenditures

Cash expenditures for purchases of facilities were $320.2 million for the nine months ended September 30, 2003 and $127.7 million for the nine months ended September 30, 2002, an increase of $192.5 million. The expenditures during the nine months ended September 30, 2003 included $301.8 million for the nine hospitals acquired and $18.4 million for information systems and other capital to integrate recently acquired hospitals. The expenditures for the nine months

ended September 30, 2002 included $115.3 million for the five hospitals acquired during that period and $12.4 million for information systems and other capital to integrate those recently acquired hospitals.

Excluding the cost to construct replacement hospitals and capital leases, our capital expenditures for the nine months ended September 30, 2003 totaled $71.5 million compared to $55.3 million for the nine months ended September 30, 2002. Costs to construct replacement hospitals totaled $29.4 million during the nine months ended September 30, 2003 and $31.6 million, including $5.3 million of capital leases related to the construction projects, for the nine months ended September 30, 2002.

Pursuant to hospital purchase agreements in effect as of September 30, 2003, we are required to complete construct two replacement hospitals, within the next twelve months, with an aggregate estimated construction cost, including equipment, of approximately $60 million. Of this amount, a cumulative total of approximately $34.9 million has been expended through September 30, 2003. We expect to open one replacement facility by the end of 2003 and the other by June 30, 2004. We have also agreed, as a part of the recently completed acquisition in Petersburg, Virginia to build a replacement facility subject to state certificate of need approval. We expect total capital expenditures of approximately $144 to $148 million for the year ended December 31, 2003, including approximately $102 to $104 million for renovation and equipment purchases (which includes amounts pursuant to certain hospital purchase agreements) and approximately $42 to $44 million for construction of replacement hospitals.

Capital Resources

Net working capital was $290.7 million at September 30, 2003 compared to $329.3 million at December 31, 2002. The $38.6 million decrease was attributable primarily to the use of cash for the acquisition of nine hospitals, offset primarily by an increase in accounts receivable attributable to an 8.2% growth in same-store revenues and to a build-up of accounts receivable at current year acquisitions whose accounts receivable were not acquired.

On July 16, 2002, we entered into a $1.2 billion senior secured credit facility with a consortium of lenders. The facility replaced our previous credit facility and consists of an $850 million term loan that matures in 2010 (as opposed to 2005 under the previous facility) and a nine-year $350 million revolving credit facility that matures in 2008 (as opposed to 2004 under the previous facility). We may elect from time to time an interest rate per annum for the borrowings under the term loan and revolving credit facility equal to (a) an annual benchmark rate, which will be equal to the greatest of (i) the Prime Rate; (ii) the Base CD Rate plus 100 basis points or (iii) the Federal Funds Effective Rate plus 50 basis points (the "ABR"), plus (1) 150 basis points for the term loan and (2) the Applicable Margin for revolving credit loans or (b) the Eurodollar Rate plus (1) 250 basis points for the term loan and (2) the Eurodollar Applicable Margin for revolving credit loans. We also pay a commitment fee for the daily average unused commitments under the revolving credit facility. The commitment fee is based on a pricing grid depending on the Eurodollar Applicable Margin for revolving credit loans and ranges from 0.375% to 0.500%. The commitment fee is payable quarterly in arrears and on the revolving credit termination date with respect to the available revolving credit commitments. In addition, we will pay fees for each letter of credit issued under the credit facility. The purpose of the facility was to refinance the Company's previous credit agreement, repay certain other indebtedness, and fund general corporate purposes including acquisitions. As of September 30, 2003, our availability for additional borrowings under our revolving credit facility was $333 million. As of September 30, 2003, our weighted-average interest rate under our credit agreement was 3.97%.

On July 2, 2003, we amended our senior secured credit facility by exercising the feature allowing us to add up to $200 million of funded term loans with the same interest rate per annum as our existing term loans.

After borrowing the full $200 million of the incremental term loans, the amended facility consists of $850 million in term loans that mature in 2010, $200 million in incremental term loans that mature in 2011, and a $350 million revolving credit facility that expires in 2008.

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

We have entered into seven separate interest swap agreements to limit the effect of changes in interest rates on a portion of our long-term borrowings. Under three agreements, effective November 23, 2001 and expiring in November 2003, 2004 and 2005, the Company pays interest at fixed rates of 3.37%, 4.03% and 4.46% respectively. Each of the three agreements has a $100 million notional amount of indebtedness. Under the fourth agreement, effective November 4, 2002, we pay interest at a fixed rate of 3.30% on $150 million notional amount of indebtedness. This agreement expires in November 2007. Under the fifth agreement, effective June 13, 2003, we pay interest at a fixed rate of 2.04% on $100 million notional amount of indebtedness. This agreement expires in June 2007. Under the sixth agreement, effective June 13, 2003, we pay interest at a fixed rate of 2.40% on $100 million notional amount of indebtedness. This agreement expires in June 2008. Under the seventh agreement, effective October 3, 2003, we pay interest at a fixed rate of 2.31% on $100 million notional amount of indebtedness. This agreement expires in October 2006. We receive a variable rate of interest on each of these swaps based on the three-month London Inter-Bank Offer ("LIBOR"), excluding the margin paid under the credit facility on a quarterly basis which is currently 250 basis points.

