

COMMUNITY HEALTH SYSTEMS INC  
Form DEF 14A  
April 04, 2014  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
SCHEDULE 14A  
PROXY STATEMENT PURSUANT TO SECTION 14(A) OF THE  
SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Under § 240.14a-12

COMMUNITY HEALTH SYSTEMS, INC.

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
  1. Title of each class of securities to which transaction applies:
  
  
  2. Aggregate number of securities to which transaction applies:
  
  
  - 3.

## Edgar Filing: COMMUNITY HEALTH SYSTEMS INC - Form DEF 14A

Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4. Proposed maximum aggregate value of transaction:
  
5. Total fee paid:
  
- .. Fee paid previously with preliminary materials.
  
- .. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
  1. Amount previously paid:
  
  2. Form, Schedule or Registration Statement No.:
  
  3. Filing Party:
  
  4. Date Filed:

**Table of Contents**

**Table of Contents**

April 4, 2014

Dear Stockholders:

I am pleased to announce the Community Health Systems, Inc. 2014 Annual Meeting. The attached Notice of Annual Meeting of Stockholders and Proxy Statement will describe the business to be considered and voted on during that meeting.

It is important that your shares be represented at the Annual Meeting. Whether or not you plan on attending the meeting, the Company would appreciate your efforts to vote your shares. Additional information on this process can be found in the Proxy Statement.

In an effort to make our Proxy Statement more investor friendly, we have provided Proxy Summary Information following this letter. The summary contains some business performance highlights, summary information and some expanded details on management's say-on-pay proposal, beginning on page S-1 of this document.

Sincerely,

Wayne T. Smith

Chairman and Chief Executive Officer

Table of Contents

## PROXY SUMMARY INFORMATION

### 2014 Annual Meeting of Stockholders

***Date and Time***

May 20, 2014, 8:00 a.m. Eastern Daylight Time

***Place***

St. Regis Hotel  
5th Avenue at 55th Street  
New York, New York 10022

***Record Date***

March 21, 2014

***Voting Matters and Board Recommendations***

**Our Board's Recommendation**

Election of Directors	<b>FOR</b>
	each Director Nominee
Advisory Vote on Executive Compensation	<b>FOR</b>
Approval of Amended and Restated 2004 Employee Performance Incentive Plan	<b>FOR</b>
Approval of Amended and Restated 2009 Stock Option and Award Plan	<b>FOR</b>
Approval of the Amendment of the Amended and Restated By-Laws	<b>FOR</b>
Ratification of Auditors	<b>FOR</b>

To assist you in reviewing the proposals to be acted upon, including the election of directors and the non-binding advisory vote to approve named executive officer compensation, we call your attention to the following information about the Company's 2013 financial performance, board of director nominees and key executive compensation actions and decisions. The

following description is only a summary. For more complete information about these topics, please review the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission ( SEC ) on February 26, 2014 and the complete Proxy Statement.

S-1

Table of Contents**PROXY SUMMARY INFORMATION****Financial Performance Highlights**

For the Year Ended December 31, 2013

(dollars in millions, except per share amounts)

Admissions	654,945	Net Revenue	\$ 12,998
Adjusted Admissions	1,362,344	Adjusted EBITDA *	\$ 1,841
ER Visits	3,106,416	EPS *	\$ 2.40

\* Adjusted to exclude loss on early extinguishment of debt, impairment of long-lived assets, acquisition expenses related to HMA and government settlement and related cost reserves .

Please refer to the Company's Current Report on Form 8-K furnished to the SEC on February 18, 2014, and the Company's Annual Report on Form 10-K for a reconciliation of adjusted EBITDA to net cash provided by operating activities. Also included in the Current Report on Form 8-K furnished to the SEC on February 18, 2014 is a reconciliation of income from continuing operations per share as reported with the adjustments described therein.

On January 27, 2014, the Company completed the merger transaction pursuant to which Health Management Associates, Inc., or HMA, became a wholly-owned subsidiary of the Company. Following this merger, the Company became the largest provider of hospital health services as defined by the number of hospitals. We believe this was a compelling strategic acquisition for the following reasons:

Unique opportunity to acquire a well-developed hospital system.

71 facilities spread across attractive, non-urban and suburban markets.

## Edgar Filing: COMMUNITY HEALTH SYSTEMS INC - Form DEF 14A

Complementary geographic fit with hospitals located in existing states.

Extends and strengthens the Company's hospital and physician networks.

Company has a proven track record having acquired 115 hospitals since 1997.

Successfully integrated Triad's \$5 billion revenue company.

Improved Triad's operating margin from 12% to 16%.

94% of the Company's senior executives helped to successfully integrate the Triad acquisition.

Significant opportunity to improve HMA's operating performance by applying best practices, standardized systems and procedures.

HMA's 2013 EBITDA margin of 13% vs. 16% for each of 2010, 2011 and 2012.

Targeting over \$250 million of synergies over two years.

S-2



Table of Contents

## PROXY SUMMARY INFORMATION

\* Adjusted to exclude loss on early extinguishment of debt, impairment of long-lived assets, acquisition expenses related to HMA and government settlements.

**Since our 2007 acquisition of Triad Hospitals, Inc., net revenue has grown 6.7 percent, EBITDA has grown 4.2 percent and EPS from continuing operations, excluding gain or loss from early extinguishment of debt, impairment of long-lived assets, acquisition expenses related to HMA and government settlement costs, has grown 2.3 percent on a compound annual growth basis.**

S-3

Table of Contents

## PROXY SUMMARY INFORMATION

### PROPOSAL 1 Election of Directors

Upon the recommendation of our Governance and Nominating Committee, our Board of Directors has nominated 8 people for election at this Annual Meeting to hold office until the next annual meeting and the election of their successors. All of the nominees are currently directors. A more detailed biography of each director can be found on pages 13 to 16 of the Proxy Statement.

**W. Larry Cash**

**Director since 2001**

Mr. Cash is President of Financial Services and Chief Financial Officer and joined the company in September, 1997. He was elected to the Board in 2001. Mr. Cash has over 30 years of experience in the hospital and managed care industries. He also serves as a director of Cross Country, a provider of medical professional staffing services.

**John A. Clerico**

**Director since 2003**

**Audit and Compliance Committee Chair**

**Compensation Committee Member**

Mr. Clerico brings executive leadership experience to the Board. He has held positions of Chairman of the Board, CEO, Co-COO, CFO and Treasurer during various points in his career working for such notable companies as Praxair and Union Carbide. He is currently Chairman and registered financial advisor of ChartMark Investments.

**James S. Ely III**

**Director since 2009**

**Audit and Compliance Committee Member**

Mr. Ely founded Priority Capital Management LLC in 2008 and is its Chief Executive Officer. He has extensive banking experience having worked most recently as senior banker and managing director in JP Morgan's syndicated and leveraged finance group.

**John A. Fry**

**Director since 2004**

**Audit and Compliance Committee Member  
Governance and Nominating Committee Member**

Mr. Fry currently serves as President of Drexel University in Philadelphia, Pennsylvania. Prior to that, he served as President of Franklin & Marshall College in Lancaster, Pennsylvania. Mr. Fry has unique experience as the president of an academic institution along with prior experience with the University of Pennsylvania health system.

**William Norris Jennings, M.D.**

**Director since 2008**

**Governance and Nominating Committee Member**

Dr. Jennings is a practicing family medicine physician employed by KentuckyOne Health in Louisville, Kentucky. He brings a practicing physician's perspective to the Board and has hands on experience managing large physician practices.

**Table of Contents**

**Julia B. North**

**Director since 2004**

**Governance and Nominating Committee Chair**

**Compensation Committee Member**

Ms. North is presently retired. She has served in many senior executive positions including President of Consumer Services for Bellsouth Telecommunications. She currently serves on the boards of directors of Acuity Brands and Lumos Networks Corp.

**Wayne T. Smith**

**Director since 1997**

**Chairman of the Board**

Mr. Smith is Chairman and Chief Executive Officer. Mr. Smith joined the company in 1997 and was subsequently elected to the Board. He has over 30 years of experience in the hospital and managed care industry. He serves on the board of Praxair and on the Board of Trustees of Auburn University.

**H. Mitchell Watson, Jr.**

**Director since 2004**

**Compensation Committee Chair**

Mr. Watson is currently retired. Mr. Watson has held senior executive positions with International Business Machines and ROLM Company. He is chairman emeritus of Helen Keller International and the Brevard Music Center in Brevard, North Carolina.

**Table of Contents**

## **PROXY SUMMARY INFORMATION**

### **PROPOSAL 2 Advisory Vote on Executive Compensation**

The Company's goal is to align the interests of our named executive officers (NEOs) with the interests of our stockholders. Our compensation program has been designed to retain and reward our executive officers consistent with these aligned interests.

The Compensation Committee took the following actions on executive compensation prior to the Company's 2013 annual meeting:

- Eliminated stock option awards in 2013.
- Added total shareholder return (TSR) as a metric to the non-financial component of the target cash incentive awards plans in 2012 and 2013 for the CEO and CFO.
- Froze base salary and target cash incentive compensation awards at 2011 levels, with no increases in 2012 and 2013.
- Restricted the cash incentive awards available for EPS growth above target.

The 2013 financial performance did not meet the Company's expectations and the 2013 executive compensation program worked as intended incentive plan compensation was reduced by approximately 50% for most of our NEOs, including our CEO, compared to 2012.

The CEO's total direct compensation has been below the median reported by our business peer group for the prior two years.

#### **NAMED EXECUTIVE OFFICERS (NEOs)**

**Wayne T. Smith, Chairman and CEO**

**W. Larry Cash, President of Financial Services and CFO**

**William S. Hussey, Division President Division Operations**

**David L. Miller, President and COO**

**Thomas D. Miller, Division President Division Operations**

Table of Contents**PROXY SUMMARY INFORMATION**

These adjustments to executive compensation are demonstrated in the 2013 compensation tables and summarized for Wayne T. Smith below.

**Compensation Committee Action**

Wayne T. Smith, Chairman and Chief Executive Officer

	<b>2013</b>	<b>2012</b>	<b>2011</b>
Salary	\$ 1,400,000	\$ 1,400,000	\$ 1,400,000
Incentive Plan Compensation	2,058,000	4,200,000	3,945,200
Restricted Stock <sup>(1)</sup>	5,213,750	2,107,000	7,592,000
Stock Options <sup>(1)</sup>		319,200	479,500
<b>Total</b>	<b>\$ 8,671,750</b>	<b>\$ 8,026,200</b>	<b>\$ 13,416,700</b>

(1) The closing price of the Company's stock on the respective grant dates was: \$41.71 per share on February 27, 2013; \$21.07 per share on February 16, 2012 and \$37.96 per share on February 23, 2011.

The increase in the value of the restricted stock compensation in 2013 compared to 2012 was primarily a result of a 98% increase in the closing price of the Company's stock between the February 2012 and February 2013 grant dates.

During 2013, the Compensation Committee reviewed the total shareholder return of the Company for both the year and for the period prior to the announcement of the HMA acquisition. Prior to the announcement of the HMA acquisition, on July 30, 2013, the shareholder return was 48.3%. The 2013 full year shareholder return was 27.7%. The Compensation Committee determined to use the average of the two measurements of 38.0% for 2013. For the two-year period, from December 2011 through December 2013, the growth rate of the stock price was 125.0%.

Table of Contents

## PROXY SUMMARY INFORMATION

### Business Peer Group for 2013 Compensation Cycle

#### 20 Companies

Amgen	HCA	Quest Diagnostics
Baxter	HMA	Stryker
Bristol Myers	Health Net	Tenet Healthcare
Cigna	Humana	Universal Health
Danaher	Laboratory Corp	Unum
DaVita	LifePoint Hospitals	Vanguard
Eli Lilly	Medtronic	

For the 2013 compensation cycle, the business peer group was revised in response to feedback from stockholders. This business peer group of 20 companies is focused exclusively on companies in the healthcare sector. The group included all six major hospital management companies, and 14 other companies in the insurance or medical products areas. Also in selecting the business peer group companies, consideration was given to market capitalization, enterprise value and number of employees of each company.

Overall, our Compensation Committee believes that this business peer group reflects the competitive market for talent for our key executives and that the Company's compensation of its NEO's compares appropriately to the business peer group compensation levels.

Table of Contents

## **PROXY SUMMARY INFORMATION**

### **PROPOSAL 3 Approval of the Community Health Systems, Inc. 2004 Employee Performance Incentive Plan, Amended and Restated as of February 26, 2014**

The Board of Directors proposes that the stockholders approve the Community Health Systems, Inc. 2004 Employee Performance Incentive Plan, amended and restated as of February 26, 2014, which provides for revision of the provisions for deferred bonus awards to allow for payment beyond the 2 1/2 months following the year in which the award is earned (in accordance with Section 409A of the Internal Revenue Code) and revisions and additions to the performance criteria and objectives on which awards may be based.

### **PROPOSAL 4 Approval of the Community Health Systems, Inc. Amended and Restated 2009 Stock Option and Award Plan, Amended and Restated as of March 19, 2014**

The Board of Directors proposes that the stockholders approve the Community Health Systems, Inc. 2009 Stock Option and Award Plan, amended and restated as of March 19, 2014, which will increase the number of shares available for future grants by 4,000,000 shares. The plan has also been amended to specify a maximum grant date fair value of \$1,000,000 during any calendar year of all awards granted to a single director who is not also an employee of the Company or a subsidiary of the Company.

