

COMMUNITY HEALTH SYSTEMS INC
Form 10-Q
August 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 June 30, 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)

4000 Meridian Boulevard

Franklin, Tennessee

(Address of principal executive offices)

13-3893191

(I.R.S. Employer

Identification Number)

37067

(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 July 28, 2016, there were outstanding 113,636,956 shares of the Registrant's Common Stock, \$0.01 par value.

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Community Health Systems, Inc.

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For the Three and Six Months Ended June 30, 2016

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF (LOSS) INCOME

(In millions, except share and per share data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Operating revenues (net of contractual allowances and discounts)	\$ 5,290	\$ 5,614	\$ 11,044	\$ 11,260
Provision for bad debts	700	732	1,455	1,467
<i>Net operating revenues</i>	4,590	4,882	9,589	9,793
<i>Operating costs and expenses:</i>				
Salaries and benefits	2,154	2,217	4,470	4,474
Supplies	759	750	1,559	1,512
Other operating expenses	1,056	1,125	2,229	2,225
Government settlement and related costs	-	(6)	1	1
Electronic health records incentive reimbursement	(31)	(55)	(49)	(81)
Rent	112	113	231	229
Depreciation and amortization	276	291	574	587
Impairment of goodwill and long-lived assets	1,639	6	1,656	6
Total operating costs and expenses	5,965	4,441	10,671	8,953
<i>(Loss) income from operations</i>	(1,375)	441	(1,082)	840
Interest expense, net	246	239	496	481
Loss from early extinguishment of debt	30	9	30	16
Gain on sale of investments in unconsolidated affiliates	(94)	-	(94)	-
Equity in earnings of unconsolidated affiliates	(14)	(21)	(34)	(39)
(Loss) income from continuing operations before income taxes	(1,543)	214	(1,480)	382
(Benefit from) provision for income	(138)	74	(112)	130

taxes

(Loss) income from continuing operations	(1,405)	140	(1,368)	252
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Discontinued operations, net of taxes:

Loss from operations of entities sold or held for sale	(1)	(6)	(2)	(17)
Impairment of hospitals sold or held for sale	-	-	(1)	(2)
Loss on sale, net	-	-	-	(1)

Loss from discontinued operations, net of taxes	(1)	(6)	(3)	(20)
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<i>Net (loss) income</i>	(1,406)	134	(1,371)	232
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Less: Net income attributable to noncontrolling interests	26	23	50	43
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Net (loss) income attributable to Community Health Systems, Inc. stockholders	\$ (1,432)	\$ 111	\$ (1,421)	\$ 189
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Basic (loss) earnings per share attributable to Community Health Systems, Inc. common stockholders:

Continuing operations	\$ (12.90)	\$ 1.02	\$ (12.82)	\$ 1.82
Discontinued operations	(0.01)	(0.06)	(0.03)	(0.17)

Net (loss) income	\$ (12.91)	\$ 0.96	\$ (12.85)	\$ 1.65
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Diluted (loss) earnings per share attributable to Community Health Systems, Inc. common stockholders(1):

Continuing operations	\$ (12.90)	\$ 1.01	\$ (12.82)	\$ 1.80
Discontinued operations	(0.01)	(0.06)	(0.03)	(0.17)

Net (loss) income	\$ (12.91)	\$ 0.95	\$ (12.85)	\$ 1.64
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Weighted-average number of shares outstanding:

Basic	110,879,285	115,194,899	110,563,576	114,809,386
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Diluted	110,879,285	116,100,417	110,563,576	115,580,887
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(1) Total per share amounts may not add due to rounding.

See accompanying notes to the condensed consolidated financial statements.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

*(In millions)**(Unaudited)*

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net (loss) income	\$ (1,406)	\$ 134	\$ (1,371)	\$ 232
Other comprehensive (loss) income, net of income taxes:				
Net change in fair value of interest rate swaps, net of tax	(2)	8	(21)	(1)
Net change in fair value of available-for-sale securities, net of tax	(3)	(2)	(1)	(1)
Amortization and recognition of unrecognized pension cost components, net of tax	2	-	3	1
Other comprehensive (loss) income	(3)	6	(19)	(1)
Comprehensive (loss) income	(1,409)	140	(1,390)	231
Less: Comprehensive income attributable to noncontrolling interests	26	23	50	43
Comprehensive (loss) income attributable to Community Health Systems, Inc. stockholders	\$ (1,435)	\$ 117	\$ (1,440)	\$ 188

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)*

	June 30, 2016	December 31, 2015
ASSETS		
<i>Current assets:</i>		
Cash and cash equivalents	\$ 461	\$ 184
Patient accounts receivable, net of allowance for doubtful accounts of \$3,732 and \$4,110 at June 30, 2016 and December 31, 2015, respectively	3,179	3,611
Supplies	527	580
Prepaid income taxes	33	27
Prepaid expenses and taxes	217	197
Other current assets (including assets of hospitals held for sale of \$5 and \$17 at June 30, 2016 and December 31, 2015, respectively)	425	567
Total current assets	4,842	5,166
<i>Property and equipment</i>	<i>13,364</i>	<i>14,906</i>
Less accumulated depreciation and amortization	(4,409)	(4,794)
Property and equipment, net	8,955	10,112
<i>Goodwill</i>	<i>6,926</i>	<i>8,965</i>
<i>Other assets, net (including assets of hospitals held for sale of \$26 and \$41 at June 30, 2016 and December 31, 2015, respectively)</i>	<i>1,709</i>	<i>2,352</i>
Total assets	\$ 22,432	\$ 26,595

LIABILITIES AND EQUITY

<i>Current liabilities:</i>		
Current maturities of long-term debt	\$ 253	\$ 229
Accounts payable	979	1,258
Accrued interest	208	227
Accrued liabilities (including liabilities of hospitals held for sale of \$3 and \$6 at June 30, 2016 and December 31, 2015, respectively)	1,288	1,358
Total current liabilities	2,728	3,072

<i>Long-term debt</i>	15,110	16,556
<i>Deferred income taxes</i>	388	593
<i>Other long-term liabilities</i>	1,658	1,698
<i>Total liabilities</i>	19,884	21,919
<i>Redeemable noncontrolling interests in equity of consolidated subsidiaries</i>	546	571
EQUITY		
<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; 113,643,956 shares issued and outstanding at June 30, 2016, and 113,732,933 shares issued and 112,757,384 shares outstanding at December 31, 2015	1	1
Additional paid-in capital	1,965	1,963
Treasury stock, at cost, no shares at June 30, 2016 and 975,549 shares at December 31, 2015	-	(7)
Accumulated other comprehensive loss	(90)	(73)
Retained earnings	19	2,135
Total Community Health Systems, Inc. stockholders' equity	1,895	4,019
<i>Noncontrolling interests in equity of consolidated subsidiaries</i>	107	86
<i>Total equity</i>	2,002	4,105
<i>Total liabilities and equity</i>	\$ 22,432	\$ 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)

	Six Months Ended	
	June 30,	
	2016	2015
<i>Cash flows from operating activities:</i>		
Net (loss) income	\$(1,371)	\$ 232
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	574	588
Government settlement and related costs	1	1
Stock-based compensation expense	26	30
Loss on sale, net	-	1
Impairment of hospitals sold or held for sale	1	2
Impairment of goodwill and long-lived assets	1,656	6
Loss from early extinguishment of debt	30	16
Gain on sale of investments in unconsolidated affiliates	(94)	-
Other non-cash expenses, net	22	(1)
Changes in operating assets and liabilities, net of effects of acquisitions and divestitures:		
Patient accounts receivable	(40)	(88)
Supplies, prepaid expenses and other current assets	31	(30)
Accounts payable, accrued liabilities and income taxes	(212)	(238)
Other	8	(15)
Net cash provided by operating activities	632	504
<i>Cash flows from investing activities:</i>		
Acquisitions of facilities and other related equipment	(114)	(27)
Purchases of property and equipment	(407)	(474)
Proceeds from disposition of hospitals and other ancillary operations	12	62
Proceeds from sale of property and equipment	7	11
Purchases of available-for-sale securities	(63)	(90)
Proceeds from sales of available-for-sale securities	233	86
Proceeds from sale of investments in unconsolidated affiliates	403	-
Distribution from Quorum Health Corporation	1,219	-
Increase in other investments	(113)	(80)
Net cash provided by (used in) investing activities	1,177	(512)

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Cash flows from financing activities:

Proceeds from exercise of stock options	-	22
Repurchase of restricted stock shares for payroll tax withholding requirements	(5)	(20)
Deferred financing costs and other debt-related costs	(22)	(30)
Redemption of noncontrolling investments in joint ventures	(16)	(14)
Distributions to noncontrolling investors in joint ventures	(47)	(48)
Borrowings under credit agreements	2,806	2,385
Proceeds from receivables facility	31	91
Repayments of long-term indebtedness	(4,279)	(2,522)
Net cash used in financing activities	(1,532)	(136)
<i>Net change in cash and cash equivalents</i>	<i>277</i>	<i>(144)</i>
<i>Cash and cash equivalents at beginning of period</i>	<i>184</i>	<i>509</i>
<i>Cash and cash equivalents at end of period</i>	<i>\$ 461</i>	<i>\$ 365</i>
<i>Supplemental disclosure of cash flow information:</i>		
Interest payments	\$ (489)	\$ (459)
Income tax payments, net	\$ (4)	\$ (9)

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 June 30, 2016 and December 31, 2015 and for the three-month and six-month periods ended June 30, 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 and six months ended June 30, 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 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.

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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 and six months ended June 30, 2016 and 2015, were as follows (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Medicare	\$ 1,265	\$ 1,383	\$ 2,696	\$ 2,782
Medicaid	553	616	1,145	1,202
Managed Care and other third-party payors	2,816	2,947	5,839	5,892
Self-pay	656	668	1,364	1,384
Total	\$ 5,290	\$ 5,614	\$ 11,044	\$ 11,260

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 \$31 million and \$55 million for the three months ended June 30, 2016 and 2015, respectively, and \$49 million and \$81 million for the six months ended June 30, 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 \$18 million and \$10 million for the three months ended June 30, 2016 and 2015, respectively, and \$102 million and \$65 million for the six months ended June 30, 2016 and 2015, respectively. The Company recorded \$4 million and \$21 million as deferred revenue in connection with the receipt of these payments at June 30, 2016 and 2015, respectively, as all criteria for gain recognition had not been met.

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

Accounting for the Impairment or Disposal of Long-Lived Assets. During the three months ended June 30, 2016, the Company recorded a non-cash impairment charge of approximately \$239 million, which included a charge of approximately \$169 million to reduce the value of long-lived assets at certain hospitals that the Company is currently marketing for sale and a charge of approximately \$70 million related to the write-down of long-lived assets to their estimated fair value for certain underperforming hospitals. This estimate of fair value and resulting impairment charge was performed in conjunction with the goodwill impairment evaluation discussed in Note 8 and in connection with the preparation of the Company's financial statements included in this Quarterly Report on Form 10-Q, and was identified for those hospitals that have experienced declining operating results with lower than previously expected projected net cash flows, or have carrying values that exceed the estimate of future cash flows generated from the expected sale of those assets.

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, 2017, 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.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

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 currently evaluating the impact that the adoption of this ASU will have on its consolidated financial position, results of operations and cash flows.

