COMMUNITY HEALTH SYSTEMS INC
Form 10-Q
April 29, 2009

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

# Form 10-Q

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

**For the quarterly period ended March 31, 2009**

**Commission file number 001-15925**

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

| **Delaware**<br>*(State or other jurisdiction of incorporation or organization)* | **13-3893191**<br>*(I.R.S. Employer Identification Number)* |
|---|---|
| **4000 Meridian Boulevard**<br>**Franklin, Tennessee**<br>*(Address of principal executive offices)* | **37067**<br>*(Zip Code)* |

**(Registrant s telephone number)**
**615-465-7000**

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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting

company in Rule 12b-2 of the Exchange Act. (Check one):

| Large accelerated filer þ | Accelerated filer o | Non-accelerated filer o<br>(Do not check if a smaller reporting company) | Smaller reporting company o |
|---|---|---|---|

Indicated by check mark whether the registrant is a shell company (as defined in Rule 126-2 of the Exchange Act). Yes o No þ

As of April 20, 2009, there were outstanding 92,479,260 shares of the Registrant s Common Stock, $.01 par value.

**Community Health Systems, Inc.**
**Form 10-Q**
**For the Three Months Ended March 31, 2009**


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**PART I FINANCIAL INFORMATION**
**Item 1.** ***Financial Statements***

**COMMUNITY HEALTH SYSTEMS INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED BALANCE SHEETS**
**(In thousands, except share data)**
**(Unaudited)**

| | March 31, 2009 | December 31, 2008 |
|---|---|---|
| **ASSETS** | | |
| *Current assets* | | |
| Cash and cash equivalents | $ 532,132 | $ 220,655 |
| Patient accounts receivable, net of allowance for doubtful accounts of $1,194,834 and $1,102,900 at March 31, 2009 and December 31, 2008, respectively | 1,643,919 | 1,613,959 |
| Supplies | 275,380 | 272,937 |
| Prepaid income taxes | | 92,710 |
| Deferred income taxes | 91,875 | 91,875 |
| Prepaid expenses and taxes | 88,717 | 72,900 |
| Other current assets | 195,113 | 240,014 |
| Total current assets | 2,827,136 | 2,605,050 |
| *Property and equipment* | 7,191,931 | 7,082,930 |
| Less accumulated depreciation and amortization | (1,323,638) | (1,213,871) |
| Property and equipment, net | 5,868,293 | 5,869,059 |
| *Goodwill* | 4,173,408 | 4,166,091 |
| *Other assets, net* | 1,045,529 | 1,178,054 |
| *Total assets* | $ 13,914,366 | $ 13,818,254 |
| **LIABILITIES AND EQUITY** | | |
| *Current liabilities* | | |
| Current maturities of long-term debt | $ 32,672 | $ 29,462 |
| Accounts payable | 465,393 | 529,429 |
| Current income taxes payable | 17,668 | |
| Deferred income taxes | 6,740 | 6,740 |
| Accrued interest | 83,103 | 152,228 |

| | | |
|---|---|---|
| Accrued liabilities | 797,432 | 816,111 |
| Total current liabilities | 1,403,008 | 1,533,970 |
| *Long-term debt* | 9,074,952 | 8,937,984 |
| *Deferred income taxes* | 461,098 | 460,793 |
| *Other long-term liabilities* | 890,237 | 887,445 |
| *Total liabilities* | 11,829,295 | 11,820,192 |
| *Redeemable noncontrolling interests in equity of consolidated subsidiaries* | 306,942 | 298,763 |
| *EQUITY* | | |
| *Community Health Systems, Inc. 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; 93,454,809 shares issued and 92,479,260 shares outstanding at March 31, 2009, and 92,483,166 shares issued and 91,507,617 shares outstanding at December 31, 2008 | 934 | 925 |
| Additional paid-in capital | 1,153,498 | 1,151,119 |
| Treasury stock, at cost, 975,549 shares at March 31, 2009 and December 31, 2008 | (6,678) | (6,678) |
| Accumulated other comprehensive loss | (283,475) | (295,575) |
| Retained earnings | 835,164 | 776,249 |
| Total Community Health Systems, Inc. stockholders equity | 1,699,443 | 1,626,040 |
| *Noncontrolling interests in equity of consolidated subsidiaries* | 78,686 | 73,259 |
| *Total equity* | 1,778,129 | 1,699,299 |
| *Total liabilities and equity* | $ 13,914,366 | $ 13,818,254 |

See accompanying notes to the condensed consolidated financial statements.

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**COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**
**(In thousands, except share and per share data)**
**(Unaudited)**

| | Three Months Ended March 31, | |
|---|---|---|
| | **2009** | **2008** |
| *Net operating revenues* | $ 2,892,390 | $ 2,688,924 |
| *Operating costs and expenses:* | | |
| Salaries and benefits | 1,164,144 | 1,076,301 |
| Provision for bad debts | 335,451 | 289,702 |
| Supplies | 402,454 | 380,676 |
| Other operating expenses | 539,724 | 518,966 |
| Rent | 59,943 | 58,663 |
| Depreciation and amortization | 135,532 | 121,270 |
| Total operating costs and expenses | 2,637,248 | 2,445,578 |
| *Income from operations* | 255,142 | 243,346 |
| *Interest expense, net* | 163,810 | 164,527 |
| *(Gain) loss from early extinguishment of debt* | (2,412) | 1,328 |
| *Equity in earnings of unconsolidated affiliates* | (12,919) | (12,884) |
| *Income from continuing operations before income taxes* | 106,663 | 90,375 |
| *Provision for income taxes* | 35,532 | 31,256 |
| *Income from continuing operations* | 71,131 | 59,119 |
| *Discontinued operations, net of taxes:* | | |
| Income from operations of hospitals sold and hospitals held for sale | 2,175 | |
| (Loss) gain on sale of hospitals, net | (405) | 9,617 |
| *Income from discontinued operations* | 1,770 | 9,617 |
| *Net income* | 72,901 | 68,736 |
| Less: Net income attributable to noncontrolling interests | 13,986 | 8,609 |
| Net income attributable to Community Health Systems, Inc. | $ 58,915 | $ 60,127 |
| *Income from continuing operations attributable to Community Health Systems, Inc. common stockholders per share:* | | |
| Basic | $ 0.63 | $ 0.53 |
| Diluted | $ 0.63 | $ 0.52 |

| | | | | |
|---|---|---|---|---|
| *Discontinued operations attributable to Community Health Systems, Inc. common stockholders per share:* | | | | |
| Basic | $ | 0.02 | $ | 0.11 |
| Diluted | $ | 0.02 | $ | 0.11 |
| *Net income attributable to Community Health Systems, Inc. common stockholders per share:* | | | | |
| Basic | $ | 0.65 | $ | 0.64 |
| Diluted | $ | 0.65 | $ | 0.63 |
| *Weighted-average number of shares outstanding:* | | | | |
| Basic | | 90,604,767 | | 94,107,532 |
| Diluted | | 90,885,140 | | 95,006,721 |

See accompanying notes to the condensed consolidated financial statements.

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**COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(In thousands)**
**(Unaudited)**

| | Three Months Ended March 31, 2009 | Three Months Ended March 31, 2008 |
|---|---|---|
| *Cash flows from operating activities* | | |
| Net income attributable to Community Health Systems, Inc. | $ 58,915 | $ 60,127 |
| Adjustments to reconcile net income attributable to Community Health Systems, Inc. to net cash provided by operating activities: | | |
| Depreciation and amortization | 135,894 | 122,478 |
| Net income attributable to noncontrolling interests | 13,986 | 8,609 |
| Stock-based compensation expense | 12,286 | 13,246 |
| (Gain) loss on sale of hospitals and partnership interest, net | 405 | (12,885) |
| Excess tax benefits relating to stock-based compensation | | 947 |
| (Gain) loss on early extinguishment of debt | (2,412) | 1,328 |
| Other non-cash expenses, net | (4,489) | 1,442 |
| Changes in operating assets and liabilities, net of effects of acquisitions and divestitures: | | |
| Patient accounts receivable | (18,013) | (100,057) |
| Supplies, prepaid expenses and other current assets | (7,592) | (26,584) |
| Accounts payable, accrued liabilities and income taxes | 68,170 | (81,965) |
| Other | 2,277 | 68,447 |
| Net cash provided by operating activities | 259,427 | 55,133 |
| *Cash flows from investing activities* | | |
| Acquisitions of facilities and other related equipment | (17,053) | (1,705) |
| Purchases of property and equipment | (136,021) | (141,693) |
| Proceeds from disposition of hospitals and other ancillary operations | 89,909 | 365,680 |
| Proceeds from sale of property and equipment | 326 | 13,717 |
| Increase in other non-operating assets | (36,344) | (98,182) |
| Net cash (used in) provided by investing activities | (99,183) | 137,817 |
| *Cash flows from financing activities* | | |
| Proceeds from exercise of stock options | | 94 |
| Excess tax benefits relating to stock-based compensation | | (947) |
| Deferred financing costs | (57) | (2,232) |
| Proceeds from noncontrolling investors in joint ventures | 21,922 | 12,881 |
| Redemption of noncontrolling investments in joint ventures | (167) | |
| Distributions to noncontrolling investors in joint ventures | (6,595) | (7,524) |
| Borrowings under credit agreement | 200,000 | 25,000 |
| Repayments of long-term indebtedness | (63,870) | (188,743) |

