

COMMUNITY HEALTH SYSTEMS INC

Form 10-Q

May 03, 2016

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)**

**OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended March 31, 2016**

**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**

**37067**

**Franklin, Tennessee**

*(Address of principal executive offices)*

*(Zip Code)*

**615-465-7000**

*(Registrant's telephone number)*

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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

As of April 28, 2016, there were outstanding 113,754,186 shares of the Registrant's Common Stock, \$0.01 par value.

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**Community Health Systems, Inc.**

**Form 10-Q**

**For the Three Months Ended March 31, 2016**

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## COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

*(In millions, except share and per share data)**(Unaudited)*

	Three Months Ended March 31,	
	2016	2015
Operating revenues (net of contractual allowances and discounts)	\$ 5,754	\$ 5,646
Provision for bad debts	755	735
<i>Net operating revenues</i>	4,999	4,911
<i>Operating costs and expenses:</i>		
Salaries and benefits	2,317	2,257
Supplies	799	762
Other operating expenses	1,173	1,099
Government settlement and related costs	-	8
Electronic health records incentive reimbursement	(18)	(26)
Rent	119	116
Depreciation and amortization	298	296
Impairment of long-lived assets	17	-
Total operating costs and expenses	4,705	4,512
<i>Income from operations</i>	294	399
Interest expense, net	251	241
Loss from early extinguishment of debt	-	8
Equity in earnings of unconsolidated affiliates	(20)	(18)
Income from continuing operations before income taxes	63	168
Provision for income taxes	26	56
Income from continuing operations	37	112
<i>Discontinued operations, net of taxes:</i>		
Loss from operations of entities sold or held for sale	-	(11)
Impairment of hospitals sold or held for sale	(1)	(1)
Loss on sale, net	-	(1)
Loss from discontinued operations, net of taxes	(1)	(13)

<i>Net income</i>		36		99
Less: Net income attributable to noncontrolling interests		25		20
Net income attributable to Community Health Systems, Inc. stockholders	\$	11	\$	79
<i>Basic earnings (loss) per share attributable to Community Health Systems, Inc. common stockholders:</i>				
Continuing operations	\$	0.11	\$	0.80
Discontinued operations		(0.01)		(0.11)
Net income	\$	0.10	\$	0.69
<i>Diluted earnings (loss) per share attributable to Community Health Systems, Inc. common stockholders:</i>				
Continuing operations	\$	0.11	\$	0.79
Discontinued operations		(0.01)		(0.11)
Net income	\$	0.10	\$	0.68
<i>Weighted-average number of shares outstanding:</i>				
Basic		110,247,867		114,419,590
Diluted		110,309,372		115,057,668

See accompanying notes to the condensed consolidated financial statements.

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## COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

*(In millions)**(Unaudited)*

	Three Months Ended			
	2016		March 31,	
			2015	
Net income	\$	36	\$	99
Other comprehensive (loss) income, net of income taxes:				
Net change in fair value of interest rate swaps, net of tax		(19)		(9)
Net change in fair value of available-for-sale securities, net of tax		2		1
Amortization and recognition of unrecognized pension cost components, net of tax		1		1
Other comprehensive loss		(16)		(7)
Comprehensive income		20		92
Less: Comprehensive income attributable to noncontrolling interests		25		20
Comprehensive (loss) income attributable to Community Health Systems, Inc. stockholders	\$	(5)	\$	72

See accompanying notes to the condensed consolidated financial statements.

**Table of Contents****COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS***(In millions, except share data)**(Unaudited)*

	March 31, 2016	December 31, 2015
<b>ASSETS</b>		
<i>Current assets:</i>		
Cash and cash equivalents	\$ 181	\$ 184
Patient accounts receivable, net of allowance for doubtful accounts of \$4,051 and \$4,110 at March 31, 2016 and December 31, 2015, respectively	3,723	3,611
Supplies	587	580
Prepaid income taxes	2	27
Prepaid expenses and taxes	218	197
Other current assets (including assets of hospitals held for sale of \$5 and \$17 at March 31, 2016 and December 31, 2015, respectively)	545	567
<b>Total current assets</b>	<b>5,256</b>	<b>5,166</b>
Property and equipment	15,084	14,906
Less accumulated depreciation and amortization	(4,980)	(4,794)
Property and equipment, net	10,104	10,112
<i>Goodwill</i>	9,022	8,965
<i>Other assets, net (including assets of hospitals held for sale of \$25 and \$41 at March 31, 2016 and December 31, 2015, respectively)</i>	2,342	2,352
<b>Total assets</b>	<b>\$ 26,724</b>	<b>\$ 26,595</b>

**LIABILITIES AND EQUITY**

<i>Current liabilities:</i>		
Current maturities of long-term debt	\$ 249	\$ 229
Accounts payable	1,179	1,258
Accrued interest	158	227
Accrued liabilities (including liabilities of hospitals held for sale of \$2 and \$6 at March 31, 2016 and December 31, 2015, respectively)	1,468	1,358

Total current liabilities	3,054	3,072
<i>Long-term debt</i>	16,665	16,556
<i>Deferred income taxes</i>	599	593
<i>Other long-term liabilities</i>	1,723	1,698
<i>Total liabilities</i>	22,041	21,919
<i>Redeemable noncontrolling interests in equity of consolidated subsidiaries</i>	565	571
<b>EQUITY</b>		
<i>Community Health Systems, Inc. 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; 114,731,736 shares issued and 113,756,187 shares outstanding at March 31, 2016, and 113,732,933 shares issued and 112,757,384 shares outstanding at December 31, 2015	1	1
Additional paid-in capital	1,952	1,963
Treasury stock, at cost, 975,549 shares at March 31, 2016 and December 31, 2015	(7)	(7)
Accumulated other comprehensive loss	(89)	(73)
Retained earnings	2,146	2,135
Total Community Health Systems, Inc. stockholders' equity	4,003	4,019
<i>Noncontrolling interests in equity of consolidated subsidiaries</i>	115	86
<i>Total equity</i>	4,118	4,105
<i>Total liabilities and equity</i>	\$ 26,724	\$ 26,595

See accompanying notes to the condensed consolidated financial statements.



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

*(In millions)*

*(Unaudited)*

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2016</b>	<b>2015</b>
<i>Cash flows from operating activities:</i>		
Net income	\$ 36	\$ 99
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	298	296
Government settlement and related costs	-	8
Stock-based compensation expense	14	14
Loss on sale, net	-	1
Impairment of hospitals sold or held for sale	1	2
Impairment of long-lived assets	17	-
Loss from early extinguishment of debt	-	8
Other non-cash expenses, net	14	(7)
Changes in operating assets and liabilities, net of effects of acquisitions and divestitures:		
Patient accounts receivable	(109)	(202)
Supplies, prepaid expenses and other current assets	(14)	14
Accounts payable, accrued liabilities and income taxes	64	(284)
Other	(27)	(10)
<b>Net cash provided by (used in) operating activities</b>	<b>294</b>	<b>(61)</b>
<i>Cash flows from investing activities:</i>		
Acquisitions of facilities and other related equipment	(99)	(13)
Purchases of property and equipment	(224)	(241)
Proceeds from disposition of hospitals and other ancillary operations	12	62
Proceeds from sale of property and equipment	4	3
Purchases of available-for-sale securities	(37)	(59)
Proceeds from sales of available-for-sale securities	40	56
Increase in other investments	(67)	(39)
<b>Net cash used in investing activities</b>	<b>(371)</b>	<b>(231)</b>
<i>Cash flows from financing activities:</i>		
Proceeds from exercise of stock options	-	17
	(7)	(20)

Repurchase of restricted stock shares for payroll tax withholding requirements			
Deferred financing costs and other debt-related costs	-		(20)
Redemption of noncontrolling investments in joint ventures	(16)		(7)
Distributions to noncontrolling investors in joint ventures	(18)		(23)
Borrowings under credit agreements	1,564		1,251
Proceeds from receivables facility	31		75
Repayments of long-term indebtedness	(1,480)		(1,268)
Net cash provided by financing activities	74		5
<i>Net change in cash and cash equivalents</i>	(3)		(287)
<i>Cash and cash equivalents at beginning of period</i>	184		509
<i>Cash and cash equivalents at end of period</i>	\$ 181	\$	222
<i>Supplemental disclosure of cash flow information:</i>			
Interest payments	\$ (307)	\$	(300)
Income tax (payments) refunds, net	\$ -	\$	(1)

See accompanying notes to the condensed consolidated financial statements.

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

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

**1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**

The unaudited condensed consolidated financial statements of Community Health Systems, Inc. (the Parent or Parent Company ) and its subsidiaries (the Company ) as of March 31, 2016 and December 31, 2015 and for the three-month ended March 31, 2016 and 2015, have been prepared in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ). In the opinion of management, such information contains all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for such periods. All intercompany transactions and balances have been eliminated. The results of operations for the three months ended March 31, 2016, are not necessarily indicative of the results to be expected for the full fiscal year ending December 31, 2016. Certain information and disclosures normally included in the notes to condensed consolidated financial statements have been condensed or omitted as permitted by the rules and regulations of the Securities and Exchange Commission (the SEC ). The Company believes the disclosures are adequate to make the information presented not misleading. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2015, contained in the Company s Annual Report on Form 10-K filed with the SEC on February 17, 2016 ( 2015 Form 10-K ).