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. Amended and Restated 2009 Stock Option and Award Plan, which was amended and restated as of March 16, 2016 and approved by the Company's stockholders at the annual meeting of stockholders held on May 17, 2016 (the 2009 Plan).

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 for the grant of incentive stock options intended to qualify under Section 422 of the IRC and for the grant of stock options which do not so qualify, stock appreciation rights, restricted stock, restricted stock units, performance-based shares or units and other share awards. Persons eligible to receive grants under the 2009 Plan include the Company's directors, officers, employees and consultants. 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. The amendment and restatement of the 2009 Plan, as approved by the Company's stockholders at the 2016 Annual Meeting, increased the number of shares of common stock available for grant under the 2009 Plan by an additional 5,000,000 shares. As of June 30, 2016, 6,309,733 shares of unissued common stock were reserved for future grants under the 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):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2016		2015		2016		2015	
Effect on (loss) income from continuing operations before income taxes	\$	(12)	\$	(15)	\$	(26)	\$	(30)
Effect on net (loss) income	\$	(7)	\$	(9)	\$	(15)	\$	(17)

At June 30, 2016, \$51 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 21 months. There is no expense to be recognized related to stock options. There were no modifications to awards during the three or six months ended June 30, 2016 and 2015, other than those required by the Employee Matters Agreement (EMA) entered into as part of the spinoff of Quorum Health Corporation (QHC), as further discussed below.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

Options outstanding and exercisable under the 2000 Plan and the 2009 Plan as of June 30, 2016, and changes during each of the three-month periods 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 June 30, 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		
Granted	-	-		
Exercised	-	-		
Forfeited and cancelled	(21,668)	22.23		
Outstanding at June 30, 2016	1,201,156	28.13	3.5 years	\$ -
Exercisable at June 30, 2016	1,201,156	\$ 28.13	3.5 years	\$ -

The weighted-average exercise prices in the table above for periods prior to the April 29, 2016 spin-off of QHC reflect the historical prices at those dates. No stock options were granted during the three or six months ended June 30, 2016 and 2015. The aggregate intrinsic value (calculated as 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 (\$12.05) 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 June 30, 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 and six months ended June 30, 2015 was \$2 million and \$7 million, respectively. There were no options exercised during the three or six-month periods ended June 30, 2016. The aggregate intrinsic value of options vested and expected to vest approximates that of the outstanding options.

In accordance with the terms of the EMA, on April 29, 2016, the exercise prices of all stock options outstanding as of that date were modified to reflect the reduction in the Company's stock price that occurred as a result of the distribution of QHC to the Company's stockholders in order to maintain a consistent intrinsic value before and following the QHC distribution. There were no other modifications to the term or number of the outstanding options.

The Company evaluated the fair value of the stock options immediately before and after the exercise price modification, and concluded that no incremental stock compensation expense should be recorded.

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

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.

On April 29, 2016, the Company cancelled 106,005 restricted stock awards from the March 1, 2016 grant that were held by former employees whose employment with the Company was terminated and who are now part of the new management team at QHC. This cancellation did not include the issuance of replacement awards by the Company. As a result, the Company recorded approximately \$2 million of compensation expense related to the unrecognized stock compensation expense for those awards at the cancellation date. This expense is recorded as part of the costs related to the spin-off of QHC presented in other operating expenses on the accompanying condensed consolidated statement of income for the three and six months ended June 30, 2016.

Restricted stock outstanding under the 2000 Plan and the 2009 Plan as of June 30, 2016, and changes during each of the three-month periods following December 31, 2015, were as follows (in millions, except share and per share data):

	Weighted- Average Grant Date Fair Value
Shares	

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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
Granted	11,000		13.94
Vested	(11,332)		39.23
Forfeited	(120,006)		17.19
Unvested at June 30, 2016	2,759,237		31.71

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.

In connection with the spin-off of QHC, holders of outstanding RSUs were credited with a total of 22,021 incremental RSUs at a ratio calculated to maintain a consistent intrinsic value before and following the QHC distribution. There were no other changes to the awards and the new RSUs will vest in accordance with the initial vesting period of the corresponding original award.

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

RSUs outstanding under the 2000 Plan and the 2009 Plan as of June 30, 2016, and changes during each of the three-month periods 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
Granted	22,021		22.06
Vested	-		-
Forfeited	-		-
Unvested at June 30, 2016	120,386		22.06

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 \$44 million and \$47 million for the three months ended June 30, 2016 and 2015, respectively, and \$104 million and \$124 million for the six months ended June 30, 2016 and 2015, respectively. Included in these corporate office costs is stock-based compensation of \$12 million and \$15 million for the three months ended June 30, 2016 and 2015, respectively, and \$26 million and \$30 million for the six months ended June 30, 2016 and 2015, respectively.

4. USE OF ESTIMATES

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

5. ACQUISITIONS AND DIVESTITURES***Acquisitions***

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 2014 acquisition of HMA, approximately \$1 million and \$2 million of acquisition costs related to prospective and closed acquisitions were expensed during the three months ended June 30, 2016 and 2015, respectively, and approximately \$3 million and \$5 million during the six months ended June 30, 2016 and 2015, respectively, 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 six months ended June 30, 2015.

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

On April 1, 2016, one or more subsidiaries of the Company completed the acquisition of an 80% interest in Physicians Specialty Hospital (20 licensed beds), a Medicare-certified specialty surgical hospital in Fayetteville, Arkansas. The total cash consideration paid for the 80% ownership interest in this joint venture was approximately \$12 million, with additional consideration of \$2 million assumed in liabilities, for a total consideration of \$14 million. The value of the noncontrolling interest at acquisition was \$3 million. Based upon the Company's preliminary purchase price allocation relating to this acquisition as of June 30, 2016, approximately \$12 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.

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 the 80% ownership interest in this joint venture was approximately \$96 million with additional consideration of \$8 million assumed in liabilities, for a total consideration of \$104 million. The value of the noncontrolling interest at acquisition was \$24 million. Based upon the Company's preliminary purchase price allocation relating to this acquisition as of June 30, 2016, approximately \$50 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 six months ended June 30, 2016, one or more subsidiaries of the Company paid approximately \$6 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 six months ended June 30, 2016, the Company allocated approximately \$4 million of the consideration paid to property and equipment and net working capital and the remainder, approximately \$8 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 \$6 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 is 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 are 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 to be applied on a prospective basis for disposals or components initially classified as held for sale after adoption. 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 and six months ended June 30, 2016 and 2015 (the impact of the adoption of ASU 2014-08 in relation to the hospitals and other assets spun off to QHC are discussed in Note 6 below).

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.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

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 June 30, 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 hospitals and the sale of the seven hospitals (excluding Payson) noted above during 2015, the Company has classified the results of operations of such hospitals as discontinued operations in the

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accompanying condensed consolidated statements of income, and classified these hospitals as held for sale in the accompanying condensed consolidated balance sheet.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net operating revenues	\$ 26	\$ 17	\$ 52	\$ 73
Loss from operations of entities sold or held for sale before income taxes	(2)	(10)	(3)	(27)
Impairment of hospitals sold or held for sale	-	-	(2)	(2)
Loss on sale, net	-	-	-	(1)
Loss from discontinued operations, before taxes	(2)	(10)	(5)	(30)
Income tax benefit	(1)	(4)	(2)	(10)
Loss from discontinued operations, net of taxes	\$ (1)	\$ (6)	\$ (3)	\$ (20)

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

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. The Company recorded an impairment charge of approximately \$7 million during the three months ended March 31, 2016, to adjust the fair 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. McNairy Regional Hospital closed on May 19, 2016.

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. In recognition of the spin-off, the Company recorded a non-cash dividend of approximately \$695 million during the three months ended June 30, 2016, representing the net assets of QHC distributed to the Company's stockholders. 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 through the date of the spin-off are 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.

Financial and statistical data reported in this Quarterly Report on Form 10-Q include QHC operating results through April 29, 2016 (other than same-store operating results and data, which exclude QHC operating results).

7. INCOME TAXES

The total amount of unrecognized benefit that would affect the effective tax rate, if recognized, was approximately \$5 million as of June 30, 2016. A total of approximately \$3 million of interest and penalties is included in the amount of the liability for uncertain tax positions at June 30, 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.

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

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 8.9% and 34.6% for the three months ended June 30, 2016 and 2015, respectively, and 7.6% and 34.0% for the six months ended June 30, 2016 and 2015, respectively. The decrease in the Company's effective tax rate for the three and six months ended June 30, 2016, when compared to the three and six months ended June 30, 2015, was primarily due to the impairment of non-deductible goodwill and the nondeductible nature of certain costs incurred to complete the spin-off of QHC.

Cash paid for income taxes, net of refunds received, resulted in net cash paid of \$4 million and \$8 million during the three months ended June 30, 2016 and 2015, respectively, and net cash paid of \$4 million and \$9 million during the six months ended June 30, 2016 and 2015, respectively.

8. GOODWILL AND OTHER INTANGIBLE ASSETS***Goodwill***

The changes in the carrying amount of goodwill for the six months ended June 30, 2016 are as follows (in millions):

Balance as of December 31, 2015	\$	8,965
Goodwill acquired as part of acquisitions during current year		70
Goodwill allocated to QHC in the spin-off		(709)
Impairment of goodwill		(1,400)
Balance as of June 30, 2016	\$	6,926

Goodwill is allocated to each identified reporting unit, which is defined as an operating segment or one level below the operating segment (referred to as a component of the entity). Management has determined that the Company's operating segments meet the criteria to be classified as reporting units. During the three months ended June 30, 2016, the Company allocated approximately \$709 million of goodwill to the spin-off of QHC, including approximately \$33

million of goodwill related to the former management services reporting unit and approximately \$676 million of goodwill allocated from the hospital operations reporting unit based on a relative fair value calculation of the hospitals that were included in the QHC distribution. At June 30, 2016, after giving effect to the disposition of QHC and the \$1.4 billion impairment charge discussed below, the hospital operations reporting unit and the home care agency operations reporting unit had approximately \$6.9 billion and \$47 million, respectively, of goodwill.

Goodwill is evaluated for impairment at the same time every year and when an event occurs or circumstances change that, more likely than not, reduce the fair value of the reporting unit below its carrying value. There is a two-step method for determining goodwill impairment. Step one is to compare the fair value of the reporting unit with the unit's carrying amount, including goodwill. If this test indicates the fair value is less than the carrying value, then step two is required to compare the implied fair value of the reporting unit's goodwill utilizing a hypothetical purchase price allocation with the carrying value of the reporting unit's goodwill. The Company performed its last annual goodwill evaluation as of September 30, 2015. No impairment was indicated by this evaluation. The next annual goodwill evaluation will be performed as of September 30, 2016.

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

The Company estimates the fair value of the related reporting units using both a discounted cash flow model as well as a market 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.