| | | |
|---|---|---|
| Net cash provided by (used in) financing activities | 151,233 | (161,471) |
| *Net change in cash and cash equivalents* | 311,477 | 31,479 |
| *Cash and cash equivalents at beginning of period* | 220,655 | 132,874 |
| *Cash and cash equivalents at end of period* | $ 532,132 | $ 164,353 |

See accompanying notes to the condensed consolidated financial statements.

## COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

### 1. BASIS OF PRESENTATION

The unaudited condensed consolidated financial statements of Community Health Systems, Inc. and its subsidiaries (the Company ) as of March 31, 2009 and December 31, 2008 and for the three-month periods ended March 31, 2009 and March 31, 2008, have been prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ). In the opinion of management, such information contains all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for such periods. All intercompany transactions and balances have been eliminated. The results of operations for the three months ended March 31, 2009, are not necessarily indicative of the results to be expected for the full fiscal year ending December 31, 2009. Certain information and disclosures normally included in the notes to consolidated financial statements have been condensed or omitted as permitted by the rules and regulations of the Securities and Exchange Commission ( SEC ). The Company believes the disclosures are adequate to make the information presented not misleading. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2008, contained in the Company s Annual Report on Form 10-K.

On January 1, 2009, the Company adopted Statement of Financial Accounting Standards ( SFAS ) No. 160, Noncontrolling Interests in Consolidated Financial Statements an Amendment of ARB No. 51 ( SFAS No. 160 ), which addresses the accounting and reporting framework for noncontrolling ownership interests in consolidated subsidiaries of the parent. SFAS No. 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent company and the interests of the noncontrolling owners. These disclosure requirements require that minority interests be renamed noncontrolling interests and that noncontrolling ownership interests be presented separately within equity in the condensed consolidated financial statements. Revenues, expenses and income from continuing operations from less-than-wholly-owned subsidiaries are presented on the condensed consolidated statements of income at the consolidated amounts, with a consolidated net income measure that presents separately the amounts attributable to both the controlling and noncontrolling interests for all periods presented. Noncontrolling ownership interests that are redeemable or may become redeemable at a fixed or determinable price at the option of the holder or upon the occurrence of an event outside of the control of the company continue to be presented in mezzanine equity in accordance with Emerging Issues Task Force Topic D-98, Classification and Measurement of Redeemable Securities. SFAS No. 160 requires retrospective adoption of the presentation and disclosure requirements for all periods presented. Therefore, the condensed consolidated financial statements as of December 31, 2008 and for the three months ended March 31, 2008 reflect the provisions of SFAS No. 160 as if it was effective for those periods. Other than these changes in financial statement presentation, the adoption of SFAS No. 160 did not have a material impact on the condensed consolidated financial statements.

Throughout these notes to the condensed consolidated financial statements, Community Health Systems, Inc., the parent company, and its consolidated subsidiaries are referred to on a collective basis as the Company. This drafting style is not meant to indicate that the publicly-traded parent company or any subsidiary of the parent company owns or operates any asset, business, or property. The hospitals, operations and businesses described in this filing are owned and operated, and management services provided, by distinct and indirect subsidiaries of Community Health Systems, Inc. References to the Company may include one or more of its subsidiaries.

### 2. ACCOUNTING FOR STOCK-BASED COMPENSATION

Stock-based compensation awards are granted under the Community Health Systems, Inc. Amended and Restated 2000 Stock Option and Award Plan (the 2000 Plan ). The 2000 Plan allows 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. To date, all options granted under the 2000 Plan have been nonqualified

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**COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

stock options for tax purposes. Generally, vesting of these granted options occurs in one-third increments on each of the first three anniversaries of the award date. Options granted prior to 2005 have a 10 year contractual term, options granted in 2005 through 2007 have an eight year contractual term and options granted in 2008 and 2009 have a 10 year contractual term. The exercise price of all options granted under the 2000 Plan is equal to the fair value of the Company s common stock on the option grant date. As of March 31, 2009, 571,750 shares of unissued common stock remain reserved for future grants under the 2000 Plan.

The following table reflects the impact of total compensation expense related to stock-based equity plans under SFAS No. 123(R), on the reported operating results for the respective periods (in thousands, except per share data):

| | Three Months Ended March 31, | |
|---|---|---|
| | **2009** | **2008** |
| Effect on income from continuing operations before income taxes | $ (12,286) | $ (13,246) |
| Effect on net income | $ (7,464) | $ (8,047) |
| Effect on net income attributable to Community Health Systems, Inc. common stockholders per share-diluted | $ (0.08) | $ (0.08) |

At March 31, 2009, $70.6 million of unrecognized stock-based compensation expense is expected to be recognized over a weighted-average period of 23.9 months. Of that amount, $23.2 million relates to outstanding unvested stock options expected to be recognized over a weighted-average period of 22.2 months and $47.4 million relates to outstanding unvested restricted stock and phantom shares expected to be recognized over a weighted-average period of 24.7 months.

The fair value of stock options was estimated using the Black Scholes option pricing model with the following weighted-average assumptions during the three months ended March 31, 2009 and 2008:

| | Three Months Ended March 31, | |
|---|---|---|
| | **2009** | **2008** |
| Expected volatility | 40.1% | 24.1% |
| Expected dividends | 0 | 0 |
| Expected term | 4 years | 4 years |
| Risk-free interest rate | 1.63% | 2.57% |

In determining expected return, the Company examined concentrations of option holdings and historical patterns of option exercises and forfeitures, as well as forward looking factors, in an effort to determine if there were any

discernable employee populations. From this analysis, the Company identified two employee populations, one consisting primarily of certain senior executives and the other consisting of all other recipients.

The expected volatility rate was estimated based on historical volatility. In determining expected volatility, the Company also reviewed the market-based implied volatility of actively traded options of its common stock and determined that historical volatility did not differ significantly from the implied volatility.

The expected life computation is based on historical exercise and cancellation patterns and forward-looking factors, where present, for each population identified. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of the grant. The pre-vesting forfeiture rate is based on historical rates and forward-looking factors for each population identified. The Company adjusts the estimated forfeiture rate to its actual experience.

**COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Options outstanding and exercisable under the 2000 Plan as of March 31, 2009, and changes during the three months then ended were as follows (in thousands, except share and per share data):

| | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (in Years) | Aggregate Intrinsic Value as of March 31, 2009 |
|---|---|---|---|---|
| Outstanding at December 31, 2008 | 8,764,084 | $ 30.97 | | |
| Granted | 1,160,000 | 18.18 | | |
| Exercised | | | | |
| Forfeited and cancelled | (63,165) | 31.78 | | |
| Outstanding at March 31, 2009 | 9,860,919 | $ 29.45 | 5.7 years | $ 660 |
| Exercisable at March 31, 2009 | 6,072,813 | $ 28.73 | 4.9 years | $ 646 |

The weighted-average grant date fair value of stock options granted during the three months ended March 31, 2009 and 2008, was $6.06 and $7.55, respectively. The aggregate intrinsic value (the number of in-the-money stock options multiplied by the difference between the Company s closing stock price on the last trading day of the reporting period ($15.34) and the exercise price of the respective stock options) in the table above represents the amount that would have been received by the option holders had all option holders exercised their options on March 31, 2009. This amount changes based on the market value of the Company s common stock. No stock options were exercised during the three months ended March 31, 2009. The aggregate intrinsic value of options exercised during the three months ended March 31, 2008 was $0.1 million. The aggregate intrinsic value of options vested and expected to vest approximates that of the outstanding options.