We believe that internally generated cash flows and borrowings under our credit agreement 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 believe that favorable terms could be obtained if we were to increase or refinance our credit facilities or obtain additional capital by other means.

Joint Ventures

We have from time to time sold minority interests in certain of our subsidiaries. The amount of minority interest in equity is included in other long-term liabilities and the minority interest in income or loss is recorded in other operating expense. We do not believe these minority ownerships are material to our financial position or operating results. The balance of minority interests included in long-term liabilities was $8.7 million as of September 30, 2003, and $8.3 million as of December 31, 2002 and the amount of minority interest expense was $1.7 million and $1.9 million for the nine months ended September 30, 2003 and September 30, 2002, respectively.

Reimbursement, Legislative and Regulatory Changes

Legislative and regulatory action has resulted in continuing change in the Medicare and Medicaid reimbursement programs which will continue to limit payment increases under these programs and in some cases implement payment decreases. Within the statutory framework of the Medicare and Medicaid programs, there are substantial areas subject to administrative rulings, interpretations, and discretion which may further affect payments made under those

programs, and the federal and state governments might, in the future, reduce the funds available under those programs or require more stringent utilization and quality reviews of hospital facilities. Additionally, there may be a continued rise in managed care programs and future restructuring of the financing and delivery of healthcare in the United States. These events could have an adverse effect on our future financial results.

Inflation

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

Critical Accounting Policies

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

Critical accounting policies are defined as those that are reflective of significant judgements and uncertainties, and potentially result in materially different results under different assumptions and conditions. We believe that our critical accounting policies are limited to those described below. For a detailed discussion on the application of these and other accounting policies, see Note 1 in the Notes to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

Third Party Reimbursement

Net operating revenues include amounts estimated by management to be reimbursable by Medicare and Medicaid under prospective payment systems and provisions of cost-reimbursement and other payment methods. In addition, we are reimbursed by non-governmental payors using a variety of payment methodologies. Amounts we receive for treatment of patients covered by these programs are generally less than the standard billing rates. 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.

Allowance for Doubtful Accounts

Accounts receivable are reduced by an allowance for amounts that could become uncollectible in the future. Substantially all of our receivables are related to providing healthcare services to our hospitals' patients. Our estimate for the allowance for doubtful accounts is based primarily on our historical collection experience and is computed by applying allowance percentages to amounts included in specific payor and aging categories of patient accounts receivable.

Goodwill and Other Intangibles

Goodwill represents the excess of cost over the fair value of net assets acquired. Goodwill is accounted for under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 141 and SFAS No. 142 and is not amortized. SFAS No. 142 requires goodwill to be evaluated for impairment at the same time every year and when an event occurs or circumstances change such that it is reasonably possible that an impairment may exist. We selected September 30th as our annual testing date.

The SFAS No. 142 goodwill impairment model requires a comparison of the book value of net assets to the fair value of the related operations that have goodwill assigned to them. If the fair value is determined to be less than book value, a second step is performed to compute the amount of the impairment. We estimated the

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fair values of the related operations using both a debt free discounted cash flow model as well as an adjusted EBITDA multiple model. These models are both based on our best estimate of future revenues and operating costs, based primarily on historical performance and general market conditions, and are subject to review and approval by senior management and the Board of Directors. The cash flow forecasts are adjusted by an appropriate discount rate based on our weighted-average cost of capital. We performed our initial evaluation, as required by SFAS No. 142, during the first quarter of 2002 and the annual evaluation as of September 30, 2002. No impairment was indicated by either evaluation.

Professional Liability Insurance Claims

We accrue for estimated losses resulting from professional liability claims to the extent they are not covered by insurance. The accrual, which includes an estimate for incurred but not reported claims, is based on historical loss patterns and actuarially determined projections and is discounted to its net present value using a weighted-average risk-free discount rate of 3.4% and 3.85% in 2002 and 2001, respectively. To the extent that subsequent claims information varies from management's estimates, the liability is adjusted currently. Our insurance is underwritten on a "claims-made" basis. Prior to June 1, 2002, substantially all of our professional and general liability risks were subject to a $0.5 million per occurrence deductible; for claims reported from June 1, 2002 through June 1, 2003, these deductibles were $2.0 million per occurrence. Currently, our deductible is $1.0 million per occurrence. Effective June 2003, we formed a wholly owned captive insurance subsidiary. The captive subsidiary generally insures risk from $1 million to $4 million per claim but management may on occasion increase the insured risk at certain hospitals based upon insurance pricing and other factors. Excess insurance for all hospitals is purchased through commercial insurance companies.

