COMMUNITY HEALTH SYSTEMS INC
Form 10-Q
April 29, 2011

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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, 2011
Commission file number 001-15925
COMMUNITY HEALTH SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

Delaware	**13-3893191**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification Number)*
4000 Meridian Boulevard **Franklin, Tennessee**	**37067**
(Address of principal executive offices)	*(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 þ 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 (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

As of April 20, 2011, there were outstanding 94,967,424 shares of the Registrant s Common Stock, $0.01 par value.

Community Health Systems, Inc.
Form 10-Q
For the Three Months Ended March 31, 2011

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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, 2011	December 31, 2010
ASSETS		
Current assets		
Cash and cash equivalents	$ 270,716	$ 299,169
Patient accounts receivable, net of allowance for doubtful accounts of $1,699,935 and $1,639,198 at March 31, 2011 and December 31, 2010, respectively	1,766,122	1,714,542
Supplies	329,275	329,114
Prepaid income taxes	65,030	118,464
Deferred income taxes	115,819	115,819
Prepaid expenses and taxes	112,486	100,754
Other current assets	176,545	193,331
Total current assets	2,835,993	2,871,193
Property and equipment	8,663,963	8,528,335
Less accumulated depreciation and amortization	(2,217,546)	(2,089,776)
Property and equipment, net	6,446,417	6,438,559
Goodwill	4,225,768	4,195,289
Other assets, net	1,210,101	1,193,082
Total assets	$ 14,718,279	$ 14,698,123
LIABILITIES AND EQUITY		
Current liabilities		
Current maturities of long-term debt	$ 65,952	$ 63,139
Accounts payable	547,683	526,338
Deferred income taxes	8,882	8,882
Accrued interest	84,502	146,415
Accrued liabilities	898,810	897,266
Total current liabilities	1,605,829	1,642,040
Long-term debt	8,794,146	8,808,382
Deferred income taxes	608,177	608,177

Other long-term liabilities	952,406	1,001,675
Total liabilities	11,960,558	12,060,274
Redeemable noncontrolling interests in equity of consolidated subsidiaries	385,438	387,472
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; 94,927,260 shares issued and 93,951,711 shares outstanding at March 31, 2011, and 93,644,862 shares issued and 92,669,313 shares outstanding at December 31, 2010	949	936
Additional paid-in capital	1,149,002	1,126,751
Treasury stock, at cost, 975,549 shares at March 31, 2011 and December 31, 2010	(6,678)	(6,678)
Accumulated other comprehensive loss	(192,640)	(230,927)
Retained earnings	1,360,706	1,299,382
Total Community Health Systems, Inc. stockholders equity	2,311,339	2,189,464
Noncontrolling interests in equity of consolidated subsidiaries	60,944	60,913
Total equity	2,372,283	2,250,377
Total liabilities and equity	$ 14,718,279	$ 14,698,123

See accompanying notes to the condensed consolidated financial statements.

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, 2011	Three Months Ended March 31, 2010
t operating revenues	$ 3,405,342	$ 3,125,50
erating costs and expenses:		
laries and benefits	1,402,121	1,269,57
ovision for bad debts	407,871	373,66
pplies	464,156	429,59
her operating expenses	624,795	567,08
nt	64,757	63,63
preciation and amortization	160,677	146,70
tal operating costs and expenses	3,124,377	2,850,26
come from operations	280,965	275,24
erest expense, net	164,172	160,36
uity in earnings of unconsolidated affiliates	(18,130)	(12,58
come from continuing operations before income taxes	134,923	127,47
ovision for income taxes	43,782	40,98
come from continuing operations	91,141	86,48
scontinued operations, net of taxes:		
ss from operations of entities sold and held for sale	(1,214)	(1,48
pairment of long-lived assets of hospital held for sale	(8,368)	
ss on sale	(3,234)	
ss from discontinued operations	(12,816)	(1,48
t income	78,325	84,99
ss: Net income attributable to noncontrolling interests	17,001	14,98
t income attributable to Community Health Systems, Inc.	$ 61,324	$ 70,00
sic earnings (loss) per share attributable to Community Health Systems, Inc. common stockholders:		
ntinuing operations	$ 0.81	$ 0.7
scontinued operations	(0.14)	(0.0
t income	$ 0.67	$ 0.7

luted earnings (loss) per share attributable to Community Health Systems, Inc. common stockholders (1):		
ntinuing operations	$ 0.80	$ 0.7
scontinued operations	(0.14)	(0.0
t income	$ 0.67	$ 0.7
eighted-average number of shares outstanding:		
sic	91,008,405	91,615,27
luted	92,136,819	92,836,45

(1) Total per share amounts may not add due to rounding.