During the three months ended June 30, 2016, in connection with the preparation of the Company's financial statements included in this Quarterly Report on Form 10-Q, the Company identified certain indicators of impairment requiring an interim goodwill impairment evaluation. Those indicators were primarily the decline in the Company's market capitalization and fair value of long-term debt during the three months ended June 30, 2016, as well as a decrease in the estimated future earnings of the Company compared to the Company's most recent annual evaluation. The Company performed a calculation of fair value in step one of the impairment test at June 30, 2016, which indicated that the carrying value of its hospital operations reporting unit exceeded its fair value. An initial step two calculation has been performed to determine the implied value of goodwill in a hypothetical purchase price allocation. The Company recorded a non-cash impairment charge of \$1.4 billion to goodwill at June 30, 2016 based on its current best estimate of fair value and resulting implied goodwill. As allowed by generally accepted accounting principles, this amount represents an estimate of the implied goodwill in the step two evaluation until that process can be finalized, which the Company expects to complete during the third quarter of 2016. Any increases or decreases in the fair value and resulting implied value of goodwill will be recorded when the evaluation is complete, and such changes could be material. Factors that could impact the final determination of fair value include a further decline in market capitalization, changes in the estimated fair values of the individual hospital assets and liabilities, or changes in projected future earnings and net cash flows.

In addition, as discussed in Note 1, in conjunction with the Company's goodwill impairment analysis as set forth above, the Company recorded an impairment charge of approximately \$239 million related to the write-down of long-lived assets to their estimated fair value for certain underperforming hospitals and certain of the hospitals that the Company is currently marketing for sale. These impairment charges for goodwill and long-lived assets do not have an impact on the calculation of the Company's financial covenants under the Company's Credit Facility.

The determination of fair value of the Company's hospital operations reporting unit represents a Level 3 fair value measurement in the fair value hierarchy due to its use of internal projections and unobservable measurement inputs.

Intangible Assets

No intangible assets other than goodwill were acquired during the six months ended June 30, 2016. The gross carrying amount of the Company's other intangible assets subject to amortization was \$36 million at June 30, 2016 and \$82 million at December 31, 2015 and the net carrying amount was \$11 million at June 30, 2016 and \$31 million at December 31, 2015. The carrying amount of the Company's other intangible assets not subject to amortization was \$106 million at June 30, 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 one year. There are no expected residual values related to these intangible assets. Amortization expense on these intangible assets was \$3 million and \$4 million during the three months ended June 30, 2016 and 2015, respectively, and \$7 million during each of the six-month periods ended June 30, 2016 and 2015. Amortization expense on intangible assets is estimated to be \$6 million for the remainder of 2016, \$3 million in 2017 and \$2 million in 2018. No amortization expense on intangible assets is estimated thereafter.

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

The gross carrying amount of capitalized software for internal use was approximately \$1.4 billion and \$1.5 billion at June 30, 2016 and December 31, 2015, respectively, and the net carrying amount considering accumulated amortization was approximately \$643 million at June 30, 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 June 30, 2016, there was approximately \$44 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 \$50 million and \$53 million during the three months ended June 30, 2016 and 2015, respectively, and \$105 million and \$106 million during the six months ended June 30, 2016 and 2015, respectively. Amortization expense on capitalized internal-use software is estimated to be \$91 million for the remainder of 2016, \$176 million in 2017, \$113 million in 2018, \$73 million in 2019, \$60 million in 2020, \$50 million in 2021 and \$80 million thereafter.

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 (loss) income from continuing operations, discontinued operations and net (loss) income attributable to Community Health Systems, Inc. common stockholders (in millions, except share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Numerator:				
(Loss) Income from continuing operations, net of taxes	\$ (1,405)	\$ 140	\$ (1,368)	\$ 252
Less: Income from continuing operations attributable to noncontrolling interests, net of taxes	26	23	50	43
(Loss) Income from continuing operations attributable to Community Health Systems, Inc. common stockholders basic and diluted	\$ (1,431)	\$ 117	\$ (1,418)	\$ 209
Loss from discontinued operations, net of taxes	\$ (1)	\$ (6)	\$ (3)	\$ (20)
Less: Loss from discontinued operations attributable to noncontrolling interests, net of taxes	-	-	-	-
	\$ (1)	\$ (6)	\$ (3)	\$ (20)

Loss from discontinued operations attributable to
Community Health Systems, Inc. common
stockholders basic and diluted

Denominator:

Weighted-average number of shares outstanding basic	110,879,285	115,194,899	110,563,576	114,809,386
Effect of dilutive securities:				
Restricted stock awards	-	441,351	-	311,236
Employee stock options	-	453,661	-	453,160
Other equity-based awards	-	10,506	-	7,105
Weighted-average number of shares outstanding diluted	110,879,285	116,100,417	110,563,576	115,580,887

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

The Company generated a loss from continuing operations attributable to Community Health Systems, Inc. common stockholders for the three and six months ended June 30, 2016, so the effect of dilutive securities is not considered because their effect would be antidilutive. If the Company had generated income from continuing operations during the three and six months ended June 30, 2016, the effect of restricted stock awards, employee stock options, and other equity-based awards on the diluted shares calculation would have been an increase in shares of 168,764 shares and 115,135 shares, respectively.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	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	2,530,686	-	2,601,706	-

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 June 30, 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.

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 six months ended June 30, 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 after the Company repurchased and retired the maximum 5,000,000 shares during the three months ended December 31, 2015. No shares were repurchased under this program during the six months ended June 30, 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. The non-cash dividend of approximately \$695 million recorded by the Company during the three months ended June 30, 2016 to reflect the distribution of the net assets of QHC was a permitted transaction under the Company's Credit Facility. As of June 30, 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.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

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 six-month period ended June 30, 2016 (in millions):

	Community Health Systems, Inc. Stockholders							
	Redeemable Noncontrolling Interest	Common Stock	Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Noncontrolling Interest	Total Stockholders Equity
Balance, December 31, 2015	\$ 571	\$ 1	\$ 1,963	\$ (7)	\$ (73)	\$ 2,135	\$ 86	\$ 4,105
Comprehensive income	37	-	-	-	(19)	(1,421)	13	(1,427)
Distributions to noncontrolling interests, net of contributions	(37)	-	-	-	-	-	(10)	(10)
Purchase of subsidiary shares from noncontrolling interests	(10)	-	(2)	-	-	-	(4)	(6)
Noncontrolling interests in acquired entity	-	-	-	-	-	-	32	32
Adjustment to redemption value of redeemable noncontrolling interests	(7)	-	7	-	-	-	-	7
Distribution of Quorum Health Corporation	(8)	-	-	-	2	(695)	(10)	(703)
Cancellation of treasury stock	-	-	(7)	7	-	-	-	-
Cancellation of restricted stock for tax withholdings on vested shares	-	-	(5)	-	-	-	-	(5)
Income tax payable increase from vesting of restricted shares	-	-	(17)	-	-	-	-	(17)
Share-based compensation	-	-	26	-	-	-	-	26
Balance, June 30, 2016	\$ 546	\$ 1	\$ 1,965	\$ -	\$ (90)	\$ 19	\$ 107	\$ 2,002

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):

	Six Months Ended June 30, 2016
Net loss attributable to Community Health Systems, Inc. stockholders	\$ (1,421)
Transfers to the noncontrolling interests:	
Net decrease in Community Health Systems, Inc. paid-in capital for purchase of subsidiary partnership interests	(2)
Net transfers to the noncontrolling interests	(2)
Change to Community Health Systems, Inc. stockholders equity from net income attributable to Community Health Systems, Inc. stockholders and transfers to noncontrolling interests	\$ (1,423)

11. EQUITY INVESTMENTS

As of June 30, 2016, the Company owned equity interests of 38.0% in three hospitals in Macon, Georgia, in which HCA Holdings, Inc. (HCA) owns the majority interest. On April 29, 2016, the Company sold its unconsolidated minority equity interests in Valley Health System, LLC, a joint venture with Universal Health Systems, Inc. (UHS) representing four hospitals in Las Vegas, Nevada, in which the Company owned a 27.5% interest, and in Summerlin Hospital Medical Center, LLC, a joint venture with UHS representing one hospital in Las Vegas, Nevada, in which the Company owned a 26.1% interest. The Company received \$403 million in cash in return for the sale of its equity interests and, as a result, recognized a gain of approximately \$94 million on the sale of investments in unconsolidated affiliates during the three months ended June 30, 2016.

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

Summarized combined financial information for these unconsolidated entities in the periods in which the Company owned these equity interests is as follows (in millions):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Revenues	\$ 176	\$ 371	\$ 592	\$ 747
Operating costs and expenses	149	317	473	633
Income from continuing operations before taxes	27	54	119	114

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 of June 30, 2016, the Company had a 23.8% ownership interest in HealthTrust.

The Company's investment in all of its unconsolidated affiliates was \$141 million at June 30, 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 \$14 million and \$21 million for the three months ended June 30, 2016 and 2015, respectively, and \$34 million and \$39 million for the six months ended June 30, 2016 and 2015, respectively.

12. LONG-TERM DEBT

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

	June 30, 2016	December 31, 2015
Credit Facility:		
Term A Loan	\$ 796	\$ 844
Term F Loan	1,481	1,671
Term G Loan	1,563	1,568
Term H Loan	2,874	2,884
Revolving credit loans	(10)	147
8% Senior Notes due 2019	1,919	1,992
7 1/8% Senior Notes due 2020	1,187	1,186
5 1/8% Senior Secured Notes due 2018	697	1,587

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5 1/8% Senior Secured Notes due 2021	970	967
6 7/8% Senior Notes due 2022	2,926	2,921
Receivables Facility	673	699
Capital lease obligations	191	227
Other	96	92
Total debt	15,363	16,785
Less current maturities	(253)	(229)
Total long-term debt	\$ 15,110	\$ 16,556

The amounts in the table above represent the outstanding principal balance for each debt issue at the respective balance sheet date, adjusted for the unamortized balance of deferred debt issuance costs and any debt premium or discount.

Table of Contents**COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)*****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 due 2019 (the Term G facility) and a new approximately \$2.9 billion incremental Term H facility due 2021 (the 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. Pursuant to a special distribution paid by QHC to the Company as part of the series of transactions to complete the spin-off, the Company received approximately \$1.2 billion in cash generated from the net proceeds of certain financing arrangements entered into by QHC as part of the separation. On April 29, 2016, using part of the cash generated from the QHC spin-off, the Company repaid approximately \$190 million of its Term F Loans due 2018.

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.

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

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 June 30, 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.

As of June 30, 2016, the availability for additional borrowings under the Credit Facility was approximately \$1.0 billion pursuant to the Revolving Facility, of which \$65 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 June 30, 2016, the weighted-average interest rate under the Credit Facility, excluding swaps, was 4.4%.

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 8½% 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 8½% 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:

Period	Redemption Price
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 %

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

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.

During the three months ended June 30, 2016, the Company repurchased approximately \$75 million of aggregate principal amount outstanding of the 8% Senior Notes in open market transactions.

7 1/8% 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 1/8% Senior Notes due 2020 (the 7 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% Senior Notes, to pay for consents delivered in connection therewith, to pay related fees and expenses, and for general corporate purposes. The 7 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 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.

On and after July 15, 2016, CHS is entitled, at its option, to redeem all or a portion of the 7 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:

Period	Redemption Price
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:

Period	Redemption Price
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 %

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

On May 16, 2016, using part of the cash generated from the QHC spin-off, the Company completed a cash tender offer for \$900 million aggregate principal amount outstanding of the 2018 Senior Secured Notes.

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:

Period	Redemption Price
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 7/8% Senior Notes due 2022

On January 27, 2014, CHS issued \$3.0 billion aggregate principal amount of 6 7/8% Senior Notes due 2022 (the 6 7/8% 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 7/8% 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 7/8% 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 6 7/8% Senior Notes prior to February 1, 2018.