Recent Accounting Pronouncements

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure—an amendment of FASB Statement No. 123", SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS No. 148 is effective for annual and interim periods beginning after December 15, 2002. As we have elected not to change to the fair value based method of accounting for stock-based employee compensation, the adoption of SFAS No. 148 will not have an impact on our consolidated financial position or consolidated results of operations. We have included the disclosures in accordance with SFAS No. 148 in the footnotes to the condensed consolidated financial statements.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities ("VIE's")" ("FIN No. 46"). This interpretation clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN No. 46 applies immediately to variable interest entities created after February 1, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. Effective with the quarter beginning July 1, 2003, the interpretation applies immediately to VIE's created before January 31, 2003, and to interests obtained in VIE's before February 1, 2003. Under certain conditions, the effective date has been delayed to the first year or interim period ending after December 15, 2003. We do not expect the adoption of this interpretation to have a material effect on our consolidated financial position or consolidated results of operations. As of September 30, 2003, the Company has no investments in VIE's.

In May 2003, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 149 "Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities". SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments and for hedging activities. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003. The

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Company does not anticipate a material impact on its results of operations or financial position from the adoption of SFAS No. 149.

In May 2003, the FASB issued SFAS No. 150 "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for classifying and measuring as liabilities certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity. SFAS No. 150 is effective immediately for instruments entered into or modified after May 15, 2003, and to all other instruments that exist as of the beginning of the first interim reporting period beginning after June 15, 2003. The Company does not anticipate a material impact on its results of operations or financial position from the adoption of SFAS No. 150.

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;
- legislative proposals for healthcare reform including the impact of a Medicare prescription drug benefit;
- our ability, where appropriate, to enter into managed care provider arrangements and the terms of these arrangements;
- changes in inpatient or outpatient Medicare and Medicaid payment levels;
- uncertainty with the Health Insurance Portability and Accountability Act of 1996 regulations;
- increase in wages as a result of inflation and rising supply cost due to market pressure from pharmaceutical companies and new product releases;
- liability and other claims asserted against us including self-insured malpractice claims;
- availability of malpractice and other insurance coverage and increases in costs to obtain coverage;
- competition;
- our ability to attract and retain qualified personnel, including physicians, nurses, and other healthcare workers;
- trends toward treatment of patients in less acute or speciality healthcare settings, such as ambulatory surgery centers or specialty hospitals;
- changes in medical or other technology;
- changes in generally accepted accounting principles;
- the availability and terms of capital to fund additional acquisitions or replacement facilities; and
- our ability to successfully acquire and integrate additional hospitals.

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

Item 3: Quantitative and Qualitative Disclosures about Market Risk

We are exposed to interest rate changes, primarily as a result of our credit agreement which bears interest based on floating rates. In order to manage the volatility relating to the market risk, we entered into interest rate swap agreements described under the heading "Liquidity and Capital Resources" in Item 2. We do not anticipate any material changes in our primary market risk exposures in Fiscal 2003. We utilize risk management procedures and controls in executing derivative financial instrument transactions. We do not execute transactions or hold derivative financial instruments for trading purposes. Derivative financial instruments related to interest rate sensitivity of debt obligations are used with the goal of mitigating a portion of the exposure when it is cost effective to do so.

A 1% change in interest rates on variable rate debt would have resulted in interest expense fluctuating approximately $1 million for the three months ended September 30, 2003 and $3 million for the nine months ended September 30, 2003.

Item 4: Controls and Procedures

As of the end of the period covered by this report, our Chief Executive Officer and Chief Financial Officer, with the participation of other members of management, carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are adequately designed to ensure that the information required to be included in this report has been recorded, processed, summarized and reported on in a timely basis. There have been no changes in our internal control that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting during the period covered by this report.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

On October 6, 2003, the Company received notice from the Office of the Inspector General of the Department of Health and Human Services that the Company's obligations under the Corporate Compliance Agreement entered into in 2000 had been completed. The Company will continue to maintain, develop and enhance its voluntary compliance program system wide.

In May 1999, we were served with a complaint in *U.S. ex rel. Bledsoe v. Community Health Systems, Inc.*, subsequently moved to the Middle District of Tennessee, Case No. 2-00-0083. This qui tam action sought 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 were extremely general, but involved Medicare billing at our White County Community Hospital in Sparta, Tennessee. The relator in this case also 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 vigorously opposed this motion. By order entered on September 19, 2001, the U.S. District Court granted our motion for judgement on the pleadings and dismissed the case, with prejudice. The relator appealed this case to the U.S. Court of Appeals for the Sixth Circuit.

