

# Community Health Systems, Inc.



Notice of 2013 Annual  
Meeting of Stockholders  
and Proxy Statement

To be Held  
Tuesday, May 21, 2013  
8:00 AM (Eastern Daylight Time)  
St. Regis Hotel  
5<sup>th</sup> Avenue at 55<sup>th</sup> Street  
New York, New York



CHS



GHS

**Financial Performance Highlights**  
For the Year Ended December 31, 2012

	4.0%		.0%
	. %		7.7%
	3.2%		3.1%
	10.2%	**	13.2%
*	,	/	,
**	(	)	)

,

( " )

10- w 21, 2013, 27, 2013

-

21, 2013

w

.







Wayne T. Smith  
Chairman of the Board

Director since 1997

M . . M .  
1 7 w , . H . H 30 w



H. Mitchell Watson, Jr.  
Compensation Committee Chair

Director since 2004

M . . M .  
M M . H H w  
M , .







**Total Shareholder Return**  
 From December 31, 2011 to December 31, 2012

TSR comparison group as defined in Current Report on  
 Form 8-K filed by the Company on August 6, 2012

Company Name	Price	Price	TSR	Including	TSR
	31-Dec-11	31-Dec-12	YTD	Dividend Implied Price	YTD
Community Health Systems, Inc.	\$ 17.45	\$ 30.74	76.2%	\$ 30.99	77.6%
H H	\$ 21.4	\$ 30.17	3.4%	\$ 3.7	.%
H H	\$ 20.2	\$ 32.7	.2%	\$ 32.7	.2%
H M	\$ 7.37	\$ .32	2.9%	\$ .32	2.9%
H H	\$ 3.1	\$ 4.3	24.4%	\$ 4.3	24.4%
H H	\$ 10.22	\$ 12.2	1.9%	\$ 12.2	1.9%
H H	\$ 17.72	\$ 21.11	1.1%	\$ 21.11	1.1%
H H	\$ 37.1	\$ 37.7	1.6%	\$ 37.7	1.6%
H H	\$ 11.77	\$ 10.2	-1.3%	\$ 11.2	-3.0%
7			4.9%		
M			24.4%		
2			10.4%		

The company ranked first for Total Shareholder Return among the selected healthcare companies that comprise the TSR comparison group.



The image features a complex arrangement of thin, black lines on a white background. These lines include straight segments, curved paths, and overlapping shapes that create a sense of depth and movement. A prominent vertical line runs down the left side, with several other lines intersecting it and extending across the page. The overall composition is abstract and minimalist.

CHS



COMMUNITY HEALTH SYSTEMS, INC.

## NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

Tuesday, May 21, 2013

8:00 a.m. (Eastern Daylight Time)

St. Regis Hotel, 5 Avenue at 55<sup>th</sup> Street, New York, New York 10022

The Annual Meeting of Stockholders of Community Health Systems, Inc. will be held on Tuesday, May 21, 2013 at 8:00 a.m. (Eastern Daylight Time) at The St. Regis Hotel, 5th Avenue at 55th Street, New York, New York 10022, to consider and act upon the following matters:

1. To elect eight (8) directors;
2. To hold an advisory vote on executive compensation;
3. To approve the Community Health Systems, Inc. Amended and Restated 2009 Stock Option Award Plan;
4. To ratify the appointment of Deloitte & Touche LLP as our independent n2 699.2 I95(to17 705.48lm .f6222(Awar

ANNUAL MEETING OF STOCKHOLDERS  
OF  
COMMUNITY HEALTH SYSTEMS, INC.  
PROXY STATEMENT

Table of Contents

	<u>Page</u>
Introduction .....	1
General Information .....	5
Members of the Board of Directors .....	14
Security Ownership of Certain Beneficial Owners and Management .....	18
Section 16(a) Beneficial Ownership Reporting Compliance .....	20
Relationships and Certain Transactions between Community Health Systems, Inc. and its Officers, Directors and 5% Beneficial Owners and their Family Members .....	20
Information About Our Executive Officers .....	21
Proposal 1 — Election of Directors .....	23
Proposal 2 — Advisory Vote on Executive Compensation .....	23
Executive Compensation .....	26
Compensation Discussion and Analysis .....	26
Summary Compensation Table .....	47
Grants of Plan-Based Awards .....	49
Outstanding Equity Awards at Fiscal Year-End .....	50
Option Exercises and Stock Vested .....	51
Pension Benefits .....	52
Non-qualified Deferred Compensation .....	53
Potential Payments upon Termination or Change in Control .....	54
Proposal 3 — Approval of the Community Health Systems, Inc. 2009 Stock Option and Award Plan, Amended and Restated as of March 20, 2013 .....	56
Proposal 4 — Ratification of the Appointment of IndeMotems, rf5ortingiandAwardCoc.....	

ANNUAL MEETING OF STOCKHOLDERS  
OF  
COMMUNITY HEALTH SYSTEMS, INC.  
4000 Meridian Boulevard

How many shares of Common Stock may vote at the Meeting?

As of March 22, 2013, there were 93,941,118 shares of Common Stock outstanding and entitled to vote. Each share of Common Stock is entitled to one vote on each matter presented.

What is the difference between a “stockholder of record” and a “street name” holder?

These terms describe how your shares are held. If your shares are registered directly in your name with Registrar and Transfer Company, the Company’s transfer agent, you are a “stockholder of record.” If your shares are held in the name of a brokerage, bank, trust or other nominee as a custodian, you are a “street name” holder.

How do I vote my shares?

If you are a “stockholder of record”, you can vote your proxy by mailing in the enclosed proxy card.

Please refer to the specific instructions set forth on the enclosed proxy card.

If you hold your shares in “street name”, your broker, bank, trustee or other nominee will provide you with materials and instructions for voting your shares, which may allow you to use the internet or a toll free telephone number to vote your shares.

Can I vote my shares in person at the Meeting?

If you are a “stockholder of record”, you may vote your shares in person at the Meeting. If you hold your shares in “street name,” you must obtain a proxy from your broker, bank, trustee or other nominee, giving you the right to vote the shares at the Meeting.



- FOR the approval of the Community Health Systems, Inc. 2009 Stock Option and Award Plan, amended and restated as of March 20, 2013 (Proposal 3).
- FOR the ratification of the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm (independent auditors) for the fiscal year ending December 31, 2013 (Proposal 4).
- In the discretion of the named proxies regarding any other matters properly presented for a vote at the Meeting.

If you are a beneficial owner of shares held in street name and do not provide the broker, bank, trustee or other nominee that holds your shares with specific voting instructions, under the rules of the New York Stock Exchange ("NYSE"), the broker, bank, trustee or other nominee that holds your shares may generally vote on "routine" matters without instructions from you. We expect Proposal 4 (the ratification of the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2013) to be the only proposal that is considered a "routine" matter. Accordingly, if your shares are held through a broker, bank, trust or other nominee, that person will have discretion to vote your shares on only that matter if you fail to provide instructions.

On the other hand, your broker, bank, trustee or other nominee is not entitled to vote your shares on certain "non-routine" matters if it does not receive instructions from you on how to vote. The election of directors (Proposal 1), the approval of named executive officer compensation (Proposal 2) and the proposal to approve the amended and restated 2009 Stock Option and Award Plan (Proposal 3) will be considered "non-routine" matters. Thus, if you do not give your broker, bank, trustee or other nominee specific instructions on how to vote your shares with respect to those proposals, your broker, bank, trustee or other nominee will inform the Inspectors of Election that it does not have the authority to vote on those matters with respect to your shares. This is generally referred to as a "broker non-vote." A broker non-vote may also occur if your broker, bank, trustee or other nominee fails to vote your shares for any reason.

Please note that your broker, bank, trustee or other nominee does not have the discretion to vote shares on your behalf with respect to the election of directors and the approval of executive officer

Can I change my vote after I have mailed my proxy card?

If you are a stockholder of record, you may revoke your proxy by doing one of the following:

- By sending a written notice of revocation to the Secretary of the Company that must be received ,Tf 10 0 09proxyrevoke yourl09proxy , -281(083(statten)-289(be)]TJ 0 -voke)-2790(proxy)-280(by)-279

request, the Company will reimburse brokers, banks, trustees or their other nominees for reasonable expenses incurred by them in forwarding proxy materials to beneficial owners of shares of the Company's Common Stock. In addition, certain of our directors and officers, as well as employees of our management company, will aid in the solicitation of proxies. These individuals will receive no compensation in addition to their regular compensation.

Is this Proxy Statement the only way that proxies are being solicited?

No. As stated above, in addition to mailing these proxy materials, our proxy solicitor, Georgeson Inc., and certain of our directors and officers, as well as employees of our management company, may solicit proxies by telephone, e-mail or personal contact. These directors, officers and employees will not be specifically compensated for doing so.

If you have any further questions about voting your shares or attending the Meeting, including information regarding directions to the Meeting, please call our Executive Vice President,



The Board of Directors is responsible for broad corporate policy and the overall performance of the Company. Members of the Board are kept informed of the Company's business by various documents sent to them before each meeting and oral reports made to them during these meetings by the Company's Chairman, President and Chief Executive Officer and other corporate executives. They are advised of actions taken by the various committees of the Board of Directors and are invited to, and frequently do, attend all committee meetings. Directors have access to all of the Company's books,

management process that monitors key business risks facing the Company. The Audit and Compliance Committee also oversees the delegation of specific risk areas among the various other Board committees, consistent with the committees' charters and responsibilities.

The Company has determined that any risks arising from its compensation programs and policies are not reasonably likely to have a material adverse effect on the Company. The Company's compensation programs and policies mitigate risk by combining performance-based, long-term compensation elements with payouts that are highly correlated to the value delivered to stockholders. The combination of performance measures for annual bonuses and the equity compensation programs, share ownership and retention guidelines for executive officers, as well as the multi-year vesting schedules for equity awards encourage employees to maintain both a short-term and a long-term vision with respect to Company performance.

Management provides regular updates throughout the year to the respective committees regarding the management of the risks they oversee, and each of these committees discuss those risks with the full Board at either regular meetings of the Board or at committee meetings in which all Board members participate. At least once every year, the Audit and Compliance Committee reviews the allocation of risk responsibility among the Board's committees and implements any changes it deems appropriate. In recent years, the Audit and Compliance Committee, together with the full Board of Directors, has taken a more robust approach to and level of involvement in the oversight of risk issue identification and assessment at the Company, as well as a comprehensive understanding of the mitigation strategies employed with respect to each of those risks.

In addition to the reports from the committees, the Board receives presentations throughout the year from various department and business unit leaders that include discussions of possible risks. At each Board meeting, the Chair and CEO addresses, in a director-only session, matters of particular importance or concern, including any areas of risk that require attention from the Board. Additionally, through dedicated sessions focusing entirely on corporate strategy, the full Board reviews in detail the Company's short and long-term strategies, including consideration of risks facing the Company and their potential impact.

We believe that our approach to risk oversight, as described above, optimizes our ability to assess inter-relationships among the various risks, make informed cost-benefit decisions, and approach emerging risks in a proactive manner for the Company. We also believe that our risk structure complements our current Board leadership structure, as it allows our independent directors, through the three fully independent Board committees, to exercise effective oversight of the actions of management, led by Mr. Smith as Chair and CEO, in identifying risks and implementing effective risk management policies and controls.

What are the standing committees of the Board of Directors?

Our Board of Directors has three standing committees: Audit and Compliance, Compensation, and Governance and Nominating. Each of these committees is comprised solely of independent directors, and each independent director meets the additional criteria for committee membership, as set forth in the applicable committee charter. Each standing committee operates pursuant to a committee charter. The current composition of our Board's standing committees is as follows:

<u>Audit and Compliance Committee</u>	<u>Compensation Committee</u>	<u>Governance and Nominating Committee</u>
John A. Clerico, Chair James S. Ely III John A. Fry	H. Mitchell Watson, Jr., Chair John A. Clerico Julia B. North	Julia B. North, Chair John A. Fry William Norris Jennings, M.D.

How many times did the Board of Directors and its committees meet in 2012? What was the attendance by the members? What are the duties of the Board's committees?

Directors are encouraged to attend our annual meeting of stockholders; all eight (8) of our directors were present at our 2012 Annual Meeting of Stockholders. The annual meeting of the Board of Directors followed immediately after the 2012 Annual Meeting of Stockholders.

In 2012, the Board of Directors held five (5) regular meetings and three (3) special meetings. Each director attended at least 75% of the Board meetings and meetings of the committees of the Board on which he/she served.

The Audit and Compliance Committee held seven (7) meetings during 2012. A number of the meetings held by the Audit and Compliance Committee also included the other independent members of the Board of Directors. As set forth in its charter, the Audit and Compliance Committee's responsibility is to provide advice and counsel to management regarding, and to assist the Board of Directors in its oversight of: (i) the integrity of the Company's financial statements; (ii) the Company's compliance with legal and regulatory requirements; (iii) the independent registered public accounting firm's qualifications and independence; and (iv) the performance of the Company's internal audit function and its independent registered public accounting firm. The Audit and Compliance Committee report is incorporated herein by reference to Part III of the Company's Annual Report on Form 10-K under "Item 10. Directors, Executive Officers and Corporate Governance."

The Compensation Committee held four (4) meetings during 2012. The primary purpose of the Compensation Committee is to: (i) assist the Board of Directors in discharging its responsibilities relating to compensation of the Company's executives; (ii) approve awards and grants of equity-based compensation arrangements to directors, employees, and others pursuant to the Company's stock option and award plans; (iii) administer the Community Health Systems, Inc. 2004 Employee Performance Incentive Plan with regard to the employees to whom Section 162(m) of the Internal Revenue Code (the "IRC") applies; (iv) assist the Board of Directors by making recommendations regarding compensation programs for directors; and (v) produce an annual report on executive compensation for inclusion in the Company's Proxy Statement in accordance with applicable rules and regulations under the Exchange Act. The Compensation Committee's report is set forth later in this Proxy Statement.

As set forth in its charter, the primary responsibilities of the Compensation Committee are to oversee the elements of the compensation arrangements available to the Company and its subsidiaries that are used to compensate the Company's executive officers, and in particular, the Chief Executive Officer. The Committee also approves the goals and objectives relevant to the compensation of the Chief Executive Officer and the other executive officers and determines whether targets have been attained in connection with target-based compensation awards and equity grants.