Noncontrolling interests in less-than-wholly-owned consolidated subsidiaries of the Parent are presented as a component of total equity on the condensed consolidated balance sheets to distinguish between the interests of the Parent Company and the interests of the noncontrolling owners. Noncontrolling interests that are redeemable or may become redeemable at a fixed or determinable price at the option of the holder or upon the occurrence of an event outside of the control of the Company are presented in mezzanine equity on the condensed consolidated balance sheets.

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

*Allowance for Doubtful Accounts.* Accounts receivable are reduced by an allowance for amounts that could become uncollectible in the future. Substantially all of the Company s receivables are related to providing healthcare services to patients at its hospitals and affiliated businesses.

The Company estimates 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 any anticipated changes in trends. The Company s ability to estimate the allowance for doubtful accounts is not impacted by not utilizing an aging of net accounts receivable as the Company believes that substantially all of the risk exists at the point in time such accounts are identified as self-pay. For all other non-self-pay payor categories, the Company reserves an estimated amount on historical collection rates for the uncontractualized portion of all accounts aging over 365 days from the date of discharge. These amounts represent an immaterial percentage of the outstanding accounts receivable. The percentage used to reserve for all self-pay accounts is based on the Company s collection history. The Company collects substantially all of its third-party insured receivables, which include receivables from governmental agencies.

Collections are impacted by the economic ability of patients to pay and the effectiveness of the Company's collection efforts. Significant changes in payor mix, business office operations, economic conditions or trends in federal and state governmental healthcare coverage could affect the Company's collection of accounts receivable and the estimates of the collectability of future accounts receivable and are considered in the Company's estimates of accounts receivable collectability. The Company also continually reviews its overall reserve adequacy by monitoring historical cash collections as a percentage of trailing net revenue less provision for bad debts, as well as by analyzing current period net revenue and admissions by payor classification, aged accounts receivable by payor, days revenue outstanding, the composition of self-pay receivables between pure self-pay patients and the patient responsibility portion of third-party insured receivables and the impact of recent acquisitions and dispositions.

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

Operating revenues, net of contractual allowances and discounts (but before the provision for bad debts), recognized during the three months ended March 31, 2016 and 2015, were as follows (in millions):

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2016</b>	<b>2015</b>
Medicare	\$ 1,431	\$ 1,398
Medicaid	593	586
Managed Care and other third-party payors	3,022	2,946
Self-pay	708	716
<b>Total</b>	<b>\$ 5,754</b>	<b>\$ 5,646</b>

*Electronic Health Records Incentive Reimbursement.* The federal government has implemented a number of regulations and programs designed to promote the use of electronic health records ( EHR ) technology and, pursuant to the Health Information Technology for Economic and Clinical Health Act ( HITECH ), established requirements for a Medicare and Medicaid incentive payments program for eligible hospitals and professionals that adopt and meaningfully use certified EHR technology. The Company utilizes a gain contingency model to recognize EHR incentive payments. Recognition occurs when the eligible hospitals adopt or demonstrate meaningful use of certified EHR technology for the applicable payment period and have available the Medicare cost report information for the relevant full cost report year used to determine the final incentive payment.

Medicaid EHR incentive payments are calculated based on prior period Medicare cost report information available at the time when eligible hospitals adopt, implement, upgrade or demonstrate meaningful use of certified EHR technology. Since the information for the relevant full Medicare cost report year is available at the time of attestation, the incentive income from resolving the gain contingency is recognized when eligible hospitals adopt, implement, upgrade or demonstrate meaningful use of certified EHR technology.

Medicare EHR incentive payments are calculated based on the Medicare cost report information for the full cost report year that began during the federal fiscal year in which meaningful use is demonstrated. Since the necessary information is only available at the end of the relevant full Medicare cost report year and after the cost report is settled, the incentive income from resolving the gain contingency is recognized when eligible hospitals demonstrate meaningful use of certified EHR technology and the information for the applicable full Medicare cost report year to determine the final incentive payment is available.

In some instances, the Company may receive estimated Medicare EHR incentive payments prior to when the Medicare cost report information used to determine the final incentive payment is available. In these instances, recognition of the gain for EHR incentive payments is deferred until all recognition criteria described above are met.

Eligibility for annual Medicare incentive payments is dependent on providers successfully attesting to the meaningful use of EHR technology. Medicaid incentive payments are available to providers in the first payment year that they adopt, implement or upgrade certified EHR technology; however, providers must demonstrate meaningful use of such technology in any subsequent payment years to qualify for additional incentive payments. Medicaid EHR incentive payments are fully funded by the federal government and administered by the states; however, the states are not required to offer EHR incentive payments to providers.

The Company recognized approximately \$18 million and \$26 million for the three months ended March 31, 2016 and 2015, respectively, of incentive reimbursement for HITECH incentives from Medicare and Medicaid related to certain of the Company's hospitals and for certain of the Company's employed physicians that have demonstrated meaningful use of certified EHR technology or have completed attestations to their adoption or implementation of certified EHR technology. These incentive reimbursements are presented as a reduction of operating costs and expenses on the condensed consolidated statements of income. The Company received cash related to the incentive reimbursement for HITECH incentives of approximately \$85 million and \$54 million for the three months ended March 31, 2016 and 2015, respectively. The Company recorded \$34 million and \$75 million as deferred revenue in connection with the receipt of these payments at March 31, 2016 and 2015, respectively, as all criteria for gain recognition had not been met.

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

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

*New Accounting Pronouncements.* In May 2014, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2014-09, which outlines a single comprehensive model for recognizing revenue and supersedes most existing revenue recognition guidance, including guidance specific to the healthcare industry. This ASU provides companies the option of applying a full or modified retrospective approach upon adoption. This ASU is effective for fiscal years beginning after December 15, 2016. However, the FASB recently issued a final ASU that defers the effective date by one year, with early adoption permitted for annual periods beginning after December 15, 2016. The Company expects to adopt this ASU on January 1, 2018 and is currently evaluating its plan for adoption and the impact on its revenue recognition policies, procedures and control framework and the resulting impact on its consolidated financial position, results of operations and cash flows.

In April 2015, the FASB issued ASU 2015-03, which requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct reduction from the carrying amount of that debt liability, consistent with the accounting for debt discounts. The ASU did not change the measurement or recognition guidance for debt issuance costs. This ASU is effective for fiscal years beginning after December 31, 2015. The Company adopted this ASU on January 1, 2016, which resulted in the reclassification of approximately \$266 million of debt issuance costs from other long-term assets to a reduction of the related long-term debt. The adoption of this ASU was applied retroactively to all periods presented, and had no impact on the Company's results of operations or cash flows.

In November 2015, the FASB issued ASU 2015-17, which amended the balance sheet classification requirements for deferred income taxes to simplify their presentation in the statement of financial position. The ASU requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. This ASU is effective for fiscal years beginning after December 31, 2016, with early adoption permitted. The Company early adopted the provisions of this ASU for the presentation and classification of its deferred tax assets at December 31, 2015. The effect of this change primarily resulted in the current portion of deferred income taxes at December 31, 2015 being included in the noncurrent deferred income tax liability.

In January 2016, the FASB issued ASU 2016-01, which amends the measurement, presentation and disclosure requirements for equity investments, other than those accounted for under the equity method or that require consolidation of the investee. The ASU eliminates the classification of equity investments as available-for-sale with any changes in fair value of such investments recognized in other comprehensive income, and requires entities to measure equity investments at fair value, with any changes in fair value recognized in net income. This ASU is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. The Company expects to adopt this ASU on January 1, 2018, and is currently evaluating the impact that adoption of this ASU will have on its consolidated financial position and results of operations.

In February 2016, the FASB issued ASU 2016-02, which amends the accounting for leases, requiring lessees to recognize most leases on their balance sheet with a right-of-use asset and a lease liability. Leases will be classified as either finance or operating leases, which will impact the expense recognition of such leases over the lease term. The ASU also modifies the lease classification criteria for lessors and eliminates some of the real estate leasing guidance previously applied for certain leasing transactions. This ASU is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company expects to adopt this ASU on January 1, 2019. Because of the number of leases the Company utilizes to support its operations, the adoption of this ASU is expected to have a

significant impact on the Company's consolidated financial position and results of operations. Management is currently evaluating the extent of this anticipated impact on the Company's consolidated financial position and results of operations, and the quantitative and qualitative factors that will impact the Company as part of the adoption of this ASU, as well as any changes to its leasing strategy that may occur because of the changes to the accounting and recognition of leases.

In March 2016, the FASB issued ASU 2016-09, which was issued to simplify some of the accounting guidance for share-based compensation. Among the areas impacted by the amendments in this ASU is the accounting for income taxes related to share-based payments, accounting for forfeitures, classification of awards as equity or liabilities, and classification on the statement of cash flows. This ASU is effective for fiscal years beginning after December 15, 2016, with early adoption permitted. The Company expects to adopt this ASU on January 1, 2017. Management is evaluating the impact that the adoption of this ASU will have on its consolidated financial position, results of operations and cash flows.



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

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

**2. ACCOUNTING FOR STOCK-BASED COMPENSATION**

Stock-based compensation awards have been granted under the Community Health Systems, Inc. Amended and Restated 2000 Stock Option and Award Plan, amended and restated as of March 20, 2013 (the 2000 Plan ), and the Community Health Systems, Inc. 2009 Stock Option and Award Plan, amended and restated as of March 19, 2014 (the 2009 Plan ). In addition, at the annual meeting of stockholders to be held on May 17, 2016 (the 2016 Annual Meeting ), the Company s stockholders will be voting on whether or not to approve the amendment and restatement of the 2009 Plan (the Amended 2009 Plan ) which was approved by the Board on March 16, 2016, subject to stockholder approval at the 2016 Annual Meeting.

