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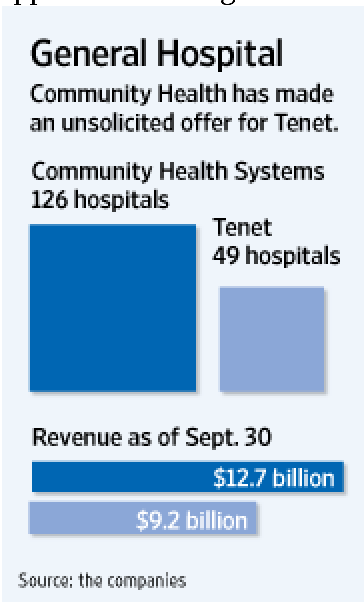
Community Health Systems Inc. said its $3.3 billion unsolicited bid for Tenet Heathcare Corp. would create a powerful company with more leverage in contract negotiations and greater opportunities for growth and savings.



But Tenet contends the offer undervalues the company, a sentiment echoed by some industry experts who also question the compatibility of the two hospital companies.

Community Health Chief Executive Wayne Smith on Friday expressed confidence in the proposal, which also includes $4 billion in debt.

"We think being broader and wider now is important in terms of managed care and health-care reform," said Mr. Smith during a conference call with investors, noting that his offer represents a 40% premium over Tenet's closing price Thursday of $4.29. "We're hopeful that rational people prevail ... and we think it is fully priced at $6 a share."

Tenet said the offer is identical to one tendered in November. In a Dec. 8 letter rejecting that earlier offer, Tenet noted that hospitals are trading at historic lows.

Indeed, Tenet shares surged 55% Friday to $6.65 in 4 p.m. trading on the New York Stock Exchange. This was above the $6 a share offered, raising speculation that other bidders could emerge or that Community Health would have to raise its bid. A Tenet spokesman said Friday the company had no further comment.

Community Health Systems shares rose 13% to $35.89 in 4 p.m. trading Friday.

Tenet executives said in the letter that the two companies have little in common, making the task of integrating them and squeezing savings challenging. "You operate small hospitals; we operate large hospitals," said Chief Executive Trevor Fetter and Chairman Edward Kangas in their letter to Mr. Smith. "You operate in rural or suburban markets; we operate primarily in urban markets."

Sheryl Skolnick, an analyst at CRT Capital Group LLC, noted that the two companies have limited overlap at the local level, raising the question of whether a combined company would be able to force better reimbursement out of managed-care providers.

"What you need is local scale," said Ms. Skolnick. "It doesn't help you negotiate with managed care in Atlanta" to own hospitals in a city in another part of the country or even in a distant part of the same state. However, she said, because of the limited local overlap, the deal would likely pass muster with antitrust regulators.

America's Health Insurance Plans, a trade group, declined to comment on the proposal, saying it is too early to know its impact. Insurance companies have pointed to increasing hospital consolidation as a reason that premiums are rising, since dominant hospital systems can command large reimbursement rates from insurers.

"The question is, can you run the Tenet hospitals better than they can? They're one of the best-run for-profit [hospital] companies, so [my] answer would be no," said Joshua Nemzoff, president of hospital consultant Nemzoff & Co.

On the investor call, Community Health's executives said they are comfortable running facilities of all sizes and have "a proven track record of unmatched operating performance." The combined operation would have "a strong geographic overlap with 10 states in common," giving a combined entity "an increased negotiating power with the managed-care providers," many of which are national, said Mr. Smith.

Community Health executives also said they were confident in their ability to assume Tenet's debt, an issue that raised concerns among investors. Moody's Investors Service placed Community Health's ratings on review for possible downgrade.

"The bid to acquire Tenet will likely add to Community's leverage, which is already considered high for the rating category," said Dean Diaz, a Moody's senior credit officer. However, "Community has shown that it is adept at integrating acquired operations."

Community Health became the country's second-largest hospital company behind HCA Inc. by growing rapidly, most notably with a $5 billion purchase of Triad Hospitals Inc. in 2007. Mr. Smith is known in the industry as an aggressive acquirer. He said on the investor call that, "We've been accused of being opportunistic and we are."

Tenet, meanwhile, skinnied down after government regulators launched an investigation in 2002 into certain billing practices, but the company has recently held steady its number of hospitals.

It reached a settlement with the government in 2006, and has recently finished paying off $900 million in fines.

The deal would create the largest hospital company in the country in terms of facilities. The combined company would have about $22 billion in revenue from 175 hospitals in 30 states and a total of 32,830 licensed beds.

—Katherine Hobson contributed to this article.