Pursuant to its charter, the Compensation Committee has authority to engage its own executive compensation consultants and legal advisors. Since 2005, Mercer Human Resources Consulting has served as the independent executive compensation consultant to the Compensation Committee. Mercer Human Resources Consulting also provides limited consulting services to management; for 2012, these services were limited to conducting actuarial analyses of the Company's Supplemental Executive Retirement Plan. In 2012, the total amount paid to Mercer Human Resources Consulting for the services provided to management was approximately \$127,000. Mercer Human Resources Consulting has entered into separate engagement letters with the Compensation Committee and management for the respective services rendered to each group. The Compensation Committee has assessed Mercer Human Resources Consulting's independence pursuant to the independence factors set forth for compensation consultants in the NYSE listing standards and has determined that no conflicts of interest exist.

The Governance and Nominating Committee met two (2) times during 2012. The primary purpose of the Governance and Nominating Committee is to (i) recommend to the Board of Directors a set of corporate governance guidelines applicable to the Company; (ii) review at least annually the Company's Governance Guidelines and make any recommended changes, additions or modifications; (iii) identify individuals qualified to become Board members and to select, or recommend that the Board of Directors select, the director nominees for the next annual meeting of stockholders; and (iv) assist the Board by making recommendations regarding compensation for directors.

Who are the Company's audit committee financial experts?

Our Board has determined that all three of the members of our Audit and Compliance Committee are "audit committee financial experts" as defined by the Exchange Act — John A. Clerico, James S. Ely III, and John A. Fry.

Does the Company have a code of conduct?

The Company has an internal compliance program, the cornerstone of which is our Code of Conduct. Our Code of Conduct has been adopted and implemented throughout our organization and is applicable to all members of the Board of Directors and our officers, as well as employees of our subsidiaries. A variation of this Code of Conduct has been in effect at our Company since 1997.

Where can I obtain a copy of the Company's Board of Directors' organizational documents?

Copies of the current version of our Governance Guidelines, including our independence standards, along with current versions of our Code of Conduct and Board committee charters are posted on the Investor Relations — Corporate Governance section of our internet website at [www.chs.net/investor/corporate\\_governance.html](http://www.chs.net/investor/corporate_governance.html). These items are also available in print to any stockholder who requests them by writing to Community Health Systems, Inc., Investor Relations, at 4000 Meridian Boulevard, Franklin, TN 37067.

How are the Company's Directors compensated?

Our Board of Directors has approved a compensation program for independent directors, which consists of both cash and equity-based compensation. The Board compensation is reviewed, and adjusted if needed, on the same cycle as is our executive compensation. For 2012, the total cash and long-term incentive compensation package was set at \$240,000 per independent director. The independent directors received a cash stipend of \$100,000, which was paid in quarterly installments. Each independent director received a grant of a number of restricted stock units based on the portion of his or her annual compensation that is allocated to equity. For 2012, this value-based award amount was \$140,000, or 6,645 restricted stock units per independent director and was awarded in February, at the same time management's long-term incentive awards were granted. Rounding to the nearest whole number of restricted stock units resulted in an actual award value of \$140,010 per independent director. Any independent directors who join our Board of Directors during the first six months of the year, will receive the same number of restricted stock units as the other independent directors as stock-based compensation; however, if an independent director's appointment occurs during the last six months of the year such independent director will receive no stock-based compensation until the following year. These restricted stock unit awards vest in equal one-third increments on each of the first three anniversaries of the award date for so long as the director is a member of the Board. If an independent director's service as a member of the Board terminates as a result of death or disability (other than "for cause"), all unvested restricted stock units will vest as of the date of termination. No separate meeting attendance fees are paid to the directors. All directors are reimbursed for their out-of-



pocket expenses arising from attendance at meetings of the Board and its committees. The additional annual stipends for the three committee chairs were as follows: Audit and Compliance Committee: \$15,000; Compensation Committee: \$10,000; and Governance and Nominating Committee: \$10,000.

For 2013, the Board of Directors' compensation package was reviewed by the Compensation Committee's compensation consultant, Mercer Human Resources Consulting, and the Governance and Nominating Committee recommended an increase of \$30,000 for the independent directors' total cash and long-term incentive compensation package, to \$270,000, including an increase of \$20,000 for the cash component of the compensation package, to \$120,000 in cash, and an increase of \$10,000 for the portion of the annual compensation package allocated to equity, to \$150,000, as well as an increase of \$5,000 to the annual stipend for the chair of the Audit and Compliance Committee, to \$20,000 and an increase of \$2,000 to the annual stipend for the chair of the Compensation Committee, to \$12,000. These changes were adopted by the Board of Directors. No change was made to the Governance and Nominating Committee chair stipend amount.

Management directors do not receive any additional compensation for their service on the Board.

#### Director Compensation

The following table summarizes the aggregate fees earned or paid and the value of equity-based awards earned by our non-management directors in 2012:

<u>Name</u>	<u>Fees Earned or Paid in Cash (\$)</u>	<u>Restricted Stock Awards (\$)<sup>(1)</sup></u>	<u>Total Compensation (\$)</u>
John A. Clerico . . . . .	115,000	140,010	255,010
James S. Ely III . . . . .	100,000	140,010	240,010
John A. Fry . . . . .	100,000	140,010	240,010
William Norris Jennings, M.D . . . .	100,000	140,010	240,010
Julia B. North . . . . .	110,000	140,010	250,010
H. Mitchell Watson, Jr . . . . .	110,000	140,010	250,010

(1) This amount reflects the grant date fair value of director compensation earned in the form of restricted stock unit awards. This grant is based on the portion of his or her annual compensation that is allocated to equity. For 2012, this value based award amount was for 6,645 restricted stock units on February 16, 2012 (\$21.07 per share). The grant date fair value was computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718 ("ASC 718").

The Governance and Nominating Committee, which is responsible for making independent compensation recommendations for our independent directors to the Board of Directors, evaluates the non-management director compensation package annually, but has typically only made changes to independent director compensation every other year.

How are Directors nominated? What diversity considerations are evaluated in nominating Directors?

Nomination Process. The Governance and Nominating Committee has responsibility for the director nomination process.

The Governance and Nominating Committee believes that the minimum qualifications that must be

include (i) a reputation for the highest ethical and moral standards, (ii) good judgment, (iii) a positive record of achievement, (iv) if on other boards, an excellent reputation for preparation, attendance, participation, interest and initiative, (v) business knowledge and experience relevant to the Company and (vi) a willingness to devote sufficient time to carrying out his or her duties and responsibilities effectively.

The qualities and skills necessary in a director nominee are governed by the specific needs of the Board at the time the Governance and Nominating Committee determines to nominate a candidate for director. The specific requirements of the Board will be determined by the Governance and Nominating Committee and will be and specific the Govrno0.535 0dNominatC-272.5's3.1(The)7(NnTc [27exismine)-29.5t.53egss Committee and will be specalsoheaccourrying8. deterChairma.6(ini8.)-Ptividarrying6mmitteere tO9.5(er's3.1ementvie Committee and to ,illingness2.5(a)-8ector. The8(screenines)-29hetheand NominatChairBoard at



forth as to each matter such stockholder proposes to bring before such annual meeting (a) a brief description of the business desired to be brought before such annual meeting and the reasons for

John A. Clerico  
Audit and Compliance Committee Chair  
Compensation Committee Member

Director Since 2003

Since 2000, when Mr. Clerico co-founded ChartMark Investments, Inc., a registered investment advisor providing portfolio management, investment consulting and financial planning solutions to individuals, small businesses and institutions, he has served as its chairman and as a registered financial advisor. From February 2006 until January 2012, Mr. Clerico served on the board of directors of Global Industries, Ltd., a provider of solutions for offshore oil and gas construction, engineering, project management and support services, with prior service on its audit, compensation and finance (chair) committees. In October 2008, Mr. Clerico resigned from these committees upon his appointment as Chairman of the Board and Interim Chief Executive Officer. He stepped down as Global Industries, Ltd.'s Interim Chief Executive Officer in March 2010 but continued to serve as Chairman of its Board through December 2011, when Global Industries, Ltd. was acquired by Technip. From 1992 to 2000, he served as an Executive Vice President and Chief Financial Officer and a director of Praxair, Inc., a supplier of industrial gases and coatings and related services and technologies. From 1983 until its spin-off of Praxair, Inc. in 1992, he served as an executive officer in various financial and accounting areas of Union Carbide Corporation. Mr. Clerico currently serves on the boards of directors of (i) Educational Development Corporation, a trade publisher and distributor of children's books, and serves on its audit and executive committees; and (ii) MacroSolve, Inc., a provider of consulting services related to the development, marketing and financing of mobile app businesses that also focuses on intellectual property licensing and enforcement of its mobile app market development patent. He serves on its audit (chair) and compensation committees.

Mr. Clerico brings executive leadership experience and skills to the Board of Directors. He has held the positions of Chairman of the Board, Chief Executive Officer, Co-Chief Operating Officer, Chief Financial Officer and Treasurer at various points of his career. His extensive experience in industries (chemical and industrial gases) with a high risk profile give him a unique perspective on risk oversight. His nine years of experience guiding our Board's Audit and Compliance Committee and serving as one of its "audit committee financial experts" lend important continuity to the Board's financial, audit, and compliance oversight functions. Finally, having formed and operated his own investment company, Mr. Clerico also brings the investor perspective to the Board's review activities.

John A. Fry  
Audit and Compliance Committee Member  
Governance and Nominating Committee Member

Director Since 2004

Mr. Fry has served as President of Drexel University in Philadelphia, Pennsylvania since August 2010.

She currently serves on the boards of directors of (i) Acuity Brands, Inc., a provider of lighting fixtures and related products and services, and serves on its compensation committee and governance committee, with previous service on its audit committee; and (ii) Lumos Networks Corp., a fiber-based telecommunications service provider, and serves on its compensation committee (chair), and, from 2007 until its spin-off of Lumos Networks Corp. in 2011, she served on the board of directors of NTELOS Holdings Corp., a provider of wireless and wireline communications services, and served on its compensation committee and nominating and governance committee (chair). Ms. North also previously served on the boards of directors of Simtrol, Inc., a developer of enterprise-class software solutions, where she also served on its audit committee and compensation committee; Winn-Dixie, Inc., a food retailer, where she also served on its compensation committee (chair), nominating and governance committee (chair), and audit committee; and MAPICS, Inc., a business application software and consulting company, where she also served on its compensation committee.

Ms. North has extensive experience serving on boards of directors and brings those experiences to her service on the Board's Compensation Committee and Governance and Nominating Committee. The breadth of the industries in which she has worked provides risk assessment perspectives that are different from the Company's operations. Her operational experience in customer service, marketing, technical network design, and strategic planning bring those skill sets, not represented by other Board members, to the Board's functions.

Wayne T. Smith  
Chairman of the Board

Director Since 1997

Mr. Smith is our Chairman, President and Chief Executive Officer. Mr. Smith joined us in January 1997 as President. In April 1997, we also named him our Chief Executive Officer and a member of the Board of Directors. In February 2001, he was elected Chairman of our Board of Directors. Prior to joining us, Mr. Smith spent 23 years at Humana Inc., most recently as President and Chief Operating





- 
- (1) For purposes of this table, a person or group of persons is deemed to have “beneficial ownership” of any shares of Common Stock when such person or persons have the right to

- (9) Includes 0 shares subject to options which are currently exercisable or exercisable within 60 days of March 22, 2013.
- (10) Includes 15,000 shares subject to options which are currently exercisable or exercisable within 60 days of March 22, 2013.
- (11) Includes 0 shares subject to options which are currently exercisable or exercisable within 60 days of March 22, 2013.
- (12) Includes 10,000 shares subject to options which are currently exercisable or exercisable within 60 days of March 22, 2013.
- (13) Includes 1,046,666 shares subject to options which are currently exercisable or exercisable within 60 days of March 22, 2013.
- (14) Includes 5,000 shares subject to options which are currently exercisable or exercisable within 60 days of March 22, 2013.
- (15) Includes 89,334 shares subject to options which are currently exercisable or exercisable within 60 days of March 22, 2013.
- (16) Includes 171,334 shares subject to options which are currently exercisable or exercisable within 60 days of March 22, 2013.
- (17) Includes 169,334 shares subject to options which are currently exercisable or exercisable within 60 days of March 22, 2013.
- (18) Includes 2,236,670 shares subject to options which are currently exercisable or exercisable within 60 days of March 22, 2013.

\* Less than 1%

#### SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our executive officers, directors and persons who beneficially own greater than 10% of a registered class of our equity securities to file reports of ownership and changes in ownership with the SEC. These persons are required by regulation to furnish us with copies of all Section 16(a) reports that they file. Based solely on our review of copies of these reports that we have received and on representations from all reporting persons who are our directors and executive officers that no Form 5 report was required to be filed by them, we believe that during 2012 all of our officers, directors and greater than 10% beneficial owners complied with all applicable Section 16(a) filing requirements, except that an administrative error led to the late filing of a Form 4 for each of our independent directors, John A. Clerico, James S. Ely III, John A. Fry, William N. Jennings, Julia B. North and H. Mitchell Watson, reporting the vesting of previously-awarded Restricted Stock Units.

#### RELATIONSHIPS AND CERTAIN TRANSACTIONS BETWEEN THE COMPANY AND ITS OFFICERS, DIRECTORS AND 5% BENEFICIAL OWNERS AND THEIR FAMILY MEMBERS

The Company employs Brad Cash, son of W. Larry Cash. In 2012, Brad Cash received a base salary of \$275,009 and earned a bonus of \$134,204 for 2012 to be paid in 2013. In 2012, he also received grants of restricted stock awards and an option award with the grant date fair value of \$86,765 and \$21,070, respectively, while serving as the divisional financial executive for one of our corporate office division presidents. The Company believes that the compensation paid to Brad Cash was on terms as favorable to the Company as could have been maintained with an unrelated third party.

In 2005, the Company's subsidiary CHS/Community Health Systems, Inc. established the Community Health Systems Foundation, a tax exempt charitable foundation. One of the purposes of the foundation is to match charitable contributions made by the Company's directors and officers up to an aggregate maximum per year of \$25,000 per individual.

There were no loans outstanding during 2012 from the Company to any of its directors, nominees for director, executive officer, or any beneficial owner of 5% or more of our equity securities, or any family member of any of the foregoing.