The 2000 Plan allowed for the grant of incentive stock options intended to qualify under Section 422 of the Internal Revenue Code (the IRC ), as well as stock options which do not so qualify, stock appreciation rights, restricted stock, restricted stock units, performance-based shares or units and other share awards. Prior to being amended in 2009, the 2000 Plan also allowed for the grant of phantom stock. Persons eligible to receive grants under the 2000 Plan include the Company s directors, officers, employees and consultants. All options granted under the 2000 Plan have been nonqualified stock options for tax purposes. Generally, vesting of these granted options occurs in one-third increments on each of the first three anniversaries of the award date. Options granted prior to 2005 have a 10-year contractual term, options granted in 2005 through 2007 have an eight-year contractual term and options granted in 2008 through 2011 have a 10-year contractual term. The Company has not granted stock option awards under the 2000 Plan since 2011. Pursuant to the amendment and restatement of the 2000 Plan dated March 20, 2013, no further grants will be awarded under the 2000 Plan.

The 2009 Plan provides (and, if approved by the Company s stockholders at the 2016 Annual Meeting, the Amended 2009 Plan will provide) for the grant of incentive stock options intended to qualify under Section 422 of the IRC and for the grant of stock options which do not so qualify, stock appreciation rights, restricted stock, restricted stock units, performance-based shares or units and other share awards. Persons eligible to receive grants under the 2009 Plan include (and, if approved by the Company s stockholders at the 2016 Annual Meeting, the Amended 2009 Plan will include) the Company s directors, officers, employees and consultants. To date, all options granted under the 2009 Plan have been nonqualified stock options for tax purposes. Generally, vesting of these granted options occurs in one-third increments on each of the first three anniversaries of the award date. Options granted in 2011 or later have a 10-year contractual term. As of March 31, 2016, 1,122,376 shares of unissued common stock were reserved for future grants under the 2009 Plan. In addition, if the Amended 2009 Plan is approved by the Company s stockholders at the 2016 Annual Meeting, then 5,000,000 additional shares of unissued common stock would be reserved for future grants under the Amended 2009 Plan.

The exercise price of all options granted under the 2000 Plan and the 2009 Plan has been equal to the fair value of the Company s common stock on the option grant date.

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

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2016</b>	<b>2015</b>
Effect on income from continuing operations before income taxes	\$ (14)	\$ (14)
Effect on net income	\$ (8)	\$ (8)

At March 31, 2016, \$66 million of unrecognized stock-based compensation expense related to outstanding unvested restricted stock and restricted stock units (the terms of which are summarized below) was expected to be recognized over a weighted-average period of 24 months. There is no expense to be recognized related to stock options. There were no modifications to awards during the three months ended March 31, 2016 and 2015.

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

Options outstanding and exercisable under the 2000 Plan and the 2009 Plan as of March 31, 2016, and changes during the three-month period following December 31, 2015, were as follows (in millions, except share and per share data):

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value as of March 31, 2016
Outstanding at December 31, 2015	1,232,158	\$ 31.65		
Granted	-	-		
Exercised	-	-		
Forfeited and cancelled	(9,334)	29.85		
Outstanding at March 31, 2016	1,222,824	\$ 31.66	3.8 years	\$ -
Exercisable at March 31, 2016	1,222,824	\$ 31.66	3.8 years	\$ -

No stock options were granted during the three months ended March 31, 2016 and 2015. The aggregate intrinsic value (the number of in-the-money stock options multiplied by the difference between the Company's closing stock price on the last trading day of the reporting period (\$18.51) and the exercise price of the respective stock options) in the table above represents the amount that would have been received by the option holders had all option holders exercised their options on March 31, 2016. 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, 2015 was \$5 million. There were no options exercised during the three months ended March 31, 2016. The aggregate intrinsic value of options vested and expected to vest approximates that of the outstanding options.

The Company has also awarded restricted stock under the 2000 Plan and the 2009 Plan to its directors and employees of certain subsidiaries. The restrictions on these shares generally lapse in one-third increments on each of the first three anniversaries of the award date. Certain of the restricted stock awards granted to the Company's senior executives contain a performance objective that must be met in addition to any time-based 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. In addition, 835,000 restricted stock awards granted March 1, 2014 had a performance objective that was measured based on the realization of synergies related to the acquisition of Health Management Associates, Inc. (HMA) over a two-year period that began on February 1, 2014. The performance objective could be met in part in the first year or in whole or in part over such two-year period. Depending on the degree of attainment of the performance objective, restrictions would lapse on a portion of the award grant over the first three anniversaries of the award date.

at a level dependent upon the amount of synergies realized. If the synergies related to the HMA merger had not reached a certain level, then the awards would have been forfeited in their entirety. Based on the synergy levels attained in the first annual measurement period ended on January 31, 2015, the performance objective for the first measurement period was met, and one-third of the awards vested on March 1, 2015. Based on the synergy levels attained in the second annual measurement period ended on January 31, 2016, the performance objective for the second measurement period was also met, so the full amount of each award has been earned and one-third of the awards vested on March 1, 2016. The remaining one-third of each award will vest on March 1, 2017. Notwithstanding the above-mentioned performance objectives and vesting requirements, the restrictions with respect to restricted stock granted under the 2000 Plan and the 2009 Plan will lapse earlier in the event of death, disability or termination of employment by the Company for any reason other than for cause of the holder of the restricted stock, or change in control of the Company. Restricted stock awards subject to performance standards that have not yet been satisfied are not considered outstanding for purposes of determining earnings per share until the performance objectives have been satisfied.

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

Restricted stock outstanding under the 2000 Plan and the 2009 Plan as of March 31, 2016, and changes during the three-month period following December 31, 2015, were as follows (in millions, except share and per share data):

	Shares	Weighted- Average Grant Date Fair Value
Unvested at December 31, 2015	2,845,579	\$ 44.18
Granted	1,340,000	15.48
Vested	(1,301,337)	43.36
Forfeited	(4,667)	43.05
Unvested at March 31, 2016	2,879,575	31.20

Restricted stock units ( RSUs ) have been granted to the Company s outside directors under the 2000 Plan and the 2009 Plan. On March 1, 2015, each of the Company s outside directors received a grant under the 2009 Plan of 3,504 RSUs. On March 1, 2016, each of the Company s outside directors received a grant under the 2009 Plan of 11,017 RSUs. Both the 2015 and 2016 grants had a grant date fair value of approximately \$170,000. Vesting of these RSUs occurs in one-third increments on each of the first three anniversaries of the award date.

RSUs outstanding under the 2000 Plan and the 2009 Plan as of March 31, 2016, and changes during the three-month period following December 31, 2015, were as follows (in millions, except share and per share data):

	Shares	Weighted- Average Grant Date Fair Value
Unvested at December 31, 2015	42,678	\$ 44.59
Granted	77,119	15.43
Vested	(21,432)	43.60
Forfeited	-	-
Unvested at March 31, 2016	98,365	21.95

**3. COST OF REVENUE**

Substantially all of the Company s operating costs and expenses are cost of revenue items. Operating costs that could be classified as general and administrative by the Company would include the Company s corporate office costs at its Franklin, Tennessee office, which were \$60 million and \$77 million for the three months ended March 31, 2016 and 2015, respectively. Included in these corporate office costs is stock-based compensation of \$14 million for both the

three months ended March 31, 2016 and 2015.

#### **4. USE OF ESTIMATES**

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

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

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

**5. ACQUISITIONS AND DIVESTITURES**

***Acquisitions***

The Company accounts for all transactions that represent business combinations using the acquisition method of accounting, where the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquired entity are recognized and measured at their fair values on the date the Company obtains control in the acquiree. Such fair values that are not finalized for reporting periods following the acquisition date are estimated and recorded as provisional amounts. Adjustments to these provisional amounts during the measurement period (defined as the date through which all information required to identify and measure the consideration transferred, the assets acquired, the liabilities assumed and any noncontrolling interests has been obtained, limited to one year from the acquisition date) are recorded as of the date of acquisition. Any material impact to comparative information for periods after acquisition, but before the period in which adjustments are identified, is reflected in those prior periods as if the adjustments were considered as of the acquisition date. Goodwill is determined as the excess of the fair value of the consideration conveyed in the acquisition over the fair value of the net assets acquired.

Excluding acquisition and integration expenses related to the acquisition of HMA, approximately \$2 million of acquisition costs related to prospective and closed acquisitions were expensed during both the three months ended March 31, 2016 and March 31, 2015 and are included in other operating expenses on the condensed consolidated statements of income. Approximately \$1 million of acquisition and related integration expense related to the HMA acquisition were recognized during the three months ended March 31, 2015.

