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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTIONS 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934**

For the year ended December 31, 2002

OR

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

For the transition period from _____ to _____

Commission file number 001-15925

COMMUNITY HEALTH SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**13-3893191**
(State of incorporation)	(IRS Employer Identification No.)
155 Franklin Road, Suite 400 Brentwood, Tennessee (Address of principal executive offices)	**37027** (zip code)

Registrant's telephone number, including area code: (615) 373-9600

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $.01 par value	New York Stock Exchange

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant was $1,411,025,735. Market value is determined by reference to the closing price on June 28, 2002 of the Registrant's Common Stock as reported by the New York Stock Exchange. As of March 10, 2003 there were 98,320,010 shares of common stock, par value $.01 per share outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement to be filed under Regulation 14A in connection with the Annual Meeting of Stockholders of the Registrant scheduled to be held on May 22, 2003 have been incorporated by reference into Part III of this Report.

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FORM 10-K ANNUAL REPORT
COMMUNITY HEALTH SYSTEMS, INC.
Year Ended December 31, 2002

Note: Portions of the Registrant's definitive Proxy Statement to be filed under Regulation 14A in connection with the Annual Meeting of Stockholders of the Registrant scheduled to be held on May 22, 2003 have been incorporated by reference into Part III, Items 10, 11, 12, and 13 of this Report.

PART I

Item 1.

BUSINESS OF COMMUNITY HEALTH SYSTEMS

Overview of Our Company

We are the largest non-urban provider of general hospital healthcare services in the United States in terms of number of facilities and the second largest in terms of revenues. As of December 31, 2002, we owned, leased or operated 63 hospitals, geographically diversified across 22 states, with an aggregate of 6,310 licensed beds. In over 85% of our markets, we are the sole provider of these services. In all but one of our other markets, we are one of two providers of these services. For the fiscal year ended December 31, 2002, we generated $2.2 billion in revenues, $362 million in EBITDA and $242 million in income from operations.

Effective January 1, 2003, we acquired seven hospitals from Methodist Healthcare Corporation in a single purchase transaction. These seven hospitals are located in Western Tennessee and have a combined 676 licensed beds. The aggregate consideration for these seven hospitals totaled approximately $148 million.

On January 14, 2003, the Company announced the signing of a definitive agreement to acquire Southside Regional Medical Center in Petersburg, Virginia. Included in this acquisition is a 408 licensed bed hospital. This transaction is subject to regulatory approvals.

Affiliates of Forstmann Little & Co. formed us in 1996 to acquire our predecessor company. Wayne T. Smith, who has over 30 years of experience in the healthcare industry, joined our company as President in January 1997. We named him Chief Executive Officer in April 1997 and Chairman of our Board of Directors in February 2001. Under this ownership and leadership, we have:

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

As a result of these initiatives, we achieved revenue growth of 29.9% in 2002, 26.6% in 2001, and 23.8% in 2000. We also achieved growth in EBITDA of 17.2% in 2002, 22.1% in 2001, and 23.8% in 2000. As a result of our continued expansion through acquisitions, our consolidated EBITDA margins decreased from 16.5% in 1997 to 16.4% for 2002. On a same hospital basis, EBITDA margin increased from 18.2% in 2001 to 18.4% in 2002.

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

Our Internet address is www.chs.net and the investor relations section of our web site is located at www.chs.net/investor.relations. We make available free of charge, through the investor relations section of our web site, annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and amendments to those reports, as soon as reasonably practical after they are filed with

the Securities and Exchange Commission. Our filings are also available to the public at the web site maintained by the Securities and Exchange Commission, www.sec.gov.

Our Business Strategy

The key elements of our business strategy are to:

- increase revenue at our facilities;
- grow through selective acquisitions;
- improve profitability; and
- improve quality.

Increase Revenue at Our Facilities

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

- recruiting additional primary care physicians and specialists;
- expanding the breadth of services offered at our hospitals through targeted capital expenditures to support the addition of more complex services, including orthopedics, cardiology, OB/GYN, urology; and
- providing the capital to invest in technology and the physical plant at the facilities, particularly in our emergency rooms, surgery departments and diagnostic services.

By taking these actions, we believe that we can increase our share of the healthcare dollars spent by local residents and limit inpatient and outpatient migration to larger urban facilities. Total revenue for hospitals operated by us for a full year increased by 9.7% from 2001 to 2002. Total inpatient admissions for those same hospitals increased by 4.4% over the same period.

Physician Recruiting. The primary method of adding or expanding medical services is the recruitment of new physicians into the community. A core group of primary care physicians is necessary as an initial contact point for all local healthcare. The addition of specialists who offer services including general surgery,

OB/GYN, cardiology, orthopedics and urology completes the full range of medical and surgical services required to meet a community's core healthcare needs. When we acquire a hospital, we identify the healthcare needs of the community by analyzing demographic data and patient referral trends. As a result of this analysis, we are able to determine what we believe to be the optimum mix of primary care physicians and specialists. We employ recruiters at the corporate level to support the local hospital managers in their recruitment efforts. Since 1999, we have increased the number of physicians affiliated with us by approximately 775. The percentage of recruited or other physicians commencing practice with us that were surgeons or specialists was over 60% in 2002. Most of our physicians are not employed by us but rather they are in private practice in their communities. We have been successful in recruiting physicians because of the practice opportunities afforded physicians in our markets, as well as lower managed care penetration as compared to urban areas. These physicians are able to earn incomes comparable to incomes earned by physicians in urban centers.

Emergency Room Initiatives. Given that over 50% of our hospital admissions originate in the emergency room, we systematically take steps to increase patient flow in our emergency rooms as a means of optimizing utilization rates for our hospitals. Furthermore, the impression of our overall

operations by our customers is substantially influenced by our emergency room since generally that is their first experience with our hospitals. The steps we take to increase patient flow in our emergency rooms include renovating and expanding our emergency room facilities, improving service, and reducing waiting times, as well as publicizing our emergency room capabilities in the local community. We have expanded or renovated 24 of our emergency room facilities since 1997. We have also implemented marketing campaigns that emphasize the speed, convenience, and quality of our emergency rooms to enhance each community's awareness of our emergency room services.

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

Expansion of Services. In an effort to better meet the healthcare needs of the communities we serve and to capture a greater portion of the healthcare spending in our markets, we have added a broad range of services to our facilities. These services range from various types of diagnostic equipment capabilities to additional and renovated emergency rooms, surgical suites and specialty services. For example, in 2002, 13 major construction projects, totaling approximately $79 million, were completed. Those projects included two replacement hospitals, new emergency rooms and renovated surgical suites and intensive care units. These projects improved various diagnostic and other outpatient service capabilities. We continue to believe that appropriate capital investments in our facilities combined with the development of our service capabilities will reduce the migration of patients to competing providers.

Managed Care Strategy. Managed care has seen growth across the U.S. as health plans expand service areas and membership. As we service primarily non-urban markets, we do not have significant relationships with managed care organizations, especially with Medicare Choice HMO's. We have responded with a proactive and carefully considered strategy developed specifically for each of our facilities. Our experienced business development department reviews and approves all managed care contracts, which are managed by our corporate managed care department using a central database. The primary mission of this department is to select and evaluate appropriate managed care opportunities, manage existing reimbursement arrangements, negotiate increases, and educate our physicians. We do not intend to enter into capitated or risk sharing contracts. However, some purchased hospitals have risk sharing contracts at the time of acquisition. We seek to discontinue these contracts to eliminate risk retention related to patient care. We do not believe that we have any risk sharing contracts that are material to the financial statements.

Grow Through Selective Acquisitions

Acquisition Criteria. Each year we intend to acquire, on a selective basis, two to four hospitals that fit our acquisition criteria. Generally, we pursue acquisition candidates that:

- have a general service area population between 20,000 and 100,000 with a stable or growing population base;
- are the sole or primary provider of acute care services in the community;
- are located more than 25 miles from a competing hospital;
- are not located in an area that is dependent upon a single employer or industry; and
- have financial performance that we believe will benefit from our management's operating skills.

In each year since 1997, we have met or exceeded our acquisition goals. We estimate that there are currently approximately 375 hospitals that meet our acquisition criteria. These hospitals are primarily not-for-profit or municipally owned.

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

Acquisition Efforts. We have significantly enhanced our acquisition efforts in the last five years in an effort to achieve our goals. We have focused on identifying possible acquisition opportunities through expanding our internal acquisition group and working with a broad range of financial advisors who are active in the sale of hospitals, especially in the not-for-profit sector. From July 1996 through December 31, 2002, we acquired 35 hospitals for an aggregate investment of approximately $1.2 billion, including working capital.

Several hospitals we have acquired are located in service areas having populations within the lower to middle range of our criteria. However, we have also acquired hospitals having service area populations in the upper range of our criteria. For example, in 1998, we acquired a 162-bed hospital in Roswell, New Mexico, which has a service population of over 70,000 and is located 200 miles from the nearest urban centers in Albuquerque, New Mexico and Lubbock, Texas; in 2000, we acquired a 164-bed hospital in Kirksville, Missouri, which has a service area population of over 100,000; in 2001, we acquired a 369-bed hospital in Easton, Pennsylvania, which has a service population of over 150,000; in 2002, we acquired a 386-bed hospital in Granite City, Illinois, which has a service area population of over 130,000. Hospitals similar to the ones located in Roswell, Kirksville, Easton and Granite City offer even greater opportunities to recruit physicians and expand services given their larger service area populations.

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

Pursuant to certain purchase agreements, we may commit to an amount of capital expenditures (e.g., for replacement facilities, renovations, equipment, etc.) over a specified period of time. Under such commitments, in May 2002, we completed construction of a replacement facility in Tooele, Utah, and in December 2002, we completed construction of a replacement facility in Marion, Illinois. As an obligation under hospital purchase agreements in effect as of December 31, 2002, we are required to construct two additional replacement facilities through 2004 with an aggregate estimated construction cost, including equipment, of approximately $60 million. Of this amount, approximately $10 million has been expended through December 31, 2002. The two replacement facilities are expected to be completed by 2004.

Improve Profitability

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

- standardizing and centralizing our operations;

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

In addition, each of our hospital management teams is supported by our centralized operational, reimbursement, regulatory, and compliance expertise as well as by our senior management team, which has an average of over 20 years of experience in the healthcare industry.

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

- *Billing and Collections.* We have adopted standard policies and procedures with respect to billing and collections. We have also automated and standardized various components of the collection cycle, including statement and collection letters and the movement of accounts through the collection cycle. Upon completion of an acquisition, our management information system team converts the hospital's existing information system to our standardized system. This enables us to quickly implement our business controls and cost containment initiatives.
- *Physician Support.* We support our newly recruited physicians to enhance their transition into our communities. We have implemented physician practice management seminars and training. We host these seminars bi-monthly. All newly recruited physicians are required to attend a three-day introductory seminar. The subjects covered in these comprehensive seminars include:
    - our corporate structure and philosophy;
    - compliance, legal, and regulatory issues;
    - provider applications, physician to physician relationships, and performance standards;
    - marketing and volume building techniques;
    - medical records, equipment, and supplies;
    - review of coding and documentation guidelines;
    - understanding financial statements;
    - national productivity standards; and
    - managed care.

- *Materials Management.* We have standardized and centralized our operations with respect to medical supplies and equipment and pharmaceuticals used in our hospitals. In 1997, after evaluating our vendor contract pricing, we entered into an affiliation agreement with Broadlane Inc., formerly known as BuyPower, a group purchasing organization in which Tenet Healthcare Corporation has a majority ownership interest. At the present time, Broadlane is the source for a substantial portion of our medical supplies and equipment and pharmaceuticals.

- *Facilities Management.* We have standardized interiors, lighting, and furniture programs. We have also implemented a standard process to initiate, evaluate, and complete construction projects.

Our corporate staff monitor all construction projects, and review and pay all construction project invoices. Our initiatives in this area have reduced our construction costs while maintaining the same level of quality and improving upon the time it takes us to complete these projects.

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

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

- appropriately treating patients along the care continuum;

- reducing inefficiently applied processes, procedures, and resources;

- developing and implementing standards for operational best practices; and

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

Our case and resource management program integrates the functions of utilization review, discharge planning, overall clinical management, and resource management into a single effort to improve the quality and efficiency of care. Issues evaluated in this process include patient treatment, patient length of stay, and utilization of resources.

Under our case and resource management program, patient care begins with a clinical assessment of the appropriate level of care, discharge planning, and medical necessity for planned services. Once a patient is admitted to the hospital, we conduct a review for ongoing medical necessity using appropriateness criteria. We reassess and adjust discharge plan options as the needs of the patient change. We closely monitor cases to prevent delayed service or inappropriate utilization of resources. Once the patient obtains clinical improvement, we encourage the attending physician to consider alternatives to hospitalization through discussions with the facility's physician advisor. Finally, we refer the patient to the appropriate post-hospitalization resources.

Improve Quality

We have implemented various programs to ensure improvement in the quality of care provided. We have developed training programs for all senior hospital management, chief nursing officers, quality directors, physicians and other clinical staff. We share information among our hospital management to implement best practices and assist in complying with regulatory requirements. We have standardized accreditation documentation and requirements. Corporate support is provided to each hospital to assist with accreditation reviews. Several of our facilities have received accreditation "with commendation" from the Joint Commission on Accreditation of Healthcare Organizations, commonly known as JCAHO. All hospitals conduct patient, physician, and staff satisfaction surveys to help identify methods of improving the quality of care. During 2002, we completed 22 JCAHO surveys with an average score of 96, which is above the national average of the mid-80's.

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

Selected Operating Data

The following table sets forth operating statistics for our hospitals for each of the years presented. Statistics for 2002 include a full year of operations for 57 hospitals, and partial periods for six hospitals acquired during the year. Statistics for 2001 include a full year of operations for 52 hospitals and partial periods for five hospitals acquired during the year. Statistics for 2000 include a full year of operations for 45 hospitals and partial periods for one hospital disposed of and seven hospitals acquired during the year.

	Years Ended December 31,		
	2002	2001	2000
	(Dollars in Thousands)		
Consolidated Hospital Data			
Number of hospitals(1)	63	57	52

Licensed beds(1)(2)	6,310	5,391	4,688
Beds in service(1)(3)	4,939	4,139	3,587
Admissions(4)	209,967	169,574	143,310
Adjusted admissions(5)	387,311	311,238	262,419
Patient days(6)	809,166	643,229	548,827
Average length of stay (days)(7)	3.9	3.8	3.8
Occupancy rate (beds in service)(8)	47.9%	46.7%	44.6%
Net operating revenues	$ 2,200,417	$ 1,693,625	$ 1,337,501
Net inpatient revenues as a % of total net operating revenues	52.5%	51.6%	51.0%
Net outpatient revenues as a % of total net operating revenues	46.2%	47.2%	47.3%
EBITDA(9)	$ 361,964	$ 308,820	$ 252,736
EBITDA as a % of total net operating revenues	16.4%	18.2%	18.9%
Net cash flows provided by operating activities	$ 285,499	$ 154,387	$ 25,080
Net cash flows used in investing activities	$ (291,140)	$ (265,111)	$ (244,441)
Net cash flows provided by financing activities	$ 130,099	$ 105,370	$ 228,819

	Year Ended December 31,		Percentage Increase (Decrease)
	2002	2001	
Same Hospitals Data(10)			
Admissions(4)	176,959	169,574	4.4%
Adjusted admissions(5)	327,201	311,238	5.1%
Patient days(6)	660,922	643,229	2.8%
Average length of stay (days)(7)	3.7	3.8	(2.6)%
Occupancy rate (beds in service)(8)	47.1%	46.7%	
Net operating revenues	$ 1,857,151	$ 1,693,501	9.7%
EBITDA(9)	$ 341,660	$ 308,175	10.9%
EBITDA, as a % of net operating revenues	18.4%	18.2%	

(1) At end of period.

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

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

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

(5) 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.

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

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

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

(9) EBITDA consists of income (loss) before extraordinary items, interest, income taxes, depreciation and amortization, amortization of goodwill, and minority interest in earnings. EBITDA should not be considered a measure of financial performance under generally accepted accounting principles. Items excluded from EBITDA are significant components in understanding and assessing financial performance. EBITDA is a key measure used by management to evaluate our operations and provide useful information to investors. EBITDA should not be considered in isolation or as alternatives to net income, cash flows generated by operations, investing or financing activities, or other financial statement data presented in the consolidated financial statements as indicators of financial performance or liquidity. Because EBITDA is not a measurement determined in accordance with generally accepted accounting principles and is thus susceptible to varying calculations, EBITDA as presented may not be comparable to other similarly titled measures of other companies. See reconciliation of income from operations to EBITDA on p. 28.

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

Sources of Revenue

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

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

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

Net Operating Revenues by Payor Source	2002	2001	2000
Medicare	33.0%	33.5%	34.2%
Medicaid	11.0%	11.3%	11.8%
Managed Care (HMO/PPO)	17.7%	17.5%	15.9%
Private and Other	38.3%	37.7%	38.1%
Total	100.0%	100.0%	100.0%

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

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

Medicaid programs, our ability to operate our business successfully in the future will depend in large measure on our ability to adapt to changes in these programs.

In addition to government programs, we are paid by private payors, which include insurance companies, HMOs, PPOs, other managed care companies, and employers, as well as by patients directly. The Blue Cross HMO payors are included in the above captioned Managed Care (HMO/PPO) line item. All other Blue Cross payors are included in the above captioned Private and Other line item. Patients are generally not responsible for any difference between customary hospital charges and amounts paid for hospital services by Medicare and Medicaid programs, insurance companies, HMOs, PPOs, and other managed care companies, but are responsible for services not covered by these programs or plans, as well as for deductibles and co-insurance obligations of their coverage. The amount of these deductibles and co-insurance obligations has increased in recent years. Collection of amounts due from individuals is typically more difficult than collection of amounts due from government or business payors. To further reduce their healthcare costs, an increasing number of insurance companies, HMOs, PPOs, and other managed care companies are negotiating discounted fee structures or fixed amounts for hospital services performed, rather than paying healthcare providers the amounts billed. We negotiate discounts with managed care companies which are typically smaller than discounts under governmental programs. If an increased number of insurance companies, HMOs, PPOs, and other managed care companies succeed in negotiating discounted fee structures or fixed amounts, our results of operations may be negatively affected. For more information on the payment programs on which our revenues depend. See "Payment" below.

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

- advances in technology, which have permitted us to provide more services on an outpatient basis; and
- pressure from Medicare or Medicaid programs, insurance companies, and managed care plans to reduce hospital stays and to reduce costs by having services provided on an outpatient rather than on an inpatient basis.

Supply Contracts

During fiscal 1997, we entered into an affiliation agreement with Broadlane, a group purchasing organization in which Tenet Healthcare Corporation has a majority ownership interest. This agreement was renewed in 2000 for a term of five years. Our affiliation with Broadlane combines the purchasing power of our hospitals with the purchasing power of more than 600 other healthcare providers affiliated with the program. This increased purchasing power has resulted in reductions in the prices paid by our hospitals for medical supplies, equipment and pharmaceuticals. We also use Broadlane's internet purchasing portal.

Industry Overview

The Centers for Medicare and Medicaid Services estimated that in 2002, total U.S. healthcare expenditures grew by 8.6% to $1.5 trillion. It projects total U.S. healthcare spending to grow by 7.0% in 2003, by 7.3% annually from 2004 through 2006 and by 6.7% annually from 2007 through 2011. By these estimates, healthcare expenditures will account for approximately $2.8 trillion, or 17.0% of the total U.S. gross domestic product, by 2011.

Hospital services, the market in which we operate, is the largest single category of healthcare at 30.8% of total healthcare spending in 2002, or $476 billion, as projected by the Centers for Medicare

and Medicaid Services. The Centers for Medicare and Medicaid Services projects the hospital services category to grow by 5.7% per year through 2011. It expects growth in hospital healthcare spending to continue due to the aging of the U.S. population and consumer demand for expanded medical services. As hospitals remain the primary setting for healthcare delivery, it expects hospital services to remain the largest category of healthcare spending.

U.S. Hospital Industry. The U.S. hospital industry is broadly defined to include acute care, rehabilitation, and psychiatric facilities that are either public (government owned and operated), not-for-profit private (religious or secular), or for-profit institutions (investor owned). According to the American Hospital Association, there are approximately 4,900 inpatient hospitals in the U.S. which are not-for-profit owned, investor owned, or state or local government owned. Of these hospitals, 45% or approximately 2,200, are located in non-urban communities. These facilities offer a broad range of healthcare services, including internal medicine, general surgery, cardiology, oncology, orthopedics,
OB/GYN, and emergency services. In addition, hospitals also offer other ancillary services including psychiatric, diagnostic, rehabilitation, home health, and outpatient surgery services.

Urban vs. Non-Urban Hospitals

According to the U.S. Census Bureau, 25% of the U.S. population lives in communities designated as non-urban. In these non-urban communities, hospitals are typically the primary source of healthcare and, in many cases, a single hospital is the only provider of general healthcare services. According to the American Hospital Association, in 2001, there were approximately 2,200 non-urban hospitals in the U.S. We believe that a majority of these hospitals are owned by not-for-profit or governmental entities.

Factors Affecting Performance. Among the many factors that can influence a hospital's financial and operating performance are:

- facility size and location;
- facility ownership structure (i.e., tax-exempt or investor owned);
- a facility's ability to participate in group purchasing organizations; and
- facility payor mix.

We believe that non-urban hospitals are generally able to obtain higher operating margins than urban hospitals. Factors contributing to a non-urban hospital's margin advantage include fewer patients with complex medical problems, a lower cost structure, limited competition, and favorable Medicare payment provisions. Patients needing the most complex care are more often served by the larger and/or more specialized urban hospitals. A non-urban hospital's lower cost structure results from its geographic location as well as the lower number of patients treated who need the most highly advanced services. Additionally, because non-urban hospitals are generally sole providers or one of a small group of providers in their markets, there is limited competition. This generally results in more favorable pricing with commercial payors. Medicare has special payment provisions for "sole community hospitals." Under present law, hospitals that qualify for this designation receive higher reimbursement rates and are guaranteed capital reimbursement equal to 90% of capital costs. As of December 31, 2002, 17 of our hospitals were "sole community hospitals." In addition, we believe that non-urban communities are generally characterized by a high level of patient and physician loyalty that fosters cooperative relationships among the local hospitals, physicians, employees, and patients.

The type of third party responsible for the payment of services performed by healthcare service providers is also an important factor which affects hospital margins. These providers have increasingly exerted pressure on healthcare service providers to reduce the cost of care. The most active providers in this regard have been HMOs, PPOs, and other managed care organizations. The characteristics of non-urban markets make them less attractive to these managed care organizations. This is partly because the limited size of non-urban markets and their diverse, non-national employer bases minimize the ability of managed care organizations to achieve economies of scale. In 2002, approximately 18% of our revenues were paid by managed care organizations.

Hospital Industry Trends

Demographic Trends. According to the U.S. Census Bureau, there are approximately 35 million Americans aged 65 or older in the U.S. today, who comprise approximately 13% of the total U.S. population. By the year 2030 the number of elderly is expected to climb to 69 million, or 20% of the total population. Due to the increasing life expectancy of Americans, the number of people aged 85 years and older is also expected to increase from 4.3 million to 8.5 million by the year 2030. This increase in life expectancy will increase demand for healthcare services and, as importantly, the demand for innovative, more sophisticated means of delivering those services. Hospitals, as the largest category of care in the healthcare market, will be among the main beneficiaries of this increase in demand. Based on data compiled for us, the populations of the service areas where our hospitals are located grew by 13.1% from 1990 to 2001 and are projected to grow by 3.8% from 2001 to 2006. The number of people aged 55 or older in these service areas grew by 16.8% from 1990 to 2001 and is projected to grow by 11.1% from 2001 to 2006.

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

- limited access to capital;
- financial performance issues, including challenges associated with changes in reimbursement;
- the desire to enhance the local availability of healthcare in the community;
- the need and ability to recruit primary care physicians and specialists; and
- the need to achieve general economies of scale and to gain access to standardized and centralized functions, including favorable supply agreements.

Government Regulation

Overview. The healthcare industry is required to comply with extensive government regulation at the federal, state, and local levels. Under these regulations, hospitals must meet requirements to be certified as hospitals and qualified to participate in government programs, including the Medicare and Medicaid programs. These requirements relate to the adequacy of medical care, equipment, personnel, operating policies and procedures, maintenance of

adequate records, hospital use, rate-setting, compliance with building codes, and environmental protection laws. There are also extensive regulations governing a hospital's participation in these government programs. If we fail to comply with applicable laws and regulations, we can be subject to criminal penalties and civil sanctions, our hospitals can lose their licenses and we could lose our ability to participate in these government programs. In addition, government regulations may change. If that happens, we may have to make changes in our facilities, equipment, personnel, and services so that our hospitals remain certified as hospitals and qualified to participate in these programs. We believe that our hospitals are in substantial compliance with current federal, state, and local regulations and standards.

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

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

- making claims to Medicare for services not provided or misrepresenting actual services provided in order to obtain higher payments;
- paying money to induce the referral of patients where services are reimbursable under a federal health program; or
- failing to provide treatment to any individual who comes to a hospital's emergency room with an "emergency medical condition" or otherwise failing to properly treat and transfer emergency patients.

The Health Insurance Portability and Accountability Act of 1996 broadened the scope of the fraud and abuse laws by adding several criminal statutes that are not related to receipt of payments from a federal healthcare program. The Accountability Act created civil penalties for conduct, including upcoding and billing for medically unnecessary goods or services. It established new enforcement mechanisms to combat fraud and abuse. These include a bounty system, where a portion of the payments recovered is returned to the government agencies, as well as a whistleblower program. This law also expanded the categories of persons that may be excluded from participation in federal healthcare programs. We have filed for and received an extension to be in compliance with these regulations by October 16, 2003.

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

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

The Office of Inspector General is responsible for identifying fraud and abuse activities in government programs. In order to fulfill its duties, the Office of Inspector General performs audits, investigations, and inspections. In addition, it provides guidance to healthcare providers by identifying types of activities that could violate the anti-kickback statute. The Office of the Inspector General has identified the following incentive arrangements as potential violations:

- payment of any incentive by the hospital each time a physician refers a patient to the hospital;
- use of free or significantly discounted office space or equipment for physicians in facilities usually located close to the hospital;
- provision of free or significantly discounted billing, nursing, or other staff services;
- free training for a physician's office staff including management and laboratory techniques (but excluding compliance training),

- guarantees which provide that if the physician's income fails to reach a predetermined level, the hospital will pay any portion of the remainder;
- low-interest or interest-free loans, or loans which may be forgiven if a physician refers patients to the hospital;
- payment of the costs of a physician's travel and expenses for conferences;
- payment of services which require few, if any, substantive duties by the physician, or payment for services in excess of the fair market value of the services rendered; or
- purchasing goods or services from physicians at prices in excess of their fair market value.

We have a variety of financial relationships with physicians who refer patients to our hospitals. Physicians own interests in a limited number of our facilities. Physicians may also own our stock. We also have contracts with physicians providing for a variety of financial arrangements, including employment contracts, leases, management agreements, and professional service agreements. We provide financial incentives to recruit physicians to relocate to communities served by our hospitals. These incentives include revenue guarantees and, in some cases, loans. Although we believe that we have structured our arrangements with

physicians in light of the "safe harbor" rules, we cannot assure you that regulatory authorities will not determine otherwise. If that happens, we would be subject to criminal and civil penalties and/or exclusion from participating in Medicare, Medicaid, or other government healthcare programs.

The Social Security Act also includes a provision commonly known as the "Stark law." This law prohibits physicians from referring Medicare and Medicaid patients to healthcare entities in which they or any of their immediate family members have ownership interests or other financial arrangements. These types of referrals are commonly known as "self referrals." Sanctions for violating the Stark law include civil money penalties, assessments equal to twice the dollar value of each service, and exclusion from Medicare and Medicaid programs. There are ownership and compensation arrangement exceptions to the self-referral prohibition. One exception allows a physician to make a referral to a hospital if the physician owns an interest in the entire hospital, as opposed to an ownership interest in a department of the hospital. Interest has been expressed by certain members of Congress that would eliminate this exception, although no legislation is currently pending. Another exception allows a physician to refer patients to a healthcare entity in which the physician has an ownership interest if the entity is located in a rural area, as defined in the statute. There are also exceptions for many of the customary financial arrangements between physicians and providers, including employment contracts, leases, and recruitment agreements. In January 2002, the federal government issued final regulations which interpret some of the provisions included in the Stark law. Additional regulations are forthcoming which will provide for a full interpretation of this law. We have structured our financial arrangements with physicians to comply with the statutory exceptions included in the Stark law. However, when the government finalizes all of the regulations, it may interpret certain provisions of this law in a manner different from the manner with which we have interpreted them. We cannot predict the final form that these regulations will take or the effect those regulations will have on us, including any possible restructuring of our existing relationships with physicians.

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

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

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

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

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

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

Conversion Legislation. Many states, including some where we have hospitals and others where we may in the future acquire hospitals, have adopted legislation regarding the sale or other disposition of hospitals operated by not-for-profit entities. In other states that do not have specific legislation, the attorneys general have demonstrated an interest in these transactions under their general obligations to protect charitable assets from waste. These legislative and administrative efforts primarily focus on the appropriate valuation of the assets divested and the use of the proceeds of the sale by the not-for-profit seller. While these review and, in some instances, approval processes can add additional time to the closing of a hospital acquisition, we have not had any significant difficulties or delays in completing the process. There can be no assurance, however, that future actions on the state level will not seriously delay or even prevent our ability to acquire hospitals. If these activities are widespread, they could have a negative impact on our ability to acquire additional hospitals.

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

Privacy and Security Requirements of the Health Insurance Portability and Accountability Act of 1996. The Administrative Simplification Provisions of the Health Insurance Portability and Accountability Act of 1996 require the use of uniform electronic data transmission standards for healthcare claims and payment transactions submitted or received electronically. These provisions are intended to encourage electronic commerce in the healthcare industry. On August 17, 2000, the Centers for Medicare and Medicaid Services published final regulations establishing electronic data transmission standards that all healthcare providers must use when submitting or receiving certain healthcare transactions electronically. We have filed for and received an extension to be in compliance with these regulations by October 16, 2003. We cannot predict the impact that final regulations, when fully implemented, will have on us. We have established a sub-committee of our Management Compliance Committee to address our compliance with these regulations.

The Administrative Simplification Provisions also require the Centers for Medicare and Medicaid Services to adopt standards to protect the security and privacy of health-related information. The Centers for Medicare and Medicaid Services proposed regulations containing security standards on August 12, 1998. These proposed security regulations have not been finalized, but as proposed, would require healthcare providers to implement organizational and technical practices to protect the security of electronically maintained or transmitted health-related information. In addition, the Centers for Medicare and Medicaid Services released final regulations containing privacy standards in December 2000. These privacy regulations became effective April 14, 2001 but compliance with these regulations is not required until April 2003. Therefore, these privacy regulations could be further amended prior to the compliance date. However, as currently drafted, the privacy regulations will extensively regulate the use and disclosure of individually identifiable health-related information. The security regulations, as proposed, and the privacy regulations could impose significant costs on our facilities in order to comply with these standards. We cannot predict the final form that these regulations will take or the impact that final regulations, when fully implemented, will have on us. If we violate these regulations, we would be subject to monetary fines and penalties, criminal sanctions and civil causes of action.

Payment

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

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

In addition, hospitals may qualify for Medicare disproportionate share payments when their percentage of low income patients exceeds specified thresholds. Under the Benefits Improvement and Protection Act of 2000, a majority of our hospitals qualify to receive Medicare disproportionate share payments.

