

COMMUNITY HEALTH SYSTEMS INC

Form 10-Q

April 26, 2007

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**SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2007
Commission file number 001-15925
COMMUNITY HEALTH SYSTEMS, INC.
(Exact name of registrant as specified in its charter)**

Delaware
(State or other jurisdiction of
incorporation or organization)

13-3893191
(I.R.S. Employer
Identification Number)

4000 Meridian Boulevard
Franklin, Tennessee
(Address of principal executive offices)

37067

(Zip Code)

615-465-7000

(Registrant's telephone number)

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

Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or non-accelerated filer, see definition of "accelerated filer and large accelerated filer" in Rule 126-2 of the Exchange Act (check one).

Larger accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 126-2 of the Exchange Act).

Yes No

As of April 23, 2007, there were outstanding 95,730,955 shares of the Registrant's Common Stock, \$.01 par value.

Community Health Systems, Inc.
Form 10-Q
For the Three Months Ended March 31, 2007

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

	March 31, 2007	December 31, 2006
	<i>(Unaudited)</i>	
<i>ASSETS</i>		
<i>Current assets</i>		
Cash and cash equivalents	\$ 62,878	\$ 40,566
Patient accounts receivable, net of allowance for doubtful accounts of \$497,354 and \$478,565 at March 31, 2007, and December 31, 2006, respectively	817,497	773,984
Supplies	113,315	113,320
Deferred income taxes	13,249	13,249
Prepaid expenses and taxes	35,712	32,385
Other current assets	49,354	47,880
Total current assets	1,092,005	1,021,384
<i>Property and equipment</i>		
Less accumulated depreciation and amortization	2,667,923	2,630,366
	(682,220)	(643,789)
Property and equipment, net	1,985,703	1,986,577
<i>Goodwill</i>	1,332,422	1,336,525
<i>Other assets, net</i>	198,786	162,093
<i>Total assets</i>	\$ 4,608,916	\$ 4,506,579
<i>LIABILITIES AND STOCKHOLDERS EQUITY</i>		
<i>Current liabilities</i>		
Current maturities of long-term debt	\$ 23,058	\$ 35,396
Accounts payable	239,889	247,747
Current income taxes payable	25,524	7,626
Accrued interest	11,675	7,122
Accrued liabilities	290,570	277,392
Total current liabilities	590,716	575,283
<i>Long-term debt</i>	1,900,849	1,905,781
<i>Deferred income taxes</i>	141,472	141,472

<i>Other long-term liabilities</i>	195,429	160,370
<i>Stockholders equity</i>		
Preferred stock, \$.01 par value per share, 100,000,000 shares authorized, none issued		
Common stock, \$.01 par value per share, 300,000,000 shares authorized; 95,723,518 shares issued and 94,747,969 shares outstanding at March 31, 2007, and 95,026,494 shares issued and 94,050,945 shares outstanding at December 31, 2006	957	950
Additional paid-in capital	1,202,476	1,195,947
Treasury stock, at cost, 975,549 shares at March 31, 2007 and December 31, 2006	(6,678)	(6,678)
Accumulated other comprehensive income	1,715	5,798
Retained earnings	581,980	527,656
Total stockholders equity	1,780,450	1,723,673
<i>Total liabilities and stockholders equity</i>	<i>\$ 4,608,916</i>	<i>\$ 4,506,579</i>

See accompanying notes.