On March 1, 2016, one or more subsidiaries of the Company completed the acquisition of an 80% ownership interest in a joint venture entity with Indiana University Health that includes substantially all of the assets of IU Health La Porte Hospital in La Porte, Indiana (227 licensed beds) and IU Health Starke Hospital in Knox, Indiana (50 licensed beds), and affiliated outpatient centers and physician practices. The total cash consideration paid for long-lived assets and working capital in this joint venture was approximately \$69 million and \$10 million, respectively, with additional consideration of \$32 million assumed in liabilities, for a total consideration of \$96 million. Based upon the Company's preliminary purchase price allocation relating to this acquisition as of March 31, 2016, approximately \$49 million of goodwill has been recorded. The preliminary allocation of the purchase price has been determined by the Company based on available information and is subject to settling amounts related to purchased working capital and final appraisals of tangible and intangible assets. Adjustments to the purchase price allocation are not expected to be material.

***Other Acquisitions***

During the three months ended March 31, 2016, one or more subsidiaries of the Company paid approximately \$4 million to acquire the operating assets and related businesses of certain physician practices, clinics and other ancillary businesses that operate within the communities served by the Company's affiliated hospitals. In connection with these acquisitions, during the three months ended March 31, 2016, the Company allocated approximately \$2 million of the consideration paid to property and equipment and net working capital and the remainder, approximately \$7 million consisting of intangible assets that do not qualify for separate recognition, to goodwill. The value of the

noncontrolling interest recorded in these acquisitions was \$5 million.

***Divestitures***

In April 2014, FASB issued ASU 2014-08, which changes the requirements for reporting discontinued operations. A discontinued operation continues to include a component of an entity or a group of components of an entity, or a business activity. However, in a shift reflecting stakeholder concerns that too many disposals of small groups of assets that were recurring in nature qualified for reporting as discontinued operations, a disposal of a component of an entity or a group of components of an entity will be required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. A business or nonprofit activity that, on acquisition, meets the criteria to be classified as held for sale will still be a discontinued operation. Additional disclosures will be required for significant components of the entity that are disposed of or are held for sale but do not qualify as discontinued operations. This ASU is effective for fiscal years beginning after December 15, 2014 and is to be applied on a prospective basis for disposals or components initially classified as held for sale after that date. The Company adopted this ASU on January 1, 2015 and the adoption resulted in the following divestitures occurring subsequent to the date of adoption being included in continuing operations for the three months ended March 31, 2016 and 2015 (the impact of the adoption of ASU 2014-08 in relation to the hospitals and other assets spun off to Quorum Health Corporation ( QHC ) are discussed in footnote 6 below).



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

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

Effective February 1, 2016, one or more subsidiaries of the Company sold Lehigh Regional Medical Center (88 licensed beds) in Lehigh Acres, Florida, ( Lehigh ) and related outpatient services to Prime Healthcare Services, Inc. ( Prime ) for approximately \$11 million in cash. In connection with the divestiture of Lehigh, the Company recorded an impairment charge of approximately \$4 million related to the allocated goodwill during the three months ended March 31, 2016.

Effective January 1, 2016, one or more subsidiaries of the Company sold Bartow Regional Medical Center (72 licensed beds) in Bartow, Florida, ( Bartow ) and related outpatient services to BayCare Health Systems, Inc. for approximately \$60 million in cash, which was received at a preliminary closing on December 31, 2015. In connection with the divestiture of Bartow, the Company recorded an impairment charge of approximately \$5 million related to the allocated goodwill during the three months ended March 31, 2016.

Effective July 31, 2015, one or more subsidiaries of the Company sold certain assets used in the operation of Payson Regional Medical Center (44 licensed beds) in Payson, Arizona ( Payson ) to Banner Health for approximately \$20 million in cash. The Company previously operated Payson under the terms of an operating lease with Mogollon Health Alliance, Inc., an Arizona nonprofit corporation, that expired on July 31, 2015. The lease termination and sale closed effective July 31, 2015.

Pursuant to the Company's adoption of ASU 2014-08, the divestiture of Lehigh, Bartow and Payson do not meet the requirement for presentation in discontinued operations. The financial results included in discontinued operations for divestitures or hospitals held for sale at December 31, 2014, prior to the Company's adoption of ASU 2014-08, are summarized below.

During the three months ended June 30, 2015, one or more subsidiaries of the Company finalized an agreement to terminate the lease and cease operations of Fallbrook Hospital (47 licensed beds) in Fallbrook, California. In agreeing to terminate the lease, the Company received approximately \$3 million in cash from the Fallbrook Healthcare District, as the landlord, as consideration for certain operating assets of the hospital.

Effective April 1, 2015, one or more subsidiaries of the Company sold Chesterfield General Hospital (59 licensed beds) in Cheraw, South Carolina and Marlboro Park Hospital (102 licensed beds) in Bennettsville, South Carolina and related outpatient services to M/C Healthcare, LLC for approximately \$4 million in cash.

Effective March 1, 2015 one or more subsidiaries of the Company sold Dallas Regional Medical Center (202 licensed beds) in Mesquite, Texas to Prime for approximately \$25 million in cash.

Effective March 1, 2015 one or more subsidiaries of the Company sold Riverview Regional Medical Center (281 licensed beds) in Gadsden, Alabama to Prime for approximately \$25 million in cash. This hospital was required to be divested by the Federal Trade Commission as a condition of its approval of the HMA merger.

Effective February 1, 2015, one or more subsidiaries of the Company sold Harris Hospital (133 licensed beds) in Newport, Arkansas and related healthcare services to White County Medical Center in Searcy, Arkansas for approximately \$5 million in cash.

Effective January 1, 2015, one or more subsidiaries of the Company sold Carolina Pines Regional Medical Center (116 licensed beds) in Hartsville, South Carolina and related outpatient services to Capella Healthcare for approximately \$74 million in cash, which was received at the closing on December 31, 2014. This hospital was required to be divested by the Federal Trade Commission as a condition of its approval of the HMA merger.

During the year ended December 31, 2014, the Company made the decision to sell and began actively marketing several smaller hospitals, which are classified as held for sale at March 31, 2016. In addition, HMA entered into a definitive agreement to sell Williamson Memorial Hospital (76 licensed beds) located in Williamson, West Virginia prior to the HMA merger, and the Company has continued the effort to divest this facility. In connection with management's decision to sell these facilities and the sale of the seven hospitals (excluding Payson) noted above during 2015, the Company has classified the results of operations of the above mentioned hospitals as discontinued operations in the accompanying condensed consolidated statements of income, and classified these hospitals as held for sale in the accompanying condensed consolidated balance sheet.

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

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

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2016</b>	<b>2015</b>
Net operating revenues	\$ 27	\$ 56
Loss from operations of entities sold or held for sale before income taxes	-	(17)
Impairment of hospitals sold or held for sale	(2)	(1)
Loss on sale, net	-	(1)
Loss from discontinued operations, before taxes	(2)	(19)
Income tax benefit	(1)	(6)
Loss from discontinued operations, net of taxes	\$ (1)	\$ (13)

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

***Other Hospital Closures***

During the three months ended March 31, 2016, the Company announced the planned closure of McNairy Regional Hospital in Selmer, Tennessee, scheduled for the second quarter of 2016. The Company recorded an impairment charge of approximately \$7 million during the three months ended March 31, 2016, to adjust the value of the supplies inventory and long-lived assets of this hospital, including property and equipment and capitalized software costs, based on their estimated fair value and future utilization.

**6. SPIN-OFF OF QUORUM HEALTH CORPORATION**

On August 3, 2015, the Company announced a plan to spin off 38 hospitals and Quorum Health Resources, LLC into Quorum Health Corporation, an independent, publicly traded corporation. The transaction was structured to be generally tax free to the Company and its stockholders.

On April 29, 2016, the Company completed the spin-off of QHC and distributed, on a pro rata basis, all of the shares of QHC common stock to the Company's stockholders of record as of April 22, 2016. These stockholders of record as of April 22, 2016 received a distribution of one share of QHC common stock for every four shares of Company common stock held as of the record date plus cash in lieu of any fractional shares. Immediately following the completion of the spin-off, the Company's stockholders owned 100% of the outstanding shares of QHC common stock. Following the spin-off, QHC became an independent public company with its common stock listed for trading under the symbol "QHC" on the New York Stock Exchange.

In connection with the spin-off, the Company and QHC entered into a separation and distribution agreement as well as certain ancillary agreements on April 29, 2016. These agreements allocate between the Company and QHC the various assets, employees, liabilities and obligations (including investments, property and employee benefits and tax-related assets and liabilities) that comprise the separate companies and govern certain relationships between, and activities of, the Company and QHC for a period of time after the spin-off.

The results of operations for QHC have continued to be presented in continuing operations in the condensed consolidated statement of income as the Company has determined that the spin-off of QHC does not meet the criteria as discontinued operations under ASU 2014-08.

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

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

**7. INCOME TAXES**

The total amount of unrecognized benefit that would affect the effective tax rate, if recognized, was approximately \$5 million as of March 31, 2016. A total of approximately \$3 million of interest and penalties is included in the amount of the liability for uncertain tax positions at March 31, 2016. It is the Company's policy to recognize interest and penalties related to unrecognized benefits in its condensed consolidated statements of income as income tax expense.

It is possible the amount of unrecognized tax benefit could change in the next 12 months as a result of a lapse of the statute of limitations and settlements with taxing authorities; however, the Company does not anticipate the change will have a material impact on the Company's condensed consolidated results of operations or condensed consolidated financial position.