The Company has also awarded restricted stock under the 2000 Plan to its directors and employees. The restrictions on these shares generally lapse in one-third increments on each of the first three anniversaries of the award date, except for restricted stock granted on July 25, 2007, for which restrictions lapse equally on the first two anniversaries of the award date. Certain of the restricted stock awards granted to the Company s senior executives contain a performance objective that must be met in addition to any vesting requirements. If the performance objective is not attained, the awards will be forfeited in their entirety. Once the performance objective has been attained, restrictions will lapse in one-third increments on each of the first three anniversaries of the award date with the exception of the July 25, 2007 restricted stock awards, which have no additional time vesting restrictions once the performance restrictions are met. Notwithstanding the above-mentioned performance objectives and vesting requirements, the restrictions will lapse earlier in the event of death, disability, termination of employment of the holder of the restricted stock by the Company for any reason other than for cause, or change in control of the Company. Restricted stock awards subject to performance standards are not considered outstanding for purposes of determining earnings per

share until the performance objectives have been satisfied.

Restricted stock outstanding under the 2000 Plan as of March 31, 2009, and changes during the three months then ended were as follows:

| | Shares | Weighted-Average Grant Date Fair Value |
|---|---|---|
| Unvested at December 31, 2008 | 1,684,207 | $ 35.57 |
| Granted | 1,156,000 | 18.18 |
| Vested | (621,312) | 35.68 |
| Forfeited | (5,667) | 33.52 |
| Unvested at March 31, 2009 | 2,213,228 | 26.46 |

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**COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

On February 25, 2009, each of the Company s outside directors received a grant of shares of phantom stock under the 2000 Plan equal in value to $130,000 divided by the closing price of the Company s common stock on that date ($18.18), or 7,151 shares per director (a total of 42,906 shares of phantom stock). Vesting of these shares of phantom stock occurs in one-third increments on each of the first three anniversaries of the award date. As of March 31, 2009, there were 42,906 shares of phantom stock unvested at a weighted-average grant date fair value of $18.18. No shares of phantom stock were vested or canceled during the three months ended March 31, 2009. Pursuant to a March 24, 2009 amendment to the 2000 Plan, future grants of this type will be denominated as restricted stock unit awards.

Under the Director s Fee Deferral Plan, the Company s outside directors may elect to receive share equivalent units in lieu of cash for their director s fee. These units are held in the plan until the director electing to receive the share equivalent units retires or otherwise terminates his/her directorship with the Company. Share equivalent units are converted to shares of common stock of the Company at the time of distribution. The following table represents the amount of directors fees which were deferred and the equivalent units into which they converted for each of the respective periods (in thousands, except units):

| | Three Months Ended March 31, | |
|---|---|---|
| | **2009** | **2008** |
| Directors fees earned and deferred into plan | $ 20 | $ 41 |
| Equivalent units | 1,303.781 | 1,217.605 |

At March 31, 2009, there was a total of 18,122.783 units deferred in the plan with an aggregate fair value of $0.3 million, based on the closing market price of the Company s common stock on the last trading day of the reporting period of $15.34.

## 3. COST OF REVENUE

The majority of the Company s operating costs and expenses are cost of revenue items. Operating costs that could be classified as general and administrative by the Company would include the Company s corporate office costs at the Company s Franklin, Tennessee offices, which were $39.2 million and $38.1 million for the three months ended March 31, 2009 and 2008, respectively. Included in these amounts is stock-based compensation expense of $12.3 million and $13.2 million for the three months ended March 31, 2009 and 2008, respectively.

## 4. USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements. Actual results could differ from these estimates under different assumptions or conditions.

## 5. ACQUISITIONS AND DIVESTITURES

In December 2007, the Financial Accounting Standards Board (the FASB ) issued SFAS No. 141(R), Business Combinations ( SFAS No. 141(R) ). SFAS No. 141(R) replaces SFAS No. 141 and addresses the recognition and accounting for identifiable assets acquired, liabilities assumed, and noncontrolling interests in business combinations. This standard will require more assets and liabilities to be recorded at fair value and will require expense recognition (rather than capitalization) of certain pre-acquisition costs. This standard also will require any adjustments to acquired deferred tax assets and liabilities occurring after the related allocation period to be made through earnings. Furthermore, this standard requires this treatment of acquired deferred tax assets and liabilities be applied to acquisitions occurring prior to the effective date of this standard. SFAS No. 141(R) is effective for fiscal years beginning after December 15, 2008 and is required to be adopted prospectively. SFAS No. 141(R) was adopted by the Company on January 1, 2009. Approximately $1.0 million of acquisition

**COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

costs related to prospective acquisitions were expensed during the quarter ended March 31, 2009 from the adoption of SFAS No. 141(R). The impact of SFAS No. 141(R) on the Company s consolidated results of operations or consolidated financial position in future periods will be largely dependent on the number of acquisitions pursued by the Company; however, it is not anticipated at this time that such impact will be material.

***Triad Acquisition***

On July 25, 2007, the Company completed its acquisition of Triad Hospitals, Inc. ( Triad ). Triad owned and operated 50 hospitals with 49 hospitals located in 17 states in non-urban and middle market communities and one hospital located in the Republic of Ireland. As of March 31, 2009, eight of the hospitals acquired from Triad had been sold and one hospital acquired from Triad remained classified as held for sale. As a result of its acquisition of Triad, the Company also provides management and consulting services on a contract basis to independent hospitals, through its subsidiary, Quorum Health Resources, LLC. The Company acquired Triad for approximately $6.857 billion, including the assumption of $1.686 billion of existing indebtedness.

In connection with the consummation of the acquisition of Triad, the Company s wholly-owned subsidiary CHS/Community Health Systems, Inc. ( CHS ) obtained $7.215 billion of senior secured financing under a new credit facility (the Credit Facility ) and issued $3.021 billion aggregate principal amount of 8.875% senior notes due 2015 (the Notes ). The Company used the net proceeds of $3.000 billion from the Notes offering and the net proceeds of $6.065 billion of term loans under the Credit Facility to acquire the outstanding shares of Triad, to refinance certain of Triad s indebtedness and the Company s indebtedness, to complete certain related transactions, to pay certain costs and expenses of the transactions and for general corporate uses. This Credit Facility also provides an additional $750 million revolving credit facility and had a $400 million delayed draw term loan facility for future acquisitions, working capital and general corporate purposes. As of December 31, 2007, the $400 million delayed draw term loan was reduced to $300 million at the request of the Company. As of December 31, 2008, $100 million of the delayed draw term loan had been drawn by the Company, reducing the delayed draw term loan availability to $200 million at that date. In January 2009, the Company drew down the remaining $200 million of the delayed draw term loan.

The total cost of the Triad acquisition has been allocated to the assets acquired and liabilities assumed based upon their respective fair values in accordance with SFAS No. 141. The purchase price represented a premium over the fair value of the net tangible and identifiable intangible assets acquired for reasons such as:

- strategically, Triad had operations in five states in which the Company previously had no operations;
- the combined company has smaller concentrations of credit risk through greater geographic diversification;
- many support functions will be centralized; and
- duplicate corporate functions will be eliminated.

The allocation process required the analysis of acquired fixed assets, contracts, contractual commitments, and legal contingencies to identify and record the fair value of all assets acquired and liabilities assumed. The Company completed the allocation of the total cost of the Triad acquisition in the third quarter of 2008 and has made a final analysis and adjustment as of December 31, 2008 to deferred tax accounts based on the final cost allocation, resulting

in approximately $2.781 billion of goodwill being recorded with respect to the Triad acquisition.

***Other Acquisitions***

Effective February 1, 2009, one or more subsidiaries of the Company completed the acquisition of Siloam Springs Memorial Hospital (74 licensed beds), located in Siloam Springs, Arkansas, from the City of Siloam Springs. The total consideration for this hospital consisted of approximately $1.1 million of assumed liabilities. As required by a lease agreement entered into as part of this acquisition, a subsidiary of the Company deposited $1.6 million of cash in an escrow account and agreed to build a replacement facility at this location, with

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

construction required to commence by February 2011 and be completed by February 2013. If the construction of the replacement facility is not completed within the agreed-upon time frame, the escrow balance will be remitted to the City of Siloam Springs.