The DRG rates are adjusted by an update factor each federal fiscal year, which begins on October 1. The index used to adjust the DRG rates, known as the "market basket index," gives consideration to the inflation experienced by hospitals in purchasing goods and services. For several years, however, the percentage increases in the DRG payments have been lower than the projected increases in the costs of goods and services purchased by hospitals. DRG rate increases were 1.1% for federal fiscal year 1995, 1.5% for federal fiscal year 1996, 2.0% for federal fiscal year 1997, 0.0% for federal fiscal year 1998, 0.5% for federal fiscal year 1999, and 1.1% for federal fiscal year 2000. Under the Benefits Improvement and Protection Act of 2000, the DRG rate increased by 3.4% for federal fiscal year 2001, 2.75% for federal fiscal year 2002, 2.95% for federal fiscal year 2003 and is to be increased by the full "market basket index" for federal fiscal year 2004. Future legislation may decrease the rate of increase for DRG payments, but we are not able to predict the amount of any reduction or the effect that any reduction will have on us.

Outpatient services have traditionally been paid at the lower of customary charges or on a reasonable cost basis. The Balanced Budget Act of 1997 established a PPS for outpatient hospital services that commenced on August 1, 2000. The Balanced Budget Refinement Act of 1999 eliminated the anticipated average reduction of 5.7% for various Medicare outpatient business under the Balanced Budget Act of 1997. Under the Balanced Budget Refinement Act of 1999, non-urban hospitals with 100 beds or less are held harmless under Medicare outpatient PPS through December 31, 2003. Of our 63 hospitals at December 31, 2002, 39 qualified for this relief. Losses under Medicare outpatient PPS of non-urban hospitals with greater than 100 beds and urban hospitals will be mitigated through a corridor reimbursement approach, where a percentage of losses will be reimbursed through December 31, 2003. Substantially all of our remaining hospitals qualify for relief under this provision. Effective April 1, 2002, the outpatient conversion factor rate was increased by 2.3%; however, adjustments to pass-through payment amounts and other variables within the outpatient PPS resulted in an approximate 5% to 6% net reduction in outpatient PPS payments. The outpatient conversion factor rate was increased by 3.5% January 1, 2003; however, adjustments to other variables within the outpatient PPS resulted in an approximate 3.6% to 4.0% net increase in outpatient PPS payments.

Skilled nursing facilities and swing bed facilities were historically paid by Medicare on the basis of actual costs, subject to limitations. The Balanced Budget Act of 1997 established a PPS for Medicare skilled nursing facilities and mandated swing bed facilities must be incorporated into the skilled nursing

facility PPS. The new skilled nursing commenced in July 1998, and was fully implemented in July 2002. The new swing bed facility PPS commenced in July 2002 and will be fully implemented in June 2003. We have experienced reductions in payments for our skilled nursing services. However, the Benefits Improvement and Protection Act of 2000 required the Centers for Medicare and Medicaid Services to increase the current reimbursement amount for the skilled nursing facility PPS by approximately 8.0% for services furnished between April 1, 2001 and September 30, 2002. Additionally, the Benefits Improvement and

Protection Act of 2000 increases the skilled nursing facility PPS to the full market basket for federal fiscal year 2001 and market basket minus 0.5% for federal fiscal years 2002 and 2003.

The Balanced Budget Act of 1997 also required the Department of Health and Human Services to establish a PPS for home health services effective October 1, 2000. We have experienced reductions in payments for our home health services and a decline in home health visits due to a reduction in benefits by reason of the Balanced Budget Act of 1997. However, the Balanced Budget Refinement Act of 1999 and the Benefits Improvement and Protection Act of 2000 delayed until October 1, 2002 a 15.0% payment limit reduction that would have otherwise applied effective October 1, 2000. Additionally, the Benefits Improvement and Protection Act of 2000 increased the home health agency PPS annual update to 2.2% for services furnished between April 1, 2001 and September 30, 2001, and for a two year period that began on April 1, 2001, increases Medicare payments by 10.0% for home health services furnished in rural areas. The home health agency PPS per episodic payment rate increased by 2.1% on October 1, 2002, however, other Benefits Improvement and Protection Act of 2000 adjustments to other variables within the home health PPS resulted in an approximate 5% net reduction in home health PPS payments on October 1, 2002.

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

Medicaid. Most state Medicaid payments are made under a PPS or under programs which negotiate payment levels with individual hospitals. Medicaid is currently funded jointly by state and federal government. The federal government and many states are currently considering significantly reducing Medicaid funding, while at the same time expanding Medicaid benefits. Effective April 1, 2002, the federal government reduced the upper payment limits of Medicaid reimbursements made to the states. This could adversely affect future levels of Medicaid payments received by our hospitals.

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

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

Commercial Insurance. Our hospitals provide services to individuals covered by private healthcare insurance. Private insurance carriers pay our hospitals or in some cases reimburse their policyholders based upon the hospital's established charges and the coverage provided in the insurance policy. Commercial insurers are trying to limit the costs of hospital services by negotiating discounts, including

PPS, which would reduce payments by commercial insurers to our hospitals. Reductions in payments for services provided by our hospitals to individuals covered by commercial insurers could adversely affect us.

Competition

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

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

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

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

Compliance Program

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

We take an operations team approach to compliance and utilize corporate experts for program design efforts and facility leaders for employee-level implementation. Compliance is another area that demonstrates our utilization of standardization and centralization techniques and initiatives which yield

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

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

Inpatient Coding Compliance Issue. In August 1997, during a routine internal audit at one of our facilities, we discovered inaccuracies in the DRG coding for some of our inpatient medical records. At that time, this mechanism was the primary auditing activity for our compliance program. These inaccuracies involved inpatient coding practices that had been put in place prior to the time we acquired our operating company in 1996.

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

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

In May 2000, we entered into a settlement agreement with these federal government agencies and the applicable state Medicaid programs. Pursuant to the settlement agreement, we paid approximately $31.4 million in May 2000 and were released from all civil claims relating to the coding of the eight specific DRGs for the hospitals and time periods covered in the audit. We funded this payment from our acquisition loan facility. We have also agreed with the Inspector General to continue our existing voluntary compliance program under a corporate compliance agreement and to adopt various additional compliance measures for a period of three years which runs through June 2003. These additional compliance measures included making various reports to the federal government and having our actions pursuant to the compliance agreement reviewed annually by a third party.

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

- continuing the duties and activities of our corporate compliance officer, corporate compliance work group, and facility compliance chairs and committees;
- maintaining our written ethics and conduct policy, which sets out our commitment to full compliance with all statutes, regulations, and guidelines applicable to federal healthcare programs;
- maintaining our written policies and procedures addressing the operation of our compliance program, including proper coding for inpatient hospital stays;

- continuing our general training on the ethics and conduct policy and adding training about our compliance program and the compliance agreement;
- continuing our specific training for the appropriate personnel on billing and coding issues;
- continuing independent third party periodic audits of our facilities' inpatient DRG coding;
- continuing our confidential disclosure program and "ethics hotline" to enable employees or others to disclose issues or questions regarding possible inappropriate policies or behavior;
- enhancing our screening program to ensure that we do not hire or engage employees or contractors who are ineligible persons for federal healthcare programs;
- reporting any material deficiency which resulted in an overpayment to us by a federal healthcare program; and
- submitting annual reports to the Inspector General which describe in detail the operations of our corporate compliance program for the past year. The first two of these reports have been accepted by the Office of Inspector General.

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

Following the expiration of our three year compliance agreement with the Office of Inspector General in June 2003, we intend to continue the standardized practices and methodologies of our compliance efforts on a voluntary basis.

Sarbanes-Oxley Act of 2002. In December 2002, we revised our Code of Conduct which applies to all directors, officers, employees and consultants, and our confidential disclosure program to enhance the statement of ethical responsibility expected of our employees and business associates who work in the accounting, financial reporting, and asset management areas of our Company. Our Board of Directors and executive management also undertook a comprehensive review of our governance and internal policies and procedures. As a result of that review, extensive reforms were adopted by our Board and its committees. Those reforms are described in our proxy statement, under "The Board of Directors", to be filed under Regulation 14A in connection with the Annual Meeting of Stockholders of the Company scheduled to be held on May 22, 2003.

Employees

At December 31, 2002, we employed approximately 14,900 full time employees and 8,400 part-time employees. Of these employees, approximately 1,200 are union members. We believe that our labor relations are good.

Professional Liability

As part of our business of owning and operating hospitals, we are subject to legal actions alleging liability on our part. To cover claims arising out of the operations of hospitals, we generally maintain professional malpractice liability insurance and general liability insurance on a claims made basis in amounts and with deductibles that we believe to be sufficient for our operations. We also maintain umbrella liability coverage covering claims which, due to their nature or amount, are not covered by

our insurance policies. We cannot assure you that professional liability insurance will cover all claims against us or continue to be available at reasonable costs for us to maintain adequate levels of insurance.

Environmental Matters

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

Item 2.

Properties

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

For each of our hospitals, the following table shows its location, the date of its acquisition or lease inception and the number of licensed beds as of December 31, 2002:

Hospital	City	Licensed Beds(1)	Date of Acquisition/Lease Inception	Ownership Type
Alabama				
Woodland Community Hospital	Cullman	100	October, 1994	Owned
Parkway Medical Center Hospital	Decatur	108	October, 1994	Owned
L.V. Stabler Memorial Hospital	Greenville	72	October, 1994	Owned
Hartselle Medical Center	Hartselle	150	October, 1994	Owned
Edge Regional Hospital	Troy	97	December, 1994	Owned
Lakeview Community Hospital	Eufaula	74	April, 2000	Owned
South Baldwin Regional Center	Foley	82	June, 2000	Leased
Arizona				
Payson Regional Medical Center	Payson	44	August, 1997	Leased
Western Arizona Regional	Bullhead City	90	July, 2000	Owned
Arkansas				

Harris Hospital	Newport	133	October, 1994	Owned
Helena Regional Medical Center	Helena	155	March, 2002	Leased
Randolph County Medical Center	Pocahontas	50	October, 1994	Leased
California				
Barstow Community Hospital	Barstow	56	January, 1993	Leased
Fallbrook Hospital	Fallbrook	47	November, 1998	Operated(2)
Watsonville Community Hospital	Watsonville	106	September, 1998	Owned

Florida				
Lake Wales Medical Center	Lake Wales	154	December, 2002	Owned
North Okaloosa Medical Center	Crestview	110	March, 1996	Owned
Georgia				
Berrien County Hospital	Nashville	63	October, 1994	Leased
Fannin Regional Hospital	Blue Ridge	34	January, 1986	Owned
Illinois				
Crossroads Community Hospital	Mt. Vernon	55	October, 1994	Owned
Gateway Regional Medical Center	Granite City	396	January, 2002	Owned
Heartland Regional Medical Center	Marion	92	October, 1996	Owned
Red Bud Regional Hospital	Red Bud	75	September, 2001	Owned
Kentucky				
Parkway Regional Hospital	Fulton	70	May, 1992	Owned
Three Rivers Medical Center	Louisa	90	May, 1993	Owned
Kentucky River Medical Center	Jackson	55	August, 1995	Leased
Louisiana				
Byrd Regional Hospital	Leesville	70	October, 1994	Owned
Sabine Medical Center	Many	48	October, 1994	Owned
River West Medical Center	Plaquemine	80	August, 1996	Leased
Mississippi				
The King's Daughters Hospital	Greenville	137	September, 1999	Owned
Missouri				
Moberly Regional Medical Center	Moberly	114	November, 1993	Owned
Northeast Regional Medical Center	Kirksville	109	December, 2000	Owned
New Jersey				
Memorial Hospital	Salem	140	September, 2002	Owned
New Mexico				
Mimbres Memorial Hospital	Deming	49	March, 1996	Owned

Eastern New Mexico Medical Center	Roswell	162	April, 1998	Owned
Northeastern Regional Hospital	Las Vegas	54	April, 2000	Leased
North Carolina				
Martin General Hospital	Williamston	49	November, 1998	Leased
Pennsylvania				
Berwick Hospital	Berwick	144	March, 1999	Owned
Brandywine Hospital	Coatesville	168	June, 2001	Owned

Jennersville Regional Hospital	West Grove	59	October, 2001	Owned
Easton Hospital	Easton	369	October, 2001	Owned
Lock Haven Hospital	Lock Haven	77	August, 2002	Owned
South Carolina				
Marlboro Park Hospital	Bennettsville	102	August, 1996	Leased
Chesterfield General Hospital	Cheraw	59	August, 1996	Leased
Springs Memorial Hospital	Lancaster	194	November, 1994	Owned
Tennessee				
Lakeway Regional Hospital	Morristown	135	May, 1993	Owned
Scott County Hospital	Oneida	99	November, 1989	Leased
Cleveland Community Hospital	Cleveland	100	October, 1994	Owned
White County Community Hospital	Sparta	60	October, 1994	Owned
Texas				
Big Bend Regional Medical Center	Alpine	40	October, 1999	Owned
Northeast Medical Center	Bonham	75	August, 1996	Owned
Cleveland Regional Medical Center	Cleveland	107	August, 1996	Leased
Highland Medical Center	Lubbock	123	September, 1986	Owned
Scenic Mountain Medical Center	Big Spring	150	October, 1994	Owned
Hill Regional Hospital	Hillsboro	92	October, 1994	Owned
Lake Granbury Medical Center	Granbury	56	January, 1997	Leased
South Texas Regional Medical Center	Jourdanton	67	November, 2001	Owned
Utah				
Mountain West Medical Center	Tooele	35	October, 2000	Owned
Virginia				
Greensville Memorial Hospital	Emporia	114	March, 1999	Leased
Russell County Medical Center	Lebanon	78	September, 1986	Owned
Southampton Memorial Hospital	Franklin	105	March, 2000	Owned

West Virginia				
Plateau Medical Center	Oak Hill	90	July, 2002	Owned
Wyoming				
Evanston Regional Hospital	Evanston	42	November, 1999	Owned
Total Licensed Beds at December 31, 2002		6,310		

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

(2) We operate this hospital under a lease-leaseback and operating agreement. We recognize all operating statistics, revenue and expenses associated with this hospital in our consolidated financial statements.

The above table excludes two hospitals for which we receive fees for management services that operate in close proximity to hospitals we own. In addition to the hospitals owned or leased at December 31, 2002, we acquired, effective January 1, 2003, seven West Tennessee hospitals (676 licensed beds) from Methodist Healthcare of Memphis, Tennessee.

Item 3.

Legal Proceedings

In May 2000, we entered into a settlement agreement with the Inspector General, the Department of Justice, and the applicable state Medicaid programs pursuant to which we paid approximately $31.4 million in exchange for a release of civil claims associated with possible inaccurate inpatient coding for the period 1993 to 1997. For a description of the terms of the settlement agreement as well as the events giving rise to the settlement agreement, see "Compliance Program."

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 judgment on the pleadings and dismissed the case, with prejudice. The relator has appealed this case to the U.S. Court of Appeals for the Sixth Circuit, where the case has been fully briefed by the parties and oral arguments were heard on March 12, 2003. We cannot predict when a decision will be reached in this case.

On July 10, 2002, we were notified that a lawsuit styled Jane Doe vs. South Texas Regional Medical Center, Inc., CHS/Community Health Systems, Inc., and Jacqueline Fillighim had been filed in Atascosa County, Texas (Case No. 02-07-0413-CVA). The suit seeks certification on behalf of all of the patients who had been notified by us that they had received the intravenous narcotic Demerol at our Jourdanton, Texas hospital during the period of employment of a particular registered nurse. The nurse had been caught illegally taking the narcotic from the hospital's drug supplies and was later learned to be infected with HIV. Subsequently, she was convicted and sentenced to ten years in prison. In the interest of patient safety, we notified the patients and offered them free testing and counseling. Our medical experts advised us that the risk of infection in these circumstances was very remote. The lawsuit seeks damages under a number of legal theories including medical malpractice, battery, and negligent hiring. No discovery has been conducted in this matter to date. The complaint does not allege that any patient has been infected with HIV. We believe both the effort to seek class certification and the substance of the case are without merit. A similar suit styled *Meadows, et al. v. South Texas Regional Medical Center, Inc,. et al.*, has been filed in the District Court of Atascosa County, Texas (Case No. 02-10-0751-CVA). This case alleges the same injury and damages as the *Jane Doe* case and we believe it is similarly without merit.

We have also received various inquiries or subpoenas from state regulators, fiscal intermediaries, and the Department of Justice regarding various Medicare and Medicaid issues. In addition, we are subject to other claims and lawsuits arising in the ordinary course of our business. Plaintiffs in these lawsuits generally request punitive or other damages that by state law may not be able to be covered by

insurance. We are not aware of any pending or threatened litigation which we believe would have a material adverse impact on us.

Item 4.

Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of the year ended December 31, 2002.

PART II

Item 5.

Market for Registrant's Common Equity and Related Stockholder Matters

We completed an initial public offering of our common stock on June 14, 2000. Our common stock began trading on June 9, 2000 and is listed on the New York Stock Exchange under the symbol CYH. At March 10, 2003, there were approximately 66 record holders and 5,330 beneficial holders of our common stock. The following table sets forth, for the periods indicated, the high and low sale prices per share of our common stock as reported by the New York Stock Exchange.

	High	Low
Year Ended December 31, 2001		
First Quarter	$ 35.45	$ 22.20
Second Quarter	30.75	21.25
Third Quarter	34.38	26.85
Fourth Quarter	29.85	22.40
Year Ended December 31, 2002		
First Quarter	$ 25.25	$ 20.29
Second Quarter	30.55	21.76
Third Quarter	27.50	21.20
Fourth Quarter	27.85	18.50

We have not paid any cash dividends since our inception, and do not anticipate the payment of cash dividends in the foreseeable future.

On January 23, 2003, we announced an open market repurchase program for up to five million shares of our common stock. The repurchase program commenced immediately and will conclude at the earlier of three years or when the maximum number of shares have been repurchased. Through March 1, 2003, we have repurchased 500,000 shares at a weighted average price of $18.14 per share.

At December 31, 2002, there were 8.6 million shares of common stock reserved for future issuance upon the conversion of our 4.25% subordinated convertible notes due 2008 (see Note 5 to the Consolidated Financial Statements).

Item 6.

SELECTED FINANCIAL DATA

The following table summarizes certain selected financial data of the Registrant and should be read in conjunction with the related Consolidated Financial Statements and accompanying Notes to Consolidated Financial Statements.

Community Health Systems, Inc.
Five Year Summary of Selected Financial Data

	Year Ended December 31,				
	2002	2001	2000	1999	1998
	(In Thousands, Except Share and Per Share Data)				
Consolidated Statement of Operations Data					
Net operating revenues	$ 2,200,417	$ 1,693,625	$ 1,337,501	$ 1,079,953	$ 854,580
Income (loss) from operations	241,510	189,043	155,112	105,255	(95,152)
Income (loss) before extraordinary item	105,258	48,551	9,569	(16,789)	(183,290)
Net income (loss)	99,984	44,743	9,569	(16,789)	(183,290)
Income (loss) per share before extraordinary item—Diluted	1.05	0.54	0.14	(0.31)	(3.38)
Net income (loss) per share—Diluted	1.00	0.50	0.14	(0.31)	(3.38)
Weighted-average number of shares outstanding—Diluted(1)	108,378,131(2)	90,251,428	69,187,191	54,545,030	54,249,895
Consolidated Balance Sheet Data					
Cash and cash equivalents	$ 132,844	$ 8,386	$ 13,740	$ 4,282	$ 6,719
Total assets	2,809,496	2,451,464	2,213,837	1,895,084	1,747,016
Long-term obligations	1,276,761	1,045,427	1,216,790	1,430,099	1,273,502
Stockholders' equity	1,214,305	1,115,665	756,174	229,708	246,826

(1) See Note 10 to the Consolidated Financial Statements, included later in this Form 10-K.

(2) Includes 8,582,076 shares related to the convertible notes under the if-converted method of determining weighted average shares outstanding.

Item 7.

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

You should read this discussion together with our consolidated financial statements and the accompanying notes and Selected Financial Data included elsewhere in this Form 10-K.

Overview

We are the largest non-urban provider of general hospital healthcare services in the United States in terms of number of facilities and the second largest in terms of revenues. As of December 31, 2002, we owned, leased or operated 63 hospitals, geographically diversified across 22 states, with an aggregate of 6,310 licensed beds. In over 85% of our markets, we are the sole provider of general hospital healthcare services. In all but one of our other markets, we are one of two providers of general hospital healthcare services. For the fiscal year ended December 31, 2002, we generated $2.2 billion in net operating revenues and $362 million in EBITDA. We achieved revenue growth of 29.9% in 2002 and 26.6% in 2001. We also achieved growth in EBITDA of 17.2% in 2002 and 22.1% in 2001.

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

We believe that income from operations is the financial measure calculated and presented in accordance with generally accepted accounting principles that is most directly comparable to EBITDA as defined. The following table reconciles EBITDA, as defined, with our income from operations as derived directly from our audited financial statements for the years ended December 31, 2002, 2001 and 2000:

	2002	2001	2000
Income from operations	$ 241,510	$ 189,043	$ 155,112
Depreciation and amortization	118,218	90,913	71,931
Amortization of goodwill	—	28,755	25,693
Minority interest in earnings	2,236	109	—
EBITDA	$ 361,964	$ 308,820	$ 252,736

Acquisitions

During 2002, we acquired, through six purchase transactions, most of the assets, including working capital, of six hospitals. The consideration for the six hospitals totaled approximately $173 million. This consideration consisted of $138 million in cash, and assumed liabilities of approximately $35 million. Since December 31, 2002, we have acquired through a single purchase transaction, most of the assets, including working capital, of seven hospitals. The consideration for these seven hospitals totaled approximately $148 million. This consideration consisted of $141 million in cash and assumed liabilities of approximately $7 million.

During 2001, we acquired, through five purchase transactions, most of the assets, including working capital, of five hospitals. The consideration for the five hospitals totaled approximately $226 million. This consideration consisted of $144 million in cash, which we borrowed under our acquisition loan facilities, and assumed liabilities of approximately $82 million.

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

Goodwill, net of accumulated amortization, from the acquisition of our predecessor company in 1996 was $633.9 million and from subsequent hospital acquisitions was $396.1 million as of December 31, 2002. Beginning in July 2001, we adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 141 which established new guidelines for accounting for goodwill and other intangible assets. In accordance with SFAS No. 142, goodwill associated with acquisitions consummated after June 30, 2001, is not amortized. Based on management's assessment of the goodwill's estimated useful life, we generally amortized our goodwill over 18 to 40 years for acquisitions consummated prior to June 2001. We implemented the remaining provisions of SFAS No. 142 on January 1, 2002. Since adoption, existing goodwill is no longer amortized but instead is assessed for impairment at least annually. Impairments to the carrying amount of such goodwill would result in a non-cash charge which would reduce operating income. The resulting reduction in goodwill amortization

expense for 2002, using 2002 weighted average shares outstanding excluding the assumed conversion of convertible notes, is approximately $0.25 per share, after tax. No impairment write-down resulted from the adoption of SFAS No. 142. Goodwill represented 85% of our shareholders' equity as of December 31, 2002.

In January 2003, we completed the purchase of seven hospitals. In addition, we anticipate purchasing two to three more hospitals in 2003. In future years, we intend to acquire, on a selective basis, two to four hospitals in our target markets annually. Because of the financial impact of acquisitions, it is difficult to make meaningful comparisons between our financial statements for the periods presented. Because EBITDA margins at hospitals we acquire are, at the time of acquisition, lower than those of our existing hospitals, acquisitions can negatively affect our EBITDA margins on a consolidated basis.

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 44% of net operating revenues for the year ended December 31, 2002, 45% for the year ended December 31, 2001, and 46% for the year ended December 31, 2000, are related to services rendered to patients covered by the Medicare and Medicaid programs. Included in the amounts received from Medicare, approximately 0.44% of net operating revenues for 2002, 0.52% for 2001, and 0.54% for 2000, relates to Medicare outlier payments, which compensate hospitals for treating especially complicated cases. 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 affected revenue were insignificant in each of the years ended December 31, 2002, 2001 and 2000.

We expect our net revenues received from the Medicare program to increase due to the general aging of the population and the restoration of some payments under the Balanced Budget Refinement Act of 1999 and Benefit and Improvement Protection Act of 2000. The payment rates under the Medicare program for inpatients are based on a prospective payment system, based upon the diagnosis of a patient. While these rates are indexed annually for inflation, the increases have historically been less than actual inflation. Reductions in the rate of increase in Medicare reimbursement may have an adverse impact on our net operating revenue growth. Effective April 1, 2002, Centers for Medicare and Medicaid Services implemented changes to the Medicare outpatient prospective payment system. Although these changes have resulted in reductions to Medicare outpatient payments, these reductions, as well as changes to the Medicare system caused by the Benefit Improvement and Protection Act of 2000, should not materially effect our net operating revenue growth.

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

Results of Operations

Our hospitals offer a variety of services involving a broad range of inpatient and outpatient medical and surgical services. These include orthopedics, cardiology, OB/GYN, occupational medicine, 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 generally highest during the first quarter and lowest during the third quarter.

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

	Years Ended December 31,		
	2002	2001	2000
	(Expressed As a Percentage of Net Operating Revenues)		
Net operating revenues	100.0	100.0	100.0
Operating expenses(1)	(83.6)	(81.8)	(81.1)
EBITDA(2)	16.4	18.2	18.9
Depreciation and amortization	(5.3)	(5.4)	(5.4)
Amortization of goodwill	—	(1.7)	(1.9)
Income from operations	11.1	11.1	11.6
Interest, net	(2.9)	(5.6)	(9.5)
Minority interest in earnings	(0.1)	—	—
Income before extraordinary item and income taxes	8.1	5.5	2.1
Provision for income taxes	3.3	2.7	1.4

Income before extraordinary item	4.8	2.8	0.7

	Years Ended December 31,	
	2002	2001
Percentage change from prior period:		
Net operating revenues	29.9%	26.6%
Admissions	23.8	18.3
Adjusted admissions(3)	24.4	18.6
Average length of stay	2.6	—
EBITDA(2)	17.2	22.1
Same hospitals percentage change from prior period(4):		
Net operating revenues	9.7	10.4
Admissions	4.4	3.9
Adjusted admissions(3)	5.1	4.5
EBITDA(2)	10.9	13.6

(1) Operating expenses include salaries and benefits, provision for bad debts, supplies, rent, and other operating expenses, and exclude the items that are excluded for purposes of determining EBITDA as discussed in footnote (2) below.

(2) EBITDA consists of income before extraordinary items, interest, income taxes, depreciation and amortization, amortization of goodwill and minority interest earnings. EBITDA should not be considered a measure of financial performance under generally accepted accounting principles. Items excluded from EBITDA are significant components in understanding and assessing financial performance. EBITDA is a key measure used by management to evaluate our operations and provide useful information to investors. EBITDA should not be considered in isolation or as an alternative to net income, cash flows generated by operations, investing or financing activities, or other financial statement data presented in the consolidated financial statements as indicators of financial performance or liquidity. Because EBITDA is not a measurement determined in accordance with generally accepted accounting principles and is thus susceptible to varying

calculations, EBITDA as presented may not be comparable to other similarly titled measures of other companies.

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

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

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

Net operating revenues increased by 29.9% to $2.2 billion in 2002 from $1.7 billion in 2001. Of the $506.8 million increase in net operating revenues, the hospitals we acquired in 2002 and 2001, prior to being included in same store revenues, contributed $343.3 million and hospitals we owned throughout both periods contributed $163.5 million or 9.7%. Of this increase, approximately 53% was attributable to volume increases and 47% was attributed to increased rates and intensity of care from government programs, managed care and other payors.

Inpatient admissions increased by 23.8%. Adjusted admissions increased by 24.4%. Average length of stay increased 2.6% from 3.8 days in 2001 to 3.9 days at in 2002. On a same hospitals basis, inpatient admissions increased by 4.4% and adjusted admissions increased by 5.1%. The increase in same hospitals inpatient admissions and adjusted admissions was due primarily to an increase in services offered, supported by physician relationship development efforts, and the addition of physicians through our focused recruitment program. On a same hospitals basis, net inpatient revenues increased by 11.1% and net outpatient operating revenues increased 8.3%. Both inpatient and outpatient growth reflects increased volume as well as rate increases.

Operating expenses, as a percentage of net operating revenues, increased from 81.8% in 2001, to 83.6% in 2002. Salaries and benefits, as a percentage of net operating revenues, increased from 39.3% in 2001 to 40.3% in 2002 primarily as a result of the three hospitals acquired in the fourth quarter of 2001 and the six hospitals acquired in 2002 having higher salaries and benefits as a percentage of net operating revenues, than our existing hospitals, for which savings have not yet been fully realized, offset by improvements at hospitals owned throughout both periods. Provision for bad debts, as a percentage of net revenues, decreased to 9.1% in 2002 from 9.2% in 2001, primarily through better collections. Supplies, as a percentage of net operating revenues, remained unchanged in 2002 at 11.6% reflecting an increase in supplies expense as a percentage of net operating revenues at recently acquired hospitals, offset by improvements at hospitals owned throughout both periods. Rent and other operating expenses, as a percentage of net operating revenues, increased from 21.7% in 2001 to 22.6% in 2002, primarily due to an increase in rent expense of 0.5% of net operating revenue, an increase in the use of contract labor of 0.8% of net operating revenue and the increased cost of malpractice insurance of 0.3% of net operating revenue. These fluctuations, largely resulting from acquisitions having lower margins than our existing hospitals, led to EBITDA margins decreasing from 18.2% in 2001 to 16.4% in 2002.

On a same hospitals basis, operating expenses as a percentage of net operating revenues decreased from 81.8% in 2001 to 81.6% in 2002 and EBITDA margin increased from 18.2% in 2001 to 18.4% in 2002. We achieved this improvement through efficiency and productivity gains in payroll expense and reductions in supplies expense, offset by increases in contract labor and malpractice expense.

Depreciation and amortization increased by $27.3 million from $90.9 million in 2001 to $118.2 million in 2002. The eleven hospitals acquired in 2001 and 2002, prior to being included in same store results, accounted for $9.6 million of the increase; replacement hospital construction, hospital renovations, purchases of equipment, and information system upgrades accounted for $10.3 million of

the increase and other deferred items, primarily the amortization of physician recruitment costs and purchased software, accounted for the remaining $7.4 million of the increase.

Amortization of goodwill decreased by $28.8 million from $28.8 million in 2001 to $0 in 2002. This decrease is due to the adoption of SFAS No. 142 on January 1, 2002. See "Critical Accounting Policies-Goodwill and Other Intangibles."

Interest, net decreased by $31.6 million from $94.5 million in 2001 to $62.9 million in 2002. The decrease in interest expense was primarily a result of a decrease in average interest rates of $29.4 million and a savings of $2.2 million due to a decrease in average outstanding borrowings. Identified activities leading to these results include interest savings of $24.0 million from financings, including the October 2001 payoff of $500 million of 7.5% subordinated debt, concurrent with convertible debt and equity offerings; the July 2002 bank debt refinancing; $17.7 million from declining LIBOR rates; and $3.6 million from the net effect of operating cash flows offset by capital expenditures. Interest expense increased by $7.6 million as a result of the eleven hospitals acquired in 2001 and 2002, and $6.1 million in interest expense related to payments on interest rate swap contracts.

Income before extraordinary item and income taxes for 2002 was $178.7 million compared to $94.5 million in 2001, primarily as a result of the continuing execution of our operating strategy and increased volume at hospitals owned during both periods, elimination of goodwill amortization of $28.8 million and a decrease in interest expense of $31.6 million.

During the third quarter of 2002, we refinanced our then existing $1.1 billion credit agreement and repaid certain indebtedness. In connection with repayment of that credit agreement, we recognized an extraordinary loss of $5.3 million, net of tax benefit of $3.4 million, on early extinguishment of debt as a result of writing off deferred financing costs associated with the refinanced credit agreement.

The provision for income taxes in 2002 was $73.4 million compared to $45.9 million in 2001. The decrease in the effective tax rate from 48.6% in 2001 to 41.1% in 2002 is primarily due to goodwill, for which the amortization of certain components was not deductible for tax purposes, and is no longer being amortized for financial reporting purposes in accordance with SFAS No. 142.