On September 10, 2003, the Sixth Circuit Court of Appeals rendered its decision in this case, affirming in part and reversing in part the District Court's decision to dismiss the case with prejudice. The Court affirmed the lower court's dismissal of certain of plaintiff's claims on the grounds that his allegations had been previously publicly disclosed. In addition, the appeals court agreed that, as to all other allegations, the relator had failed to include enough information to meet the special pleading requirements for fraud under the False Claims Act and the Federal Rules of Civil Procedure. However, the Court returned the case to the District Court to allow the relator another opportunity to amend his complaint in an attempt to plead his fraud allegations with particularity. On October 24, 2003, the government filed a petition for panel rehearing, which was denied by the Sixth Circuit Court of Appeals on November 6, 2003.

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

10.1 Third Amendment, dated July 2, 2003, representing an amendment to the Credit Agreement dated as of July 16, 2002, among CHS/Community Health Systems, Inc., Community Health Systems Inc., certain lenders, Bank of America, N.A., as syndication agent, Wachovia Bank, National Association, as documentation agent and J P Morgan Chase Bank, as administrative agent.

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

Form 8-K dated July 23, 2003 was filed in connection with the issuance of our press release announcing operating results for the quarter ended June 30, 2003.

SIGNATURES

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

Date: November 10, 2003

COMMUNITY HEALTH SYSTEMS, INC.
(Registrant)

By: /s/ WAYNE T. SMITH

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

By: /s/ W. LARRY CASH

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

By: /s/ T. MARK BUFORD

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

Index to Exhibits

No.	Description
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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (In Thousands) (Unaudited)
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Exhibit 10.1

EXECUTION COPY

THIRD AMENDMENT dated as of July 2, 2003 (the "*Amendment*"), to the Credit Agreement, dated as of July 16, 2002 (the "*Credit Agreement*"), as amended by the First Amendment, dated as of October 25, 2002 and the Second Amendment, dated as of January 22, 2003, among CHS/Community Health Systems, Inc. (the "*Borrower*"), Community Health Systems, Inc. ("*Parent*"), the several banks and other financial institutions from time to time parties thereto (the "*Lenders*"), Bank of America, N.A., as syndication agent, Wachovia Bank, National Association, as documentation agent, and JPMorgan Chase Bank, as administrative agent for the Lenders thereunder (in such capacity, the "Administrative Agent").

W I T N E S S E T H :

WHEREAS, pursuant to Section 2.4 of the Credit Agreement, Borrower has the right to request a new term loan tranche in an aggregate principal amount of up to $200,000,000.

WHEREAS, the Borrower has requested that the Administrative Agent and the Incremental Term Loan Lenders (as defined herein) agree to amend the Credit Agreement as contemplated by Section 2.4 of the Credit Agreement in order to add thereto an additional $200,000,000 term loan facility (the "*Incremental Term Loan Facility*") as set forth herein; and

WHEREAS, the Incremental Term Loan Lenders are severally willing to provide the Incremental Term Loan Facility on, and subject to, the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein, the parties agree as follows:

I. *AMENDMENTS TO THE CREDIT AGREEMENT*

A. *Definitions.* Unless otherwise defined herein, terms defined in the Credit Agreement shall have their defined meanings when used herein.

B. *Amendments of Subsection 1.1 (Defined Terms).* (1) Subsection 1.1 of the Credit Agreement is hereby amended by adding the following new definitions, in appropriate alphabetical order:

"*Incremental Closing Date*": July 2, 2003.

"*Incremental Term Loan*": as defined in subsection 2.1A.

"*Incremental Term Loan Commitment*": as to any Incremental Term Loan Lender, its obligation to make Incremental Term Loans to the Borrower in an aggregate amount not to exceed at any one time outstanding the amount set forth opposite such Incremental Term Loan Lender's name in Schedule 1(A) under the heading "Incremental Term Loan Commitment" or, in the case of any Lender that is an Assignee, the amount of the assigning Lender's Incremental Term Loan Commitment assigned to such Assignee pursuant to subsection 11.6(b) (in each case as such amount may be adjusted from time to time as provided herein); collectively, as to all the Incremental Term Loan Lenders, the "*Incremental Term Loan Commitments*". The aggregate amount of Incremental Term Loan Commitments may not exceed $200,000,000.

"*Incremental Term Loan Lender*": any Lender having an Incremental Term Loan Commitment hereunder and/or an Incremental Term Loan outstanding hereunder.

"*Incremental Term Loan Commitment Percentage*": as to any Incremental Term Loan Lender at any time, the percentage which (i) such Lender's Incremental Term Loans then outstanding constitutes of (ii) the aggregate Incremental Term Loans of all the Incremental Term Loan Lenders then outstanding.

"*Incremental Term Loan Maturity Date*": January 16, 2011.

"*Incremental Term Note*": as defined in subsection 4.2(e).

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(2) The definition of "Applicable Margin" contained in Section 1.1 of the Credit Agreement is hereby amended by deleting the text of clause (b) in its entirety and inserting, in lieu thereof, the following:

for each Term Loan and Incremental Term Loan for each day, the rate per annum for the relevant Type of such Term Loan or Incremental Term Loan set forth below:

ABR Loan	Eurodollar Loan
1.50%	2.50%

(3) The definition of "Commitment Percentage" contained in Section 1.1 of the Credit Agreement is hereby amended by deleting it in its entirety and substituting in its place the following:

"*Commitment Percentage*": with respect to any Lender, either of the Term Loan Commitment Percentage, Incremental Term Loan Commitment Percentage or the Revolving Credit Commitment Percentage of such Lender, as the context may require.