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

	Three Months Ended March 31,	
	2007	2006
<i>Net operating revenues</i>	\$ 1,203,997	\$ 1,026,562
<i>Operating costs and expenses:</i>		
Salaries and benefits	486,336	407,668
Provision for bad debts	135,699	107,591
Supplies	140,508	122,820
Other operating expenses	245,259	207,043
Rent	25,996	22,982
Depreciation and amortization	51,270	42,506
Minority interest in earnings	193	613
Total operating costs and expenses	1,085,261	911,223
<i>Income from operations</i>	118,736	115,339
<i>Interest expense, net</i>	30,404	21,787
<i>Income from continuing operations before income taxes</i>	88,332	93,552
<i>Provision for income taxes</i>	34,008	36,298
<i>Income from continuing operations</i>	54,324	57,254
<i>Discontinued operations, net of taxes:</i>		
Loss from operations of hospital sold		(657)
Loss on sale of hospital		(2,559)
<i>Loss on discontinued operations</i>		(3,216)
<i>Net income</i>	\$ 54,324	\$ 54,038
<i>Income from continuing operations per common share:</i>		
Basic	\$ 0.58	\$ 0.59
Diluted	\$ 0.58	\$ 0.58
<i>Net income per common share:</i>		
Basic	\$ 0.58	\$ 0.56

Diluted	\$	0.58	\$	0.55
<i>Weighted-average number of shares outstanding:</i>				
Basic		93,402,545		96,552,448
Diluted		94,365,292		98,209,271

See accompanying notes.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended	
	March 31,	
	2007	2006
<i>Cash flows from operating activities</i>		
Net income	\$ 54,324	\$ 54,038
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	51,270	42,506
Minority interest in earnings	193	613
Stock-based compensation expense	6,330	3,651
Loss on sale of hospital		3,937
Excess tax benefits relating to stock-based compensation	(758)	(4,360)
Other non-cash expenses, net	132	(590)
Changes in operating assets and liabilities, net of effects of acquisitions and divestitures:		
Patient accounts receivable	(33,322)	(42,326)
Supplies, prepaid expenses and other current assets	(7,867)	2,798
Accounts payable, accrued liabilities and income taxes	45,688	28,371
Other	4,357	2,176
Net cash provided by operating activities	120,347	90,814
<i>Cash flows from investing activities</i>		
Acquisitions of facilities and other related equipment	(44,039)	(17,448)
Purchases of property and equipment	(44,789)	(39,704)
Disposition of hospital		500
Proceeds from sale of equipment	134	34
Increase in other assets	(7,051)	(22,425)
Net cash used in investing activities	(95,745)	(79,043)
<i>Cash flows from financing activities</i>		
Proceeds from exercise of stock options	3,311	1,919
Excess tax benefits relating to stock-based compensation	758	4,360
Stock buy-back		(8,112)
Deferred financing costs	(14)	(16)
Redemption of convertible notes		(128)
Proceeds from minority investors in joint ventures	1,019	3,060
Redemption of minority investments in joint ventures	(1,253)	(530)
Distributions to minority investors in joint ventures	(1,079)	(596)
Borrowings under credit agreement		
Repayments of long-term indebtedness	(5,032)	(3,885)

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Net cash used in financing activities	(2,290)	(3,928)
<i>Net change in cash and cash equivalents</i>	22,312	7,843
<i>Cash and cash equivalents at beginning of period</i>	40,566	104,108
<i>Cash and cash equivalents at end of period</i>	\$ 62,878	\$ 111,951

See accompanying notes.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The unaudited condensed consolidated financial statements of Community Health Systems, Inc. and its Subsidiaries (the Company) as of March 31, 2007 and for the three month periods ended March 31, 2007 and March 31, 2006, have been prepared in accordance with accounting principles generally accepted in the United States of America. In the opinion of management, such information contains all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for such periods. All intercompany transactions and balances have been eliminated. The results of operations for the three months ended March 31, 2007, are not necessarily indicative of the results to be expected for the full fiscal year ending December 31, 2007. Certain information and disclosures normally included in the notes to consolidated financial statements have been condensed or omitted as permitted by the rules and regulations of the Securities and Exchange Commission (SEC), although the Company believes the disclosure is adequate to make the information presented not misleading. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2006, contained in the Company's Annual Report on Form 10-K.