Net income for 2002 was $100.0 million as compared to $44.7 million in 2001.

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

Net operating revenues increased by 26.6% to $1.7 billion in 2001 from $1.3 billion in 2000. Of the $356.1 million increase in net operating revenues, the hospitals we acquired in 2001 and 2000, prior to being included in same store revenues, contributed $218.3 million and hospitals we owned throughout both periods contributed $137.8 million. The $137.8 million, or 10.4%, increase from hospitals owned throughout both periods was attributable primarily to inpatient and outpatient volume increases, rate increases and an increase in government reimbursement. These increases were offset by 2001 having one fewer day as compared to 2000, as 2000 was a leap year.

Inpatient admissions increased by 18.3%. Adjusted admissions increased by 18.6%. Average length of stay remained unchanged. On a same hospitals basis, inpatient admissions increased by 3.9% and adjusted admissions increased by 4.5%. The increase in same hospitals inpatient admissions and adjusted admissions was due primarily to an increase in services offered, physician relationship development efforts, and the addition of physicians through our focused recruitment program. On a same hospitals basis, net inpatient revenues increased by 9.9% and net outpatient operating revenues increased 11.3%. Both inpatient and outpatient growth reflects increased volume as well as rate increases. Outpatient growth reflects the continued trend toward a preference for outpatient procedures, where appropriate, by patients, physicians, and payors.

Operating expenses, as a percentage of net operating revenues, increased from 81.1% in 2000, to 81.8% in 2001. Salaries and benefits, as a percentage of net operating revenues, increased from 38.7% in 2000 to 39.3% in 2001 primarily as a result of the acquisitions in 2001 having higher salaries and benefits as a percentage of net operating revenues for which savings have not yet been realized, offset by improvements at hospitals owned throughout both periods. Provision for bad debts, as a percentage of net revenues increased to 9.2% in 2001 from 9.1% in 2000. Supplies, as a percentage of net operating revenues, increased to 11.6% in 2001 from 11.5% in 2000 primarily as a result of additional purchasing for recent acquisitions, offset by improvements at hospitals owned throughout both periods. Rent and other operating expenses, as a percentage of net operating revenues, decreased from 21.8% in 2000 to 21.7% in 2001 as a result of increases in rent expense being offset by a reduction in other operating expenses. These fluctuations have led to EBITDA margins decreasing from 18.9% in 2000 to 18.2% in 2001.

On a same hospitals basis, operating expenses as a percentage of net operating revenues decreased from 81.4% in 2000 to 80.9% in 2001 and EBITDA margin increased from 18.6% in 2000 to 19.1% in 2001. These efficiency and productivity gains resulted from the achievement of target staffing ratios, physician recruiting efforts, and improved compliance with national purchasing contracts. Operating expenses improved as a percentage of net operating revenues in the key categories of salaries and benefits and supplies.

Depreciation and amortization increased by $19.0 million from $71.9 million in 2000 to $90.9 million in 2001. The twelve hospitals acquired, including one constructed, in 2000 and 2001 accounted for $5.6 million of the increase; hospital renovations and purchases of equipment, information system upgrades, and the inclusion of a hospital previously held for divestiture accounted for $6.5 million of the increase and other deferred items, primarily the amortization of physician recruitment costs, accounted for the remaining $6.9 million of the increase.

Amortization of goodwill increased by $3.1 million from $25.7 million in 2000 to $28.8 million in 2001. This increase primarily related to the seven hospitals acquired in 2000 and one hospital acquired in 2001 prior to the adoption of provisions of SFAS No. 142, whereby goodwill for acquisitions occurring after June 30, 2001 is not amortized.

Interest, net decreased by $32.9 million from $127.4 million in 2000 to $94.5 million in 2001. The decrease in interest expense can be primarily attributed to both savings from a decrease in average interest rates of $16.2 million and savings of $16.7 million due to a decrease in average outstanding borrowings. The twelve hospitals acquired, including one constructed, in 2000 and 2001 accounted for an interest expense increase of approximately $12.9 million. Reduction of debt from repayments during 2001 and a full year of savings from repayments in 2000 resulted in savings of $27.0 million, including savings of approximately $8.0 million, offset by interest of $2.6 million from the repayment of debt and issuance of convertible debt from our concurrent convertible debt and equity offerings in 2001. Savings from a reduction in interest rates were approximately $16.2 million.

Income before extraordinary item and income taxes for 2001 was $94.5 million compared to $27.7 million in 2000. This improvement is primarily the result of revenue growth from both acquisitions and same store hospitals, management's ability to control expenses and a decrease of interest expense.

In October 2001, we received the net proceeds from our concurrent equity and convertible debt offerings and used these proceeds to repay a portion of our long-term debt. In connection with the repayments, we recognized a $3.8 million after tax extraordinary loss on the early extinguishment of debt related to the write off of deferred financing costs associated with the repayment of the $500 million of subordinated debentures.

The provision for income taxes in 2001 was $45.9 million compared to $18.2 million in 2000. Due to the non-deductible nature of certain goodwill amortization, the resulting effective tax rate is in excess of the statutory rate.

Net income for 2001 was $44.7 million as compared to $9.6 million in 2000.

Liquidity and Capital Resources

2002 Compared to 2001

Net cash provided by operating activities increased by $131.1 million, from $154.4 million during 2001 to $285.5 million during 2002. This increase was due primarily to an increase in net income of $55.2 million, an increase in the utilization of net operating loss carry forwards of $12.9 million to offset the amount of taxes paid, an increase in amounts owed to third party payors of $16.5 million, an increase in our medical malpractice liability of $8.2 million and improvements made in the management of working capital. The use of cash in investing activities increased $26.0 million from $265.1 million in 2001 to $291.1 million in 2002. The increase was due primarily to an increase in cash used to purchase property and equipment of $20.7 million during 2002. Net cash provided by financing activities increased $24.7 million from $105.4 million in 2001 to $130.1 million in 2002. In July, 2002, we completed a refinancing of our previous credit facility with a $1.2 billion senior secured credit facility. The facility consists of an $850 million term loan that matures in 2010 (as opposed to 2005 under the previous facility) and a $350 million revolving credit facility that matures in 2008 (as opposed to 2004 under the previous facility). The facility has a feature that allows for an additional $200 million of future funded term loans.

As described more fully in Notes 5, 7 and 12 of the Notes to Consolidated Financial Statements, at December 31, 2002, the Company had certain cash obligations, which are due as follows *(in thousands)*:

	Total	2003	2004 - 2006	2007 - 2008	2009 and After
Long-Term Debt	$ 878,496	$ 13,373	$ 34,566	$ 118,025	$ 712,532
Convertible Notes	287,500	—	—	287,500	—
Capital Leases	26,462	5,156	15,371	3,497	2,438
Total Long-Term Debt	1,192,458	18,529	49,937	409,022	714,970
Operating Leases	184,820	41,834	87,686	24,651	30,649
Replacement Facilities	53,362	37,300	16,062	—	—
Total	$ 1,430,640	$ 97,663	$ 153,685	$ 433,673	$ 745,619

Also, as more fully described in Note 5 of the Notes to Consolidated Financial Statements at December 31, 2002, we had issued letters of credit primarily in support of certain outstanding bonds of approximately $13 million. In addition, at December 31, 2002, we had $350 million in available borrowings from the revolving line of credit exclusive of letters of credit and $200 million in available borrowings from a term loan.

2001 Compared to 2000

Net cash provided by operating activities increased by $129.3 million, from $25.1 million during 2000 to $154.4 million during 2001. This increase was due primarily to an increase in net income of $35.2 million, an increase in non-cash depreciation and amortization of $22.0 million, use of deferred tax assets of $25.3 million during 2001, as compared to use of deferred tax assets of $17.2 million in 2000, the absence of the $31.8 million compliance settlement payment made during 2000 and improvements made in the management of working capital. The use of cash in investing activities increased $20.7 million from $244.4 million in 2000 to $265.1 million in 2001. The increase was due primarily to an increase in cash used to purchase property and equipment of $25.2 million during 2001. Net cash provided by financing activities decreased $123.4 million from $228.8 million in 2000 to $105.4 million in 2001. We raised $585.8 million in proceeds, net of expenses from our concurrent convertible debt and equity offerings completed in 2001, which were used to repay long term debt,

including $500 million to repay subordinated debentures held by the limited partners of an affiliate of Forstmann Little & Co. Our additional borrowings during 2001 were $124.7 million and, excluding repayments using proceeds from convertible debt and equity offerings, repayments of long-term debt were $24.3 million. This represents a $116.6 million decrease in borrowings as compared to $241.3 million of borrowings in 2000 and an increase in repayments of $13.3 million as compared to repayments of $11.0 million in 2000.

Capital Expenditures

Cash expenditures for purchases of facilities was $156.1 million in 2002, $150.9 million in 2001 and $153.2 million in 2000. These expenditures include: $138.5 million for the six hospitals acquired and $17.6 million for information systems and other equipment to integrate the newly acquired hospitals in 2002, $144.0 million for the five hospitals acquired, $4.9 million for information systems and other equipment to integrate the newly acquired hospitals and $2.0 million for the purchases of other clinics and working capital at a managed facility in 2001, and $147.6 million for the seven hospitals acquired, $5.0 million for information systems and other equipment to integrate the newly acquired hospitals and $0.6 million for working capital at a managed facility in 2000.

Excluding the cost to construct replacement hospitals, our capital expenditures for 2002 totaled $72.5 million compared to $64.7 million in 2001 and $49.0 million in 2000. Costs to construct replacement hospitals totaled $36.8 million, including $5.3 million of capital leases related to the construction projects in 2002, $28.3 million, including $9.8 million of capital leases in 2001, and $9.0 million in 2000. The reduction of capital lease liabilities is included in financing activities in our Statements of Cash Flows.

Pursuant to hospital purchase agreements in effect as of December 31, 2002, we are required to construct two replacement hospitals through 2004 with an aggregate estimated construction cost, including equipment, of approximately $60 million. Of this amount, a cumulative total of approximately $10 million has been expended through December 31, 2002. We expect total capital expenditures of approximately $135 to $140 million in 2003, including approximately $100 to $102 million for renovation and equipment purchases (which includes amounts which are required to be expended pursuant to the terms of the hospital purchase agreements) and approximately $35 to $38 million for construction of replacement hospitals.

Capital Resources

Net working capital was $329.3 million at December 31, 2002 compared to $195.0 million at December 31, 2001. The $134.3 million increase was attributable primarily to excess cash borrowed under our credit agreement to be used for future acquisitions, an increase in accounts receivable due to a combination of growth in same hospitals' revenues during 2002, the addition of six hospitals in 2002, and a decrease in current maturities of long term debt, offset by increases in accounts payable, employee compensation accruals and other accrued liabilities. The aggregate working capital of the six hospitals acquired in 2002, as of their respective dates of acquisition, was approximately $15.1 million.

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 six-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 facility has a feature that allows for an additional $200 million of future funded term loans. 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 December 31, 2002, our availability for additional borrowings under our revolving credit facility was $350 million and under our term loan was approximately $200 million. As of December 31, 2002, our weighted average interest rate under our credit agreement was 4.39%.

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 four separate interest swap agreements to limit the effect of changes in interest rates on a portion of its long-term borrowings. Under three agreements, entered into on November 21, 2001, 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, dated November 4, 2002, we pay interest at a fixed rate of 3.30% on $150 million notional amount of indebtedness. 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. The swaps expire as follows: $100 million in November 2003, $100 million in November 2004, $100 million in November 2005 and $150 million in November 2007.

We believe that internally generated cash flows and borrowings under our new 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. As of and for the year ended December 31, 2002, the balance of minority interests included in long-term liabilities was $8.3 million and the amount of minority interest expense was $2.2 million.

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, expanding services and reducing costs in other areas. 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.

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 uncollectable in the future. Substantially all of our receivables are related to providing healthcare services to our hospitals patients. Our estimate for its allowance for doubtful accounts is based primarily on our historical collection experience for each type of payor. The allowance amount 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. Prior to the adoption of Statement of Financial Accounting Standards ("SFAS") No. 142, goodwill arising from business combinations completed prior to July 1, 2001 was amortized on a straight-line basis over a period ranging from 18 to 40 years. Currently, goodwill arising from business combinations (whether or not completed prior to July 1, 2001) is accounted for under the provisions of SFAS No. 141 and SFAS No. 142 and is not amortized. SFAS No. 142 requires goodwill to be evaluated for impairment at the same time every year and when an event occurs or circumstances change such that it is reasonably possible that an impairment may exist. We selected September 30th as our annual testing date.

The SFAS No. 142 goodwill impairment model requires a comparison of the book value of net assets to the fair value of the related operations that have goodwill assigned to them. If the fair value is determined to be less than book value, a second step is performed to compute the amount of the impairment. We estimated the fair values of the related operations using both a debt free discounted cash flow model as well as an 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 and substantially all of our professional and general liability risks are subject to a $2.0 million per occurrence deductible; these deductibles were $0.5 million per occurrence for claims reported prior to June 1, 2002 and $2.0 million per occurrence for claims reported June 1, 2002 and thereafter. We are a minority investor in a captive insurance company through which we purchase coverage from $2.0 million to $5.0 million per claim.

Recent Accounting Pronouncements

Effective July 1, 2001, we adopted SFAS No. 141, "Business Combinations"; and effective January 1, 2002, adopted SFAS No. 142, "Goodwill and Other Intangible Assets." No impairment write-down occurred from the adoption of SFAS No. 142. See "Critical Accounting Policies—Goodwill and Other Intangibles."

SFAS No. 143, "Accounting for Asset Retirement Obligations," was issued in June 2001 by the Financial Accounting Standards Board and is effective for financial statements issued for fiscal years beginning after June 15, 2002. Earlier application is encouraged. SFAS No. 143 establishes accounting standards for

recognition and measurement of a liability for an asset retirement obligation and the associated retirement costs. This statement applies to all entities and to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) the normal operation of a long-lived asset, except for certain obligations of lessees. We do not expect the implementation of SFAS No. 143 to have a material effect on our consolidated financial position or consolidated results of operations.

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

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This statement rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt", and an amendment of that statement, SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." This statement also rescinds SFAS No. 44, "Accounting for Intangible Assets of Motor Carriers." This statement amends SFAS No. 13, "Accounting for Leases", to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The provisions of this statement related to the rescission of SFAS No. 4 are effective for fiscal years beginning after May 15, 2002. Upon adoption, the extraordinary losses recognized in the year ended December 31, 2002 and the year ended December 31, 2001 will be reclassified within income from operations to conform to the provisions of SFAS No. 145. The provisions of this statement related to SFAS No. 13 are effective for transactions occurring after May 15, 2002. All other provisions of this statement are effective for financial statements issued on or after May 15, 2002. The implementation of these remaining provisions did not have a material effect on our consolidated financial position or consolidated results of operations.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." The statement requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the statement include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. The provisions of this statement are effective for exit or disposal activities initiated after December 31, 2002.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an Interpretation of FASB Statements No. 5, 57, and 107 and Rescission of FASB Interpretation No. 34" ("FIN No. 45"). The interpretation requires that upon issuance of a guarantee, the entity must recognize a liability for the fair value of the obligation it assumes under that obligation. This interpretation is intended to improve the comparability of financial reporting by requiring identical accounting for guarantees issued with separately identified consideration and guarantees issued without separately identified consideration. For us, the initial recognition and measurement provisions of FIN No. 45 are applicable to guarantees issued or modified after December 31, 2002. We are currently evaluating what impact, if any, adoption of FIN No. 45 will have on our consolidated financial position and consolidated results of operations. The disclosure requirements of FIN No. 45 are effective for us

as of December 31, 2002. The required disclosures are included in Note 12 to the consolidated financial statements.

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 Note 1 to the 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 for 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 January 31, 2003, and to interests obtained in VIE's before January 31, 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.

Federal Income Tax Examinations

We settled the Internal Revenue Service examinations of our filed federal tax returns for the tax periods ended December 31, 1993 through December 31, 1996, inclusive. In that settlement, we agreed to several adjustments, primarily involving temporary or timing differences, and paid approximately $8.5 million in August 2001, in satisfaction of the resulting federal income taxes and interest.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Report includes forward-looking statements which could differ from actual future results.

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

- general economic and business conditions, both nationally and in the regions in which we operate;
- demographic changes;
- existing governmental regulations and changes in, or the failure to comply with, governmental regulations or our corporate compliance agreement;
- 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;
- increases 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 healthcare settings;
- changes in medical or other technology;
- changes in generally accepted accounting principles;
- the availability and terms of capital to fund additional acquisitions or replacement facilities; and
- our ability to successfully acquire and integrate additional hospitals.

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

Item 7A. 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". We do not anticipate any material changes in our primary market risk exposures in 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 $4 million for 2002, $7 million for 2001, and $9 million for 2000.

Item 8. Financial Statements and Supplementary Data.

Index to Financial Statements

Community Health Systems, Inc. Consolidated Financial Statements:

INDEPENDENT AUDITORS' REPORT

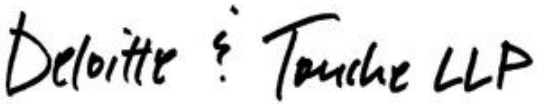
To the Board of Directors and Stockholders of
Community Health Systems, Inc.
Brentwood, Tennessee

We have audited the accompanying consolidated balance sheets of Community Health Systems, Inc. and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of Community Health Systems, Inc. and subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the Company adopted certain provisions of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* effective January 1, 2002, which resulted in the Company changing the method in which it accounts for goodwill and other intangible assets.



Nashville, Tennessee
February 18, 2003

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

	Year Ended December 31,		
	2002	2001	2000
Net operating revenues	$ 2,200,417	$ 1,693,625	$ 1,337,501
Operating costs and expenses:			
Salaries and benefits	886,734	666,048	517,392
Provision for bad debts	201,334	156,226	122,303
Supplies	254,687	196,008	154,211
Rent	54,390	42,821	31,385
Minority interest in earnings	2,236	109	—
Other operating expenses	441,308	323,702	259,474
Depreciation and amortization	118,218	90,913	71,931
Amortization of goodwill	—	28,755	25,693
Total operating costs and expenses	1,958,907	1,504,582	1,182,389
Income from operations	241,510	189,043	155,112
Interest expense, net of interest income of $399, $359 and $600 in 2002, 2001, and 2000, respectively	62,860	94,548	127,370

Income before extraordinary item and income taxes	178,650	94,495	27,742
Provision for income taxes	73,392	45,944	18,173
Income before extraordinary item	105,258	48,551	9,569
Loss from early extinguishment of debt, net of taxes of $3,372, and $2,435 in 2002 and 2001, respectively	5,274	3,808	—
Net income	$ 99,984	$ 44,743	$ 9,569
Basic income per common share:			
Income before extraordinary item	$ 1.07	$ 0.55	$ 0.14
Loss from early extinguishment of debt, net of tax	0.05	0.04	—
Net income	$ 1.02	$ 0.51	$ 0.14
Diluted income per common share:			
Income before extraordinary item	$ 1.05	$ 0.54	$ 0.14
Loss from early extinguishment of debt, net of tax	0.05	0.04	—
Net income	$ 1.00	$ 0.50	$ 0.14
Weighted average number of shares outstanding:			
Basic	98,421,052	88,382,443	67,610,399
Diluted	108,378,131	90,251,428	69,187,191

See notes to consolidated financial statements.

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

	December 31, 2002	December 31, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	$ 132,844	$ 8,386
Patient accounts receivable, net of allowance for doubtful accounts of $73,110 and $63,880 in 2002 and 2001, respectively	400,442	360,852
Supplies	60,456	47,466
Prepaid expenses and taxes	22,107	14,846
Deferred income taxes	15,684	33,411
Other current assets	16,193	20,398
Total current assets	647,726	485,359
Property and equipment:		
Land and improvements	78,190	67,279
Buildings and improvements	808,521	662,893
Equipment and fixtures	424,027	336,787
	1,310,738	1,066,959
Less accumulated depreciation and amortization	(281,401)	(200,425)
Property and equipment, net	1,029,337	866,534
Goodwill, net of accumulated amortization of $151,052 in 2002 and 2001, respectively	1,029,975	999,525
Other assets, net of accumulated amortization of $56,016 and $44,672 in 2002 and 2001, respectively	102,458	100,046
Total assets	$ 2,809,496	$ 2,451,464
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 18,529	$ 58,691
Accounts payable	111,677	91,096

Current income taxes payable	6,559	2,325
Accrued liabilities:		
Employee compensation	94,359	73,329
Interest	6,781	6,681
Other	80,525	58,250
Total current liabilities	318,430	290,372
Long-term debt	1,173,929	980,083
Deferred income taxes	65,120	44,675
Other long-term liabilities	37,712	20,669
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.01 par value per share, 100,000,000 shares authorized; none issued.	—	—
Common stock, $.01 par value per share, 300,000,000 shares authorized; 99,787,034 shares issued and 98,811,485 shares outstanding at December 31, 2002 and 99,444,998 shares issued and 98,469,449 shares outstanding at December 31, 2001	998	994
Additional paid-in capital	1,319,370	1,311,891
Treasury stock, at cost, 975,549 shares at December 31, 2002 and 2001	(6,678)	(6,678)
Notes receivable for common stock	—	(211)
Unearned stock compensation	(15)	(41)
Accumulated other comprehensive income (loss)	(8,314)	750
Accumulated deficit	(91,056)	(191,040)
Total stockholders' equity	1,214,305	1,115,665
Total liabilities and stockholders' equity	$ 2,809,496	$ 2,451,464

See notes to consolidated financial statements.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands, except share data)

	Common stock		Additional Paid-in Capital	Treasury stock		Notes Receivable for Common Stock	Unearned Stock Compensation	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
	Shares	Amount		Shares	Amount					
BALANCE, January 1, 2000	56,588,787	$ 566	$ 483,237	(967,980)	$ (6,587)	$ (1,997)	$ (159)	$ —	$ (245,352)	$ 229,708
Net income	—	—	—	—	—	—	—	—	9,569	9,569
Issuance of common stock in connection with initial public offering, net of issuance costs	20,425,717	204	245,498	—	—	—	—	—	—	245,702
Issuance of common stock in connection with secondary public offering, net of issuance costs	10,000,000	100	268,722	—	—	—	—	—	—	268,822
Issuance of common stock in connection with the exercise of options	91,058	1	635	—	—	—	—	—	—	636
Payments on notes receivable	—	—	—	—	—	1,663	—	—	—	1,663
Earned stock compensation	—	—	—	—	—	—	74	—	—	74
BALANCE, December 31, 2000	87,105,562	871	998,092	(967,980)	(6,587)	(334)	(85)	—	(235,783)	756,174
Comprehensive Income:										
Net income	—	—	—	—	—	—	—	—	44,743	44,743
Net change in fair value of interest rate swaps, net of tax of $478	—	—	—	—	—	—	—	750	—	750
Total comprehensive income								750	44,743	45,493
Issuance of common stock in connection with secondary public offering, net of issuance costs	12,000,000	120	305,954	—	—	—	—	—	—	306,074
Issuance of common stock in connection with the exercise of options	243,958	2	2,983	—	—	—	—	—	—	2,985
Issuance of common stock to employee benefit plan	95,478	1	2,894	—	—	—	—	—	—	2,895

Tax benefit from exercise of options	—	—	1,968	—	—	—	—	—	—	1,968
Payments on notes receivable	—	—	—	—	—	123	—	—	—	123
Common stock purchased for treasury, at cost	—	—	—	(7,569)	(91)	—	—	—	—	(91)
Earned stock compensation	—	—	—	—	—	—	44	—	—	44
BALANCE, December 31, 2001	99,444,998	994	1,311,891	(975,549)	(6,678)	(211)	(41)	750	(191,040)	1,115,665
Comprehensive Income:										
Net income	—	—	—	—	—	—	—	—	99,984	99,984
Net change in fair value of interest rate swaps, net of tax benefit of $5,794	—	—	—	—	—	—	—	(9,064)	—	(9,064)
Total comprehensive income								(9,064)	99,984	90,920
Issuance of common stock in connection with the exercise of options	203,295	2	2,536	—	—	—	—	—	—	2,538
Issuance of common stock to employee benefit plan	138,741	2	3,702	—	—	—	—	—	—	3,704
Tax benefit from exercise of options	—	—	1,241	—	—	—	—	—	—	1,241
Payments on notes receivable	—	—	—	—	—	211	—	—	—	211
Common stock purchased for treasury, at cost	—	—	—	—	—	—	—	—	—	—
Earned stock compensation	—	—	—	—	—	—	26	—	—	26
BALANCE, December 31, 2002	99,787,034	$ 998	$ 1,319,370	(975,549)	$ (6,678)	$ —	$ (15)	$ (8,314)	$ (91,056)	$ 1,214,305

See notes to consolidated financial statements.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2002	2001	2000
	(Dollars in Thousands)		
Cash flows from operating activities:			
Net income	$ 99,984	$ 44,743	$ 9,569
Adjustments to reconcile net income to net cash provided by operating activities:			
Minority interest in earnings	2,236	109	—
Depreciation and amortization	118,218	119,668	97,624
Deferred income taxes	38,172	25,280	17,210
Stock compensation expense	26	44	74
Loss on early extinguishment of debt	5,274	3,808	—
Other non-cash (income) expenses, net	186	(104)	(5,030)
Changes in operating assets and liabilities, net of effects of acquisitions and divestitures:			
Patient accounts receivable	(19,099)	(12,241)	(54,489)
Supplies, prepaid expenses and other current assets	(12,566)	1,999	(15,604)
Accounts payable, accrued liabilities and income taxes	26,000	(37,653)	19,691
Compliance settlement payable	—	—	(30,900)
Other	27,068	8,734	(13,065)
Net cash provided by operating activities	285,499	154,387	25,080
Cash flows from investing activities:			
Acquisitions of facilities and other related equipment	(156,069)	(150,941)	(153,216)
Purchases of property and equipment	(103,975)	(83,232)	(58,005)
Proceeds from sale of equipment	473	423	107
Increase in other assets	(31,569)	(31,361)	(33,327)
Net cash used in investing activities	(291,140)	(265,111)	(244,441)
Cash flows from financing activities:			
Proceeds from issuance of common stock	—	306,074	514,524

Proceeds from issuance of convertible debt	—	287,500	—
Proceeds from exercise of stock options	2,541	2,985	636
Common stock purchased for treasury	—	(91)	—
Deferred financing costs	(8,959)	(7,750)	—
Proceeds from minority investors	1,770	3,960	—
Redemption of minority investments	(707)	(1,594)	(1,835)
Distribution to minority investors	(1,890)	(324)	(260)
Borrowings under Credit Agreement	905,900	124,684	241,310
Repayments of long-term indebtedness	(768,556)	(610,074)	(525,556)
Net cash provided by financing activities	130,099	105,370	228,819
Net change in cash and cash equivalents	124,458	(5,354)	9,458
Cash and cash equivalents at beginning of period	8,386	13,740	4,282
Cash and cash equivalents at end of period	$ 132,844	$ 8,386	$ 13,740

See notes to consolidated financial statements.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Business and Summary of Significant Accounting Policies

Business. Community Health Systems, Inc. (the "Company") owns, leases and operates acute care hospitals that are the principal providers of primary healthcare services in non-urban communities. As of December 31, 2002, the Company owned, leased or operated 63 hospitals, licensed for 6,310 beds in 22 states.

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

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

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

Supplies. Supplies, principally medical supplies, are stated at the lower of cost (first-in, first-out basis) or market.

Property and Equipment. Property and equipment are recorded at cost. Depreciation is recognized using the straight-line method over the estimated useful lives of the land improvements (2 to 15 years; weighted average useful life is 11 years), buildings and improvements (5 to 40 years; weighted average useful life is 31 years) and equipment and fixtures (5 to 20 years; weighted average useful life is 8 years). Costs capitalized as construction in progress were $17.7 million and $54.7 million at December 31, 2002 and 2001, respectively, and are included in buildings and improvements. Expenditures for renovations and other significant improvements are capitalized; however, maintenance and repairs which do not improve or extend the useful lives of the respective assets are charged to operations as incurred. Interest capitalized in accordance with Statement of Financial Accounting Standards ("SFAS") No. 34, "*Capitalization of Interest Cost,*" was $3.5 million, $3.1 million and $2.5 million for the years ended December 31, 2002, 2001, and 2000, respectively.

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

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

Other Assets. Other assets consist of the noncurrent portion of deferred income taxes, costs associated with the issuance of debt, which are amortized over the life of the related debt using the effective interest method, and costs to recruit physicians to the Company's markets, which are deferred and amortized over the term of the respective physician recruitment contract, which is generally three years. Amortization of deferred financing costs is included in interest expense.

Third-Party Reimbursement. Net operating revenues include amounts estimated by management to be reimbursable by Medicare and Medicaid under prospective payment systems, provisions of cost-reimbursement and other payment methods. Approximately 44% of net operating revenues for the year ended

December 31, 2002, 45% for the year ended December 31, 2001, and 46% for the year ended December 31, 2000, are related to services rendered to patients covered by the Medicare and Medicaid programs. Included in the amounts received from Medicare, approximately 0.44% of net operating revenues for 2002, 0.52% for 2001 and 0.54% for 2000 relates to Medicare outlier payments. In addition, the Company is reimbursed by non-governmental payors using a variety of payment methodologies. Amounts received by the Company for treatment of patients covered by such programs are generally less than the standard billing rates. The differences between the estimated program reimbursement rates and the standard billing rates are accounted for as contractual adjustments, which are deducted from gross revenues to arrive at net operating revenues. Final settlements under certain of these programs are subject to adjustment based on administrative review and audit by third parties. Adjustments to the estimated billings are recorded in the periods that such adjustments become known. Adjustments to previous program reimbursement estimates are accounted for as contractual adjustments and reported in future periods as final settlements are determined. Adjustments related to final settlements or appeals increased revenue by an insignificant amount in each of the years ended December 31, 2002, 2001 and 2000. Net amounts due to third-party payors as of December 31, 2002 were $29 million and as of December 31, 2001 were $13 million and are included in accrued liabilities-other in the accompanying balance sheets. Since August 2000, Centers for Medicare and Medicaid Services has experienced delays in providing certain information needed to file Medicare cost reports, thus, an increase in cost report settlements due to Medicare has resulted. Substantially all Medicare and Medicaid cost reports are final settled through 1998.

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

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

Net Operating Revenues. Net operating revenues are recorded net of provisions for contractual adjustments of approximately $3,507 million, $2,427 million and $1,649 million in 2002, 2001 and 2000, respectively. Net operating revenues are recognized when services are provided. In the ordinary course

of business the Company renders services to patients who are financially unable to pay for hospital care. The value (at the Company's standard charges) of these services to patients who are unable to pay is eliminated prior to reporting net operating revenues and was $54.7 million, $43.3 million and $23.8 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Professional Liability Insurance Claims. The Company accrues 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. To the extent that subsequent claims information varies from management's estimates, the liability is adjusted currently.

Accounting for the Impairment or Disposal of Long-Lived Assets. In accordance with SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets," whenever events or changes in circumstances indicate that the carrying values of certain long-lived assets may be impaired, the Company projects the undiscounted cash flows expected to be generated by these assets. If the projections indicate that the reported amounts are not expected to be recovered, such amounts are reduced to their estimated fair value based on a quoted market price, if available, or an estimate based on valuation techniques available in the circumstances.

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

Comprehensive Income. SFAS No. 130, "Reporting Comprehensive Income," defines comprehensive income as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. "Accumulated other comprehensive income (loss)" of ($8.3) million net of income tax benefit of $5.3 million at December 31, 2002 and $0.8 million net of income tax expense of $0.4 million at December 31, 2001, represents the cumulative change in fair value of interest rate swap agreements at the respective balance sheet dates.