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

Prior to February 1, 2017, CHS is entitled, at its option, to redeem a portion of the 6 ⁷/₈% 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 ⁷/₈% 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 6 ⁷/₈% Senior Notes indenture. On and after February 1, 2018, CHS is entitled, at its option, to redeem all or a portion of the 6 ⁷/₈% 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:

Period	Redemption Price
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 ⁷/₈% Senior Notes, as a result of an exchange offer made by CHS, all of the 6 ⁷/₈% Senior Notes issued in January 2014 were exchanged in October 2014 for new notes (the 6 ⁷/₈% Exchange Notes) having terms substantially identical in all material respects to the 6 ⁷/₈% Senior Notes (except that the exchange notes were issued under a registration statement pursuant to the 1933 Act). References to the 6 ⁷/₈% Senior Notes shall be deemed to be the 6 ⁷/₈% Exchange Notes unless the context provides otherwise.

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 June 30, 2016 totaled \$673 million and are classified as long-term debt on the condensed consolidated balance sheet. At June 30, 2016, the carrying amount of Receivables included in the Receivables Facility totaled approximately \$1.6 billion and is included in patient accounts receivable on the condensed consolidated balance sheet.

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

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 and repayment transactions discussed above resulted in a loss from the early extinguishment of debt of \$30 million and \$9 million for the three months ended June 30, 2016 and 2015, respectively, and an after-tax loss of \$20 million and \$6 million for the three months ended June 30, 2016 and 2015, respectively. Loss from the early extinguishment of debt was \$30 million and \$16 million for the six months ended June 30, 2016 and 2015, respectively, and an after-tax loss of \$20 million and \$10 million for the six months ended June 30, 2016 and 2015, respectively.

Other Debt

As of June 30, 2016, other debt consisted primarily of the mortgage obligation on the Company's corporate headquarters and other obligations maturing in various installments through 2020.

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 June 30, 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 \$182 million and \$159 million on borrowings during the three months ended June 30, 2016 and 2015, respectively, and \$489 million and \$459 million on borrowings during the six months ended June 30, 2016 and 2015, respectively.

Table of Contents**COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****13. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The fair value of financial instruments has been estimated by the Company using available market information as of June 30, 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):

	June 30, 2016		December 31, 2015	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Cash and cash equivalents	\$ 461	\$ 461	\$ 184	\$ 184
Available-for-sale securities	99	99	271	271
Trading securities	69	69	61	61
Liabilities:				
Contingent Value				
Right	1	1	2	2
Credit Facility	6,704	6,655	7,114	7,115
8% Senior Notes	1,919	1,883	1,992	2,018
7 1/8% Senior Notes	1,187	1,119	1,186	1,193
2018 Senior Secured Notes	697	713	1,587	1,610
2021 Senior Secured Notes	970	998	967	997
6 7/8% Senior Notes	2,926	2,623	2,921	2,858
Receivables Facility and other debt	769	769	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.

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

8% Senior Notes. Estimated fair value is based on the closing market price for these notes.

7¹/₈% Senior Notes. Estimated fair value is based on the closing market price for these notes.

2018 Senior Secured Notes. Estimated fair value is based on the closing market price for these notes.

2021 Senior Secured Notes. Estimated fair value is based on the closing market price for these notes.

6⁷/₈% Senior Notes. Estimated fair value is based on the closing market price for these notes.

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

Interest rate swaps. The fair value of interest rate swap agreements is the amount at which they could be settled, based on estimates calculated by the Company using a discounted cash flow analysis based on observable market inputs and validated by comparison to estimates obtained from the counterparty. The Company incorporates credit valuation adjustments (CVAs) to appropriately reflect both its own nonperformance or credit risk and the respective counterparty s nonperformance or credit risk in the fair value measurements. In adjusting the fair value of its interest rate swap agreements for the effect of nonperformance or credit risk, the Company has considered the impact of any netting features included in the agreements.

The Company assesses the effectiveness of its hedge instruments on a quarterly basis. For the six months ended June 30, 2016 and 2015, the Company completed an assessment of the cash flow hedge instruments and determined the hedges to be highly effective. The Company has also determined that the ineffective portion of the hedges do not have a material effect on the Company s consolidated financial position, operations or cash flows. The counterparties to the interest rate swap agreements expose the Company to credit risk in the event of nonperformance. However, at June 30, 2016, all of the swap agreements entered into by the Company were in a net liability position such that the Company would be required to make the net settlement payments to the counterparties; the Company does not anticipate nonperformance by those counterparties. The Company does not hold or issue derivative financial instruments for trading purposes.

Interest rate swaps consisted of the following at June 30, 2016:

Swap #	Notional Amount (in millions)	Fixed Interest Rate	Termination Date	Fair Value (in millions)
1	\$ 300	3.447 %	August 6, 2016	\$ 1
2	100	3.401 %	August 19, 2016	-
3	200	3.429 %	August 19, 2016	1
4	200	3.500 %	August 30, 2016	1
5	100	3.005 %	November 30, 2016	1
6	200	2.055 %	July 25, 2019	7
7	200	2.059 %	July 25, 2019	7
8	400	1.882 %	August 30, 2019	8
9	200	2.515 %	August 30, 2019	8
10	200	2.613 %	August 30, 2019	9
11	300	2.041 %	August 30, 2020	8
12	300	2.738 %	August 30, 2020	17
13	300	2.892 %	August 30, 2020	18
14	300	2.363 %	January 27, 2021	13

15	200	2.368 %	January 27, 2021	9
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The Company is exposed to certain risks relating to its ongoing business operations. The risk managed by using derivative instruments is interest rate risk. Interest rate swaps are entered into to manage interest rate fluctuation risk associated with the term loans in the Credit Facility. Companies are required to recognize all derivative instruments as either assets or liabilities at fair value in the condensed consolidated statement of financial position. The Company designates its interest rate swaps as cash flow hedges. For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income (OCI) and reclassified into earnings in the same period or periods during which the hedged transactions affect earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

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

Assuming no change in June 30, 2016 interest rates, approximately \$40 million of interest expense resulting from the spread between the fixed and floating rates defined in each interest rate swap agreement will be recognized during the next 12 months. If interest rate swaps do not remain highly effective as a cash flow hedge, the derivatives gains or losses resulting from the change in fair value reported through OCI will be reclassified into earnings.

The following tabular disclosure provides the amount of pre-tax (loss) gain recognized as a component of OCI during the three and six months ended June 30, 2016 and 2015 (in millions):

Derivatives in Cash Flow Hedging Relationships	Amount of Pre-Tax (Loss) Gain Recognized in OCI (Effective Portion)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Interest rate swaps	\$ (18)	\$ 3	\$ (62)	\$ (20)

The following tabular disclosure provides the location of the effective portion of the pre-tax loss reclassified from accumulated other comprehensive loss (AOCL) into interest expense on the condensed consolidated statements of income during the three and six months ended June 30, 2016 and 2015 (in millions):

Location of Loss Reclassified from AOCL into Income (Effective Portion)	Amount of Pre-Tax Loss Reclassified from AOCL into Income			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Interest expense, net	\$ 16	\$ 9	\$ 30	\$ 18

The fair values of derivative instruments in the condensed consolidated balance sheets as of June 30, 2016 and December 31, 2015 were as follows (in millions):

	Asset Derivatives				Liability Derivatives			
	June 30, 2016		December 31, 2015		June 30, 2016		December 31, 2015	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging	Other assets, net	\$ -	Other assets, net	\$ -	Other long-term	\$ 108	Other long-term	\$ 76

14. FAIR VALUE**Fair Value Hierarchy**

Fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, the Company utilizes the U.S. GAAP fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumption about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

The inputs used to measure fair value are classified into the following fair value hierarchy:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

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Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Level 3 includes values determined using pricing models, discounted cash flow methodologies, or similar techniques reflecting the Company's own assumptions.

In instances where the determination of the fair value hierarchy measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment of factors specific to the asset or liability. Transfers between levels within the fair value hierarchy are recognized by the Company on the date of the change in circumstances that requires such transfer. There were no transfers between levels during the six-month periods ending June 30, 2016 or June 30, 2015.

The following table sets forth, by level within the fair value hierarchy, the financial assets and liabilities recorded at fair value on a recurring basis as of June 30, 2016 and December 31, 2015 (in millions):

	June 30, 2016		Level 1		Level 2		Level 3	
Available-for-sale securities	\$	99	\$	98	\$	1	\$	-
Trading securities		69		69		-		-
Total assets	\$	168	\$	167	\$	1	\$	-
Contingent Value Right (CVR)	\$	1	\$	1	\$	-	\$	-
CVR-related liability		260		-		-		260
Fair value of interest rate swap agreements		108		-		108		-
Total liabilities	\$	369	\$	1	\$	108	\$	260

	December 31, 2015		Level 1		Level 2		Level 3	
Available-for-sale securities	\$	271	\$	155	\$	116	\$	-
Trading securities		61		61		-		-
Total assets	\$	332	\$	216	\$	116	\$	-

Contingent Value Right (CVR)	\$	2	\$	2	\$	-	\$	-
CVR-related liability		261		-		-		261
Fair value of interest rate swap agreements		76		-		76		-
Total liabilities	\$	339	\$	2	\$	76	\$	261

Available-for-sale Securities

Available-for-sale securities and trading securities classified as Level 1 are measured using quoted market prices. Level 2 available-for-sale securities primarily consisted of: (i) bonds and notes issued by the United States government and its agencies, domestic and foreign corporations and foreign governments; and (ii) preferred securities issued by domestic and foreign corporations. The estimated fair values of these securities are determined using various valuation techniques, including a multi-dimensional relational model that incorporates standard observable inputs and assumptions such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, benchmark securities, bids/offers and other pertinent reference data.

Contingent Value Right (CVR)

The CVR represents the estimate of the fair value for the contingent consideration paid to HMA shareholders as part of the HMA merger. The CVR is listed on the NASDAQ and the valuation at June 30, 2016 is based on the quoted trading price for the CVR on the last day of the period. Changes in the estimated fair value of the CVR are recorded through the condensed consolidated statement of income.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

CVR-related Liability

The CVR-related legal liability represents the Company's estimate of fair value at June 30, 2016 of the liability associated with the legal matters assumed in the HMA merger, which are included in accrued liabilities in the accompanying condensed consolidated balance sheet. This liability did not include those matters previously accrued by HMA as a probable contingency, which were settled and paid during the year ended December 31, 2015. To develop the estimate of fair value, the Company engaged an independent third-party valuation firm to measure the liability. The valuation was made utilizing the Company's estimates of future outcomes for each legal case and simulating future outcomes based on the timing, probability and distribution of several scenarios using a Monte Carlo simulation model. Other inputs were then utilized for discounting the liability to the measurement date. The HMA legal matters underlying this fair value estimate were evaluated by management to determine the likelihood and impact of each of the potential outcomes. Using that information, as well as the potential correlation and variability associated with each case, a fair value was determined for the estimated future cash outflows to conclude or settle the HMA legal matters included in the analysis, excluding legal fees (which are expensed as incurred). Because of the unobservable nature of the majority of the inputs used to value the liability, the Company has classified the fair value measurement as a Level 3 measurement in the fair value hierarchy.

The fair value of the CVR-related legal liability will be measured each reporting period using similar measurement techniques, updated for the assumptions and facts existing at that date for each of the underlying legal matters. Changes in the fair value of the CVR related legal liability are recorded in future periods through the condensed consolidated statement of income.