(4) The definition of "Commitments" contained in Section 1.1 of the Credit Agreement is hereby amended by deleting it in its entirety and substituting in its place the following:

"*Commitments*": the collective reference to the Term Loan Commitments, the Incremental Term Loan Commitments, the Revolving Credit Commitments and the Swing Line Commitment; individually, a "*Commitment*".

(5) The definition of "Facility" contained in Section 1.1 of the Credit Agreement is hereby amended by deleting it in its entirety and substituting in its place the following:

"*Facility*": each of (a) the Term Loan Commitments and the Term Loans made thereunder (the "*Term Facility*"), (b) the Incremental Term Loan Commitments and the Incremental Term Loans made thereunder (the "*Incremental Facility*") and (c) the Revolving Commitments and the extensions of credit made thereunder (the "*Revolving Facility*").

(6) The definition of "Interest Payment Date" contained in Section 1.1 of the Credit Agreement is hereby amended by deleting the text of clause (d) and substituting in lieu thereof the following:

as to any Term Loan or Incremental Term Loan, each day on which principal of such Term Loan or Incremental Term Loan is payable and

(7) The definition of "Loans" contained in Section 1.1 of the Credit Agreement is hereby amended by deleting it in its entirety and substituting in its place the following:

"*Loans*": the collective reference to the Term Loans, the Incremental Term Loans, the Revolving Credit Loans and the Swing Line Loans; individually, a "*Loan*".

(8) The definition of "Notes" contained in Section 1.1 of the Credit Agreement is hereby amended by deleting it in its entirety and substituting in its place the following:

"*Notes*": the collective reference to the Revolving Credit Notes, the Swing Line Note, the Term Notes and the Incremental Term Notes; one of the Notes, a "*Note*".

(9) The definition of "Required Lenders" contained in Section 1.1 of the Credit Agreement is hereby amended by deleting it in its entirety and substituting in its place the following:

"*Required Lenders*": at a particular time Lenders that hold greater than 50% of (a) the aggregate then outstanding principal amount of the Term Loans or, prior to the Closing Date, the Term Loan Commitments, (b) the aggregate then outstanding principal amount of the Incremental Term Loans, or prior to the Incremental Closing Date, the Incremental Term Loan Commitments and (c) the Revolving Credit Commitments or, if the Revolving Credit Commitments have been cancelled, (i) the aggregate then outstanding principal amount of the Revolving Credit Loans, (ii) the L/C Participating Interests in the aggregate amount then available to be drawn under all outstanding Letters of Credit, (iii) the aggregate then outstanding principal amount of Revolving L/C Obligations and (iv) the aggregate amount represented by the agreements of the Lenders in subsections 6.7(b) and (d) with respect to the Swing Line Loans then outstanding or the Swing Line Loan Participation Certificates then outstanding.

C. *Addition of Subsections.* Section 2 of the Credit Agreement is hereby amended by adding the following subsections 2.1A, 2.2A and 2.3A immediately following subsection 2.1, 2.2 and 2.3, respectively:

2.1A *Incremental Term Loan Commitments.* Subject to the terms and conditions hereof, each Incremental Term Loan Lender severally agrees to make, in a single draw on the Incremental Closing Date, a term loan (an "*Incremental Term Loan*") to the Borrower in an amount equal to the amount of the Incremental Term Loan Commitment of such Lender. The Incremental Term Loans may from time to time be Eurodollar Loans or ABR Loans, as determined by the Borrower and notified to the Administrative Agent in accordance with subsections 4.1 and 4.3.

2.2A. *Repayment of Incremental Term Loans.* The Incremental Term Loans of each Incremental Term Loan Lender shall mature in 30 consecutive installments, each of which shall be in the amount equal to such Incremental Term Loan Lender's Incremental Term Loan Commitment Percentage multiplied by the amount set forth below opposite the date of such installment:

Installment		Principal Amount
December 31, 2003	$	500,000
March 31, 2004	$	500,000
June 30, 2004	$	500,000
September 30, 2004	$	500,000
December 31, 2004	$	500,000
March 31, 2005	$	500,000
June 30, 2005	$	500,000
September 30, 2005	$	500,000
December 31, 2005	$	500,000
March 31, 2006	$	500,000
June 30, 2006	$	500,000
September 30, 2006	$	500,000
December 31, 2006	$	500,000
March 31, 2007	$	500,000
June 30, 2007	$	500,000
September 30, 2007	$	500,000

December 31, 2007	$	500,000
March 31, 2008	$	500,000
June 30, 2008	$	500,000
September 30, 2008	$	500,000
December 31, 2008	$	500,000
March 31, 2009	$	500,000
June 30, 2009	$	23,625,000
September 30, 2009	$	23,625,000
December 31, 2009	$	23,625,000
March 31, 2010	$	23,625,000
June 30, 2010	$	23,625,000
September 30, 2010	$	23,625,000
December 31, 2010	$	23,625,000
Incremental Term Loan Maturity Date	$	23,625,000

2.3A *Proceeds of Incremental Term Loans.* The Borrower shall use the proceeds of Incremental Term Loans made on the Incremental Closing Date for general corporate purposes of the Borrower and its subsidiaries including, without limitation, to finance Permitted Acquisitions and Permitted Joint Ventures.