The Company applies the following policy and procedure with respect to related person transactions. All such transactions are first referred to our General Counsel to determine if they are exempted or included under the Company's written policy. If they are included, the transaction must be reviewed by the Audit and Compliance Committee to consider and determine whether the benefits of the relationship outweigh the potential conflicts inherent in such relationships and whether the transaction is otherwise in compliance with the Company's Code of Conduct and other policies, including for example, the independence standards of the Governance Guidelines of the Board of Directors. Related person transactions are reviewed not less frequently than annually if they are to continue beyond the year in which the transaction is initiated. "Related person transaction" means those financial relationships involving the Company and any of its subsidiaries, on the one hand, and any person who is a director (or nominee) or an executive officer, any immediate family member of any of the foregoing persons, any person who is a direct or beneficial owner of 5% or more of the Company's Common Stock (our only class of voting securities), or is employed by or in a principal position with such an owner, on the other hand. Exempted from related person transactions are those transactions in which the consideration in the transaction during a fiscal year is expected to be less than \$120,000 (aggregating any transactions conducted as a series of related transactions).

#### INFORMATION ABOUT OUR EXECUTIVE OFFICERS

The following sets forth information regarding our executive officers as of March 22, 2013. Each of our executive officers holds an identical position with CHS/Community Health Systems, Inc., and Community Health Systems Professional Services Corporation, two of our wholly-owned subsidiaries:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Wayne T. Smith . . . . .	67	Chairman of the Board, President and Chief Executive Officer and Class III Director
W. Larry Cash . . . . .	64	Executive Vice President, Chief Financial Officer and Director
William S. Hussey . . .	64	Division President — Division Operations
David L. Miller . . . . .	64	Division President — Division Operations
Thomas D. Miller . . . .	55	Division President — Division Operations
Michael T. Portacci . .	54	Division President — Division Operations
Martin D. Smith . . . . .	45	Division President — Division Operations
Rachel A. Seifert . . . .	53	Executive Vice President, Secretary and General Counsel
Kevin J. Hammons . . .	47	Vice President and Chief Accounting Officer

Wayne T. Smith — The principal occupation and employment experience of Mr. Smith during the last five years is set forth on page 17 above.

W. Larry Cash — The principal occupation and employment experience of Mr. Cash during the last five years is set forth on page 14 above.

William S. Hussey serves as Division President — Division IV Operations. Mr. Hussey joined us in June 2001 as a Group Assistant Vice President. In January 2003, he was promoted to Group Vice President to manage our acquisition of seven hospitals in West Tennessee, and in January 2004, he

was promoted to Group Senior Vice President and assumed responsibility for additional hospitals. Mr. Hussey presently oversees the management of our affiliated hospitals in Alaska, Arizona, California, Nevada, New Mexico, Oklahoma, Oregon, Utah, Washington and Wyoming. Prior to joining us, he served as President and Chief Executive Officer for a hospital facility in Ft. Myers, Florida from 1998 to 2001. From 1992 to 1997, Mr. Hussey served as President — Tampa Bay Division for Columbia/HCA Healthcare Corporation. Mr. Hussey is a member of the board of directors of the Federation of American Hospitals.

David L. Miller serves as Division President — Division I Operations. Mr. D. Miller joined us in November 1997 as a Group Vice President, and presently oversees the management of our affiliated hospitals in Alabama, Florida, Georgia, Mississippi, North Carolina, South Carolina and Virginia. Prior to joining us, he served as a Divisional Vice President for Health Management Associates, Inc. from January 1996 to October 1997. From July 1994 to December 1995, Mr. D. Miller was the Chief Executive Officer of a facility owned by Health Management Associates, Inc.

Thomas D. Miller serves as Division President — Division V Operations. Mr. T. Miller joined the Company in connection with the acquisition of Triad Hospitals, Inc., or Triad, in July 2007. He oversees the management of our affiliated hospitals in Illinois, Indiana, Kentucky, Missouri, Ohio and West Virginia. Prior to that, Mr. T. Miller served as the President and Chief Executive Officer of Lutheran Health Network in northeast Indiana, a system that includes five hospital facilities, from 1998, through its acquisition by Triad in 2001, and until Triad's acquisition by the Company in 2007. For the ten years prior to 1998, he was with Columbia/HCA Healthcare Corporation in various increasingly responsible positions of hospital and market leadership.

Michael T. Portacci serves as Division President — Division II Operations. Mr. Portacci joined us in 1988 as a hospital administrator and became a Group Director in 1991. In 1994, he became Group Vice President, and in 2001 he was named a Senior Vice President of Group Operations. Mr. Portacci presently oversees the management of our affiliated hospitals in Arkansas, Louisiana and Texas.

Martin D. Smith serves as Division President — Division III Operations. Mr. M. Smith joined us in 1998 as a hospital administrator and became a corporate office vice president in 2005. In December 2008, he was promoted to Division President, after a brief period as an interim division president, and presently oversees the management of our affiliated hospitals in New Jersey, Pennsylvania and Tennessee. From 1992 to 1998, Mr. M. Smith worked in various administrative positions for Health Management Associates in Alabama, Florida and Oklahoma.

Rachel A. Seifert serves as Executive Vice President, Secretary and General Counsel. She joined us in January 1998 as Vice President, Secretary and General Counsel. From 1992 to 1997, she was Associate General Counsel of Columbia/HCA Healthcare Corporation and became Vice President-Legal Operations in 1994. Prior to joining Columbia/HCA in 1992, she was in private practice in Dallas, Texas. Ms. Seifert is a member of the board of directors of the Federation of American Hospitals and chairs its audit, ethics, compliance and administrative affairs committee.

Kevin J. Hammons serves as Vice President and Chief Accounting Officer, having been elected to that position by the Board of Directors effective March 1, 2012. He joined us in 1997 and in 2002 was promoted to Assistant Vice President, Financial Reporting and in 2005 was promoted to Vice President, Financial Reporting. From 1988 until joining us, he served in various positions in the Assurance and Advisory Services practice at Ernst & Young LLP.

The executive officers named above were appointed by the Board of Directors to serve in such capacities until their respective successors have been duly appointed and qualified, or until their earlier death, resignation or removal from office.

## PROPOSAL 1 — ELECTION OF DIRECTORS

Upon the recommendation of the Governance and Nominating Committee, the Board has nominated the eight (8) persons listed below for election to serve as directors, each for a term of one (1) year and until his or her successor is elected and qualified.

The nominees for director are:

W. Larry Cash  
John A. Clerico  
James S. Ely III  
John A. Fry  
William Norris Jennings, M.D.  
Julia B. North  
Wayne T. Smith  
H. Mitchell Watson, Jr.

Each of the nominees is an incumbent, has consented to being named as a director nominee in this Proxy Statement, and agreed to serve for the one (1) year term to which he or she has been nominated. If any of the nominees are unable to serve or refuses to serve as a director, the proxies will be voted in favor of such other nominee(s), if any, as the Board of Directors may designate. The Company has no reason to believe that any Board nominee will be unable or unwilling to serve if elected as a director.

### Required Vote

For each director nominee, the affirmative vote of a majority of the votes cast for that nominee is required to elect him or her as a director. Abstentions and broker non-votes in connection with the election of directors have no effect on such election since directors are elected by a majority of the votes cast at the Meeting. If any director nominee does not receive more votes “for” his or her election than “against”, then pursuant to the Governance Guidelines, that nominee is required to promptly submit his or her resignation to the Board of Directors following certification of the vote. The Governance and Nominating Committee is required to consider the resignation and recommend to the Board whether to accept or reject the resignation or whether other action should be taken. The Board is required to take action on the recommendation within 90 days following certification of the vote, and promptly thereafter to publicly disclose its decision and the reasons therefor.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE “FOR” EACH OF THE NOMINEES FOR ELECTION AS A DIRECTOR.

---

## PROPOSAL 2 — ADVISORY VOTE ON EXECUTIVE COMPENSATION

The Dodd-Frank Wall Street Reform and Consumer Protection Act, enacted in July 2010, requires that we provide our stockholders with the opportunity to vote to approve the compensation of our named executive officers. The vote is on an advisory basis and is non-binding and applies to the compensation disclosed in this Proxy Statement, which has been prepared in accordance with the compensation disclosure rules of the Securities and Exchange Commission.

As described in detail under the heading “Compensation Discussion and Analysis,” we seek to closely align the interests of our named executive officers with the interests of our stockholders. Our

compensation programs are designed to retain and reward our named executive officers for the achievement of short-term and long-term strategic and operational goals and the achievement of increased total shareholder return, while at the same time avoiding the encouragement of unnecessary or excessive risk-taking.

The Company's executive compensation philosophy and program have consistently and proactively sought to be responsive to governance and stockholder concerns. To remain competitive in the nation's largest and fastest growing domestic industry, continued Company growth in revenue and profitability (growth in earnings per share) are paramount objectives of the Company's strategy. We believe that rewarding these strategic imperatives through effective and appropriate compensation and retention tools yield the desired alignment with stockholder interests, including value maximization.

Our executive compensation program is overseen by the Compensation Committee of our Board of Directors (which is wholly comprised of independent members of the Board of Directors) and is advised by an independent consultant, Mercer Human Resources Consulting, engaged by the Compensation Committee. Through the use of the tools described below, our Compensation Committee seeks to reward and retain executives based on their performance and future potential, while acknowledging that sufficient flexibility must be maintained to ensure that the overall philosophical intent of the executive compensation program is achieved. The tools currently used by the Company (as applied to each named executive officer) include:

- Annual base salary that is competitive with the peer group companies (targeted for a 15% range +/- the median);
- Annual target incentive cash compensation that is predominantly at risk, performance-based, and indexed to the attainment of the Company's growth objectives (combined with base salary, targeted for a 15% range +/- the 75th percentile of the peer group companies);
- Longer-term (three-year vesting) incentive awards of stock-based compensation that are initially performance-based and, accordingly, are at risk and that further align the interests of executive management with maximization of long-term stockholder value (together with the bonus and annual cash incentives to be approximately the 50th percentile of the peer group companies); and
- Provision of longer range savings, retirement, and other benefits to encourage the retention of the most experienced and talented executives through their most productive and valuable years of employment service.

The Company considers and applies many governance best-practices in implementing its compensation programs. For example, all executives adhere to stock ownership guidelines, compensation is capped and allocated among components to avoid undue risk, and each of our executives is an at-will employee and not entitled to severance pay in the absence of a change in control.

We believe that our compensation philosophy and program have yielded the desired results in both challenging times for our economy and circumstances for our industry:

- Since 2008, our net revenue from continuing operations has grown 8.5% on a compound annual growth rate basis.
- Since 2008, our earnings before interest, income taxes, depreciation and amortization, ("EBITDA") has grown 7.2% on a compound annual growth rate basis.

- Since 2008, our continuing operations earnings per share (“EPS”) (diluted), excluding gains and losses on the early extinguishment of debt, has grown 15.2% on a compound annual growth rate basis.

Financial Performance Highlights			
For the Year Ended December 31, 2012			
	4.0%		.0%
	. %	*	7.7%
	3.2%		3.1%
	10.2%	**	13.2%
*			
/			
**	(“ ) (		)

Please refer to the Company’s Current Report on Form 8-K furnished to the SEC on February 21, 2013 and the Company’s Annual Report on Form 10-K filed with the SEC on February 27, 2013 for a reconciliation of adjusted EBITDA to net cash provided by operating activities. Also included in the Company’s Current Report on Form 8-K furnished to the SEC on February 21, 2013 is a reconciliation of income from continuing operations per share as reported with the adjustments described therein.

Notwithstanding our consistent growth in these key areas, during 2011, our stock price performance, which was negative, did not reflect that growth nor did it track with our peers. For 2012, the Compensation Committee of our Board of Directors acted swiftly to make adjustments to executive compensation:

- First, the Compensation Committee withheld a significant portion of the non-financial component of the 2011 cash incentive compensation awards for each of the Chief Executive Officer, the Chief Financial Officer, and the other named executive officers.
- Second, the 2012 equity awards for each of the 2012 named executive officers were substantially reduced compared to the awards made in previous years; performance-based restricted stock awards were reduced by 50% to each such officer and stock option awards (which had already been reduced in prior years) were further reduced by 20%.
- Third, in August 2012, the Compensation Committee added a “Total Shareholder Return Percentile Rank” component to the existing target cash incentive compensation awards for our Chief Executive Officer (Wayne T. Smith) and Chief Financial Officer (W. Larry Cash). This component moved 20% of base compensation from existing targets for Continuing Operations EPS and Net Revenues (10% each) to create this new target. If the Company’s rank fell below the 75<sup>th</sup> percentile of a specified group of healthcare facilities companies, then the ratable portion of the incentive compensation assigned to this target was withheld.
- Fourth, for 2012, the named executive officers received no base salary increases and no increases in target cash incentive compensation awards; also in 2012, total shareholder return was added as a metric to the non-financial component of the target cash incentive award plans for each named executive officer.





and the compensation of executive management. In recent years, stockholders have begun to focus on year-over-year stock price performance as a key measure of stockholder-executive compensation alignment. Accordingly, this element has been incorporated as a component in the incentive compensation plans for the Company's chief executive officer and chief financial officer.

## Executive Summary

The basic purposes of the Company's executive compensation program are to attract and retain seasoned professionals with demonstrated abilities to capitalize on growth opportunities in both same-store and new markets (both geographic and business line), while also adhering to rigorous expense management in an environment of ethical and compliant behavior. By developing a competitive executive compensation program incorporating short-term and long-term components that align the interests of executive management with stockholders and retain valuable executive talent, the Company believes that stockholder value can best be maximized.

Our executive compensation program has been designed, reviewed and modified periodically to conform to governance best practices and to respond to investor concerns regarding pay practices. For example, the Company, over the years, has implemented the following policies, highlighting its commitment to conforming to governance best practices and responding to investors' concerns:

- "Clawback" policy;
- Risk assessment of the Company's compensation programs;
- No excise tax gross-ups for any new executives covered under the Company's Change-in-Control Severance Agreements;
- Stock ownership guidelines for Company directors and officers (including the named executive officers); and
- Adding total shareholder return as an incentive compensation target and adjusting equity awards and salary levels for named executive officers.

A more detailed discussion of these policies and actions can be found on the following pages.