Stock-Based Compensation. The Company accounts for stock-based compensation using the intrinsic value method prescribed in APB Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Compensation cost, if any, is measured as the excess of the fair value of the Company's stock at the date of grant over the amount an employee must pay to acquire the stock. SFAS No. 123, "Accounting for Stock-Based Compensation," established accounting and disclosure requirements using a fair value based method of accounting for stock-based employee compensation plans; however, it allows an entity to continue to measure compensation for those plans using the intrinsic value method of accounting prescribed by APB Opinion No. 25. The Company has elected to continue to measure compensation under the method of accounting as described above, and has adopted the disclosure requirements of SFAS No. 123 and SFAS No. 148.

Under SFAS No. 123, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. The weighted-average fair value of each option granted during

2002, 2001 and 2000 were $7.62, $8.46 and $6.11, respectively. In 2002, 2001 and 2000 the exercise price of options granted was the same as the fair value of the related stock. The following weighted-average assumptions were used for grants in fiscal 2002, 2001 and 2000: risk-free interest rate of 2.38%, 3.71% and 6.46%; expected volatility of the Company's stock was 38% for 2002 and the expected volatility of the Company's common stock based on peer companies in the

healthcare industry was 57% and 58% for 2001 and 2000, respectively; no dividend yields; and expected life of the options of 4 years, 2 years and 3 years for options granted in 2002, 2001 and 2000, respectively.

Had the fair value of the options granted been recognized as compensation expense on a straight line basis over the vesting period of the grant, the Company's net income and income per share would have been reduced to the pro forma amounts indicated below (in thousands except per share data):

	Year Ended December 31		
	2002	2001	2000
Net income:	$ 99,984	$ 44,743	$ 9,569
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	4,310	4,492	2,662
Pro-forma net income	$ 95,674	$ 40,251	$ 6,907
Net income per share:			
Basic—as reported	$ 1.02	$ 0.51	$ 0.14
Basic—pro-forma	$ 0.97	$ 0.46	$ 0.10
Diluted—as reported	$ 1.00	$ 0.50	$ 0.14
Diluted—pro-forma	$ 0.96	$ 0.45	$ 0.10

Segment Reporting. SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information," requires that a public company report annual and interim financial and descriptive information about its reportable operating segments. Operating segments, as defined, are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. SFAS No. 131 allows aggregation of similar operating segments into a single operating segment if the businesses have similar economic characteristics and are considered similar under the criteria established by SFAS No. 131. The Company's operating segments have similar services, have similar types of patients, operate in a consistent manner and have similar economic and regulatory characteristics. Therefore, the Company has aggregated its operating segments into one reportable segment.

Derivative Instruments and Hedging Activities. In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", amended by SFAS No. 137 and SFAS No. 138. SFAS No. 133 establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded on the consolidated balance sheet as either an asset or liability measured at its fair value. SFAS 133 requires

that changes in a derivative's fair value be recorded each period in earnings or other comprehensive income ("OCI"), depending on whether the derivative is designated and is effective as a hedged transaction, and on the type of hedge transaction. Changes in the fair value of derivative instruments recorded to OCI are reclassified to earnings in the period affected by the underlying hedged item. Any portion of the fair value of a derivative instrument determined to be ineffective under the rules is recognized in current earnings. The adoption of SFAS No. 133, as amended, on January 1, 2001 did not have a material effect on the Company's consolidated financial position or results of operations.

The Company has entered into several interest rate swap agreements that fall under the scope of this pronouncement. See Note 6 for further discussion about the swap transactions.

New Accounting Pronouncements. Effective July 1, 2001, the Company adopted SFAS No. 141, "Business Combinations," and effective January 1, 2002, adopted SFAS No. 142, "Goodwill and Other Intangible Assets," related to the non-amortization of goodwill. Since adoption, existing goodwill is no longer amortized but assessed for impairment at least annually. The Company has selected September 30th as its annual assessment date. No impairment write-down occurred from the adoption of SFAS No. 142. The effect on net earnings of adopting SFAS No. 142 was a favorable increase per share (diluted) for the year ended December 31, 2002.

The following table sets forth a reconciliation of income before extraordinary item, income before extraordinary item per share, net income and net income per share, assuming that SFAS No. 142 was applied during all periods presented.

	Year Ended December 31,		
	2002	2001	2000
	(In Thousands)		

Income before extraordinary item:			
As reported	$ 105,258	$ 48,551	$ 9,569
Goodwill amortization, net of tax	—	24,806	23,114
As adjusted	$ 105,258	$ 73,357	$ 32,683
Net income:			
As reported	$ 99,984	$ 44,743	$ 9,569
Goodwill amortization, net of tax	—	24,806	23,114
As adjusted	$ 99,984	$ 69,549	$ 32,683
Income before extraordinary item per share—basic:			
As reported	$ 1.07	$ 0.55	$ 0.14
Goodwill amortization, net of tax	—	0.28	0.34
As adjusted	$ 1.07	$ 0.83	$ 0.48
Income before extraordinary item per share—diluted			
As reported	$ 1.05	$ 0.54	$ 0.14
Goodwill amortization, net of tax	—	0.27	0.33
As adjusted	$ 1.05	$ 0.81	$ 0.47
Net income per share—basic:			
As reported	$ 1.02	$ 0.51	$ 0.14
Goodwill amortization, net of tax	—	0.28	0.34
As adjusted	$ 1.02	$ 0.79	$ 0.48
Net income per share—diluted:			
As reported	$ 1.00	$ 0.50	$ 0.14
Goodwill amortization, net of tax	—	0.27	0.33
As adjusted	$ 1.00	$ 0.77	$ 0.47

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143, addresses accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This statement is effective for fiscal years beginning after June 15, 2002. Earlier application is encouraged. SFAS No. 143 establishes accounting standards for recognition and measurement of a liability for an asset retirement obligation and the associated retirement costs. This statement applies to all entities and to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction,

development and/or the normal operation of a long-lived asset, except for certain obligations of lessees. The implementation of SFAS No. 143 is not expected to have a material effect on our consolidated financial position or consolidated results of operations.

In August 2001, the FASB issued SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets." The provisions of this statement provide a single accounting model for impairment of long-lived assets and are effective for financial statements issued for fiscal years beginning after December 15, 2001. The provisions are generally to be applied prospectively. There was no impact on our results of operations from the adoption of this standard.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This statement rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt", and an amendment of that statement, SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." This statement also rescinds SFAS No. 44, "Accounting for Intangible Assets of Motor Carriers." This statement amends SFAS No. 13, "Accounting for Leases", to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The provisions of this statement related to the rescission of SFAS No. 4 are effective for fiscal years beginning after May 15, 2002. Therefore, this statement will have no impact on the financial statement presentation for the year ended December 31, 2002. Upon adoption, the extraordinary losses recognized in the year ended December 31, 2002 and the year ended December 31, 2001 will be reclassified within income from operations to conform to the provisions of SFAS No. 145. The provisions of this statement related to SFAS No. 13 are effective for transactions occurring after May 15, 2002. All other provisions of this statement are effective for financial statements issued on or after May 15, 2002. The implementation of these remaining provisions did not have a material effect on our consolidated financial position or consolidated results of operations.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the statement include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. The provisions of this statement are effective for exit or disposal activities initiated after December 31, 2002.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an Interpretation of FASB Statements No. 5, 57, and 107 and Rescission of FASB Interpretation No. 34" ("FIN No. 45"). The interpretation requires that upon issuance of a guarantee, the entity must recognize a liability for the fair value of the obligation it assumes under that guarantee. This interpretation is intended to improve the comparability of financial reporting by requiring identical accounting for guarantees issued with separately identified consideration and guarantees issued without separately identified consideration. For the company, the initial recognition and measurement provision of FIN No. 45 are applicable to guarantees issued or modified after December 31, 2002. The Company

is currently evaluating what impact, if any, adoption of FIN No. 45 will have on its consolidated financial position and consolidated results of operations. The disclosure requirements of FIN No. 45 are effective for the Company as of December 31, 2002. The required disclosures are included in Note 12.

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 the Company has 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 the Company's consolidated financial position or consolidated results of operation. The Company has included the disclosures in accordance with SFAS No. 148 in this Note 1.

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 January 31, 2003, and to interests obtained in VIE's before January 31, 2003. The Company does not expect adoption of this interpretation to have a material effect on our consolidated financial position or consolidated results of operations.

Reclassifications. Certain amounts presented in prior year's financial statements have been reclassified to conform with the current year presentation.

2. Long-Term Leases and Purchases of Hospitals

The business combinations completed by the Company during 2002 and 2001 are disclosed in accordance with the provisions of SFAS No. 141. During 2002, the Company acquired through six separate purchase transactions, most of the assets and working capital of six hospitals. On January 1, 2002, the Company acquired Gateway Regional Medical Center, a 396-bed hospital located in Granite City, Illinois. On March 1, 2002, the Company acquired Helena Regional Medical Center, a 155-bed hospital located in Helena, Arkansas. On June 30, 2002, the Company acquired Plateau Medical Center, a 90-bed hospital located in Oak Hill, West Virginia. On August 1, 2002, the Company acquired Lock Haven Hospital, a 77-bed hospital located in Lock Haven, Pennsylvania. On September 30, 2002 the Company acquired Memorial Hospital of Salem County, a 140-bed hospital located in Salem, New Jersey. On December 1, 2002, the Company acquired Lake Wales Medical Center, a 154-bed hospital located in Lake Wales, Florida. The consideration for the six hospitals totaled $173 million, consisting of $138 million in cash and $35 million in assumed liabilities. Goodwill

recognized in these purchase transactions totaled $18 million. Goodwill recorded during 2002 is expected to be fully deductible for tax purposes.

During 2001, the Company acquired, through five separate purchase transactions, most of the assets and working capital of five hospitals. On June 1, 2001, the Company acquired Brandywine Hospital, a 168-bed hospital located in Coatesville, Pennsylvania. On September 1, 2001, the Company acquired Red Bud Regional Hospital, a 103-bed hospital in Red Bud, Illinois. On October 1, 2001, the Company acquired Jennersville Regional Hospital, a 59-bed hospital located in West Grove, Pennsylvania and Easton Hospital, a 369-bed hospital located in Easton, Pennsylvania. On November 1, 2001, the Company acquired South Texas Regional Medical Center, a 57-bed hospital located in Jourdanton, Texas. The consideration for the five hospitals totaled $225 million consisting of $143 million in cash, which was borrowed under the acquisition loan facilities, and assumed liabilities of $82 million. Goodwill recognized in these purchase transactions totaled $49 million. Goodwill of $34 million related to acquisitions dated after June 30, 2001; no amortization of such goodwill has been included in the consolidated financial statements. Goodwill recorded during 2001 is expected to be fully deductible for tax purposes.

During 2000, the Company acquired five hospitals through purchase transactions, effective in March, April, July, October and December and acquired two hospitals through capital lease transactions, effective in April and June, respectively. The consideration for the seven hospitals totaled $247 million. The consideration consisted of $148 million in cash, which was borrowed under the acquisition loan facilities, and assumed liabilities of $99 million. The entire lease obligation relating to each lease transaction was prepaid. The prepayment was included as part of the cash consideration. Licensed beds at these seven hospitals totaled 607 beds.

The foregoing acquisitions were accounted for using the purchase method of accounting. The allocation of the purchase price has been determined by the Company based upon available information and, for acquisition transactions closed in 2002, is subject to obtaining final asset valuations prepared by independent appraisers, and settling amounts related to purchased working capital. Independent asset valuations are generally completed within 120 days of the date of

acquisition; working capital settlements are generally made within 180 days of the date of acquisition. Adjustments to the purchase price allocation are not expected to be material.

The table below summarizes the allocations of the purchase price (including assumed liabilities) for these acquisitions (in thousands):

	2002	2001	2000
Current assets	$ 35,517	$ 48,805	$ 39,844
Property and equipment	119,440	127,209	84,512
Goodwill and other intangibles	18,228	49,335	122,585

The operating results of the foregoing hospitals have been included in the consolidated statements of operations from their respective dates of acquisition. The following pro forma combined summary of operations of the Company gives effect to using historical information of the operations of the hospitals

purchased in 2002 and 2001 as if the acquisitions had occurred as of January 1, 2001 (in thousands except per share data):

	Year Ended December 31,	
	2002	2001
Pro forma net operating revenues	$ 2,290,729	$ 2,070,811
Pro forma income before extraordinary item	95,574	22,625
Pro forma net income	90,300	18,817
Pro forma net income per share:		
Basic	$ 0.92	$ 0.21
Diluted	$ 0.90	$ 0.21

3. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the twelve months ended December 31, 2002, are as follows (in thousands):

	Total
Balance as of January 1, 2002	$ 999,525
Goodwill acquired as part of acquisitions during 2002	18,228
Consideration adjustments and finalization of purchase price allocations for acquisitions completed prior to 2002	12,222
Balance as of December 31, 2002	$ 1,029,975

The Company performed its initial goodwill 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.

As required by SFAS No. 142, intangible assets that do not meet the criteria for separate recognition must be reclassified and included as part of goodwill. As a result of our analysis, no reclassifications to goodwill were required as of January 1, 2002. The gross carrying amount of the Company's other intangible assets was $3.7 million as of December 31, 2002 and $3.1 million as of December 31, 2001, and the net carrying amount was $2.6 million and $2.3 million as of December 31, 2002 and December 31, 2001, respectively. Other intangible assets are included in Other assets, net on the Company's balance sheets.

The weighted average amortization period for the intangible assets subject to amortization is approximately 12 years. There are no expected residual values related to these intangible assets. Amortization expense for these intangible assets was $0.3 million and $0.1 million during the years ended December 31, 2002 and 2001, respectively. Amortization expense on intangible assets is estimated to be $0.3 million in 2003, $0.3 million in 2004, $0.2 million in 2005, $0.2 million in 2006, and $0.1 million in 2007.

4. Income Taxes

The provision for income taxes consists of the following (in thousands):

	Year Ended December 31,		
	2002	2001	2000
Current			
Federal	$ 13,935	$ 1,693	$ 195
State	8,960	4,688	1,328
	22,895	6,381	1,523

Deferred			
Federal	43,882	35,704	16,519
State	6,615	3,859	131
	50,497	39,563	16,650
Total provision for income taxes	$ 73,392	$ 45,944	$ 18,173

The following table reconciles the differences between the statutory federal income tax rate and the effective tax rate (dollars in thousands):

	Year Ended December 31,					
	2002		2001		2000	
	Amount	%	Amount	%	Amount	%
Provision for income taxes at statutory federal rate	$ 62,528	35.0%	$ 33,073	35.0%	$ 9,710	35.0%
State income taxes, net of federal income tax benefit	10,124	5.7	5,670	6.0	1,459	5.3
Non-deductible goodwill amortization	—	—	6,691	7.1	6,675	24.0
Other	740	0.4	510	0.5	329	1.2
Provision for income taxes and effective tax rate	$ 73,392	41.1%	$ 45,944	48.6%	$ 18,173	65.5%

Deferred income taxes are based on the estimated future tax effects of differences between the financial statement and tax bases of assets and liabilities under the provisions of the enacted tax laws. Deferred income taxes as of December 31, consist of (in thousands):

	2002		2001	
	Assets	Liabilities	Assets	Liabilities
Net operating loss and credit carryforwards	$ 38,049	$ —	$ 61,706	$ —
Property and equipment	—	72,384	—	56,658
Self-insurance liabilities	8,825	—	5,754	—
Intangibles	—	33,538	—	25,499
Other liabilities	—	2,190	—	2,193
Long-term debt and interest	1,025	—	—	1,620
Accounts receivable	16,206	—	12,739	—
Accrued expenses	4,368	—	5,903	—
Other comprehensive income	5,588	—	—	478
Other	2,811	3,073	4,083	420
	76,872	111,185	90,185	86,868
Valuation allowance	(15,123)	—	(14,581)	—
Total deferred income taxes	$ 61,749	$ 111,185	$ 75,604	$ 86,868

Management believes that the net deferred tax assets will ultimately be realized, except as noted below. Management's conclusion is based on its estimate of future taxable income and the expected timing of temporary difference reversals. The Company has federal alternative minimum tax credit carryforwards of approximately $17 million which may be carried forward indefinitely and state net operating loss carryforwards of approximately $340 million which expire from 2003 to 2022.

The valuation allowance of $13.2 million, relating primarily to state net operating losses, recognized in June 1996, the date the Company's operating company was acquired (the "Acquisition") by affiliates of Forstmann Little & Co. ("FL & Co."), was reduced by approximately $4.0 million and $3.6 million in 2002 and 2001, respectively. The $4.0 million reduction in 2002 relates to net operating losses and credits that management believes will ultimately be realized. The $3.6 million reduction in 2001 includes a $1.7 million direct write-off of expired net operating losses and credits and a $1.9 million utilization of net operating losses. No benefit was recorded for the utilization in 2002 or the expected utilization of state operating losses incurred in pre-FL & Co. acquisition years, as a valuation allowance attributable to these losses had previously been recorded in goodwill. Accordingly, goodwill was reduced in 2002 for the tax benefit realized through the actual utilization of these losses in 2002 or the expected utilization of these losses in future years. Likewise, any future benefits attributable to a decrease in the valuation allowance recognized at the date of acquisition by FL & Co. will be recorded as a reduction in goodwill. In this regard, at December 31, 2002, the remaining valuation allowance recorded pursuant to the Acquisition is $2.4 million. The valuation allowance increased by $0.5 million and decreased by $1.4 million during the years ended December 31, 2002 and 2001, respectively. In addition to amounts previously discussed, the change in valuation allowance relates to a redetermination of the amount, and realizability of net operating losses in certain state income tax jurisdictions.

4. Income Taxes (Continued)

In addition to the amount paid for federal income tax examinations discussed below, the Company paid income taxes, net of refunds received, of $15.7 million, $2.5 million and $1.5 million during 2002, 2001 and 2000, respectively.

Federal Income Tax Examinations. In 2001, the Company settled the Internal Revenue Service examinations of its filed federal income tax returns for the tax periods ended December 31, 1993 through December 31, 1996. In that settlement, the Company agreed to several adjustments, primarily involving temporary or timing differences, and paid approximately $8.5 million, in satisfaction of the resulting federal income taxes and interest. The Internal Revenue Service examinations did not have a material financial impact on the Company.

5. Long-Term Debt

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

	As of December 31,	
	2002	2001
Credit Facilities:		
Revolving Credit Loans	$ —	$ —
Acquisition Loans	—	103,000
Term Loans	847,875	558,586
Convertible Notes	287,500	287,500
Taxable bonds	—	22,500
Tax-exempt bonds	8,000	8,000
Capital lease obligations (see Note 7)	26,462	17,914
Term loans from acquisitions	10,800	30,018
Other	11,821	11,256
Total debt	1,192,458	1,038,774
Less current maturities	(18,529)	(58,691)
Total long-term debt	$ 1,173,929	$ 980,083

Credit Facilities. On July 16, 2002, the Company entered into a $1.2 billion senior secured credit facility with a consortium of lenders. The facility replaced the 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 six-year $350 million revolving credit facility that matures in 2008 (as opposed to 2004 under the previous facility). The Company 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. The Company also pays 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, the Company will pay fees for each letter of credit issued under the credit facility. The facility has a feature that allows for an additional $200 million of future funded term loans. 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 December 31, 2002, our availability for additional borrowings under our revolving credit facility was approximately $350 million and under our term loan was $200 million. As of December 31, 2002, the Company's weighted average interest rate under the Company's credit agreement was 4.39%.

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. The Company would be required to amend the existing credit agreement in order to pay dividends to its 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 the Company refinanced.

The Term Loans are scheduled to be paid with principal payments for future years as follows (in thousands):

2003	$ 8,500
2004	8,500
2005	8,500
2006	8,500
2007	8,500
Thereafter	805,375
Total	$ 847,875

In 1996, a $900 million credit agreement was entered into with a consortium of creditors (the "Credit Agreement"). During 2001, the Credit Agreement was twice amended. On July 19, 2001, the maturity of the revolving credit facility and acquisition loan facility was extended to January 2, 2004. Additionally, future scheduled reductions of availability were eliminated. The Credit Agreement was again amended on September 13, 2001 allowing the Company to repay the $500 million subordinated debentures outstanding and allowing the Company to issue both convertible debt and common stock without requiring debt repayments on outstanding balances under the Credit Agreement in preparation of the offering the Company completed in October 2001.

The Company could have elected that all or a portion of the borrowings under the Credit Agreement bear interest at a rate per annum equal to (a) an annual benchmark rate, which will be equal to the greatest of (i) "Prime Rate," (ii) the "Base" CD Rate plus 1% or (iii) the Federal Funds effective rate plus 50 basis points (the "ABR") or (b) the Eurodollar Rate, in each case increased by the applicable margin (the "Applicable Margin") which varied between 1.50% and 3.00% per annum. The applicable margin on the Revolving Credit Loans, Acquisition Loans and Tranche A Loan was subject to a reduction based on achievement of certain levels of total senior indebtedness to annualized consolidated EBITDA, as defined in the Credit Agreement and subsequent amendments. The Company was also required to pay a quarterly commitment fee at a rate which ranged from 0.375% to 0.625%

based on the Eurodollar Applicable Margin for Revolving Credit Loans. This rate was applied to unused commitments under the Revolving Credit Loans and the Acquisition Loans. The Company was also required to pay letters of credit fees at rates which vary from 1.50% to 3.00%.

This Credit Agreement was replaced with the credit facility entered into on July 16, 2002.

As of December 31, 2002 and 2001, the Company had letters of credit issued, primarily in support of certain bonds of approximately $13 million and $35 million, respectively.

Convertible Notes. On October 15, 2001, the Company sold $287.5 million aggregate principal amount (including the underwriter's over-allotment option) of 4.25% convertible notes for face value. The notes mature on October 15, 2008 unless converted or redeemed earlier. Interest on the notes is payable semi-annually on April 15 and October 15 of each year. The interest payments commenced April 15, 2002. The notes are convertible, at the option of the holder, into shares of the Company's common stock at any time before the maturity date, unless the Company has previously redeemed or repurchased the notes, at a conversion rate of 29.8507 shares of common stock per $1,000 principal amount of notes. The conversion rate is subject to anti-dilution adjustment in some events.

Prior to October 15, 2005, if the price of the Company's common stock has exceeded 150% of the conversion price for at least 20 trading days in the consecutive 30-day trading period ending on the trading day prior to the date of mailing of the notice of redemption, the Company has the right at any time to redeem some or all of the notes at a redemption price of 100% of their principal amount plus accrued and unpaid interest to the redemption date. In this case, the Company must make an additional "make whole" payment in cash or at the Company's option, common stock or a combination of cash and common stock equal to $170 per $1,000 principal amount of notes, minus the amount of any interest actually paid or accrued and unpaid on each $1,000 principal amount of redeemed notes prior to the date the Company redeems the notes.

On or after October 15, 2005, the Company has the right to redeem the notes, in whole or from time to time in part, at redemption prices, expressed as a percentage of the principal amount, together with accrued and unpaid interest to the redemption date, as follows for the 12-month period beginning on:

October 15, 2005	101.821%
October 15, 2006	101.214%
October 15, 2007	100.607%
Thereafter	100.000%

Taxable Bonds and Tax-Exempt Bonds. Tax-Exempt Bonds bore interest at floating rates which averaged 1.44% and 2.70% during 2002 and 2001, respectively. Taxable Bonds were repaid by the Company with proceeds from the $1.2 billion senior secured credit facility entered into by the Company in July 2002.

Term Loans from Acquisitions. In connection with the acquisition of hospitals in December 2000 and 2001, the Company assumed certain debt. The majority of these loans were repaid with proceeds from the $1.2 billion senior secured credit facility entered into by the Company in July, 2002.

Other Debt. As of December 31, 2002, other debt consisted primarily of an industrial revenue bond and other obligations maturing in various installments through 2014.

The Company has entered into four separate interest rate swap agreements to limit the effect of changes in interest rates on a portion of its long-term borrowings. Under three agreements, entered into on November 20, 2001, 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, dated November 1, 2002, the Company pays interest at a fixed rate of 3.30% on $150 million notional amount of indebtedness. The Company receives a variable rate of interest under 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. The swaps expire as follows: $100 million in November 2003, $100 million in November 2004, $100 million in November 2005 and $150 million in November 2007.

As of December 31, 2002, the scheduled maturities of long-term debt outstanding, including capital leases, for each of the next five years and thereafter are as follows (in thousands):

2003	$ 18,529
2004	18,386
2005	19,431
2006	12,120

2007	12,096
Thereafter	1,111,896
	$ 1,192,458

The Company paid interest of $59 million, $107 million and $115 million on borrowings during the years ended December 31, 2002, 2001 and 2000, respectively.

6. Fair Values of Financial Instruments

The fair value of financial instruments has been estimated by the Company using available market information as of December 31, 2002 and 2001, and valuation methodologies considered appropriate.

The estimates presented are not necessarily indicative of amounts the Company could realize in a current market exchange (in thousands):

	As of December 31,			
	2002		2001	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Cash and cash equivalents	$ 132,844	$ 132,844	$ 8,386	$ 8,386
Liabilities:				
Credit facilities	847,875	844,166	661,586	665,789
Convertible Notes	287,500	284,729	287,500	286,120
Taxable Bonds	—	—	22,500	22,500
Tax-exempt Bonds	8,000	8,000	8,000	8,000
Term loans from acquisitions	10,800	10,800	30,018	30,018
Other debt	11,821	11,821	11,256	11,256

Cash and cash equivalents. The carrying amount approximates fair value due to the short term maturity of these instruments (less than three months).

Credit facilities, term loans from acquisitions and other debt. Estimated fair value is based on information from the Company's bankers regarding relevant pricing for trading activity among the Company's lending institutions.

Convertible Notes. Estimated fair value is based on the average bid and ask price as quoted in public markets for these instruments.

Interest Rate Swaps. During 2002, the Company entered into an interest rate swap whereby the Company will pay the counterparty interest at a fixed rate and the counterparty will pay the Company interest at a floating rate equal to the three month London Inter-Bank Offer Rate ("LIBOR") on a quarterly basis. The notional amount of the swap entered into during 2002 was $150 million at a fixed interest rate of 3.3%. The maturity date is November 4, 2007. During 2001, the Company entered into three interest rate swap agreements whereby the Company will pay the counterparty interest at a fixed rate and the counterparty will pay the Company interest at a floating rate equal to the three-month LIBOR interest rate. The fair value of interest rate swap agreements is the amount at which they could be settled, based on estimates obtained from the counterparty. The Company has designated the interest rate swaps as cash flow hedge instruments whose recorded value in the consolidated balance sheet approximates fair market value. The Company assesses the effectiveness of its hedge instruments on a quarterly basis. For the years ended December 31, 2002 and 2001, the Company completed an assessment of the cash flow hedge instruments and determined the hedge to be highly effective. The Company has also determined that the ineffective portion of the hedge does not have a material effect on the Company's consolidated financial position, operations or cash flows. The counterparty to the interest rate swap agreements exposes the Company to credit risk in the event of non-performance. However, the Company does not anticipate non-performance by the counterparty. The Company does

not hold or issue derivative financial instruments for trading purposes. Swaps consisted of the following at December 31, 2002:

Swap #1	
Notional amount	$100 million
Fixed interest rate	3.37%
Termination date	November 28, 2003
Fair value	$1.8 million
Swap #2	
Notional amount	$100 million
Fixed interest rate	4.03%
Termination date	November 30, 2004
Fair value	$4.2 million
Swap #3	

Notional amount	$100 million
Fixed interest rate	4.46%
Termination date	November 30, 2005
Fair value	$6.1 million
Swap #4	
Notional amount	$150 million
Fixed interest rate	3.30%
Termination date	November 4, 2007
Fair value	$1.5 million

Assuming no change in December 31, 2002 interest rates, approximately $10.4 million will be charged to earnings through interest expense during the year ending December 31, 2003 pursuant to the interest rate swap agreements. If interest rate swaps do not remain highly effective as a cash flow hedge, the derivatives' gains or losses reported through other comprehensive income will be reclassified into earnings.

7. Leases

The Company leases hospitals, medical office buildings, and certain equipment under capital and operating lease agreements. During 2002, the Company entered into $8.4 million of capital leases pursuant to the construction of replacement hospitals. All lease agreements generally require the Company to pay maintenance, repairs, property taxes and insurance costs. Commitments relating to noncancellable operating and capital leases for each of the next five years and thereafter are as follows (in thousands):

Year ended December 31,	Operating	Capital
2003	$ 41,834	$ 7,751
2004	37,043	6,353
2005	30,217	10,146
2006	20,427	2,502
2007	14,651	3,043
Thereafter	40,648	4,913
Total minimum future payments	$ 184,820	$ 34,708
Less debt discounts		(8,246)
		26,462
Less current portion		(5,154)
Long-term capital lease obligations		$ 21,308

Assets capitalized under capital leases as reflected in the accompanying consolidated balance sheets were $9.9 million of land and improvements, $79.3 million of buildings and improvements, and $38.2 million of equipment and fixtures as of December 31, 2002 and $9.9 million of land and improvements, $77.6 million of buildings and improvements and $31.5 million of equipment and fixtures as of December 31, 2001. The accumulated depreciation related to assets under capital leases was $40.3 million and $28.0 million as of December 31, 2002 and 2001, respectively. Depreciation of assets under capital leases is included in depreciation and amortization and amortization of debt discounts on capital lease obligations is included in interest expense in the consolidated statements of operations.

8. Employee Benefit Plans

The Company has a defined contribution plan that is qualified under Section 401(k) of the Internal Revenue Code, which covers all eligible employees at its hospitals, clinics, and the corporate offices. Participants may contribute a portion of their compensation not exceeding a limit set annually by the Internal Revenue Service. This plan includes a provision for the Company to match a portion of employee contributions. The Company also provides a defined contribution welfare benefit plan for post-termination benefits to executive and middle management employees. Total expense under the 401(k) plan was $5.7 million, $3.5 million and $2.8 million for the years ended December 31, 2002, 2001 and 2000, respectively. Total expense under the welfare benefit plan was $0.7 million, $0.5 million and $0.7 million for the years ended December 31, 2002, 2001 and 2000, respectively.

9. Stockholders' Equity

On June 14, 2000, the Company closed its initial public offering of 18,750,000 shares of common stock; and on July 3, 2000, the underwriters exercised their overallotment option and purchased 1,675,717 shares of common stock. These shares were offered at $13.00 per share. On November 3, 2000, the Company completed an offering of 18,000,000 shares of its common stock at an offering price of $28.1875. Of these shares, 8,000,000 shares were sold by affiliates of FL & Co. and other shareholders. On October 15, 2001, the Company completed another offering of 12,000,000 shares of its common stock concurrent with its notes offering at an offering price of $26.80. The net proceeds to the Company from the 2001 and the two 2000 common stock offerings were $306.1 million and $514.5 million, respectively, in the aggregate and were used to repay long-term debt.

Authorized capital shares of the Company include 400,000,000 shares of capital stock consisting of 300,000,000 shares of common stock and 100,000,000 shares of Preferred Stock. Each of the aforementioned classes of capital stock has a par value of $.01 per share. Shares of Preferred Stock, none of which are outstanding as of December 31, 2001, may be issued in one or more series having such rights, preferences and other provisions as determined by the Board of Directors without approval by the holders of common stock.

Common shares held by employees that were acquired directly from the Company are the subject of a stockholder's agreement under which each share, until vested, is subject to repurchase upon termination of employment. Shares vest, on a cumulative basis, each year at a rate of 20% of the total shares issued beginning after the first anniversary date of the purchase. Further, under the stockholder's agreement, shares of common stock held by stockholders other than FL & Co. will only be transferable together with shares transferred by FL & Co. until FL & Co.'s ownership falls below 25%.

During 1997, the Company granted options to purchase 191,614 shares of common stock to non-employee directors at an exercise price of $8.96 per share. These options are fully vested and expire ten years from the date of grant. As of December 31, 2002, 153,158 non-employee director options to purchase common stock were exercisable with a weighted average remaining contractual life of 4.5 years.