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, 2011	Three Months Ended March 31, 2010
Cash flows from operating activities		
Net income	$ 78,325	$ 84,996
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	161,318	147,679
Stock-based compensation expense	9,918	9,763
Loss on sale	3,234	
Impairment of long-lived assets of hospital held for sale	8,368	
Excess tax benefit relating to stock-based compensation	(4,675)	(4,349)
Other non-cash expenses, net	(11,173)	(3,957)
Changes in operating assets and liabilities, net of effects of acquisitions and divestitures:		
Patient accounts receivable	(56,454)	(94,204)
Supplies, prepaid expenses and other current assets	14,336	(6,908)
Accounts payable, accrued liabilities and income taxes	(14,938)	167,470
Other	(748)	(1,130)
Net cash provided by operating activities	187,511	299,360
Cash flows from investing activities		
Acquisitions of facilities and other related equipment	(45,422)	(180)
Purchases of property and equipment	(153,875)	(126,553)
Proceeds from disposition of ancillary operations	14,583	
Proceeds from sale of property and equipment	7,587	346
Increase in other non-operating assets	(32,277)	(36,991)
Net cash used in investing activities	(209,404)	(163,378)
Cash flows from financing activities		
Proceeds from exercise of stock options	18,125	24,007
Excess tax benefit relating to stock-based compensation	4,675	4,349
Stock buy-back		(40)
Proceeds from noncontrolling investors in joint ventures	863	1,255
Redemption of noncontrolling investments in joint ventures	(225)	
Distributions to noncontrolling investors in joint ventures	(15,333)	(16,874)
Repayments of long-term indebtedness	(14,665)	(13,154)
Net cash used in financing activities	(6,560)	(457)

Net change in cash and cash equivalents	(28,453)	135,525
Cash and cash equivalents at beginning of period	299,169	344,541
Cash and cash equivalents at end of period	$ 270,716	$ 480,066
Supplemental disclosure of cash flow information:		
Interest payments	$ 226,124	$ 220,202
Income taxes (refunds received) paid, net	$ (677)	$ 934

See accompanying notes to the condensed consolidated financial statements.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

1. BASIS OF PRESENTATION

The unaudited condensed consolidated financial statements of Community Health Systems, Inc. and its subsidiaries (the Company) as of March 31, 2011 and December 31, 2010 and for the three-month periods ended March 31, 2011 and March 31, 2010, have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. 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, 2011, are not necessarily indicative of the results to be expected for the full fiscal year ending December 31, 2011. 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 (the 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, 2010, contained in the Company s Annual Report on Form 10-K.

Noncontrolling interests in less-than-wholly-owned consolidated subsidiaries of the parent are presented as a component of total equity on the condensed consolidated balance sheets to distinguish between the interests of the parent company and the interests of the noncontrolling owners. Noncontrolling 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 are presented in mezzanine equity on the condensed consolidated balance sheets.

During the three months ended March 31, 2011, the Company sold a multi-specialty physician clinic and made the decision to sell a hospital. Accordingly, as of March 31, 2011, this hospital has been classified as held for sale. The condensed consolidated statement of income for the three months ended March 31, 2010 has been restated to reclassify the results of operations for these entities to discontinued operations. The condensed consolidated balance sheet as of December 31, 2010 has been restated to present the long-lived assets of the disposal group as held for sale for comparative purposes with the March 31, 2011 presentation.

Throughout these notes to the condensed consolidated financial statements, Community Health Systems, Inc. (the Parent), 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 or any subsidiary of the Parent 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.

2. ACCOUNTING FOR STOCK-BASED COMPENSATION

Stock-based compensation awards are granted under the Community Health Systems, Inc. 2000 Stock Option and Award Plan amended and restated as of March 24, 2009 (the 2000 Plan) and the Community Health Systems, Inc. 2009 Stock Option and Award Plan amended and restated as of March 18, 2011 (the 2009 Plan).

The 2000 Plan allows for the grant of incentive stock options intended to qualify under Section 422 of the Internal Revenue Code (IRC), as well as stock options which do not so qualify, stock appreciation rights, restricted stock, restricted stock units, performance-based shares or units and other share awards. Prior to being amended in 2009, the 2000 Plan also allowed for the grant of phantom stock. 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 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 through February 2011 have a 10-year contractual term. As of March 31, 2011, 64,508 shares of unissued common stock were reserved for future grants under the 2000 Plan.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

The 2009 Plan, which was adopted by the Board of Directors of the Parent as of March 24, 2009 and approved by stockholders on May 19, 2009, provides for the grant of incentive stock options intended to qualify under Section 422 of the IRC and for the grant of stock options which do not so qualify, stock appreciation rights, restricted stock, restricted stock units, performance-based shares or units and other share awards. Persons eligible to receive grants under the 2009 Plan include the Company s directors, officers, employees and consultants. Options granted in 2011 have a 10-year contractual term. As of March 31, 2011, 2,954,289 shares of unissued common stock were reserved for future grants under the 2009 Plan.