### **PROPOSAL 5 Approval of the Amendment of the Amended and Restated By-laws of Community Health Systems, Inc.**

The Board of Directors proposes that the stockholders approve the amendment of the Amended and Restated By-laws of Community Health Systems, Inc. to provide that the state and federal courts of the state of Delaware shall be the exclusive forum for certain legal actions.

### **PROPOSAL 6 Ratification of Auditors for 2014**

The Board of Directors proposes that the stockholders ratify the appointment by the Board of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2014. A representative from Deloitte & Touche will be present at the annual meeting to respond to questions submitted by stockholders during the meeting.

**Table of Contents**

**COMMUNITY HEALTH SYSTEMS, INC.**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**Tuesday, May 20, 2014**

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

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

The Annual Meeting of Stockholders of Community Health Systems, Inc. will be held on Tuesday, May 20, 2014 at 8:00 a.m. (Eastern Daylight Time) at The St. Regis Hotel, 5th Avenue at 55th Street, New York, New York 10022, to consider and act upon the following matters:

1. To elect eight (8) directors;
2. To hold an advisory vote on executive compensation;
3. To approve the Community Health Systems, Inc. 2004 Employee Performance Incentive Plan;
4. To approve the Community Health Systems, Inc. Amended and Restated 2009 Stock Option Plan;
5. To approve the Amendment of the Amended and Restated By-laws of Community Health Systems, Inc.;
6. To ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2014; and
7. To transact such other business as may properly come before the meeting and any adjournment or postponement thereof.

The close of business on March 21, 2014, has been fixed as the record date for the determination of stockholders entitled to notice of and to vote at the meeting and any adjournment or postponement thereof.

YOU ARE REQUESTED, WHETHER OR NOT YOU PLAN TO BE PRESENT AT THE MEETING, TO MARK, DATE, SIGN AND RETURN PROMPTLY THE ACCOMPANYING PROXY IN THE ENCLOSED ENVELOPE. IF YOU ATTEND THE MEETING AND WISH TO VOTE YOUR SHARES PERSONALLY, YOU MAY DO SO AT ANY TIME BEFORE THE PROXY IS EXERCISED.

By Order of the Board of Directors,



Rachel A. Seifert

Executive Vice President, Secretary and

General Counsel

Franklin, Tennessee

April 4, 2014

**Table of Contents**

**ANNUAL MEETING OF STOCKHOLDERS**

**OF**

**COMMUNITY HEALTH SYSTEMS, INC.**

**PROXY STATEMENT**

**Table of Contents**

	<b>Page</b>
<u>Introduction</u>	1
<u>General Information</u>	5
<u>Members of the Board of Directors</u>	13
<u>Security Ownership of Certain Beneficial Owners and Management</u>	17
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	19
<u>Relationships and Certain Transactions between Community Health Systems, Inc. and its Officers, Directors and 5% Beneficial Owners and their Family Members</u>	19
<u>Information About Our Executive Officers</u>	19
<b><u>Proposal 1</u></b> Election of Directors	22
<b><u>Proposal 2</u></b> Advisory Vote on Executive Compensation	22
<u>Executive Compensation</u>	26
<u>Compensation Discussion and Analysis</u>	26
<u>Summary Compensation Table</u>	41
<u>Grants of Plan-Based Awards</u>	43
<u>Outstanding Equity Awards at Fiscal Year-End</u>	44
<u>Option Exercises and Stock Vested</u>	45
<u>Pension Benefits</u>	46
<u>Non-qualified Deferred Compensation</u>	46
<u>Potential Payments upon Termination or Change in Control</u>	48
<b><u>Proposal 3</u></b> Approval of the Community Health Systems, Inc. 2004 Employee Performance Incentive Plan, amended and restated as of February 26, 2014	50
<b><u>Proposal 4</u></b> Approval of the Community Health Systems, Inc. 2009 Stock Option and Award Plan, Amended and Restated as of March 19, 2014	53
<b><u>Proposal 5</u></b> Approval of the Amendment of the Amended and Restated By-laws of Community Health Systems, Inc.	61
<b><u>Proposal 6</u></b> Ratification of the Appointment of Independent Registered Public Accounting Firm	62
<u>Compensation Committee Report</u>	65
<u>Miscellaneous</u>	66
<b><u>Annex A</u></b> Community Health Systems, Inc. 2004 Employee Performance Incentive Plan, amended and restated as of February 26, 2014	
<b><u>Annex B</u></b> Community Health Systems, Inc. 2009 Stock Option and Award Plan, amended and restated as of March 19, 2014	
<b><u>Annex C</u></b> Amended and Restated By-laws of Community Health Systems, Inc.	

**Table of Contents**

**ANNUAL MEETING OF STOCKHOLDERS**

**OF**

**COMMUNITY HEALTH SYSTEMS, INC.**

**4000 Meridian Boulevard**

**Franklin, Tennessee 37067**

**PROXY STATEMENT**

**April 4, 2014**

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDERS MEETING TO BE HELD ON MAY 20, 2014: THIS PROXY STATEMENT, THE ACCOMPANYING PROXY CARD AND THE 2013 ANNUAL REPORT TO STOCKHOLDERS ARE AVAILABLE AT WWW.CHS.NET.**

**INTRODUCTION**

**Solicitation**

This Proxy Statement, the accompanying proxy card and the 2013 Annual Report to Stockholders (with Form 10-K for the year ended December 31, 2013) of Community Health Systems, Inc. (the Company) are being mailed on or about April 4, 2014. The Board of Directors of the Company (the Board or the Board of Directors) is soliciting your proxy to vote your shares at the 2014 Annual Meeting of Stockholders (the Meeting). The Board is soliciting your proxy to give all stockholders of record the opportunity to vote on matters that will be presented at the Meeting. This Proxy Statement provides you with information on these matters to assist you in voting your shares.

For simplicity of presentation throughout this Proxy Statement, we refer to employees of our indirect subsidiaries as employees of the Company, our employees or similar language. Notwithstanding this presentation style, the Company itself does not have any employees. Similarly, the healthcare operations and businesses described in this Proxy Statement are owned and operated and management services provided by distinct and indirect subsidiaries of the Company.

***When and where will the meeting be held?***

The Meeting will be held on Tuesday, May 20, 2014 at 8:00 a.m. (Eastern Daylight Time) at The St. Regis Hotel, 5th Avenue at 55th Street, New York, New York 10022.

***What is a proxy?***

A proxy is your legal designation of another person (the proxy) to vote on your behalf. By completing and returning the enclosed proxy card, you are giving the Chief Executive Officer or the Secretary of the Company the authority to vote your shares in the manner you indicate on your proxy card.

***Why did I receive more than one proxy card?***

You will receive multiple proxy cards if you hold your shares in different ways (e.g., joint tenancy, trusts, and custodial accounts) or in multiple accounts. If your shares are held by a broker, bank, trustee or other nominee (i.e., in street name), you will receive your proxy card or other voting information from your broker, bank, trustee or other nominee, and you should return your proxy card or cards to your broker, bank, trustee or other nominee. You should vote on and sign each proxy card you receive.

**Voting Information**

***Who is qualified to vote?***

Edgar Filing: COMMUNITY HEALTH SYSTEMS INC - Form DEF 14A

You are qualified to receive notice of and to vote at the Meeting if you owned shares of common stock of the Company ( Common Stock ) at the close of business on our record date of Friday, March 21, 2014.

## **Table of Contents**

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

As of March 21, 2014, there were 115,258,571 shares of Common Stock outstanding and entitled to vote. Each share of Common Stock is entitled to one vote on each matter presented.

### ***What is the difference between a stockholder of record and a street name holder?***

These terms describe how your shares are held. If your shares are registered directly in your name with American Stock Transfer & Trust Company, LLC, the Company's transfer agent, you are a stockholder of record. If your shares are held in the name of a brokerage, bank, trust or other nominee as a custodian, you are a street name holder.

### ***How do I vote my shares?***

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

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

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

### ***Can I vote my shares in person at the Meeting?***

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

### ***What are the Board's recommendations on how I should vote my shares?***

The Board recommends that you vote your shares as follows:

- |            |  |
|------------|--|
| Proposal 1 | <b>FOR</b> the election of each of the eight nominees for director: W. Larry Cash, John A. Clerico, James S. Ely III, John A. Fry, William Norris Jennings, M.D., Julia B. North, Wayne T. Smith and H. Mitchell Watson, Jr., to one-year terms expiring at the 2015 Annual Meeting of stockholders. |
| Proposal 2 | <b>FOR</b> the approval of the compensation of our named executive officers, as disclosed in this Proxy Statement.   |
| Proposal 3 | <b>FOR</b> the approval of the Community Health Systems, Inc. 2004 Employee Performance Incentive Plan, amended and restated as of February 26, 2014.  |
| Proposal 4 | <b>FOR</b> the approval of the Community Health Systems, Inc. 2009 Stock Option and Award Plan, amended and restated as of March 19, 2014.   |
| Proposal 5 | <b>FOR</b> the approval of the Amendment of the Amended and Restated By-laws of Community Health Systems, Inc.   |
| Proposal 6 | <b>FOR</b> the ratification of the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm (independent auditors) for the fiscal year ending December 31, 2014.  |

### ***How would my shares be voted if I do not specify how they should be voted?***

If you are a stockholder of record and you sign and return your proxy card without indicating how you want your shares to be voted, the Chief Executive Officer or Secretary will vote your shares as follows:

**FOR** the election of each of the eight nominees for director (Proposal 1).

**FOR** the approval of the compensation of our named executive officers (Proposal 2).

## **Table of Contents**

**FOR** the approval of the Community Health Systems, Inc. 2004 Employee Performance Incentive Plan, amended and restated as of February 26, 2014 (Proposal 3).

**FOR** the approval of the Community Health Systems, Inc. 2009 Stock Option and Award Plan, amended and restated as of March 19, 2014 (Proposal 4).

**FOR** the approval of the amendment of the Amended and Restated By-laws of Community Health Systems, Inc. (Proposal 5).

**FOR** the ratification of the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm (independent auditors) for the fiscal year ending December 31, 2014 (Proposal 6).

In the discretion of the named proxies regarding any other matters properly presented for a vote at the Meeting.

If you are a beneficial owner of shares held in street name and do not provide the broker, bank, trustee or other nominee that holds your shares with specific voting instructions, under the rules of the New York Stock Exchange ( NYSE ), the broker, bank, trustee or other nominee that holds your shares may generally vote on routine matters without instructions from you. We expect the ratification of the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2014 (Proposal 6) to be the only proposal that is considered a routine matter. Accordingly, if your shares are held through a broker, bank, trust or other nominee, that person will have discretion to vote your shares on only that matter if you fail to provide instructions.

On the other hand, your broker, bank, trustee or other nominee is not entitled to vote your shares on certain non-routine matters if it does not receive instructions from you on how to vote. The election of directors (Proposal 1), the approval of named executive officer compensation (Proposal 2), the proposal to approve the amended and restated 2004 Employee Performance Incentive Plan (Proposal 3), the proposal to approve the amended and restated 2009 Stock Option and Award Plan (Proposal 4), and the proposal to approve the amendment of the Amended and Restated By-laws of Community Health Systems, Inc. (Proposal 5) will be considered non-routine matters. Thus, if you do not give your broker, bank, trustee or other nominee specific instructions on how to vote your shares with respect to those proposals, your broker, bank, trustee or other nominee will inform the Inspectors of Election that it does not have the authority to vote on those matters with respect to your shares. This is generally referred to as a broker non-vote. A broker non-vote may also occur if your broker, bank, trustee or other nominee fails to vote your shares for any reason.

*Please note that your broker, bank, trustee or other nominee does not have the discretion to vote shares on your behalf with respect to the election of directors and the approval of executive officer compensation. Therefore, if you hold your shares through a broker, bank, trustee or other nominee, please instruct that person regarding how to vote your shares on the election of directors and the approval of executive officer compensation.*

### ***How many votes must be present to hold the Meeting?***

The presence, in person or represented by proxy, of the holders of a majority of the shares of Common Stock issued and outstanding on the record date for the Meeting will constitute a quorum for the transaction of business at the Meeting.

### ***How are abstentions and broker non-votes treated?***

Abstentions are deemed to be present at the Meeting, are counted for quorum purposes and, other than for the election of directors (Proposal 1), will have the same effect as a vote against the matter. In the case of the election of directors (Proposal 1), an abstention will not be deemed to be a vote cast either for or against any nominee. Broker non-votes, if any, while counted for general quorum purposes, will have no effect on the voting results for any matter other than for the ratification of the appointment of Deloitte & Touche, LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2014 (Proposal 6). In the case of Proposal 6, a broker non-vote will have the same effect as a vote against the matter.

**Table of Contents*****Can I change my vote after I have mailed my proxy card?***

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

By sending a written notice of revocation to the Secretary of the Company that must be received prior to the Meeting, stating that you revoke your proxy;

By signing a later-dated proxy card and submitting it so that it is received prior to the Meeting in accordance with the instructions included in the proxy card; or

By attending the Meeting and voting your shares in person before your proxy is exercised at the Meeting.

If you hold your shares in street name, your broker, bank, trustee or other nominee will provide you with instructions on how to revoke your proxy.