In November 1996, the Board of Directors approved an Employee Stock Option Plan (the "1996 Plan") to provide incentives to key employees of the Company. Options to purchase up to 756,636 shares of common stock are authorized under the 1996 Plan. All options granted pursuant to the 1996 Plan are generally exercisable each year on a cumulative basis at a rate of 20% of the total number of common shares covered by the option beginning one year from the date of grant and expiring ten years from the date of grant. There will be no additional grants of options under the 1996 Plan.

In April 2000, the Board of Directors approved the 2000 Stock Option and Award Plan (the "2000 Plan"). The 2000 Plan provides for the grant of incentive stock options intended to qualify under Section 422 of the Internal Revenue Code as well as stock options which do not so qualify, stock appreciation rights, restricted stock, performance units and performance shares, phantom stock awards and share awards. Persons eligible to receive grants under the 2000 Plan include the Company's directors, officers, employees and consultants. Options to purchase 4,562,791 shares of common stock are authorized under the 2000 Plan. All options granted pursuant to the 2000 Plan are generally exercisable each year on a cumulative basis at a rate of $33\frac{1}{3}$% of the total number of common shares covered by the option beginning on the first anniversary of the date of grant and expiring ten years from the date of grant. As of December 31, 2002, a total of 4,560,900 options have been granted under

the 2000 Plan and 240,940 shares of unissued common stock remain reserved for future grants under the 2000 Plan.

The options granted are "nonqualified" for tax purposes. For financial reporting purposes, the exercise price of certain option grants under the 1996 plan were considered to be below the fair value of the stock at the time of grant. The fair value of those grants was determined based on an appraisal conducted by an independent appraisal firm as of the relevant date. The aggregate differences between fair value and the exercise price is being charged to compensation expense over the relevant vesting periods. Such expense aggregated $26,000, $44,000 and $74,000 in 2002, 2001 and 2000, respectively. Options granted under the 2000 Plan were granted to employees at the fair value of the related stock.

A summary of the number of shares of common stock issuable upon the exercise of options under the Company's 1996 Plan and 2000 Plan for fiscal 2002, 2001 and 2000 and changes during those years is presented below:

	Shares	Price Range	Weighted Average Price
Balance at December 31, 1999	550,242	$ 6.99	$ 6.99
Granted	3,943,000	13.00-31.70	13.69
Exercised	(78,284)	6.99	6.99
Forfeited or canceled	(83,927)	6.99-20.06	9.40
Balance at December 31, 2000	4,331,031	$ 6.99-31.70	$ 13.05
Granted	224,400	23.00-29.39	24.85
Exercised	(218,277)	6.99-20.06	12.79
Forfeited or canceled	(138,498)	6.99-31.70	13.60
Balance at December 31, 2001	4,198,656	$ 6.99-31.70	$ 13.74
Granted	393,500	20.25-27.70	23.05
Exercised	(203,295)	6.99-23.00	12.64
Forfeited or canceled	(119,183)	6.99-31.70	19.10
Balance at December 31, 2002	4,269,678	$ 6.99-31.70	$ 14.50

The following table summarizes information concerning currently outstanding and exercisable options:

Options Outstanding				Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$6.99	323,464	4.9 years	$ 6.99	269,635	$ 6.99
$13.00 - 31.70	3,946,215	7.7 years	$ 15.11	2,207,409	$ 14.06

The effect of net income and earnings per share if the Company applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation is disclosed in Note 1.

10. Earnings Per Share

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

	Year Ended December 31,		
	2002	2001	2000
Numerator:			
Numerator for basic earnings per share—			
Income before extraordinary item	$ 105,258	$ 48,551	$ 9,569
Loss from early extinguishment of debt, net of tax	5,274	3,808	—
Net income available to common stockholders—basic	$ 99,984	$ 44,743	$ 9,569
Numerator for diluted earnings per share—			
Income before extraordinary item	$ 105,258	$ 48,551	$ 9,569
Interest, net of tax, on 4.25% convertible notes	8,757	—	—
Income before extraordinary item—diluted	114,015	48,551	9,569
Loss from early extinguishment of debt, net of tax	5,274	3,808	—
Net income available to common stockholders—diluted	$ 108,741	$ 44,743	$ 9,569
Denominator:			
Weighted-average number of shares outstanding—basic	98,421,052	88,382,443	67,610,399
Effect of dilutive securities:			
Non-employee director options	58,783	65,245	54,885
Unvested common shares	228,427	490,158	802,471
Employee options	1,087,793	1,313,582	719,436
4.25% Convertible notes	8,582,076	—	—
Weighted-average number of shares outstanding—diluted	108,378,131	90,251,428	69,187,191
Dilutive securities outstanding not included in the computation of earnings per share because their effect is antidilutive:			
Employee options	401,532	179,100	—
4.25% Convertible notes	—	8,582,076	—

11. Extraordinary Item

During 2002, the Company incurred an extraordinary charge of $8.7 million ($5.3 million, net of tax) or $0.05 per diluted share, net of tax related to the write-off of deferred financing costs in connection with the early repayment of the Company's existing credit facilities.

During 2001, the Company incurred an extraordinary charge of $6.2 million ($3.8 million, net of tax) or $0.04 per diluted share, net of tax related to the write-off of deferred financing costs in connection with the early repayment of subordinated debentures.

12. Commitments and Contingencies

Construction Commitments. As of December 31, 2002, the Company has obligations under certain hospital purchase agreements to construct two hospitals through 2004 with an aggregate estimated construction cost, including equipment, of approximately $60 million. Of this amount, approximately $10 million has been expended through December 31, 2002. We expect to spend an additional $35 to $38 million in replacement hospital construction and equipment costs during 2003.

Physician Recruiting Commitments. As part of our physician recruitment strategy, the Company provides income guarantee agreements to certain physicians who agree to relocate to our communities and commit to remain in practice there. Under such agreements, the Company is required to make payments to the physicians in excess of the amounts they earned in their practice up to the amount of the income guarantee. These income guarantee periods are typically for 12 months. Such payments are recoverable by the Company from physicians who do not fulfill their commitment period, which is typically three years, to the respective community. At December 31, 2002, the maximum potential amount of future payments under these guarantees is $18.5 million.

Other. At December 31, 2002, the Company has commitments whereby the Company has guaranteed rental income to the owners of a medical office building. The Company would only be required to perform under these commitments if the office space is not otherwise leased to physicians. The maximum potential amount of future payments under this commitment is $1.7 million.

At December 31, 2002, the Company has commitments whereby the Company has guaranteed certain debt instruments of various joint ventures of which the Company is a minority investor. The Company would only be required to perform under these commitments if the joint ventures are unable to meet their obligations. The maximum potential amount of future payments under these commitments is $4.4 million.

Professional Liability Risks. Substantially all of the Company's professional and general liability risks are subject to a per occurrence deductible; these deductibles were $0.5 million per occurrence for claims reported prior to June 1, 2002 and $2.0 million per occurrence for claims reported June 1, 2002 and thereafter. The Company's insurance is underwritten on a "claims-made basis." The Company accrues an estimated liability for its uninsured exposure and self-insured retention based on historical loss patterns and actuarial projections. The Company's estimated liability for the self-insured portion of professional and general liability claims was $22.4 and $13.8 million as of December 31, 2002 and 2001, respectively. These estimated liabilities represent the present value of estimated future professional liability claims payments based on expected loss patterns using a weighted-average discount rate of 3.4% and 3.85% in 2002 and 2001, respectively. The weighted-average discount rate is based on an estimate of the risk-free interest rate for the duration of the expected claim payments. The estimated undiscounted claims liability was $24.5 million and $16.7 million as of December 31, 2002 and 2001, respectively. The Company is a minority investor in a captive insurance company through which it purchases coverage from $2.0 million to $5.0 million per claim.

Legal Matters. The Company is a party to legal proceedings incidental to its business. In the opinion of management, any ultimate liability with respect to these actions will not have a material adverse effect on the Company's consolidated financial position, cash flows or results of operations.

13. Related Party Transactions

Notes receivable for common shares held by employees, as disclosed on the consolidated balance sheets, represent the outstanding balance of notes accepted by the Company as partial payment for the purchase of the common shares from senior management employees. These notes bear interest at 6.84%, are full recourse promissory notes and are secured by the shares to which they relate. Each of the full recourse promissory notes mature on the fifth anniversary date of the note, with accelerated maturities in case of employee termination, Company stock repurchases, or stockholder's sale of common stock. Employees have fully paid for purchases of common stock by cash or by a combination of cash and full recourse promissory notes. These notes were fully repaid in 2002.

The Company purchased marketing services and materials at a cost of $195,791, $207,573 and $239,400 in 2002, 2001 and 2000, respectively, from a company owned by the spouse of one of the Company's officers.

14. Subsequent Events

Effective January 1, 2003, the Company acquired seven hospitals from Methodist Healthcare Corporation of Memphis, Tennessee in a single purchase transaction. These seven hospitals are located in Western Tennessee and have a combined 676 licensed beds. The aggregate consideration for these seven hospitals totaled approximately $148 million. On January 14, 2003 the Company announced the signing of a definitive agreement to acquire Southside Regional Medical Center in Petersburg, Virginia. Included in this acquisition is a 408-bed hospital, several satellite clinics and two paramedical education programs and a commitment to build a replacement hospital. This transaction is subject to regulatory approvals.

On January 23, 2003, the Company announced an open market share repurchase program for up to five million shares. The share repurchase program commenced immediately and will conclude at the earlier of three years or when the maximum number of shares have been repurchased. As of February 18, 2003, the Company has repurchased 500,000 shares at a weighted average cost of $18.14 per share.

15. Quarterly Financial Data (Unaudited)

	Quarter				
	1st	2nd	3rd	4th	Total
	(In Thousands, Except Share and Per Share Data)				
Year ended December 31, 2002:					
Net operating revenues	$ 533,519	$ 530,582	$ 552,841	$ 583,475	$ 2,200,417
Income before extraordinary item and taxes	46,426	41,292	43,199	47,733	178,650
Income before extraordinary item	27,176	24,241	25,430	28,411	105,258
Income per share before extraordinary item:					
Basic	0.28	0.25	0.26	0.29	1.07
Diluted	0.27	0.24	0.25	0.28	1.05
Net Income	27,176	24,241	20,156	28,411	99,984
Net Income per share:					
Basic	0.28	0.25	0.21	0.29	1.02
Diluted	0.27	0.24	0.21	0.28	1.00
Weighted average number of					

shares:					
Basic	98,111,557	98,267,874	98,533,822	98,571,812	98,421,052
Diluted	108,171,728	99,843,632	108,512,718	108,396,886	108,738,131
Year ended December 31, 2001:					
Net operating revenues	$ 398,645	$ 400,909	$ 416,569	$ 477,502	$ 1,693,625
Income before extraordinary item and taxes	21,188	19,548	19,854	33,905	94,495
Income before extraordinary item	10,848	9,651	10,041	18,011	48,551
Income per share before extraordinary item:					
Basic	0.13	0.11	0.12	0.19	0.55
Diluted	0.12	0.11	0.11	0.18	0.54
Net income	10,848	9,651	10,041	14,203	44,743
Net income per share:					
Basic	0.13	0.11	0.12	0.15	0.51
Diluted	0.12	0.11	0.11	0.15	0.50
Weighted average number of shares:					
Basic	85,528,371	85,713,343	85,944,773	96,147,143	88,382,443
Diluted	87,576,420	87,517,797	87,833,430	97,881,593	90,251,428

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information required by this Item is incorporated herein by reference to the Company's proxy statement to be filed under Regulation 14A in connection with the Annual Meeting of Stockholders of the Company scheduled to be held on May 22, 2003 under "Election of Directors."

Item 11. Executive Compensation

The information required by this Item is incorporated herein by reference to the Company's proxy statement to be filed under Regulation 14A in connection with the Annual Meeting of the Stockholders of the Company scheduled to be held on May 22, 2003 under "Executive Compensation."

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by this Item is incorporated herein by reference to the Company's proxy statement to be filed under Regulation 14A in connection with the Annual Meeting of Stockholders of the Company scheduled to be held on May 22, 2003 under "Security Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information."

Item 13. Certain Relationships and Related Transactions

The information required by this Item is incorporated herein by reference to the Company's proxy statement to be filed under Regulation 14A in connection with the Annual Meeting of Stockholders of the Company scheduled to be held on May 22, 2003 under "Certain Transactions."

Item 14. Controls and Procedures

Within the 90 days prior to the date of this Form 10-K, an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer (Principal Financial Officer) of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective. There has been no significant change in the Company's financial internal controls and procedures or in other factors that could significantly affect internal controls subsequent to the date the Company carried out its evaluation.

PART IV

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

Item 15(a)(1), 15(a)(2) and 15(d):

The following financial statement schedule is filed as part of this Report at page 82 hereof:

Schedule II—Valuation and Qualifying Accounts

All other schedules are omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and notes thereto.

Item 15(a)(3) and 15(c):

The following exhibits are filed with this Report.

No.	Description
2.1	Agreement and Plan of Merger between the Registrant, FLCH Acquisition Corp. and Community Health Systems, Inc., dated on June 9, 1996 (incorporated by reference to Exhibit 2.1 to the Company's Registration Statement on Form S-1 (No. 333-31790))
3.1	Form of Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 (No. 333-31790))
3.2	Form of Restated By-laws of the Registrant (incorporated by reference to Exhibit 3.2 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000)
4.1	Form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1 (No. 333-31790))
4.2	Form of Indenture, dated as of October 15, 2001 between the Registrant and First Union National Bank, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1 (No. 333-69064))
10.1	Form of outside director Stock Option Agreement (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-1 (No. 333- 31790))
10.2	Form of Stockholder's Agreement between the Registrant and outside directors (incorporated by reference to Exhibit 10.2 to the Company's Registration Statement on Form S-1 (No. 333-31790))
10.3	Form of Employee Stockholder's Agreement (incorporated by reference to Exhibit 10.3 to the Company's Registration Statement on Form S-1 (No. 333-31790))
10.4	The Registrant's Employee Stock Option Plan and Form of Stock Option Agreement (incorporated by reference to Exhibit 10.4 to the Company's Registration Statement on Form S-1 (No. 333-31790))
10.5	The Registrant's 2000 Stock Option and Award Plan (incorporated by reference to Exhibit 10.5 to the Company's Registration Statement on Form S-1 (No. 333-31790))
10.6	Form of Stockholder's Agreement between the Registrant and employees (incorporated by reference to Exhibit 10.6 to the Company's Registration Statement on Form S-1 (No. 333-31790))
10.7	Registration Rights Agreement, dated July 9, 1996, among the Registrant, FLCH Acquisition Corp., Forstmann Little & Co. Equity Partnership V, L.P. and Forstmann Little & Co. Subordinated Debt and Equity Management Buyout Partnership VI, L.P. (incorporated by reference to Exhibit 10.7 to the Company's Registration Statement on Form S-1 (No. 333-31790))
10.8	Form of Indemnification Agreement between the Registrant and its directors and executive officers (incorporated by reference to Exhibit 10.8 to the Company's Registration Statement on Form S-1 (No. 333-31790))
10.9	Credit Agreement dated as of July 16, 2002, among, CHS/Community Health Systems, Inc., Community Health Systems Inc., certain lenders, JPMorgan Chase Bank, as Administrative Agent, Bank of America, N.A., as Syndication Agent and Wachovia Bank National Association, as Documentation Agent. (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002)*
10.10	First Amendment, dated as of October 25, 2002 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, JPMorgan Chase Bank, as Administrative Agent, Bank of America, N.A., as Syndication Agent and Wachovia Bank National Association, as Documentation Agent.*

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10.12	Form of Management Rights Letter between Registrant and the partnerships affiliated with Forstmann Little & Co. (incorporated by reference to Exhibit 10.11 to the Company's Registration Statement on Form S-1 (No. 333-31790))
10.13	Corporate Compliance Agreement between the Office of Inspector General of the Department of Health and Human Services and the Registrant (incorporated by reference to Exhibit 10.15 to the Company's Registration Statement on Form S-1 (No. 333-31790))
10.14	Tenet BuyPower Purchasing Assistance Agreement, dated June 13, 1997, between Community Health Systems, Inc. and Tenet HealthSystem Inc., Addendum, dated September 19, 1997 and First Amendment, dated March 15, 2000 (incorporated by reference to Exhibit 10.16 to the Company's Registration Statement on Form S- 1 (No. 333-31790))
10.15	The Registrant's 2000 Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.17 to the Company's Registration Statement on Form S-1 (No. 333-31790))
10.16	Settlement Agreement between the United States of America, the states of Illinois, New Mexico, South Carolina, Tennessee, Texas, West Virginia and the Registrant (incorporated by reference to Exhibit 10.18 to the Company's Registration Statement on Form S-1 (No. 333-31790))
10.17	Community Health Systems, Inc. Supplemental Executive Retirement Plan*
10.18	Community Health Systems Deferred Compensation Plan Trust, Amended and Restated Effective February 26, 1999*
10.19	Community Health Systems Deferred Compensation Plan, as amended effective October 1, 1993; January 1, 1994; January 1, 1995; April 1, 1999; July 1, 2000; and June 1, 2001*
21	List of subsidiaries*
23.1	Consent of Deloitte & Touche LLP*
99.1	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*
99.2	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*

* Filed herewith.

Item 15(b):

Form 8-K, dated October 23, 2002, in connection with our press release related to third quarter 2002 operating results.

SIGNATURES

Pursuant to the requirements section 13 or 15(d) of the Securities Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COMMUNITY HEALTH SYSTEMS, INC.

By: /s/ WAYNE T. SMITH

Wayne T. Smith
Chairman of the Board
President and Chief Executive Officer
March 27, 2003

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons in the capacities and on the dates indicated.

Name	Title	Date
/s/ WAYNE T. SMITH Wayne T. Smith	President and Chief Executive Officer and Director (principal executive officer)	March 27, 2003
/s/ W. LARRY CASH W. Larry Cash	Executive Vice President and Chief Financial Officer (principal financial officer)	March 27, 2003
/s/ T. MARK BUFORD T. Mark Buford	Vice President and Corporate Controller (principal accounting officer)	March 27, 2003
/s/ SHEILA P. BURKE Sheila P. Burke	Director	March 27, 2003
/s/ ROBERT J. DOLE Robert J. Dole	Director	March 27, 2003
/s/ J. ANTHONY FORSTMANN J. Anthony Forstmann	Director	March 27, 2003
/s/ THEODORE J. FORSTMANN Theodore J. Forstmann	Director	March 27, 2003
/s/ DALE F. FREY Dale F. Frey	Director	March 27, 2003
/s/ SANDRA J. HORBACH Sandra J. Horbach	Director	March 27, 2003
/s/ THOMAS H. LISTER Thomas H. Lister	Director	March 27, 2003
/s/ MICHAEL A. MILES Michael A. Miles	Director	March 27, 2003
/s/ DR. HARVEY KLEIN Dr. Harvey Klein	Director	March 27, 2003
/s/ JOHN A. CLERICO John A. Clerico	Director	March 27, 2003

Certifications

I, Wayne T. Smith, certify that:

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

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures 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 annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 27, 2003

/s/ WAYNE T. SMITH

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

I, W. Larry Cash, certify that:

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

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures 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 annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 27, 2003

/s/ W. LARRY CASH

W. Larry Cash
Executive Vice President and
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

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

We have audited the consolidated financial statements of Community Health Systems, Inc. and subsidiaries as of December 31, 2002 and 2001, and for each of the three years in the period ended December 31, 2002, and have issued our report thereon dated February 18, 2003 (which report expresses an unqualified opinion and includes an explanatory paragraph referring to the Company changing its method of accounting for goodwill and other intangible assets by adopting certain provisions of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* effective January 1, 2002), included elsewhere in this Annual Report. Our audits also included the consolidated financial statement schedule listed in Item 15 of this Annual Report on Form 10-K. This consolidated financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

Deloitte & Touche LLP

Nashville, Tennessee
February 18, 2003

Community Health Systems, Inc. and Subsidiaries

Schedule II—Valuation and Qualifying Accounts

(In Thousands)

Description	Balance at Beginning of Year	Charged to Costs and Expenses	Write-offs	Balance at End of Year
Year ended December 31, 2002 allowance for doubtful accounts	$ 63,880	$ 201,334	$ (192,104)	$ 73,110
Year ended December 31, 2001 allowance for doubtful accounts	52,935	156,226	(145,281)	63,880
Year ended December 31, 2000 allowance for doubtful accounts	34,499	122,303	(103,867)	52,935

Exhibit Index

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23.1	Consent of Deloitte & Touche LLP*
99.1	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*
99.2	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*

* Filed herewith.

Exhibit 10.10

FIRST AMENDMENT

FIRST AMENDMENT, dated as of October 25, 2002 (this "*First Amendment*"), representing an amendment to the Credit Agreement, dated as of July 16, 2002, among CHS/COMMUNITY HEALTH SYSTEMS, INC., a Delaware corporation (the "*Borrower*" or "*CHS*"), COMMUNITY HEALTH SYSTEMS, INC., a Delaware corporation ("*Parent*"), the several lenders from time to time parties thereto (the "*Lenders*"), BANK OF AMERICA, N.A., as syndication agent (in such capacity, the "*Syndication Agent*"), WACHOVIA BANK, NATIONAL ASSOCIATION, as documentation agent (in such capacity, the "*Documentation Agent*") and JPMORGAN CHASE BANK, as administrative agent for the Lenders (in such capacity, the "*Administrative Agent*").

WITNESSETH:

WHEREAS, the Borrower, Parent, the Syndication Agent, the Documentation Agent, the Administrative Agent and the Lenders are parties to the Credit Agreement;

WHEREAS, the Borrower and Parent have requested that the Administrative Agent and the Required Lenders agree to amend certain provisions of the Credit Agreement; and

WHEREAS, the Administrative Agent and the Lenders parties hereto are willing to agree to the requested amendments, but only upon the terms and conditions set forth herein;

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and in consideration of the premises contained herein, the parties hereto agree as follows:

1. *Defined Terms.* Unless otherwise defined herein, capitalized terms which are defined in the Credit Agreement are used herein as defined therein.

2. *Amendment to Subsection 1.1 (Defined Terms).* Subsection 1.1 of the Credit Agreement is hereby amended by deleting in its entirety the definition in such subsection of the following defined term and substituting, in lieu thereof, the following:

> "*Consolidated Total Indebtedness":* as of any date of determination, all Indebtedness of the Parent and its Subsidiaries, determined on a consolidated basis in accordance with GAAP, and excluding any Indebtedness incurred or assumed in connection with an acquisition of any business until the end of the first full fiscal quarter after the date of acquisition.

3. *Conditions to Effectiveness of this First Amendment.* This First Amendment shall become effective upon receipt by the Administrative Agent of counterparts of this First Amendment duly executed by each of the Borrower, Parent and the Administrative Agent and consented to by the Required Lenders (such date, the "*First Amendment Effective Date*").

4. *Representations and Warranties.* On and as of the date hereof and after giving effect to this First Amendment, the Borrower hereby confirms, reaffirms and restates the representations and warranties set forth in Section 5 of the Credit Agreement *mutatis mutandis*, except to the extent that such representations and warranties expressly relate to a specific earlier date in which case the Borrower hereby confirms, reaffirms and restates such representations and warranties as of such earlier date, *provided* that the references to the Credit Agreement in such representations and warranties shall be deemed to refer to the Credit Agreement as amended pursuant to this Amendment.

5. *Continuing Effect; No Other Amendments.* Except as expressly set forth in this First Amendment, all of the terms and provisions of the Credit Agreement are and shall remain in full force and effect and the Borrower shall continue to be bound by all of such terms and provisions. The amendments provided for herein are limited to the specific subsections of the Credit Agreement specified herein and shall not constitute an amendment of, or an indication of the Administrative

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Agent's or the Lenders' willingness to amend or waive, any other provisions of the Credit Agreement or the same subsections for any other date or purpose.

6. *Expenses.* The Borrower agrees to pay and reimburse the Administrative Agent for all its reasonable costs and expenses incurred in connection with the preparation and delivery of this First Amendment, including, without limitation, the reasonable fees and disbursements of counsel to the Administrative Agent.

7. *Counterparts.* This First Amendment may be executed by one or more of the parties to this First Amendment on any number of separate counterparts (including by telecopy), and all of said counterparts taken together shall be deemed to constitute one and the same instrument. A set of the copies of this First Amendment signed by the parties hereto shall be delivered to the Borrower and the Administrative Agent. The execution and delivery of this First Amendment by any Lender shall be binding upon each of its successors and assigns (including transferees of its commitments and Loans in whole or in part prior to effectiveness hereof) and binding in respect of all of its commitments and Loans, including any acquired subsequent to its execution and delivery hereof and prior to the effectiveness hereof.

8. *GOVERNING LAW.* THIS FIRST AMENDMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES UNDER THIS FIRST AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

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

CHS/COMMUNITY HEALTH SYSTEMS, INC.

By: _____

Name:
Title:

COMMUNITY HEALTH SYSTEMS, INC.

By: _____

Name:
Title:

JPMORGAN CHASE BANK, as Administrative Agent and Issuing Lender

By: _____

Name:
Title:

QuickLinks

Exhibit 10.11

SECOND AMENDMENT

SECOND AMENDMENT, dated as of January 22, 2003 (this "*Second Amendment*"), representing an amendment to the Credit Agreement, dated as of July 16, 2002, among CHS/COMMUNITY HEALTH SYSTEMS, INC., a Delaware corporation (the "*Borrower*" or "*CHS*"), COMMUNITY HEALTH SYSTEMS, INC., a Delaware corporation ("*Parent*"), the several lenders from time to time parties thereto (the "*Lenders*"), BANK OF AMERICA, N.A., as syndication agent (in such capacity, the "*Syndication Agent*"), WACHOVIA BANK, NATIONAL ASSOCIATION, as documentation agent (in such capacity, the "*Documentation Agent*") and JPMORGAN CHASE BANK, as administrative agent for the Lenders (in such capacity, the "*Administrative Agent*").

WITNESSETH:

WHEREAS, the Borrower, Parent, the Syndication Agent, the Documentation Agent, the Administrative Agent and the Lenders are parties to the Credit Agreement;

WHEREAS, the Borrower and Parent have requested that the Administrative Agent and the Required Lenders agree to amend certain provisions of the Credit Agreement; and

WHEREAS, the Administrative Agent and the Lenders parties hereto are willing to agree to the requested amendments, but only upon the terms and conditions set forth herein;

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and in consideration of the premises contained herein, the parties hereto agree as follows:

1. *Defined Terms.* Unless otherwise defined herein, capitalized terms which are defined in the Credit Agreement are used herein as defined therein.

2. *Amendment to Subsection 8.9 (Limitations on Dividends).* Subsection 8.9 of the Credit Agreement is hereby amended by deleting paragraph (c) of such subsection in its entirety and substituting, in lieu thereof, the following:

"(c) so long as no Default or Event of Default has occurred or would occur after giving effect to such declaration or payment, the Borrower may, from time to time, declare and pay cash dividends or make other distributions to Parent on the common stock of the Borrower; *provided* that the proceeds of such dividends shall be used within 30 days of the receipt of such dividends by Parent to repurchase Parent stock and, *provided further*, that the amount of such cash dividends and other distributions paid or made from and after the Closing Date does not exceed in the aggregate $100,000,000 plus (to the extent not previously used) the net cash proceeds received by the Borrower in respect of any Employee Issuances after the Closing Date; and"

3. *Conditions to Effectiveness of this Second Amendment.* This Second Amendment shall become effective, on and as of the date hereof (the "Second Amendment Effective Date"), upon receipt by the Administrative Agent (1) of counterparts of this Second Amendment duly executed by each of the Borrower, Parent and the Administrative Agent and consented to by the Required Lenders and (2) for the benefit of each Lender consenting to this Amendment on or before 5:00 p.m., New York City time, January 22, 2003, a fee equal to 0.02% of the sum of its Revolving Credit Commitments and Term Loans on the Second Amendment Effective Date.

4. *Representations and Warranties.* On and as of the date hereof and after giving effect to this Second Amendment, the Borrower hereby confirms, reaffirms and restates the representations and warranties set forth in Section 5 of the Credit Agreement mutatismutandis, except to the extent that such representations and warranties expressly relate to a specific earlier date in which case the Borrower hereby confirms, reaffirms and restates such representations and warranties as of such earlier

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date, provided that the references to the Credit Agreement in such representations and warranties shall be deemed to refer to the Credit Agreement as amended pursuant to this Amendment and the First Amendment, dated October 25, 2002.

5. *Continuing Effect; No Other Amendments.* Except as expressly set forth in this Second Amendment, all of the terms and provisions of the Credit Agreement are and shall remain in full force and effect and the Borrower shall continue to be bound by all of such terms and provisions. The amendments provided for herein are limited to the specific subsections of the Credit Agreement specified herein and shall not constitute an amendment of, or an indication of the Administrative Agent's or the Lenders' willingness to amend or waive, any other provisions of the Credit Agreement or the same subsections for any other date or purpose.

6. *Expenses.* The Borrower agrees to pay and reimburse the Administrative Agent for all its reasonable costs and expenses incurred in connection with the preparation and delivery of this Second Amendment, including, without limitation, the reasonable fees and disbursements of counsel to the Administrative Agent.

7. *Counterparts.* This Second Amendment may be executed by one or more of the parties to this Second Amendment on any number of separate counterparts (including by telecopy), and all of said counterparts taken together shall be deemed to constitute one and the same instrument. A set of the copies of this Second Amendment signed by the parties hereto shall be delivered to the Borrower and the Administrative Agent. The execution and delivery of this Second Amendment by any Lender shall be binding upon each of its successors and assigns (including transferees of its commitments and Loans in whole or in part prior to effectiveness hereof) and binding in respect of all of its commitments and Loans, including any acquired subsequent to its execution and delivery hereof and prior to the effectiveness hereof.

8. *GOVERNING LAW.* THIS SECOND AMENDMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES UNDER THIS SECOND AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW

YORK.

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

CHS/COMMUNITY HEALTH SYSTEMS, INC.

By: _____

Name:
Title:

COMMUNITY HEALTH SYSTEMS, INC.

By: _____

Name:
Title:

JPMORGAN CHASE BANK, as Administrative Agent and Issuing Lender

By: _____

Name:
Title:

QuickLinks

WITNESSETH

Exhibit 10.17

COMMUNITY HEALTH SYSTEMS, INC.
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

December 10, 2002

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COMMUNITY HEALTH SYSTEMS, INC.
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

1. Purpose. The purpose of this Supplemental Executive Retirement Plan ("Plan") is to advance the interest of Community Health Systems, Inc., a Delaware corporation ("Company"), and its subsidiaries by encouraging officers and other key employees of the Company who will largely be responsible for the long-term success and development of the Company to continue their employment with the Company by providing retirement benefits for them. The Plan is also intended to assist the Company in attracting and retaining such employees and stimulating their efforts on behalf of the Company.

2. Definitions and Construction.

2.1 ***Definitions.*** As used in the Plan, terms defined parenthetically immediately after their use shall have the respective meanings provided by such definitions, and the following words and phrases shall have the meanings specified below (in either case, such terms shall apply equally to both the singular and plural forms of the terms defined), unless a different meaning is plainly required by the context:

(a) "Actuarial Equivalent" shall mean a benefit of equivalent value calculatedbased on the Uninsured Pensioners 1994 Mortality Table including Projections to 2003 using 50% of the Male Rates and 50% of the Female Rates as prescribed for qualified retirement plans under the General Agreement on Trades and Tariffs (GATT) and a discount rate equal to the yield on 10-YearTreasury Bonds as of the last day of the previous month, but in no event greater than 7% per annum.

(b) "Annual Retirement Benefit" shall mean an amount equal to a Participant's Final Average Earnings multiplied by the lesser of (i) 50%, or (ii) a percentage equal to 2% multiplied by the Participant's years of Service.

(c) "Beneficiary" shall mean the person or persons designated by a Participant pursuant to Section 8 to receive the benefits to which a Participant is entitled upon the death of a Participant.

(d) "Board" shall mean the Board of Directors of the Company.