The Company's consistent performance and growth, even during periods of economic uncertainty and decline, have yielded the intended and desired results under our executive compensation program, however, we continue to adapt elements of the program to meet stockholder expectations. The following summary of recent performance is set out to assist stockholders in understanding how the use of key stockholder valuation metrics yields payout to our named executive officers under the performance-based compensation elements of our compensation program:

- Since 2008, our net revenue from continuing operations has grown 8.5% on a compound annual growth rate basis.
- Since 2008, our earnings before interest, income taxes, depreciation and amortization ("EBITDA") has grown 7.2% on a compound annual growth rate basis.
- Since 2008, our continuing operations earnings per share ("EPS") (diluted), excluding gains and losses on the early extinguishment of debt, has grown 15.2% on a compound annual growth rate basis.

- For 2012, the Company's Total Shareholder Return was 77.6%, ranking at the 100<sup>th</sup> percentile for Total Shareholder Return, the highest among the selected healthcare facilities TSR comparison group.

Please see, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's 2012 Annual Report on Form 10-K for more detail about the Company's recent performance.

Each of our named executive officers has significant industry experience and Company tenure, and retention of these executives by rewarding them appropriately, when merited by performance, is the objective of our executive compensation program. By benchmarking base salary to the median range of the peer groups but providing for a higher level of payment (75<sup>th</sup> percentile) for total cash compensation (base salary plus annual incentive compensation), we believe we are aligning our executives' interests with both the risk tolerance and performance objectives of our stockholders. The targets for our annual incentive compensation program carry very high thresholds — all dollar amount targets require a minimum of 90% achievement before any payout is made to the executive, and then only at a 50% level. Additionally, incentive compensation may be earned if above-target performance is achieved, but those additional opportunities are capped to avoid high risk behaviors. Longer term compensation elements, including equity (also performance-based) and retirement benefits, as well as limited perquisites, round out a competitive and responsible compensation program.

Notwithstanding our consistent growth in the key areas described above, during 2011, our stock price performance, which was negative, did not reflect that growth nor did it track with our peers. For 2012, the Compensation Committee of our Board of Directors acted swiftly to make adjustments to executive compensation:

- First, the Compensation Committee withheld a significant portion of the non-financial component of the 2011 cash incentive compensation awards for each of the Chief Executive Officer, the Chief Financial Officer, and the other named executive officers.
- Second, the 2012 equity awards for each of the 2012 named executive officers were substantially reduced compared to the awards made in previous years; performance-based restricted stock awards were reduced by 50% to each such officer and stock option awards (which had already been reduced in prior years) were further reduced by 20%.
- Third, in August 2012, the Compensation Committee added a "Total Shareholder Return Percentile Rank" component to the existing target cash incentive compensation awards for our Chief Executive Officer (Wayne T. Smith) and Chief Financial Officer (W. Larry Cash). This component moved 20% of base compensation from existing targets for Continuing Operations EPS and Net Revenues (10% each) to create this new target. If the Company's rank fell below the 75<sup>th</sup> percentile of a specified group of healthcare companies (the "TSR comparison group"), then the ratable portion of the incentive compensation assigned to this target was withheld.
- Fourth, for 2012, the named executive officers received no base salary increases and no increases in target cash incentive compensation awards; also in 2012, total shareholder return was added as a metric to the non-financial component of the target cash incentive award plans for each named executive officer.

These adjustments to executive compensation are demonstrated in the 2012 compensation tables and summarized for Wayne T. Smith below:

### Compensation Committee Action

Wayne T. Smith, Chairman, President and Chief Executive Officer

	2012	2011	Change
Salary	\$ 1,400,000	\$ 1,400,000	0%
Incentive Plan Compensation	4,200,000	3,945,200	6%
Restricted Stock	2,182,000	7,592,000	-71%
Stock Options	319,200	479,200	-33%
Total	\$ 8,101,200	\$ 13,416,400	-40%

For 2012, the Company's Total Shareholder Return was 77.6%, ranking it at the 100<sup>th</sup> percentile for Total Shareholder Return, the highest among the selected healthcare facilities peer group.

### Total Shareholder Return

From December 31, 2011 to December 31, 2012

TSR comparison group as defined in Current Report on Form 8-K filed by the Company on August 6, 2012

Company Name	Price 31-Dec-11	Price 31-Dec-12	TSR YTD	Including Dividend Implied Price 31-Dec-12	TSR YTD
Community Health Systems, Inc.	\$ 17.45	\$ 30.74	76.2%	\$ 30.99	77.6%
H H , .	\$ 21.4	\$ 30.17	3.4%	\$ 3.7	.%
H H	\$ 20.2	\$ 32.7	.2%	\$ 32.7	.2%
H M , .	\$ 7.37	\$ .32	2.0%	\$ .32	2.0%
H H , .	\$ 3.0	\$ 4.3	2.4%	\$ 4.3	2.4%
H H , .	\$ 10.22	\$ 12.2	1.0%	\$ 12.2	1.0%
H H , .	\$ 17.72	\$ 21.11	1.1%	\$ 21.11	1.1%
H H , .	\$ 37.1	\$ 37.7	1.0%	\$ 37.7	1.0%
H H , .	\$ 11.77	\$ 10.2	-.1%	\$ 11.2	-3.0%
7			4.0%		
M			2.4%		
2			10.4%		

In addition, in response to stockholder concerns about the compensation peer groups used by the Compensation Committee, the business peer group was revised using more of the criteria utilized by key proxy vote advisory services. The secondary general industry peer group used in the past for

## Stockholder Outreach Effort

At our 2012 annual meeting in an advisory vote, our stockholders did not approve the

future goals, and is designed to encourage the retention of executive talent. The key elements of executive compensation are linked either directly or indirectly to preserving and/or maximizing stockholder value. Attainment of annual incentive compensation requires achievement of targets with very high thresholds and incentive compensation for above-target performance is capped. The Company continues to develop its compensation policies, programs, and disclosures to provide transparency and accountability to all of its stakeholders.

The core principles applied by the Company in implementing this philosophy are to provide a mix of compensation vehicles that generates a compensation package that is competitive with appropriate

compensation levels of the Company's executives using peer group comparisons is always hampered by the unavailability of timely information at the time that compensation decisions are made. Based on the information available, the Company believes that compensation for the named executive officers is within the established targets for the cash compensation elements, but due to the changes made in 2012, the long-term incentives awards and the total direct compensation levels are below the 25<sup>th</sup> percentile of the peers.

In establishing performance-based targets for cash incentive compensation to its named executive officers, the Company sets targets that are (a) indexed to the Company's attainment of its budgeted operating performance, which corresponds to its guidance to investors as presented in February of each year, and (b) linked, if applicable, to an individual executive's specific area of oversight. In the case of the Chief Executive Officer and the Chief Financial Officer, the performance-based targets have four components — a continuing operations EPS target, an EBITDA target, a net revenue target, and a total shareholder return percentile rank target. The target performance-based incentive compensation plan for each executive provides both severely reduced payments for underachievement, as well as overachievement opportunity. The Company believes that a scaled payout opportunity versus an "all or nothing" approach best fulfills the Company's objectives in providing these incentives.

The executive compensation process is implemented in annual cycles, commencing in the fall of each year with a compensation survey and study prepared by the Compensation Committee's consultant, Mercer Human Resources Consulting. The consultant's work includes the identification and review of peer group compensation data by utilizing the most recent proxy statement data, other publicly available data (i.e., current reports on Form 8-K and other SEC filed data) and the consulting group's own proprietary database of executive compensation information. The peer group data is analyzed and the competitiveness of the compensation paid to the Company's named executive officers is evaluated based on direct compensation and relative performance metrics, and an annual growth rate factor (because the available data is approximately one year out-of-date) is computed to formulate proposed adjustments for the Company's next fiscal year. Management and the Compensation Committee evaluate the information and make joint recommendations for any proposed adjustments to executive compensation levels and elements. The process is a collaborative one, involving the Compensation Committee and its consultant, the Company's Chief Executive Officer, Chief Financial Officer and human resources executives, except that these officers or human resources executives are not involved in setting their own compensation. In February of each year, recommendations are reviewed by the Compensation Committee in connection with the determination of which incentive compensation awards and other performance-based compensation awards for the prior year were attained. This determination coincides with the completion of the Company's annual financial statement audit and release of annual earnings. After earnings for the prior year are released to the public in the third or fourth week of February, final compensation adjustments are made by the Compensation Committee and reviewed and approved by the Board of Directors. At that time, base salaries are adjusted, prior-year incentive payments are made, then current-year target objectives are established, and equity awards are granted.

#### Compensation "Clawback" Policy

In February 2009, the Board of Directors adopted a policy requiring that, in certain circumstances, the elected officers of the Company reimburse the Company for the amount and/or value of performance-based cash, stock or equity-based awards received by such elected officers, and/or gains realized by such elected officers in connection with these awards. The circumstances triggering this recoupment require a determination by the Board of Directors, or an appropriate committee of the Board of Directors, that fraud by an elected officer materially contributed to the Company having to restate all or a portion of its financial statements. The Board of Directors or the appropriate committee



December 31, 2010, with automatic renewals of one (1) year commencing on December 31, 2010 and each December 31 thereafter unless either party provides ninety (90) days notice prior to December 31 of its intent to terminate.

The A&R CIC Agreements provide for certain compensation and benefits in the event of termination of a Covered Executive's employment during the period following a change in control of the Company (as defined in the A&R CIC Agreements), (A) by the Company, other than as a result of the Covered Executive's death or disability within thirty-six (36) months of the change in control or (B) by



objectives for performance-based cash incentive compensation awards for 2011, the attainment of performance objectives for performance-based restricted stock awarded in 2011, performance-based incentive compensation targets for 2012, and equity awards (stock options and performance-based restricted stock awards) for each of the named executive officers.

In accordance with the process described above, the Company utilized a benchmark peer group for the named executive officers.

For the 2010 compensation cycle through the 2012 compensation cycle, the business peer group included five (5) hospital/provider companies whose stock or debt securities are publicly traded and five (5) health insurance/managed care providers whose stock is publicly traded. The ten (10) companies that were included in the 2010 through 2012 business peer group analysis (the “business peer group”) are:

Business Peer Group Companies (for 2009 through 2012 Compensation Cycles)

- HCA Holdings, Inc.
- Tenet Healthcare Corporation
- Universal Health Services, Inc.
- Health Management Associates, Inc.
- Coventry Health Care, Inc.
- UnitedHealth Group Incorporated
- WellPoint, Inc.
- Aetna Inc.
- Humana Inc.
- CIGNA Corporation

For the 2013 compensation cycle, the business peer group was revised in response to feedback from stockholders. This revised business peer group of 20 companies is focused exclusively on companies in the healthcare sector. The group includes all six major hospital management companies, and 14 other companies in the insurance or medical products areas. All but four companies have revenues in the range of 0.4x to 2.5x that of CHS; three of the four companies that are outside this revenue range are hospital management companies that the Company believes are appropriate for inclusion. Also in selecting the peer group companies, consideration was given to market capitalization, enterprise value and number of employees of each company. Based on 2012 revenues, CHS is just above the median of this peer group.

Overall, our Compensation Committee believes that this revised business peer group reflects the competitive market for talent for our key executives. In addition, this revised group addresses some of the concerns expressed by our stockholders as well as key proxy vote advisory services during the last proxy season.

The twenty (20) companies that are included in the 2013 business peer group analysis are:

Revised Business Peer Group Companies (for 2013 Compensation Cycle)

- Amgen Inc.
- Baxter International Inc.
- Bristol-Myers Squibb Company
- CIGNA Corporation
- Danaher Corporation
- DaVita HealthCare Partners Inc.
- Eli Lilly and Company
- HCA Holdings, Inc.
- Health Management Associates, Inc.
- Health Net, Inc.
- Humana Inc.
- Laboratory Corporation of America Holdings
- LifePoint Hospitals, Inc.
- Medtronic, Inc.
- Quest Diagnostics Incorporation
- Stryker Corporation
- Tenet Healthcare Corporation
- Universal Health Services, Inc.
- Unum Group
- Vanguard Health Systems, Inc.



EBITDA, EBITDA Margin Improvement, Divisional Hospital Revenue and Non-Self Pay Admissions Growth (collectively, the “Performance Measures”). However, at the time the target levels for the Performance Measures were set, the Compensation Committee believed that achieving such target levels, although challenging, was achievable with significant effort from the named executive officers. Accordingly, the likelihood of the named executive officers achieving their respective target levels for the Performance Measures is not known and historically, in any given year, not all of the target levels were fully achieved by all named executive officers. The Compensation Committee determined that it was appropriate to add a difficulty layer to obtaining the cash incentive compensation awards in order to motivate the named executive officers to meet the Company’s business goals and to align named executive officers’ interests with the goals and strategic initiatives established by the Company.

Cash incentive compensation awards are “at risk” as they are subject to the attainment of specific goals. For each named executive officer, the individual’s target plan includes two or more budgeted goals, and for each goal, different award amounts may be earned depending on the level at which that goal is attained, (i.e., an underachievement and overachievement opportunity). The Company’s goals based on budgeted operating performance correspond to its guidance to investors as presented in February of each year. The risk of not attaining the goals is substantial. For 2012, the Company’s goals were as follows:

- The EBITDA target was \$1.935 billion (with a minimum of \$1.7415 billion, which would have yielded 50% of bonus amount linked to this objective),
- The Continuing Operations EPS target was \$3.50 per share (with a minimum of \$3.25, which would have yielded 50% of bonus amount linked to this objective), and
- The Net Revenues target was \$12.8 billion (with a minimum of \$11.52 billion, which would have yielded 50% of the bonus amount linked to this objective).