***What vote is required to approve each proposal?***

<b><u>Proposal</u></b>	<b><u>Vote Required</u></b>	<b><u>Broker Discretionary Voting Allowed</u></b>	
Proposal 1	Election of eight directors	Majority of Votes Cast for the Election of that Nominee	No
Proposal 2	Advisory vote on executive compensation	Majority of the Shares Entitled to Vote and Present in Person or Represented by Proxy	No
Proposal 3	Approval of the Community Health Systems, Inc. 2004 Employee Performance Incentive Plan, as amended and restated	Majority of the Shares Entitled to Vote and Present in Person or Represented by Proxy	No
Proposal 4	Approval of the Community Health Systems, Inc. 2009 Stock Option and Award Plan, as amended and restated	Majority of the Shares Entitled to Vote and Present in Person or Represented by Proxy	No
Proposal 5	Approval of the amendment of the Amended and Restated By-laws of Community Health Systems, Inc.	Majority of the issued and outstanding Shares Entitled to Vote	No
Proposal 6	Ratification of auditors for 2014		Yes



## Edgar Filing: COMMUNITY HEALTH SYSTEMS INC - Form DEF 14A

Majority of the Shares Entitled to Vote and  
Present in Person or Represented by Proxy

With respect to Proposal 1, you may vote FOR, AGAINST or ABSTAIN. If you ABSTAIN from voting on Proposal 1, the abstention will not have any effect on the outcome of the vote.

With respect to Proposals 2, 3, 4, 5 and 6, you may vote FOR, AGAINST or ABSTAIN. If you ABSTAIN from voting on any of Proposals 2, 3, 4, 5 or 6, the abstention will have the same effect as an AGAINST vote.

### ***Who will count the votes?***

Representatives from American Stock Transfer & Trust Company, LLC, our transfer agent, will count the votes and serve as our Inspectors of Election. The Inspectors of Election will be present at the Meeting.

## **Table of Contents**

### ***Who pays the cost of proxy solicitation?***

The Company pays the costs of soliciting proxies. The Company has engaged Georgeson Inc. to aid in the solicitation of proxies for a fee of approximately \$11,000, plus reasonable expenses. Upon request, the Company will reimburse brokers, banks, trustees or their other nominees for reasonable expenses incurred by them in forwarding proxy materials to beneficial owners of shares of the Company's Common Stock. In addition, certain of our directors and officers, as well as employees of our management company, will aid in the solicitation of proxies. These individuals will receive no compensation in addition to their regular compensation.

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

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

**If you have any further questions about voting your shares or attending the Meeting, including information regarding directions to the Meeting, please call our Executive Vice President, Secretary and General Counsel, Rachel A. Seifert, at (615) 465-7000.**

## **GENERAL INFORMATION**

### ***What is the deadline for submitting stockholder proposals for the 2015 Annual Meeting of Stockholders?***

If a stockholder seeks to have a proposal included in our Proxy Statement for the 2015 Annual Meeting of Stockholders pursuant to the rules under the Securities and Exchange Act of 1934, as amended (the Exchange Act), the proposal must be submitted by no later than December 5, 2014. Any stockholder proposal (other than pursuant to the rules under the Exchange Act) or director nomination submitted by a stockholder for consideration at our 2015 Annual Meeting must be received by the Company in the manner and by the deadline set forth under *How can I submit stockholder proposals or nominations for Directors?* on page 12 of this Proxy Statement. In general, a director nomination submitted in proper form must be received no earlier than January 19, 2015 and no later than February 18, 2015.

### ***How may I contact the non-management members of the Board of Directors?***

Julia B. North is the Chair of the Governance and Nominating Committee of the Board of Directors. She and any of the other non-management directors may be contacted by any stockholder or other interested party in the following manner:

c/o Community Health Systems

4000 Meridian Boulevard

Franklin, TN 37067

Attention: Rachel A. Seifert

Corporate Secretary

(615) 465-7000

Investor\_Communications@chs.net

In the alternative, stockholders or other interested parties may communicate with our directors or our corporate compliance officer by accessing the Confidential Disclosure Program established under our Code of Conduct:

Corporate Compliance and Privacy Officer

Community Health Systems

4000 Meridian Boulevard

Franklin, TN 37067

(800) 495-9510

## **Table of Contents**

Generally, all materials that are appropriate director communications will be forwarded to the intended recipient; however, management may simultaneously conduct an investigation of any operational, compliance, or legal matter in accordance with its established policies and procedures. Management reserves the right to reject from this process any material that is harassing, unduly offensive or otherwise not credible, or solicits business on behalf of the sender.

### ***How is the Board of Directors organized and how is the independence of the Board of Directors determined?***

The role of our Board of Directors is governed by the By-laws of the Company, and is further guided by our Governance Guidelines (the Governance Guidelines ). Currently, there are eight (8) members of our Board of Directors.

Our Governance Guidelines include independence standards for those directors who are not also members of management. To determine whether our directors and director nominees are independent, the Board evaluates the relationships of our directors and director nominees, as disclosed to us by them, with the Company and the members of the Company's management, against the independence standards set forth in our Governance Guidelines. In making its independence determinations, the Board broadly considers all relevant facts and circumstances, including the responses of directors to a questionnaire that solicited information about their relationships. The Board also considers relationships between the Company and other organizations on which our directors or director nominees serve as directors. The Board determined that each of our non-management directors did not have a direct or an indirect material interest in the applicable relationships set forth in the Governance Guidelines. After such evaluations, our Board of Directors has affirmatively determined that all of the following non-management members of our Board are independent under the Governance Guidelines and the applicable rules of the NYSE and the SEC:

John A. Clerico

James S. Ely III

John A. Fry

William Norris Jennings, M.D.

Julia B. North

H. Mitchell Watson, Jr.

Messrs. Wayne T. Smith and W. Larry Cash, who are also officers of the Company and employed by a subsidiary of the Company, are not independent.

### ***Do the independent members of the Board of Directors meet in separate sessions?***

The independent members of our Board meet periodically in executive sessions, typically at the end of each regularly scheduled Board meeting, and otherwise as needed. The Chair of the appropriate Board committee presides over those sessions at which the principal item to be considered is within the scope of his or her committee. In the absence of a particular committee-related subject matter, the Chair of the Governance and Nominating Committee, currently Ms. North, presides at the executive sessions. During 2013, the independent members of our Board met in executive session ten (10) times, either in conjunction with a Board meeting or a committee meeting at which the other independent members were present.

## **Table of Contents**

### ***What is the leadership structure of the Board of Directors?***

As set forth in the Company's Governance Guidelines, the Board believes that the most effective and appropriate leadership model for the Company is that of a combined Chair of the Board and Chief Executive Officer, balanced by certain practices and policies to assure that the super-majority independence of the Board provides the desired oversight, advice, and balance.

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

The Governance and Nominating Committee, which consists entirely of independent directors, periodically examines the Board leadership structure, as well as other governance practices, and also conducts an annual assessment of the Board's and each committee's effectiveness. The Governance and Nominating Committee has determined that the present leadership structure continues to be effective and appropriate.

The Board believes that the substantive duties of the Chair of the Board, including calling and organizing meetings and preparing agendas, are best performed by someone who has day-to-day familiarity with the business issues confronting the Company and an understanding of the specific areas in which management seeks advice and counsel from the Board. Given Mr. Smith's broad and lengthy leadership experience in the healthcare industry, including 17 years as the Chief Executive Officer of the Company, the Board believes that he is especially qualified to serve as both Chief Executive Officer and Chair of the Board.

As indicated above, the independent members of the Board meet in executive sessions that are presided over by one of the independent members of the Board. As set out in the Governance Guidelines, the Chair of the appropriate Board committee presides over each session at which the principal item to be considered is within the scope of his or her committee. For routine executive session meetings, the presiding director is the Chair of the Governance and Nominating Committee. Board independence is further achieved through the completely independent composition of the three standing committees: Audit and Compliance, Compensation, and Governance and Nominating, each of which is supported by an appropriate charter and holds executive sessions without management present. Each of the Board's independent directors serves on one or more of these committees, and thus there is ample opportunity to meet and confer without any member of management present.

The Board has concluded that the structure and practices of the independent members of the Board of Directors assures effective independent oversight, as well as effective independent leadership while maintaining practical efficiency.

### ***How does your Board of Directors Oversee Risk?***

Risk management is primarily the responsibility of the Company's management team, which is administered through a broad-based committee that includes executives from our operations, internal audit, compliance, quality, revenue management, accounting, risk management, finance, human resources, and legal departments. The Board of Directors is responsible for the overall supervision of the Company's risk management activities and annually performs a review of those activities along with a review of the Company's enterprise risk assessment. The Board's oversight of the material risks faced by the Company occurs at both the full board level and at the committee level.

The Audit and Compliance Committee has oversight responsibility, not only for financial reporting with respect to the Company's major financial exposures and the steps management has taken to monitor and control such exposures, but also for the effectiveness of management's enterprise risk management process that monitors key business risks facing the Company. The Audit and Compliance Committee also oversees the delegation of specific risk areas among the various other Board committees, consistent with the committees' charters and responsibilities.

**Table of Contents**

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

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

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

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

***What are the standing committees of the Board of Directors?***

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

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

***How many times did the Board of Directors and its committees meet in 2013? What was the attendance by the members? What are the duties of the Board's committees?***

Directors are encouraged to attend our annual meeting of stockholders; all eight (8) of our directors were present at our 2013 Annual Meeting of Stockholders. The annual meeting of the Board of Directors followed immediately after the 2013 Annual Meeting of Stockholders.

In 2013, the Board of Directors held six (6) regular meetings and four (4) special meetings. Each director attended at least 75% of the Board meetings and meetings of the committees of the Board on which he/she served.



**Table of Contents**

The Audit and Compliance Committee held nine (9) meetings during 2013. A number of the meetings held by the Audit and Compliance Committee also included the other independent members of the Board of Directors. As set forth in its charter, the Audit and Compliance Committee's responsibility is to provide advice and counsel to management regarding, and to assist the Board of Directors in its oversight of: (i) the integrity of the Company's financial statements; (ii) the Company's compliance with legal and regulatory requirements; (iii) the independent registered public accounting firm's qualifications and independence; (iv) the performance of the Company's internal audit function and its independent registered public accounting firm; and (v) the Company's policy on the use of derivative products. The Audit and Compliance Committee report is incorporated herein by reference to Part III of the Company's Annual Report on Form 10-K under Item 10. Directors, Executive Officers and Corporate Governance.

The Compensation Committee held four (4) meetings during 2013. The primary purpose of the Compensation Committee is to: (i) assist the Board of Directors in discharging its responsibilities relating to compensation of the Company's executives; (ii) administer outstanding awards and grants of equity-based compensation arrangements to directors, employees, and others pursuant to the Company's stock option and award plans; (iii) administer the Community Health Systems, Inc. 2004 Employee Performance Incentive Plan with regard to the employees to whom Section 162(m) of the Internal Revenue Code (the "IRC") applies; (iv) assist the Board of Directors by making recommendations regarding compensation programs for directors; and (v) produce an annual report on executive compensation for inclusion in the Company's Proxy Statement in accordance with applicable rules and regulations under the Exchange Act. The Compensation Committee's report is set forth later in this Proxy Statement.

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

Pursuant to its charter, the Compensation Committee has authority to engage its own executive compensation consultants and legal advisors. Since 2005, Mercer Human Resources Consulting has served as the independent executive compensation consultant to the Compensation Committee. Mercer Human Resources Consulting also provides limited consulting services to management; for 2013, these services were limited to conducting actuarial analyses of the Company's Supplemental Executive Retirement Plan. In 2013, the total amount paid to Mercer Human Resources Consulting for the services provided to management was approximately \$85,000. Mercer Human Resources Consulting has entered into separate engagement letters with the Compensation Committee and management for the respective services rendered to each group. The Compensation Committee has assessed Mercer Human Resources Consulting's independence pursuant to the independence factors set forth for compensation consultants in the NYSE listing standards and in the Compensation Committee's charter and has determined that no conflicts of interest exist.

The Governance and Nominating Committee met two (2) times during 2013. The primary purpose of the Governance and Nominating Committee is to (i) recommend to the Board of Directors a set of corporate governance guidelines applicable to the Company; (ii) review at least annually the Company's Governance Guidelines and make any recommended changes, additions or modifications; (iii) identify individuals qualified to become Board members and to select, or recommend that the Board of Directors select, the director nominees for the next annual meeting of stockholders; and (iv) assist the Board by making recommendations regarding compensation for directors.

***Who are the Company's audit committee financial experts?***

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

***Does the Company have a code of conduct?***

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



## **Table of Contents**

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

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

### ***How are the Company's Directors compensated?***

Our Board of Directors has approved a compensation program for independent directors, which consists of both cash and equity-based compensation. The Board compensation is reviewed, and adjusted if needed, on the same cycle as is our executive compensation. For 2013, the total cash and long-term incentive compensation package was set at \$270,000 per independent director. The independent directors received a cash stipend of \$120,000, which was paid in quarterly installments. Each independent director received a grant of a number of restricted stock units based on the portion of his or her annual compensation that is allocated to equity. For 2013, this value-based award amount was \$150,000, or 3,596 restricted stock units per independent director and was awarded in February, at the same time management's long-term incentive awards were granted. Rounding to the nearest whole number of restricted stock units resulted in an actual award value of \$149,989 per independent director. Any independent directors who join our Board of Directors during the first six months of the year will receive the same number of restricted stock units as is awarded to the other independent directors as stock-based compensation; however, if an independent director's appointment occurs during the last six months of the year such independent director will receive no stock-based compensation until the following year. These restricted stock unit awards vest in one-third increments on each of the first three anniversaries of the grant date for so long as the director is a member of the Board. If an independent director's service as a member of the Board terminates as a result of death or disability (other than for cause), all unvested restricted stock units will vest as of the date of termination. No separate meeting attendance fees are paid to the directors. All directors are reimbursed for their out-of-pocket expenses arising from attendance at meetings of the Board and its committees. The additional annual stipends for the three committee chairs were as follows: Audit and Compliance Committee: \$20,000; Compensation Committee: \$12,000; and Governance and Nominating Committee: \$10,000.