(e) "Cause" shall mean a felony conviction of a Participant or the failure of a Participant to contest prosecution for a felony, or a Participant's willful misconduct, dishonesty or gross negligence, any of which is determined by the Board to be directly and materially harmful to the business or reputation of the Company or its Subsidiaries.

(f) "Change in Control" shall mean the occurrence of any of the following:

(1) An acquisition (other than directly from the Company) of any voting securities of the Company ("Voting Securities") by any Person (as the term person is used for purposes of Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended ("Exchange Act")), other than Fortsmann Little & Co. Equity Partnership—V, L.P. and Forstmann Little & Co. Subordinated Debt and Equity Management Buyout Partnership —VI, L.P. or any of their affiliates, immediately after which such Person has Beneficial Ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of more than 50% of the then outstanding shares of Common Stock of the Company ("Shares") or the combined voting power of the Company's then outstanding Voting Securities; provided, however, in determining whether a Change in Control has occurred pursuant to this Section 2.1(f)(1), Shares or Voting Securities which are acquired in a Non-Control Acquisition (as hereinafter defined) shall not constitute an acquisition which would cause a Change in Control. A "Non-Control Acquisition" shall mean an acquisition by (i) an employee benefit plan (or a trust forming a part thereof) maintained by the Company or any Subsidiary, (ii) the Company or any Subsidiary, or (iii) any Person in connection with a Non-Control Transaction (as hereinafter defined);

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(2) The individuals who, as of the date hereof, are members of the Board ("Incumbent Board"), cease for any reason to constitute at least a majority of the members of the Board or, following a Merger (as hereinafter defined) which results in the Company having a Parent Corporation (as hereinafter defined), the board of directors of the ultimate Parent Corporation; provided, however, that if the election, or nomination for election, by the Company's common stockholders, of any new director was approved by a vote of at least two-thirds of the Incumbent Board (including, without limitation, the resignation and/or replacement of any director who is affiliated with, or appointed by, Fortsmann Little & Co. Equity Partnership—V, L.P. and Forstmann Little & Co. Subordinated Debt and Equity Management Buyout Partnership—VI, L.P.), such new director shall, for purposes of the Plan, be considered as a member of the Incumbent Board; provided further, however, that no individual shall be considered a member of the Incumbent Board if such individual initially assumed office as a result of either an actual or threatened Election Contest (as described in Rule 14a-11 promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board ("Proxy Contest"), including by reason of any agreement intended to avoid or settle any Election Contest or Proxy Contest; or

(3) The consummation of:

(A) A merger, consolidation or reorganization with or into the Company or in which securities of the Company are issued ("Merger"), unless such Merger, is a Non-Control Transaction. A Non-Control Transaction shall mean a Merger where:

(i) the stockholders of the Company immediately before such Merger own, directly or indirectly, immediately following such Merger, at least 50% of the combined voting power of the outstanding voting securities of (x) the corporation resulting from such Merger ("Surviving Corporation"), if 50% or more of the combined voting power of the then outstanding voting securities of the Surviving Corporation is not Beneficially Owned, directly or indirectly, by another Person ("Parent Corporation"), or (y) if there are one or more Parent Corporations, the ultimate Parent Corporation; and

(ii) the individuals who were members of the Incumbent Board immediately prior to the execution of the agreement providing for such Merger, constitute at least a majority of the members of the board of directors of (x) the Surviving Corporation, if there is no Parent Corporation, or (y) if there are one or more Parent Corporations, the ultimate Parent Corporation.

(B) A complete liquidation or dissolution of the Company; or

(C) The sale or other disposition of all, or substantially all, of the assets of the Company to any Person (other than a transfer to a Subsidiary or under conditions that would constitute a Non-Control Transaction with the disposition of assets being regarded as a Merger for this purpose or the distribution to the Company's stockholders of the stock of a Subsidiary or any other assets).

Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because any Person ("Subject Person") acquired Beneficial Ownership of more than the permitted amount of the then outstanding Shares or Voting Securities as a result of the acquisition of Shares or Voting Securities by the Company which, by reducing the number of Shares or Voting Securities then outstanding, increases the proportional number of shares Beneficially Owned by the Subject Person, provided that if a Change in Control would occur (but for the operation of this sentence) as a result of the acquisition of Shares or Voting Securities by the Company, and after such share acquisition by the

Company the Subject Person becomes the Beneficial Owner of any additional Shares or Voting Securities which increases the percentage of the then outstanding Shares or Voting Securities Beneficially Owned by the Subject Person, then a Change in Control shall occur.

(g) "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time, or any successor thereto.

(h) "Committee" shall mean the Compensation Committee of the Board.

(i) "Compensation" shall mean only the salary plus the bonus paid to a Participant.

(j) "Disabled Participant" shall mean any Participant who has been credited with five years of Service and who is Totally and Permanently Disabled.

(k) "Early Retirement Date" shall mean the date a Participant has been credited with at least five years of Service and is at least 55 years old.

(l) "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

(m) "Final Average Earnings" shall mean an amount equal to (i) the sum of a Participant's Compensation for the highest three years out of the last five full years of Service preceding a Participant's termination of employment with the Company and its Subsidiaries, divided by (ii) three.

(n) "Key Employee" shall mean a key employee of the Company or a Subsidiary who has been selected by the Committee to be a Participant.

(o) "Monthly Retirement Income" shall mean a monthly income payable to a Participant computed as provided in the Plan.

(p) "Normal Retirement Date" shall mean the day of a Participant's 65th birthday.

(q) "Officer" shall mean all employees of the Company or a Subsidiary who have been duly elected as officers of the Company by the Board.

(r) "Participant" shall mean any Officer or Key Employee.

(s) "Primary Insurance Amount" as of any date shall mean the monthly amount of Social Security old age and survivor disability insurance benefits payable to a Participant commencing at the Participant's unreduced Social Security retirement age. The amount will be calculated based on the Social Security Act in effect as of the date of calculation, without regard to any dependent benefits.

(t) "Rabbi Trust" shall mean the trust to be established by the Company in accordance with the provisions of Section 9.

(u) "Retired Participant" shall mean any Participant who has ceased to be an employee of the Company or a Subsidiary and who is entitled to receive a Monthly Retirement Income.

(v) "Service" shall mean (i) in the case of the Participants identified on Exhibit A attached hereto and made a part hereof, all years and completed months of service with the Company and any Subsidiary, whether before or after the adoption of the Plan, but not beginning earlier than January 1, 1997, and (ii) in the case of an Officer or Key Employee who becomes a Participant after January 1, 2003, all years and completed months of service following the date the person becomes a Participant.

(w) "Social Security Offset" shall mean the Actuarial Equivalent of a Participant's Primary Insurance Amount determined as of the date of the calculation.

(x) "Subsidiary" shall mean, with respect to the Company, any corporation or other entity of which a majority of its voting power, equity securities or equity interests is owned, directly or indirectly, by the Company.

(y) "Total and Permanent Disability" shall mean a physical or mental condition that renders a Participant eligible for disability benefits under the Social Security Act.

2.2 ***Captions; Section References.*** Section titles or captions contained in the Plan are inserted only as a matter of convenience and reference, and in no way define, limit, extend or describe the scope of the Plan, or the intent of any provision hereof. All references herein to Sections shall refer to Sections of the Plan unless the context clearly requires otherwise.

2.3 ***Severability.*** If any provision of the Plan, or the application thereof to any person, entity or circumstances, shall be invalid or unenforceable to any extent, the remainder of the Plan, and the application of such provision to other persons, entities or circumstances, shall not be affected thereby and the Plan shall

be enforced to the greatest extent permitted by law.

3. Administration.

3.1 ***The Committee.*** The Plan shall be administered by the Committee. The Committee shall meet at such times and places as it determines and may meet through a telephone conference call.

3.2 ***Authority of the Committee.*** Subject to the provisions of the Plan, the Committee shall have full authority to:

(a) Select key employees of the Company and its Subsidiaries to be Participants.

(b) Construe and interpret the Plan.

(c) Establish, amend and rescind rules and regulations for the Plan's administration.

(d) Make all other determinations which may be necessary or advisable for the administration of the Plan.

To the extent permitted by law, the Committee may delegate its authority as identified hereunder.

3.3 ***Decisions Binding.*** All determinations and decisions made by the Committee pursuant to the provisions of the Plan, and all related orders or resolutions of the Board, shall be final, conclusive and binding upon all persons, including the Company, its stockholders, employees, Participants and their estates and Beneficiaries.

3.4 ***Plan Administrator.*** For purposes of ERISA, the Committee is the Plan administrator. Any claim for benefits under the Plan shall be made in writing to the Committee. The Committee and the claimant shall follow the claims procedures set forth in Department of Labor Regulation §2560.503-1.

3.5 ***Costs and Expenses.*** In discharging their duties under the Plan, the Committee may employ such counsel, accountants and consults as it deems necessary or appropriate. The Company shall pay all costs of such third parties and any other expenses incurred by the Committee with respect to the Plan.

3.6 ***Indemnification.*** No member of the Committee, nor any Officer or employee acting on behalf of the Committee or the Company, shall be personally liable for any action, determination or interpretation taken or made in good faith with respect to the Plan, and all members of the Committee, and each and every Officer or employee of the Company acting on their behalf, shall, to the extent permitted by law, be fully indemnified and protected by the Company with respect to any such action, determination or interpretation.

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4. Participation in the Plan.

4.1 ***Notification of Participation.*** Each Officer and Key Employee shall be notified that they are a Participant under the Plan.

4.2 ***Termination of Participation.*** A Participant who ceases to be an Officer or a key employee of the Company (as determined by the Committee), or who terminates employment with the Company and all Subsidiaries for any reason other than death, shall not be entitled to any benefits hereunder unless that change of status occurs after the Participant has reached their Early Retirement Date.

5. Benefits Under Plan.

5.1 ***Normal Retirement Benefit.*** When a Participant retires on or after the Participant's Normal Retirement Date, except as otherwise provided in Section 6.1, the Participant shall be entitled to receive a Monthly Retirement Income under the Plan commencing with the first day of the month following the date the Participant retires, in an amount equal to (i) one-twelfth of the Participant's Annual Retirement Benefit, reduced by (ii) the sum of (A) the Social Security Offset and (B) the annuity which is the Actuarial Equivalent of the amount contributed to the Community Health Systems, Inc. Deferred Compensation Plan pursuant to of the 2002 Benefit Exchange Agreement between the Participant and CHS/Community Health Systems, Inc. as shown on Exhibit A, increased by 7% per annum commencing January 1, 2003.

5.2 ***Early Retirement Benefit.*** Upon the written application of a Participant received by the Committee, a Participant who is at least 55 years old and who has been credited with at least five years of Service may retire and receive benefits under the Plan in accordance with this Section 5.2. Except as otherwise provided in Section 6.1, commencing with the first day of the month following such Participant's retirement, such Participant shall be entitled to a benefit computed in the manner set forth in Section 5.1 except that the amount set forth in clause (i) of Section 5.1 shall be reduced by two/twelfths of one percent (.001667) of that amount for each month that payments commence prior to the Participant's Normal Retirement Date. The reduction referred to in the immediately preceding sentence shall not apply in the event of a Change in Control.

5.3 ***Disability Benefit.***

(a) Except as otherwise provided in Section 6.1, a Disabled Participant shall be entitled to receive a Monthly Retirement Income commencing with the first day of the month following the Participant's termination of employment by reason of becoming Totally and Permanently Disabled, computed in accordance with Section 5.1; provided, however, that if the Participant is not at least 55 years old on such date, then the Monthly Retirement Income shall be paid commencing on the first day of the month following the Participant's 55th birthday.

(b) If a Disabled Participant dies before the payment of Monthly Retirement Income commences, a death benefit shall be payable to the Disabled Participant's Beneficiary. Such death benefit shall be equal to the Actuarial Equivalent present value of the Participant's Monthly Retirement Income as of the Participant's date of death, computed in accordance with the provisions of Section 5.3(a). Such death benefit shall be paid to the Participant's Beneficiary in a single lump sum in accordance with the provisions of Section 6.2(c).

5.4 ***Death Benefit.*** If a Participant who has been credited with five or more years of Service dies while an employee of the Company or a Subsidiary, a death benefit shall be paid to the deceased Participant's Beneficiary. Such death benefit shall be the Actuarial Equivalent present value of the Participant's Monthly Retirement Income as of the Participant's date of death, computed in the same manner as provided in Section 5.3(a) in the case of a Disabled Participant. Such death benefit shall be paid to the deceased Participant's Beneficiary in a single lump sum in accordance with the provisions of Section 6.2(c).

5.5 ***Termination for Cause.*** If a Participant's employment is terminated due to Cause, then notwithstanding anything else set forth herein, such Participant shall not be entitled to receive any benefit under the Plan.

6. Payment of Benefits.

6.1 ***Basic Benefit.*** The basic form of payment of the Annual Retirement Benefit (other than in the case of death) shall be a Monthly Retirement Income payable for the life of the Participant. Notwithstanding the foregoing, if the Actuarial Equivalent present value of a Participant's Monthly Retirement Income as of the date the Participant ceases to be an employee of the Company or any Subsidiary is $50,000 or less, then the benefit to which such Participant shall be entitled shall be paid in a single lump sum in accordance with the provisions of Section 6.2(c).

6.2 ***Alternative Benefits.*** A Participant may request that the Committee approve an alternate form of payment of the benefits under the Plan. Such request shall be in writing and shall be filed at least 90 days before the payment of Monthly Retirement Income otherwise due under the Plan is to commence. Once a request is approved, it shall be binding on the Participant. Alternative forms of payment shall be the Actuarial Equivalent of the Monthly Retirement Income and are as follows:

(a) A monthly income payable to the Participant for either 180 or 240 payments guaranteed. Upon the Participant's death, distribution of the remaining benefit, if any, shall be made to the Participant's Beneficiary.

(b) A monthly income payable for the lifetime of the Participant, with one-half ($^1/_2$) of such amount continuing to be paid to the Participant's spouse after the Participant's death, for the lifetime of the spouse.

(c) A single lump sum payment to the Participant.

(d) Any other form of payment which is approved by the Committee.

7. Benefits Upon Change in Control.

7.1 ***Changes in Control Benefit.*** In the event of a Change in Control, the benefit of any Participant with five years or more of Service shall be fully vested and shall be paid out as soon as administratively feasible in a single lump sum payment in accordance with the provisions of Section 6.2(c). This shall apply to active, retired or Disabled Participants. Upon such payment to all Participants, the Plan shall terminate.

7.2 ***Participants Under Age 55.*** Any Participant who has been credited with five years or more of Service on the date of the Change in Control who is under age 55 will be deemed to be age 55 solely for purposes of determining the Participant is eligible for benefits under the Plan, but in computing the lump sum benefit provided for in Section 7.1, the Monthly Retirement Income shall be deemed payable based upon the Participant's actual age.

7.3 ***Additional Years of Service.*** All Participants who have been credited with five years or more of Service will be credited with an additional three years of Service as a result of a Change in Control.

7.4 ***Certain Terminations of Employment.*** If a Participant's employment is terminated by the Company without Cause prior to the date of a Change in Control, but the Participant reasonably demonstrates to the satisfaction of the Committee that the termination (i) was at the request of a third party who has indicated an intention to, or has taken steps reasonably calculated to, effect a Change in Control, or (ii) otherwise arose in connection with, or in anticipation of, a Change in Control which has been threatened or proposed, such termination shall be deemed to have occurred after a Change in Control for purposes of the Plan, provided a Change in Control actually occurs. Such a Participant

shall be entitled to receive the same benefits under the Plan as if the Participant had been an employee of the Company or a Subsidiary on the date the Change in Control actually occurs.

8. Beneficiaries. Each Participant shall have the right, by giving written notice to the Committee on such form as the Committee shall adopt, to designate a Beneficiary or Beneficiaries to receive payments which become available under the Plan should the Participant die. A Participant may change the designated Beneficiary by filing a new beneficiary designation form with the Committee. If a Participant dies and has not designated a Beneficiary, the estate of the deceased Participant shall be deemed to be the Beneficiary.

9. Rabbi Trust. The Company intends to establish a Rabbi Trust with a commercial bank or other financial or trust institution of which the Company would be considered the owner for Federal income tax purposes. The Rabbi Trust will be established to provide a source of funds to enable the Company to make payments to the Participants and their Beneficiaries pursuant to the terms of the Plan. Payments to which Participants are entitled under the terms of the Plan shall be paid out of the Rabbi Trust to the extent of the assets therein. The assets of the Rabbi Trust will be subject to the claims of general creditors of the Company.

10. Withholding. The Company shall have the right to withhold from the payments to be made to any Participant or Beneficiary hereunder all amounts required to be so withheld under applicable law.

11. Modification and Termination.

11.1 ***Amendment and Termination.*** The Company reserves the right at any time, by action of the Board, to modify or amend, in whole or in part, any or all of the provisions of the Plan, or to terminate the Plan.

11.2 ***Affect on Participants.*** Notwithstanding the provisions of Section 11.1, no amendment, modification or termination of the Plan shall adversely affect:

(a) The Monthly Retirement Income of any Participant, or the Beneficiary of any Participant, who has retired or died prior thereto.

(b) The right of any Participant then employed by the Company or a Subsidiary who has been credited with at least five years of Service to receive upon death, retirement, Total and Permanent Disability or Change in Control, the benefit to which such person would have been entitled under the Plan prior to the amendment, modification or termination.

11.3 ***No Obligation to Continue Plan.*** Although it is the intention of the Company that the Plan shall be continued indefinitely, the Plan is entirely voluntary on the part of the Company, and the continuance of the Plan is not a contractual obligation of the Company.

12. Miscellaneous Provisions.

12.1 ***Non-Transferability.*** Neither the interest of a Participant or any other person in the Plan, nor the benefits payable hereunder, shall be subject to the claim of creditors of a Participant or their Beneficiaries and will not be subject to attachment, garnishment or any other legal process. Neither a Participant nor a Beneficiary may assign, sell, pledge or otherwise encumber any of their beneficial interest in the Plan, nor shall any such benefits be in any manner liable for, or subject to, the deeds, contracts, liabilities, engagements or torts of any Participant or their Beneficiary. All such payments and rights thereto are expressly declared to be non-assignable and non-transferable, and in the event of any attempted assignment or transfer (whether voluntary or involuntary) by a Participant or a Beneficiary, the Company shall have no further liability hereunder to such Participant or Beneficiary.

12.2 ***Payment of Benefits.*** Although the Company intends to establish the Rabbi Trust to fund its obligations under the Plan, the rights of Participants and Beneficiaries to receive payments under the Plan shall constitute only a general claim against the Company and will not be a lien or claim on any specific assets of the Company.

12.3 ***No Rights of Employment.*** The Plan shall not be deemed to constitute a contract of employment between a Participant and the Company or a Subsidiary. Nothing contained in the Plan shall be deemed to give any Participant the right to be retained in the employment of the Company or a Subsidiary. The Plan shall not interfere in any way with the Company's or a Subsidiary's right to discharge a Participant at any time, regardless of the effect which such discharge would have upon such Participant under the Plan, and such actions by the Company or a Subsidiary in discharging any Participant shall not be deemed a breach of contract, nor give rise to any rights or actions in favor of such Participant.

12.4 ***Applicable Law.*** The Plan shall be governed by, and construed in accordance with, the laws of the State of Tennessee without regard to its conflict of laws rules. It is intended that the Plan be an unfunded plan maintained primarily for the purpose of providing deferred compensation for a select group of highly compensated employees of the Company. As such, the Plan is intended to be exempt from certain otherwise applicable provisions of Title I of ERISA, and any ambiguities in construction shall be resolved in favor of an interpretation which will effectuate such intention.

12.5 ***Payment to Minors.*** In making any payment to or for the benefit of any minor or incompetent Beneficiary, the Committee, in its sole, absolute and uncontrolled discretion, may, but need not, make such payment to a legal or natural guardian or other relative of such minor or court appointed committee of such incompetent, or to any adult with whom such minor or incompetent temporarily or permanently resides, and the receipt by such guardian, committee, relative or other person shall be a complete discharge of the Company, without any responsibility on its part or on the part of the Committee to see to the application thereof.

In Witness Whereof, the Company has caused the Plan to be executed by its duly authorized officer as of the 10th day of December, 2002, being the date the Board approved the Plan.

COMMUNITY HEALTH SYSTEMS, INC.

By: _____

Title: _____

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Exhibit 10.18

COMMUNITY HEALTH SYSTEMS

DEFERRED COMPENSATION PLAN TRUST

Amended and Restated Effective February 26, 1999

Original Effective Date: June 1, 1991

(As amended effective December 1, 1991, January 1, 1992, and February 26, 1999)

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COMMUNITY HEALTH SYSTEMS
DEFERRED COMPENSATION PLAN TRUST

THIS AMENDED AND RESTATED AGREEMENT AND DECLARATION OF TRUST (the "Trust Agreement"), made this 26th day of February, 1999, by and between **COMMUNITY HEALTH SYSTEMS, INC.** (the "Company") and **NATIONSBANK OF TENNESSEE, N.A.** (the "Trustee").

WHEREAS, Community Health Investment Corporation (formerly CHS Management Corporation) has previously established the Community Health Systems Deferred Compensation Plan (the "Plan") for the benefit of certain of its employees effective June 1, 1991; and

WHEREAS, effective January 1, 1992, the Company adopted the Plan and assumed all of the duties and responsibilities of Community Health Investment Corporation; and

WHEREAS, the Plan provides for the payment of certain benefits (the "Benefits") to certain executive employees of the Company and any subsidiary of the Company (an "Affiliate") (such employees referred to as the "Members") and the beneficiaries designated by the respective Members as being entitled to any payments under the terms of the Plan in the event of the Member's death ("Beneficiaries"); and

WHEREAS, the Plan contemplates that the Company will pay the entire cost of the Benefits from its general assets; and

WHEREAS, Community Health Investment Corporation (formerly CHS Management Corporation) has previously established an irrevocable trust, effective May 31, 1991, known as "The Community Health Systems Deferred Compensation Plan Trust" (the "Trust") to aid in satisfying its obligations under the Plan, which trust is intended to be a "grantor trust" with the corpus and income of the Trust treated as assets and income of the Company for federal income tax purposes that shall at all times be subject to the claims of general creditors of the Company as provided in Article X; and

WHEREAS, the Trust Agreement was amended in certain respects, effective December 1, 1991; and

WHEREAS, the Company agreed to be subject to the terms and conditions of the Trust, effective January 1, 1992, and assumed the responsibilities of Community Health Investment Corporation under the Trust as of such date; and

WHEREAS, the Company desires to amend the Trust Agreement pursuant to Section 9.3 as provided therein;

NOW, THEREFORE, under this Trust Agreement hereby amended and restated effective February 26, 1999, the Trustee covenants that it will hold all property that it has previously received pursuant to the Trust Agreement and that it will continue to hold all property which it may receive hereunder, in trust, for

the uses and purposes and upon the terms and conditions hereinafter stated, and the parties hereto agree to the terms and conditions hereinafter stated:

ARTICLE I

Establishing of Trust

1.1 *Establishing of Trust.* The Company hereby establishes the Trust with the Trustee, consisting of such sums of money and other property acceptable to the Trustee as from time to time shall be paid or delivered to the Trustee by the Company. All such money and other property, all investments and reinvestments made therewith or proceeds thereof, and all earnings and profits thereon, less all payments and charges as authorized herein, shall constitute the "Trust Fund." The Trust Fund shall at all times be subject to the claims of general creditors of the Company as provided in Article X. No

Member or Beneficiary shall have any preferred claim to, or any beneficial ownership interest in, any assets of the Trust Fund prior to the time such assets are paid to such Member or Beneficiary as Benefits.

1.2 *Trust Irrevocable.* The Trust shall be irrevocable and shall be held for the exclusive purpose of providing benefits under the Plan to Members and their Beneficiaries and defraying expenses of the Trust in accordance with the provisions of this Trust Agreement. Except as provided in Section 3.6 and Articles IX and X hereof, no part of the income or corpus of the Trust Fund shall be recoverable by or for the Company.

1.3 *Non-Alienation.* No right or interest to receive benefits from the Trust may be assigned, sold, anticipated, alienated, or otherwise transferred by any Member or Beneficiary.

1.4 *Acceptance by Trustee.* The Trustee accepts the Trust established under this Trust Agreement on the terms and subject to the provisions set forth herein, and it agrees to discharge and perform fully and faithfully all of the duties and obligations imposed upon it under this Trust Agreement.

ARTICLE II

General Duties of the Parties

2.1 *General Duties of the Company and the Trustee.*

(a) The Company shall provide to the Trustee the name and mailing address of each Member entitled to receive Benefits and the Beneficiaries, if any, designated by each Member. The Company shall be responsible for notifying the Trustee of any changes in this information, including, but not limited to, the addition of new Members and a change in the mailing address of a Member.

(b) The Company shall keep accurate books and records with respect to the Members of the Plan and the Benefits payable to such Members under the Plan and shall provide such information to the Trustee as soon as practicable following each Determination Date, as defined in this Plan, and also within thirty (30) days following (i) the date on which a Member terminates employment with the Company, or (ii) the occurrence of a date specified by a Member pursuant to Section 3.4 of the Plan ("Targeted Deferral Date"). Further, the Company shall provide access to all books and records relating to the Plan at such time or times as the Trustee shall reasonably request.

2.2 *Additional General Duties of Trustee.* The Trustee shall manage, invest, and reinvest the Trust Fund as directed by the administrative committee appointed by the Company to administer the Plan (the "Committee"). The Trustee shall collect the income on the Trust Fund and make distributions therefrom, all as hereinafter provided.

ARTICLE III

Investment, Administration and Disbursement of Trust Fund

3.1 *Investment of Trust Fund.* Subject and pursuant to the direction of the Committee, the Trustee shall have, with respect to the Trust Fund, the power and discretion to invest and reinvest in (i) common and preferred stocks, bonds, notes and debentures (including convertible stocks and securities but not including any stock, debt instruments, or other securities of the Company, the Trustee, or their affiliates) that are readily marketable and listed on a United States national securities exchange or the NASDAQ national market, (ii) interest- bearing deposit accounts or certificates of deposit maturing within one year after acquisition thereof, entered into or issued by a United States national or state bank or trust company having capital, surplus, and undivided profits, at the holding company level, of at least U.S. $75 million, (iii) direct obligations of, and obligations fully guaranteed

by, the United States of America or any agency of the United States of America that is backed by the full faith and credit of the United States of America (so long as such obligations shall mature within one year after acquisition thereof), and (iv) any common, collective, or commingled fund, including a fund maintained by the Trustee, established and maintained primarily for the purpose of investing and reinvesting in assets of the type described in (i), (ii) and (iii) above, or any proprietary mutual funds established and maintained by the Trustee. Notwithstanding the foregoing, in the event a Member requests the Committee to invest all or a portion of his Account, as defined in the Plan, in any particular investments, the Committee, if it so determines, may make such request to the Trustee, who shall have sole authority to accept or reject such request. If rejected, such Member's Account shall be invested as otherwise provided in this Article.

3.2 *Valuation of Trust Fund.* As soon as practicable after the Determination Date, as defined in the Plan, and as of such other dates as may be specified by the Company, the Trustee shall report to the Company the assets held in the Trust Fund as of such date and shall determine and include in such report the fair

market value as of such date of each such asset. In determining such fair market values, the Trustee shall use such market quotations and other information as are available to it and may in its discretion be appropriate. The report of any such valuation shall not constitute a representation by the Trustee that the amounts reported as fair market values would actually be realized upon the liquidation of the Trust Fund. The Trustee shall not be accountable to the Company or to any other person on the basis of any such valuation, but its accountability shall be in accordance with the provisions of Article IV hereof.

3.3 *Additional Investment Powers of Trustee.* Subject to the provisions of Sections 3.1, 3.6, and 9.2 hereof, and subject and pursuant to the direction of the Committee, the Trustee shall have, with respect to the Trust Fund, the power:

(a) To retain any property at any time received by it;

(b) To sell, exchange, convey, transfer, or dispose of, and to grant options for the purchase or exchange with respect to, any property at any time held by it; and

(c) To register and carry any securities or any other property in the name of the Trustee, or in the name of the nominee of the Trustee (or to hold any such property unregistered) without increasing or decreasing the fiduciary liability of the Trustee, and to exercise any option, right, or privilege to convert any convertible securities, including shares or fractional shares of the Trustee, so long as the conversion privilege is offered pro rata to all shareholders.

3.4 *Administrative Powers of Trustee.* The Trustee shall have the power in its discretion:

(a) To exercise all voting rights with respect to the shares of stock held in the Trust Fund and to grant proxies, discretionary or otherwise;

(b) To cause any shares of stock to be registered and held in the name of one or more of its nominees, or one or more nominees of any system for the central handling of securities, without increase or decrease of liability;

(c) To collect and receive any and all money and other property due to the Trust Fund and to give full discharge therefor;

(d) Subject to the provisions of Section 3.6 hereof: to settle, compromise, or submit to arbitration any claims, debts, or damages due or owing to or from the Trustee; to commence or defend suits or legal proceedings to protect any interest of the Trust; and to represent the Trust in all suits or legal proceedings in any court or before any other body or tribunal;

(e) To organize under the laws of any state a corporation for the purpose of acquiring and holding title to any property that it is authorized to acquire under this Trust Agreement and to exercise with respect thereto any or all of the powers set forth in this Trust Agreement;

(f) To determine how all receipts and disbursements shall be credited, charged, or apportioned as between income and principal;

(g) To make Benefit payments at the direction of the Company; and

(h) Generally to do all acts, whether or not expressly authorized, which the Trustee may deem necessary or desirable for the protection of the Trust Fund.

(i) Notwithstanding any powers granted to the Trustee pursuant to this Trust Agreement or applicable law, the Trustee shall not have any power that could give this Trust the objective of carrying on a business and dividing the gains therefrom, within the meaning of Section 301.7701-2 of the Procedure and Administrative Regulations promulgated pursuant to the Internal Revenue Code of 1986, as amended.

3.5 *Dealings with Trustee.* Persons dealing with the Trustee shall be under no obligation to see to the proper allocation of any money paid or property delivered to the Trustee or to inquire into the Trustee's authority as to any transaction.

3.6 *Distributions from Trust Fund.*

(a) Except as set forth in Section 9.2 and Article X hereof, distributions from the Trust Fund shall be made by the Trustee to the Members and Beneficiaries at the times and in the amounts set forth in the Plan and, to the extent permitted by applicable law, the Trustee shall be fully protected in so doing. As provided pursuant to Section 2.1(b), the Company shall provide the Trustee with the amount of the Benefit payable to a Member within thirty (30) days following (i) such Member's termination of employment, or (ii) such Member's Targeted Deferral Date. In the event that the Trustee does not receive such Benefit information within sixty (60) days following a Member's termination of employment or Targeted Deferral Date, as the case may be, the Trustee shall distribute to the terminated Member or, if the Member's termination of employment was on account of death, to such Member's Beneficiary or, upon the occurrence of a Targeted Deferral Date, to such Member, as the case may be, the Benefit amount (as provided by the Company) that is payable to such Member or his Beneficiary. Any amounts so paid shall be reduced by the amount of any federal, state, or local income or other taxes that may be required by law to be withheld or paid by the Company, and the Trustee shall pay such amounts to the Company for payment to appropriate governmental authorities.

Further, the Trustee may withhold any Benefits payable to a Beneficiary as the result of the death of the Member or any other Beneficiary until such time as (i) the Company is able to determine whether a generation-skipping transfer tax, as defined in Chapter 13 of the Internal Revenue Code of 1986, as amended, or any substitute provision thereof, is payable by the Company, and (ii) the Company has determined the amount of generation-skipping transfer tax, if any, that is due and payable by the Trustee, including interest thereon. If any such tax is payable, the Trustee shall reduce the amounts otherwise payable hereunder to such Beneficiary by an amount equal to the generation-skipping transfer tax and the interest thereon that is payable as a result of the death in question as directed by the Company. Any amounts so withheld shall be payable as soon as there is a final determination of the applicable generation-skipping transfer tax and interest thereon. The Beneficiary and the personal representatives of the deceased Member or Beneficiary shall provide the Company with all of the information necessary for the Company to determine the amount of such tax, if any, required to be withheld. Notwithstanding any provision of this Trust Agreement to the contrary, the Company shall be obligated to pay the Benefits. To the extent that the Trust Fund is not sufficient to pay any Benefit when due, the Company shall

pay such Benefit directly. In the event the Trust Fund is not sufficient to pay all such Benefits, the Trust Fund shall be applied pro rata among such Members on the basis of their accrued Benefits under the Plan. Nothing in this Trust Agreement shall relieve the Company of its liability to pay Benefits except to the extent such liability is met by application of Trust Fund assets.