The exercise price of all options granted is equal to the fair value of the Company s common stock on the option grant date.

The following table reflects the impact of total compensation expense related to stock-based equity plans on the reported operating results for the respective periods (in thousands):

	Three Months Ended March 31,	
	2011	2010
Effect on income from continuing operations before income taxes	$ (9,918)	$ (9,763)
Effect on net income	$ (6,298)	$ (5,931)

At March 31, 2011, $89.7 million of unrecognized stock-based compensation expense was expected to be recognized over a weighted-average period of 29 months. Of that amount, $19.2 million related to outstanding unvested stock options was expected to be recognized over a weighted-average period of 28 months and $70.5 million related to outstanding unvested restricted stock, restricted stock units and phantom shares was expected to be recognized over a weighted-average period of 29 months. There were no modifications to awards during the three months ended March 31, 2011.

The fair value of stock options was estimated using the Black Scholes option pricing model with the following assumptions and weighted-average fair values during the three months ended March 31, 2011 and 2010:

	Three Months Ended March 31,	
	2011	2010
Expected volatility	31.2%	33.5%
Expected dividends		
Expected term	4.0 years	3.1 years
Risk-free interest rate	1.74%	1.48%

In determining expected term, 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 primary employee populations, one consisting of certain senior executives and the other consisting of substantially 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 utilized to estimate the expected volatility did not differ significantly from the implied volatility.

The expected term 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.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

Options outstanding and exercisable under the 2000 Plan and the 2009 Plan as of March 31, 2011, 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	Aggregate Intrinsic Value as of March 31, 2011
Outstanding at December 31, 2010	7,834,332	$ 32.08		
Granted	1,329,000	37.96		
Exercised	(595,431)	30.44		
Forfeited and cancelled	(64,508)	34.84		
Outstanding at March 31, 2011	8,503,393	$ 33.10	6.1 years	$ 59,253
Exercisable at March 31, 2011	5,794,134	$ 32.74	4.6 years	$ 42,636

The weighted-average grant date fair value of stock options granted during the three months ended March 31, 2011 and 2010 was $10.34 and $8.47, 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 ($39.99) 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, 2011. This amount changes based on the market value of the Company s common stock. The aggregate intrinsic value of options exercised during the three months ended March 31, 2011 and 2010 was $5.9 million and $9.7 million, respectively. 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 and the 2009 Plan to its directors and employees of certain subsidiaries. The restrictions on these shares generally lapse in one-third increments on each of the first three 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. Notwithstanding the above-mentioned performance objectives and vesting requirements, the restrictions will lapse earlier in the event of death, disability or termination of employment by the Company for any reason other than for cause of the holder of the restricted stock, 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.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

Restricted stock outstanding under the 2000 Plan and the 2009 Plan as of March 31, 2011, and changes during the three months then ended, were as follows:

	Shares	Weighted - Average Grant Date Fair Value
Unvested at December 31, 2010	2,125,291	$27.92
Granted	1,084,949	37.96
Vested	(962,662)	27.27
Forfeited		
Unvested at March 31, 2011	2,247,578	33.04

On February 25, 2009, under the 2000 Plan, each of the Company s outside directors received a grant of shares of phantom stock equal in value to approximately $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). Pursuant to a March 24, 2009 amendment to the 2000 Plan, future grants of this type will be denominated as restricted stock unit awards. On May 19, 2009, the newly elected outside director received a grant of 7,151 restricted stock units under the 2000 Plan, having a value at the time of $180,706 based upon the closing price of the Company s common stock on that date of $25.27. On February 24, 2010, six of the Company s seven outside directors each received a grant of 4,130 restricted stock units under the 2000 Plan, having a value at the time of approximately $140,000 based upon the closing price of the Company s common stock on that date of $33.90. One outside director, who did not stand for reelection in 2010, did not receive a grant on February 24, 2010. On February 23, 2011, each of the Company s six outside directors received a grant of 3,688 restricted stock units under the 2009 Plan, having a value at the time of approximately $140,000 based upon the closing price of the Company s common stock on that date of $37.96. Vesting of these shares of phantom stock and restricted stock units occurs in one-third increments on each of the first three anniversaries of the award date. During the three months ended March 31, 2011, 20,176 shares vested at a weighted-average grant date fair value of $24.61. None of these grants were canceled during the three months ended March 31, 2011. As of March 31, 2011, there were 55,340 shares of phantom stock and restricted stock units unvested at a weighted-average grant date fair value of $31.39.