Each goal target is scaled to achieve a partial award for less than targeted performance. For example, for each 1% decrease in the Company’s EBITDA achievement, the award percentage amount was reduced by 5%, so that at 90% of target attainment, 50% of the specified award percentage would have been paid. However, no awards are paid when the Company’s EBITDA achievement is below 90% of target attainment. On the other hand, if the target for Company EBITDA or net revenues had been exceeded, each named executive officer would have received an additional 1% of their base salary for each 1% over the target, and if the target for the Company’s continuing operations EPS, had been exceeded, each named executive officer would have received an additional 1% of their base salary for each \$0.01 over the target, up to a plan maximum specified for each named executive officer. Target amounts may be adjusted for significant changes in acquisition and divestiture

As stated above, for 2012, the cash incentive opportunities for our Chief Executive Officer and our Chief Financial Officer were modified in August to be reduced if 2012 Total Shareholder Return Percentile Rank was not above the 75<sup>th</sup> percentile. This change removed opportunity from the two existing targets for Continuing Operations EPS and Net Revenues in accordance with the following table:

TSR Percentile Rank	Bonus Percent Reduction (as a percentage of base salary) to <u>Continuing Operations EPS</u> Performance Goal	Bonus Percent Reduction (as a percentage of base salary) to <u>Net Revenues</u> Performance Goal	Total Percent Reduction (as a percentage of base salary)
60 <sup>th</sup> – 75 <sup>th</sup>	2.5%	2.5%	5%
50 <sup>th</sup> – 59 <sup>th</sup>	5%	5%	10%
40 <sup>th</sup> – 49 <sup>th</sup>	7.5%	7.5%	15%
Below 40 <sup>th</sup>	10%	10%	20%

“Total Shareholder Return Percentile Rank” means the relative growth of the Company’s price per share of common stock compared to the “TSR comparison group.” The “TSR comparison group”

For 2012, for each component of the non-equity incentive plan compensation, the targeted award and attained award, expressed as a percentage of base salary, for each named executive officer along with the maximum incentive award attainable are set forth in the table below:

		Non-equity Incentive Plan Compensation (expressed as a percentage of base salary)	
		Target	Attainment
Wayne T. Smith, Chairman, President and Chief Executive Officer	Company EBITDA	175.0%	175.0%
	Company Continuing Operations EPS	65.0%	65.0%
	Company Net Revenues	25.0%	25.0%
	Target	265.0%	265.0%
	Performance Improvement Awarded	25.0%	25.0%
	Overachievement of Company goals	-	10.0%
	Total Achievement	-	300.0%
	Total Achievement Limited to Maximum Award Attainable	300.0%	300.0%

W. Larry Cash, Executive Vice President and Chief Financial Officer	Company EBITDA	100.0%	100.0%
	Company Continuing Operations EPS	65.0%	65.0%
	Company Net Revenues	25.0%	25.0%
	Target	265.0%	265.0%
	Performance Improvement Awarded	25.0%	25.0%
	Overachievement of Company goals	-	10.0%
	Total Achievement	-	300.0%
	Total Achievement Limited to Maximum Award Attainable	300.0%	300.0%

		Non-equity Incentive Plan Compensation (expressed as a percentage of base salary)		
		Target	Attainment	
David L Miller President, Division Operations	Division Hospital EBITDA	70.0%	63.0%	
	Company EBITDA	20.0%	20.0%	
	Company Continuing Operations EPS	15.0%	15.0%	
	Division Hospital EBITDA Margin Improvement	5.0%	5.0%	
	Division Hospital Revenue	5.0%	2.0%	
	Division Hospital Non-Self Pay Admissions Growth	5.0%	0.0%	
	Clinic Operating Results	10.0%	9.5%	
	Target	130.0%	114.5%	
	Performance Improvement Awarded	10.0%	10.0%	
	Overachievement of Company goals	-	8.0%	
	Total Achievement	-	132.5%	
	Total Achievement Limited to Maximum Award Attainable	150.0%	132.5%	
	Michael T. Portacci President, Division Operations	Division Hospital EBITDA	70.0%	70.0%
		Company EBITDA	20.0%	20.0%
		Company Continuing Operations EPS	15.0%	15.0%
		Division Hospital EBITDA Margin Improvement	5.0%	5.0%
Division Hospital Revenue		5.0%	5.0%	
Division Hospital Non-Self Pay Admissions Growth		5.0%	0.0%	
Clinic Operating Results		10.0%	7.0%	
Target		130.0%	122.0%	
Performance Improvement Awarded		10.0%	10.0%	
Overachievement of Company goals		-	8.0%	
Total Achievement		-	140.0%	
Total Achievement Limited to Maximum Award Attainable		150.0%	140.0%	



In 2012, the Compensation Committee substantially reduced the stock awards to each of the named executive officers; performance-based restricted stock awards were reduced by 50% and non-qualified stock options were reduced by 20%.

In 2011, we essentially exhausted the number of shares available for issuance under the Company's 2000 Stock Option and Award Plan; however, that Plan has not been frozen, and any shares returned to the plan through forfeitures are available for reissuance. In 2009, our stockholders approved the adoption of the Company's 2009 Stock Option and Award Plan, which provides for the issuance of up to 3,500,000 shares. In 2011, our stockholders approved an increase of 1,200,000 shares available for issuance under the Company's 2009 Stock Option and Award Plan. Following the end of the 2012 compensation cycle and the award of 2013 long-term incentives, there was a combined total of 1,150,031 shares available for issuance under these two stock award plans.

On March 1, 2013, we filed a Current Report on Form 8-K that reported the base compensation (unchanged), incentive cash compensation plans (unchanged, includes a 20% TSR component for Messrs. Smith and Cash), and stock awards (non-qualified stock option awards were eliminated and performance-based restricted stock awards increased only by an equivalent amount of the eliminated stock option awards).

As stated in Proposal 3, our Board of Directors has, subject to stockholder approval, amended and restated the 2009 Stock Option and Award Plan as of March 20, 2013, to increase the number of plan shares available for award by 3,000,000.

This Plan has also been amended to include provisions recommended by governance organizations and proxy advisory services as "best practices" for such plans. Finally, the 2009 Stock Option and Award Plan has been amended to include any residual shares (both currently unissued and any shares that are or may be forfeited and returned) from the Community Health Systems, Inc. 2000 Stock Option and Award Plan, as amended and restated. Contingent upon the approval by the stockholders of the amended and restated 2009 Stock Option and Award Plan, no further shares will be awarded under the 2000 Stock Option and Award Plan. Awards previously made under the 2000 Stock Option and Award Plan will remain outstanding in accordance with their terms.

#### Benefits

The Company's named executive officers are each eligible to participate in the Company's customary qualified benefit plans for health, dental, vision, life insurance, long-term disability and retirement savings (401(k)). The named executive officers are eligible to participate in these plans on the same basis (i.e., benefits, premium amounts and co-payment deductibles) as all other full-time employees of the Company. The Company's named executive officers also participate in or receive additional benefits, which are competitive with the benefits provided to executives of other companies.

#### Retirement and Deferred Compensation Benefits

The Company's named executive officers also participate in executive compensation arrangements available only to specified officers of the Company and certain key employees of its





## Perquisites

The Company provides very little in the way of perquisites to its named executive officers and operates under the belief that benefits of a personal nature or those which are not available to the other employees of the Company should be funded from the executives' personal funds. The Company believes that the supplemental benefits that it does provide to the named executive officers are reasonable when compared to the business peer group and other companies and are appropriate additional items of compensation for these individuals.

Group-term life insurance (or a combination of group-term life insurance and individually-owned policies) is provided for each of the named executive officers in an amount equal to four times the

## Additional Executive Compensation Policies

The Community Health Systems Stock Ownership Guidelines align the interests of its directors and executive officers with the interests of stockholders and promote the Company's commitment to sound corporate governance. The guidelines apply to the following Company directors and officers, in the indicated multiples of either an officer's base salary or a non-management director's annual cash stipends at the time the participant becomes subject to the guidelines:

<u>Position with the Company</u>	<u>Value of Common Stock Owned</u>
Chairman/President/Chief Executive Officer . . . . .	5.0x
Non-Management Members of the Board of Directors . . . . .	5.0x
Executive Vice Presidents/Chief Financial Officer . . . . .	3.0x
Proxy "named executive officers" (Division Presidents and Senior Vice Presidents) . . . . .	3.0x
Other Senior Vice Presidents . . . . .	1.5x
Other Officers . . . . .	1.0x

Company officers and directors subject to these guidelines are expected to achieve their respective ownership levels within five (5) years of becoming subject to the guidelines (and an additional five (5) years in the event of a promotion to a higher guideline). Once achieved, ownership of the guideline amount must be maintained for as long as the individual is subject to these Stock Ownership Guidelines. Until such time as a Company officer or director satisfies the Stock Ownership Guidelines, that individual will also be required to hold, for at least one year, 100% of the shares received upon the exercise of stock options and upon the vesting of restricted stock units, in each case net of those shares required to pay the exercise price and any taxes due upon exercise or vesting.

Stock that counts towards satisfaction of the Company's Stock Ownership Guidelines includes: (i) Common Stock held outright by the participant or his or her immediate family members living in the same household; (ii) restricted stock issued and held as part of an executive's or director's long-term compensation, whether or not vested; (iii) Common Stock underlying vested Community Health Systems, Inc. stock options; and (iv) Common Stock acquired on stock option exercises that the participant continues to hold. The Governance and Nominating Committee of the Board of Directors reviews each participant's progress and compliance with the applicable guidelines and may grant any hardship waivers or exceptions (e.g., in the event of a divorce) as it deems necessary and appropriate. All officers and directors were in compliance with the Stock Ownership Guidelines as of December 31, 2012.

### Prohibition on Pledging and Speculative Stock Transactions

The Company considers it inappropriate for any director or executive officer to enter into speculative transactions involving the Company's securities. Therefore, the Company's insider trading policy prohibits directors and executive officers from trading in any put or engaging in any short sale or other hedging transaction (including a short sale "against the box") or equity swap of Company securities, or trading in any call or other derivative on Company securities. The insider trading policy also prohibits any director or executive officer from pledging Company securities, including holding such securities in a margin account.

### Tax Considerations

Section 162(m) of the IRC limits the Company's ability to deduct certain compensation in excess of \$1 million paid to the Company's Chief Executive Officer and to certain of the Company's other named

executive officers. This limitation does not apply to compensation that qualifies under applicable regulations as “performance-based.” The Company aims to design the performance-based compensation paid to its named executive officers so that it will satisfy the requirements for deductibility under Section 162(m). The Compensation Committee considers Section 162(m) when making compensation decisions, but other considerations, such as providing the Company’s named executive officers with competitive and adequate incentives to remain with and increase the Company’s business operations, financial performance and prospects, as well as rewarding extraordinary contributions, also significantly factor into the Compensation Committee’s decisions. The Compensation Committee has and expects to continue to authorize payment of compensation to the Company’s named executive officers outside the deductibility limitation of Section 162(m) under certain circumstances.

Financial Accounting Standards Board Accounting Standards Codification Topic 718 (“ASC 718”)

ASC 718 requires a public company to measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. The Company’s equity awards to the named executive officers are structured to comply with the requirements of ASC 718. To maintain the appropriate equity accounting treatment, the Company takes such accounting treatment into consideration when designing and implementing its compensation programs.

In conclusion, the Company believes that the historical and continuing practices of the Company are in conformity, in all material respects, with the best practices of the industry and all current recommendations.



vesting dates were as follows: \$42.29 per share on February 16, 2013 for awards granted on February 16, 2012; \$24.69 per share on February 23, 2012 for awards granted on February 23, 2011; \$37.85 per share on February 24, 2011 for awards granted on February 24, 2010.

- (4) Represents the actuarial increase in the present value of the named executive officer's benefit under the SERP using interest rate and mortality rate assumptions consistent with those used in the Company's financial statements and includes amounts which the named executive officers may not currently be entitled to receive because such amounts are not vested. The change in the pension value in 2012 is primarily attributable to the impact of current year non-equity incentive plan compensation on the calculation of benefits under the Plan, the adoption of provisions in the plan to comply with Section 409A of the IRC and a decrease in the assumed discount rates, based on the rate of return on high-quality fixed income investments with similar periods to maturity. The non-qualified deferred compensation plan earnings contained no above-market or preferential portion of earnings for 2012, 2011 or 2010.
- (5) All Other Compensation for the year ended December 31, 2012 consists of the following:

<u>Name</u>	Long-Term Disability Premiums (\$)	401(k) Plan Employer Matching Contributions (\$)	Life Insurance Premiums (\$)	Personal Use of

## Grants of Plan-Based Awards

## Outstanding Equity Awards at Fiscal Year End

The following table shows outstanding stock option awards classified as exercisable and unexercisable and unvested restricted stock awards as of December 31, 2012 for the named executive





(1) The value realized upon vesting is based on the fair market value on the date of option exercise and stock vesting, as applicable.

#### Pension Benefits

The table below shows the present value of accumulated benefits payable to each of the named executive officers as of December 31, 2012, including the number of years of service credited to each such named executive officer. Under the Company's SERP, the present value is determined by using discount rate and mortality rate assumptions consistent with those described in the footnotes of the Company's audited consolidated financial statements for the year ended December 31, 2012, included in the Company's Annual Report on Form 10-K filed with the SEC on February 27, 2013.

This plan is a non-contributory non-qualified defined benefit plan that provides for the payment of benefits from the general funds of the Company. The plan generally provides that, when a participant retires after his or her normal retirement age (age 65), he or she will be entitled to an annual retirement benefit equal to the participant's Annual Retirement Benefit, reduced by the sum of the actuarial equivalent of the participant's monthly amount of Social Security old age and survivor disability insurance benefits payable to the participant commencing at his or her unreduced Social Security retirement age. For this purpose, the "Annual Retirement Benefit" means an amount equal to the sum of the participant's compensation for the highest three years out of the last five full years of service preceding the participant's termination of employment, divided by three, then multiplied by the lesser of 60% or a percentage equal to 2% multiplied by the participant's years of service.

Name	Plan Name	Number of Years of Credited Service (#) (1)	Present Value of Accumulated Benefit (\$)	Payments During Last Fiscal Year (\$)
Wayne T. Smith .....	SERP	28.50	43,631,440	-
W. Larry Cash .....	SERP	27.75	17,577,723	-
Thomas D. Miller .....	SERP	5.42	1,450,764	-
David L. Miller .....	SERP	15.08	6,209,122	-
Michael T. Portacci .....	SERP	16.00	4,492,390	-

(1) Named executive officers receive one year of credited service for each year of actual service. As discussed further in "Retirement and Defined Compensation Benefits" on page 42 of this Proxy Statement, under the SERP, both Mr. Smith and Mr. Cash were formerly credited with two years of service for each year of actual service. This component of the SERP was adopted by the Compensation Committee in March 2004, while the Company's stock ownership and Board of Directors were controlled by affiliates of Forstmann Little & Co. In 2008, the Compensation Committee and the Board voted to amend the SERP to terminate this practice after 25 years of service had been credited. Since reaching 25 years of credited service, Mr. Smith and Mr. Cash have each received one year of credited service for each year of actual service; no additional service will be credited once the maximum (30 years) has been reached.