Effective November 14, 2008, one or more subsidiaries of the Company acquired from Willamette Community Health Solutions all of its joint venture interest in MWMC Holdings, LLC, which indirectly owns a controlling interest in and operates McKenzie-Willamette Medical Center of Springfield, Oregon. This acquisition resulted from a put right held by Willamette Community Health Solutions in connection with the 2003 transaction establishing the joint venture. The purchase price for this noncontrolling interest was $22.7 million in cash. Physicians affiliated with Oregon Healthcare Resources, Inc. will continue to own a noncontrolling interest in the hospital, with the balance owned by these subsidiaries of the Company.

Effective October 1, 2008, one or more subsidiaries of the Company completed the acquisition of Deaconess Medical Center (388 licensed beds) and Valley Hospital and Medical Center (123 licensed beds) both located in Spokane, Washington, from Empire Health Services. The total consideration for these two hospitals was approximately $185.2 million, of which $149.2 million was paid in cash and $36.0 million was assumed in liabilities. Based upon the Company s preliminary purchase price allocation relating to this acquisition as of March 31, 2009, no goodwill has been recorded. The acquisition transaction was accounted for using the purchase method of accounting. This preliminary allocation of purchase price has been determined by the Company based upon available information and is subject to settling amounts related to purchased working capital and final appraisals of tangible and intangible assets. Adjustments to the purchase price allocation are not expected to be material.

Effective June 30, 2008, one or more subsidiaries of the Company acquired the remaining 35% equity interest in Affinity Health Systems, LLC which indirectly owns and operates Trinity Medical Center (560 licensed beds) in Birmingham, Alabama, from Baptist Health Systems, Inc. of Birmingham, Alabama ( Baptist ), giving these subsidiaries 100% ownership of that facility. The purchase price for this noncontrolling interest was $51.5 million in cash and the cancellation of a promissory note issued by Baptist to Affinity Health Systems, LLC in the original principal amount of $32.8 million.

***Discontinued Operations***

Effective March 31, 2009, the Company, through its subsidiaries Triad-Denton Hospital LLC and Triad-Denton Hospital LP, completed the settlement of pending litigation which resulted in the sale of its ownership interest in a partnership, which owned and operated Presbyterian Hospital of Denton (255 licensed beds) in Denton, Texas, to Texas Health Resources for $103.0 million in cash. Also included as part of the settlement, these subsidiaries of the Company transferred certain hospital related assets.

Effective March 1, 2008, one or more subsidiaries of the Company sold Woodland Medical Center (100 licensed beds) located in Cullman, Alabama; Parkway Medical Center (108 licensed beds) located in Decatur, Alabama; Hartselle Medical Center (150 licensed beds) located in Hartselle, Alabama; Jacksonville Medical Center (89 licensed beds) located in Jacksonville, Alabama; National Park Medical Center (166 licensed beds) located in Hot Springs, Arkansas; St. Mary s Regional Medical Center (170 licensed beds) located in Russellville, Arkansas; Mineral Area Regional Medical Center (135 licensed beds) located in Farmington, Missouri; Willamette Valley Medical Center (80 licensed beds) located in McMinnville, Oregon; and White County Community Hospital (60 licensed beds) located in

Sparta, Tennessee, to Capella Healthcare, Inc., headquartered in Franklin, Tennessee. The proceeds from this sale were $315.0 million in cash.

Effective February 21, 2008, one or more subsidiaries of the Company sold THI Ireland Holdings Limited, a private limited company incorporated in the Republic of Ireland, which leased and managed the operations of Beacon Medical Center (122 licensed beds) located in Dublin, Ireland, to Beacon Medical Group Limited, headquartered in Dublin, Ireland. The proceeds from this sale were $1.5 million in cash.

**COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Effective February 1, 2008, one or more subsidiaries of the Company sold Russell County Medical Center (78 licensed beds) located in Lebanon, Virginia to Mountain States Health Alliance, headquartered in Johnson City, Tennessee. The proceeds from this sale were $48.6 million in cash.

As of March 31, 2009, the Company had one hospital classified as held for sale.

In connection with the above actions and in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the Company has classified the results of operations of the above mentioned hospitals as discontinued operations in the accompanying condensed consolidated statements of income.

Net operating revenues and income (loss) on discontinued operations for the respective periods are as follows (in thousands):

| | Three Months Ended March 31, | |
|---|---|---|
| | 2009 | 2008 |
| Net operating revenues | $ 62,386 | $ 145,263 |
| Income from operations of hospitals sold and hospitals held for sale before income taxes | 3,623 | 1,173 |
| (Loss) gain on sale of hospitals, net | (644) | 17,724 |
| Income from discontinued operations, before taxes | 2,979 | 18,897 |
| Income tax expense | 1,209 | 9,280 |
| Income from discontinued operations, net of tax | $ 1,770 | $ 9,617 |

Interest expense was allocated to discontinued operations based on estimated sale proceeds available for debt repayment.

The assets and liabilities of the hospital held for sale as of March 31, 2009 are included in the accompanying condensed consolidated balance sheet as follows: current assets of $15.7 million, included in other current assets; net property and equipment of $26.5 million and other long-term assets of $1.8 million, included in other assets; and current liabilities of $17.5 million, included in other accrued liabilities.

The assets and liabilities of the hospitals held for sale as of December 31, 2008 are included in the accompanying condensed consolidated balance sheet as follows: current assets of $40.9 million, included in other current assets; net property and equipment of $168.1 million and other long-term assets of $4.8 million, included in other assets; and current liabilities of $106.9 million, included in accrued liabilities.

## 6. INCOME TAXES

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes ( FIN 48 ), on January 1, 2007. The total amount of unrecognized benefit that would affect the effective tax rate, if recognized, is approximately $14.9 million as of March 31, 2009. It is the Company s policy to recognize interest and penalties accrued related to unrecognized benefits in its condensed consolidated statements of income as income tax expense. During the three months ended March 31, 2009, the Company decreased liabilities by approximately $0.1 million and recorded $0.4 million in interest and penalties related to prior state income tax returns through its income tax provision from continuing operations, which are included in its FIN 48 liability at March 31, 2009. A total of approximately $2.1 million of interest and penalties is included in the amount of FIN 48 liability at March 31, 2009.

The Company believes that it is reasonably possible that approximately $4.1 million of its current unrecognized tax benefit may be recognized within the next twelve months as a result of a lapse of the statute of limitations and settlements with taxing authorities.

**COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company, or one of its subsidiaries, files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The Company has extended the federal statute of limitations for Triad for the tax periods ended December 31, 1999, December 31, 2000, April 30, 2001, June 30, 2001, December 31, 2001, December 31, 2002 and December 31, 2003. In December 2008, the Company was notified by the IRS of its intent to examine the federal tax return of Triad for the tax periods ended December 31, 2005 and ended July 25, 2007. The Company believes the results of this examination will not be material to its consolidated results of operations or consolidated financial position. With few exceptions, the Company is no longer subject to state income tax examinations for years prior to 2004.

Prior to the adoption of SFAS No. 160 on January 1, 2009, income from noncontrolling interests was deducted from earnings before arriving at income from continuing operations. With the adoption of SFAS No. 160, the income from noncontrolling interests has been reclassified below net income and therefore is no longer deducted in arriving at income from continuing operations. However, the provision for income taxes does not change because those subsidiaries with noncontrolling interests pay no income tax, but distribute taxable income to their respective investors. Accordingly, the Company will not pay tax on the income attributable to the noncontrolling interests. As a result of separately reporting income that is taxed to others, the Company s effective tax rate on continuing operations before income taxes, as reported on the face of the financial statements is 33.3% and 34.6% for the three months ended March 31, 2009 and 2008, respectively. However, the actual effective tax rate that is attributable to the Company s share of income from continuing operations before income taxes (income from continuing operations before income taxes, as presented on the face of the statement of income, less income from continuing operations attributable to noncontrolling interests of $14.1 million and $9.3 million for the three months ended March 31, 2009 and 2008, respectively) is 38.4% for the three months ended March 31, 2009, as compared to 38.5% for the three months ended March 31, 2008. While the adoption of SFAS No. 160 does change the location of the net income attributable to noncontrolling interests on the statement of income, it does not change the income tax from interests owned by the Company.

Cash paid for income taxes, net of refunds received, resulted in a net cash refund of $62.4 million and $2.8 million for the three months ended March 31, 2009 and 2008, respectively.