Under the Directors Fees Deferral Plan, the Company s outside directors may elect to receive share equivalent units in lieu of cash for their directors fees. These share equivalent 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 based on the closing market price of the Company s common stock on that date. The following table represents the amount of directors fees which were deferred during each of the respective periods, and the number of share equivalent units into which such directors fees would have converted had each of the directors who had deferred such fees retired or terminated his/her directorship with the Company as of the end of the respective periods (in thousands, except share equivalent units):

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Directors fees earned and deferred into plan	$ 55	$ 45

Share equivalent units	1,375	1,219

At March 31, 2011, a total of 20,176 share equivalent units were deferred in the plan with an aggregate fair value of $0.8 million, based on the closing market price of the Company s common stock at March 31, 2011 of $39.99.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

3. COST OF REVENUE

Substantially all 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 its Franklin, Tennessee office, which were $41.7 million and $37.8 million for the three months ended March 31, 2011 and 2010, respectively. Included in these amounts is stock-based compensation expense of $9.9 million and $9.8 million for the three months ended March 31, 2011 and 2010, respectively.

4. USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. 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

Acquisitions

Effective October 1, 2010, one or more subsidiaries of the Company completed the acquisition of Forum Health based in Youngstown, Ohio, a healthcare system of two acute care hospitals, a rehabilitation hospital and other healthcare providers. This healthcare system includes Northside Medical Center (355 licensed beds) located in Youngstown, Ohio, and Trumbull Memorial Hospital (311 licensed beds) located in Warren, Ohio. This healthcare system also includes Hillside Rehabilitation Hospital (69 licensed beds) located in Warren, Ohio, as well as several outpatient clinics and other ancillary facilities. The total cash consideration paid for fixed assets and working capital was approximately $93.4 million and $27.8 million, respectively, with additional consideration of $40.3 million assumed in liabilities, for a total consideration of $161.5 million. This acquisition transaction was accounted for as a purchase business combination. Based upon the Company s final purchase price allocation relating to this acquisition as of March 31, 2011, approximately $8.1 million of goodwill has been recorded.

Effective October 1, 2010, one or more subsidiaries of the Company completed the acquisition of Bluefield Regional Medical Center (240 licensed beds) located in Bluefield, West Virginia. The total cash consideration paid for fixed assets was approximately $35.4 million, with additional consideration of $8.9 million assumed in liabilities as well as a credit applied at closing of $1.8 million for negative acquired working capital, for a total consideration of $42.5 million. This acquisition transaction was accounted for as a purchase business combination. Based upon the Company s final purchase price allocation relating to this acquisition as of March 31, 2011, approximately $2.4 million of goodwill has been recorded.

Effective July 7, 2010, one or more subsidiaries of the Company completed the acquisition of Marion Regional Healthcare System located in Marion, South Carolina. This healthcare system includes Marion Regional Hospital (124 licensed beds), an acute care hospital, along with a related skilled nursing facility and other ancillary services. The total cash consideration paid for fixed assets and working capital was approximately $18.6 million and $5.8 million, respectively, with additional consideration of $3.9 million assumed in liabilities, for a total consideration of $28.3 million. This acquisition transaction was accounted for as a purchase business combination. Based upon the Company s final purchase price allocation relating to this acquisition as of March 31, 2011, no goodwill has been recorded.

Additionally, during the three months ended March 31, 2011, the Company paid approximately $44.7 million to acquire the operating assets and related businesses of certain physician practices, clinics and other ancillary businesses that operate within the communities served by its hospitals. In connection with these acquisitions, the Company allocated approximately $9.9 million of the consideration paid to property and equipment, $3.0 million to net working capital, $1.5 million to other intangible assets, and the remainder, approximately $30.3 million consisting of intangible assets that do not qualify for separate recognition, was allocated to goodwill. These acquisition transactions were accounted for as purchase business combinations.

Approximately $3.3 million and $0.6 million of acquisition costs related to prospective and closed acquisitions were expensed during the three months ended March 31, 2011 and 2010, respectively.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

Discontinued Operations

Effective February 1, 2011, the Company sold Willamette Community Medical Group, which is a physician clinic operating as Oregon Medical Group (OMG), located in Springfield, Oregon, with a carrying amount of net assets, including an allocation of reporting unit goodwill, of $19.7 million to Oregon Healthcare Resources, LLC, for $14.6 million in cash.

In March 2011, the Company made the decision to sell one of its hospitals. Accordingly, this hospital has been classified as held for sale as of March 31, 2011.

The Company has classified the results of operations for OMG and one hospital held for sale as discontinued operations in the accompanying condensed consolidated statements of income for the three months ended March 31, 2011 and 2010.