Fair Value of Interest Rate Swap Agreements

The valuation of the Company's interest rate swap agreements is determined using market valuation techniques, including discounted cash flow analysis on the expected cash flows of each agreement. This analysis reflects the contractual terms of the agreement, including the period to maturity, and uses observable market-based inputs, including forward interest rate curves. The fair value of interest rate swap agreements are determined by netting the discounted future fixed cash payments and the discounted expected variable cash receipts. The variable cash receipts are based on the expectation of future interest rates based on observable market forward interest rate curves and the notional amount being hedged.

The Company incorporates CVAs to appropriately reflect both its own nonperformance or credit risk and the respective counterparty's nonperformance or credit risk in the fair value measurements. In adjusting the fair value of its interest rate swap agreements for the effect of nonperformance or credit risk, the Company has considered the impact of any netting features included in the agreements. The CVA on the Company's interest rate swap agreements resulted in a decrease in the fair value of the related liability of \$6 million and an after-tax adjustment of \$4 million to OCI at June 30, 2016. The CVA on the Company's interest rate swap agreements resulted in a decrease in the fair value of the related liability of \$4 million and an after-tax adjustment of \$2 million to OCI at December 31, 2015.

The majority of the inputs used to value the Company's interest rate swap agreements, including the forward interest rate curves and market perceptions of the Company's credit risk used in the CVAs, are observable inputs available to a

market participant. As a result, the Company has determined that the interest rate swap valuations are classified in Level 2 of the fair value hierarchy.

15. SEGMENT INFORMATION

The Company operates in two distinct operating segments, represented by hospital operations (which includes its general acute care hospitals and related healthcare entities that provide inpatient and outpatient healthcare services) and home care agency operations (which provide in-home outpatient care).

Only the hospital operations segment meets the criteria as a separate reportable segment. The financial information for the home care agency segment does not meet the quantitative thresholds for a separate identifiable reportable segment and is combined into the corporate and all other reportable segment.

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The distribution between reportable segments of the Company's net operating revenues and (loss) income from continuing operations before income taxes is summarized in the following tables (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net operating revenues:				
Hospital operations	\$ 4,530	\$ 4,830	\$ 9,475	\$ 9,687
Corporate and all other	60	52	114	106
Total	\$ 4,590	\$ 4,882	\$ 9,589	\$ 9,793
(Loss) income from continuing operations before income taxes:				
Hospital operations	\$ (1,452)	\$ 295	\$ (1,309)	\$ 568
Corporate and all other	(91)	(81)	(171)	(186)
Total	\$ (1,543)	\$ 214	\$ (1,480)	\$ 382

16. OTHER COMPREHENSIVE INCOME

The following tables present information about items reclassified out of accumulated other comprehensive income (loss) by component for the three and six months ended June 30, 2016 and 2015 (in millions, net of tax):

	Change in Fair Value of Interest Rate Swaps	Change in Fair Value of Available for Sale Securities	Change in Unrecognized Pension Cost Components	Accumulated Other Comprehensive Income (Loss)
Balance as of March 31, 2016	\$ (67)	\$ 3	\$ (25)	\$ (89)
Other comprehensive income (loss) before reclassifications	(12)	(3)	-	(15)
Amounts reclassified from accumulated other comprehensive income (loss)	10	-	2	12
Net current-period other comprehensive (loss) income	(2)	(3)	2	(3)
AOCI distributed to QHC in spin-off	-	-	2	2

Balance as of June 30, 2016	\$	(69)	\$	-	\$	(21)	\$	(90)
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Table of Contents**COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

		Change in Fair Value of Interest Rate Swaps	Change in Fair Value of Available for Sale Securities	Change in Unrecognized Pension Cost Components	Accumulated Other Comprehensive Income (Loss)
Balance as of December 31, 2015	\$	(48)	\$ 1	\$ (26)	\$ (73)
Other comprehensive loss before reclassifications		(40)	(1)	-	(41)
Amounts reclassified from accumulated other comprehensive income		19	-	3	22
Net current-period other comprehensive (loss) income		(21)	(1)	3	(19)
AOCI distributed to QHC in spin-off		-	-	2	2
Balance as of June 30, 2016	\$	(69)	\$ -	\$ (21)	\$ (90)

		Change in Fair Value of Interest Rate Swaps	Change in Fair Value of Available for Sale Securities	Change in Unrecognized Pension Cost Components	Accumulated Other Comprehensive Income (Loss)
Balance as of March 31, 2015	\$	(52)	\$ 8	\$ (26)	\$ (70)
Other comprehensive income (loss) before reclassifications		2	(2)	-	-
Amounts reclassified from accumulated other comprehensive income		6	-	-	6
Net current-period other comprehensive income (loss)		8	(2)	-	6
Balance as of June 30, 2015	\$	(44)	\$ 6	\$ (26)	\$ (64)

Change in Fair Value of Interest Rate Swaps	Change in Fair Value	Change in Unrecognized Pension Cost	Accumulated Other Comprehensive
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			of Available for Sale Securities	Components		Income (Loss)
Balance as of December 31, 2014	\$	(43)	\$ 7	\$	(27)	\$ (63)
Other comprehensive loss before reclassifications		(13)	(1)		-	(14)
Amounts reclassified from accumulated other comprehensive income		12	-		1	13
Net current-period other comprehensive (loss) income		(1)	(1)		1	(1)
Balance as of June 30, 2015	\$	(44)	\$ 6	\$	(26)	\$ (64)

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

The following tables present a subtotal for each significant reclassification to net income out of AOCL and the line item affected in the accompanying condensed consolidated statement of income for the three and six months ended June 30, 2016 and 2015 (in millions):

Details about accumulated other comprehensive income (loss) components	Amount reclassified from AOCL		Affected line item in the statement where net income is presented
	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016	
Gains and losses on cash flow hedges			
Interest rate swaps	\$ (16)	\$ (30)	Interest expense, net
	6	11	Tax benefit
	\$ (10)	\$ (19)	Net of tax
Amortization of defined benefit pension items			
Prior service costs	\$ -	\$ (1)	Salaries and benefits
Actuarial losses	(2)	(3)	Salaries and benefits
	(2)	(4)	Total before tax
	-	1	Tax benefit
	\$ (2)	\$ (3)	Net of tax

Details about accumulated other comprehensive income (loss) components	Amount reclassified from AOCL		Affected line item in the statement where net income is presented
	Three Months Ended June 30, 2015	Six Months Ended June 30, 2015	
Gains and losses on cash flow hedges			
Interest rate swaps	\$ (9)	\$ (18)	Interest expense, net
	3	6	Tax benefit
	\$ (6)	\$ (12)	Net of tax

Amortization of defined benefit pension items

Prior service costs	\$	-	\$	(1)	Salaries and benefits
Actuarial losses		(1)		(1)	Salaries and benefits
		(1)		(2)	Total before tax
		1		1	Tax benefit
	\$	-	\$	(1)	Net of tax

17. CONTINGENCIES

The Company is a party to various legal, regulatory and governmental proceedings incidental to its business. Based on current knowledge, management does not believe that loss contingencies arising from pending legal, regulatory and governmental matters, including the matters described herein, will have a material adverse effect on the consolidated financial position or liquidity of the Company. However, in light of the inherent uncertainties involved in pending legal, regulatory and governmental matters, some of which are beyond the Company's control, and the very large or indeterminate damages sought in some of these matters, an adverse outcome in one or more of these matters could be material to the Company's results of operations or cash flows for any particular reporting period.

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

With respect to all legal, regulatory and governmental proceedings, the Company considers the likelihood of a negative outcome. If the Company determines the likelihood of a negative outcome with respect to any such matter is probable and the amount of the loss can be reasonably estimated, the Company records an accrual for the estimated loss for the expected outcome of the matter. If the likelihood of a negative outcome with respect to material matters is reasonably possible and the Company is able to determine an estimate of the possible loss or a range of loss, whether in excess of a related accrued liability or where there is no accrued liability, the Company discloses the estimate of the possible loss or range of loss. However, the Company is unable to estimate a possible loss or range of loss in some instances based on the significant uncertainties involved in, and/or the preliminary nature of, certain legal, regulatory and governmental matters.

In connection with the spin-off of QHC, the Company agreed to indemnify QHC for certain liabilities relating to outcomes or events occurring prior to April 29, 2016, the closing date of the spin-off, including (i) certain claims and proceedings that were known to be outstanding at or prior to the consummation of the spin-off and involved multiple facilities and (ii) certain claims, proceedings and investigations by governmental authorities or private plaintiffs related to activities occurring at or related to QHC's healthcare facilities prior to the closing date of the spin-off, but only to the extent, in the case of clause (ii), that such claims are covered by insurance policies maintained by the Company, including professional liability and employer practices. In this regard, the Company continues to be responsible for HMA Legal Matters (as defined below) covered by the CVR agreement that relate to QHC's business, and any amounts payable by the Company in connection therewith will continue to reduce the amount payable by the Company in respect of the CVRs. Notwithstanding the foregoing, the Company is not required to indemnify QHC in respect of any claims or proceedings arising out of or related to the business operations of Quorum Health Resources, LLC at any time or QHC's compliance with the corporate integrity agreement. Subsequent to the spin-off of QHC, the Office of the Inspector General provided the Company with written assurance that it would look solely at QHC for compliance for its facilities under the Company's Corporate Integrity Agreement; however, the Office of the Inspector General declined to enter into a separate corporate integrity agreement with QHC.

HMA Legal Matters and Related CVR

The CVR agreement entitles the holder to receive a one-time cash payment of up to \$1.00 per CVR, subject to downward adjustment based on the final resolution of certain litigation, investigations (whether formal or informal, including subpoenas), or other actions or proceedings related to HMA or its affiliates existing on or prior to July 29, 2013 (the date of the Company's merger agreement with HMA) as more specifically provided in the CVR agreement (all such matters are referred to as the HMA Legal Matters), which include, but are not limited to, investigation and litigation matters as previously disclosed by HMA in public filings with the SEC and/or as described in more detail below. The adjustment reducing the ultimate amount paid to holders of the CVR is determined based on the amount of losses incurred by the Company in connection with the HMA Legal Matters as more specifically provided in the CVR agreement, which generally includes the amount paid for damages, costs, fees and expenses (including, without limitation, attorneys' fees and expenses), and all fines, penalties, settlement amounts, indemnification obligations and other liabilities (all such losses are referred to as HMA Losses). If the aggregate amount of HMA Losses exceeds a deductible of \$18 million, then the amount payable in respect of each CVR shall be reduced (but not below zero) by an amount equal to the quotient obtained by dividing: (a) the product of (i) all losses in excess of the deductible and (ii) 90%; by (b) the number of CVRs outstanding on the date on which final resolution of the existing litigation

occurs. There are 264,544,053 CVRs outstanding as of the date hereof. If total HMA Losses (including HMA Losses that have occurred to date as noted in the table below) exceed approximately \$312 million, then the holders of the CVRs will not be entitled to any payment in respect of the CVRs.