Effective September 30, 2006, the Company began estimating the allowance for doubtful accounts by reserving a percentage of all self-pay accounts receivable without regard to aging category, based on collection history, adjusted for expected recoveries and, if present, anticipated changes in trends. For all other payor categories the Company began reserving 100% of all accounts aging over 365 days from the date of discharge of the patient. The percentage used to reserve for all self-pay accounts is based on the Company's collection history. The Company believes that substantially all of the Company's third-party insured receivables which include receivables from governmental agencies is collected. Previously, the Company estimated the allowance for doubtful accounts by reserving all accounts aging over 150 days from the date of discharge, without regard to payor class.

2. ACCOUNTING FOR STOCK-BASED COMPENSATION

Stock-based compensation awards are granted under the Community Health Systems, Inc. Amended and Restated 2000 Stock Option and Award Plan (the 2000 Plan). The 2000 Plan allows for the grant of incentive stock options intended to qualify under Section 422 of the Internal Revenue Code as well as stock options which do not so qualify, stock appreciation rights, restricted stock, performance units and performance shares, phantom stock awards and share awards. Persons eligible to receive grants under the 2000 Plan include the Company's directors, officers, employees and consultants. To date, the options granted under the 2000 Plan are nonqualified stock options for tax purposes. Vesting of these granted options occurs in one third increments on each of the first three anniversaries of the award date. Options granted prior to 2005 have a 10 year contractual term and options granted in 2005 and 2006 have an 8 year contractual term. The exercise price of options granted to employees under the 2000 Plan were equal to the fair value of the Company's common stock on the option grant date. As of March 31, 2007, 9,841,555 shares of unissued common stock remain reserved for future grants under the 2000 Plan. The Company also has options outstanding under its Employee Stock Option Plan (the 1996 Plan). These options are fully vested and exercisable and no additional grants of options will be made under the 1996 Plan.

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

	Three months ended March 31,	
	2007	2006
Effect on income from continuing operations before income taxes	\$ (6,330)	\$ (3,667)
Effect on net income	\$ (3,845)	\$ (2,384)

Effect on net income per share-diluted	\$ (0.04)	\$ (0.02)
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SFAS No. 123(R) also requires the benefits of tax deductions in excess of the recognized tax benefit on compensation expense to be reported as a financing cash flow, rather than as an operating cash flow as required under APB 25 and related interpretations. This requirement reduced our net operating cash flows and increased our financing cash flows by \$0.8 million for the three months ended March 31, 2007 and \$4.4 million for the three months ended March 31, 2006.

At March 31, 2007, \$63.9 million of unrecognized stock-based compensation expense from all outstanding unvested stock options and restricted stock is expected to be recognized over a weighted-average period of 23 months.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. ACCOUNTING FOR STOCK-BASED COMPENSATION (Continued)

The fair value of stock-based awards was estimated using the Black Scholes option pricing model with the assumptions and weighted-average fair values during the three months ended March 31, 2007, as follows:

	Three months ended March 31, 2007
Expected volatility	25.6%
Expected dividends	0
Expected term	4 years
Risk-free interest rate	4.48%

In determining expected return, the Company examined concentrations of option holdings, historical patterns of option exercises and forfeitures, as well as forward looking factors, to determine if there were discernable employee populations. From this analysis, the Company identified two employee populations, one consisting primarily of certain senior executives and the other consisting of all other recipients.

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

The expected life computation is based on historical exercise and cancellation patterns and forward looking factors, where present, for each population identified. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of the grant. The pre-vesting forfeiture rate is based on historical rates and forward looking factors for each population identified. As required under SFAS No. 123(R), the Company will adjust the estimated forfeiture rate to its actual experience.