## 7. GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill for the three months ended March 31, 2009, are as follows (in thousands):

| | |
|---|---|
| Balance as of December 31, 2008 | $ 4,166,091 |
| Goodwill acquired as part of acquisitions during 2009 | 3,887 |
| Consideration adjustments and finalization of purchase price allocation adjustments for prior year s acquisitions | 3,430 |
| Balance as of March 31, 2009 | $ 4,173,408 |

SFAS No. 142 requires that goodwill be allocated to each identified reporting unit, which is defined as an operating segment or one level below the operating segment (referred to as a component of the entity). Management has determined that the Company s operating segments meet the criteria to be classified as reporting units. At March 31, 2009, the hospital operations reporting unit, the home care agencies reporting unit, and the hospital management services reporting unit had $4.106 billion, $34.3 million and $33.3 million, respectively, of goodwill.

SFAS No. 142 requires goodwill to be evaluated for impairment at the same time every year and when an event occurs or circumstances change that, more likely than not, reduce the fair value of the reporting unit below its carrying value. SFAS No. 142 requires a two-step method for determining goodwill impairment. Step one is to compare the fair value of the reporting unit with the unit s carrying amount, including goodwill. If this test indicates the fair value is less than the carrying value, then step two is required to compare the implied fair value of the

**COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

reporting unit s goodwill with the carrying value of the reporting unit s goodwill. The Company has selected September 30th as its annual testing date. The Company performed its annual goodwill evaluation as required by SFAS No. 142 as of September 30, 2008. No impairment was indicated by this evaluation.

The Company estimates the fair value of the related reporting units using both a discounted cash flow model, as well as an EBITDA multiple model. These models are both based on the Company s best estimate of future revenues and operating costs and are reconciled to the Company s consolidated market capitalization. The cash flow forecasts are adjusted by an appropriate discount rate based on the Company s weighted-average cost of capital. Historically, the Company s valuation models did not fully capture the fair value of the Company s business as a whole, as they did not consider the increased consideration a potential acquirer would be required to pay, in the form of a control premium, in order to gain sufficient ownership to set policies, direct operations and control management decisions. However, because the Company s models have indicated value significantly in excess of the carrying amount of assets in the Company s reporting units, the additional value from a control premium was not a determining factor in the outcome of step one of the Company s impairment assessment.

As indicated above, in addition to the annual impairment analysis, the Company is required to evaluate goodwill for impairment whenever an event occurs or circumstances change such that it is more likely than not that an impairment may exist. In light of this requirement, the Company has considered whether the decline in the Company s market capitalization between September 30, 2008 and March 31, 2009 has, more likely than not, resulted in the existence of an impairment and concluded that the decline in the Company s market capitalization did not, more likely than not, result in the existence of an impairment. In making this conclusion, the Company gave consideration to the valuation of hospitals in which it sold equity interests during periods subsequent to September 30, 2008, currently proposed hospital equity sale transactions, the proposed purchase price for the acquisition of a health care system which the Company anticipates closing in the quarter ending June 30, 2009, the volatility of the current equity markets, including the increase in our stock price since March 31, 2009 and the average stock price over the trailing three-month, six-month and one-year periods. The Company also considered the fact that the decline in its stock price has not been related to a decline in operating performance and that any near term credit tightening within the financial markets could be overcome by the Company through the substantial amount of cash flows being generated by the Company, as well as the borrowing capacity available through its existing credit facilities. The current turmoil in the financial markets and weakness in macroeconomic conditions globally continue to be challenging and the Company cannot be certain of the duration of these conditions and their potential impact on the Company s stock price performance. If a further decline in the Company s market capitalization and other factors results in the decline in the Company s fair value, it is reasonably likely that a goodwill impairment assessment prior to the next annual review, in the fourth quarter of 2009, would be necessary. If such an assessment is required, an impairment of goodwill may be recognized. A non-cash goodwill impairment charge would have the effect of decreasing the Company s earnings or increasing the Company s losses in the period the impairment is recognized. The amount of such effect on earnings and losses is dependent on the size of the impairment charge. Such a charge, however, would be a non-cash charge and therefore would not impact the Company s compliance with covenants contained in the Credit Facility.

The gross carrying amount of the Company s other intangible assets subject to amortization was $72.1 million at March 31, 2009 and $68.6 million at December 31, 2008, and the net carrying amount was $52.1 million at March 31, 2009 and $54.1 million at December 31, 2008. The carrying amount of the Company s other intangible assets not subject to amortization was $35.9 million and $35.2 million at March 31, 2009 and December 31, 2008, respectively. Other intangible assets are included in other assets, net on the Company s condensed consolidated balance sheets.

Substantially all of the Company s intangible assets are contract-based intangible assets related to operating licenses, management contracts, or non-compete agreements entered into in connection with prior acquisitions.

The weighted-average amortization period for the intangible assets subject to amortization is approximately ten years. There are no expected residual values related to these intangible assets. Amortization expense on these

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**COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

intangible assets during the three months ended March 31, 2009 and 2008 was $3.3 million and $2.4 million, respectively. Amortization expense on intangible assets is estimated to be $8.7 million for the remainder of 2009, $10.3 million in 2010, $7.2 million in 2011, $4.0 million in 2012, $3.6 million in 2013, and $18.3 million in 2014 and thereafter.

## 8. EARNINGS PER SHARE

The following table sets forth the components of the numerator and denominator for the computation of basic and diluted earnings per share for income from continuing operations, discontinued operations and net income attributable to Community Health Systems, Inc. common stockholders (in thousands, except share data):

| | Three Months Ended March 31, | |
|---|---|---|
| | **2009** | **2008** |
| Numerator for basic and diluted earnings per share: | | |
| Income from continuing operations, net of tax | $ 71,131 | $ 59,119 |
| Less: Income from continuing operations attributable to noncontrolling interests, net of taxes | (14,131) | (9,292) |
| Income from continuing operations attributable to Community Health Systems, Inc. common stockholders basic and diluted | $ 57,000 | $ 49,827 |
| Income on discontinued operations, net of tax | $ 1,770 | $ 9,617 |
| Plus: Loss from discontinued operations attributable to noncontrolling interests, net of taxes | 145 | 683 |
| Income on discontinued operations attributable to Community Health Systems, Inc. common stockholders basic and diluted | $ 1,915 | $ 10,300 |
| Denominator: | | |
| Weighted-average number of shares outstanding basic | 90,604,767 | 94,107,532 |
| Effect of dilutive securities: | | |
| Restricted stock awards | 38,745 | 77,299 |
| Employee options | 241,628 | 821,890 |
| Weighted-average number of shares outstanding diluted | 90,885,140 | 95,006,721 |
| Dilutive securities outstanding not included in the computation of earning per share because their effect is antidilutive: | | |
| Employee options | 9,524,719 | 4,361,131 |

**9. STOCKHOLDERS EQUITY**

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 $0.01 per share. Shares of preferred stock, none of which are outstanding as of March 31, 2009, 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.

On December 13, 2006, the Company commenced an open market repurchase program for up to 5,000,000 shares of the Company s common stock, not to exceed $200 million in repurchases. This program will conclude at the earlier of three years or when the maximum number of shares has been repurchased. During the year ended December 31, 2008, the Company repurchased 4,786,609 shares, which is the cumulative number of

**COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

shares that have been repurchased under this program, at a weighted-average price of $18.80 per share. During the three months ended March 31, 2009, the Company did not repurchase any shares under this program.