## Non-qualified Deferred Compensation

The following table shows the contributions, earnings and account balances for the named executive officers in the Deferred Compensation Plan. Participation in this plan is limited to a selected group of management or highly compensated employees of the Company. Vesting in the Company match contributions in the Deferred Compensation Plan is 20% per year until fully vested at five (5) years. The participants may select their investment funds in the plan in which their accounts are deemed to be invested and if no fund is selected by the participant, the Company contributions will be deemed to be invested in a money market account for the participant. Beginning in 2009, the Company no longer contributes to this plan.

Distributions from the plan are in a lump sum payment as soon as administratively feasible, but no earlier than 10 days and no later than 45 days following the date on which the participant is entitled to receive the distribution. The participant also has the option to make an election to delay the time of payments in five (5) annual installments or in ten (10) annual installments. The election for the deferral may not be made less than 12 months prior to the date of the first scheduled payment installments.<sup>3</sup>

## Potential Payments upon Termination or Change in Control

The table below sets forth potential payments and/or benefits that would be provided to our current named executive officers upon termination of employment or a change in control. These amounts are

Below is a discussion of the estimated payments and/or benefits under four events:

1. Voluntary Termination, which includes resignation and involuntary termination for cause, including the Company's termination of the named executive officer's employment for reasons such as violation of certain Company policies or for performance related issues, but does not include retirement.

2. Retirement, as defined in the various plans and agreements.

---

Involuntary Termination. If a named executive officer is terminated by the Company for any reason other than for cause, his unvested stock options will be forfeited, but his performance-based restricted stock award will continue until such time as the Board or an appropriate committee determines that the performance objective has been obtained. If attained, then the restrictions on the entire award shall lapse on the first anniversary of the date of grant (or if the termination occurs after the performance objective has been attained, the restrictions on the entire award shall lapse immediately). If the performance objective is not attained, the award shall be forfeited in its entirety. The value of unvested restricted stock that would become fully vested for each of the named executive officers is presented in the above table.

Change in Control of the Company. The value of in-the-money unvested stock options that would become fully vested for each of the named executive officers and the value of unvested restricted stock that would become fully vested for each of the named executive officers is presented in the above table.

Re0 80jmet hBenefits apmonti aindicted

abelow-2673re

341,000 shares of our Common Stock were available for issuance under the plan. Accordingly, if this proposal is approved by our stockholders, there would be 3,341,000 shares of our Common Stock available for issuance under the 2009 Stock Option and Award Plan.

The amendments to the plan include provisions recommended by the governance organizations and proxy advisory services as “best practices” for such plans. These amendments will be applicable to awards made after the date of the amendment and restatement and include:

- elimination of automatic acceleration of stock options upon a change in control
- minimum vesting periods of three (3) years for all stock options and awards
- a stated prohibition on cash buyouts of underwater options

The Board of Directors believes that the plan, as amended and restated, is necessary to continue the

## Eligible Individuals

Generally, officers, employees, directors and consultants of the Company or any of our subsidiaries are eligible to participate in the plan. Awards are made to eligible individuals at the discretion of the Compensation Committee and therefore, we cannot determine who will receive a future grant at this time.

## Shares Subject to Plan

Prior to the amendment and restatement of the plan in March 2013, 341,233 shares of our Common Stock remained available for grants under the plan. The Board of Directors amended and restated the plan as of March 20, 2013 to, among other things, increase the number of shares available for such grants by an additional 3,000,000. The amendments to the plan also contemplate the reallocation of the remaining shares available under the 2000 Stock Option and Award Plan to this plan. Under the 2000 Stock Option and Award Plan, approximately 808,800 shares of our Common Stock are available for grants. Prior to the amendment of the stock plans, there were 13,835 unvested restricted stock awards and approximately 4,780,000 unexercised non-qualified stock options outstanding. In the event of the termination of the employment of the holders of awards and a resulting forfeiture of the awards, these shares would be returned to the plan and again be available for grants. Thus, subject to the approval of our stockholders, the plan as amended and restated will have available a total of 4,150,033 shares for future grants.

In no event will an eligible individual (other than a non-employee member of our Board of Directors)



forth in an option agreement; provided, however, that incentive stock options may only be granted to eligible individuals who are employees of the Company or its subsidiaries. The Compensation Committee has complete discretion in determining the number of shares that are to be subject to options granted under the plan and whether any such options are to be incentive stock options or non-qualified stock options.

The exercise price of any option granted under the plan will be determined by the Compensation Committee. However, the exercise price of any option granted under the plan may not be less than the fair market value of a share of our Common Stock on the date of grant. The fair market value of a share of our Common Stock on any date generally will be the closing sales price of a share of such Common Stock as reported by the New York Stock Exchange on that date.

The duration of any option granted under the plan will be determined by the Compensation Committee. Generally, however, no option may be exercised more than ten (10) years from the date of grant.

The Compensation Committee also has the discretion to determine the vesting schedule of any options granted under the plan (but not less than three (3) years from the date of grant) and may accelerate the exercisability of any option (or portion of any option) at any time.

#### Stock Appreciation Rights

The Compensation Committee may grant stock appreciation rights either alone or in conjunction with a grant of an option. In conjunction with an option, a stock appreciation right may be granted either at the time of grant of the option or at any time thereafter during the term of the option, and will

of grant. The Compensation Committee has the discretion to dictate the disposition of any stock appreciation right (to be set forth in the agreement); if a stock appreciation right becomes exercisable, it will in the event of a change in control of the Company, remain exercisable for a period of six (6) months after the date of the change in control of the Company, but in no event after the expiration of the stated term of the stock appreciation right.

#### Restricted Stock and Restricted Stock Units

Restricted stock and restricted stock units may be awarded under the plan, which will be evidenced by a restricted stock or restricted stock unit agreement, as applicable, containing such restrictions, terms and conditions as the Compensation Committee may, in its discretion, determine.

Shares of restricted stock will be issued in the grantee's name as soon as reasonably practicable after the award is made and after the grantee executes the restricted stock agreement, appropriate blank stock powers and any other agreements or documents which the Compensation Committee requires that the grantee execute as a condition to the issuance of such shares. Generally, restricted shares issued under the plan will be deposited together with the stock powers with an escrow agent (which may be us) designated by the Compensation Committee, and upon delivery of the shares to the escrow agent, the grantee will have all of the rights of a stockholder with respect to such shares, including the right to vote the shares and to receive all dividends or other distributions paid or made with respect to the shares. The Compensation Committee may also grant restricted stock units, each of which represents a right to one hypothetical share of our Common Stock.

Restrictions on shares and units awarded under the plan will lapse at such time and on such terms and conditions as the Compensation Committee may determine (which may include the occurrence of a change in control of the Company), which restrictions will be set forth in the restricted stock award agreement. The Compensation Committee may impose restrictions on any of the shares of restricted stock that are in addition to the restrictions under applicable federal or state securities laws, and may place a legend on the certificates representing such shares to give appropriate notice of any restrictions.

Upon the lapse of the restrictions on restricted shares or units, the Compensation Committee will cause a stock certificate to be delivered to the grantee with respect to such shares (or in other acceptable form, such as electronic), free of all restrictions under the plan, and, in the case of restricted stock units, such restricted stock units may also be settled in cash at the discretion of the Compensation Committee.

#### Performance Units and Performance Shares

The Compensation Committee may grant performance units and performance shares subject to the terms and conditions determined by the Compensation Committee in its discretion and set forth in the agreement evidencing the grant.

Performance units represent, upon attaining certain performance goals, a grantee's right to receive a payment generally equal to (i) the fair market value of a share of our Common Stock determined on the date the performance unit was granted, the date the performance unit became vested or any other date specified by the Compensation Committee or (ii) a percentage (which may be more than 100%) of the amount described in (i) above depending on the level of the performance goal attained. Each agreement evidencing a grant of a performance unit will specify the number of performance units to which it relates, the performance goals which must be satisfied in order for performance units to vest and the performance cycle within which such performance goals must be satisfied.

The Compensation Committee must establish the performance goals to be attained in respect of the performance units, the various percentages of performance unit value to be paid out upon the

attainment, in whole or in part, of the performance goals and such other performance unit terms, conditions and restrictions as the Compensation Committee deems appropriate. Payment in respect of vested performance units will generally be made as soon as practicable after the last day of the performance cycle to which the award relates.

Payments may be made entirely in shares of our Common Stock valued at fair market value, entirely in cash, or in such combination of shares and cash as the Compensation Committee may determine in its discretion. If the Compensation Committee, in its discretion, determines to make the payment entirely or partially in restricted shares, the Compensation Committee must determine the extent to which such payment will be in restricted shares and the terms of such shares at the time the performance unit award is granted.

Performance shares are subject to the same terms as described with respect to restricted stock (described above), except that the Compensation Committee will establish the performance goals to be attained in respect of the performance shares, the various percentages of performance shares to be paid out upon attainment, in whole or in part, of the performance goals and such other performance share terms, conditions and restrictions as the Compensation Committee deems appropriate.

Performance objectives established by the Compensation Committee for performance unit or performance share awards may be expressed in terms of (i) earnings per share, (ii) net revenue, (iii) adjusted EBITDA, (iv) share price, (v) pre-tax profits, (vi) net earnings, (vii) return on equity or assets, (viii) operating income, (ix) EBITDA margin, (x) EBITDA margin improvement, (xi) bad debt expense, (xii) cash receipts, (xiii) uncompensated care expense, (xiv) days in net revenue in net patient accounts receivable, (xv) gross income, (xvi) net income (before or after taxes), (xvii) cash flow, (xviii) gross profit, (xix) gross profit return on investment, (xx) gross margin return on investment, (xxi) gross margin, (xxii) operating margin, (xxiii) working capital, (xxiv) earnings before interest and taxes, (xxv) return on capital, (xxvi) return on invested capital, (xxvii) revenue growth, (xxviii) annual recurring revenues, (xxix) recurring revenues, (xxx) total shareholder return, (xxxi) economic value added, (xxxii) specified objectives with regard to limiting the level of increase in all or a portion of the Company's bank debt or other long-term or short-term public or private debt or other similar financial obligations of the Company, which may be calculated net of cash balances and/or other offsets and adjustments as may be established by the Committee in its sole discretion, (xxxiii) reduction in operating expenses or (xxxiv) any combination of the foregoing. Performance objectives may be in respect of the performance of the Company or any of our subsidiaries or divisions or any combination thereof. Performance objectives may be absolute or relative (to prior performance of the Company or to the performance of one or more other entities or external indices) and may be expressed in terms of a progression within a specified range. The Compensation Committee may provide for the manner in which performance will be measured against the performance objectives (or may adjust the performance objectives) to reflect the impact of specified corporate transactions, accounting or tax law changes and other extraordinary or nonrecurring events.

#### Other Share-Based Awards

The Compensation Committee may also grant any other share-based award on such terms and conditions as the Compensation Committee may determine in its sole discretion. The Compensation Committee may award shares to participants as additional compensation for service to the Company or any of its subsidiaries or in lieu of cash or other compensation to which participants have become entitled.

#### Transferability of Options and Awards

Options and unvested awards, if any, are generally not transferable except by will or under the laws of descent and distribution, and all rights with respect to such options and awards are generally exercisable only by the optionee or grantee during his or her lifetime, except that the Compensation





will generally be capital gain and will not be deductible by us. If the sale proceeds from a disqualifying disposition are less than the fair market value of the shares on the date of exercise, the amount of the optionee's ordinary income will be limited to the gain (if any) realized on the sale.

If the option is exercised through the use of shares of our Common Stock previously owned by the optionee, such exercise generally will not be considered a taxable disposition of the previously owned shares and thus no gain or loss will be recognized by the optionee with respect to the use of such shares upon exercise of the option. The basis and the holding period of such shares (for purposes of

## Equity Compensation Plan Information

The following table includes information with respect to our equity compensation plans (and any individual compensation arrangements under which our equity securities are authorized for issuance to employees or non-employees) as of December 31, 2012:

Number of securities to  
be issued upon  
exercise of outstanding  
options, warran-27nof outstanding

PROPOSAL 4 — RcPOSAL 4 —THE73.15(APPOINTMENT73.12L)-OF-2791(INDEPENDENT73.6AL)-REGISTERED



in existence or transactions that have already occurred to document, compute, and obtain government approval for amounts to be included in tax filings and consisted of:

- (i) federal, state and local income tax return assistance;
  - (ii) sales and use, property and other tax return assistance; and
  - (iii) assistance with tax audits and appeals.
- fees for tax planning and advice services totaled \$1,971,746 in 2012 and \$428,860 in 2011. Tax planning and advice are services rendered with respect to proposed transactions or that alter a transaction to obtain a particular tax result.

In considering the nature of the services provided by the independent registered public accounting firm, the Audit and Compliance Committee determined that such services were compatible with the provision of independent audit services. The Audit and Compliance Committee discussed these services with the independent registered public accounting firm and Company management to determine that they were permitted under the rules and regulations concerning auditor independence, promulgated by the SEC to implement the Sarbanes-Oxley Act of 2002, as well as the rules and regulations of the American Institute of Certified Public Accountants.

#### Pre-Approval of Audit and Non-Audit Services

On December 10, 2002, the Board of Directors delegated to the Audit and Compliance Committee the sole authority to engage and discharge the Company's independent registered public accounting firm, to oversee the conduct of the audit of the Company's consolidated financial statements, and to approve the provision of all auditing and non-audit services. The Audit and Compliance Committee requires pre-approval of any non-audit services to be performed by our independent registered public accounting firm. One hundred percent of all audit and non-audit services performed by the independent registered public accounting firm during 2012 were pre-approved by the Audit and Compliance Committee prior to the commencement of such services. The Company's policy does not permit the retroactive approval for "de minimus non-audit services."