Options outstanding and exercisable under the 1996 Plan and the 2000 Plan as of March 31, 2007, and changes during the three months then ended were as follows (in thousands, except share and per share data):

	Shares	Weighted average exercise price	Weighted average remaining contractual term (in years)	Aggregate intrinsic value as of March 31, 2007
Outstanding at December 31, 2006	5,482,528	\$ 26.48		
Granted	852,500	37.21		
Exercised	(121,861)	26.13		
Forfeited and cancelled	(24,002)	35.77		
Outstanding at March 31, 2007	6,189,165	\$ 27.93	6.69 years	\$ 45,306
Exercisable at March 31, 2007	4,085,501	\$ 23.50	6.23 years	\$ 49,007

The weighted-average grant date fair value of stock options granted during the three months ended March 31, 2007, was \$10.36. The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between the Company's closing stock price on the last trading day of the reporting period (\$35.25) and the exercise price, multiplied by the number of the in-the-

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. ACCOUNTING FOR STOCK-BASED COMPENSATION (Continued)

money options) that would have been received by the option holders had all option holders exercised their options on March 31, 2007. This amount changes based on the market value of the Company's common stock. The aggregate intrinsic value of options exercised during the three months ended March 31, 2007 was \$1.4 million and the aggregate intrinsic value of options exercised during the three months ended March 31, 2006 was \$11.1 million.

The Company has also awarded restricted stock under the 2000 Plan to various employees and its directors. The restrictions on these shares generally lapse in one-third increments on each of the first three anniversaries of the award date. Certain of the restricted stock awards granted to the Company's senior executives also contain a performance objective that must be met in addition to the vesting requirements. If the performance objective is not attained the awards will be forfeited in their entirety. Once the performance objective has been attained, restrictions will lapse in one-third increments on each of the first three anniversaries of the award date. Notwithstanding the above mentioned performance objectives and vesting requirements, the restrictions will lapse earlier in the event of death, disability, termination of employment by employer for reason other than for cause of the holder of the restricted stock or in the event of change in control of the Company. Restricted stock awards subject to performance standards are not considered outstanding for purposes of determining earnings per share until the performance objectives have been satisfied.

Restricted stock outstanding under the 2000 Plan as of March 31, 2007, and changes during the three months then ended are as follows:

	Shares	Weighted average fair value
Unvested at December 31, 2006	969,691	\$ 36.05
Granted	681,000	37.19
Vested	(376,679)	35.42
Forfeited		
Unvested at March 31, 2007	1,274,012	36.84

As of March 31, 2007, there was \$44.0 million of unrecognized stock-based compensation expense related to unvested restricted stock expected to be recognized over a weighted-average period of 24 months.

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

	Three months ended March 31,	
	2007	2006
Directors' fees earned and deferred into plan	\$ 35,875	\$ 50,000
Equivalent units	1,017.731	1,434.993

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At March 31, 2007, there are a total of 10,803.732 units deferred in the plan with an aggregate fair value of \$380,832, based on the closing market price of the Company's common stock at March 30, 2007 of \$35.25.

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**COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

3. COST OF REVENUE

The majority of the Company's operating costs and expenses are cost of revenue items. Operating costs that could be classified as general and administrative by the Company would include the Company's corporate office costs, which were \$23.1 million and \$22.1 million for the three month periods ended March 31, 2007 and 2006. These corporate office costs include stock-based compensation expense recognized under SFAS No. 123(R).

4. USE OF ESTIMATES

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

5. ACQUISITIONS AND DIVESTITURES

On March 19, 2007, the Company and Triad Hospitals, Inc. (Triad) announced the execution of a definitive merger agreement pursuant to which the Company will acquire Triad for \$54 per share in cash, or approximately \$6.8 billion in the aggregate, including the assumption of approximately \$1.7 billion of existing indebtedness of Triad. The combined company would own or operate approximately 130 hospitals in 28 states, with a total bed count of more than 18,700. The completion of the acquisition is subject to certain closing conditions including approval by Triad's stockholders and regulatory approvals, and is expected to close in the third quarter of 2007. There is no financing condition to the consummation of the transaction. In connection with the pending Triad merger, the Company obtained a debt financing commitment from Credit Suisse, Wachovia Bank, National Association, and certain of their affiliates, for up to \$6.95 billion of senior secured financing and \$3.365 billion of either bridge financing or senior notes (collectively, the Debt Financing). The final terms of the Debt Financing are subject to the negotiation of mutually acceptable definitive documentation, which will include customary representations and warranties, affirmative and negative covenants, and events of default. Additionally, lenders' provision of the Debt Financing is subject to the satisfaction of specified conditions precedent, including consummation of the merger and delivery of specified financial information regarding the Company and Triad.