For 2014, the Board of Directors' compensation package was reviewed by the Compensation Committee's compensation consultant, Mercer Human Resources Consulting, and the Governance and Nominating Committee. Although Mercer Human Resources Consulting advised that market conditions would support an increase in compensation, the Governance and Nominating Committee, with the concurrence of the other members of the Board of Directors, determined that no increase in the Board of Directors' compensation be made at this time.

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

**Table of Contents****Director Compensation**

The following table summarizes the aggregate fees earned or paid and the value of equity-based awards earned by our non-management directors in 2013:

<b>Name</b>	<b>Fees Earned or Paid in Cash (\$)</b>	<b>Restricted Stock Awards (\$ (1))</b>	<b>Total Compensation (\$)</b>
John A Clerico	140,000	149,989	289,989
James S. Ely III	120,000	149,989	269,989
John A. Fry	120,000	149,989	269,989
William Norris Jennings, MD	120,000	149,989	269,989
Julia B. North	130,000	149,989	279,989
H. Mitchell Watson, Jr	132,000	149,989	281,989

- (1) This amount reflects the grant date fair value of director compensation earned in the form of restricted stock unit awards. This grant is based on the portion of his or her annual compensation that is allocated to equity. For 2013, this value based award amount was for 3,596 restricted stock units on February 27, 2013 (\$41.71 per share). The grant date fair value was computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718 ( ASC 718 ).

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

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

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

The Governance and Nominating Committee believes that the minimum qualifications that must be met by any director nominee, including any director nominee who is recommended by stockholders, include (i) a reputation for the highest ethical and moral standards, (ii) good judgment, (iii) a positive record of achievement, (iv) if on other boards, an excellent reputation for preparation, attendance, participation, interest and initiative, (v) business knowledge and experience relevant to the Company, and (vi) a willingness to devote sufficient time to carrying out his or her duties and responsibilities effectively.

The qualities and skills necessary in a director nominee are governed by the specific needs of the Board at the time the Governance and Nominating Committee determines to nominate a candidate for director. The specific requirements of the Board will be determined by the Governance and Nominating Committee and will be based on, among other things, the Company's then existing strategies and business, market and regulatory environments, and the mix of perspectives, experience and competencies then represented by the other Board members. The Governance and Nominating Committee will also take into account the Chairman and Chief Executive Officer's views as to areas in which management desires additional advice and counsel.

When the need to recruit a director arises, the Governance and Nominating Committee will consult the other directors, including the Chairman and Chief Executive Officer and, when deemed appropriate, utilize fee-paid third-party recruiting firms to identify potential candidates. The candidate evaluation process may include inquiries as to the candidate's reputation and background, examination of the candidate's experiences and skills in relation to the Board's requirements at the time,



## **Table of Contents**

consideration of the candidate's independence as measured by the Company's independence standards, and other considerations as the Governance and Nominating Committee deems appropriate at the time. Prior to formal consideration by the Governance and Nominating Committee, any candidate who passes such screening would be interviewed by the Chair of the Governance and Nominating Committee and the Chairman and Chief Executive Officer.

*Board Nominee Diversity Considerations.* As set forth in the charter of the Governance and Nominating Committee, the nominating criteria require the committee to determine as necessary the portfolio of skills, experience, perspective and background required for the effective functioning of the Board. The most robust selection process occurs at the time a new director is being added, typically upon the decision of a Board member that he or she will not stand for re-election at the end of a then current term. The Governance and Nominating Committee takes into account a variety of factors in selecting and nominating individuals to serve on the Board of Directors, including:

The Board's and the Company's needs for input and oversight about the strategy, business, regulatory environment, and operations of the Company;

The management directors' views as to areas in which additional advice and counsel could be provided by the Board;

The mix of perspectives, experience and competencies currently represented on the Board; while this is primarily directed to the professional acumen of an individual, it may also include gender, ethnic and cultural diversity;

The results of the Board's annual self-assessment process; and

As to incumbent directors, meeting attendance, participation and contribution, and the director's current independence status. The Committee seeks candidates with broad background and experience that will enable them to serve on and contribute to any of the Board's three standing committees. The Committee also believes that every director nominee should demonstrate a strong record of integrity and ethical conduct, an absence of conflicts that might interfere with the exercise of his or her independent judgment, and a willingness and ability to represent all stockholders of the Company.

The experience, skills and diversity contributions of each of the members of the Board of Directors is described below under **Members of the Board of Directors**.

### ***How can I submit stockholder proposals or nominations for Directors?***

The Governance and Nominating Committee will consider including in our Proxy Statement candidates for election to our Board of Directors who are recommended by stockholders and any other business that stockholders seek to bring before an annual meeting. For any candidate to be considered by the Governance and Nominating Committee and, if nominated, to be included in our Proxy Statement, or for any other business to be considered for inclusion in our Proxy Statement (other than pursuant to the rules under the Exchange Act), notice of such recommendation or other business must be received by the Secretary at our principal executive offices (Secretary, Community Health Systems, Inc., 4000 Meridian Boulevard, Franklin, TN 37067) not less than 45 or more than 75 days prior to the first anniversary of the date on which we first mailed our proxy materials for the preceding year's annual meeting of stockholders. However, if the date of the annual meeting is advanced more than 30 days prior to or delayed by more than 30 days after the anniversary of the preceding year's annual meeting of stockholders, to be timely, notice by the stockholder must be delivered no later than the close of business on the later of the 90th day prior to the annual meeting or the 10th day following the day on which the public announcement of the meeting is first made. These same time requirements apply to notice of any stockholder nomination of candidates for election to our Board of Directors and notice of any other business a stockholder seeks to bring before an annual meeting of our stockholders, even though such matters will not be included in our Proxy Statement. The Governance and Nominating Committee will conduct the same analysis that it conducts with respect to its director nominees for any director nominations properly submitted by a stockholder and, as a result of that process, will formulate its recommendation to support or oppose that person's election as a member of the Board of Directors. Please see page 5 under **What is the deadline for submitting stockholder**



**Table of Contents**

proposals for the 2015 Annual Meeting of Stockholders? for the expected deadlines related to the 2015 Annual Meeting of Stockholders.

A stockholder's notice to the Secretary for director nominee recommendations or nominations must set forth, as to each proposed nominee (a) the name, age, business address and residence address of the nominee, (b) the principal occupation or employment of the nominee, (c) the class or series and number of shares of capital stock of the Company which are owned beneficially or of record by the nominee, (d) a statement as to whether the nominee acknowledges the Company's policy on director resignations following such director's failure to receive the required vote for re-election at any future meeting at which such director would be nominated for re-election, (e) any other information relating to the nominee that would be required to be disclosed in a proxy statement or related filings under the Exchange Act and (f) a statement from the nominee that he or she consents to being named in the proxy statement relating to the stockholders' meeting at which such nominee will stand for election and that he or she will serve as a director, if elected. In addition, a stockholder giving the notice for director nominee recommendations or nominations must provide (i) the name and record address of such stockholder, (ii) the class or series and number of shares of capital stock of the Company which are owned beneficially or of record by such stockholder, (iii) a description of all arrangements or understandings between such stockholder and each proposed nominee and any other person or persons (including their names) pursuant to which the nomination(s) are to be made by such stockholder, (iv) a representation that such stockholder intends to appear in person or by proxy at the meeting to nominate the nominee(s) named in its notice and (v) any other information relating to such stockholder that would be required to be disclosed in a proxy statement or related filings under the Exchange Act.

A stockholder's notice to the Secretary for any business such stockholder seeks to bring before an annual meeting of stockholders (other than pursuant to the rules under the Exchange Act) must set forth as to each matter such stockholder proposes to bring before such annual meeting (a) a brief description of the business desired to be brought before such annual meeting and the reasons for conducting such business at the annual meeting, (b) the name and address of such stockholder, (c) the class or series and number of shares of capital stock of the Company which are owned beneficially or of record by such stockholder, (d) a description of all arrangements or understandings between such stockholder and any other person or persons (including their names) in connection with the proposal of such business by such stockholder and any material interest of such stockholder in such business and (e) a representation that such stockholder intends to appear in person or by proxy at the annual meeting to bring such business before the meeting.

**MEMBERS OF THE BOARD OF DIRECTORS**

Each of the Company's director nominees are nominated for election to a term of one (1) year. Upon the recommendation of the Governance and Nominating Committee, the eight (8) persons listed in the table below are nominated for election at the Meeting, each to serve as a director for a term of one (1) year and until his or her successor is elected and qualified.

<b>Name</b>	<b>Age</b>	<b>Position</b>
W. Larry Cash	65	President of Financial Services, Chief Financial Officer and Director
John A. Clerico	72	Director
James S. Ely III	56	Director
John A. Fry	53	Director
William Norris Jennings, M.D	70	Director
Julia B. North	66	Director
Wayne T. Smith	68	Chairman of the Board, Chief Executive Officer and Director
H. Mitchell Watson, Jr.	76	Director

**W. Larry Cash****Director Since 2001**

Mr. Cash is our President of Financial Services and Chief Financial Officer. Mr. Cash joined us as Executive Vice President and Chief Financial Officer in September 1997. In 2001, he was also named to our Board of Directors. In January 2014, he was named our President of Financial Services. Prior to joining us, he served as vice president and group chief financial officer of Columbia/HCA Healthcare Corporation from September 1996 to August 1997. Prior to Columbia/HCA, Mr. Cash spent 23 years at Humana Inc., most recently as senior vice president of finance and operations from 1993 to 1996. He

**Table of Contents**

is also a director of Cross Country Healthcare, Inc., a provider of nurse and allied staffing services, multi-specialty locum tenens services, and other human capital management services in the healthcare industry, and he serves on its audit (chair) and compensation committees.

Mr. Cash is the Company's chief financial executive and performs a substantial portion of the investor relations function for the Company. His prior managed care experience brings that perspective to our Board's deliberations and evaluation of its business and strategy. For nine consecutive years, he has been recognized as one of the Top 3 CFOs in the healthcare sector by *Institutional Investor* magazine. He was named *Business Tennessee's* first ever CFO of the Year in 2008 and also earned that distinction in the public companies category from the *Nashville Business Journal* in 2009.

**John A. Clerico****Director Since 2003***Audit and Compliance Committee Chair**Compensation Committee Member*

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

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

**James S. Ely III****Director Since 2009***Audit and Compliance Committee Member*

Mr. Ely founded Priority Capital Management LLC in 2008 and has served as its chief executive officer since its inception. From 1995 to 2008, he was a senior banker and managing director in J.P. Morgan's Syndicated and Leveraged Finance Group, where he was responsible for structuring and arranging syndicated loans and high yield issues in the healthcare, aerospace, defense and other sectors. Mr. Ely's service with J.P. Morgan's predecessor institutions commenced in 1987. He is a director of Select Medical Holdings Corporation, a provider of long-term hospitalization services, and serves on its audit and compliance committee.

Mr. Ely's educational background (MBA in finance and accounting from the University of Chicago) and extensive (over twenty years) experience in the financing industry, and in the healthcare sector in particular, provides a needed area of expertise among the independent Board members. He is able to assist the Board members and management in evaluating financing opportunities, as he has specific experience in financing the types of indebtedness reflected on the Company's balance sheet.





**Table of Contents****John A. Fry****Director Since 2004***Audit and Compliance Committee Member**Governance and Nominating Committee Member*

Mr. Fry has served as president of Drexel University in Philadelphia, Pennsylvania since August 2010. In addition, he serves as president of the Drexel University College of Medicine and chairman and chief executive officer of Drexel e-Learning, Inc., Drexel University's for-profit subsidiary, which markets online Drexel degree programs. Prior to becoming president of Drexel University, Mr. Fry served as president of Franklin & Marshall College in Lancaster, Pennsylvania from 2002 until 2010. From 1995 to 2002, he was executive vice president of the University of Pennsylvania and served as the chief operating officer of the University and as a member of the executive committee of the University of Pennsylvania Health System. Mr. Fry is a member of the board of trustees of Delaware Investments, an asset management firm, with oversight responsibility for all of the portfolios in that mutual fund family; he also serves on its audit committee and nominating and corporate governance committee. Mr. Fry also serves as a director of the Hershey Trust.

Mr. Fry's unique experience as the president of an academic institution, together with his prior experience with the University of Pennsylvania Health System and service on the boards of a number of non-profit institutions, brings two important perspectives to the Board of Directors. The governance issues faced by non-profit organizations assist the Board of Directors in understanding the competitive environment in which many of the Company's competitors and acquisition targets operate. His educational background (MBA in accounting from New York University) and his experience in financial management, financial reporting, audit and compliance, and risk management are all skill sets available to and needed by the Board of Directors.

**William Norris Jennings, M.D.****Director Since 2008***Governance and Nominating Committee Member*

Dr. Jennings is a practicing family medicine physician employed by KentuckyOne Health, in Louisville, Kentucky, which was formed by the merger of Jewish Hospital & St. Mary's HealthCare with Saint Joseph Health System in 2012. He serves on KentuckyOne Health's quality committee and formerly served as the quality committee chair for The Physician Group, which was affiliated with Jewish Hospital & St. Mary's HealthCare prior to the merger with Saint Joseph Health System. From 1971 until 2005, when the practice was acquired by Jewish Hospital, Dr. Jennings was in private practice with Southend Medical Clinic, PSC, serving as its managing partner.