The CVRs do not have a finite payment date. Any payments the Company makes under the CVR agreement will be payable within 60 days after the final resolution of the HMA Legal Matters. The CVRs are unsecured obligations of CHS and all payments under the CVRs will be subordinated in right of payment to the prior payment in full of all of the Company's senior obligations (as defined in the CVR agreement), which include outstanding indebtedness of the Company (subject to certain exceptions set forth in the CVR agreement) and the HMA Losses. The CVR agreement permits the Company to acquire all or some of the CVRs, whether in open market transactions, private transactions or otherwise. As of June 30, 2016, the Company had acquired no CVRs.

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

The following table represents the impact of legal expenses paid or incurred to date and settlements paid or deemed final as of June 30, 2016 on the amounts owed to CVR holders (in millions):

	Allocation of Expenses and Settlements Paid				
	Total Expenses and Settlement Cost	Deductible	CHS Responsibility at 10%	Reduction to Amount Owed to CVR Holders at 90%	
As of December 31, 2015	\$ 58	\$ 18	\$ 4	\$ 36	
Settlements paid	1	-	-	1	
Legal expenses incurred and/or paid during the six months ended June 30, 2016	1	-	-	1	
As of June 30, 2016	\$ 60	\$ 18	\$ 4	\$ 38	

Amounts owed to CVR holders are dependent on the ultimate resolution of the HMA Legal Matters and determination of HMA Losses incurred. The settlement of any or all of the claims and expenses incurred on behalf of the Company in defending itself will (subject to the deductible) reduce the amounts owed to the CVR holders.

Underlying the CVR agreement are a number of claims included in the HMA Legal Matters asserted against HMA. The Company has recorded a liability in connection with those claims as part of the acquired assets and liabilities at the date of acquisition pursuant to the provisions of Financial Accounting Standards Board Accounting Standards Codification Topic 805 Business Combinations. For the estimate of the Company's liabilities associated with the HMA Legal Matters that will be covered by the CVR and were not previously accrued by HMA, the Company recorded a liability of \$284 million as part of the acquisition accounting for the HMA merger based on the Company's estimate of fair value of such liabilities as of the date of acquisition. There was a \$1 million change in the liability during the six months ended June 30, 2016 and the fair value of such liabilities of \$260 million as of June 30, 2016 is recorded in other long-term liabilities on the accompanying condensed consolidated balance sheet. As of June 30, 2016, there is currently no accrual recorded for the probable contingency claims underlying the CVR agreement. The estimated liability for probable contingency claims underlying the CVR agreement that was previously recorded by HMA, and reflected in the purchase accounting for HMA as an acquired liability has been settled and was paid during the year ended December 31, 2015. In addition, although legal fees are not included in the amounts currently accrued, such legal fees are taken into account in determining HMA Losses under the CVR agreement. Certain significant HMA Legal Matters underlying these liabilities are discussed in greater detail below.

Table of Contents**COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****HMA Matters Recorded at Fair Value***Medicare/Medicaid Billing Lawsuits*

Beginning during the week of December 16, 2013, eleven qui tam lawsuits filed by private individuals against HMA were unsealed in various United States district courts. The United States has elected to intervene in all or part of eight of these matters; namely U.S. ex rel. Craig Brummer v. Health Management Associates, Inc. et al. (Middle District Georgia) (Brummer); U.S. ex rel. Ralph D. Williams v. Health Management Associates, Inc. et al. (Middle District Georgia) (Williams); U.S. ex rel. Scott H. Plantz, M.D. et al. v. Health Management Associates, Inc., et al. (Northern District Illinois) (Plantz); U.S. ex rel. Thomas L. Mason, M.D. et al. v. Health Management Associates, Inc. et al. (Western District North Carolina) (Mason); U.S. ex rel. Jacqueline Meyer, et al. v. Health Management Associates, Inc., Gary Newsome et al. (Jacqueline Meyer) (District of South Carolina); U.S. ex rel. George Miller, et al. v. Health Management Associates, Inc. (Eastern District of Pennsylvania) (Miller); U.S. ex rel. Bradley Nurkin v. Health Management Associates, Inc. et al. (Middle District of Florida) (Nurkin); and U.S. ex rel. Paul Meyer v. Health Management Associates, Inc. et al. (Southern District Florida) (Paul Meyer). The United States has elected to intervene with respect to allegations in these cases that certain HMA hospitals inappropriately admitted patients and then submitted reimbursement claims for treating those individuals to federal healthcare programs in violation of the False Claims Act or that certain HMA hospitals had inappropriate financial relationships with physicians which violated the Stark law, the Anti-Kickback Statute, and the False Claims Act. Certain of these complaints also allege the same actions violated various state laws which prohibit false claims. The United States has declined to intervene in three of the eleven matters, namely U.S. ex rel. Anita France, et al. v. Health Management Associates, Inc. (Middle District Florida) (France) which involved allegations of wrongful billing and was settled; U.S. ex rel. Sandra Simmons v. Health Management Associates, Inc. et al. (Eastern District Oklahoma) (Simmons) which alleges unnecessary surgery by an employed physician and which was settled as to all allegations except alleged wrongful termination; and U.S. ex rel. David Napoliello, M.D. v. Health Management Associates, Inc. (Middle District Florida) (Napoliello) which alleges inappropriate admissions. On April 3, 2014, the Multi District Litigation Panel ordered the transfer and consolidation for pretrial proceedings of the eight intervened cases, plus the Napoliello matter, to the District of Columbia under the name In Re: Health Management Associates, Inc. Qui Tam Litigation. On June 2, 2014, the court entered a stay of this matter until October 6, 2014, which was subsequently extended until February 27, 2015, May 27, 2015, September 25, 2015, January 25, 2016, May 25, 2016 and now until September 26, 2016. The Company intends to defend against the allegations in these matters, but also continues to cooperate with the government in the ongoing investigation of these allegations. The Company has been in discussions with the Civil Division of the United States Department of Justice (DOJ) regarding the resolutions of these matters. During the first quarter of 2015, the Company was informed that the Criminal Division continues to investigate former executive-level employees of HMA, and continues to consider whether any HMA entities should be held criminally liable for the acts of the former HMA employees. The Company is voluntarily cooperating with these inquiries and has not been served with any subpoenas or other legal process.

Summary of Recorded Amounts

The table below presents a reconciliation of the beginning and ending liability balances (in millions) during the six months ended June 30, 2016 with respect to the Company's fair value determination in connection with HMA Legal

Matters that were not previously accrued by HMA, the estimated liability in connection with HMA Legal Matters that were previously recorded by HMA as a probable contingency, and the remaining contingencies of the Company in respect of which an accrual has been recorded. In addition, future legal fees (which are expensed as incurred) and costs related to possible indemnification and criminal investigation matters associated with the HMA Legal Matters have not been accrued or included in the table below. Furthermore, although not accrued, such costs, if incurred, will be taken into account in determining the total amount of reductions applied to the amounts owed to CVR holders.

	CVR-Related Liability at Fair Value	CVR-Related Liability for Probable Contingencies	Other Probable Contingencies
Balance as of December 31, 2015	\$ 261	\$ -	\$ 10
Expense	-	-	1
Cash payments	(1)	-	(5)
Balance as of June 30, 2016	\$ 260	\$ -	\$ 6

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

With respect to the **Other Probable Contingencies** referenced in the chart above, in accordance with applicable accounting guidance, the Company establishes a liability for litigation, regulatory and governmental matters for which, based on information currently available, the Company believes that a negative outcome is known or is probable and the amount of the loss is reasonably estimable. For all such matters (whether or not discussed in this contingencies footnote), such amounts have been recorded in other accrued liabilities on the condensed consolidated balance sheet and are included in the table above in the **Other Probable Contingencies** column. Due to the uncertainties and difficulty in predicting the ultimate resolution of these contingencies, the actual amount could differ from the estimated amount reflected as a liability on the condensed consolidated balance sheet.

In the aggregate, attorneys' fees and other costs incurred but not included in the table above related to probable contingencies, and CVR-related contingencies accounted for at fair value, totaled \$1 million and \$2 million for the three months ended June 30, 2016 and 2015, respectively, and \$2 million and \$6 million for the six months ended June 30, 2016 and 2015, respectively, and are included in other operating expenses in the accompanying condensed consolidated statements of income.

Matters for which an Outcome Cannot be Assessed

For all of the legal matters below, the Company cannot at this time assess what the outcome may be and is further unable to determine any estimate of loss or range of loss. Because the matters below are at a preliminary stage and other factors, there are not sufficient facts available to make these assessments.

Class Action Shareholder Federal Securities Cases. Three purported class action cases have been filed in the United States District Court for the Middle District of Tennessee; namely, Norfolk County Retirement System v. Community Health Systems, Inc., et al., filed May 9, 2011; De Zheng v. Community Health Systems, Inc., et al., filed May 12, 2011; and Minneapolis Firefighters Relief Association v. Community Health Systems, Inc., et al., filed June 21, 2011. All three seek class certification on behalf of purchasers of the Company's common stock between July 27, 2006 and April 11, 2011 and allege that misleading statements resulted in artificially inflated prices for the Company's common stock. In December 2011, the cases were consolidated for pretrial purposes and NYC Funds and its counsel were selected as lead plaintiffs/lead plaintiffs' counsel. In lieu of ruling on the Company's motion to dismiss, the court permitted the plaintiffs to file a first amended consolidated class action complaint, which was filed on October 5, 2015. The Company's motion to dismiss was filed on November 4, 2015 and oral argument was held on April 11, 2016. The Company's motion to dismiss was granted on June 16, 2016 and on June 27, 2016, Plaintiffs filed a notice of appeal to the Sixth Circuit Court of Appeals. The Company believes this consolidated matter is without merit and will vigorously defend this case.

Shareholder Derivative Actions. Three purported shareholder derivative actions have also been filed in the United States District Court for the Middle District of Tennessee; Plumbers and Pipefitters Local Union No. 630 Pension Annuity Trust Fund v. Wayne T. Smith, et al., filed May 24, 2011; Roofers Local No. 149 Pension Fund v. Wayne T. Smith, et al., filed June 21, 2011; and Lambert Sweat v. Wayne T. Smith, et al., filed October 5, 2011. These three cases allege breach of fiduciary duty arising out of allegedly improper inpatient admission practices, mismanagement, waste and unjust enrichment. These cases have been consolidated into a single, consolidated action. The plaintiffs filed an operative amended derivative complaint in these three consolidated actions on March 15, 2012. The

Company's motion to dismiss was argued on June 13, 2013. On September 27, 2013, the court issued an order granting in part and denying in part the Company's motion to dismiss. An initial case management order was entered on November 11, 2014, but no trial date has been set. Discovery is continuing. The Company believes all of the plaintiffs' claims are without merit and will vigorously defend them.

18. SUBSEQUENT EVENTS

The Company has evaluated all material events occurring subsequent to the balance sheet date for events requiring disclosure or recognition in the condensed consolidated financial statements and has determined that no events have occurred that require such disclosure or recognition.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

19. SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION

The Senior Notes due 2019, 2020 and 2022, which are senior unsecured obligations of CHS, and the 5 1/8% Senior Secured Notes due 2018 and 2021 (collectively, the Notes) are guaranteed on a senior basis by the Company and by certain of its existing and subsequently acquired or organized 100% owned domestic subsidiaries. The Notes are fully and unconditionally guaranteed on a joint and several basis, with exceptions considered customary for such guarantees, limited to the release of the guarantee when a subsidiary guarantor's capital stock is sold, or a sale of all of the subsidiary guarantor's assets used in operations. The following condensed consolidating financial statements present Community Health Systems, Inc. (as parent guarantor), CHS (as the issuer), the subsidiary guarantors, the subsidiary non-guarantors and eliminations. These condensed consolidating financial statements have been prepared and presented in accordance with SEC Regulation S-X Rule 3-10 Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered.