(b) Notwithstanding any other provision of this Trust Agreement, if any amounts held in the Trust are found in a "determination" (within the meaning of Section 1313(a) of the Internal Revenue Code of 1986, as amended) to have been includible in gross income of a Member prior to payment of such amounts from the Trust, upon the direction by the Company, the Trustee shall, as soon as practicable, pay such amounts to such Member (but not in excess of such Member's accrued Benefit at the time of such payment).

ARTICLE IV

Settlement of Accounts

The Trustee shall keep full accounts of all of its receipts and disbursements. The Trustee's books and records with respect to the Trust Fund shall be open to inspection by the Company, any Member or any Beneficiary of a deceased Member, or their representatives at all times during business hours of the Trustee. Within sixty days after the close of each calendar year, or any termination of the duties of the Trustee, the Trustee shall prepare, sign, and mail to the Company an account of its acts and transactions as Trustee hereunder. If within sixty days after the mailing of the account or any amended account the Company has not filed with the Trustee notice of any objection to any act or transaction of the Trustee, the account or amended account shall become an account stated. If any objection has been filed, and if the Company is satisfied that such objection should be withdrawn or if the account is adjusted to the Company's satisfaction, the Company shall in writing filed with the Trustee signify its approval of the account and it shall become an account stated. When an account becomes an account stated, such account shall be finally settled, and the Trustee shall be completed discharged and released, as if such account had been settled and allowed by a judgment or decree of a court of competent jurisdiction in an action or proceeding in which the Trustee and the Company were parties. The Trustee or the Company shall have the right to apply at any time to a court of competent jurisdiction for judicial settlement of any account of the Trustee not previously settled as hereinabove provided. In any such action or proceeding it shall be necessary to join as parties the Trustee and the Company and any judgment or decree entered therein shall be conclusive upon both parties.

ARTICLE V

Taxes, Expenses and Compensation of Trustee

5.1 *Taxes.* The Company agrees that all income, deductions, and credits of the Trust Fund belong to them as owner for income tax purposes and will be included on the company's income tax return. The Company shall from time to time pay taxes (references in this Trust Agreement to the payment of taxes shall include interest and applicable penalties) of any and all kinds whatsoever which at any time are lawfully levied or assessed upon or become payable with respect to the Trust Fund, the income or any property forming a part thereof, or any security transaction pertaining thereto. To the extent that any taxes levied or assessed upon the Trust Fund are not paid by the Company or contested by the Company pursuant to the last sentence of this Section 5.1, the Trustee shall pay such taxes out of the Trust Fund and the Company shall upon demand by the Trustee deposit into the Trust Fund an amount equal to the amount paid from the Trust Fund to satisfy such tax liability. If requested by the Company, the Trustee shall, at the Company's expense, contest the validity of such taxes in any manner deemed appropriate by the Company or its counsel. Alternatively, the Company may contest the validity of any such taxes, but any such contest shall not affect the Company's obligation to reimburse the Trust Fund for taxes paid from the Trust Fund.

5.2 *Expenses and Compensation.* The Trustee shall be paid compensation by the Company as the Company and the Trustee may from time to time agree. The Trustee shall be reimbursed by the Company for its reasonable expenses of management and administration of the Trust, including reasonable compensation of any agent engaged by the Trustee to assist it in such management and administration. In the event that the Company shall fail or refuse to make such reimbursement upon demand, the Trustee may satisfy such obligations out of the assets of the Trust Fund.

ARTICLE VI

For Protection of Trustee

6.1 *Communications with the Company and the Members.*

(a) The Company shall certify to the Trustee the name or names of any person or persons authorized to act for the Company. Such certification shall be signed by the President or a Vice President and the Secretary or an Assistant Secretary of the Company. Until the Company notifies the Trustee, in a similarly signed notice, that any such person is no longer authorized to act for the Company, the Trustee may continue to rely upon the authority of such person.

(b) The Trustee may rely upon any certificate, notice, or direction of the Company which the Trustee reasonably believes to have been signed by a duly authorized officer or agent of the Company.

(c) Communications to the Trustee shall be sent in writing to the Trustee at NationsBank of Tennessee, N.A., 414 Union Street, Nashville, Tennessee 37219, Attention: Trust Department, or to such other address as the Trustee may specify. No communication shall be binding upon the Trust Fund or the Trustee until it is received by the Trustee unless it is in writing and signed by an authorized person.

(d) Communications to the Company shall be sent in writing to the Company principal address or to such other address as the Company may specify in writing to the Trustee. Communications to a Member or Beneficiary of a deceased Member shall be sent in writing to the address of such person as provided by the Company, or to such other address as such person may specify in writing to the Trustee. No communication shall be binding upon the Company or a Member or Beneficiary until it is received by such person.

6.2 *Fiduciary Responsibility.*

(a) The Trustee shall discharge its duties under this Trust Agreement in effectuating the Plan in a manner consistent with the objectives of this Trust Agreement and the Plan. The Trustee shall not be liable for any loss sustained by the Trust Fund by reason of the purchase, retention, sale or exchange of any investment in good faith and in accordance with the provisions of this Trust Agreement, including the Trustee's reliance on any investment guidelines of the Committee. The Trustee shall have no responsibility or liability for any failure of the Company to make contributions to the Trust Fund or for any insufficiency of assets in the Trust Fund to pay Benefits when due. The Trustee shall not be liable for any act taken or omitted to be taken in good faith, except for its own negligence or misconduct.

(b) The Trustee's duties and obligations shall be limited to those expressly imposed upon it by this Trust Agreement.

(c) The Company at any time may employ such agents as the Company may deem necessary or advisable to perform any act or keep any records or accounts required of the Company by this Trust Agreement or the Plan.

ARTICLE VII

Indemnity of Trustee

The Company hereby indemnifies and holds the Trustee harmless from and against any and all losses, damages, costs, expenses, or liabilities (herein referred to as "Liabilities"), including reasonable attorneys' fees and other costs of litigation, to which the Trustee may become subject pursuant to, arising out of, occasioned by, incurred in connection with or in any way associated with this Trust Agreement, except for any act or omission constituting negligence or misconduct or the Trustee. If one or more Liabilities shall arise, or if the Company fails to indemnify the Trustee as provided herein, or both, then the Trustee may engage counsel of the Trustee's choice, but at the Company's expense, either to conduct the defense against such Liabilities or to conduct such actions as may be necessary to obtain the indemnity provided for herein, or to take both such actions. The Trustee shall notify the Company within fifteen (15) days after the Trustee has so engaged counsel of the name and address of such counsel. If the Trustee shall be entitled to indemnification by the Company pursuant to this Article VII and the Company shall not provide such indemnification upon demand, the Trustee may apply assets of the Trust Fund in full satisfaction of the obligations for indemnity by the Company, and any legal proceeding by the Trustee against the Company for such indemnification shall be on behalf of the Trust.

ARTICLE VIII

Resignation and Removal of Trustee

8.1 *Resignation of Trustee.* The Trustee may resign upon thirty (30) days' prior written notice to the Company, except that any such resignation shall become effective on the earlier of sixty (60) days from the written notification to the Company by the Trustee or appointment by the Company of a successor trustee, whichever comes first. The Company shall make a good faith effort, following receipt of notice of resignation from the Trustee, to find and appoint a successor Trustee who will adhere to the obligations imposed on such successor under the terms of this Trust Agreement. The appointment of a successor Trustee shall also be conditioned upon obtaining from such successor a written statement that the successor has read the Trust Agreement and understands its obligations thereunder.

8.2 *Removal of Trustee.* The Company may remove the Trustee upon thirty days' prior written notice to the Trustee, except that any such removal shall not be effective until the close of such notice period and (i) delivery by the Company to the Trustee of an instrument in writing appointing a successor Trustee meeting the requirements of Section 8.1 and (ii) an acceptance of such appointment in writing executed by such successor.

8.3 *Successor Trustee.* All of the provisions set forth herein with respect to the Trustee shall relate to each successor with the same force and effect as if such successor had been originally named as the Trustee hereunder.

8.4 *Transfer of Trust Fund to Successor.* Upon the resignation or removal of the Trustee and appointment of a successor, the Trustee shall transfer and deliver the Trust Fund to such successor. Following the effective date of the appointment of the successor, the Trustee's responsibility hereunder shall be limited to managing the assets in its possession and transferring such assets to the successor, and settling its final account. Neither the Trustee nor the successor shall be liable for the acts of the other.

ARTICLE IX

Duration and Termination of Trust and Amendment

9.1 *Duration and Termination.* The Trust is hereby declared to be irrevocable and shall continue until (i) all payments required by Section 3.6 have been made or (ii) until the Trust Fund contains no assets and retains no claims to recover assets from the Company or any other person or entity, whichever shall first occur. Notwithstanding the preceding provisions of this Section 9.1, unless earlier terminated, the Trust shall terminate twenty-one (21) years after the death of

the last to die of all of the Members and their issue living on the date of execution of this Trust Agreement; provided, however, that if at that time the Trust may be continued in force without violating the rule against perpetuities or any other law of the State of Tennessee, then the Trust shall remain in effect until otherwise terminated as provided hereunder.

9.2 *Distribution upon Termination.* If this Trust terminates under the provisions of Section 9.1, the Trustee shall, upon direction by the Company, liquidate the Trust Fund and, after its final account has been settled as provided in Article IV, shall distribute to the Company the net balance of any assets of the Trust remaining after all Benefits and expenses have been paid. Upon making such distribution, the Trustee shall be relieved from all further liability. The powers of the Trustee hereunder shall continue so long as any assets of the Trust Fund remain in its hands.

9.3 *Amendment.* The Company may from time to time amend, in whole or in part, any or all of the provisions of this Trust Agreement without the consent of the Members; provided, however, that (i) no amendment will be made to this Trust Agreement or the Plan which will cause this Trust Agreement, the Plan or the assets of the Trust Fund to be governed by or subject to Part 2, 3 or 4 of Title I of ERISA, (ii) no such amendment shall adversely affect any Benefits to the date of such amendment with respect to any Members or Beneficiary or the amount of assets of the Trust Fund available to pay such Benefits, (iii) no such amendment shall purport to alter the irrevocable character of the Trust established under this Trust Agreement and (iv) no such amendment shall affect the duties or responsibilities of the Trustee unless the Trustee consents thereto in writing.

ARTICLE X

Claims of Company's Creditors

10.1 *Insolvency of Company.* As used in this Article X, the Company shall be deemed to be "Insolvent" if (a) the Company is unable to pay its debts as they come due, or (b) the Company is subject to a pending proceeding as a debtor under the federal Bankruptcy Code (or any successor federal statute). In the event that the Company shall be deemed Insolvent, the assets of the Trust Fund shall be held for the benefit of the general creditors of the Company ("Bankruptcy Creditors").

10.2 *Trustee's Responsibilities if Company may be Insolvent.*

(a) The Board of Directors (or other equivalent governing authority) of the Company shall appoint an individual who shall have the duty and authority to promptly inform the Trustee of the Company's Insolvency and shall notify the Trustee in writing of such appointment and any subsequent change thereto. After the Trustee receives the actual written notice from the appointed individual that the Company is Insolvent, the Trustee shall deliver any undistributed principal and income in the Trust to satisfy claims of Bankruptcy Creditors as a court of competent jurisdiction may direct. The Trustee shall have the right to pay the assets of the Trust Fund into such court in an interpleader proceeding for the purpose of being directed by such court as to the proper disposition of such assets, and the costs incurred by the Trustee in connection therewith shall be paid by the Company and charged against the assets of the Trust Fund. The Trustee and all other parties shall be bound by such court's directions, and payment of the assets of the Trust fund by

the Trustee pursuant to court direction shall completely discharge the Trustee from any and all liability with respect to such payment.

If a person certifies in writing that he is a creditor of the Company and files a claim with the Trustee against the assets of the Trust Fund, the Trustee shall determine whether the Company is Insolvent. Such determination shall be made by the Trustee within thirty (30) days after receipt of such claim absent circumstances beyond the control of the Trustee, including, without limitation, any delay in providing necessary information to the Trustee. Pending such determination of Insolvency by the Trustee, the Trustee shall discontinue payment of Benefits. The Trustee may rely on (i) evidence of Insolvency provided by the Company, (ii) court records showing that the Company is Insolvent, (iii) a statement from a nationally recognized credit reporting agency showing that the Company is Insolvent or (iv) any other evidence of the Company's solvency or Insolvency which the Trustee deems to be sufficient in its discretion. The Trustee shall not be liable to any person or entity for any good faith actions or omissions which it takes on account of any such determination. Furthermore, any knowledge and information concerning the Company's solvency or Insolvency that is not in the actual possession of an Assistant Vice President or higher level officer in the Trust Department of the Trustee's office located in Nashville, Tennessee shall not be imputed to the Trustee.

The Trustee shall resume holding the assets of the Trust Fund for the benefit of Members and Beneficiaries and shall resume making payment of Benefits to Members and Beneficiaries only after the Trustee has determined that the Company is not Insolvent (or is no longer Insolvent, if the Trustee initially determined the company to be Insolvent). Unless and until the Trustee has a written notice of the Company's Insolvency or has received a written claim against the Trust by a certified creditor of the Company, the Trustee shall have no duty or obligation to inquire as to whether the company is Insolvent.

(b) If the Trustee discontinues any payments of Benefits pursuant to Section 10.2(a) and subsequently resumes such payments, the payment to a Member following such discontinuance shall include an aggregate amount equal to the difference between all payments which would have been made to such Member under the Plan and this Trust Agreement but for this Section 10.2 and the aggregate payments actually made to such Member by the Company pursuant to the Plan during any such period of discontinuance. In the event that upon resumption of payments pursuant to the preceding sentence, the Trust Assets are insufficient to pay Benefits in full, Benefit payments to the affected Members shall be prorated by the Company, and the Company shall instruct the Trustee as to the amounts to be paid to Members.

ARTICLE XI

Miscellaneous

11.1 *Laws of Tennessee to Govern.* This Trust Agreement and the Trust hereby created shall be construed and regulated by the laws of the State of Tennessee, except to the extent preempted by federal law.

11.2 *Titles and Headings not to Control.* The titles to Articles and headings of Sections in this Trust Agreement are placed herein for convenience of reference only and in case of any conflict the text of this Trust Agreement, rather than such titles or headings, shall control.

11.3 *Affiliates.* As used in this Trust Agreement, except as otherwise provided with respect to any subsidiary of the Company, the term "affiliate" as applied to the Trustee means any person or entity that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the Trustee. For purposes of this definition, the term "control" as used with respect to any person or entity shall mean the possession, directly or indirectly, of the power to

direct or cause the direction of the management and policies of such person or entity, whether through the ownership of an equity interest in such entity, by contract or otherwise.

11.4 *Successors and Assigns.* This Trust Agreement may not be assigned by either party without the prior written consent of the other, and any purported assignment without such prior written consent shall be null and void. This Trust Agreement shall be binding upon the successors and permitted assigns of each party hereto.

11.5 *Severability.* If any provisions of this Trust Agreement shall be held illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining provisions hereof; rather, each provision shall be fully severable and the Trust Agreement shall be construed and enforced as if said illegal and invalid provision had never been included herein.

IN WITNESS WHEREOF, the parties hereto have caused this amended and restated Trust Agreement to be executed as of the day and year first above written, effective February 26, 1999.

COMMUNITY HEALTH SYSTEMS, INC.

By: _____
Name:
Title:

NATIONSBANK OF TENNESSEE, N.A., TRUSTEE

By: _____
Name:
Title:

QuickLinks

Exhibit 10.19

COMMUNITY HEALTH SYSTEMS

DEFERRED COMPENSATION PLAN

As Amended Effective October 1, 1993; January 1, 1994; January 1, 1995;
April 1, 1999; July 1, 2000; and June 1, 2001

Original Effective Date: June 1, 1991

TABLE OF CONTENTS

COMMUNITY HEALTH SYSTEMS
DEFERRED COMPENSATION PLAN

W I T N E S S E T H:

WHEREAS, COMMUNITY HEALTH INVESTMENT CORPORATION (formerly CHS MANAGEMENT CORPORATION) has previously established the Community Health Systems Deferred Compensation Plan (the "Plan") to provide retirement and incidental benefits for certain executive employees of the company, effective June 1, 1991; and

WHEREAS, the Plan was amended in certain respects, effective December 1, 1991; and

WHEREAS, effective January 1, 1992, COMMUNITY HEALTH SYSTEMS, INC. (the "Company") adopted the Plan and assumed all of the duties and responsibilities of Community Health Investment Corporation; and

WHEREAS, the Plan was amended in certain respects effective October 1, 1993, January 1, 1994, January 1, 1995, and April 1, 1999; and

WHEREAS, the name of the Company has been changed to CHS/Community Health Systems, Inc.; and

WHEREAS, the Company wishes to amend the Plan further as provided herein;

NOW, THEREFORE, the Plan shall be and is hereby amended and restated in this form, effective as of July 1, 2000, except as otherwise provided herein.

ARTICLE I

Definitions and Construction

1.1 *Definitions.* Where the following words and phrases appear in the Plan, they shall have the respective meanings set forth below, unless their context clearly indicates to the contrary:

(1) *Account:* A memorandum bookkeeping account established on the records of the Company for a Member that is credited with amounts determined pursuant to Sections 4.1 and 4.2 of the Plan. As of any Determination Date, a Member's benefit under the Plan shall be equal to the amount credited to his Account as of such date. If a Member has made an election to defer a portion of his Compensation until a specified date pursuant to Section 3.4, the account described herein shall consist of such subaccounts as are necessary to segregate such deferral from the other amounts deferred by the Member.

(1)(A) *Affiliate:* Any subsidiary of Community Health Systems, Inc., the corporate parent of the Company.

(1)(B) *Bonus:* The bonus paid by the Company or an Affiliate to a Member pursuant to an employment agreement between the Company or an Affiliate and the Member or otherwise for services rendered or labor performed while a Member.

(1)(C) *Change of Control:* A Change of Control occurs in the event of a sale of all or substantially all of the stock or assets of the Company to a purchaser if the debt-to-equity ratio of the purchaser taking into account the sale of the stock or assets of the Company is greater than ..75 to 1 as determined by the Committee immediately prior to the sale.

(2) *Committee:* The administrative committee appointed by the Company to administer the Plan, which committee shall consist of the same persons designated by the Company pursuant to the terms of the Community Health Systems, Inc. 401(k) Plan to act on behalf of the Company, as the Administrator of such Plan.

(3) *Company:* CHS/Community Health Systems, Inc.

(4) *Company Matching Contributions:* Contributions made to the Community Health Systems, Inc. 401(k) Plan by the Company or an Affiliate on a Member's behalf pursuant to Section 4.1 of the Community Health Systems, Inc. 401(k) Plan.

(5) *Compensation:* The total base salary paid by the Company or an Affiliate during the Plan Year to or for the benefit of a Member for services rendered or labor performed while a Member.

(6) *Contributing Member:* A Member who, for a Plan Year, made a deferral election pursuant to Section 3.2, Section 3.3 and/or Section 3.4.

(7) *Determination Date. The last business day of each quarter in a calendar year.*

(8) *Earnings Credit:* The earnings applied to a Member's Account as of each Determination Date pursuant to Section 4.2(b).

(9) *Effective Date:* June 1, 1991.

(10) *Investment(s):* Any investment fund(s) offered through the Trustee or its affiliates including Nations Fund, Inc., Nations Fund Trust, or Nations Fund Portfolios, Inc. (or their successors).

(11) *Investment Gains or Losses:* Actual gains or losses realized from investments applied to a Member's Account as of each Determination Date pursuant to Section 4.2(a) of the Plan, after deducting applicable investment-related costs and expenses, if any. For the Determination Date, such Member's Account shall be reduced or increased for an amount equal to the Federal or state income taxes that the Company is required to pay or expects to realize in relation to such investment(s)' taxable gain or loss realized during such year.

(12) *Limitations:* Benefit limitations imposed on the Retirement Plan under the Employee Retirement Income Security Act of 1974, as amended, and under sections 401(a)(17), 401(k)(3), 401(m)(2), 402(g) and 415 of the Internal Revenue Code of 1986, as amended.

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(13) *Member:* Any employee of the Company or an Affiliate who has been designated by the Committee as a Member of the Plan until such employee ceases to be a Member in accordance with Section 3.1 of the Plan.

(14) *Plan:* Community Health Systems Deferred Compensation Plan, as amended from time to time.

(15) *Plan Year:* The seven-month period commencing June 1, 1991 and ending December 31, 1991 and each twelve-consecutive month period commencing January 1 of each year thereafter.

(16) *Retirement Plan:* Community Health Systems, Inc. 401(k) Plan.

(17) *Trust Agreement:* The agreement entered into between the Company and the Trustee establishing a trust to hold and invest contributions made by the Company under the Plan and from which all or a portion of the amounts payable under the Plan to Members and their beneficiaries will be distributed.

(18) *Trust Assets:* All assets held by the Trustee under the Trust Agreement.

(19) *Trustee:* The trustee or trustees qualified and acting under the Trust Agreement at any time.

1.2 *Number and Gender.* Wherever appropriate herein, words used in the singular shall be considered to include the plural and the plural to include the singular. The masculine gender, where appearing in this Plan, shall be deemed to include the feminine gender.

1.3 *Headings.* The headings of Articles and Sections herein are included solely for convenience and if there is any conflict between such headings and the text of the Plan, the text shall control.

ARTICLE II

Administration

The Plan shall be administered by the Committee which shall be authorized, subject to the provisions of the Plan, to establish rules and regulations and make such interpretations and determinations as it may deem necessary or advisable for the proper administration of the Plan and all such rules, regulations, interpretations and determinations shall be binding on all Plan Members and their beneficiaries. The Committee shall be composed of not less than three individuals. Each member of the Committee shall serve until he resigns or is removed by the Company. Upon the resignation or removal of a member of the Committee, the Company shall appoint a substitute member. No member of the Committee shall have any right to vote or decide upon any matter relating solely to himself under the Plan or to vote in any case in which his individual right to claim any benefit under the Plan is particularly involved. In any case in which a Committee member is so disqualified to act, and the remaining members cannot agree, the Company shall appoint a temporary substitute member to exercise all the powers of the disqualified member concerning the matter in which he is disqualified. All expenses incurred in connection with the administration of the Plan shall be borne by the Company.

ARTICLE III

Participation

3.1 *Eligibility.* Any employee of the Company or an Affiliate shall become a Member upon designation by the Committee. Once an employee has been designated as a Member, he shall automatically continue to be a Member until he ceases to be an employee of the Company or an Affiliate or is removed as a Member by the Committee. Notwithstanding the preceding provisions of this Section 3.1, participation in this Plan shall at all times be limited to a selected group of management or highly compensated employees of the Company.

3.2 *Compensation Deferral Election.* Any Member may elect to defer receipt of an integral percentage of his Compensation for one or more calendar quarters during a Plan Year under the Plan. A Member's election to defer receipt of Compensation for any calendar quarter(s) of a Plan Year shall be made prior to the beginning of such calendar quarter(s) of the Plan Year and shall be irrevocable for such calendar quarter(s) of the Plan Year. The reduction in a Member's Compensation pursuant to his election shall be effected by Compensation reductions as of each payroll period within the election period.

3.3 *Bonus Deferral Election.* Any Member may elect to defer receipt of an integral percentage of his Bonus for any Plan Year under the Plan. A Member's election to defer receipt of his Bonus for any Plan Year shall be made prior to the earlier of (i) the date on which such bonus becomes payable and ascertainable, or (ii) October 1 of such Plan Year for which such Bonus is payable, and shall be irrevocable for such Plan Year. The election to defer receipt of such percentage of a Member's Bonus pursuant to the deferral election above shall be effected by a reduction in the amount of the Bonus to which such deferral election relates. Notwithstanding the preceding provisions of this Section 3.3, a Member may defer receipt of his Bonus for 1993 no later than the date of which such bonus becomes payable and ascertainable.

3.4 *Targeted Deferral Election.* In general, all amounts deferred by a Member pursuant to Sections 3.2 and 3.3 shall be held for the Member and distributed following the Member's termination of employment or the occurrence of a hardship event pursuant to Sections 7.1, 7.2 and 8.1. Notwithstanding the preceding sentence, a Member may also defer the receipt of any portion of the Member's Compensation otherwise deferred pursuant to the provisions of Sections 3.2 and 3.3 until a specific future date, by executing a deferral form designed for such purpose as specified by the Committee. Upon the occurrence of any such date specified by a Member in such an election form, the deferred amount, and the Earnings Credit and Investment(s) Income or Loss attributable thereto, shall be distributed to the Member. Until so distributed, such deferral amounts shall continue to be a part of the Member's Account.

3.5 *Investment Request.* A Member may request the Committee to invest or change the investment of all or a portion of his Account in any Investments. A Member may make such request at any time, provided that the Committee shall only be obligated to direct the Trustee to make such investment or charge such investment as soon as reasonably practicable and within the guidelines and requirements established by the Trustee for the investment of funds held in the Account. A Member who does not request the Committee to invest any portion of his Account shall have the funds held in such Account in a money market fund offered through the Trustee or its affiliates.

ARTICLE IV

Benefits

4.1 *Amount of Benefit.* As of the last day of each payroll period of each Plan Year, a Member's Account shall be credited with an amount equal to the Compensation deferred under the Plan pursuant to an election by the Member as described in Article III for such payroll period.

Additionally, as of the last day of each Plan Year or, if later, the date on which the Company Matching Contributions are made under the Retirement Plan for any such Plan Year, the Member's Account of each Contributing Member during such Plan Year who remains employed by the Company on such date shall be credited with an amount equal to the following:

(a) the Company Matching Contributions to which such Contributing Member would have been entitled under the Retirement Plan taking into account both (i) the salary deferrals made by such Contributing Member to the Retirement Plan for the Plan Year and (ii) the deferrals made by such Contributing Member under this Plan pursuant to Sections 3.1, 3.2, or 3.3 for the same Plan Year (up to a combined maximum of six percent

(6.00%) of such Contributing Member's Compensation, as limited by Code Section 401(a)(17)) for the Plan Year, assuming that none of the other Limitations were imposed; minus

(b) the Company Matching Contributions actually made on behalf of such Contributing Member under the Retirement Plan for such Plan Year.

In addition, if (i) the total of such Contributing Member's salary deferrals under the Retirement Plan (as adjusted after application of the Limitations) and deferrals pursuant to Sections 3.1, 3.2 or 3.3 under this Plan is less than 6.00% of such Contributing Member's Compensation, as limited by Code Section 401(a)(17), for a Plan Year; and (ii) the Contributing Member elects to increase his or her deferrals under this Plan by all or any portion of any salary deferrals to the Retirement Plan that are returned to the Contributing Member as a result of the application of the Limitations within 120 days after receipt of such returned salary deferrals, even if such increased deferrals are made in the next Plan Year; such increased deferrals shall also be taken into account in subparagraph (a) above until the total of the Contributing

Member's salary deferrals under the Retirement Plan and deferrals under this Plan for the Plan Year equals 6.00% of the Contributing Member's Compensation, as limited by Code Section 401(a)(17).

As of any Determination Date, the benefit to which a Member or his beneficiary shall be entitled under the Plan shall be equal to the amount credited to such Member's Account as of such date.

4.2 *Investment Credit.* As of each Determination Date, the Account of each Member shall be credited with Investment Gains or Losses as provided in this Section 4.2.

(a) If a Member has requested in accordance with Section 3.5 of the Plan that all or a portion of his Account be invested in any particular Investment(s), the Account of such Member shall be credited with the Investment Gains or Losses since the preceding Determination Date.

(b) Any portion of a Member's Account, the investment of which has not been requested by the Member, shall be credited with the Earnings Credit for such Determination Date.

(c) A Member's Account shall not be credited with any Investment Credit under this Section 4.2 on the Company Matching Contributions portion credited to his Account as of the last day of each Plan Year pursuant to Section 4.1 of the Plan until the Company actually makes the cash deposit of such Matching Contributions with the Trustee.

ARTICLE V

Vesting

All amounts credited to a Member's Account shall be fully vested and not subject to forfeiture for any reason; provided, however, the amounts credited to a Member's Account pursuant to the second paragraph of Section 4.1, including any Earnings Credit and/or Investment Gains or Losses allocacable to such credits, shall be subject to the same vesting schedule as that set forth in the Retirement Plan. Notwithstanding the preceding sentence, the benefits payable to each Member hereunder constitute an unfunded, unsecured obligation of the Company, and the assets held by the Company and the Trustee remain subject to the claims of the Company's creditors.

ARTICLE VI

Trust

The Company may, from time to time and in its sole discretion, pay and deliver money or other property to the Trustee for the payment of benefits under the Plan. Notwithstanding any provision in the Plan to the contrary, distributions due under the Plan to or on behalf of Members shall be made by the Trustee in accordance with the terms of the Trust Agreement and the Plan; provided, however, that the Company shall remain obligated to pay all amounts due to such persons under the Plan. To the extent that Trust Assets are not sufficient to pay any amounts due under the Plan to or on behalf of the Members when such amounts are due, the Company shall pay such amounts directly. Nothing in the Plan or the Trust Agreement shall relieve the Company of its obligation to make the distributions required in Article VII hereof except to the extent that such obligation is satisfied by the application of funds held by the Trustee under the Trust Agreement. Any recipient of benefits hereunder shall have no security or other interest in Trust Assets. Any and all Trust Assets shall remain subject to the claims of the general creditors of the Company, present and future, and no payment shall be made under the Plan unless the Company is then solvent. Should an inconsistency or conflict exist between the specific terms of the Plan and those of the Trust Agreement, then the relevant terms of the Trust Agreement shall govern and control.

ARTICLE VII

Payment of Benefits

7.1 *Termination of Employment.* Upon a Member's termination of employment with the Company or an Affiliate for any reason, the amount credited to such Member's Account as of the Determination Date immediately preceding such Member's termination of employment, adjusted for any amount deferred and Earnings Credit and Investment(s) Income or Loss realized from such Determination Date to the date of the Member's termination of employment, shall be distributed to such Member or, if the Member's termination of employment is on account of death, to the Member's beneficiary as determined pursuant to Section 7.2 below.

7.2 *Death.* Upon a Member's death, the amount credited to such Member's Account as of the Determination Date immediately preceding the date of such Member's death, adjusted for any amount deferred and Earnings Credit and Investment Gains or Losses realized from such Determination Date to the date of the Member's death, shall be distributed to such Member's designated beneficiary. The Member, by written instrument filed with the Committee in such manner and form as the Committee may prescribe, may designate one or more beneficiaries to receive such payment. The beneficiary designation may be changed from time to time prior to the death of the Member. In the event that the Committee has no valid beneficiary designation on file, the amount credited to such Member's Account shall be distributed to the Member's surviving spouse, if any, or if the Member has no surviving spouse, to the executor or administrator of the Member's estate.

7.3 *Targeted Deferrals.* If a Member has made one or more targeted deferrals pursuant to Section 3.4, upon the date specified in any election form used by the Member to make such election, the amount credited in the subaccount of the Member's Account which relates to such deferral as of the Determination Date immediately preceding such specified date shall be distributed to such Member. If some event takes place that would entitle a Member to a distribution under Sections 7.1 or 7.2 prior to such specified date, the amounts in such subaccount shall be distributed along with any other amounts in the Member's Account pursuant to Section 7.1 or 7.2.