The Company, or one of its subsidiaries, files income tax returns in the United States federal jurisdiction and various state jurisdictions. The Company has extended the federal statute of limitations through March 31, 2017 for Triad Hospitals, Inc. for the tax periods ended December 31, 1999, December 31, 2000, April 30, 2001, June 30, 2001, December 31, 2001, December 31, 2002, December 31, 2003, December 31, 2004, December 31, 2005, December 31, 2006 and July 25, 2007. With few exceptions, the Company is no longer subject to state income tax examinations for years prior to 2011. The Company's federal income tax returns for the 2009 and 2010 tax years are currently under examination by the Internal Revenue Service. The Company believes the results of these examinations will not be material to its consolidated results of operations or consolidated financial position. The Company has extended the federal statute of limitations through December 31, 2016 for Community Health Systems, Inc. for the tax periods ended December 31, 2007, 2008, 2009 and 2010, and through March 31, 2017 for the tax periods ended December 31, 2011 and 2012.

The Company's effective tax rates were 41.3% and 33.2% for the three months ended March 31, 2016 and 2015, respectively. The increase in the Company's effective tax rate for the three months ended March 31, 2016, when compared to the three months ended March 31, 2015, was primarily related to a disproportionate substantial decrease in income from continuing operations before income taxes, when compared to an increase in net income attributable to noncontrolling interests for those same periods, which is not tax affected in the condensed consolidated statement of income. Including the expense related to income attributable to noncontrolling interests, the effective tax rate for the three months ended March 31, 2016 and 2015 would have been 68.4% and 37.8%, respectively. The increase in the Company's effective tax rate for the three months ended March 31, 2016 is primarily due to the impact of permanent tax differences recognized as part of the hospitals divested by the Company during this three-month period.

Cash paid for income taxes, net of refunds received, resulted in net cash paid of less than \$1 million and \$1 million during the three months ended March 31, 2016 and 2015, respectively.

**8. GOODWILL AND OTHER INTANGIBLE ASSETS**

***Goodwill***

The changes in the carrying amount of goodwill for the three months ended March 31, 2016 are as follows (in millions):

Balance as of December 31, 2015	\$	8,965
Goodwill acquired as part of acquisitions during current year		57
Balance as of March 31, 2016	\$	9,022

Goodwill is allocated to each identified reporting unit, which is defined as an operating segment or one level below the operating segment (referred to as a component of the entity). Management has determined that the Company's operating segments and hospital management services operations meet the criteria to be classified as reporting units. At March 31, 2016, the hospital operations reporting unit, the home care agency operations reporting unit and the hospital management services reporting unit had approximately \$8.9 billion, \$47 million and \$33 million, respectively, of goodwill.

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

Goodwill is evaluated for impairment at the same time every year and when an event occurs or circumstances change that, more likely than not, reduce the fair value of the reporting unit below its carrying value. There is a two-step method for determining goodwill impairment. Step one is to compare the fair value of the reporting unit with the unit's carrying amount, including goodwill. If this test indicates the fair value is less than the carrying value, then step two is required to compare the implied fair value of the reporting unit's goodwill with the carrying value of the reporting unit's goodwill. The Company performed its last annual goodwill evaluation during the fourth quarter of 2015. No impairment was indicated by this evaluation. The next annual goodwill evaluation will be performed during the fourth quarter of 2016.

The Company estimates the fair value of the related reporting units using both a discounted cash flow model as well as an EBITDA multiple model. The cash flow forecasts are adjusted by an appropriate discount rate based on the Company's estimate of a market participant's weighted-average cost of capital. These models are both based on the Company's best estimate of future revenues and operating costs and are reconciled to the Company's consolidated market capitalization, with consideration of the amount a potential acquirer would be required to pay, in the form of a control premium, in order to gain sufficient ownership to set policies, direct operations and control management decisions.

***Intangible Assets***

No intangible assets other than goodwill were acquired during the three months ended March 31, 2016. The gross carrying amount of the Company's other intangible assets subject to amortization was \$79 million at March 31, 2016 and \$82 million at December 31, 2015 and the net carrying amount was \$27 million at March 31, 2016 and \$31 million at December 31, 2015. The carrying amount of the Company's other intangible assets not subject to amortization was \$120 million March 31, 2016 and \$121 million at December 31, 2015, respectively. Other intangible assets are included in other assets, net on the Company's condensed consolidated balance sheets. Substantially all of the Company's intangible assets are contract-based intangible assets related to operating licenses, management contracts, or non-compete agreements entered into in connection with prior acquisitions.

The weighted-average remaining amortization period for the intangible assets subject to amortization is approximately four years. There are no expected residual values related to these intangible assets. Amortization expense on these intangible assets was \$4 million and \$3 million during the three months ended March 31, 2016 and 2015, respectively. Amortization expense on intangible assets is estimated to be \$11 million for the remainder of 2016, \$5 million in 2017, \$4 million in 2018, \$2 million in 2019, \$2 million in 2020, \$2 million in 2021 and \$1 million thereafter.

The gross carrying amount of capitalized software for internal use was approximately \$1.5 billion at both March 31, 2016 and December 31, 2015, and the net carrying amount considering accumulated amortization was approximately \$737 million at March 31, 2016 and \$771 million at December 31, 2015. The estimated amortization period for capitalized internal-use software is generally three years, except for capitalized costs related to significant system conversions, which is generally eight to ten years. There is no expected residual value for capitalized internal-use software. At March 31, 2016, there was approximately \$56 million of capitalized costs for internal-use software that is currently in the development stage and will begin amortization once the software project is complete and ready for its intended use. Amortization expense on capitalized internal-use software was \$55 million and \$53 million during the

three months ended March 31, 2016 and 2015, respectively. Amortization expense on capitalized internal-use software is estimated to be \$165 million for the remainder of 2016, \$185 million in 2017, \$102 million in 2018, \$74 million in 2019, \$65 million in 2020, \$60 million in 2021 and \$86 million thereafter.



**Table of Contents****COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****9. EARNINGS PER SHARE**

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

	<b>Three Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Numerator:</b>		
Income from continuing operations, net of taxes	\$ 37	\$ 112
Less: Income from continuing operations attributable to noncontrolling interests, net of taxes	25	20
Income from continuing operations attributable to Community Health Systems, Inc. common stockholders basic and diluted	\$ 12	\$ 92
Loss from discontinued operations, net of taxes	\$ (1)	\$ (13)
Less: Loss from discontinued operations attributable to noncontrolling interests, net of taxes	-	-
Loss from discontinued operations attributable to Community Health Systems, Inc. common stockholders basic and diluted	\$ (1)	\$ (13)
<b>Denominator:</b>		
Weighted-average number of shares outstanding basic	110,247,867	114,419,590
<b>Effect of dilutive securities:</b>		
Restricted stock awards	45,257	181,120
Employee stock options	13,038	452,659
Other equity-based awards	3,210	4,299
Weighted-average number of shares outstanding diluted	110,309,372	115,057,668

**Three Months Ended  
March 31,**

	2016	2015
Dilutive securities outstanding not included in the computation of earnings per share because their effect is antidilutive:		
Employee stock options and restricted stock awards	2,672,726	-

## 10. STOCKHOLDERS EQUITY

Authorized capital shares of the Company include 400,000,000 shares of capital stock consisting of 300,000,000 shares of common stock and 100,000,000 shares of preferred stock. Each of the aforementioned classes of capital stock has a par value of \$0.01 per share. Shares of preferred stock, none of which were outstanding as of March 31, 2016, may be issued in one or more series having such rights, preferences and other provisions as determined by the Board of Directors without approval by the holders of common stock.

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

On November 6, 2015, the Company adopted a new open market repurchase program for up to 10,000,000 shares of the Company's common stock, not to exceed \$300 million in repurchases. The repurchase program will expire on the earlier of November 5, 2018, when the maximum number of shares has been repurchased, or when the maximum dollar amount has been expended. During the year ended December 31, 2015, the Company repurchased and retired 532,188 shares at a weighted-average price of \$27.31 per share, which is the cumulative number of shares repurchased and retired under this program. No shares were repurchased under this program during the three months ended March 31, 2016.

On December 10, 2014, the Company adopted an open market repurchase program for up to 5,000,000 shares of the Company's common stock, not to exceed \$150 million in repurchases. This repurchase program expired on December 1, 2015. No shares were repurchased under this program during the three months ended March 31, 2015.

The Company is a holding company which operates through its subsidiaries. The Company's Credit Facility and the indentures governing the senior and senior secured notes contain various covenants under which the assets of the subsidiaries of the Company are subject to certain restrictions relating to, among other matters, dividends and distributions, as referenced in the paragraph below.

With the exception of a special cash dividend of \$0.25 per share paid by the Company in December 2012, historically, the Company has not paid any cash dividends. Subject to certain exceptions, the Company's Credit Facility limits the ability of the Company's subsidiaries to pay dividends and make distributions to the Company, and limits the Company's ability to pay dividends and/or repurchase stock, to an amount not to exceed \$200 million in the aggregate plus an additional \$25 million in any particular year plus the aggregate amount of proceeds from the exercise of stock options. The indentures governing the senior and senior secured notes also restrict the Company's subsidiaries from, among other matters, paying dividends and making distributions to the Company, which thereby limits the Company's ability to pay dividends and/or repurchase stock. As of March 31, 2016, under the most restrictive test under these agreements (and subject to certain exceptions), the Company has approximately \$318 million remaining available with which to pay permitted dividends and/or repurchase shares of stock or its senior and senior secured notes.