The accounting policies used in the preparation of this financial information are consistent with those elsewhere in the condensed consolidated financial statements of the Company, except as noted below:

Intercompany receivables and payables are presented gross in the supplemental condensed consolidating balance sheets.

Cash flows from intercompany transactions are presented in cash flows from financing activities, as changes in intercompany balances with affiliates, net.

Income tax expense is allocated from the parent guarantor to the income producing operations (other guarantors and non-guarantors) and the issuer through stockholders' equity. As this approach represents an allocation, the income tax expense allocation is considered non-cash for statement of cash flow purposes.

Interest expense, net has been presented to reflect net interest expense and interest income from outstanding long-term debt and intercompany balances.

The Company's intercompany activity consists primarily of daily cash transfers for purposes of cash management, the allocation of certain expenses and expenditures paid for by the Parent on behalf of its subsidiaries, and the push down of investment in its subsidiaries. This activity also includes the intercompany transactions between consolidated entities as part of the Receivables Facility that is further discussed in Note 12. The Company's subsidiaries generally do not purchase services from one another; thus, the intercompany transactions do not represent revenue generating transactions. All intercompany transactions eliminate in consolidation.

From time to time, subsidiaries of the Company sell and/or repurchase noncontrolling interests in consolidated subsidiaries, which may change subsidiaries between guarantors and non-guarantors. Effective with the spin-off of

QHC, all subsidiaries of the Company that were part of that distribution have been removed as guarantors. Amounts for prior periods have been revised to reflect the status of guarantors or non-guarantors as of June 30, 2016.

Table of Contents**COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****Condensed Consolidating Statement of Loss****Three Months Ended June 30, 2016**

	Parent Guarantor	Issuer	Other Guarantors	Non - Guarantors	Eliminations	Consolidated
	(In millions)					
Operating revenues (net of contractual allowances and discounts)	\$ -	\$ (6)	\$ 3,220	\$ 2,076	\$ -	\$ 5,290
Provision for bad debts	-	-	452	248	-	700
Net operating revenues	-	(6)	2,768	1,828	-	4,590
Operating costs and expenses:						
Salaries and benefits	-	-	1,130	1,024	-	2,154
Supplies	-	-	495	264	-	759
Other operating expenses	-	-	683	373	-	1,056
Government settlement and related costs	-	-	-	-	-	-
Electronic health records incentive reimbursement	-	-	(21)	(10)	-	(31)
Rent	-	-	56	56	-	112
Depreciation and amortization	-	-	181	95	-	276
Impairment of goodwill and long-lived assets	-	-	1,134	505	-	1,639
Total operating costs and expenses	-	-	3,658	2,307	-	5,965
Loss from operations	-	(6)	(890)	(479)	-	(1,375)
Interest expense, net	-	39	186	21	-	246
Loss from early extinguishment of debt	-	30	-	-	-	30
Gain on sale of investments in unconsolidated affiliates	-	-	(94)	-	-	(94)
Equity in earnings of unconsolidated affiliates	1,432	1,384	462	-	(3,292)	(14)
Loss from continuing operations before income taxes	(1,432)	(1,459)	(1,444)	(500)	3,292	(1,543)
Provision for (benefit from) income taxes	-	(27)	(57)	(54)	-	(138)

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Loss from continuing operations	(1,432)	(1,432)	(1,387)	(446)	3,292	(1,405)
Discontinued operations, net of taxes:						
(Loss) income from operations of entities sold or held for sale	-	-	(2)	1	-	(1)
(Loss) income from discontinued operations, net of taxes	-	-	(2)	1	-	(1)
Net loss	(1,432)	(1,432)	(1,389)	(445)	3,292	(1,406)
Less: Net income attributable to noncontrolling interests	-	-	-	26	-	26
Net loss attributable to Community Health Systems, Inc. stockholders	\$ (1,432)	\$ (1,432)	\$ (1,389)	\$ (471)	\$ 3,292	\$ (1,432)

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

Condensed Consolidating Statement of Income

Three Months Ended June 30, 2015

	Parent Guarantor	Issuer	Other Guarantors	Non - Guarantors	Eliminations	Consolidated
	(In millions)					
Operating revenues (net of contractual allowances and discounts)	\$ -	\$ (5)	\$ 3,182	\$ 2,437	\$ -	\$ 5,614
Provision for bad debts	-	-	410	322	-	732
Net operating revenues	-	(5)	2,772	2,115	-	4,882
Operating costs and expenses:						
Salaries and benefits	-	-	1,083	1,134	-	2,217
Supplies	-	-	465	285	-	750
Other operating expenses	-	-	652	473	-	1,125
Government settlement and related costs	-	-	(6)	-	-	(6)
Electronic health records incentive reimbursement	-	-	(36)	(19)	-	(55)
Rent	-	-	54	59	-	113
Depreciation and amortization	-	-	178	113	-	291
Impairment of long-lived assets	-	-	6	-	-	6
	-	-	2,396	2,045	-	4,441

Total operating costs and expenses						
(Loss) income from operations	-	(5)	376	70	-	441
Interest expense, net	-	28	177	34	-	239
Loss from early extinguishment of debt	-	9	-	-	-	9
Equity in earnings of unconsolidated affiliates	(111)	(139)	(20)	-	249	(21)
Income from continuing operations before income taxes	111	97	219	36	(249)	214
Provision for (benefit from) income taxes	-	(14)	81	7	-	74
Income from continuing operations	111	111	138	29	(249)	140
Discontinued operations, net of taxes:						
Loss from operations of entities sold or held for sale	-	-	(2)	(4)	-	(6)
Income (loss) on sale, net	-	-	1	(1)	-	-
Loss from discontinued operations, net of taxes	-	-	(1)	(5)	-	(6)
Net income	111	111	137	24	(249)	134
Less: Net income attributable to noncontrolling interests	-	-	-	23	-	23
	\$ 111	\$ 111	\$ 137	\$ 1	\$ (249)	\$ 111

Net income
(loss)
attributable to
Community
Health Systems,
Inc.
stockholders

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Table of Contents**COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****Condensed Consolidating Statement of Loss****Six Months Ended June 30, 2016**

	Parent Guarantor	Issuer	Other Guarantors	Non - Guarantors	Eliminations	Consolidated
	(In millions)					
Operating revenues (net of contractual allowances and discounts)	\$ -	\$ (12)	\$ 6,507	\$ 4,549	\$ -	\$ 11,044
Provision for doubtful debts	-	-	929	526	-	1,455
Net operating revenues	-	(12)	5,578	4,023	-	9,589
Operating costs and expenses:						
Salaries and benefits	-	-	2,235	2,235	-	4,470
Supplies	-	-	991	568	-	1,559
Other operating expenses	-	-	1,362	867	-	2,229
Government settlement and related costs	-	-	1	-	-	1
Electronic health records initiative	-	-	(29)	(20)	-	(49)
Impairment	-	-	113	118	-	231
Depreciation and amortization	-	-	366	208	-	574
Impairment of goodwill and long-lived assets	-	-	1,145	511	-	1,656

Normal operating expenses	-	-	6,184	4,487	-	10,671
Loss from operations	-	(12)	(606)	(464)	-	(1,082)
Interest expense, net	-	74	366	56	-	496
Loss from early extinguishment of debt	-	30	-	-	-	30
Gain on sale of investments in consolidated affiliates	-	-	(94)	-	-	(94)
Equity in earnings of consolidated affiliates	1,421	1,325	469	-	(3,249)	(3,249)
Loss from continuing operations before income taxes	(1,421)	(1,441)	(1,347)	(520)	3,249	(1,489)
Provision for (benefit from) income taxes	-	(20)	(19)	(73)	-	(112)
Loss from continuing operations	(1,421)	(1,421)	(1,328)	(447)	3,249	(1,367)
Discontinued operations, net of taxes:						
Loss from operations of facilities sold or held for sale	-	-	(3)	1	-	(2)
Impairment of hospitals sold or held for sale	-	-	-	(1)	-	(1)
Loss from discontinued operations, net of taxes	-	-	(3)	-	-	(3)
Net loss	(1,421)	(1,421)	(1,331)	(447)	3,249	(1,372)
Adjustments: Net income	-	-	-	50	-	50

Contributable to noncontrolling interests												
Net loss												
Contributable to Community Health Systems, Inc.												
Shareholders	\$	(1,421)	\$	(1,421)	\$	(1,331)	\$	(497)	\$	3,249	\$	(1,421)

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

Condensed Consolidating Statement of Income

Six Months Ended June 30, 2015

	Parent Guarantor	Issuer	Other Guarantors	Non - Guarantors	Eliminations	Consolidated
	(In millions)					
Operating revenues (net of contractual allowances and discounts)	\$ -	\$ (9)	\$ 6,376	\$ 4,893	\$ -	\$ 11,260
Provision for bad debts	-	-	848	619	-	1,467
Net operating revenues	-	(9)	5,528	4,274	-	9,793
Operating costs and expenses:						
Salaries and benefits	-	-	2,177	2,297	-	4,474
Supplies	-	-	934	578	-	1,512
Other operating expenses	-	-	1,275	950	-	2,225
Government settlement and related costs	-	-	1	-	-	1
Electronic health records incentive reimbursement	-	-	(46)	(35)	-	(81)
Rent	-	-	110	119	-	229
Depreciation and amortization	-	-	360	227	-	587
Impairment of long-lived assets	-	-	6	-	-	6
Total operating costs and expenses	-	-	4,817	4,136	-	8,953
(Loss) income from operations	-	(9)	711	138	-	840
Interest expense, net	-	48	369	64	-	481
Loss from early extinguishment of debt	-	16	-	-	-	16
Equity in earnings of unconsolidated affiliates	(189)	(240)	(32)	-	422	(39)
Income from continuing operations before income taxes	189	167	374	74	(422)	382
Provision for (benefit from) income taxes	-	(22)	137	15	-	130
Income from continuing operations	189	189	237	59	(422)	252
Discontinued operations, net of taxes:						
Loss from operations of entities sold or held for sale	-	-	-	(17)	-	(17)
	-	-	(2)	-	-	(2)

Impairment of hospitals sold or held for sale							
Loss on sale, net	-	-	-	(1)	-	(1)	
Loss from discontinued operations, net of taxes	-	-	(2)	(18)	-	(20)	
Net income	189	189	235	41	(422)	232	
Less: Net income attributable to noncontrolling interests	-	-	-	43	-	43	
Net income (loss) attributable to Community Health Systems, Inc. stockholders	\$ 189	\$ 189	\$ 235	\$ (2)	\$ (422)	\$ 189	