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

	Three Months Ended March 31,	
	2011	**2010**
Net operating revenues	$ 20,794	$ 35,215
Loss from operations of entities sold and held for sale before income taxes	(1,900)	(2,330)
Impairment of long-lived assets of hospital held for sale	(13,095)	
Loss on sale	(5,061)	
Loss from discontinued operations, before taxes	(20,056)	(2,330)
Benefit from income taxes	7,240	841
Loss from discontinued operations, net of taxes	$ (12,816)	$ (1,489)

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

The long-lived assets as of December 31, 2010 of the physician clinic and hospital classified as held for sale during the three months ended March 31, 2011 totaled approximately $23.5 million, and are included in the accompanying condensed consolidated balance sheet in other assets, net.

The long-lived assets of the hospital held for sale, net of impairment as of March 31, 2011 are included in the accompanying condensed consolidated balance sheet in other assets, net.

6. INCOME TAXES

The total amount of unrecognized benefit that would affect the effective tax rate, if recognized, was approximately $7.2 million as of March 31, 2011. It is the Company s policy to recognize interest and penalties related to unrecognized benefits in its condensed consolidated statements of income as income tax expense. During the three months ended March 31, 2011, the Company decreased liabilities by $0.2 million and increased interest and penalties by approximately $0.1 million. A total of approximately $1.4 million of interest and penalties is included in the amount of the liability for uncertain tax positions at March 31, 2011.

The Company believes that it is reasonably possible that approximately $2.3 million of its current unrecognized tax benefit may be recognized within the next 12 months as a result of a lapse of the statute of limitations and settlements with taxing authorities.

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 Hospitals, Inc. (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. The Company is currently under examination by the Internal Revenue Service (IRS) regarding the federal tax return of Triad for the tax periods ended December 31, 2004, December 31, 2005, December 31, 2006 and 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,

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the Company is no longer subject to state income tax examinations for years prior to 2007 and federal income tax examinations with respect to Community Health Systems, Inc. federal returns for years prior to 2007. The Company s federal income tax returns for the 2007 and 2008 tax years are currently under examination by the IRS. The Company believes the results of this examination will not be material to its consolidated results of operations or consolidated financial position.

Cash paid for income taxes, net of refunds received, resulted in a net cash refund of $0.7 million for the three months ended March 31, 2011 and net cash paid of $0.9 million for the three months ended March 31, 2010.

7. GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill for the three months ended March 31, 2011, are as follows (in thousands):

Balance as of December 31, 2010 (as previously reported)	$ 4,199,905
Goodwill allocated to disposal and hospital held for sale	(4,616)
Balance as of December 31, 2010 (as adjusted)	4,195,289
Goodwill acquired as part of acquisitions during 2011	30,532
Consideration adjustments and purchase price allocation adjustments for prior year s acquisitions	(53)
Balance as of March 31, 2011	$ 4,225,768

Goodwill is 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, 2011, the hospital operations reporting unit, the home care agency operations reporting unit, and the hospital management services reporting unit had approximately $4.2 billion, $35.9 million and $33.3 million, respectively, of goodwill.

Goodwill is 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. There is 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 reporting unit s goodwill with the carrying value of the reporting unit s goodwill. The Company has selected September 30 as its annual testing date. The Company performed its last annual goodwill evaluation as of September 30, 2010, which evaluation took place during the fourth quarter of 2010. 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. The cash flow forecasts are adjusted by an appropriate discount rate based on the Company s estimate of a market participant s weighted-average cost of capital. 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, with consideration of the amount 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.

The gross carrying amount of the Company s other intangible assets subject to amortization was $62.3 million at March 31, 2011 and $60.5 million at December 31, 2010, and the net carrying amount was $36.1 million at both March 31, 2011 and December 31, 2010. The carrying amount of the Company s other intangible assets not subject to amortization was $44.8 million and $44.4 million at March 31, 2011 and December 31, 2010, 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 nine years. There are no expected residual values related to these intangible assets. Amortization expense on these intangible assets was $1.9 million and $3.3 million during the three months ended March 31, 2011 and 2010, respectively. Amortization expense on intangible assets is estimated to be $6.1 million for the remainder of 2011, $6.8 million in 2012, $4.7 million in 2013, $2.9 million in 2014, $2.5 million in 2015 and $13.1 million in 2016 and thereafter.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
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The gross carrying amount of capitalized software for internal use was approximately $383.4 million and $356.5 million at March 31, 2011 and December 31, 2010, respectively, and the net carrying amount considering accumulated amortization was approximately $217.9 million and $209.4 million at March 31, 2011 and December 31, 2010, respectively. The estimated amortization period for capitalized internal-use software is generally three years, except for capitalized costs related to significant system conversions, which is generally eight years. There is no expected residual value for capitalized internal-use software. At March 31, 2011, there was approximately $64.3 million of capitalized costs for internal-use software that is currently in the development stage and will begin amortization once the software project is complete and ready for its intended use. Amortization expense on capitalized internal-use software was $17.9 million and $9.1 million during the three months ended March 31, 2011 and 2010, respectively. Amortization expense on capitalized internal-use software is estimated to be $60.1 million for the remainder of 2011, $69.0 million in 2012, $33.4 million in 2013, $15.0 million in 2014, $14.6 million in 2015 and $25.8 million in 2016 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,	
	2011	**2010**
Numerator:		
Income from continuing operations, net of taxes	$ 91,141	$ 86,485
Less: Income from continuing operations attributable to noncontrolling interests, net of taxes	17,001	14,989
Income from continuing operations attributable to Community Health Systems, Inc. common stockholders basic and diluted	$ 74,140	$ 71,496
Loss from discontinued operations, net of taxes	$ (12,816)	$ (1,489)
Less: Loss from discontinued operations attributable to noncontrolling interests, net of taxes		
Loss from discontinued operations attributable to Community Health Systems, Inc. common stockholders basic and diluted	$ (12,816)	$ (1,489)
Denominator:		
Weighted-average number of shares outstanding basic	91,008,405	91,615,275
Effect of dilutive securities:		
Restricted stock awards	253,866	324,389
Employee stock options	865,691	879,305
Other equity based awards	8,857	17,482
Weighted-average number of shares outstanding diluted	92,136,819	92,836,451