The following schedule presents the reconciliation of the carrying amount of total equity, equity attributable to the Company, and equity attributable to the noncontrolling interests for the three-month period ended March 31, 2016 (in millions):

	Community Health Systems, Inc. Stockholders								
	Redeemable		Additional		Accumulated		Other		Total
	Noncontrolling	Common	Paid-In	Treasury	Comprehensive	Retained	Noncontrolling	Stockholders	
	Interest	Stock	Capital	Stock	Income	Earnings	Interest	Equity	
					(Loss)				
<b>Balance, December 31,</b>	\$ 571	\$ 1	\$ 1,963	\$ (7)	\$ (73)	\$ 2,135	\$ 86	\$ 4,105	

<b>2015</b>									
Comprehensive income	19	-	-	-	(16)	11	6	1	
Distributions to noncontrolling interests, net of contributions	(14)	-	-	-	-	-	(4)	(4)	
Purchase of subsidiary shares from noncontrolling interests	(10)	-	(3)	-	-	-	(3)	(6)	
Other reclassifications of noncontrolling interests	(1)	-	-	-	-	-	1	1	
Noncontrolling interests in acquired entity	-	-	-	-	-	-	29	29	
Income tax payable increase from vesting of restricted shares	-	-	(15)	-	-	-	-	(15)	
Cancellation of restricted stock for tax withholdings on vested shares	-	-	(7)	-	-	-	-	(7)	
Share-based compensation	-	-	14	-	-	-	-	14	
<b>Balance, March 31, 2016</b>	<b>\$ 565</b>	<b>\$ 1</b>	<b>\$ 1,952</b>	<b>\$ (7)</b>	<b>\$ (89)</b>	<b>\$ 2,146</b>	<b>\$ 115</b>	<b>\$ 4,118</b>	

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

The following schedule discloses the effects of changes in the Company's ownership interest in its less-than-wholly-owned subsidiaries on Community Health Systems, Inc. stockholders' equity (in millions):

	<b>Three Months Ended March 31, 2016</b>	
Net income attributable to Community Health Systems, Inc. stockholders	\$	11
Transfers to the noncontrolling interests:		
Net decrease in Community Health Systems, Inc. paid-in capital for purchase of subsidiary partnership interests		(3)
Net transfers to the noncontrolling interests		(3)
Change to Community Health Systems, Inc. stockholders' equity from net income attributable to Community Health Systems, Inc. stockholders and transfers to noncontrolling interests	\$	8

**11. EQUITY INVESTMENTS**

As of March 31, 2016, the Company owned equity interests of 27.5% in four hospitals in Las Vegas, Nevada, and 26.1% in one hospital in Las Vegas, Nevada, in which Universal Health Services, Inc. ( UHS ) owns the majority interest, and an equity interest of 38.0% in three hospitals in Macon, Georgia, in which HCA Holdings, Inc. ( HCA ) owns the majority interest.

Summarized combined financial information for these unconsolidated entities in which the Company owns an equity interest is as follows (in millions):

	<b>Three Months Ended March 31,</b>			
	<b>2016</b>		<b>2015</b>	
Revenues	\$	415	\$	375
Operating costs and expenses		324		315
Income from continuing operations before taxes		91		60

The summarized financial information was derived from the financial information provided to the Company by those unconsolidated entities.

In March 2005, the Company began purchasing items, primarily medical supplies, medical equipment and pharmaceuticals, under an agreement with HealthTrust Purchasing Group, L.P. ( HealthTrust ), a group purchasing

organization in which the Company is a noncontrolling partner. As part of the HMA merger, the Company acquired HMA's ownership in HealthTrust. As of March 31, 2016, the Company had a 24.7% ownership interest in HealthTrust.

The Company's investment in all of its unconsolidated affiliates was \$504 million at March 31, 2016 and \$479 million December 31, 2015, and is included in other assets, net in the accompanying condensed consolidated balance sheets. Included in the Company's results of operations is the Company's equity in pre-tax earnings from all of its investments in unconsolidated affiliates, which was \$20 million and \$18 million for the three months ended March 31, 2016 and 2015, respectively.

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## COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

**12. LONG-TERM DEBT**

Long-term debt consists of the following (in millions):

	March 31, 2016	December 31, 2015
Credit Facility:		
Term A Loan	\$ 820	\$ 844
Term F Loan	1,668	1,671
Term G Loan	1,565	1,568
Term H Loan	2,879	2,884
Revolving credit loans	323	147
8% Senior Notes due 2019	1,993	1,992
7 1/8% Senior Notes due 2020	1,187	1,186
5 1/8% Senior Secured Notes due 2018	1,588	1,587
5 1/8% Senior Secured Notes due 2021	968	967
6 7/8% Senior Notes due 2022	2,924	2,921
Receivables Facility	699	699
Capital lease obligations	219	227
Other	81	92
<b>Total debt</b>	<b>16,914</b>	<b>16,785</b>
Less current maturities	(249)	(229)
<b>Total long-term debt</b>	<b>\$ 16,665</b>	<b>\$ 16,556</b>

***Credit Facility***

The Company's wholly-owned subsidiary, CHS, has senior secured financing under a credit facility with a syndicate of financial institutions led by Credit Suisse, as administrative agent and collateral agent. In connection with the HMA merger, the Company and CHS entered into a third amendment and restatement of its credit facility (the Credit Facility), providing for additional financing and recapitalization of certain of the Company's term loans, including (i) the replacement of the revolving credit facility with a new \$1.0 billion revolving facility maturing in 2019 (the Revolving Facility), (ii) the addition of a new \$1.0 billion Term A facility due 2019 (the Term A Facility), (iii) a Term D facility in an aggregate principal amount equal to approximately \$4.6 billion due 2021 (which included certain term C loans that were converted into such Term D facility (collectively, the Term D Facility)), (iv) the conversion of certain term C loans into Term E Loans and the borrowing of new Term E Loans in an aggregate principal amount of approximately \$1.7 billion due 2017 and (v) the addition of flexibility commensurate with the Company's

post-acquisition structure. In addition to funding a portion of the consideration in connection with the HMA merger, some of the proceeds of the Term A Facility and Term D Facility were used to refinance the outstanding \$637 million existing term A facility due 2016 and the \$60 million of term B loans due 2014, respectively. The Revolving Facility includes a subfacility for letters of credit. On March 9, 2015, CHS entered into Amendment No. 1 and Incremental Term Loan Assumption Agreement to refinance the existing Term E Loans due 2017 into Term F Loans due 2018, in an original aggregated principal amount of \$1.7 billion. On May 18, 2015, CHS entered into an Incremental Term Loan Assumption Agreement to provide for a new \$1.6 billion incremental Term G facility and a new approximately \$2.9 billion incremental Term H facility. The proceeds of the Term G facility and Term H facility were used to repay the Company's existing Term D facility in full.



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

The loans under the Credit Facility bear interest on the outstanding unpaid principal amount at a rate equal to an applicable percentage plus, at CHS option, either (a) an Alternate Base Rate (as defined) determined by reference to the greater of (1) the Prime Rate (as defined) announced by Credit Suisse or (2) the Federal Funds Effective Rate (as defined) plus 0.50% or (3) the adjusted London Interbank Offered Rate ( LIBOR ) on such day for a three-month interest period commencing on the second business day after such day plus 1% or (b) LIBOR. Loans in respect of the Revolving Facility and the Term A Facility will accrue interest at a rate per annum initially equal to LIBOR plus 2.75%, in the case of LIBOR borrowings, and Alternate Base Rate plus 1.75%, in the case of Alternate Base Rate borrowings. In addition, the margin in respect of the Revolving Facility and the Term A Facility will be subject to adjustment determined by reference to a leverage-based pricing grid. Loans in respect of the Term F Facility will accrue interest at a rate per annum equal to LIBOR plus 3.25%, in the case of LIBOR borrowings, and Alternate Base Rate plus 2.25%, in the case of Alternate Base Rate Borrowings. The Term G Loan and Term H Loan will accrue interest at a rate per annum equal to LIBOR plus 2.75% and 3.00%, respectively, in the case of LIBOR borrowings, and Alternate Base Rate plus 1.75% and 2.00%, respectively, in the case of Alternate Base Rate Borrowings. The Term G Loan and the Term H Loan are subject to a 1.00% LIBOR floor and a 2.00% Alternate Base Rate floor.

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

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

CHS has agreed to pay letter of credit fees equal to the applicable percentage then in effect with respect to Eurodollar rate loans under the Revolving Facility times the maximum aggregate amount available to be drawn under all letters of credit outstanding under the subfacility for letters of credit. The issuer of any letter of credit issued under the subfacility for letters of credit will also receive a customary fronting fee and other customary processing charges. CHS is obligated to pay commitment fees of 0.50% per annum (subject to adjustment based upon the Company's leverage ratio) on the unused portion of the Revolving Facility.

The Credit Facility contains customary representations and warranties, subject to limitations and exceptions, and customary covenants restricting the Company's and its subsidiaries' ability, subject to certain exceptions, to, among other things (1) declare dividends, make distributions or redeem or repurchase capital stock, (2) prepay, redeem or

repurchase other debt, (3) incur liens or grant negative pledges, (4) make loans and investments and enter into acquisitions and joint ventures, (5) incur additional indebtedness or provide certain guarantees, (6) make capital expenditures, (7) engage in mergers, acquisitions and asset sales, (8) conduct transactions with affiliates, (9) alter the nature of the Company's businesses, (10) grant certain guarantees with respect to physician practices, (11) engage in sale and leaseback transactions or (12) change the Company's fiscal year. The Company is also required to comply with specified financial covenants (consisting of a maximum secured net leverage ratio and an interest coverage ratio) and various affirmative covenants. The Company was in compliance with all such covenants at March 31, 2016.