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

Condensed Consolidating Statement of Comprehensive Loss

Three Months Ended June 30, 2016

	Parent Guarantor	Issuer	Other Guarantors	Non - Guarantors	Eliminations	Consolidated
	(In millions)					
Net loss	\$ (1,432)	\$ (1,432)	\$ (1,389)	\$ (445)	\$ 3,292	\$ (1,406)
Other comprehensive loss, net of income taxes:						
Net change in fair value of interest rate swaps	(2)	(2)	-	-	2	(2)
Net change in fair value of available-for-sale securities	(3)	(3)	(3)	-	6	(3)
Amortization and recognition of unrecognized pension cost components	2	2	2	-	(4)	2
Other comprehensive loss	(3)	(3)	(1)	-	4	(3)
Comprehensive loss	(1,435)	(1,435)	(1,390)	(445)	3,296	(1,409)
Less: Comprehensive income attributable to noncontrolling interests	-	-	-	26	-	26
Comprehensive loss attributable to Community Health Systems, Inc. stockholders	\$ (1,435)	\$ (1,435)	\$ (1,390)	\$ (471)	\$ 3,296	\$ (1,435)

Condensed Consolidating Statement of Comprehensive Income

Three Months Ended June 30, 2015

	Parent Guarantor	Issuer	Other Guarantors	Non - Guarantors	Elimination	Consolidated
	(In millions)					
Net income	\$ 111	\$ 111	\$ 137	\$ 24	\$ (249)	\$ 134
Other comprehensive income (loss), net of income taxes:						
Net change in fair value of interest rate swaps	8	8	-	-	(8)	8

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Net change in fair value of available-for-sale securities	(2)	(2)	(2)	-	4	(2)
Amortization and recognition of unrecognized pension cost components	-	-	-	-	-	-
Other comprehensive income (loss)	6	6	(2)	-	(4)	6
Comprehensive income	117	117	135	24	(253)	140
Less: Comprehensive income attributable to noncontrolling interests	-	-	-	23	-	23
Comprehensive income attributable to Community Health Systems, Inc. stockholders	\$ 117	\$ 117	\$ 135	\$ 1	\$ (253)	\$ 117

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

Condensed Consolidating Statement of Comprehensive Loss

Six Months Ended June 30, 2016

	Parent Guarantor	Issuer	Other Guarantors	Non - Guarantors	Eliminations	Consolidated
	(In millions)					
Net loss	\$ (1,421)	\$ (1,421)	\$ (1,331)	\$ (447)	\$ 3,249	\$ (1,371)
Other comprehensive (loss) income, net of income taxes:						
Net change in fair value of interest rate swaps, net of tax	(21)	(21)	-	-	21	(21)
Net change in fair value of available-for-sale securities, net of tax	(1)	(1)	(1)	-	2	(1)
Amortization and recognition of unrecognized pension cost components, net of tax	3	3	3	-	(6)	3
Other comprehensive (loss) income	(19)	(19)	2	-	17	(19)
Comprehensive loss	(1,440)	(1,440)	(1,329)	(447)	3,266	(1,390)
Less: Comprehensive income attributable to noncontrolling interests	-	-	-	50	-	50
Comprehensive loss attributable to Community Health Systems, Inc. stockholders	\$ (1,440)	\$ (1,440)	\$ (1,329)	\$ (497)	\$ 3,266	\$ (1,440)

Condensed Consolidating Statement of Comprehensive Income

Six Months Ended June 30, 2015

	Parent Guarantor	Issuer	Other Guarantors	Non - Guarantors	Eliminations	Consolidated
	(In millions)					
Net income	\$ 189	\$ 189	\$ 235	\$ 41	\$ (422)	\$ 232
Other comprehensive loss, net of income taxes:						

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Net change in fair value of interest rate swaps, net of tax	(1)	(1)	-	-	1	(1)
Net change in fair value of available-for-sale securities, net of tax	(1)	(1)	(1)	-	2	(1)
Amortization and recognition of unrecognized pension cost components, net of tax	1	1	1	-	(2)	1
Other comprehensive loss	(1)	(1)	-	-	1	(1)
Comprehensive income	188	188	235	41	(421)	231
Less: Comprehensive income attributable to noncontrolling interests	-	-	-	43	-	43
Comprehensive income (loss) attributable to Community Health Systems, Inc. stockholders	\$ 188	\$ 188	\$ 235	\$ (2)	\$ (421)	\$ 188

Table of Contents**COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****Condensed Consolidating Balance Sheet****June 30, 2016**

	Parent Guarantor	Issuer	Other Guarantors	Non - Guarantors	Eliminations	Consolidated
	(In millions)					
ASSETS						
Current assets:						
Cash and cash equivalents	\$ -	\$ -	\$ 178	\$ 283	\$ -	\$ 461
Patient accounts receivable, net of allowance for doubtful accounts	-	-	846	2,333	-	3,179
Supplies	-	-	359	168	-	527
Prepaid income taxes	33	-	-	-	-	33
Prepaid expenses and taxes	-	-	150	67	-	217
Other current assets	-	-	252	173	-	425
Total current assets	33	-	1,785	3,024	-	4,842
Intercompany receivable	262	15,370	5,402	8,453	(29,487)	-
Property and equipment, net	-	-	5,905	3,050	-	8,955
Goodwill	-	-	4,055	2,871	-	6,926
Other assets, net	-	-	2,132	842	(1,265)	1,709
Net investment in subsidiaries	2,000	20,224	9,834	-	(32,058)	-
Total assets	\$ 2,295	\$ 35,594	\$ 29,113	\$ 18,240	\$ (62,810)	\$ 22,432
LIABILITIES AND EQUITY						
Current liabilities:						
Current maturities of long-term debt	\$ -	\$ 170	\$ 73	\$ 10	\$ -	\$ 253
Accounts payable	-	-	695	284	-	979
Accrued interest	-	206	1	1	-	208
Accrued liabilities	4	-	707	577	-	1,288

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Total current liabilities	4	376	1,476	872	-	2,728
Long-term debt	-	14,232	107	771	-	15,110
Intercompany payable	-	17,736	23,705	14,994	(56,435)	-
Deferred income taxes	388	-	-	-	-	388
Other long-term liabilities	8	1,250	1,177	488	(1,265)	1,658
Total liabilities	400	33,594	26,465	17,125	(57,700)	19,884
Redeemable noncontrolling interests in equity of consolidated subsidiaries	-	-	-	546	-	546
Equity:						
Community Health Systems, Inc. stockholders' equity:						
Preferred stock	-	-	-	-	-	-
Common stock	1	-	-	-	-	1
Additional paid-in capital	1,965	788	1,004	763	(2,555)	1,965
Treasury stock, at cost	-	-	-	-	-	-
Accumulated other comprehensive loss	(90)	(90)	(15)	(8)	113	(90)
Retained earnings (deficit)	19	1,302	1,659	(293)	(2,668)	19
Total Community Health Systems, Inc. stockholders' equity	1,895	2,000	2,648	462	(5,110)	1,895
Noncontrolling interests in equity of consolidated subsidiaries	-	-	-	107	-	107
Total equity	1,895	2,000	2,648	569	(5,110)	2,002
Total liabilities and equity	\$ 2,295	\$ 35,594	\$ 29,113	\$ 18,240	\$ (62,810)	\$ 22,432

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

Condensed Consolidating Balance Sheet

December 31, 2015

	Parent Guarantor	Issuer	Other Guarantors	Non - Guarantors	Eliminations	Consolidated
(In millions)						
ASSETS						
Current assets:						
Cash and cash equivalents	\$ -	\$ -	\$ 32	\$ 152	\$ -	\$ 184
Patient accounts receivable, net of allowance for doubtful accounts	-	-	894	2,717	-	3,611
Supplies	-	-	355	225	-	580
Prepaid income taxes	27	-	-	-	-	27
Prepaid expenses and taxes	-	-	125	72	-	197
Other current assets	-	-	335	232	-	567
Total current assets	27	-	1,741	3,398	-	5,166
Intercompany receivable	1,159	16,004	4,590	7,478	(29,231)	-
Property and equipment, net	-	-	6,199	3,913	-	10,112
Goodwill	-	-	4,965	4,000	-	8,965
Other assets, net	-	-	2,018	1,379	(1,045)	2,352
Net investment in subsidiaries	3,438	20,218	9,414	-	(33,070)	-
Total assets	\$ 4,624	\$ 36,222	\$ 28,927	\$ 20,168	\$ (63,346)	\$ 26,595

LIABILITIES AND EQUITY

Current liabilities:												
Current maturities of												
long-term debt	\$	-	\$	162	\$	62	\$	5	\$	-	\$	229
Accounts payable		-		-		774		484		-		1,258
Accrued interest		-		226		-		1		-		227
Accrued liabilities		4		-		814		540		-		1,358
Total current liabilities		4		388		1,650		1,030		-		3,072
Long-term debt		-		15,603		136		817		-		16,556
Intercompany payable		-		15,577		22,143		16,196		(53,916)		-
Deferred income taxes		593		-		-		-		-		593
Other long-term liabilities		8		1,216		1,028		491		(1,045)		1,698
Total liabilities		605		32,784		24,957		18,534		(54,961)		21,919
Redeemable noncontrolling interests inequity of consolidated subsidiaries		-		-		-		571		-		571
Equity:												
Community Health Systems, Inc. stockholders equity:												
Preferred stock		-		-		-		-		-		-
Common stock		1		-		-		-		-		1
Additional paid-in capital		1,963		1,324		1,505		964		(3,793)		1,963
Treasury stock, at cost		(7)		-		-		-		-		(7)
Accumulated other comprehensive loss		(73)		(73)		(22)		(1)		96		(73)
Retained earnings		2,135		2,187		2,487		14		(4,688)		2,135
Total Community Health Systems, Inc. stockholders equity		4,019		3,438		3,970		977		(8,385)		4,019
Noncontrolling interests in equity of consolidated		-		-		-		86		-		86

subsidiaries

Total equity	4,019	3,438	3,970	1,063	(8,385)	4,105
Total liabilities and equity	\$ 4,624	\$ 36,222	\$ 28,927	\$ 20,168	\$ (63,346)	\$ 26,595

Table of Contents**COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****Condensed Consolidating Statement of Cash Flows****Six Months Ended June 30, 2016**

	Parent Guarantor	Issuer	Other Guarantors	Non - Guarantors	Eliminations	Consolidated
	(In millions)					
Net cash (used in) provided by operating activities	\$ (5)	\$ (294)	\$ 599	\$ 332	\$ -	\$ 632
Cash flows from investing activities:						
Acquisitions of facilities and other related equipment	-	-	(3)	(111)	-	(114)
Purchases of property and equipment	-	-	(282)	(125)	-	(407)
Proceeds from disposition of hospitals and other ancillary operations	-	-	8	4	-	12
Proceeds from sale of property and equipment	-	-	4	3	-	7
Purchases of available-for-sale securities	-	-	(21)	(42)	-	(63)
Proceeds from sales of available-for-sale securities	-	-	14	219	-	233
Proceeds from sale of investments in unconsolidated affiliates	-	-	403	-	-	403

Distribution from Quorum Health Corporation	-	1,219	-	-	-	1,219
Increase in other investments	-	-	(84)	(29)	-	(113)
Net cash provided by (used in) investing activities	-	1,219	39	(81)	-	1,177
Cash flows from financing activities:						
Repurchase of restricted stock shares for payroll tax withholding requirements	(5)	-	-	-	-	(5)
Deferred financing costs and other debt-related costs	-	(22)	-	-	-	(22)
Redemption of noncontrolling investments in joint ventures	-	-	-	(16)	-	(16)
Distributions to noncontrolling investors in joint ventures	-	-	-	(47)	-	(47)
Changes in intercompany balances with affiliates, net	10	497	(469)	(38)	-	-
Borrowings under credit agreements	-	2,783	2	21	-	&nb