Dilutive securities outstanding not included in the computation of earnings per share because their effect is antidilutive:		
Employee stock options	4,395,292	5,360,231

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
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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 were outstanding as of March 31, 2011, 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 September 15, 2010, the Company commenced a new open market repurchase program for up to 4,000,000 shares of the Company s common stock, not to exceed $100 million in repurchases. This program will conclude at the earliest of three years from the commencement date, when the maximum number of shares has been repurchased or when the maximum dollar amount has been expended. During the three months ended March 31, 2011, the Company did not repurchase any shares under this program. The cumulative number of shares that have been repurchased and retired under this program through March 31, 2011 is 451,272 shares at a weighted-average price of $30.81 per share.

On December 9, 2009, the Company commenced the predecessor open market repurchase program for up to 3,000,000 shares of the Company s common stock, not to exceed $100 million in repurchases. This program concluded in September 2010 when purchases approximately totaled the permitted maximum dollar amount. During the three months ended March 31, 2010, the Company did not repurchase any shares under this program. During the year ended December 31, 2010, the Company repurchased and retired 2,964,528 shares, which is the cumulative number of shares that were repurchased under this program, at a weighted-average price of $33.69 per share.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
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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 for the three-month period ended March 31, 2011 (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 Stockholders Equity
Balance, December 31, 2010	$ 387,472	$ 936	$ 1,126,751	$ (6,678)	$ (230,927)	$ 1,299,382	$ 60,913	$ 2,250,377
Comprehensive income:								
Net income	11,656					61,324	5,345	66,669
Net change in fair value of interest rate swaps					36,446			36,446
Net change in fair value of available-for-sale securities					1,069			1,069
Amortization and recognition of unrecognized pension cost components					772			772
Total comprehensive income	11,656				38,287	61,324	5,345	104,956
Distributions to noncontrolling interests, net of contributions	(8,903)						(5,567)	(5,567)
Purchase of subsidiary shares from noncontrolling interests	(225)							
Other reclassifications of noncontrolling interests	(1,971)						253	253
Adjustment to redemption value of redeemable noncontrolling interests	(2,591)		2,591					2,591
Issuance of common stock in connection with the exercise of stock options		6	18,125					18,131
Cancellation of restricted stock for tax withholdings on vested shares		(3)	(13,058)					(13,061)
Excess tax benefit from exercise of stock options			4,675					4,675
Share-based compensation		10	9,918					9,928
Balance, March 31, 2011	$ 385,438	$ 949	$ 1,149,002	$ (6,678)	$ (192,640)	$ 1,360,706	$ 60,944	$ 2,372,283

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

10. COMPREHENSIVE INCOME

The following table presents the components of comprehensive income, net of related taxes (in thousands):

	Three Months Ended March 31,	
	2011	**2010**
Net income	$ 78,325	$ 84,996
Net change in fair value of interest rate swaps	36,446	(11,357)
Net change in fair value of available-for-sale securities	1,069	155
Amortization and recognition of unrecognized pension cost components	772	4,475
Comprehensive income	116,612	78,269
Less: Comprehensive income attributable to noncontrolling interests	17,001	14,989
Comprehensive income attributable to Community Health Systems, Inc.	$ 99,611	$ 63,280

The net change in fair value of the interest rate swaps, the net change in fair value of available-for-sale securities and the amortization and recognition 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, 2011, the Company owned 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, and an equity interest of 38.0% in three hospitals in Macon, Georgia, in which HCA Inc. owns the majority interest.