Dr. Jennings brings the perspective of a practicing physician to the Board of Directors. His career in a community practice setting is typical to that of most of the Company's facilities and he provides advice to the Board of Directors and management about trends in both medicine and the organization and operation of physician practices. His experience managing large physician practices, with particular focus in the areas of risk and quality oversight, brings counterpoint and balance to the perspectives presented by management leadership. He also brings practitioner insight to quality measures and reporting, electronic health record implementation, and federal government regulation of practitioner-hospital relationships.

**Julia B. North****Director Since 2004***Governance and Nominating Committee Chair**Compensation Committee Member*

Ms. North is presently retired. Over the course of her career, Ms. North has served in many senior executive positions, including as president of consumer services for BellSouth Telecommunications, Inc. from 1994 to 1997. After leaving BellSouth in 1997, she served as the president and chief executive officer of VSI Enterprises, Inc., a manufacturer of video conferencing systems, until 1999. She currently serves on the boards of directors of (i) Acuity Brands, Inc., a provider of lighting fixtures and related products and services, and serves on its compensation committee and governance committee, with previous service on its audit committee; and (ii) Lumos Networks Corp., a fiber-based telecommunications service provider, and serves on its compensation committee (chair), and, from 2007 until its spin-off of Lumos Networks Corp. in 2011, she served on the board of directors of NTELOS Holdings Corp., a provider of wireless and wireline communications services, and served on its compensation committee and nominating and governance committee (chair). Ms. North also previously served on the boards of directors of Simtrol, Inc., a developer of enterprise-class software solutions, where she also served on its audit committee and compensation committee; Winn-Dixie, Inc., a food retailer, where she also served on its compensation committee (chair), nominating and governance committee (chair),

and audit committee; and MAPICS, Inc., a business application software and consulting company, where she also served on its compensation committee.

**Table of Contents**

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

**Wayne T. Smith**

**Director Since 1997**

*Chairman of the Board*

Mr. Smith is our Chairman and Chief Executive Officer. Mr. Smith joined us in January 1997 as President, a position he held until January 2014. Since April 1997, he has served as our Chief Executive Officer and as a member of the Board of Directors. In 2001, he was elected Chairman of our Board of Directors. Prior to joining us, Mr. Smith was president and chief operating officer of Humana, Inc., where he served in various management positions during 23 years with that company, and as a director from 1993 to 1996. He currently serves on the board of directors of Praxair, Inc. and serves on its compensation committee (former chair). Mr. Smith is currently Chairman of the Nashville Area Chamber of Commerce and a past-chair and current board member of the Federation of American Hospitals and Nashville Health Care Council. He serves on the board of trustees of Auburn University. From 2006 to 2010, he served on the board of directors of Citadel Broadcasting Corporation, an owner and operator of radio stations and producer and distributor of radio programming. He also served on its audit committee.

Mr. Smith is one of the most tenured executives in the healthcare industry, with decades of experience in both the hospital sector and the managed care sector. He has been named one of the 100 Most Influential People in Healthcare each of the 12 years *Modern Healthcare* has published the peer voted list, ranking number 17 in 2013. *Institutional Investor* magazine has also named Smith a Top CEO for the healthcare facilities sector several times over the past decade. His service on other companies' boards of directors provides him with insights and experiences to support his leadership of the Company and its Board of Directors. Mr. Smith has been honored year after year by investor organizations as being the top chief executive officer in the institutional provider segment of the health care sector.

**H. Mitchell Watson, Jr.**

**Director Since 2004**

*Compensation Committee Chair*

Mr. Watson is currently retired. From 1981 to 1989, Mr. Watson was a vice president of International Business Machines Corporation (IBM), serving from 1981 to 1985 as president of its systems product division, and from 1985 through 1988 as vice president of marketing and service. From 1989 until its sale in 1992, Mr. Watson was the president and chief executive officer of ROLM Company, a joint venture between IBM and Siemens AG that produced digital voice systems. Mr. Watson previously served on the board of directors of Praxair, Inc. from 1992 until 2010, where he also served on its audit (chair), compensation, and governance and nominating committees. He also previously served on the boards of directors of Roadway, Inc., a transportation service provider, where he also served on its audit and compensation committees; and MAPICS, Inc., where he served as chairman of the board and on its audit committee. Mr. Watson is a past president of Helen Keller International, chairman emeritus of the Brevard Music Center in Brevard, North Carolina, has served on the board of Union Theological Seminary in New York, New York, and as trustee of the Interdenominational Theology Center at Atlanta University.

In addition to his prior operational experience with IBM, which lends both leadership and technology perspectives, Mr. Watson has extensive audit committee experience with a variety of different types of companies and he imparts those concepts to the oversight of the Company's financial management and audit functions. In addition, Mr. Watson's considerable service in both community and national not-for-profit organizations provides insights and context for the Company's local operations and competition.

**Table of Contents****SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth information as of March 21, 2014, except as otherwise footnoted, with respect to ownership of our Common Stock by:

each person known by us to be a beneficial owner of more than 5% of our Company's Common Stock;

each of our directors;

each of our executive officers named in the Summary Compensation Table on page 41; and

all of our directors and executive officers as a group.

Except as otherwise indicated, the persons or entities listed below have sole voting and investment power with respect to all shares of Common Stock beneficially owned by them, except to the extent such power may be shared with a spouse.

Name	Shares Beneficially Owned (1)	
	Number	Percent
<b>5% Stockholders:</b>		
Glenview Capital Management, LLC	12,093,795	(2) 10.5%
FMR, LLC	6,953,719	(3) 6.0%
Baron Capital Group, Inc./BAMCO, Inc./	6,781,238	(4) 5.9%
Baron Capital Management, Inc./Ronald Baron Blackrock, Inc	6,034,615	(5) 5.2%
<b>Directors:</b>		
W. Larry Cash	933,290	(6) 0.8%
John A. Clerico	80,598	(7) *
James S. Ely III	20,598	(8) *
John A. Fry	22,301	(9) *
William N. Jennings, M.D	27,598	(10) *
Julia B. North	51,598	(11) *
Wayne T. Smith	2,932,581	(12) 2.5%
H. Mitchell Watson, Jr	19,968	(13) *
<b>Other Named Executive Officers:</b>		
William S. Hussey	298,291	(14) 0.3%
David L. Miller	562,065	(15) 0.5%
Thomas D. Miller	111,173	(16) 0.1%
<b>All Directors and Executive Officers as a Group (18 persons)</b>	<b>6,041,490</b>	<b>(17) 5.2%</b>

## Edgar Filing: COMMUNITY HEALTH SYSTEMS INC - Form DEF 14A

- (1) For purposes of this table, a person or group of persons is deemed to have beneficial ownership of any shares of Common Stock when such person or persons have the right to acquire them within 60 days after March 21, 2014. For purposes of computing the percentage of outstanding shares of Common Stock held by each person or group of persons named above, any shares which such person or persons have the right to acquire within 60 days after March 21, 2014 is deemed to be outstanding but is not deemed to be outstanding for the purpose of computing the percentage ownership of any other person.
  
- (2) Shares beneficially owned are based on Schedule 13G filed with the SEC on January 27, 2014, by Glenview Capital Management, LLC/Lawrence M. Robbins. Glenview Capital Management, LLC/Lawrence M. Robbins has shared voting power and shared dispositive power with respect to 12,093,795 shares of Common Stock. The address of Glenview Capital Management, LLC/Lawrence M. Robbins is 767 Fifth Avenue, 44<sup>th</sup> Floor, New York, NY 10153.

**Table of Contents**

- (3) Shares beneficially owned are based on Schedule 13G filed with the SEC on February 13, 2014, by FMR. FMR has sole voting power with respect to 20,519 shares of Common Stock and sole dispositive power with respect to 6,953,719 shares of Common Stock. The address of FMR is 245 Summer Street, Boston, Massachusetts 02210.
- (4) Shares beneficially owned are based on Schedule 13G filed with the SEC on February 14, 2014, by Baron Capital Group, Inc. ( Baron Group ), BAMCO, Inc. ( Bamco ), Baron Capital Management, Inc. ( Baron Capital ) and Ronald Baron. Baron Group has shared voting power with respect to 6,664,238 shares of Common Stock and shared dispositive power with respect to 6,781,238 shares of Common Stock; Bamco has shared voting power with respect to 6,222,200 shares of Common Stock and shared dispositive power with respect to 6,339,200 shares of Common Stock; Baron Capital has shared voting power and shared dispositive power with respect to 422,038 shares of Common Stock; and Ronald Baron has shared voting power with respect to 6,664,238 shares of Common Stock and shared dispositive power with respect to 6,781,238 shares of Common Stock. The address of each of these persons is 767 Fifth Avenue, 49th Floor, New York, NY 10153.
- (5) Shares beneficially owned are based on Schedule 13G filed with the SEC on January 17, 2014, by BlackRock, Inc. ( BlackRock ). BlackRock has sole voting power with respect to 5,657,896 shares of Common Stock and sole dispositive power with respect to 6,034,615 shares of Common Stock. The address of BlackRock, Inc. is 40 East 52nd Street, New York, NY 10022.
- (6) Includes 403,333 shares subject to options which are currently exercisable or exercisable within 60 days of March 21, 2014.
- (7) Includes 5,000 shares subject to options which are currently exercisable or exercisable within 60 days of March 21, 2014.
- (8) Includes 0 shares subject to options which are currently exercisable or exercisable within 60 days of March 21, 2014.
- (9) Includes 0 shares subject to options which are currently exercisable or exercisable within 60 days of March 21, 2014.
- (10) Includes 0 shares subject to options which are currently exercisable or exercisable within 60 days of March 21, 2014.
- (11) Includes 10,000 shares subject to options which are currently exercisable or exercisable within 60 days of March 21, 2014.
- (12) Includes 976,667 shares subject to options which are currently exercisable or exercisable within 60 days of March 21, 2014.
- (13) Includes 5,000 shares subject to options which are currently exercisable or exercisable within 60 days of March 21, 2014.
- (14) Includes 135,333 shares subject to options which are currently exercisable or exercisable within 60 days of March 21, 2014.
- (15) Includes 115,333 shares subject to options which are currently exercisable or exercisable within 60 days of March 21, 2014.
- (16) Includes 15,333 shares subject to options which are currently exercisable or exercisable within 60 days of March 21, 2014.

(17) Includes 1,956,833 shares subject to options which are currently exercisable or exercisable within 60 days of March 21, 2014.

\* Less than 1%

**Table of Contents**

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

Section 16(a) of the Exchange Act requires our executive officers, directors and persons who beneficially own greater than 10% of a registered class of our equity securities to file reports of ownership and changes in ownership with the SEC. These persons are required by regulation to furnish us with copies of all Section 16(a) reports that they file. Based solely on our review of copies of these reports that we have received and on representations from all reporting persons who are our directors and executive officers that no Form 5 report was required to be filed by them, we believe that during 2013 all of our officers, directors and greater than 10% beneficial owners complied with all applicable Section 16(a) filing requirements.

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

The Company employs Brad Cash, son of W. Larry Cash. In 2013, Brad Cash received a base salary of \$288,773 and earned a bonus of \$103,958 for 2013 to be paid in 2014. In 2013, he also received a grant of restricted stock awards with the grant date fair value of \$166,840 while serving as the divisional financial executive for one of our corporate office division presidents. The Company believes that the compensation paid to Brad Cash was on terms as favorable to the Company as could have been maintained with an unrelated third party.

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

There were no loans outstanding during 2013 from the Company to any of its directors, nominees for director, executive officer, or any beneficial owner of 5% or more of our equity securities, or any family member of any of the foregoing.

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

**INFORMATION ABOUT OUR EXECUTIVE OFFICERS**

The following sets forth information regarding our executive officers as of March 21, 2014. Each of our executive officers holds an identical position with CHS/Community Health Systems, Inc., and Community Health Systems Professional Services Corporation, two of our wholly-owned subsidiaries:



**Table of Contents**

<b>Name</b>	<b>Age</b>	<b>Position</b>
Wayne T. Smith	68	Chairman of the Board, Chief Executive Officer and Director
W. Larry Cash	65	President of Financial Services, Chief Financial Officer and Director
David L. Miller	65	President and Chief Operating Officer
Dr. Lynn T. Simon, M.D.	54	President of Clinical Services and Chief Quality Officer
William S. Hussey	65	Division President Division Operations
Thomas D. Miller	56	Division President Division Operations
Michael T. Portacci	55	Division President Division Operations
Martin D. Smith	46	Division President Division Operations
Tim L. Hingtgen	46	Division President Division Operations
Martin J. Bonick	40	Division President Division Operations
Rachel A. Seifert	54	Executive Vice President, Secretary and General Counsel
Kevin J. Hammons	48	Senior Vice President and Chief Accounting Officer

**Wayne T. Smith** The principal occupation and employment experience of Mr. Smith during the last five years is set forth on page 16 above.

**W. Larry Cash** The principal occupation and employment experience of Mr. Cash during the last five years is set forth on page 13 above.