D. *Amendment of Subsection 4.1 (Procedure for Borrowing by the Borrower).* Section 4.1 of the Credit Agreement is hereby amended by adding the following after the second sentence of clause (a):

With respect to the borrowings to take place on the Incremental Closing Date, the Borrower shall give the Administrative Agent irrevocable notice (which notice must be received by the Administrative Agent prior to 10:00 A.M., New York City time, on the Incremental Closing Date).

E. *Amendment of Subsection 4.2 (Repayment of Loans; Evidence of Debt).* (1) Subsection 4.2(a) of the Credit Agreement is hereby amended by deleting the word "and" where it appears immediately before clause (ii), inserting a comma in lieu thereof and adding at the end of the first sentence (immediately prior to the period at the end thereof) the following:

, and (iii) the principal amount of the Incremental Term Loan of such Lender, in accordance with the amortization schedule set forth in subsection 2.2A (or the then unpaid principal amount of such Incremental Term Loans, on the date that any or all of the Incremental Term Loans become due and payable pursuant to Section 9)

(2) Subsection 4.2(e) of the Credit Agreement is hereby amended by deleting the word "and" where it appears immediately before clause (iii), inserting a comma in lieu thereof and inserting at the end of the sentence (immediately prior to the period at the end thereof) the following:

, and (iv) a promissory note of the Borrower evidencing the Incremental Term Loan of such Incremental Term Loan Lender, substantially in the form of Exhibit A-4 with appropriate insertions as to date and principal amount (an "*Incremental Term Note*").

F. *Amendment of Subsection 4.5 (Optional Prepayments).* Subsection 4.5 of the Credit Agreement is amended by deleting the last two sentences in their entirety and substituting in place thereof the following:

Any amount prepaid on account of Term Loans or Incremental Term Loans may not be reborrowed. Partial prepayments of the Term Loans or Incremental Term Loans pursuant to this subsection 4.5 shall be applied as set forth in subsection4.6(d)(ii).

G. *Amendment of Subsection 4.6 (Mandatory Prepayments).* (1) Subsection 4.6 of the Credit Agreement is hereby amended by deleting clause (d) in its entirety and substituting in lieu thereof, the following:

(i) Amounts to be applied in connection with prepayments made pursuant to paragraph (a) or (b) above shall be applied, *first,* to the ratable prepayment of the Term Loans and the Incremental Term Loans (in the manner set forth in clause (ii) of this paragraph (d)) and *second,* to the prepayment of Revolving Credit Loans then outstanding (without any accompanying reduction of the Revolving Credit Commitments). Amounts to be applied in connection with prepayments made pursuant to paragraph (c) above shall be applied, *first,* to the ratable prepayment of the Term Loan and Incremental Term Loan installments scheduled to be paid during the next twelve months after the date of such prepayment, in the order that such installments are scheduled to be paid; *second,* to the prepayment of Revolving Credit Loans then outstanding (without any accompanying reduction of the Revolving Credit Commitments); and *third,* to the prepayment of the remaining installments of the Term Loans and Incremental Term Loans on a *pro rata* basis.

(ii) Partial prepayments of the Term Loans and the Incremental Term Loans pursuant to subsection 4.5 or 4.6 (other than prepayments made pursuant to paragraph (c) of subsection 4.6) shall be applied *first,* to the installments thereof scheduled to be paid during the next twelve months after the date of such prepayment, in the order that such installments are scheduled to be paid, and second, to the remaining installments on a *pro rata* basis.

(2) Subsection 4.6(k) of the Credit Agreement is hereby amended by inserting ", Incremental Term Loan" after "Term Loan" on the third line.

H. *Amendments of Subsections 4.18 (Pro Rata Treatment and Payments) and 11.7 (Adjustments; Set-off).* Subsections 4.18 and 11.7 of the Credit Agreement are hereby amended by inserting the phrase "and Incremental Term Loans" immediately after the phrase "Term Loans" each time such phrase appears therein.

I. *Amendment of Subsection 8.2 (Indebtedness).* Subsection 8.2 of the Credit Agreement is hereby amended by deleting the phrase "Term Loan Maturity Date" contained therein and inserting, in lieu thereof, the phrase "Incremental Term Loan Maturity Date".