Summarized combined financial information for the three months ended March 31, 2011 and 2010, for these unconsolidated entities in which the Company owns an equity interest is as follows (in thousands):

	Three Months Ended March 31,	
	2011	**2010**
Revenues	$372,591	$357,478
Operating costs and expenses	317,987	324,520
Income from continuing operations before taxes	54,584	32,932

The summarized financial information for the three months ended March 31, 2011 and 2010 was derived from the unaudited financial information provided to the Company by those unconsolidated entities.

The Company s investment in all of its unconsolidated affiliates was $425.8 million and $409.5 million at March 31, 2011 and December 31, 2010, respectively, and is included in other assets, net in the accompanying condensed consolidated balance sheets. Included in the Company s results of operations is the Company s equity in pre-tax earnings from all of its investments in unconsolidated affiliates, which was $18.1 million and $12.6 million for the three months ended March 31, 2011 and 2010, respectively.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
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12. LONG-TERM DEBT

Credit Facility and Notes

In connection with the consummation of the acquisition of Triad in July 2007, the Company s wholly-owned subsidiary CHS/Community Health Systems, Inc. (CHS) obtained approximately $7.2 billion of senior secured financing under a new credit facility (the Credit Facility) with a syndicate of financial institutions led by Credit Suisse, as administrative agent and collateral agent, and issued approximately $3.0 billion aggregate principal amount of 8.875% senior notes due 2015 (the Notes). The Company used the net proceeds of $3.0 billion from the Notes offering and the net proceeds of approximately $6.1 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. Specifically, the Company repaid its outstanding debt under the previously outstanding credit facility, the 6.50% senior subordinated notes due 2012 and certain of Triad s existing indebtedness.

The Credit Facility consisted of an approximately $6.1 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 six 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 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. The Credit Facility requires quarterly amortization payments of each term loan facility equal to 0.25% of the outstanding amount of the term loans. On November 5, 2010, CHS entered into an amendment and restatement of its existing Credit Facility. The amendment extends by two and a half years, until January 25, 2017, the maturity date of $1.5 billion of the existing term loans under the Credit Facility and increases the pricing on these term loans to LIBOR plus 350 basis points. If more than $50 million of the Notes remain outstanding on April 15, 2015, without having been refinanced, then the maturity date for the extended term loans will be accelerated to April 15, 2015. The maturity date of the balance of the term loans of approximately $4.5 billion remains unchanged at July 25, 2014. The amendment also increases CHS s ability to issue additional indebtedness under the uncommitted incremental facility to $1.0 billion from $600 million, permits CHS to issue Term A term loans under the incremental facility, and provides up to $2.0 billion of borrowing capacity from receivable transactions, an increase of $0.5 billion, of which $1.7 billion would be required to be used for repayment of existing term loans.

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.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
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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 (3) the adjusted London Interbank Offered Rate (LIBOR) on such day for a three-month interest period commencing on the second business day after such day plus 1%, or (b) a reserve adjusted LIBOR for dollars (Eurodollar rate) (as defined). The applicable percentage for Alternate Base Rate loans is 1.25% for term loans due 2014 and is 2.25% for term loans due 2017. The applicable percentage for Eurodollar rate loans is 2.25% for term loans due 2014 and 3.5% for term loans due 2017. The applicable percentage for revolving loans is 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 was 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 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 any 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 the Company s and its subsidiaries ability, subject to certain exceptions, 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 approximately $3.0 billion. The 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 a 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.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
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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%

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 Applicable 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 the Exchange Notes unless the context provides otherwise.

As of March 31, 2011, the availability for additional borrowings under the Credit Facility was $750 million pursuant to the revolving credit facility, of which $81.9 million was set aside for outstanding letters of credit. CHS has the ability to amend the Credit Facility to provide for one or more tranches of term loans in an aggregate principal amount of $1.0 billion, which CHS has not yet accessed. 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. As of March 31, 2011, the weighted-average interest rate under the Credit Facility, excluding swaps, was 3.3%.

The Company paid interest of $226.1 million and $220.2 million on borrowings during the three months ended March 31, 2011 and 2010, respectively.

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments has been estimated by the Company using available market information as of March 31, 2011 and December 31, 2010, 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):

	March 31, 2011		December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Cash and cash equivalents	$ 270,716	$ 270,716	$ 299,169	$ 299,169
Available-for-sale securities	32,733	32,733	31,570	31,570
Trading securities	39,052	39,052	35,092	35,092
Liabilities:				
Credit Facility	5,986,789	5,945,598	5,999,337	5,882,124
Senior notes	2,784,331	2,930,508	2,784,331	2,923,548

Other debt	39,656	39,656	36,122	36,122

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

Available-for-sale securities. Estimated fair value is based on closing price as quoted in public markets.