The merger agreement specifies the termination rights of the parties and further provides that upon termination of the merger agreement under certain circumstances, Triad may be required to pay the Company a termination fee of approximately \$130 million. The parties to the merger agreement are entitled to specific performance of the terms and provisions of the merger agreement, in addition to any other remedy to which they are entitled, including damages for any breach of the merger agreement by the other party.

Prior to entering the merger agreement, Triad terminated an Agreement and Plan of Merger that it entered into on February 4, 2007 (the Prior Merger Agreement) with Panthera Partners, LLC, Panthera Holdco Corp. and Panthera Acquisition Corporation (collectively, Panthera). Concurrent with the termination of the Prior Merger Agreement and pursuant to the terms thereof, Triad paid a termination fee of \$20 million to Panthera and advanced \$20 million to Panthera to cover its out-of-pocket expenses. The Company has reimbursed Triad for the termination fee and the advance for expense reimbursement paid to Panthera, on the condition that Triad will repay the Company such amounts in the event the merger agreement is terminated under certain circumstances in which the Company is entitled to expense reimbursement and/or a termination fee from Triad.

During 2006, the Company acquired through 7 separate purchase transactions and three capital lease transactions, substantially all of the assets and working capital of eight hospitals and three home health agencies. On March 1, 2006, the Company acquired, through a combination of purchasing certain assets and entering into a capital lease for other related assets, Forrest City Hospital, a 118 bed hospital located in Forrest City, Arkansas. On April 1, 2006, the Company completed the acquisition of two hospitals from Baptist Health System, Birmingham, Alabama: Baptist Medical Center DeKalb (134 beds) and Baptist Medical Center Cherokee (60 beds). On May 1, 2006, the Company acquired Via Christi Oklahoma Regional Medical Center, a 140 bed hospital located in Ponca City, Oklahoma. On June 1, 2006, the Company acquired Mineral Area Regional Medical Center, a 135 bed hospital located in Farmington, Missouri. On June 30, 2006, the Company acquired Cottage Home Options, a home health agency and related business, located in Galesburg, Illinois. On July 1, 2006, the Company acquired the healthcare assets of Vista

Health, which included Victory Memorial Hospital (336 beds) and St. Therese Medical Center (71 non-acute care beds), both located in Waukegan, Illinois. On September 1, 2006, the Company acquired Humble Texas Home Care, a home healthy agency located in Humble, Texas. On October 1, 2006, the Company acquired Helpsource Home Health, a home health agency located in Wichita Falls, Texas. On November 1, 2006, the Company acquired through two separate capital lease transactions, Campbell Memorial Hospital, a 99 bed hospital located in Weatherford, Texas and Union County Hospital, a 25 bed hospital located in Anna, Illinois. The aggregate consideration for these eight hospitals and three home health agencies totaled approximately \$385.7

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. ACQUISITIONS AND DIVESTITURES (Continued)

million, of which \$353.8 million was paid in cash and \$31.9 million was assumed in liabilities. Goodwill recognized in these transactions totaled \$65.6 million, which is expected to be fully deductible for tax purposes.

Effective March 18, 2006, the Company sold Highland Medical Center, a 123 bed facility located in Lubbock, Texas, to Shiloh Health Services, Inc. of Louisville, Kentucky. The proceeds from this sale were \$0.5 million. This hospital had previously been classified as held for sale.