J. *Amendment of Subsection 10.1 (Appointment).* Subsection 10.1 of the Credit Agreement is hereby amended by inserting the phrase ", an Incremental Term Loan Commitment" immediately after the phrase "Term Loan Commitment" contained therein.

K. *Amendment of Subsection 11.6 (Successors and Assigns; Participations and Assignments).* Subsection 11.6(b)(vi) of the Credit Agreement is hereby amended by inserting the phrase "or Incremental Term Note(s)" immediately after the phrase "Term Note(s)" each time such phrase appears therein.

L. *Addition of Schedules and Exhibits.* The Credit Agreement is hereby amended by adding as Schedules 1(A), 5.11(c) and 5.11(d) and Exhibits A-4, J and K thereto the documents attached to this Amendment as Schedules 1(A), 5.11(c) and 5.11(d) and Exhibits A-4, J and K, respectively.

II. *CONDITIONS.*

A. *Conditions to Effectiveness.* This Amendment and the obligation of the Incremental Term Loan Lenders to make each Incremental Term Loan hereunder shall become effective upon the satisfaction of the following conditions precedent (the effective date of this Amendment, the "*Incremental Closing Date*"):

(1) *Amendment.* The Administrative Agent shall have received counterparts of this Amendment executed by the Borrower, the Administrative Agent and the Incremental Term Loan Lenders as of the date hereof.

(2) *Reaffirmation of Guarantee and Collateral Agreement.* The Administrative Agent shall have received a reaffirmation of the Parent Guarantee and the Subsidiary Guarantees (the "*Reaffirmation*"), executed and delivered by an authorized officer of Parent, the Borrower and each other Credit Party signatory to the parent Guarantee and/or the Subsidiary Guarantee, the form of which is attached hereto as Exhibit J.

(3) *Representations and Warranties.* Each of the representations and warranties made by Parent and the Borrower in or pursuant to this Amendment shall be true and correct in all material respects on and as of the Incremental Closing Date.

(4) *Fees.* The Incremental Term Loan Lenders, the Administrative Agent and the Arrangers shall have received all fees required to be paid, and all expenses for which invoices have been presented, on or before the Incremental Closing Date.

(5) *Legal Opinions.* The Administrative Agent shall have received the following executed legal opinions:

(a) the executed legal opinion of Fried, Frank Harris, Shriver & Jacobson, special counsel to each of Parent, the Borrower and the other Credit Parties, reasonably satisfactory in form and substance to the Administrative Agent; and

(b) the executed legal opinion of the General Counsel of the Borrower, reasonably satisfactory in form and substance to the Administrative Agent.

(6) *Closing Certificate.* The Administrative Agent shall have received a Closing Certificate of Parent, the Borrower, and each Subsidiary Guarantor, dated the Incremental Closing Date, substantially in the form of Exhibit K to the Credit Agreement, satisfactory in form and substance to the Administrative Agent and its counsel, executed by the President or any Vice President and the Secretary or any Assistant Secretary of Parent, the Borrower and each Subsidiary Guarantor, respectively.

III. *REPRESENTATIONS AND WARRANTIES.* In order to induce the Administrative Agent and the Incremental Term Loan Lenders to enter into this Amendment, the Borrower hereby represents and warrants to the Administrative Agent and the Incremental Term Loan Lenders the following:

A. *Representations in the Credit Agreement.* The representations and warranties of the Borrower contained in the Credit Documents are true and correct in all material respects on and as of the Incremental Closing Date (after giving effect hereto) as if made on and as of the Incremental Closing Date (except where such representations and warranties expressly relate to an earlier date in which case such representations and warranties were true and correct in all material respects as of such earlier date); provided that all references to the "Credit Agreement" in any Loan Document shall be and are deemed to mean the Credit Agreement as amended hereby;

B. *Financial Condition.* (1) The audited consolidated balance sheets of the Parent and its Subsidiaries at December 31, 2000, December 31, 2001, and December 31, 2002 and the related consolidated statements of income, stockholders' equity and cash flows for the fiscal years ended on such dates, reported on by Deloitte & Touche LLP, copies of each of which have heretofore been furnished to the Administrative Agent

and each Incremental Term Loan Lender, fairly present in all material respects the consolidated financial position of the Parent and its Subsidiaries as at such dates, and the consolidated results of their operations and cash flows for the fiscal periods then ended, in accordance with GAAP consistently applied throughout the periods involved (except as noted therein). The unaudited consolidated balance sheets of the Parent and its Subsidiaries at March 31, 2003 and the related consolidated statements of income, stockholders' equity and cash flows for the three-month period ended on such date, copies of each of which have heretofore been furnished to the Administrative Agent and each Incremental Term Loan Lender, fairly present in all material respects (except for normal year-end adjustments) the consolidated financial position of the Parent and its Subsidiaries as at such date, and the consolidated results of their operations and cash flows for the three-month period then ended, in accordance with GAAP consistently applied throughout the periods involved (except as noted therein).