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

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

As of March 31, 2016, the availability for additional borrowings under the Credit Facility, after taking into account the \$334 million outstanding at that date, was approximately \$666 million pursuant to the Revolving Facility, of which \$68 million was set aside for outstanding letters of credit. CHS has the ability to amend the Credit Facility to provide for one or more tranches of term loans or increases in the Revolving Facility in an aggregate principal amount of \$1.5 billion, which CHS has not yet accessed. As of March 31, 2016, the weighted-average interest rate under the Credit Facility, excluding swaps, was 4.3%.

***8% Senior Notes due 2019***

On November 22, 2011, CHS completed its offering of \$1.0 billion aggregate principal amount of 8% Senior Notes due 2019 (the 8% Senior Notes), which were issued in a private placement. The net proceeds from this issuance, together with available cash on hand, were used to finance the purchase of up to \$1.0 billion aggregate principal amount of CHS then outstanding 8% Senior Notes and related fees and expenses. On March 21, 2012, CHS completed the secondary offering of an additional \$1.0 billion aggregate principal amount of 8% Senior Notes, which were issued in a private placement (at a premium of 102.5%). The net proceeds from this issuance were used to finance the purchase of approximately \$850 million aggregate principal amount of CHS then outstanding 8% Senior Notes, to pay related fees and expenses and for general corporate purposes. The 8% Senior Notes bear interest at 8% per annum, payable semiannually in arrears on May 15 and November 15, commencing May 15, 2012. Interest on the 8% Senior Notes accrues from the date of original issuance. Interest is calculated on the basis of a 360-day year comprised of twelve 30-day months.

On and after November 15, 2015, CHS is entitled, at its option, to redeem all or a portion of the 8% Senior Notes upon not less than 30 nor more than 60 days notice, at the following redemption prices (expressed as a percentage of principal amount on the redemption date), plus accrued and unpaid interest, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the periods set forth below:

<b>Period</b>	<b>Redemption Price</b>
November 15, 2015 to November 14, 2016	104.000 %
November 15, 2016 to November 14, 2017	102.000 %
November 15, 2017 to November 15, 2019	100.000 %

Pursuant to a registration rights agreement entered into at the time of the issuance of the 8% Senior Notes, as a result of an exchange offer made by CHS, substantially all of the 8% Senior Notes issued in November 2011 and March 2012 were exchanged in May 2012 for new notes (the 8% Exchange Notes) having terms substantially identical in all material respects to the 8% Senior Notes (except that the 8% Exchange Notes were issued under a registration statement pursuant to the Securities Act of 1933, as amended (the 1933 Act)). References to the 8% Senior Notes shall also be deemed to include the 8% Exchange Notes unless the context provides otherwise.

***7<sup>1</sup>/<sub>8</sub>% Senior Notes due 2020***

On July 18, 2012, CHS completed an underwritten public offering under its automatic shelf registration filed with the SEC of \$1.2 billion aggregate principal amount of 7  $\frac{1}{8}$ % Senior Notes due 2020 (the 7  $\frac{1}{8}$ % Senior Notes ). The net proceeds from this issuance were used to finance the purchase or redemption of \$934 million aggregate principal amount plus accrued interest of CHS outstanding 8  $\frac{1}{8}$ % Senior Notes, to pay for consents delivered in connection therewith, to pay related fees and expenses, and for general corporate purposes. The 7  $\frac{1}{8}$ % Senior Notes bear interest at 7.125% per annum, payable semiannually in arrears on July 15 and January 15, commencing January 15, 2013. Interest on the 7  $\frac{1}{8}$ % Senior Notes accrues from the date of original issuance. Interest is calculated on the basis of a 360-day year comprised of twelve 30-day months.

Except as set forth below, CHS is not entitled to redeem the 7  $\frac{1}{8}$ % Senior Notes prior to July 15, 2016.

Prior to July 15, 2016, CHS may redeem some or all of the 7  $\frac{1}{8}$ % Senior Notes at a redemption price equal to 100% of the principal amount of the notes redeemed plus accrued and unpaid interest, if any, plus a make-whole premium, as described in the 7  $\frac{1}{8}$ % Senior Notes indenture. On and after July 15, 2016, CHS is entitled, at its option, to redeem all or a portion of the 7  $\frac{1}{8}$ % Senior Notes upon not less than 30 nor more than 60 days notice, at the following redemption prices (expressed as a percentage of principal amount on the redemption date), plus accrued and unpaid interest, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the periods set forth below:

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

<b>Period</b>	<b>Redemption Price</b>
July 15, 2016 to July 14, 2017	103.563 %
July 15, 2017 to July 14, 2018	101.781 %
July 15, 2018 to July 15, 2020	100.000 %

***5 1/8% Senior Secured Notes due 2018***

On August 17, 2012, CHS completed an underwritten public offering under its automatic shelf registration filed with the SEC of \$1.6 billion aggregate principal amount of 5 1/8% Senior Secured Notes due 2018 (the 2018 Senior Secured Notes ). The net proceeds from this issuance, together with available cash on hand, were used to finance the prepayment of \$1.6 billion of the outstanding term loans due 2014 under the Credit Facility and related fees and expenses. The 2018 Senior Secured Notes bear interest at 5.125% per annum, payable semiannually in arrears on August 15 and February 15, commencing February 15, 2013. Interest on the 2018 Senior Secured Notes accrues from the date of original issuance. Interest is calculated on the basis of a 360-day year comprised of twelve 30-day months. The 2018 Senior Secured Notes are secured by a first-priority lien subject to a shared lien of equal priority with certain other obligations, including obligations under the Credit Facility, and subject to prior ranking liens permitted by the indenture governing the 2018 Senior Secured Notes on substantially the same assets, subject to certain exceptions, that secure CHS obligations under the Credit Facility.

On and after August 15, 2015, CHS is entitled, at its option, to redeem all or a portion of the 2018 Senior Secured Notes upon not less than 30 nor more than 60 days notice, at the following redemption prices (expressed as a percentage of principal amount on the redemption date), plus accrued and unpaid interest, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the periods set forth below:

<b>Period</b>	<b>Redemption Price</b>
August 15, 2015 to August 14, 2016	102.563 %
August 15, 2016 to August 14, 2017	101.281 %
August 15, 2017 to August 15, 2018	100.000 %

***5 1/8% Senior Secured Notes due 2021***

On January 27, 2014, CHS issued \$1.0 billion aggregate principal amount of 5 1/8% Senior Secured Notes due 2021 (the 2021 Senior Secured Notes ) in connection with the HMA merger, which were issued in a private placement. The net proceeds from this issuance were used to finance the HMA merger. The 2021 Senior Secured Notes bear interest at 5.125% per annum, payable semiannually in arrears on February 1 and August 1, commencing August 1, 2014. Interest on the 2021 Senior Secured Notes accrues from the date of original issuance. Interest is calculated on the basis of a 360-day year comprised of twelve 30-day months. The 2021 Senior Secured Notes are secured by a first-priority lien, subject to a shared lien of equal priority with certain other obligations, including obligations under the Credit Facility, and subject to prior ranking liens permitted by the indenture governing the 2021 Senior Secured Notes, on substantially the same assets, subject to certain exceptions, that secure CHS obligations under the Credit Facility.

Except as set forth below, CHS is not entitled to redeem the 2021 Senior Secured Notes prior to February 1, 2017.

Prior to February 1, 2017, CHS is entitled, at its option, to redeem a portion of the 2021 Senior Secured Notes (not to exceed 40% of the outstanding principal amount) at a redemption price equal to 105.125% of the principal amount of the notes redeemed plus accrued and unpaid interest, with the proceeds from certain equity offerings. Prior to February 1, 2017, CHS may redeem some or all of the 2021 Senior Secured Notes at a redemption price equal to 100% of the principal amount of the notes redeemed plus accrued and unpaid interest, if any, plus a make-whole premium, as described in the 2021 Senior Secured Notes indenture. On and after February 1, 2017, CHS is entitled, at its option, to redeem all or a portion of the 2021 Senior Secured Notes upon not less than 30 nor more than 60 days notice, at the following redemption prices (expressed as a percentage of principal amount on the redemption date), plus accrued and unpaid interest, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the periods set forth below:

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

<b>Period</b>	<b>Redemption Price</b>
February 1, 2017 to January 31, 2018	103.844 %
February 1, 2018 to January 31, 2019	102.563 %
February 1, 2019 to January 31, 2020	101.281 %
February 1, 2020 to January 31, 2021	100.000 %

Pursuant to a registration rights agreement entered into at the time of the issuance of the 2021 Senior Secured Notes, as a result of an exchange offer made by CHS, all of the 2021 Senior Secured Notes issued in January 2014 were exchanged in October 2014 for new notes (the 2021 Exchange Notes) having terms substantially identical in all material respects to the 2021 Senior Secured Notes (except that the exchange notes were issued under a registration statement pursuant to the 1933 Act). References to the 2021 Senior Secured Notes shall be deemed to be the 2021 Exchange Notes unless the context provides otherwise.