#### Required Vote

Approval by the stockholders of the appointment of our independent registered public accounting firm is not required, but the Board believes that it is desirable to submit this matter to the stockholders. If holders of a majority of the shares of Common Stock entitled to vote and present in person or represented by proxy at the Meeting do not approve the selection of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2013, the selection of our independent registered public accounting firm will be reconsidered by the Audit and Compliance Committee. Abstentions and broker non-votes will be considered a vote against this proposal.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR" THE RATIFICATION OF THE APPOINTMENT OF DELOITTE & TOUCHE LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING DECEMBER 31, 2013.

## COMPENSATION COMMITTEE REPORT

The information contained in this Compensation Committee Report shall not be deemed "filed" for purposes of Section 18 of the Exchange Act or incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in any such filing.

Community Health Systems, Inc.

2009 STOCK OPTION AND AWARD PLAN

(As Adopted March 24, 2009 and Amended and Restated March 18, 2011  
and March 20, 2013)

1. Purpose.

The purpose of this Plan is to strengthen Community Health Systems, Inc., a Delaware corporation (the “Company”), and its Subsidiaries by providing an incentive to its and their employees, officers, consultants and directors and thereby encouraging them to devote their abilities and industry to the success of the Company’s and its Subsidiaries’ business enterprises. It is intended that this purpose be achieved by extending to employees (including future employees who have received a formal written offer of employment), officers, consultants and directors of the Company and its Subsidiaries an added long-term incentive for high levels of performance and unusual efforts through the grant of Incentive Stock Options, Non-qualified Stock Options, Stock Appreciation Rights, Performance Units, Performance Shares, Share Awards, Restricted Stock and Restricted Stock Units (as each term is herein defined).

2. Definitions.

For purposes of the Plan:

2.1 “2000 Stock Option and Award Plan” means the Community Health Systems, Inc. 2000 Stock Option and Award Plan, as amended and restated March 20, 2013.

2.2 “Affiliate” means any entity, directly or indirectly, controlled by, controlling or under common control with the Company or any corporation or other entity acquiring, directly or indirectly, all or substantially all the assets and business of the Company, whether by operation of law or otherwise.

2.3 “Agreement” means the written agreement between the Company and an Optionee or Grantee evidencing the grant of an Option or Award and setting forth the terms and conditions thereof.

2.4 “Award” means a grant of Restricted Stock, Restricted Stock Units, a Stock Appreciation Right, a Performance Award, a Share Award or any or all of them.

2.5 “Board” means the Board of Directors of the Company.

2.6 “Cause” means, except as otherwise set forth herein,

(a) in the case of an Optionee or Grantee whose employment with the Company or a Subsidiary is subject to the terms of an employment agreement between such Optionee or Grantee and the Company or Subsidiary, which employment agreement



two-thirds of the Incumbent Board, such new director shall, for purposes of this Plan, be considered a member of the Incumbent Board; provided further, however, that no individual shall be considered a member of the Incumbent Board if such individual initially assumed office as a result of the actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board (a "Proxy Contest") including by reason of any agreement intended to avoid or settle any Proxy Contest; or

(c) The consummation of:

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

(A) the stockholders of the Company immediately before such Merger own directly or indirectly immediately following such Merger at least fifty

reasonably demonstrates that the termination (A) was at the request of a third party who has indicated an intention or taken steps reasonably calculated to effect a change in control or (B) otherwise arose in connection with, or in anticipation of, a Change in Control which has been threatened or proposed, such termination shall be deemed to have occurred after a Change in Control for purposes of this Plan provided a Change in Control shall actually have occurred.

2.9 “Code” means the Internal Revenue Code of 1986, as amended.

2.10 “Committee” means a committee, as described in Section 3.1, appointed by the Board from time to time to administer the Plan and to perform the functions set forth herein.

2.11 “Company” means Community Health Systems, Inc.

2.12 “Director” means a director of the Company.

2.13 “Disability” means:

(a) in the case of an Optionee or Grantee whose employment with the Company or a Subsidiary is subject to the terms of an employment agreement between such Optionee or Grantee and the Company or Subsidiary, which employment agreement includes a definition of “Disability”, the term “Disability” as used in this Plan or any Agreement shall have the meaning set forth in such employment agreement during the period that such employment agreement remains in effect;

2.18 “Fair Market Value” on any date means the closing sales prices of the Shares on such date on the principal national securities exchange on which such Shares are listed or admitted to trading, or, if such Shares are not so listed or admitted to trading, the closing sales prices of the Shares as reported by The Nasdaq Stock Market at the close of the primary trading session on such dates and, in either case, if the Shares were not traded on such date, on the next preceding day on which the Shares were traded. In the event that Fair Market Value cannot be determined in a manner described above, the Fair Market Value shall be the value established by the Board in good faith and, in the case of an Incentive Stock Option, in accordance with Section 422 of the Code.

2.19 For purposes of this Plan,

(a) “Good Reason” shall mean the occurrence after a Change in Control of any of the following events or conditions:

(1) a change in the Optionee’s or Grantee’s status, title, position or responsibilities (including reporting responsibilities) which, in the Optionee’s or Grantee’s reasonable judgment, represents an adverse change from the Optionee’s or Grantee’s status, title, position or responsibilities as in effect immediately prior thereto; the assignment to the Optionee or Grantee of any duties or responsibilities which, in the Optionee’s or Grantee’s reasonable judgment, are inconsistent with the Optionee’s or Grantee’s status, title, position or responsibilities; or any removal of the Optionee or Grantee from or failure to reappoint or reelect the Optionee or Grantee to any of such offices or positions, except in connection with the termination of the Optionee’s or Grantee’s employment for Disability, Cause, as a result of the Optionee’s or Grantee’s death or by the Optionee or Grantee other than for Good Reason;

(2) a reduction in the Optionee’s or Grantee’s annual base salary below the amount as in effect immediately prior to the Change in Control;

(3) the relocation of the offices of the Optionee’s or Grantee’s place of employment to a location more than twenty-five (25) miles from the location of such employment immediately prior to such Change in Control, or requiring the Grantee to be based anywhere other than such offices, except to the extent the Grantee was not previously assigned to a principal location and except for required travel on business to the extent substantially consistent with the Optionee’s or Grantee’s business travel obligations at the time of the Change in Control;

(4) the failure to pay to the Optionee or Grantee any portion of the Optionee’s or Grantee’s current compensation or to pay to the Optionee or Grantee any portion of an installment of deferred compensation under any deferred compensation program of the Company or any of its Subsidiaries in which the Optionee or Grantee participated, within seven (7) days of the date such compensation is due;

(5) the failure to (A) continue in effect (without reduction in benefit level, and/or reward opportunities) any material compensation or employee benefit plan in which the Optionee or Grantee was participating immediately prior to the Change in Control, unless a substitute or replacement plan has been implemented which provides substantially identical compensation or benefits to the Optionee or Grantee or (B) provide the





2.30 "Performance Cycle" means the time period specified by the Committee at the time Performance Awards are granted during which the performance of the Company, a Subsidiary or a Division will be measured.

2.31 "Performance Objectives" has the meaning set forth in Section 9.

2.32 "Performance Shares" means Shares issued or transferred to an Eligible Individual under Section 9.

2.33 "Performance Units" means performance units granted to an Eligible Individual under Section 9.

2.34 "Plan" means Community Health Systems, Inc. 2009 Stock Option and Award Plan, as amended and restated from time to time.

2.35 "Restricted Stock" means Shares issued or transferred to an Eligible Individual pursuant to Section 8.1.

2.36 "Restricted Stock Unit" means rights granted to an Eligible Individual under Section 8.2 representing a number of hypothetical Shares.

2.37 "Share Award" means an Award of Shares granted pursuant to Section 10.

2.38 "Shares" means shares of the Common Stock of the Company, par value \$.01 per share, and any other securities into which such shares are changed or for which such shares are exchanged.

2.39 "Stock Appreciation Right" means a right to receive all or some portion of the increase in the value of the Shares as provided in Section 7 hereof.

2.40 "Subsidiary" means (i) except as provided in subsection (ii) below, any corporation which is a subsidiary corporation within the meaning of Section 424(f) of the Code with respect to the Company, and (ii) in relation to the eligibility to receive Options or Awards other than Incentive Stock Options and continued employment for purposes of

Committee shall keep minutes of its meetings. If the Committee consists of more than one (1) member, a quorum shall consist of not fewer than two (2) members of the Committee and a majority of a quorum may authorize any action. Any decision or determination reduced to writing and signed by a majority of all of the members of the Committee shall be as fully effective as if made by a majority vote at a meeting duly called and held. The Committee shall consist of at least one (1) Director and may consist of the entire Board; provided, however, that (A) with respect to any Option or Award granted to an Eligible Individual who is subject to Section 16 of the Exchange Act, the Committee shall consist of at least two (2) Directors each of whom shall be a Non-employee Director and (B) to the extent necessary for any Option or Award intended to qualify as Performance-Based Compensation to so qualify, the Committee shall consist of at least two (2) Directors, each of whom shall be an Outside Director. For purposes of the preceding sentence, if any member of the Committee is neither a Non-employee Director nor an Outside Director but recuses himself or herself or abstains from voting with respect to a particular action taken by the Committee, then the Committee, with respect to that action, shall be deemed to consist only of the members of the Committee who have not recused themselves or abstained from voting. Subject to applicable law, the Committee may delegate its authority under the Plan to any other person or persons.

3.2 No member of the Committee shall be liable for any action, failure to act, determination or interpretation made in good faith with respect to this Plan or any independent modification transaction hereunder. The Company hereby agrees to indemnify each member of the Committee for all costs and expenses and, to the extent permitted by applicable law, any liability incurred in connection with defending against, responding to, negotiating for the settlement of or otherwise dealing with any claim, cause of action or dispute of any kft6a;-309.332isp5

and other applicable law, and otherwise make the Plan fully effective. All decisions and

no further grants may be made under the 2000 Stock Option and Award Plan, but Options and Awards made under the 2000 Stock Option and Award Plan shall remain outstanding in accordance with their terms.

4.2 Shares Returned to the Plan. Whenever any outstanding Option or Award or portion thereof granted pursuant to the 2000 Stock Option and Award Plan and outstanding as of March 20, 2013 would have again been available for grant as an Option or Award pursuant to Section 4.3 of the 2000 Stock Option and Award Plan as in effect on March 20, 2013, the number of Shares allocable to the expired, canceled, forfeited, settled or otherwise terminated portion of such Option or Award, determined in accordance with Section 4.3 of the 2000 Stock Option and Award Plan, shall be added to the maximum number of Shares available to be granted as Options or Awards granted hereunder, not to exceed 4,803,545 additional Shares

4.3 Grant Limitations. The following grant limitations shall apply when making Awards pursuant to the Plan:

(a) When aggregated with Options and Awards granted under the 2000 Stock Option and Award Plan in any ayea,

Stock Lption ond

Awards-529.3(Plan)-350.8

4.5 Whenever any outstanding Option or Award or portion thereof expires, is canceled, is forfeited, or is otherwise terminated for any reason without having been exercised or payment having been made in respect of the Option or Award (or such portion thereof to which the expiration, forfeiture, or other termination occurs), the Shares allocable to the expired, canceled, forfeited, or otherwise terminated portion of the Option or Award may again be the subject of Options or Awards granted hereunder. With regard to Awards referred to in Section 4.4(c), for each Share subject to an Award that is cancelled, forfeited, settled in cash or otherwise terminated as provided in the foregoing sentence, 1.52 Shares may again be the subject of Options or Awards under the Plan. Notwithstanding the foregoing, the following events shall not result in any increase in Shares available for issuance of Options or Awards under the Plan or such Shares again becoming available for issuance of Options or Awards:

- (a) Withholding of Shares to pay Taxes on any Option or Award,
- (b) Tendering of Shares to pay for Option exercise prices (i.e., net settlement of Shares), and
- (c) The purchase of Shares on the open market as a result of Option exercises.

4.6 Unless otherwise determined by the Committee, in no event shall an Option or Award not subject to performance-based conditions have a vesting schedule resulting in such Option or Award vesting in full prior to the third anniversary of the grant

Ndis7(ating)-425or Sh4(event)-431.se Sha(in)-335.6(Award)  
Unled 124etoin2423. 5812.275 2423. g

date it is granted; provided, however, that unless the Committee provides otherwise, an Option (other than an Incentive Stock Option) may, upon the death of the Optionee prior to the expiration of the Option, be exercised for up to one (1) year following the date of the Optionee's death even if such period extends beyond ten (10) years from the date the Option is granted. The Committee may, subsequent to the granting of any Option, extend the term thereof, but in no event shall the term as so extended exceed the maximum term provided for in the preceding sentence.

5.4 Vesting. Subject to Section 5.10, each Option shall become exercisable in such installments (which need not be equal) and at such times as may be designated by the Committee and set forth in the Agreement. To the extent not exercised, installments shall accumulate and be exercisable, in whole or in part, at any time after becoming exercisable, but not later than the date the Option expires. The Committee may accelerate the exercisability of any Option or portion thereof at any time.

5.5 Deferred Delivery of Option Shares. The Committee may, in its discretion, permit Optionees to elect to defer the issuance of Shares upon the exercise of one or more Non-qualified Stock Options granted pursuant to the Plan. The terms and conditions of such deferral shall be determined at the time of the grant of the Option or thereafter and shall be set forth in the Agreement evidencing the Option.

5.6 Limitations on Incentive Stock Options. To the extent that the aggregate Fair Market Value (determined as of the date of the grant) of Shares with respect to which Incentive Stock Options granted under the Plan and "incentive stock options" (within the meaning of Section 422 of the Code) granted-397.8496.694u6 -1a()-3385tw-3387594if69..1(Plan)-4-397. Subsidiaries (in ei87594i289.9(case)-292.5(determined)-284.3(without)-291.1(regard)-287.3(to)-293.3(this)-

5.8 Method of Exercise. The exercise of an Option shall be made only by a written notice delivered in person or by mail to the Secretary of the Company at the Company's principal executive office, specifying the number of Shares to be exercised and, to the extent applicable, accompanied by payment therefor and otherwise in accordance with

and conditions of which shall be set forth in an Agreement. If granted in connection with an Option, a Stock Appreciation Right shall cover the same Shares covered by the Option (or such lesser number of Shares as the Committee may determine) and shall, except as provided in this Section 7, be subject to the same terms and conditions as the related Option.

7.1 Time of Grant. A Stock Appreciation Right may be granted (a) at any time if unrelated to an Option, or (b) if related to an Option, either at the time of grant or at any time thereafter during the term of the Option.