(2) Since December 31, 2002 (i) there have not been any events or states of fact which individually or in the aggregate would have a Material Adverse Effect, and (ii) no change has occurred or is threatened which individually or in the aggregate has had or is continuing to have a material adverse effect on the prospects of the Parent and its Subsidiaries taken as a whole.

C. *Subsidiaries.* The Subsidiaries of the Borrower listed on Schedule 5.11(c) constitute all of the Domestic Subsidiaries of the Borrower, and the Subsidiaries listed on Schedule 5.11(d) constitute all of the Foreign Subsidiaries of the Borrower as of the Incremental Closing Date. Each Domestic Subsidiary that, as of the Incremental Closing Date, is a Non-Significant Subsidiary, a Syndication Subsidiary, a Restricted Joint Venture Subsidiary or a Non-Restricted Joint Venture Subsidiary is indicated as such on Schedule 5.11(c).

IV. *MISCELLANEOUS.*

A. *Counterparts.* This Amendment may be executed by the parties hereto in any number of separate counterparts and all of said counterparts taken together shall be deemed to constitute one and the same instrument. Delivery of an executed counterpart of a signature page of this Amendment by facsimile shall be effective as delivery of a manually executed counterpart of this Amendment.

B. *Fees and Expenses.* The Borrower agrees to pay or reimburse the Administrative Agent for all of its reasonable out-of-pocket costs and expenses in connection with the negotiation, preparation, execution and delivery of this Amendment, including without limitation the reasonable fees and expenses of Simpson Thacher & Bartlett LLP.

C. *Successors and Assigns.* This Amendment shall be binding upon and inure to the benefit of the Borrower and its successors and permitted assigns, and upon the Administrative Agent and the Incremental Term Loan Lenders and their respective successors and permitted assigns. The execution and delivery of this Amendment by any Lender prior to the Incremental Closing Date shall be binding upon its successors and assigns and shall be effective as to any loans or commitments assigned to it after such execution and delivery.

D. *Continuing Effect.* Except as expressly amended hereby, the Credit Agreement as amended by this Amendment shall continue to be and shall remain in full force and effect in accordance with its terms. This Amendment shall not constitute an amendment or waiver of any provision of the Credit Agreement not expressly referred to herein and shall not be construed as an amendment, waiver or consent to any action on the part of the Borrowers that would require an amendment, waiver or consent of the Administrative Agent or the Incremental Term Loan Lenders except as expressly stated herein. Any reference to the "Credit Agreement" in the Credit Documents or any related documents shall be deemed to be a reference to the Credit Agreement as amended by this Amendment.

E. *Governing Law; Jurisdiction; Acknowledgements.* Subsections 11.10 (Governing Law; No Third Party Rights), 11.11 (Submission to Jurisdiction; Waivers) and 11.12 (Acknowledgements) to the Credit Agreement are incorporated by reference to this Amendment (with references therein to the Credit Agreement and the Lenders, being for the purpose, references to this Amendment and the Incremental Term Loan Lenders, respectively).

IN WITNESS WHEREOF, the parties have caused this Amendment to be executed and delivered by their respective duly authorized officers as of the day and year first above written.

CHS/COMMUNITY HEALTH SYSTEMS, INC.

By: ______________________________
Title:

COMMUNITY HEALTH SYSTEMS, INC.

By: ______________________________
Title:

JPMORGAN CHASE BANK,
as Administrative Agent

By: ______________________________
Title:

BANK OF AMERICA, N.A.,
as Syndication Agent

By: ______________________________
Title:

WACHOVIA BANK, NATIONAL
ASSOCIATION,
as Documentation Agent

By: ______________________________
Title:

______________________________ ,
as an Incremental Term Loan Lender

By: ______________________________
Title:

QuickLinks

Exhibit 10.1

QuickLinks -- Click here to rapidly navigate through this document

Exhibit Number 31.1

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

I, Wayne T. Smith, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 10, 2003	/s/ WAYNE T. SMITH
	Wayne T. Smith Chairman of the Board, President and Chief Executive Officer

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Exhibit Number 31.1

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

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Exhibit Number 31.2

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

I, W. Larry Cash, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 10, 2003

/s/ W. LARRY CASH

W. Larry Cash
Executive Vice President and Chief Financial Officer

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Exhibit Number 31.2

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

Exhibit Number 32.1

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

In connection with the Quarterly Report of Community Health Systems, Inc. (the "Company") on Form 10-Q for the period ending September 30, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Wayne T. Smith, Chairman of the Board, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ WAYNE T. SMITH

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

November 10, 2003

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Exhibit Number 32.1

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

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Exhibit Number 32.2

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

In connection with the Quarterly Report of Community Health Systems, Inc. (the "Company") on Form 10-Q for the period ending September 30, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, W. Larry Cash, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ W. LARRY CASH

W. Larry Cash
Executive Vice President and Chief Financial Officer

November 10, 2003

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Exhibit Number 32.2

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