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Trading securities. Estimated fair value is based on closing price as quoted in public markets.

Credit Facility. Estimated fair value is based on information from the Company s bankers regarding relevant pricing for trading activity among the Company s lending institutions.

Senior notes. Estimated fair value is based on the average bid and ask price as quoted by the bank who served as underwriter in the sale of these notes.

Other debt. The carrying amount of all other debt approximates fair value due to the nature of these obligations.

Interest rate swaps. The fair value of interest rate swap agreements is the amount at which they could be settled, based on estimates calculated by the Company using a discounted cash flow analysis based on observable market inputs and validated by comparison to estimates obtained from the counterparty. 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 or credit risk, the Company has considered the impact of any netting features included in the agreements.

The Company assesses the effectiveness of its hedge instruments on a quarterly basis. For the three months ended March 31, 2011 and 2010, the Company completed an assessment of the cash flow hedge instruments and determined the hedges to be highly effective. The Company has also determined that the ineffective portion of the hedges do not have a material effect on the Company s consolidated financial position, operations or cash flows. The counterparties to the interest rate swap agreements expose the Company to credit risk in the event of nonperformance. However, at March 31, 2011, each swap agreement entered into by the Company was in a net liability position so that the Company would be required to make the net settlement payments to the counterparties; the Company does not anticipate nonperformance by those counterparties. The Company does not hold or issue derivative financial instruments for trading purposes.

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Interest rate swaps consisted of the following at March 31, 2011:

Swap #	Notional Amount (in 000 s)	Fixed Interest Rate	Termination Date	Fair Value (in 000 s)
1	$300,000	5.1140%	August 8, 2011	$ 5,095
2	100,000	4.7185%	August 19, 2011	1,682
3	100,000	4.7040%	August 19, 2011	1,689
4	100,000	4.6250%	August 19, 2011	1,646
5	200,000	4.9300%	August 30, 2011	3,790
6	200,000	3.0920%	September 18, 2011	2,527
7	100,000	3.0230%	October 23, 2011	1,444
8	200,000	4.4815%	October 26, 2011	4,599
9	200,000	4.0840%	December 3, 2011	4,815
10	100,000	3.8470%	January 4, 2012	2,477
11	100,000	3.8510%	January 4, 2012	2,490
12	100,000	3.8560%	January 4, 2012	2,493
13	200,000	3.7260%	January 8, 2012	4,859
14	200,000	3.5065%	January 16, 2012	4,601
15	250,000	5.0185%	May 30, 2012	12,306
16	150,000	5.0250%	May 30, 2012	7,395
17	200,000	4.6845%	September 11, 2012	11,056
18	100,000	3.3520%	October 23, 2012	3,846
19	125,000	4.3745%	November 23, 2012	6,793
20	75,000	4.3800%	November 23, 2012	4,278
21	150,000	5.0200%	November 30, 2012	10,260
22	200,000	2.2420%	February 28, 2013	4,867
23	100,000	5.0230%	May 30, 2013	8,478
24	300,000	5.2420%	August 6, 2013	28,369
25	100,000	5.0380%	August 30, 2013	9,144
26	50,000	3.5860%	October 23, 2013	2,903
27	50,000	3.5240%	October 23, 2013	2,825
28	100,000	5.0500%	November 30, 2013	9,729
29	200,000	2.0700%	December 19, 2013	3,697
30	100,000	5.2310%	July 25, 2014	11,507
31	100,000	5.2310%	July 25, 2014	11,507
32	200,000	5.1600%	July 25, 2014	22,554
33	75,000	5.0405%	July 25, 2014	8,158
34	125,000	5.0215%	July 25, 2014	13,519
35	100,000	2.6210%	July 25, 2014	3,046
36	100,000	3.1100%	July 25, 2014	4,636
37	100,000	3.2580%	July 25, 2014	5,116
38	200,000	2.6930%	October 26, 2014	3,680 (1)
39	300,000	3.4470%	August 8, 2016	10,636 (2)
40	200,000	3.4285%	August 19, 2016	6,666 (3)
41	100,000	3.4010%	August 19, 2016	3,203 (4)
42	200,000	3.5000%	August 30, 2016	7,142 (5)

43	100,000	3.0050%	November 30, 2016	1,967

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

(1) This interest rate swap becomes effective October 26, 2011, concurrent with the termination of swap #8.

(2) This interest rate swap becomes effective August 8, 2011, concurrent with the termination of swap #1.

(3) This interest rate swap becomes effective August 19, 2011, concurrent with the termination of swap #2 and #4.

(4) This interest rate swap becomes effective August 19, 2011, concurrent with the termination of swap #3.