7.2 Stock Appreciation Right Related to an Option.

(a) Exercise. A Stock Appreciation Right granted in connection with an Option shall be exercisable at such time or times and only to the extent that the related Option is exercisable, and will not be transferable except to the extent the related Option may be transferable. A Stock Appreciation Right granted in connection with an Incentive Stock Option shall be exercisable only if the Fair Market Value of a Share on the date of exercise exceeds the exercise price specified in the related Incentive Stock Option Agreement. In no event shall a Stock Appreciation Right related to an Option have a term of greater than ten (10) years.

(b) Amount Payable. Upon the exercise of a Stock Appreciation Right related to an Option, the Grantee shall be entitled to receive an amount determined by multiplying (i) the excess of the Fair Market Value of a Share on the date of exercise of such Stock Appreciation Right over the per Share exercise price under the related Option, by (ii) the



7.4 Non-Transferability. No Stock Appreciation Right shall be transferable by the Grantee otherwise than by will or by the laws of descent and distribution or pursuant to a domestic relations order (within the meaning of Rule 16a-12 promulgated under the Exchange Act), and such Stock Appreciation Right shall be exercisable during the lifetime of such Grantee only by the Grantee or his or her guardian or legal representative. The terms of such Stock Appreciation Right shall be final, binding and conclusive upon the beneficiaries, executors, administrators, heirs and successors of the Grantee.

7.5 Method of Exercise. Stock Appreciation Rights shall be exercised by a Grantee only by a written notice delivered in person or by mail to the Secretary of the

Shares issued in connection with a Restricted Stock Award shall be deposited together with the stock powers with an escrow agent (which may be the Company) designated by the Committee. Unless the Committee determines otherwise and as set forth in the Agreement, upon delivery of the Shares to the escrow agent, the Grantee shall have all of the rights of a stockholder with respect to such Shares, including the right to vote the Shares and to receive all dividends or other distributions paid or made with respect to the Shares.

(b) Non-Transferability. Until all restrictions upon the Shares of Restricted Stock awarded to a Grantee shall have lapsed in the manner set forth in Section 8.1(c), such Shares shall not be sold, transferred or otherwise disposed of and shall not be pledged or otherwise hypothecated.

(c) Lapse of Restrictions.

(1) Generally. Restrictions upon Shares of Restricted Stock awarded hereunder shall lapse at such time or times and on such terms and conditions as the Committee may determine. The Agreement evidencing the Award shall set forth any such restrictions.

(2) Effect of Change in Control. Section 13(b) shall control the treatment of any Shares of Restricted Stock then outstanding in the event of a Change in Control.

(d) Treatment of Dividends. At the time an Award of Shares of Restricted Stock is granted, the Committee may, in its discretion, determine that the payment to the Grantee of dividends, or a specified portion thereof, declared or paid on such Shares by the Company shall be (a) deferred until the lapsing of the restrictions imposed upon such

Share8(gr4\* [(to)-338.nt)fe(tur-273.6(pa)-279J -of)]TJ ET 388.182 -1253.4 455.1 -o5[( I S0 0 11 1( I S5 Tm

(a) Payment of Awards. Each Restricted Stock Unit shall represent the right of a Grantee to receive a payment upon vesting of the Restricted Stock Unit or on any later date specified by the Committee equal to the Fair Market Value of a Share as of the date the Restricted Stock Unit was granted, the vesting date or such other date as determined by the Committee at the time the Restricted Stock Unit was granted. The Committee may, at the time a Restricted Stock Unit is granted, provide a limitation on the amount payable in respect of each Restricted Stock Unit. The Committee may provide for the settlement of Restricted Stock Units in cash or with Shares having a Fair Market Value equal to the payment to which the Grantee has become entitled.

(b) Effect of Change in Control. Section 13(b) shall control the treatment of any Restricted Stock Units then outstanding in the event of a Change in Control.

9. Performance Awards.

9.1 Performance Units. The Committee, in its discretion, may grant Awards

shall be set forth in an Agreement between the Company and the Grantee. Each Agreement may require that an appropriate legend be placed on Share certificates. Awards of



intended to constitute Performance-Based Compensation made to a Grantee who is subject to Section 162(m) of the Code, the Committee shall certify in writing that the applicable Performance Objectives have been satisfied to the extent necessary for such Award to qualify as Performance Based Compensation.

9.4 Effect of Change in Control. Section 13(b) shall control the treatment of any Performance Units then outstanding in the event of a Change in Control.

9.5 Non-Transferability. Until the vesting of Performance Units or the lapsing of any restrictions on Performance Shares, as the case may be, such Performance Units or Performance Shares shall not be sold, transferred or otherwise disposed of and shall not be pledged or otherwise hypothecated.

10. Share Awards. The Committee may grant a Share Award to any Eligible Individual on such terms and conditions as the Committee may determine in its sole discretion. Share Awards may be made as additional compensation for services rendered by the Eligible Individual or may be in lieu of cash or other compensation to which the Eligible Individual is entitled from the Company.

11. Effect of a Termination of Employment.

The Agreement evidencing the grant of each Option and each Award shall set forth the terms and conditions applicable to such Option or Award upon a termination or change in the status of the employment of the Optionee or Grantee by the Company, a Subsidiary or a Division (including a termination or change by reason of the sale of a Subsidiary or a Division), which shall be as the Committee may, in its discretion, determine at the time the Option or Award is granted or thereafter.

12. Adjustment Upon Changes in Capitalization.

(a) In the event of a Change in Capitalization, the Committee shall conclusively determine the appropriate adjustments, if any, to (i) the maximum number and class of Shares or other stock or securities with respect to which Options or Awards may be granted under the Plan, (ii) the number and class of Shares or other stock or securities which are subject to outstanding Options or Awards granted under the Plan and the exercise price therefor, if applicable, and (iii) the Performance Objectives.

(b) Any such adjustment in the Shares or other stock or securities (a) subject to outstanding Incentive Stock Options (including any adjustments in the exercise price) shall be made in such manner as not to constitute a modification as defined by Section 424(h)(3) of the Code and only to the extent permitted by Sections 422 and 424 of the Code or (b) subject to outstanding Options or Awards that are intended to qualify as Performance-Based Compensation shall be made in such a manner as not to adversely affect the treatment of the Options or Awards as Performance-Based Compensation. In addition, (a) no adjustment to any Option or Award that is not subject to Section 409A of the Code shall be made in a manner that would subject the Option or Award to Section 409A of the Code and (b) any adjustment to an Option or Award that is subject to Section 409A of the Code shall be made only in a manner and to the extent permitted by Section 409A of the Code.

(c) If, by reason of a Change in Capitalization, a Grantee of an Award shall be entitled to, or an Optionee shall be entitled to exercise an Option with respect to, new, additional or different shares of stock or securities of the Company or any other corporation, such new, additional or different shares shall thereupon be subject to all of the conditions, restrictions and performance criteria which were applicable to the Shares subject to the Award or Option, as the case may be, prior to such Change in Capitalization.

13. Effect of Certain Transactions; Effect of Change in Control.

(a) Effect of Certain Transactions. Subject to Sections 5.10, 7.7, 8.2(b) and 9.4 or as otherwise provided in an Agreement, in the event of (a) the liquidation or dissolution of the Company or (b) a merger or consolidation of the Company (a "Transaction"), the Plan and the Options and Awards issued hereunder shall continue in effect in accordance with their respective terms, except that following a Transaction either (i) each outstanding Option or Award shall be treated as provided for in the agreement entered into in connection with the Transaction or (ii) if not so provided in such agreement, each Optionee and Grantee shall be entitled to receive in respect of each Share subject to any outstanding Options or Awards, as the case may be, upon exercise of any Option or payment or transfer in respect of any Award, the same number and kind of stock, securities, cash, property or other consideration that each holder of a Share was entitled to receive in the Transaction in respect of a Share; provided, however, that such stock, securities, cash, property, or other consideration shall remain subject to all of the conditions, restrictions and performance criteria which were applicable to the Options and Awards prior to such Transaction. For the avoidance of doubt, the Committee may, without the consent of any Optionee or Grantee, provide for the cancellation of outstanding Awards in connection with a Transaction in exchange for the payment in cash or property equal in value to the Fair Market Value of the Shares underlying such Awards, less, in the case of Options, the aggregate exercise price thereof; provided that Options with an aggregate exercise price that is equal to or in excess of the aggregate Fair Market Value of the Shares underlying such Options may be cancelled in connection with such Transaction without any consideration being paid in respect thereof. The treatment of any Option or Award as provided in this Section 13(a) shall be conclusively presumed to be appropriate for purposes of Section 12.

(b) Effect of Change in Control. Notwithstanding any other provision of the Plan to the contrary, in the event of a Change in Control, the following provisions of this Section 13(b) shall apply except to the extent an Option or Award Agreement provides for a different treatment (in which case the Option or Award Agreement shall govern and this Section 13(b) shall not be applicable):

(i) If and to the extent that outstanding Options or Awards under the Plan (A) are assumed by the successor corporation (or affiliate thereto) or

(ii) If and to the extent that outstanding Options or Awards under the Plan are not assumed, continued or replaced in accordance with Section 13(b)(i)



14. Interpretation.

Following the required registration of any equity security of the Company pursuant to Section 12 of the Exchange Act:

(a) The Plan is intended to comply with Rule 16b-3 promulgated under the Exchange Act and the Committee shall interpret and administer the provisions of the Plan or any Agreement in a manner consistent therewith. Any provisions inconsistent with such Rule shall be inoperative and shall not affect the validity of the Plan.

(b) Unless otherwise expressly stated in the relevant Agreement, each Option, Stock Appreciation Right and Performance Award granted under the Plan is intended to be Performance-Based Compensation. The Committee shall not be entitled to exercise any discretion otherwise authorized hereunder with respect to such Options or Awards if the ability to exercise such discretion or the exercise of such discretion itself would cause the compensation attributable to such Options or Awards to fail to qualify as Performance-Based Compensation.

(c) To the extent that any legal requirement of Section 16 of the Exchange Act or Section 162(m) of the Code as set forth in the Plan ceases to be required under Section 16 of the Exchange Act or Section 162(m) of the Code, that Plan provision shall cease to apply.

15. Termination and Amendment of the Plan or Modification of Options and Awards.

15.1 Plan Amendment or Termination. The Plan shall terminate on the day preceding the tenth anniversary of the date of its most recent adoption by the Board and no Option or Award may be granted thereafter. The Board may sooner terminate the Plan and the Board may at any time and from time to time amend, modify or suspend the Plan; provided, however, that:

(a) no such amendment, modification, suspension or termination shall impair or adversely alter any Options or Awards theretofore granted under the Plan, except with the written consent of the Optionee or Grantee, nor shall any amendment, modification, suspension or termination deprive any Optionee or Grantee of any Shares which he or she may have acquired through or as a result of the Plan; and

(b) to the extent necessary under any applicable law, regulation or exchange requirement no amendment shall be effective unless approved by the stockholders of the Company in accordance with applicable law, regulation or exchange requirement.

15.2 Modification of Options and Awards. No modification of an Option or Award shall adversely alter or impair any rights or obligations under the Option or Award without the written consent of the Optionee or Grantee, as the case may be.

15.3 No Repricing of Options or Stock Appreciation Rights. The Committee shall have no authority to make any adjustment (other than in connection with a stock

dividend, recapitalization or other transaction where an adjustment is permitted or required under the terms of the Plan) or amendment, and no such adjustment or amendment shall be made, that reduces or would have the effect of reducing the exercise price of an Option or Stock Appreciation Right previously granted under the Plan, whether through amendment, cancellation or replacement grants, or other means (including without limitation the buyout for cash of any Option or Stock Appreciation Right that has a fair market value that is less than the strike price for said Option or Stock Appreciation Right), unless the Company's stockholders shall have approved such adjustment or amendment.

16. Non-Exclusivity of the Plan.

The adoption of the Plan by the Board shall not be construed as amending, modifying or rescinding any previously approved incentive arrangement or as creating any limitations on the power of the Board to adopt such other incentive arrangements as it may deem desirable, including, without limitation, the granting of stock options otherwise than under the Plan, and such arrangements may be either applicable generally or only in specific cases.

17. Limitation of Liability.

As illustrative of the limitations of liability of the Company, but not intended to be exhaustive thereof, nothing in the Plan shall be construed to:

(a) give any person any right to be granted an Option or Award other than at the sole discretion of the Committee;

(b) give any person any rights whatsoever with respect to Shares except as specifically provided in the Plan;

obtain for Eligible Individuals granted Incentive Stock Options the tax benefits under the applicable provisions of the Code and regulations promulgated thereunder.

18.4 Each Option and Award is subject to the requirement that, if at any time the Committee determines, in its discretion, that the listing, registration or qualification of Shares issuable pursuant to the Plan is required by any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the grant of an Option or Award or the issuance of Shares, no Options or Awards shall be granted or payment made or Shares issued, in whole or in part, unless listing, registration, qualification, consent or approval has been effected or obtained free of any conditions as acceptable to the Committee.

18.5 Notwithstanding anything contained in the Plan or any Agreement to the contrary, in the event that the disposition of Shares acquired pursuant to the Plan is not covered by a then current registration statement under the Securities Act of 1933, as amended (the "Securities Act"), and is not otherwise exempt from such registration, such Shares shall be restricted against transfer to the extent required by the Securities Act and Rule 144 or other regulations thereunder. The Committee may require any individual receiving Shares pursuant to an Option or Award granted under the Plan, as a condition precedent to receipt of such Shares, to represent and warrant to the Company in writing that the Shares acquired by such individual are acquired without a view to any distribution thereof and will not be sold or transferred other than pursuant to an effective registration thereof

19.2 Beneficiary Designation. Each Optionee or Grantee may, from time to time, name one or more individuals (each, a “Beneficiary”) to whom any benefit under the Plan is to be paid or who may exercise any rights of the Optionee or Grantee under any Option or Award granted under the Plan in the event of the Optionee’s or Grantee’s death before he or she receives any or all of such benefit or exercises such Option. Each such designation shall revoke all prior designations by the same Optionee or Grantee, shall be in a form prescribed by the Company, and will be effective only when filed by the Optionee or Grantee in writing with the Company during the Optionee’s or Grantee’s lifetime. In the absence of any such designation, benefits remaining unpaid at the Optionee’s or Grantee’s