**David L. Miller** serves as President and Chief Operating Officer, having been promoted to that position in January 2014. In that position he oversees our six operating divisions as well as strategic growth initiatives. Prior to assuming that position, Mr. D. Miller served as a division president and oversaw the management of our affiliated hospitals in one of our divisions. Mr. D. Miller joined us in November 1997 as a group vice president. Prior to joining us, he had executive leadership responsibility with other hospital management companies. He has a master's degree in business administration from the Darden School at the University of Virginia. Mr. D. Miller is a Fellow in the American College of Healthcare Executives.

**Dr. Lynn T. Simon, M.D.** serves as President of Clinical Services and Chief Quality Officer, having been promoted to that position in January 2014. She has leadership responsibilities for all aspects of clinical operations, including clinical services, nursing, quality and safety, and case management. She also oversees medical staff relations, physician practice management, clinical integration initiatives and medical informatics. Before joining us in 2010 as senior vice president and chief quality officer, Dr. Simon served as vice president of medical affairs at Jewish Hospital in Louisville, Kentucky from 2004 to 2005 and as senior vice president and chief medical officer of Jewish Hospital & St. Mary's HealthCare from 2005 to 2010, following the merger of Jewish Hospital and St. Mary's HealthCare. She was a full-time practicing neurologist in Louisville, Kentucky from 1989 until 2005. She has a medical degree from the University of Louisville and a master's degree in business administration from Bellarmine University in Louisville.

**William S. Hussey** serves as Division President Division VI Operations. Mr. Hussey joined us in June 2001 as a group assistant vice president. In January 2003, he was promoted to a group vice president to manage our acquisition of seven hospitals in West Tennessee, and in January 2004, he was promoted to a group senior vice president and assumed responsibility for additional hospitals. Mr. Hussey oversees the management of our affiliated hospitals in Florida, Georgia and South Carolina. Prior to joining us, he served in executive leadership and management positions in the hospital industry for more than 28 years. Mr. Hussey has a master's degree in hospital administration from Tulane University. He is a member of the board of directors of the Federation of American Hospitals.

**Thomas D. Miller** serves as Division President Division V Operations. Mr. T. Miller joined the Company in connection with the acquisition of Triad Hospitals, Inc., or Triad, in July 2007. Mr. T. Miller

**Table of Contents**

oversees the management of our affiliated hospitals in Indiana, New Jersey, Ohio and Pennsylvania. Prior to joining us, Mr. T. Miller served as the president and chief executive officer of Lutheran Health Network in northeast Indiana, a system that includes five hospital facilities, from 1998, through its acquisition by Triad in 2001, and until Triad's acquisition by the Company in 2007. Prior to 1998, he was with another hospital management company in various increasingly responsible positions of hospital and market leadership. He has a master's degree in hospital and health administration from the University of Alabama.

**Michael T. Portacci** serves as Division President – Division II Operations. Mr. Portacci joined us in 1988 as a hospital administrator and became a group director with oversight for multiple facilities in 1991. In 1995, he was promoted to group vice president, and in 2001 he was named a senior vice president of group operations. Mr. Portacci oversees the management of our affiliated hospitals in Arkansas, Louisiana, Missouri and Texas. He has a master's degree in health care administration from Trinity University.

**Martin D. Smith** serves as Division President – Division III Operations. Mr. M. Smith joined us in 1998 as a hospital chief executive officer. In 2005, he was named a vice president of group operations. In 2008, he was promoted to Division President. Mr. M. Smith oversees the management of our affiliated hospitals in Illinois, Kentucky, Tennessee and West Virginia. Prior to joining us, Mr. M. Smith worked in various administrative positions for Health Management Associates, Inc. He has a master's degree in business administration from the University of Tennessee.

**Tim L. Hingtgen** serves as Division President – Division IV Operations. Mr. Hingtgen joined us in 2008 as a vice president of division operations. In January 2014, he was promoted to Division President. He oversees the management of our affiliated hospitals in Alaska, Arizona, California, Nevada, New Mexico, Oklahoma, Oregon, Utah, Washington and Wyoming. He has nearly 20 years of healthcare management experience. Prior to joining us, Mr. Hingtgen held chief operating officer and chief executive officer positions at for-profit hospitals in Arizona, Indiana and Nevada from 2001 to 2008. He has a master's degree in business administration from the University of Nevada, Las Vegas.

**Martin J. Bonick** serves as Division President – Division I Operations. Mr. Bonick joined us in 2011 as a vice president of division operations bringing more than 17 years of for-profit and non-profit healthcare leadership experience. In January 2014, he was promoted to Division President. He oversees the management of our affiliated hospitals in Alabama, Mississippi, North Carolina and Virginia. Prior to joining us, Mr. Bonick served as chief executive officer of Jewish Hospital & St. Mary's HealthCare. Prior to that, Mr. Bonick served as chief executive officer of Oklahoma State University Medical Center in Tulsa, Oklahoma from 2005 to 2008. He has dual master's degrees in healthcare administration and information management from Washington University in St. Louis.

**Rachel A. Seifert** serves as Executive Vice President, Secretary and General Counsel. She is responsible for oversight of all legal aspects within the company, including acquisitions/development, SEC and corporate governance, litigation and management of the legal department. She joined us in 1998 as vice president, secretary and general counsel. She was promoted to a senior vice president in 2001 and to an executive vice president in 2010. Prior to joining CHS, Ms. Seifert was associate general counsel and vice president – legal operations of another hospital management company. Prior to that, she was in private practice in Dallas, Texas. Ms. Seifert is a member of the board of directors of the Federation of American Hospitals. She has a law degree from the University of Maryland.

**Kevin J. Hammons** serves as Senior Vice President and Chief Accounting Officer. He is responsible for SEC reporting matters, as well as overseeing various other accounting and financial reporting functions, including accounting research, implementation of new accounting pronouncements, and accounting for acquisitions. Mr. Hammons joined us in 1997 and, in 2002, he was promoted to assistant vice president, financial reporting. In 2005, he was promoted to vice president, financial reporting. In 2012, he was promoted to vice president and chief accounting officer, and in January 2014, he was promoted to a senior vice president. Prior to joining us, he served in various positions in the assurance and advisory services practice at Ernst & Young LLP.

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

## **Table of Contents**

### ***PROPOSAL 1 ELECTION OF DIRECTORS***

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

The nominees for director are:

W. Larry Cash

John A. Clerico

James S. Ely III

John A. Fry

William Norris Jennings, M.D.

Julia B. North

Wayne T. Smith

H. Mitchell Watson, Jr.

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

### ***Required Vote***

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

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

### ***PROPOSAL 2 ADVISORY VOTE ON EXECUTIVE COMPENSATION***

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

As described in detail under the heading *Compensation Discussion and Analysis*, we seek to closely align the interests of our named executive officers with the interests of our stockholders. Our compensation programs are designed to retain and reward our named executive officers for

## Edgar Filing: COMMUNITY HEALTH SYSTEMS INC - Form DEF 14A

the achievement of short-term and long-term strategic and operational goals and the achievement of increased total shareholder return, while at the same time avoiding the encouragement of unnecessary or excessive risk-taking.

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

**Table of Contents**

Our executive compensation program is overseen by the Compensation Committee of our Board of Directors (which is wholly comprised of independent members of the Board of Directors) and is advised by an independent consultant, Mercer Human Resources Consulting, engaged by the Compensation Committee. The overall goal of our executive compensation program is to align total direct compensation at approximately the 50<sup>th</sup> percentile of the peer group companies.

Through the use of the tools described below, our Compensation Committee seeks to reward and retain executives based on their performance and future potential, while acknowledging that sufficient flexibility must be maintained to ensure that the overall philosophical intent of the executive compensation program is achieved. The tools currently used by the Company (as applied to each named executive officer) include:

Annual base salary that is competitive with the peer group companies (targeted for a 15% range +/- the median);

Annual target incentive cash compensation that is predominantly at risk, performance-based, and indexed to the attainment of the Company's growth objectives (combined with base salary, targeted for a 15% range +/- the 75th percentile of the peer group companies);

Longer-term (three-year vesting) incentive awards of stock-based compensation that are initially performance-based and, accordingly, are at risk and that further align the interests of executive management with maximization of long-term stockholder value; to achieve the overall objectives of the program, these awards are typically above the 25<sup>th</sup> percentile and below the median; and

Provision of longer range savings, retirement, and other benefits to encourage the retention of the most experienced and talented executives through their most productive and valuable years of employment service.

The Company considers and applies many governance best-practices in implementing its compensation programs. For example, all executives adhere to stock ownership guidelines, compensation is capped and allocated among components to avoid undue risk, and each of our executives is an at-will employee.

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

**Financial Performance Highlights**

**For the Year Ended December 31, 2013**

**(dollars in millions, except per share amounts)**

Admissions	654,945	Net Revenue	\$ 12,998
Adjusted Admissions	1,362,344	Adjusted EBITDA *	\$ 1,841
ER Visits	3,106,416	EPS *	\$ 2.40

\* Adjusted to exclude loss on early extinguishment of debt, impairment of long-lived assets, acquisition expenses related to HMA and government settlement and related cost reserves.

Please refer to the Company's Current Report on Form 8-K furnished to the SEC on February 18, 2014 and the Company's Annual Report on Form 10-K filed with the SEC on February 26, 2014 for a reconciliation of adjusted EBITDA to net cash provided by operating activities. Also included in the Company's Current Report on Form 8-K furnished to the SEC on February 18, 2014 is a reconciliation of income from continuing operations per share as reported with the adjustments described therein.

## Table of Contents

On January 27, 2014, the Company completed the merger transaction pursuant to which Health Management Associates, Inc., or HMA, became a wholly-owned subsidiary of the Company. Following this merger the Company became the largest provider of hospital health services as defined by the number of hospitals. We believe this was a compelling strategic acquisition for the following reasons:

- Unique opportunity to acquire a well-developed hospital system.
  - 71 facilities spread across attractive, non-urban and suburban markets.
  - Complementary geographic fit with hospitals located in existing states.
  - Extends and strengthens the Company's hospital and physician networks.

- Company has a proven track record acquiring 115 hospitals since 1997.
  - Successfully integrated Triad's \$5 billion revenue company.
  - Improved Triad's operating margin from 12% to 16%.
  - 94% of the Company's Senior executives helped to successfully integrate the Triad acquisition.

- Significant opportunity to improve HMA's operating performance by applying best practices, standardized systems and procedures.
  - HMA's 2013 EBITDA margin of 13% vs. 16% for each of 2010, 2011 and 2012.
  - Targeting over \$250 million of synergies over two years.

As a result of concerns regarding certain government investigations, our stock price at the end of 2011 did not reflect our operational performance for that year. This led to a failed say-on-pay vote in 2012. These events caused the Compensation Committee of our Board of Directors to act swiftly to make adjustments to executive compensation:

- First, the Compensation Committee withheld a significant portion of the non-financial component of the 2011 cash incentive compensation awards for each of the Chief Executive Officer, the Chief Financial Officer, and the other named executive officers.
- Second, the 2012 equity awards for each of the 2012 named executive officers were substantially reduced compared to the awards made in previous years; performance-based restricted stock awards were reduced by 50% to each such officer and stock option awards (which had already been reduced in prior years) were further reduced by 20%.
- Third, in August 2012, the Compensation Committee added a Total Shareholder Return Percentile Rank component to the existing target cash incentive compensation awards for our Chief Executive Officer (Wayne T. Smith) and Chief Financial Officer (W. Larry Cash). This component moved 20% of base compensation from existing targets for Continuing Operations EPS and Net Revenues (10% each) to create this new target. If the Company's rank fell below the 75th percentile of a specified group of healthcare facilities companies, then the ratable portion of the incentive compensation assigned to this target was withheld. This component was again incorporated into 2013 cash incentive compensation awards.
- Fourth, the named executive officers received no base salary increases and no increases in target cash incentive compensation awards in either 2012 or 2013; also beginning in 2012, total shareholder return was added as a metric to the non-financial component of the target cash incentive award plans for each named executive officer.

These adjustments to executive compensation are reflected in the 2013 compensation tables.

In addition, in response to stockholder concerns about the compensation peer groups used by the Compensation Committee, the business peer group was revised during the 2013 compensation cycle using more of the criteria utilized by key proxy vote advisory services. As a result of these changes, there is significantly greater overlap between our revised business peer group and the companies identified as our peer group by Institutional Shareholder Services, Inc. and by Glass, Lewis & Co., LLC. The Compensation Committee and the other members of the Board of Directors (including members of management) will continue to seek to ensure that executive compensation is properly aligned with stockholder return.

**Table of Contents**

The vote on this resolution is not intended to address any specific element of compensation; rather, the vote is intended to address stockholders concerns in this arena and relates to the compensation of our named executive officers, as described in this Proxy Statement. The vote is advisory, which means that the vote is not binding on the Company, our Board of Directors, or the Compensation Committee of the Board of Directors. To the extent there is any significant vote against our named executive officer compensation as disclosed in this Proxy Statement, the Compensation Committee will evaluate whether any actions are necessary to address the concerns of stockholders.

Accordingly, we ask our stockholders to vote on the following resolution at the Annual Meeting:

RESOLVED, that the compensation paid to the Company's named executive officers, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables, and narrative discussion, is hereby APPROVED.