**6 <sup>7</sup>/<sub>8</sub>% Senior Notes due 2022**

On January 27, 2014, CHS issued \$3.0 billion aggregate principal amount of 6 <sup>7</sup>/<sub>8</sub>% Senior Notes due 2022 (the 6 <sup>7</sup>/<sub>8</sub>% Senior Notes) in connection with the HMA merger, which were issued in a private placement. The net proceeds from this issuance were used to finance the HMA merger. The 6 <sup>7</sup>/<sub>8</sub>% Senior Notes bear interest at 6.875% per annum, payable semiannually in arrears on February 1 and August 1, commencing August 1, 2014. Interest on the 6 <sup>7</sup>/<sub>8</sub>% Senior Notes accrues from the date of original issuance. Interest is calculated on the basis of a 360-day year comprised of twelve 30-day months.

Except as set forth below, CHS is not entitled to redeem the 6 <sup>7</sup>/<sub>8</sub>% Senior Notes prior to February 1, 2018.

Prior to February 1, 2017, CHS is entitled, at its option, to redeem a portion of the 6 <sup>7</sup>/<sub>8</sub>% Senior Notes (not to exceed 40% of the outstanding principal amount) at a redemption price equal to 106.875% of the principal amount of the notes redeemed plus accrued and unpaid interest, with the proceeds from certain public equity offerings. Prior to February 1, 2018, CHS may redeem some or all of the 6 <sup>7</sup>/<sub>8</sub>% Senior Notes at a redemption price equal to 100% of the principal amount of the notes redeemed plus accrued and unpaid interest, if any, plus a make-whole premium, as described in the 6 <sup>7</sup>/<sub>8</sub>% Senior Notes indenture. On and after February 1, 2018, CHS is entitled, at its option, to redeem all or a portion of the 6 <sup>7</sup>/<sub>8</sub>% Senior Notes upon not less than 30 nor more than 60 days' notice, at the following redemption prices (expressed as a percentage of principal amount on the redemption date), plus accrued and unpaid interest, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the periods set forth below:

<b>Period</b>	<b>Redemption Price</b>
February 1, 2018 to January 31, 2019	103.438 %
February 1, 2019 to January 31, 2020	101.719 %
February 1, 2020 to January 31, 2022	100.000 %

Pursuant to a registration rights agreement entered into at the time of the issuance of the 6 <sup>7</sup>/<sub>8</sub>% Senior Notes, as a result of an exchange offer made by CHS, all of the 6 <sup>7</sup>/<sub>8</sub>% Senior Notes issued in January 2014 were exchanged in

October 2014 for new notes (the  $6\frac{7}{8}\%$  Exchange Notes ) having terms substantially identical in all material respects to the  $6\frac{7}{8}\%$  Senior Notes (except that the exchange notes were issued under a registration statement pursuant to the 1933 Act). References to the  $6\frac{7}{8}\%$  Senior Notes shall be deemed to be the  $6\frac{7}{8}\%$  Exchange Notes unless the context provides otherwise.



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**Table of Contents****COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)*****Receivables Facility***

On March 21, 2012, through certain of its subsidiaries, CHS entered into an accounts receivable loan agreement (the Receivables Facility ) with a group of lenders and banks, Credit Agricole Corporate and Investment Bank, as a managing agent and as the administrative agent, and The Bank of Nova Scotia, as a managing agent. On March 7, 2013, CHS and certain of its subsidiaries amended the Receivables Facility to add an additional managing agent, The Bank of Tokyo-Mitsubishi UFJ, Ltd., to increase the size of the facility from \$300 million to \$500 million and to extend the scheduled termination date. Additional subsidiaries also agreed to participate in the Receivables Facility as of that date. On March 31, 2014, CHS and certain of its subsidiaries amended the Receivables Facility to increase the size of the facility from \$500 million to \$700 million and to extend the scheduled termination date. Additional subsidiaries also agreed to participate in the Receivables Facility as of that date. On November 13, 2015, CHS and certain of its subsidiaries amended the Receivables Facility to extend the scheduled termination date and amend certain other provisions thereof. The existing and future non-self pay patient-related accounts receivable (the Receivables ) for certain affiliated hospitals serve as collateral for the outstanding borrowings under the Receivables Facility. The interest rate on the borrowings is based on the commercial paper rate plus an applicable interest rate spread. Unless earlier terminated or subsequently extended pursuant to its terms, the Receivables Facility will expire on November 13, 2017, subject to customary termination events that could cause an early termination date. CHS maintains effective control over the Receivables because, pursuant to the terms of the Receivables Facility, the Receivables are sold from certain of CHS subsidiaries to CHS, and CHS then sells or contributes the Receivables to a special-purpose entity that is wholly-owned by CHS. The wholly-owned special-purpose entity in turn grants security interests in the Receivables in exchange for borrowings obtained from the group of third-party lenders and banks of up to \$700 million outstanding from time to time based on the availability of eligible Receivables and other customary factors. The group of third-party lenders and banks do not have recourse to CHS or its subsidiaries beyond the assets of the wholly-owned special-purpose entity that collateralizes the loan. The Receivables and other assets of the wholly-owned special-purpose entity will be available first and foremost to satisfy the claims of the creditors of such entity. The outstanding borrowings pursuant to the Receivables Facility at March 31, 2016 totaled \$699 million and are classified as long-term debt on the condensed consolidated balance sheet. At March 31, 2016, the carrying amount of Receivables included in the Receivables Facility totaled approximately \$1.7 billion and is included in patient accounts receivable on the condensed consolidated balance sheet.

The Company has transitioned all of its hospitals to the ICD-10 coding system, which was required of all healthcare providers covered by the Health Insurance Portability and Accountability Act ( HIPAA ). This transition involved a significant capital investment in technology and coding of the Company s information systems, as well as significant costs related to training of staff involved with coding and billing. As noted in the Company s 2015 Annual Report on Form 10-K, the potential for delay in billing and collection on patient receivables resulting from these changes or from new payment systems and processes implemented by third-party payors could have an adverse effect on the quality of receivables that serve as collateral under the Receivables Facility, resulting in a potential default or repayment of outstanding borrowings. Should such a repayment of borrowings under the Receivables Facility be required, the Company has availability, and expects that it will continue to have availability, under its Revolving Facility to provide sufficient financial resources and liquidity to fund the repayment.

***Loss from Early Extinguishment of Debt***

The financing transactions discussed above resulted in a loss from the early extinguishment of debt of \$8 million for the three months ended March 31, 2015, and an after-tax loss of \$5 million for the three months ended March 31, 2015.

***Other Debt***

As of March 31, 2016, other debt consisted primarily of the mortgage obligation on the Company's corporate headquarters and other obligations maturing in various installments through 2020.

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

To limit the effect of changes in interest rates on a portion of the Company's long-term borrowings, the Company is a party to 15 separate interest swap agreements in effect at March 31, 2016, with an aggregate notional amount for currently effective swaps of \$3.5 billion. On each of these swaps, the Company receives a variable rate of interest based on the three-month LIBOR in exchange for the payment of a fixed rate of interest. The Company currently pays, on a quarterly basis, interest on the Revolving Facility and the Term A Facility at a rate per annum equal to LIBOR plus 2.75%. Loans in respect of the Term F Facility accrue interest at a rate per annum equal to LIBOR plus 3.25%. The Term G Loan and Term H Loan accrue interest at a rate per annum equal to LIBOR plus 2.75% and 3.00%, in the case of LIBOR borrowings, respectively, and Alternate Base Rate plus 1.75% and 2.00%, respectively, in the case of Alternate Base Rate Borrowings. The Term G Loan and the Term H Loan are subject to a 1.00% LIBOR floor and a 2.00% Alternate Base Rate floor. See Note 13 for additional information regarding these swaps.

The Company paid interest of \$307 million and \$300 million on borrowings during the three months ended March 31, 2016 and 2015, respectively.

**13. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The fair value of financial instruments has been estimated by the Company using available market information as of March 31, 2016 and December 31, 2015, and valuation methodologies considered appropriate. The estimates presented in the table below are not necessarily indicative of amounts the Company could realize in a current market exchange (in millions):

	March 31, 2016		December 31, 2015	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<b>Assets:</b>				
Cash and cash equivalents	\$ 181	\$ 181	\$ 184	\$ 184
Available-for-sale securities	268	268	271	271
Trading securities	63	63	61	61
<b>Liabilities:</b>				
Contingent Value Right	2	2	2	2
Credit Facility	7,255	7,255	7,114	7,115
8% Senior Notes	1,993	1,954	1,992	2,018
7 1/8% Senior Notes	1,187	1,141	1,186	1,193
2018 Senior Secured Notes	1,588	1,615	1,587	1,610
2021 Senior Secured Notes	968	1,010	967	997
6 7/8% Senior Notes	2,924	2,715	2,921	2,858
Receivables Facility and other debt	780	780	791	791

The estimated fair value is determined using the methodologies discussed below in accordance with accounting standards related to the determination of fair value based on the U.S. GAAP fair value hierarchy as discussed in Note

14. The estimated fair value for financial instruments with a fair value that does not equal its carrying value is considered a Level 1 valuation. The Company utilizes the market approach and obtains indicative pricing from the administrative agent to the Credit Facility to determine fair values or through publicly available subscription services such as Bloomberg where relevant.

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

*Available-for-sale securities.* Estimated fair value is based on closing price as quoted in public markets or other various valuation techniques.

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

*Contingent Value Right.* Estimated fair value is based on the closing price as quoted on the public market where the CVR is traded.

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

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