7.4 *Time of Payment.* Payment of a Member's benefit hereunder shall be made (or commence if payment is in the form of an annuity contract) as soon as administratively feasible following the date on which the Member or his beneficiary becomes entitled to such benefit pursuant to Sections 7.1, 7.2, or 7.3, but no earlier than 10 days thereafter and no later than 45 days thereafter, except for the Company Matching Contributions as provided herein. If a Member's termination of employment or death or any other events which caused termination of the Plan, occurs within the first four months of a year, the portion of the Company Matching Contributions for the preceding Plan Year that has been credited to a Member's Account shall be distributed to such Member no later than the earlier of (i) the date of which the calculation of such contributions has been finalized or (ii) May 1 of the year of termination of employment or death, or any other events which shall entitle the Member to a distribution. In all other events, the 10 days and

45 days limitation shall apply to the distribution of the Member's entire Account balance, unless expressly provided otherwise.

7.5 *Form of Payment.* Effective June 1, 2001, for purposes of distributing all of a Member's Account other than any portion thereof attributable to targeted deferrals and earnings thereon, the form of any payment to a Member or his designated beneficiary shall be in substantially equal annual installments over a period of ten (10) years, paid in cash or by certified check, with the first such payment to be made on the first business day of the calendar year following the Member's termination of employment (for purposes of payments made pursuant to Section 7.1) or death (for purposes of payments made pursuant to Section 7.2), unless the Member has made an election to receive such distribution in the form of a lump sum payment or in five (5) substantially equal installment payments in such manner and form as prescribed by the Committee. Any election, or subsequent election, made by the Member pursuant to this Section shall not be effective until the passage of twelve (12) consecutive months before the date of the Member's termination of employment with the Company or an Affiliate, if payment is required pursuant to Section 7.1, or the Member's date of death, if the payment is required pursuant to Section 7.2. All distributions of that portion of a Member's Account attributable to any targeted deferral and earnings thereon shall be distributed in a single lump sum payment, in cash or certified check, on the date specified by the Member in the election form used to make the targeted deferral, or as soon thereafter as administratively possible.

ARTICLE VIII

Hardship Distributions

Upon written application by a Member who has experienced an unforeseeable emergency, as determined by the Committee, the Committee may distribute to such Member an amount not to exceed the lesser of the amount credited to such Member's Account or the amount determined by the Committee as being reasonably necessary to satisfy the emergency need. For purposes of this Article VIII, a hardship distribution pursuant to an unforeseeable emergency shall be authorized in the event of severe financial hardship to the Member resulting from a sudden and unexpected illness or accident of the Member or his dependent, loss of the Member's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the Member's control. An unforeseeable emergency will not include the need to send a Member's child to college or the desire to purchase a home. Additionally, the Member must demonstrate that the hardship may not be relieved through reimbursement or compensation by insurance or otherwise, by liquidation of the Member's assets, to the extent the liquidation of such assets would not itself cause severe financial hardship, or by cessation of deferrals under this Plan.

ARTICLE IX

Sale of the Company

In the event of a sale of all or substantially all of the stock or assets of the Company, either (a) the purchaser shall assume the liabilities of the Plan and shall continue to operate the Plan in accordance with the provisions set forth herein (including any subsequent amendments hereto) or (b) the Plan shall be terminated and the amount credited to each Member's Account shall be distributed in a lump sum payment in cash or by certified check to each such Member in accordance with Section 7.4. However, should such sale result in a Change of Control, the Plan shall be terminated and the amount credited to each Member's Account shall be distributed in a lump sum payment in cash or by certified check to each such Member in accordance with Section 7.4.

ARTICLE X

Nature of the Plan

The Plan shall constitute an unfunded, unsecured obligation of the Company to make cash payments in accordance with the provisions of the Plan. The Plan is not intended to meet the qualification requirements of section 401 of the Internal Revenue Code of 1986, as amended. The Company in its sole discretion may set aside such amounts for the payment of Accounts as the Company may from time to time determine. Neither the establishment of the Plan, the operation thereof, nor the setting aside of any amounts shall be deemed to create a funding arrangement. No Member shall have any security or other interest in any such amounts set aside or any other assets of the Company.

ARTICLE XI

Employment Relationship

Nothing in the adoption or implementation of the Plan shall confer on any employee the right to continued employment by the Company or an Affiliate or affect in any way the right of the Company or an Affiliate to terminate his employment at any time. Any question as to whether and when there has been a termination of a Member's employment, and the cause of such termination, shall be determined by the Committee, and its determination shall be final.

ARTICLE XII

Amendment and Termination

The Company may amend or terminate the Plan, by resolution duly adopted, without the consent of the Members; provided, however, that no such amendment or termination shall adversely affect any benefits which have been earned prior to any such amendment or termination. Further, upon termination of the Plan, the Committee, in its sole discretion, may elect to distribute the amount credited to each Member's Account in a lump sum cash payment in accordance with Section 7.4; provided, however, in the event of a Change of Control, the amount credited to each Member's Account must be distributed in accordance with Section 7.4.

ARTICLE XIII

Claims Procedure

The Committee shall have full power and authority to interpret, construe and administer the Plan, and the Committee's interpretations and construction hereof, and actions hereunder, including the timing, form, amount or recipient of any payment to be made hereunder, shall be binding and conclusive on all persons for all purposes. In the event that an individual's claim for a benefit is denied or modified, the Committee shall provide such individual with a written statement setting forth the specific reasons for such denial or modification in a manner calculated to be understood by the individual. Any such written statement shall reference the pertinent provisions of the Plan upon which the denial or modification is based and shall explain the Plan's claim review procedure. Such individual may, within forty-five (45) days of receipt of such written statement, make written request to the Committee for review of its initial decision. Within forty-five (45) days following such request for review, the Committee shall, after affording such individual a reasonable opportunity for a full and fair hearing, render its final decision in writing to such individual. Notwithstanding the preceding sentence, should a Member's claim be related to the preceding Plan Year's Company Matching Contributions, the Committee shall render its final decision on the later of (i) forty-five (45) days following such request for review, or (ii) 120 days after the end of the preceding Plan Year. No member of the Committee shall be liable to any person for any action taken or omitted in connection with the interpretation and administration of the Plan unless attributable to his own willful misconduct or lack of good faith. Members of the Committee shall not participate in any action or determination regarding their own benefits hereunder.

ARTICLE XIV

Miscellaneous

14.1 *Indemnification.* The Company shall indemnify and hold harmless each member of the Committee and any other persons acting on its behalf, against any and all expenses and liabilities arising out of his or her administrative functions or fiduciary responsibilities, excepting only expenses and liabilities arising out of the individual's own willful misconduct or lack of good faith. Expenses against which such person shall be indemnified hereunder include, without limitation, the amounts of any settlement or judgment, costs, counsel fees and related charges reasonably incurred in connection with a claim asserted or a proceeding brought or settlement thereof.

14.2 *Effective Date.* The Plan shall become operative and effective as of the Effective Date and shall continue until amended or terminated as provided in Article XII.

14.3 *Withholding Taxes.* The Company shall have the right to deduct from any payments made under this Plan, any federal, state or local taxes required by law to be withheld with respect to such payments.

14.4 *Nonalienation of Benefits.* Subject to income tax withholding, benefits payable under this Plan shall not be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, charge, garnishment, execution or levy of any kind, either voluntary or involuntary, including any such liability which is for alimony or other payments for the support of a spouse or former spouse, or for any other relative of the Member, prior to actually being received; and any attempt to anticipate, alienate, sell, transfer, assign, pledge, encumber, charge or otherwise dispose of any right to benefits payable hereunder shall be void. The Company shall not in any manner be liable for, or subject to, the debts, contracts, liabilities, engagements or torts of any person entitled to benefits hereunder.

14.5 *Severability.* If any provision of the Plan shall be held illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining provisions hereof; rather, each provision shall be fully severable and the Plan shall be construed and enforced as if said illegal or invalid provision had never been included herein.

14.6 *Jurisdiction.* The situs of the Plan hereby created is Tennessee. All provisions of the Plan shall be construed in accordance with the laws of Tennessee except to the extent preempted by federal law.

IN WITNESS WHEREOF, the undersigned has caused this restated Plan to be executed effective as of January 1, 2002.

CHS/COMMUNITY HEALTH SYSTEMS, INC.

By: /s/ LINDA K. PARSONS

Name: Linda K. Parsons
Title: Vice President—Human Resources

QuickLinks

Exhibit 21

LIST OF SUBSIDIARIES OF COMMUNITY HEALTH SYSTEMS, INC.
AS OF March 14, 2003

EACH SUBSIDIARY IS WHOLLY OWNED BY COMMUNITY HEALTH SYSTEMS, INC. (THE "COMPANY") UNLESS OTHERWISE INDICATED.

Community Health Systems, Inc. (DE)

CHS/Community Health Systems, Inc. (DE)

CHS Professional Services Corporation (DE)

Community Health Investment Corporation (DE)

Marion Hospital Corporation (IL)
d/b/a: Marion Memorial Hospital; Heartland Regional Medical Center; Heartland Regional Medical Center Home Health Agency

Heartland Regional Health Systems, LLC
(Marion Hospital Corporation—100%)

CHS Holdings Corp. (NY)

Professional Account Services Inc. (TN)
d/b/a: Community Account Services, Inc. (only in the states of TX, AR, NM & CA)
Physician Practice Support, Inc. (TN)
Community Health Management Services, Inc. (DE)
Hartselle Physicians, Inc. (AL)
d/b/a: Family Health of Hartselle
Troy Hospital Corporation (AL)
d/b/a: Edge Regional Medical Center
Edge Medical Clinic, Inc. (AL)
Greenville Hospital Corporation (AL)
d/b/a: L.V. Stabler Memorial Hospital
Central Alabama Physician Services, Inc. (AL)
Community Health Network, Inc. (AL)
Eufaula Clinic Corp. (AL)
Eufaula Hospital Corporation (AL)
d/b/a: Lakeview Community Hospital; Lakeview Community Hospital
Home Health Agency
Foley Clinic Corp. (AL)
d/b/a: Orange Beach Family Practice
Foley Hospital Corporation (AL)
d/b/a: South Baldwin Regional Medical Center; South Baldwin Regional
Medical Center Home Health Agency
Greenville Clinic Corp. (AL)
Bullhead City Clinic Corp. (AZ)
Bullhead City Hospital Corporation (AZ)
d/b/a: Western Arizona Regional Medical Center; Western Arizona
Regional Medical Center Home Health Agency; Western Arizona Regional
Medical Center Hospice; W.A.R.M.C. Imaging Center
Silver Creek MRI, LLC (AZ)(1)
(Members: Bullhead City Hospital Corporation
—51%; Colorado River Radiology, P.C. —49%)

Payson Hospital Corporation (AZ)
d/b/a: Payson Regional Medical Center; Payson Regional Home Health
Agency; Payson Regional Medical Center Outpatient Treatment Center
Payson Healthcare Management, Inc. (AZ)
d/b/a: Payson Healthcare
Phillips Hospital Corporation (AR) d/b/a Helena Regional Medical Center, Helena Regional Medical Center Home Health Agency and Marvell Medical Clinic
Randolph County Clinic Corp. (AR) d/b/a Pocahontas Healthcare Specialists
Harris Medical Clinics, Inc. (AR)
d/b/a: Harris Internal Medicine Clinic
Hospital of Barstow, Inc. (DE)
d/b/a: Barstow Community Hospital
Barstow Healthcare Management, Inc. (CA)
Watsonville Hospital Corporation (DE)
d/b/a: Watsonville Community Hospital; Prime Health at Home; The
Monterey Bay Wound Treatment Center
Fallbrook Hospital Corporation (DE)
d/b/a: Fallbrook Hospital; Fallbrook Home Care Agency; Fallbrook
Hospital Skilled Nursing Facility; Fallbrook Hospice

Victorville Hospital Corporation (DE)
North Okaloosa Medical Corp. (FL)(2)
North Okaloosa Surgery Venture Corp. (FL)
HealthSouth/North Okaloosa Surgery, GP(3)
Crestview Hospital Corporation (FL)
d/b/a: North Okaloosa Medical Center; North Okaloosa Medical Center Home Health; Gateway Medical Clinic; Hospitalist Services of Okaloosa County
Gateway Medical Services, Inc. (FL)
North Okaloosa Clinic Corp. (FL)
d/b/a: Bluewater-Gateway Family Practice; Pinellas Physician Corporation
Lake Wales Hospital Corporation (FL)
Fannin Regional Hospital, Inc. (GA)
d/b/a: Fannin Regional Hospital; Fannin Regional M.O.B; Medical Specialties of Ellijay
Fannin Regional Orthopaedic Center, Inc. (GA)
Hidden Valley Medical Center, Inc. (GA)
d/b/a: Ocoee Medical Clinic; Hidden Valley Medical Clinic — Blue Ridge; Hidden Valley Medical Clinic— Ellijay; Tri-County Women's Health
Granite City Hospital Corporation (IL)
Granite City Illinois Hospital Company, LLC
Edwardsville Ambulatory Surgery Center, L.L.C.
(Granite City Illinois Hospital Company, LLC — 100% of Class A Stock; Ronald Gould, MD (20% of Class B); Neil Frederickson, MD
(20% of Class B); Charles Friedman, MD
(20% of Class B); Peter Anderson, MD (20% of Class B); Craig Beyer, MD (20% of Class B)

Granite City Clinic Corp. (IL)
d/b/a: Heartland Healthcare
Anna Hospital Corporation (IL)
Red Bud Hospital Corporation (IL)
Red Bud Illinois Hospital Company, LLC (IL)
d/b/a Red Bud Regional Hospital, Red Bud Nursing Home; Red Bud Regional Hospital Home Care Services
Red Bud Clinic Corp. (IL)
d/b/a Khan Surgery; Women's Care Center; Red Bud Surgical Specialists
Memorial Management, Inc. (IL)
d/b/a: Heartland Community Health Center
Hospital of Fulton, Inc. (KY)
d/b/a: Parkway Regional Hospital, Clinton-Hickman County Medical Center; Hillview Medical Clinic; Parkway Regional Home Health Agency
Parkway Regional Medical Clinic, Inc. (KY)
d/b/a: Hickman-Fulton County Medical Clinic; Women's Wellness Center; Doctors Clinic of Family Medicine
Hospital of Louisa, Inc. (KY)
d/b/a: Three Rivers Medical Center; Three Rivers Home Care
Three Rivers Medical Clinics, Inc. (KY)
d/b/a: Big Sandy Family Care; Three Rivers Family Care
Jackson Hospital Corporation (KY)
d/b/a: Middle Kentucky River Medical Center; Kentucky River Medical Center
Jackson Physician Corp. (KY)
d/b/a: Wolfe County Clinic; Beatyville Medical Clinic; Booneville Medical Clinic; Community Medical Clinic; Jackson Pediatrics Clinic; Jackson Women's Care Clinic
Community GP Corp. (DE)
CRMC-GP Corp. (DE)
Community LP Corp. (DE)
River West, L.P. (DE)++
d/b/a: River West Medical Center; River West Home Care
Chesterfield/Marlboro, L.P. (DE)++
d/b/a: Marlboro Park Hospital; Chesterfield General Hospital
Cleveland Regional Medical Center, L.P. (DE)++
d/b/a: Cleveland Regional Medical Center
Timberland Medical Group (TX CNHO)
Timberland Health Alliance, Inc. (TX PHO)
Northeast Medical Center, L.P. (DE)++
d/b/a: Northeast Medical Center; Northeast Medical Center Home Health
River West Clinic Corp. (LA)
Olive Branch Hospital, Inc. (MS) d/b/a: Parkwood Hospital
Olive Branch Clinic Corp. (MS)

Community Health Care Partners, Inc. (MS)
Washington Clinic Corp. (MS)
d/b/a: Occupational Health Services

Washington Hospital Corporation (MS)
d/b/a: The King's Daughters Hospital; The King's Daughters Hospital Skilled Nursing Facility; Leland Rural Health Clinic; Greenville Rural Health Clinic
Kirksville Hospital Corporation (MO)
Kirksville Missouri Hospital Company, LLC (MO)(4)
d/b/a Northeast Regional Medical Center; Northeast Home Health Services; Northeast Regional Health and Fitness Center; Northeast Regional Health System; Family Health Center of Edina; A.T. Still Rehabilitation Center New Concepts Open MRI, LLC (MO)(10)
Moberly Hospital, Inc. (MO)
d/b/a: Moberly Regional Medical Center and Downtown Athletic Club
Moberly Medical Clinics, Inc. (MO)
d/b/a: Tri-County Medical Clinic; Shelbina Medical Clinic; Regional Medical Clinic; MRMC Clinic
Moberly Physicians Corp. (MO)
Salem Hospital Corporation (NJ)
d/b/a: Memorial Hospital of Salem County; South Jersey Physical Therapy and Back Rehabilitation Center; Beckett Diagnostic Center; Memorial Home Health; Hospice of Salem County; The Memorial Hospital of Salem County; South Jersey Physical Therapy of the Memorial Hospital of Salem County
Salem Clinic Corp. (NJ)
d/b/a: Children's Healthcare Center; South Jersey Family Care Center
The Surgery Center of Salem County, LLC (NJ)(JV w/ no stock)
Deming Hospital Corporation (NM)
d/b/a: Mimbres Memorial Hospital and Nursing Home; Deming Rural Health Clinic; Mimbres Home Health and Hospice
Deming Clinic Corporation (NM)
Roswell Hospital Corporation (NM)
d/b/a: Eastern New Mexico Medical Center; Eastern New Mexico Transitional Care Unit; Sunrise Mental Health Services; Eastern New Mexico Family Practice Residency Program; Eastern New Mexico Family Practice Residency Center; Valley Health Clinic of Eastern New Mexico Medical Center
San Miguel Hospital Corporation (NM)
d/b/a: Northeastern Regional Hospital
Hospital of Rocky Mount, Inc. (NC)
d/b/a: Community Hospital of Rocky Mount, Inc.
Rocky Mount Physician Corp. (NC)
d/b/a: Carolina Urgent Care
Williamston Clinic Corp. (NC)
d/b/a: Northeastern Primary Care Group; University Family Medicine Center; Roanoke Women's Healthcare
Williamston Hospital Corporation (NC)
d/b/a: Martin General Hospital; Northern Primary Care Group; University Family Medicine Center; Roanoke Women's Healthcare; Martin General Health System

Plymouth Hospital Corporation (NC)
d/b/a: Washington County Hospital
HEH Corporation (OH)
Enid Health Systems, Inc. (DE)
Enid Regional Treatment Services, Inc. (DE)
CHS Berwick Hospital Corporation (PA)
d/b/a: Berwick Hospital Center; Berwick Recovery System; Berwick Hospital Center Home Health Care; Berwick Retirement Village Nursing Home; Berwick Home Health Hospice Care
Berwick Clinic Corp. (PA)
Berwick Home Health Private Care, Inc. (PA)
Clinton Hospital Corporation (PA)
d/b/a: Lock Haven Hospital — Extended Care Unit

Coatesville Hospital Corporation (PA)

d/b/a: Brandywine Hospital; Brandywine Health System, Brandywine School of Nursing; Brandywine Hospitals; Women's Health-New Garden; Brandywine Hospital Home Health; Brandywine Hospital Hospice

BH Trans Corporation (PA)
d/b/a Medic 93; Sky Flightcare

Northampton Hospital Corporation (PA)
d/b/a: Easton Hospital; Easton Hospital Home Health Services; Outlook House; Easton Area Family Medicine Associates, Bethlehem Area Pediatric Associates; Nazareth Area Family Medicine Associates; Easton Area Obstetrics & Gynecology Associates; George M. Joseph, MD & Associates; Easton Hospital Hospice; Brighton Obstetrics &Gynecology
Northampton Physician Services Corp. (PA)
West Grove Hospital Corporation (PA)
d/b/a: Jennersville Regional Hospital; Jennersville Regional Home Health Services; Jeffersville Regional Hospital Hospice Program; HealthTech; Jennersville Pediatrics
Pottstown Hospital Corporation (PA)
Lancaster Hospital Corporation (DE)
d/b/a: Springs Memorial Hospital; Lancaster Recovery Center; Rock Hill Rehabilitation; Lancaster Rehabilitation; Springs Business Health Services; Hospice of Lancaster; Springs Wound Treatment Center; Kershaw Family Medicine Center; Home Care of Lancaster

Lancaster Imaging Center, LLC (Lancaster Hospital Corporation 51%; Mark Langdon, M.D. 49%)
Lancaster Clinic Corp. (SC)
d/b/a: Lancaster Pediatrics; Springs Healthcare; Lancaster Urgent Care Clinic
Chesterfield Clinic Corp. (SC)
d/b/a: Palmetto Pediatrics; Cheraw Medical Associates, and Reynolds Family Medicine
Marlboro Clinic Corp. (SC)
d/b/a: Pee Dee Clinics and Cardiology Associates; Marlboro

Pediatrics and Allergy
Polk Medical Services, Inc. (TN)
East Tennessee Health Systems, Inc. (TN)
d/b/a: Scott County Hospital
Scott County Medical Clinic, Inc. (TN)
d/b/a: Scott County Imaging Center
d/b/a: McCreary Doctor's Medical Clinic (KY)
Sparta Hospital Corporation (TN)
d/b/a: White County Community Hospital
White County Physician Services, Inc. (TN)
d/b/a: White County Medical Associates; White County Internal Medicine; White County Women's Healthcare
Lakeway Hospital Corporation (TN)(5)

Hospital of Morristown, Inc. (TN)
d/b/a: Lakeway Regional Hospital; Morristown Professional Building
Morristown Surgery Center, LLC (TN)
Lakeway Primary Care, Inc. (TN)
Morristown Clinic Corp. (TN)
d/b/a: East Tennessee Ob-Gyn

East Tennessee Clinic Corp. (TN)
Lakeway Clinic Corp. (TN)

d/b/a: Women's Imaging Center
Lakeway Primary Care Clinic

Bean Station Medical Center, LLC (TN)(6)
d/b/a: Family Health Center in Bean Station, TN
Morristown Professional Centers, Inc. (TN)
Senior Circle Association (TN)
Jackson Hospital Corporation (TN)

Jackson, Tennessee Hospital Company, LLC (TN)

Sole Member: Jackson Hospital Corporation
d/b/a: Regional Hospital of Jackson

McKenzie Hospital Corporation (TN)

d/b/a: McKenzie Regional Hospital; Ambulance Service of McKenzie

Lexington Hospital Corporation (TN)
d/b/a: Henderson County Community Hospital; Community Home Health Agency; Ambulance Service of Lexington

Brownsville Hospital Corporation (TN)
d/b/a: Haywood Park Community Hospital
Dyersburg Hospital Corporation (TN)
d/b/a: Dyersburg Regional Medical Center; West Tennessee Home Health Agency; West Tennessee Regional Private Healthcare Services; Ambulance Service of Dyersburg

Martin Hospital Corporation (TN)
d/b/a: Volunteer Community Hospital
McNairy Hospital Corporation (TN)
d/b/a: McNairy Regional Hospital; Ambulance Service of McNairy

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Madison Clinic Corp. (TN)
d/b/a: Jackson Pediatric Center

McKenzie Clinic Corp. (TN)
d/b/a: Family Medicine Clinic

Lexington Clinic Corp. (TN)
Brownsville Clinic Corp. (TN)
d/b/a: Brownsville Women's Center

Dyersburg Clinic Corp. (TN)

Martin Clinic Corp. (TN)
d/b/a: Rural Health Associates of NW TN; Martin Pediatric Clinic; Martin Specialty Clinics; Union City Specialty Clinic; Sharon Family Practice

Riverside MSO, LLC (TN) (no stock; Martin Clinic Corp., member)
McNairy Clinic Corp. (TN)

Ambulance Services of McNairy, Inc. (TN)
Ambulance Services of McKenzie, Inc. (TN)
Ambulance Services of Lexington, Inc. (TN)
Ambulance Services of Dyersburg, Inc. (TN)

Highland Health Systems, Inc. (TX)

Lubbock, Texas — Highland Medical Center, L.P.(7)
d/b/a Highland Medical Center, L.P.
(Highland Health Systems, Inc. — GP)
Highland Medical Outreach Clinics (TX CNHO)
Highland Health Care Clinic, Inc. (TX)
Big Spring Hospital Corporation (TX)
d/b/a: Scenic Mountain Medical Center;
Scenic Mountain Home Health;
Scenic Mountain Medical Center
Skilled Nursing Facility; Scenic
Mountain Medical Center Psychiatric Unit
Scenic Managed Services, Inc. (TX)
d/b/a: Scenic Mountain MSO
Granbury Hospital Corporation (TX) d/b/a:
Lake Granbury Medical Center; Lake Granbury Medical Center; Lake Granbury Medical Center Home Health
Hood Medical Group, Inc. (TX CNHO)
d/b/a: Brazos Medical and Surgical Clinic
Granbury Hospital Corporation — ASC (TX)
Hood Medical Services, Inc. (TX)
Big Bend Hospital Corporation (TX)
d/b/a: Big Bend Regional Medical Center; Big Bend Regional Medical Center Home Health Agency; Alpine Rural Health Clinic; Presidio Rural Health Clinic; Marfa Rural Health Clinic
Cleveland Clinic Corp. (TX) d/b/a: New Caney Clinic
Jourdanton Hospital Corporation (TX)
d/b/a South Texas Regional Medical Center

Tooele Hospital Corporation (UT)
d/b/a: Mountain West Medical Center; Mountain West Home Health Agency; Tooele Valley Private Home Care; Tooele Valley Ambulance Service; Peak Physical Therapy and Wellness Center of Tooele Valley; Tooele Valley Regional Medical Center; Toole Valley Nursing Home; Toole Valley Home Health Agency; Mountain West Ambulance Service; Mountain West Medical Center Physical Therapy and Wellness Center; Mountain West Private Care Agency
Tooele Clinic Corp. (UT)
Russell County Medical Center, Inc. (VA)
d/b/a: Riverside Community Medical Center; Hansonville Medical Clinic
Russell County Clinic Corp. (VA)
d/b/a: Community Medical Care; Appalachian Urology Center; Generations Healthcare for Women; Lebanon Orthopedics; Lebanon Pediatrics
Emporia Clinic Corp. (VA)
d/b/a: Gasburg Family Health Care; Primary Care of Brunswick County; South Central Virginia Pain Management
Emporia Hospital Corporation (VA)
d/b/a: Greensville Memorial Hospital
Petersburg Virginia Hospital Corporation (VA)
Logan Hospital Corporation (WV)
Logan, West Virginia Hospital Company, LLC (WV)
(Logan Hospital Corporation 100%)
Oak Hill Hospital Corporation (WV)
d/b/a Plateau Medical Center

Oak Hill Clinic Corp. (WV)
d/b/a Plateau Surgical Associates
Evanston Clinic Corp. (WY)
Evanston Hospital Corporation (WY)
d/b/a: Evanston Regional Hospital; Evanston Regional Hospital Home Care; Evanston Dialysis Center; Uinta Family Practice; Bridger Valley Family Practice; Evanston Regional Hospice; Bridger Valley Physical Therapy

Community Health Systems, Inc. (DE)

CHS/Community Health Systems, Inc. (DE)

CHS Professional Services Corporation (DE)

Community Health Investment Corporation (DE)

Hallmark Healthcare Corporation (DE)

National Healthcare of Mt. Vernon, Inc. (DE)
d/b/a: Crossroads Community Hospital; Crossroads Community Home Health Agency; Crossroads Healthcare Center
Poplar Bluff Management, Inc. (DE)
Hallmark Healthcare Management Corporation (DE)
Hallmark Holdings Corp. (NY)
INACTCO, Inc. (DE)
National Healthcare of England Arkansas, Inc. (DE)

National Healthcare of Hartselle, Inc. (DE)
d/b/a: Hartselle Medical Center
National Healthcare of Decatur, Inc. (DE)
d/b/a: Parkway Medical Center
Parkway Medical Clinic, Inc. (AL)
Cullman Hospital Corporation (AL)(8)
National Healthcare of Cullman, Inc. (DE)
d/b/a: Woodland Medical Center
Cullman Surgery Venture Corp. (DE)
Cullman County Medical Clinic, Inc. (AL)
National Healthcare of Newport, Inc. (DE)
d/b/a: Harris Hospital; Harris Hospital Home Health Agency; Nightingale Home Health Agency; Tuckerman Health Clinic
Harris Managed Services, Inc. (AR)
Jackson County PHO, Inc. (AR)
National Healthcare of Pocahontas, Inc. (AR)
d/b/a: Randolph County Medical Center
National Healthcare of Holmes County, Inc. (FL)

Holmes County Clinic Corp. (FL)
d/b/a: Holmes Valley Medical Clinic
Healthcare of Forsyth County, Inc. (GA)
Health Care of Berrien County, Inc. (GA)
d/b/a: Berrien County Hospital; Georgia Home Health Services
Berrien Nursing Center, Inc. (GA)
d/b/a: Berrien Nursing Center
Berrien Clinic Corp. (GA)
d/b/a: Alapaha Medical Clinic
Crossroads Physician Corp. (IL)
d/b/a: Kessler Family Practice; Mt. Vernon Surgical Association;
Benton Family Practice
National Healthcare of Leesville, Inc. (DE)
d/b/a: Byrd Regional Hospital
Byrd Medical Clinic, Inc. (LA)
d/b/a: Byrd Regional Health Centers
Sabine Medical Center, Inc. (AR)
d/b/a: Sabine Medical Center
Sabine Medical Clinic, Inc. (LA)
Cleveland Hospital Corporation (TN)(9)
National Healthcare of Cleveland, Inc. (DE)
d/b/a: Cleveland Community Hospital
Family Home Care, Inc. (TN)
Cleveland PHO, Inc. (TN)
Cleveland Medical Clinic, Inc. (TN)
d/b/a: Physicians Plus; Westside Family Physicians; Cleveland Medical
Group; Westside Surgical Associates
NHCI of Hillsboro, Inc. (TX)
d/b/a: Hill Regional Hospital; Hill Regional Medical Clinic of Whitney
Hill Regional Clinic Corp. (TX)

Subsidiaries not included on this list, considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary, as such term is defined by Rule 1-02(w) of Regulation S-X.

++ Community LP Corp. owns 99.5% and Community GP Corp. Owns .5%.

1 Bullhead City Hospital Corporation owns 51%.

2 CHS Holdings Corp. owns 91.57%.

3 Okaloosa Surgery Venture Corp. owns 34.5%.

4 Kirksville Hospital Corporation holds 82%.

5 CHS Holdings Corp. owns 98.37%.

6 Lakeway Clinic Corp owns 50%.

7 Highland Health Systems, Inc. holds a 20% General Partnership Interest and a 62.3% Limited Partnership Interest.

8 Hallmark Holdings Corp. owns 80.81%.

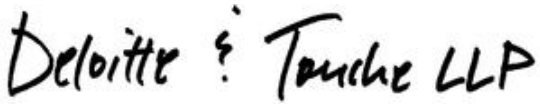
9 Hallmark Holdings Corp. owns 84.59%.

10 Kirksville Missouri Hospital Company, LLC holds 60%.

Exhibit 23.1

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement No. 333-100349, 333-61614 and 333-44870 of Community Health Systems, Inc. on Form S-8 of our report dated February 18, 2003, (which report expresses an unqualified opinion and includes an explanatory paragraph referring to the Company changing its method of accounting for goodwill and other intangible assets by adopting certain provisions of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* effective January 1, 2002) appearing in the Annual Report on Form 10-K of Community Health Systems, Inc. for the year ended December 31, 2002.



Nashville, Tennessee
March 27, 2003

Exhibit 99.1

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

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

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

/s/ WAYNE T. SMITH

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

March 27, 2003

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

Exhibit 99.2

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 Annual Report of Community Health Systems, Inc. (the "Company") on Form 10-K for the period ending December 31, 2002, 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 result of operations of the Company.

/s/ W. LARRY CASH

W. Larry Cash
Executive Vice President and Chief Financial Officer

March 27, 2003

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