***Required Vote***

The affirmative vote of a majority of the shares of Common Stock entitled to vote and present in person or represented by proxy at the Meeting is required to approve this Proposal 2. Abstentions will be considered a vote against this proposal and broker non-votes will have no effect on such matter since these votes will not be considered present and entitled to vote for this purpose.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE APPROVAL OF THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS, AS DISCLOSED IN THIS PROXY STATEMENT.**



## **Table of Contents**

### **EXECUTIVE COMPENSATION**

#### **Compensation Discussion and Analysis**

##### **Introduction**

As a leader in the hospital sector of the healthcare industry, the nation's largest and fastest growing domestic industry, the Company must ensure that it attracts and retains the leadership and managerial talent needed to sustain its position in this rapidly changing industry. To remain competitive in the Company's financial, capital and business markets, continued Company growth in revenue and profitability (growth in earnings per share) are paramount objectives of the Company's strategy. We believe these strategic imperatives are the fundamental points of alignment between stockholder value and the compensation of executive management. In recent years, stockholders have begun to focus on year-over-year stock price performance as a key measure of stockholder-executive compensation alignment. Accordingly, this element has been incorporated as a component in the incentive compensation plans for the Company's Chief Executive Officer and Chief Financial Officer.

Industry-wide, the hospital sector was challenged to meet its traditional performance and growth metrics and the Company did not perform to its projected expectations. At the same time expected future growth from the implementation of the Affordable Care Act must be the focus of the management team. Accordingly, during 2013, the Company moved forward with a large-scale acquisition (Health Management Associates, Inc.), which closed on January 27, 2014. The Compensation Committee was faced with the need to balance the compensation program that ensures that unmet performance objectives do not result in unmerited compensation payouts, but that executives will be rewarded when large-scale transformative changes occur, provided they are successful.

##### **Executive Summary**

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

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

Clawback policy;

Risk assessment of the Company's compensation programs;

No excise tax gross-ups for any new executives covered under the Company's Change-in-Control Severance Agreements;

Stock ownership guidelines for Company directors and officers (including the named executive officers); and

Including total shareholder return as an incentive compensation target and adjusting equity awards and salary levels for the Chief Executive Officer and Chief Financial Officer.

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

The Company's consistent performance and growth, even during periods of economic uncertainty and decline, have yielded the intended and desired results under our executive compensation program. However, we continue to adapt elements of the program to meet stockholder expectations. For 2013, the executive compensation program worked as intended and also gave the Compensation Committee the ability to

devise new targets in an evolving market.

## Table of Contents

Please see, *Management's Discussion and Analysis of Financial Condition and Results of Operations* in the Company's 2013 Annual Report on Form 10-K for more details about the Company's recent performance.

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

As a result of concerns regarding certain government investigations, our stock price at the end of 2011 did not reflect our operational performance for that year. This led to a failed say-on-pay vote in 2012. The events caused the Compensation Committee of our Board of Directors to act swiftly to make adjustments to executive compensation:

First, the Compensation Committee withheld a significant portion of the non-financial component of the 2011 cash incentive compensation awards for each of the Chief Executive Officer, the Chief Financial Officer, and the other named executive officers. Second, the 2012 equity awards for each of the 2012 named executive officers were substantially reduced compared to the awards made in previous years; performance-based restricted stock awards were reduced by 50% to each such officer and stock option awards (which had already been reduced in prior years) were further reduced by 20%.

Third, in August 2012, the Compensation Committee added a Total Shareholder Return Percentile Rank component to the existing target cash incentive compensation awards for our Chief Executive Officer (Wayne T. Smith) and Chief Financial Officer (W. Larry Cash). This component moved 20% of base compensation from existing targets for Continuing Operations EPS and Net Revenues (10% each) to create this new target. If the Company's rank fell below the 75th percentile of a specified group of healthcare companies (the TSR comparison group), then the ratable portion of the incentive compensation assigned to this target was withheld. This component was again incorporated into the 2013 cash incentive compensation awards.

Fourth, the named executive officers received no base salary increases and no increases in target cash incentive compensation awards in either 2012 or 2013; also beginning in 2012 and continuing during 2013, total shareholder return was added as a metric to the non-financial component of the target cash incentive award plans for each named executive officer.

The 2013 compensation decisions reflected the renewed determination of the Compensation Committee that compensation more closely align with stockholder expectations. Because the Company did not meet its performance objectives for revenue, adjusted EBITDA, or earnings per share, cash incentive compensation formulas drastically reduced compensation payouts for 2013, as compared to 2012. For 2013, the non-financial components of the incentive compensation awards were matched to their attainment of their non-financial objectives. The result was that for most of the Named Executive Officers (including the CEO and the CFO), 2013 incentive compensation payouts were approximately 50% of the 2012 payouts. Equity awards were revised in 2013 to eliminate stock options; performance-based restricted awards were adjusted upward to reflect the elimination of stock option awards. These adjustments to executive compensation are demonstrated in the 2013 compensation tables and summarized for Wayne T. Smith below:

**Table of Contents****Compensation Committee Action**

Wayne T. Smith, Chairman and Chief Executive Officer

	2013	2012	2011
Salary	\$ 1,400,000	\$ 1,400,000	\$ 1,400,000
Incentive Plan Compensation	2,058,000	4,200,000	3,945,200
Restricted Stock (1)	5,213,750	2,107,000	7,592,000
Stock Options (1)		319,200	479,500
<b>Total</b>	<b>\$ 8,671,750</b>	<b>\$ 8,026,200</b>	<b>\$ 13,416,700</b>

(1) The closing price of the Company's stock on the respective grant dates was: \$41.71 per share on February 27, 2013; \$21.07 per share on February 16, 2012 and \$37.96 per share on February 23, 2011. No options were granted in 2013. The increase in the value of the restricted stock compensation in 2013 compared to 2012 was primarily a result of a 98% increase in the closing price of the Company's stock between the February 2012 and February 2013 grant dates and not through a significant increase in the number of awards. The awards for both 2013 and 2012 were below the 25<sup>th</sup> percentile of the peer group (for the Chief Executive Officer).

During 2013, the Compensation Committee reviewed both the total shareholder return of the Company for the year and for the period prior to the announcement of the HMA acquisition. The Compensation committee determined to use the average shareholder return of the two measurements of 38.0% for 2013. Prior to the announcement of the HMA acquisition on July 30, 2013, the shareholder return was 48.3%. The 2013 full year shareholder return was 27.7%. From December 2011 through December 2013, the growth rate of the stock was 125.0%.

In addition, in response to stockholder concerns about the compensation peer groups previously used by the Compensation Committee, the business peer group was revised during the 2013 compensation cycle to reflect more of the criteria used by key proxy vote advisory services. As a result of these changes, there is significantly greater overlap between our revised business peer group and the companies identified as our peer group by Institutional Shareholder Services, Inc. and by Glass, Lewis & Co., LLC for the 2013 compensation cycle. The Compensation Committee and the other members of the Board of Directors (including members of management) will continue to seek to ensure that executive compensation is properly aligned with stockholder return.

**Stockholder Outreach Effort**

At our 2012 annual meeting in an advisory vote, our stockholders did not approve the compensation of our named executive officers for 2011. Since that time, we have conducted a stockholder outreach effort designed to obtain the views of our largest stockholders on executive compensation matters through both telephone calls and private discussions. This outreach effort generally targets our 15 largest stockholders. In reviewing our executive compensation practices, we also took into consideration certain proxy advisory services' reports as well as the recommendations of our independent compensation consultant, Mercer Human Resources Consulting. As a result we reviewed all feedback throughout this process and believe that we have incorporated many of our stockholders' perspectives into our executive compensation practices. For example, our stockholders suggested that management's compensation should be more directly aligned with that of the stockholders. We have added a total shareholder return component to our annual incentive program to address that specific issue. Additionally, a number of stockholders suggested that the Company should eliminate the use of two separate peer groups. Based on discussions with our compensation consultant as well as this stockholder feedback, we have moved to a single, revised peer group to increase the representation of other types of healthcare companies in our business peer group and eliminated the second peer group. All of these changes were made with the full support and concurrence of our Compensation Committee. Our efforts were rewarded with greatly improved stockholder support for our executive compensation program. At the 2013 Annual Meeting of

## **Table of Contents**

Stockholders, the advisory vote returned 82.0% in favor of the executive compensation. We continued to engage with our stockholders on this topic during 2013, without additional suggestions for improvement.

We are committed to a continuing dialogue between stockholders and the Company to fully understand and consider stockholder concerns. For 2012 and 2013 no salary increases were given to our named executive officers, our compensation peer groups were reconfigured to better align them with the selections made by the leading proxy advisory services, and total shareholder return has been added as a metric to our cash incentive compensation plans.

The changes instituted in 2012 have been continued in 2013 and additional changes have been made. For 2013, as reported in our Current Report on Form 8-K filed on March 1, 2013, the Company believes 2013 compensation was more closely aligned with stockholder return. The changes in the peer group composition had an impact on the alignment of executive cash compensation to our peer group targets. Accordingly, no pay increases were given to our named executive officers, and there was no increase in opportunity within the cash incentive compensation plans for each of these executives. We have also eliminated stock options from our long-term incentive compensation plans; thus, all named executive officer equity awards are in the form of performance-based restricted stock.

We continue to evaluate our executive compensation program in light of governance best practices, regulatory requirements, economic and industry factors, and competitive considerations and make changes as warranted.

### **Oversight of the Executive Compensation Program**

The Compensation Committee of the Board of Directors oversees the Company's executive compensation program. The current members of the Compensation Committee are John A. Clerico, Julia B. North, and H. Mitchell Watson, Jr., who serves as the Compensation Committee's chair. Ms. North and Mr. Watson have served on the Compensation Committee since 2004 and Mr. Clerico joined the Compensation Committee in 2008. Each of the Compensation Committee members is fully independent of management and has never served as an employee or officer of the Company or its subsidiaries. In addition to meeting the independence requirements of the NYSE and the SEC (for Section 16(b) purposes), each member of the Compensation Committee also meets the independence requirements of Section 162(m) of the Internal Revenue Code (IRC).

### **Executive Compensation Philosophy and Core Principles**

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

The core principles applied by the Company in implementing this philosophy are to provide a mix of compensation vehicles that generates a compensation package that is competitive with appropriate peer groups, rewards in both short-term and long-term perspectives the attainment of performance and growth objectives, aligns the interests of executive management with stockholders, and retains valuable executive talent. While consistency of application of these principles is a goal, sufficient flexibility is maintained to ensure that the overall philosophical intent of the executive compensation program is achieved.

The tools used by the Company during 2013 included:

Annual cash and other compensation that are competitive with the selected peer group companies (see below for our discussion of our peer group);

Annual target incentive cash compensation that is predominantly at risk, performance-based, and indexed to the attainment of the Company's growth objectives;

---

**Table of Contents**

Longer-term incentive awards of stock-based compensation that are predominately performance-based and, accordingly, are at risk and that further align the interests of executive management with maximization of long-term stockholder value; and

Provision of longer range savings, retirement, and other benefits, including appropriate perquisites, that encourage the retention of the most experienced and talented executives through their most productive and valuable years of employment service.

The current executive compensation policy seeks to achieve the following targets:

Total direct compensation, including the value of long-term incentives, is targeted to be approximately the 50th percentile for the appropriate peer group executive and consists of three components:

Base salary compensation for each executive is targeted to be within an approximate range of 15% of the 50th percentile for the appropriate peer group executive;

Base salary plus target payout of annual cash incentive award plan for each executive is targeted to be within an approximate range of 15% of the 75th percentile for the appropriate peer group executive at the maximum level of performance; and

Long-term incentive awards in the form of stock based awards, that are currently within the range of the 25<sup>th</sup> percentile and the 50<sup>th</sup> percentile; and

The allocation of total direct compensation among the at-risk elements of the compensation program utilized by the Company to provide an overall compensation structure that is balanced and competitive.

The Company believes that generally adhering to this policy, with the flexibility to make upward or downward adjustments as needed for individual or unusual market fluctuations or extraordinary performance considerations, provides consistency and predictability to the Company's executives and alignment of interests and transparency to the Company's investors. Variations in pay levels for executives are based on competition, level of responsibility and performance. Peer group comparisons are always hampered by the unavailability of timely information at the time that compensation decisions are made. Actual cash compensation for the named executive officers fell below the established targets for the cash compensation elements and in most cases were approximately 50% of the cash incentive awards for 2012. This result reflects the Company's failure to meet all of its performance objectives in 2013.

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

The executive compensation process is implemented in annual cycles, commencing in the fall of each year with a compensation survey and study prepared by the Compensation Committee's consultant, Mercer Human Resources Consulting. The consultant's work includes the identification and review of peer group compensation data by utilizing the most recent proxy statement data, other publicly available data (i.e., current reports on Form 8-K and other SEC filed data) and the consulting group's own proprietary database of executive compensation information. The peer group data is analyzed and the competitiveness of the compensation paid to the Company's named executive officers is evaluated based on direct compensation and relative performance metrics, and an annual growth rate factor (because the available data is approximately one year out-of-date) is computed to formulate proposed adjustments for the Company's next fiscal year. Management and the Compensation Committee evaluate the information and make joint recommendations for any proposed adjustments to executive compensation levels and elements. The process is a collaborative one, involving the Compensation Committee and its consultant, the Company's Chief Executive Officer,



---

## **Table of Contents**

Chief Financial Officer and human resources executives, except that these officers or human resources executives are not involved in setting their own compensation. In February of each year, recommendations are reviewed by the Compensation Committee in connection with the determination of which incentive compensation awards and other performance-based compensation awards for the prior year were attained. This determination coincides with the completion of the Company's annual financial statement audit and release of annual earnings. After earnings for the prior year are released to the public in the third or fourth week of February, final compensation adjustments are made by the Compensation Committee and reviewed and approved by the Board of Directors. At that time, base salaries are adjusted, prior-year incentive payments are made, then current-year target objectives are established, and equity awards are granted.