The following schedule presents the reconciliation of the carrying amount of total equity, equity attributable to the Company, and equity attributable to the noncontrolling interests as if the provisions of SFAS No. 160 were adopted on the first day of the quarter ended March 31, 2009 (in thousands):

| | | Community Health Systems, Inc. Stockholders | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Redeemable Noncontrolling Interests** | **Common Stock** | **Additional Paid-in Capital** | **Treasury Stock** | **Accumulated Other Comprehensive Income (Loss)** | **Retained Earnings** | **Noncontrolling Interests** | **Total Stockholder Equity** |
| **alance, December 31, 008** s previously reported) | $ | $ 925 | $ 1,197,944 | $ (6,678) | $ (295,575) | $ 776,249 | $ | $ 1,672,865 |
| nuary 1, 2009 adjustment noncontrolling interests om adoption of FAS No. 160 | 298,763 | | (46,825) | | | | 73,259 | 26,434 |
| alance, December 31, 08 (as adjusted) | 298,763 | 925 | 1,151,119 | (6,678) | (295,575) | 776,249 | 73,259 | 1,699,299 |
| omprehensive income oss): | | | | | | | | |
| et income | 9,205 | | | | | 58,915 | 4,781 | 63,696 |
| et change in fair value of terest rate swaps | | | | | 12,910 | | | 12,910 |
| et change in fair value of ailable for sale securities oss) | | | | | (1,250) | | | (1,250 |
| djustment to pension bility | | | | | 440 | | | 440 |
| otal comprehensive come | 9,205 | | | | 12,100 | 58,915 | 4,781 | 75,796 |
| et distributions to oncontrolling interests | (2,517) | | (117) | | | | 646 | 529 |
| djustment to redemption lue of redeemable oncontrolling interests | 1,491 | | (1,491) | | | | | (1,491 |
| ancellation of restricted ock for tax withholdings | | 9 | (3,354) | | | | | (3,345 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| vested shares | | | | | | | | |
| x benefit from exercise | | | | | | | | |
| options | | | (4,945) | | | | | (4,945 |
| are-based compensation | | | 12,286 | | | | | 12,286 |
| **alance, March 31, 2009** | $ 306,942 | $ 934 | $ 1,153,498 | $ (6,678) | $ (283,475) | $ 835,164 | $ 78,686 | $ 1,778,129 |

**10. COMPREHENSIVE INCOME (LOSS)**

The following table presents the components of comprehensive income (loss), net of related taxes. The net change in fair value of interest rate swap agreements is a function of the spread between the fixed interest rate of each swap and the underlying variable interest rate under the Credit Facility, the change in fair value of available for sale securities is the unrealized gain (losses) on the related investments and the amortization of unrecognized

**COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

pension cost components is the amortization of prior service costs and credits and actuarial gains and losses (in thousands):

| | Three Months Ended March 31, | |
|---|---|---|
| | **2009** | **2008** |
| Net income | $ 72,901 | $ 68,736 |
| Net change in fair value of interest rate swaps | 12,910 | (104,554) |
| Net change in fair value of available for sale securities | (1,250) | (753) |
| Amortization of unrecognized pension components | 440 | (993) |
| Comprehensive income (loss) | 85,001 | (37,564) |
| Less: Comprehensive income attributable to noncontrolling interests | 13,986 | 8,609 |
| Comprehensive income (loss) attributable to Community Health Systems, Inc. | $ 71,015 | $ (46,173) |

The net change in fair value of the interest rate swaps, the net change in fair value of available for sale securities and amortization of unrecognized pension cost components are included in accumulated other comprehensive loss on the accompanying condensed consolidated balance sheets.

**11. EQUITY INVESTMENTS**

As of March 31, 2009, the Company owns equity interests of 27.5% in four hospitals in Las Vegas, Nevada, and 26.1% in one hospital in Las Vegas, Nevada, in which Universal Health Systems, Inc. owns the majority interest; an equity interest of 38.0% in three hospitals in Macon, Georgia in which HCA, Inc. owns the majority interest; and an equity interest of 50.0% in a hospital in El Dorado, Arkansas in which the SHARE Foundation, a not-for-profit foundation, owns the remaining 50.0% interest. These equity investments were acquired as part of the acquisition of Triad. The Company uses the equity method of accounting for its investments in these entities. The Company s investment in unconsolidated affiliates is $430.7 million and $421.6 million at March 31, 2009 and December 31, 2008, respectively, and is included in other assets in the accompanying condensed consolidated balance sheets. Included in the Company s results of operations is $12.9 million representing the Company s equity in pre-tax earnings from investments in unconsolidated affiliates for each of the three months ended March 31, 2009 and 2008.

Summarized combined financial information for the three months ended March 31, 2009 and 2008, for the unconsolidated entities in which the Company owns an equity interest is as follows (in thousands):

| Three Months Ended March 31, | |
|---|---|
| **2009** | **2008** |

| | | |
|---|---|---|
| Revenues | $ 375,698 | $ 363,667 |
| Operating costs and expenses | 324,674 | 319,694 |
| Net income | 51,038 | 45,975 |

The summarized financial information for the three months ended March 31, 2009 and 2008 was derived from the unaudited financial information provided to the Company by the equity investee.

## 12. LONG-TERM DEBT

***Credit Facility and Notes***

On July 25, 2007, CHS entered into the Credit Facility with a syndicate of financial institutions led by Credit Suisse, as administrative agent and collateral agent. The Credit Facility consisted of a $6.065 billion funded term loan facility with a maturity of seven years, a $400 million delayed draw term loan facility with a maturity of seven years and a $750 million revolving credit facility with a maturity of nine years. As of December 31, 2007, the $400 million delayed draw term loan facility had been reduced to $300 million at the request of CHS. During the

**COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

fourth quarter of 2008, $100 million of the delayed draw term loan was drawn by CHS, reducing the delayed draw term loan availability to $200 million at December 31, 2008. In January 2009, CHS drew down the remaining $200 million of the delayed draw term loan. The revolving credit facility also includes a subfacility for letters of credit and a swingline subfacility. In connection with the consummation of the acquisition of Triad, CHS used a portion of the net proceeds from its Credit Facility and the Notes offering to repay its outstanding debt under the previously outstanding credit facility, the 6.50% senior subordinated notes due 2012 and certain of Triad s existing indebtedness. During the third quarter of 2007, the Company recorded a pre-tax write-off of approximately $13.9 million in deferred loan costs relative to the early extinguishment of the debt under the previously outstanding credit facility and incurred tender and solicitation fees of approximately $13.4 million on the early repayment of the Company s $300 million aggregate principal amount of 6.50% senior subordinated notes due 2012 through a cash tender offer and consent solicitation.

The Credit Facility requires quarterly amortization payments of each term loan facility equal to 0.25% of the outstanding amount of the term loans, if any, with the outstanding principal balance payable on July 25, 2014.

The term loan facility must be prepaid in an amount equal to (1) 100% of the net cash proceeds of certain asset sales and dispositions by the Company and its subsidiaries, subject to certain exceptions and reinvestment rights, (2) 100% of the net cash proceeds of issuances of certain debt obligations or receivables based financing by the Company and its subsidiaries, subject to certain exceptions, and (3) 50%, subject to reduction to a lower percentage based on the Company s leverage ratio (as defined in the Credit Facility generally as the ratio of total debt on the date of determination to the Company s EBITDA, as defined, for the four quarters most recently ended prior to such date), of excess cash flow (as defined) for any year, commencing in 2008, subject to certain exceptions. Voluntary prepayments and commitment reductions are permitted in whole or in part, without any premium or penalty, subject to minimum prepayment or reduction requirements.

The obligor under the Credit Facility is CHS. All of the obligations under the Credit Facility are unconditionally guaranteed by the Company and certain existing and subsequently acquired or organized domestic subsidiaries. All obligations under the Credit Facility and the related guarantees are secured by a perfected first priority lien or security interest in substantially all of the assets of the Company, CHS and each subsidiary guarantor, including equity interests held by the Company, CHS or any subsidiary guarantor, but excluding, among others, the equity interests of non-significant subsidiaries, syndication subsidiaries, securitization subsidiaries and joint venture subsidiaries.

The loans under the Credit Facility bear interest on the outstanding unpaid principal amount at a rate equal to an applicable percentage plus, at CHS s option, either (a) an Alternate Base Rate (as defined) determined by reference to the greater of (1) the Prime Rate (as defined) announced by Credit Suisse or (2) the Federal Funds Effective Rate (as defined) plus one-half of 1.0%, or (b) a reserve adjusted London interbank offered rate for dollars (Eurodollar Rate) (as defined). The applicable percentage for term loans is 1.25% for Alternate Base Rate loans and 2.25% for Eurodollar rate loans. The applicable percentage for revolving loans is initially 1.25% for Alternate Base Rate revolving loans and 2.25% for Eurodollar revolving loans, in each case subject to reduction based on the Company s leverage ratio. Loans under the swingline subfacility bear interest at the rate applicable to Alternate Base Rate loans under the revolving credit facility.