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

Net operating revenues and loss from discontinued operations for the three month period ended March 31, 2006 (as applicable) are as follows:

	Three months ended March 31, 2006
Net operating revenues	\$ 4,294
Loss from operations before income taxes	\$ (1,008)
Loss on sale of hospital	(3,938)
Impairment on assets held for sale	
Loss from discontinued operations, before taxes	(4,946)
Income tax benefit	1,730
Loss from discontinued operations, net of tax	\$ (3,216)

The computation of the loss from discontinued operations, before taxes, for the three months ended March 31, 2006 includes the net write-off of \$4.4 million of tangible assets at the one hospital sold during the three months ended March 31, 2006.

There are no material assets or liabilities related to the hospitals classified as discontinued operations in the accompanying condensed consolidated balance sheets as of March 31, 2007 and December 31, 2006.

6. INCOME TAXES

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, on January 1, 2007. The total amount of unrecognized benefit that would affect the effective tax rate, if recognized, is \$8.7 million. It is the Company's policy to recognize interest accrued related to unrecognized benefits in its statement of operations as income tax expense. Approximately \$1 million of interest is included in the amount of unrecognized benefit at March 31, 2007. During the year ending December 31, 2007, it is possible the Company could release up to \$5 million of its tax reserve, as a result of the potential expiration of the statute of limitations pertaining to tax positions taken in prior years relative to legal settlements.

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. With few exceptions the Company is no longer subject to U.S. federal or state income tax examinations for years prior to 2003. During 2006, the Company agreed to a settlement at the Internal Revenue Service Appeals Office with respect to the 2003 consolidated income tax year. The Company has received a closing letter with respect to the examination for the tax year 2003. The settlement was not material to the Company's consolidated statement of income or financial position.

Cash paid for income taxes, net of refunds received, was \$13.2 million during the three months ended March 31, 2007 and \$21.1 million during the three months ended March 31, 2006.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

7. GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill for the three months ended March 31, 2007, are as follows (in thousands):

Balance as of December 31, 2006	\$ 1,336,525
Goodwill acquired as part of acquisitions during 2007	436
Consideration adjustments and finalization of purchase price allocations for acquisitions completed prior to 2007	(4,539)
Balance as of March 31, 2007	\$ 1,332,422

The Company completed its most recent annual goodwill impairment test as required by SFAS No. 142, Goodwill and Other Intangible Assets, during 2006, using a measurement date of September 30, 2006. Based on the results of the impairment test, the Company was not required to recognize an impairment of goodwill in 2006.

The gross carrying amount of the Company's other intangible assets was \$14.4 million at March 31, 2007 and \$13.7 million at December 31, 2006, and the net carrying amount was \$7.6 million at March 31, 2007 and \$7.4 million at December 31, 2006. Other intangible assets are included in other assets, net on the Company's condensed consolidated balance sheets.

The weighted-average amortization period for the intangible assets subject to amortization is approximately six years. There are no expected residual values related to these intangible assets. Amortization expense on these intangible assets during the three months ended March 31, 2007 and March 31, 2006 was \$0.5 million and \$0.4 million, respectively. Amortization expense on intangible assets is estimated to be \$1.4 million for the remainder of 2007, \$1.3 million in 2008, \$1.1 million in 2009, \$0.9 million in 2010, \$0.6 million in 2011, and \$0.4 million in 2012.

8. EARNINGS PER SHARE

The following table sets forth the components of the numerator and denominator for the computation of basic and diluted income from continuing operations per share (in thousands, except share data):

	Three months ended March 31,	
	2007	2006
Numerator:		
Numerator for basic earnings per share -		
Income from continuing operations available to common stockholders basic	\$ 54,324	\$ 57,254
Numerator for diluted earnings per share -		
Income from continuing operations	\$ 54,324	\$ 57,254
Interest, net of tax, on 4.25% convertible notes		135
Income from continuing operations available to common stockholders diluted	\$ 54,324	\$ 57,389
Denominator:		
Weighted-average number of shares outstanding basic		