CHS has agreed to pay letter of credit fees equal to the applicable percentage then in effect with respect to Eurodollar rate loans under the revolving credit facility times the maximum aggregate amount available to be drawn under all

letters of credit outstanding under the subfacility for letters of credit. The issuer of any letter of credit issued under the subfacility for letters of credit will also receive a customary fronting fee and other customary processing charges. CHS is initially obligated to pay commitment fees of 0.50% per annum (subject to reduction based upon the Company s leverage ratio) on the unused portion of the revolving credit facility. For purposes of this calculation, swingline loans are not treated as usage of the revolving credit facility. With respect to the delayed draw term loan facility, CHS was also obligated to pay commitment fees of 0.50% per annum for the first nine months after the closing of the Credit Facility, 0.75% per annum for the next three months after such nine-month period and

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**COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

thereafter, 1.0% per annum. In each case, the commitment fee was paid on the unused amount of the delayed draw term loan facility. After the draw down of the remaining $200 million of the delayed draw term loan in January 2009, CHS no longer pays commitment fees for the delayed draw term loan facility. CHS paid arrangement fees on the closing of the Credit Facility and pays an annual administrative agent fee.

The Credit Facility contains customary representations and warranties, subject to limitations and exceptions, and customary covenants restricting, subject to certain exceptions, the Company s and its subsidiaries ability to, among other things (1) declare dividends, make distributions or redeem or repurchase capital stock, (2) prepay, redeem or repurchase other debt, (3) incur liens or grant negative pledges, (4) make loans and investments and enter into acquisitions and joint ventures, (5) incur additional indebtedness or provide certain guarantees, (6) make capital expenditures, (7) engage in mergers, acquisitions and asset sales, (8) conduct transactions with affiliates, (9) alter the nature of the Company s businesses, (10) grant certain guarantees with respect to physician practices, (11) engage in sale and leaseback transactions or (12) change the Company s fiscal year. The Company is also required to comply with specified financial covenants (consisting of a leverage ratio and an interest coverage ratio) and various affirmative covenants.

Events of default under the Credit Facility include, but are not limited to, (1) CHS s failure to pay principal, interest, fees or other amounts under the credit agreement when due (taking into account any applicable grace period), (2) any representation or warranty proving to have been materially incorrect when made, (3) covenant defaults subject, with respect to certain covenants, to a grace period, (4) bankruptcy events, (5) a cross default to certain other debt, (6) certain undischarged judgments (not paid within an applicable grace period), (7) a change of control, (8) certain ERISA-related defaults and (9) the invalidity or impairment of specified security interests, guarantees or subordination provisions in favor of the administrative agent or lenders under the Credit Facility.

The Notes were issued by CHS in connection with the Triad acquisition in the principal amount of $3.021 billion. These Notes will mature on July 15, 2015. The Notes bear interest at the rate of 8.875% per annum, payable semiannually in arrears on January 15 and July 15, commencing January 15, 2008. Interest on the Notes accrues from the date of original issuance. Interest is calculated on the basis of 360-day year comprised of twelve 30-day months.

Except as set forth below, CHS is not entitled to redeem the Notes prior to July 15, 2011.

On and after July 15, 2011, CHS is entitled, at its option, to redeem all or a portion of the Notes upon not less than 30 nor more than 60 days notice, at the redemption prices (expressed as a percentage of principal amount on the redemption date), plus accrued and unpaid interest, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the 12-month period commencing on July 15 of the years set forth below:

| Period | Redemption Price |
|---|---|
| 2011 | 104.438% |
| 2012 | 102.219% |
| 2013 and thereafter | 100.000% |

In addition, any time prior to July 15, 2010, CHS is entitled, at its option, on one or more occasions to redeem the Notes (which include additional Notes (the Additional Notes ), if any which may be issued from time to time under the indenture under which the Notes were issued) in an aggregate principal amount not to exceed 35% of the aggregate principal amount of the Notes (which includes Additional Notes, if any) originally issued at a redemption price (expressed as a percentage of principal amount) of 108.875%, plus accrued and unpaid interest to the redemption date, with the Net Cash Proceeds (as defined) from one or more Public Equity Offerings (as defined) (provided that if the Public Equity Offering is an offering by the Company, a portion of the Net Cash Proceeds

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**COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

thereof equal to the amount required to redeem any such Notes is contributed to the equity capital of CHS); provided, however, that:

1) at least 65% of such aggregate principal amount of Notes originally issued remains outstanding immediately after the occurrence of each such redemption (other than the Notes held, directly or indirectly, by the Company or its subsidiaries); and

2) each such redemption occurs within 90 days after the date of the related Public Equity Offering.

CHS is entitled, at its option, to redeem the Notes, in whole or in part, at any time prior to July 15, 2011, upon not less than 30 or more than 60 days notice, at a redemption price equal to 100% of the principal amount of Notes redeemed plus the Application Premium (as defined), and accrued and unpaid interest, if any, as of the applicable redemption date.

Pursuant to a registration rights agreement entered into at the time of the issuance of the Notes, as a result of an exchange offer made by CHS, substantially all of the Notes issued in July 2007 were exchanged in November 2007 for new notes (the Exchange Notes ) having terms substantially identical in all material respects to the Notes (except that the Exchange Notes were issued under a registration statement pursuant to the Securities Act of 1933, as amended). References to the Notes shall also be deemed to include Exchange Notes unless the context provides otherwise.

During the three months ended December 31, 2008, the Company repurchased on the open market and cancelled $110.5 million of principal amount of the Notes. This resulted in a net gain from early extinguishment of debt of $2.5 million with an after-tax impact of $1.6 million.

During the three months ended March 31, 2009, the Company repurchased on the open market and cancelled $60.5 million of principal amount of the Notes. This resulted in a net gain from early extinguishment of debt of $2.4 million with an after-tax impact of $1.5 million.

As of March 31, 2009, the availability for additional borrowings under the Credit Facility was $750 million pursuant to the revolving credit facility, of which $89.7 million was set aside for outstanding letters of credit. CHS also has the ability to add up to $300 million of borrowing capacity from receivable transactions (including securitizations) under the Credit Facility, which has not yet been accessed. CHS also has the ability to amend the Credit Facility to provide for one or more tranches of term loans in an aggregate principal amount of $600 million, which CHS has not yet accessed. As of March 31, 2009, the weighted-average interest rate under the Credit Facility, excluding swaps, was 3.7%.

Cash paid for interest, net of interest income, was $232.9 million and $229.1 million during the three months ended March 31, 2009 and 2008, respectively.

**13. FAIR VALUE**

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements ( SFAS No. 157 ), which defines fair value, provides a framework for measuring fair value, and expands disclosures required for fair value measurements.

SFAS No. 157 applies to other accounting pronouncements that require fair value measurement; it does not require any new fair value measurements. SFAS No. 157 was effective for fiscal years beginning after November 15, 2007, and was adopted by the Company as of January 1, 2008. The adoption of this statement has not had a material effect on the Company s consolidated results of operations or consolidated financial position.

In February 2008, the FASB issued FASB Statement of Position No. 157-2, Effective Date of FASB Statement No. 157, ( FSP 157-2 ). FSP 157-2 deferred the effective date of the provisions of SFAS No. 157 for all non-financial assets and non-financial liabilities to fiscal years beginning after November 15, 2008, and was adopted by the Company as of January 1, 2009. The adoption of this statement has not had a material effect on the Company s consolidated results of operations or consolidated financial position.

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Fair Value Hierarchy***

SFAS No. 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, SFAS No. 157 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity s own assumption about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

SFAS No. 157 classifies the inputs used to measure fair value into the following hierarchy:

*Level 1:* Quoted market prices in active markets for identical assets or liabilities.

*Level 2:* Observable market-based inputs or unobservable inputs that are corroborated by market data.

*Level 3:* Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Level 3 includes values determined using pricing models, discounted cash flow methodologies, or similar techniques reflecting the Company s own assumptions.

In instances where the determination of the fair value hierarchy measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment of factors specific to the asset or liability.

The following table sets forth, by level within the fair value hierarchy, the financial assets and liabilities recorded at fair value on a recurring basis as of March 31, 2009 (in thousands):

| | March 31, 2009 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Available-for-sale securities | $ 6,158 | $ 6,158 | $ | $ |
| Trading securities | 19,032 | 19,032 | | |
| Total assets | $ 25,190 | $ 25,190 | $ | $ |
| Fair value of interest rate swap agreements | $ 414,962 | $ | $ 414,962 | $ |
| Total liabilities | $ 414,962 | $ | $ 414,962 | $ |

Available-for-sale securities and trading securities classified as Level 1 are measured using quoted market prices.

The valuation of the Company s interest rate swap agreements is determined using market valuation techniques, including discounted cash flow analysis on the expected cash flows of each agreement. This analysis reflects the contractual terms of the agreement, including the period to maturity, and uses observable market-based inputs, including forward interest rate curves. The fair values of interest rate swap agreements are determined by netting the discounted future fixed cash payments (or receipts) and the discounted expected variable cash receipts (or payments). The variable cash receipts (or payments) are based on the expectation of future interest rates based on observable market forward interest rate curves and the notional amount being hedged.

To comply with the provisions of SFAS No. 157, the Company incorporates credit valuation adjustments (CVAs) to appropriately reflect both its own nonperformance or credit risk and the respective counterparty s nonperformance or credit risk in the fair value measurements. In adjusting the fair value of its interest rate swap agreements for the effect of nonperformance risk, the Company has considered the impact of any netting features included in the agreements. The CVA on the Company s interest rate swap agreements at March 31, 2009 resulted in

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**COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

a decrease in the fair value of the related liability of $27.2 million and an after-tax adjustment of $17.4 million to other comprehensive income.

The majority of the inputs used to value its interest rate swap agreements, including the forward interest rate curves and market perceptions of the Company s credit risk used in the CVAs, are observable inputs available to a market participant. As a result, the Company has determined that the interest rate swap valuations are classified in Level 2 of the fair value hierarchy.

The contractual obligation liability recorded during the year ended December 31, 2008, represented the fair value of a put option assumed in connection with a business combination using unobservable inputs and assumptions available to the Company. The contractual obligation represented by this liability was settled during the three months ended March 31, 2009, as a result of the sale of ownership interest in the partnership that owned Presbyterian Hospital of Denton. The following table presents a reconciliation of the beginning and ending balance of the contractual obligation liability (in thousands):

| | Contractual Obligation Liability |
|---|---|
| Balance at January 1, 2009 | $ 48,985 |
| Settlement of contractual obligation liability | (48,985) |
| Balance at March 31, 2009 | $ |

## 14. DERIVATIVE INSTRUMENTS

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities ( SFAS No. 161 ). SFAS No. 161 expands the disclosure requirements for derivative instruments and for hedging activities in order to provide additional understanding of how an entity uses derivative instruments and how they are accounted for and reported in an entity s financial statements. The new disclosure requirements for SFAS No. 161 are effective for fiscal years beginning after November 15, 2008, and were adopted by the Company on January 1, 2009. The adoption of this statement has not had a material effect on the Company s consolidated results of operations or consolidated financial position.

The Company is exposed to certain risks relating to its ongoing business operations. The primary risk managed by using derivative instruments is interest rate risk. Interest rate swaps are entered into to manage interest rate risk associated with the term loans in the Credit Facility. SFAS No. 133 requires companies to recognize all derivative instruments as either assets or liabilities at fair value in the consolidated statement of financial position. In accordance with SFAS No. 133, the Company designates interest rate swaps as cash flow hedges. For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transactions affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness

or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

The Company s derivative instruments had no effect on the Company s consolidated results of operations for the three months ended March 31, 2009 and 2008.

**COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The fair values of derivative instruments in the condensed consolidated balance sheets as of March 31, 2009 and 2008 were as follows (in thousands):

| | Asset Derivatives March 31, | | | | Liability Derivatives March 31, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2009 | | 2008 | | 2009 | | 2008 | |
| | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| Derivatives designated as hedging instruments under Statement 133 | Other assets, net | $ | Other assets, net | $ | Other long-term liabilities | $ 414,962 | Other long-term liabilities | $ 284,848 |

**15. SEGMENT INFORMATION**

The Company operates in three distinct operating segments, represented by hospital operations (which includes its general acute care hospitals and related healthcare entities that provide inpatient and outpatient health care services), home health agency operations (which provide in-home outpatient care), and hospital management services (which provides executive management and consulting services to non-affiliated acute care hospitals). Only the hospital operations segment meets the criteria in SFAS No. 131, Disclosure about Segments of an Enterprise and Related Information ( SFAS No. 131 ), as a separate reportable segment. The financial information for the home health agencies and management services segments do not meet the quantitative thresholds defined in SFAS No. 131 and are combined into the corporate and all other reportable segment.

The distribution between reportable segments of the Company s revenues and income from continuing operations before income taxes is summarized in the following tables (in thousands):

| | Three Months Ended March 31, | |
|---|---|---|
| | 2009 | 2008 |
| Revenues: | | |
| Hospital operations | $ 2,830,688 | $ 2,627,239 |
| Corporate and all other | 61,702 | 61,685 |
| | $ 2,892,390 | $ 2,688,924 |
| Income from continuing operations before income taxes: | | |
| Hospital operations | $ 140,270 | $ 124,676 |

| | | |
|---|---|---|
| Corporate and all other | (33,607) | (34,301) |
| | $ 106,663 | $ 90,375 |

**16. CONTINGENCIES**

The Company is a party to various 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.

In a letter dated October 4, 2007, the Civil Division of the Department of Justice notified the Company that, as a result of an investigation into the way in which different state Medicaid programs apply to the federal government for matching or supplemental funds that are ultimately used to pay for a small portion of the services provided to Medicaid and indigent patients, it believes the Company and three of its New Mexico hospitals have caused the State of New Mexico to submit improper claims for federal funds in violation of the Federal False Claims Act. This investigation has culminated in the federal government s intervention in a qui tam lawsuit styled *U.S. ex rel. Baker vs. Community Health Systems, Inc.* The federal government has not yet filed its complaint in intervention. The Company is vigorously defending this action.

**COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

## 17. SUBSEQUENT EVENTS

Effective April 1, 2009, one or more subsidiaries of the Company acquired the remaining 50% equity interest from Share Foundation in MCSA L.L.C., an entity in which one or more subsidiaries of the Company previously had a 50% noncontrolling interest and for which it provided certain management services. This acquisition gives these subsidiaries of the Company a 100% equity interest in that entity. MCSA L.L.C. owns and operates Medical Center of South Arkansas (166 licensed beds) in El Dorado, Arkansas. The purchase price was $26.0 million in cash. As of the acquisition date, one or more subsidiaries of the Company had a liability to MCSA L.L.C. of $14.1 million, as a result of a cash management agreement previously entered into with the hospital. Upon completion of the acquisition, this liability was eliminated in consolidation as an intercompany transaction.

On April 2, 2009, the Company paid down $110.4 million of its term loans under the Credit Facility.

On April 1, 2009, one or more subsidiaries of the Company entered into a definitive agreement to acquire Wyoming Valley Health Care System in Wilkes-Barre, Pennsylvania. This health care system includes Wilkes-Barre General Hospital, a 410-bed, full-service acute care hospital located in Wilkes-Barre and First Hospital Wyoming Valley, a behavioral health hospital located in Kingston, Pennsylvania, as well as other outpatient and ancillary services. The transaction, subject to federal and state approvals, is expected to close in the second quarter of 2009.

## 18. SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION

In connection with the consummation of the Triad acquisition, CHS obtained $7.215 billion of senior secured financing under the Credit Facility and issued the Notes in the aggregate principal amount of $3.021 billion. The Notes are senior unsecured obligations of CHS and are guaranteed on a senior basis by the Company and by certain of existing and subsequently acquired or organized 100% owned domestic subsidiaries.

The Notes are fully and unconditionally guaranteed on a joint and several basis. The following condensed consolidating financial statements present Community Health Systems, Inc. (as parent guarantor), CHS (as the issuer), the subsidiary guarantors, the subsidiary non-guarantors and eliminations. These condensed consolidating financial statements have been prepared and presented in accordance with SEC Regulation S-X Rule 3-10 Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered .

The accounting policies used in the preparation of this financial information are consistent with those elsewhere in the consolidated financial statements of the Company, except as noted below:

Intercompany receivables and payables are presented gross in the supplemental consolidating balance sheets.

Cash flows from intercompany transactions are presented in cash flows from financing activities, as changes in intercompany balances with affiliates, net.

Income tax expense is allocated from the parent guarantor to the income producing operations (other guarantors and non-guarantors) and the issuer through stockholders equity. As this approach represents an allocation, the income tax expense allocation is considered non-cash for statement of cash flow purposes.

Interest expense, net has been presented to reflect net interest expense and interest income from outstanding long-term debt and intercompany balances.

The Company s intercompany activity consists primarily of daily cash transfers for purposes of cash management, the allocation of certain expenses and expenditures paid for by the parent on behalf of its subsidiaries, and the push down of investment in its subsidiaries. The Company s subsidiaries generally do not purchase services from one another and therefore the intercompany transactions do not represent revenue generating transactions. All intercompany transactions eliminate in consolidation.

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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**March 31, 2009**