### **Compensation Clawback Policy**

In February 2009, the Board of Directors adopted a policy requiring that, in certain circumstances, the elected officers of the Company reimburse the Company for the amount and/or value of performance-based cash, stock or equity-based awards received by such elected officers, and/or gains realized by such elected officers in connection with these awards. The circumstances triggering this recoupment require a determination by the Board of Directors, or an appropriate committee of the Board of Directors, that fraud by an elected officer materially contributed to the Company having to restate all or a portion of its financial statements. The Board of Directors or the appropriate committee is granted the right to determine, in its discretion, the action necessary to remedy the misconduct. In determining what remedies to pursue, the Board or committee will take into account all relevant factors, including consideration of fairness and equity, and may require reimbursement to the extent the value transferred to the elected officer can be reasonably attributed to the reduction in the restated financial statements and the amount of the award would have been lower than the amount actually paid, granted or realized. The Company intends to impose such additional recoupment obligations as are necessary to comply with applicable laws.

### **Risk Assessment of Executive Compensation**

The Compensation Committee, with management and the Compensation Committee's compensation consultant, conducted a risk assessment of the Company's executive compensation programs in 2011. As part of this assessment, the Compensation Committee reviewed the Company's compensation programs for certain design features identified by the Compensation Committee and its advisors as having the potential to encourage excessive risk-taking, and considered the Company's compensation programs in light of the Company's key enterprise and business strategy risks. The Compensation Committee noted that the Company's compensation programs are designed so that they do not include compensation mix overly weighted toward annual incentives, highly leveraged short-term incentives, uncapped or all or nothing bonus payouts or unreasonable performance goals. The Compensation Committee also noted several design features of the Company's cash and equity incentive programs that reduce the likelihood of excessive risk-taking, including the use of reasonably obtainable and balanced performance metrics, maximum payouts at levels deemed appropriate, a carefully considered peer group to assure the Company's compensation practices are measured and appropriately competitive, and significant long-term incentives that promote longer-term goals and reward sustainable stock, financial and operating performance, especially when combined with the Company's executive stock ownership guidelines. Additionally, the Company's recently adopted executive compensation clawback policy allows the Company to recover bonus payments and certain equity awards under certain circumstances, and compliance and ethical behaviors of the Company's executive officers are factors considered in all performance and bonus assessments. Based on its assessment, the Compensation Committee believes that the Company's compensation programs do not motivate risk-taking that could reasonably be expected to have a materially adverse effect on the Company. These principles are reviewed annually as a part of the overall enterprise risk assessment.

### **Employment Contracts; Change in Control Severance Agreements**

None of the Company's executive officers have a written employment agreement with the Company or any of its subsidiaries. In February 2007, on the recommendation of the Compensation Committee, the Board approved Change in Control Severance Agreements (the "CIC Agreements") among the Company, Community Health Systems Professional Services Corporation (an indirect, wholly-owned subsidiary of the Company and the employer of each of our executives), and each officer of the Company, including each of the named executive officers (collectively, the "Covered Executives"), effective as of March 1, 2007. The CIC Agreements are considered "double trigger" agreements and require both the occurrence of a change in control of the Company and a termination of employment for any benefits to become payable. Newly appointed officers of the Company have



**Table of Contents**

also entered into CIC Agreements, but since 2009 new agreements do not contain any tax gross-up provisions.

Effective as of December 31, 2008, an Amended and Restated Change in Control Severance Agreement was entered into with each of the Covered Executives (the A&R CIC Agreement). The A&R CIC Agreements provide for certain compensation and benefits in the event of termination of a Covered Executive's employment during the period following a change in control of the Company (as defined in the A&R CIC Agreements), (A) by the Company, other than as a result of the Covered Executive's death or disability within thirty-six (36) months of the change in control or (B) by the Covered Executive, upon the happening of certain good reason events within twenty-four (24) months of the change in control, including (i) certain changes in the Covered Executive's title, position, responsibilities or duties, (ii) a reduction in the Covered Executive's base salary, (iii) certain changes in the Covered Executive's principal location of work, (iv) the failure of the Company to perform its obligations under or to continue in effect any material compensation or benefit plan or (v) certain other employer actions that would cause the Covered Executive to lose the benefits of the A&R CIC Agreement. The thirty-six (36) and twenty-four (24) month time periods described in the preceding sentence apply to the A&R CIC Agreements for the Company's Chief Executive Officer, the Presidents, the Executive Vice Presidents, Division Presidents and each Senior Vice President. For the A&R CIC Agreements with each Vice President of the Company, the applicable time periods are twenty-four (24) and twelve (12) months, respectively.

Compensation and benefits payable under the A&R CIC Agreements include, in the event of a qualifying termination of employment, a lump sum payment equal to the sum of (i) unpaid base pay, (ii) accrued but unused paid vacation or sick pay and unreimbursed business expenses, (iii) any other compensation or benefits in accordance with the terms of the Company's existing plans and programs, (iv) a pro rata portion of incentive bonus that would have been earned by the Covered Executive for the year of termination based on actual performance and (v) a lump sum equal to the sum of three (3) times (two (2) times, in the case of each Vice President of the Company) the sum of base salary and the higher of (A) the highest incentive bonus earned during any of the three (3) fiscal years prior to the fiscal year in which the Covered Executive's termination of employment occurs or, if greater, the three fiscal years prior to the fiscal year in which change in control occurs and (B) the target incentive bonus for the fiscal year in which the Covered Executive's termination of employment occurs assuming the performance objectives were met in full. The Covered Executives will also be entitled to continuation of certain health and welfare benefits for thirty-six (36) months following termination (twenty-four (24) months in the case of each Vice President) and reimbursement of up to \$25,000 for outplacement counseling and related benefits.

In addition, the Covered Executives (with agreements entered into before 2009) will be entitled to receive certain gross up payments to offset any excise tax imposed by Section 4999 of the IRC on any payment or distribution by the Company to or for their benefit, including under any stock option, restricted stock or other agreement, plan or program; provided, however, that if a reduction in such payments or distributions by 10% or less would cause no excise tax to be payable, then the payments and distributions to the Covered Executive will be reduced by that amount and no excise tax gross up payment will be paid.

The Company's executive officers are employees of the Company's indirect, wholly-owned subsidiary, Community Health Systems Professional Services Corporation and hold the same elected officer titles with this entity as they do with the Company.

**Components of the Executive Compensation Program**

In February 2013 (in accordance with its annual review process), the Compensation Committee approved management's recommendations for compensation levels, the attainment of performance objectives for performance-based cash incentive compensation awards for 2012, the attainment of performance objectives for performance-based restricted stock awarded in 2012, performance-based incentive compensation targets for 2013, and equity awards (stock options and performance-based restricted stock awards) for each of the named executive officers.

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

For the 2009 compensation cycle through the 2012 compensation cycle, the business peer group included five (5) hospital/provider companies whose stock or debt securities are publicly traded and

**Table of Contents**

five (5) health insurance/managed care providers whose stock is publicly traded. The ten (10) companies that were included in the 2009 through 2012 business peer group analysis (the business peer group) are:

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

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

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

Overall, our Compensation Committee believes that this revised business peer group reflects the competitive market for talent for our key executives. In addition, this revised group addressed some of the concerns expressed by our stockholders as well as key proxy vote advisory services during the 2012 proxy season.

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

**Business Peer Group Companies (for 2013 Compensation Cycle)**

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

For Mr. Smith, the Company's Chairman and Chief Executive Officer, the Chief Executive Officer position at the business peer group companies was utilized for comparison purposes. For the other named executive officers, because there are no consistent, direct comparative positions at the business peer group companies, the following comparisons were used: Mr. Cash, the Company's President of Financial Services and Chief Financial Officer, was compared to the second most highly compensated officer at all business peer group companies; for the next three most highly compensated named executive officers of the Company, the average of the business peer group's third, fourth and fifth most highly compensated named executive officers' compensation figures were utilized to form the comparison. These groupings have been used consistently over the years for comparison with the selected peer groups.

***Base Salary***

Base salary, as its name implies, is the basic element of the employment relationship, designed to compensate the executive for his or her day-to-day performance of duties. The amount of base salary distinguishes individuals' level and responsibility within the organization. Exceptional performance and contribution to the growth and greater success of the organization are rewarded through other compensation elements, and for this reason, the benchmark target for base salary is generally set to be within a range of 15% of the 50th percentile of the selected business peer group executive.

## Table of Contents

Utilizing the benchmarking survey analyses described above, the base salaries of the Chief Executive Officer and the other named executive officers were reviewed. Due in part to the 2011 stock price performance and the 2013 changes in peer group composition for 2012 and 2013, the base salaries for each of our named executive officers remained at their 2011 levels.

### *Cash Incentive Compensation*

Cash incentive compensation awards to the named executive officers are made pursuant to the Company's 2004 Employee Performance Incentive Plan (initially approved by the stockholders in 2004 and subsequently, as amended and restated, approved in 2009). This non-equity incentive compensation plan provides for a wide range of potential awards and is utilized as a compensation vehicle across the Company. Cash incentive compensation awards are intended to align employees' interests with the goals and strategic initiatives established by the Company and to reward employees for their contributions during the period to which the incentive award relates. Cash incentive compensation awards' targets are typically expressed as a percentage of the individual's base salary.

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

Cash incentive compensation awards are at risk as they are subject to the attainment of specific goals. For each named executive officer, the individual's target plan includes two or more budgeted goals, and for each goal, different award amounts may be earned depending on the level at which that goal is attained, (i.e., an underachievement and overachievement opportunity). The Company's goals based on budgeted operating performance correspond to its guidance to investors as presented in February of each year. The risk of not attaining the goals is substantial. For 2013, the Company's goals were as follows:

The EBITDA target was \$2.000 billion (with a minimum of \$1.800 billion, which would have yielded 50% of bonus amount linked to this objective),

The Continuing Operations EPS target was \$3.60 per share (with a minimum of \$3.35, which would have yielded 50% of bonus amount linked to this objective), and

The Net Revenues target was \$13.500 billion (with a minimum of \$12.150 billion, which would have yielded 50% of the bonus amount linked to this objective).

Each goal target is scaled to achieve a partial award for less than targeted performance. For example, for each 1% decrease in the Company's EBITDA achievement, the award percentage amount was reduced by 5%, so that at 90% of target attainment, 50% of the specified award percentage would have been paid. However, no awards are paid when the Company's EBITDA achievement is below 90% of target attainment. On the other hand, if the target for Company EBITDA or net revenues had been exceeded, each named executive officer would have received an additional 1% of their base salary for each 1% over the target, and if the target for the Company's continuing operations EPS, had been exceeded, each named executive officer would have received an additional 1% of their base salary for each \$0.01 over the target, up to a plan maximum specified for each named executive officer. Target amounts may be adjusted for significant changes in acquisition and divestiture assumptions. No such adjustments were made in 2013. Additional division-specific goals are based upon certain financial and operational results of the hospitals within each respective division.

**Table of Contents**

For 2013, the targeted goals were met as follows: Company EBITDA 92%; Continuing Operations EPS 67%; and Net Revenue 96%. Individual Division President's goal attainment varied depending upon the operations within the applicable division as set forth in the table below.

As stated above, for 2013, the cash incentive opportunities for our Chief Executive Officer and our Chief Financial Officer included a component for Total Shareholder Return Percentile Rank in accordance with the following table:

TSR Percentile Rank	Total Percent Opportunity (as a percentage of base salary)
Above 75th	20%
60 <sup>th</sup> <del>75</del>	15%
50 <sup>th</sup> <del>50</del>	10%
40 <sup>th</sup> <del>40</del>	5%
Below 40 <sup>th</sup>	0%

Total Shareholder Return Percentile Rank means the relative growth of the Company's price per share of Common Stock compared to the TSR comparison group. The TSR comparison group consists of the following companies: HCA Holdings, Inc., Tenet Healthcare Corporation, Universal Health Services, Inc., Kindred Healthcare, Inc., Health Management Associates, Inc., LifePoint Hospitals, Inc., and HealthSouth Corporation; this comparison group includes healthcare companies (with 2012 revenues greater than \$2 billion).

For 2013, the Company's Total Shareholder percentile rank was between the 40<sup>th</sup> and 49<sup>th</sup> percentile, and accordingly each of Messrs. Smith and Cash received only 5% of their respective base salaries for this component.

With respect to each of the named executive officers, who have been designated by the Compensation Committee as covered employees under this plan, their 2013 awards, which are administered solely by the Compensation Committee, are limited to awards which will be treated as qualified performance-based compensation under Section 162(m) of the IRC. Awards to other employees, including the other executive officers, are administered by management; however, the targets and awards are approved and ratified by the Compensation Committee. Awards to executive officers who are not designated as covered employees may be discretionary in nature.

For 2013, for each component of the non-equity incentive plan compensation, the targeted award and attained award, expressed as a percentage of base salary, for each named executive officer along with the maximum incentive award attainable are set forth in the table below:

**Table of Contents**

		Non-equity Incentive Plan Compensation (expressed as a percentage of base salary)	
		Target	Attainment
Wayne T. Smith, Chairman and Chief Executive Officer	Company EBITDA	175.0%	105.0%
	Company Continuing Operations EPS	55.0%	0.0%
	Company Net Revenues	15.0%	12.0%
	Total Shareholder Return	20.0%	5.0%
	Target	265.0%	122.0%
	Performance Improvement Awarded	25.0%	25.0%
	Overachievement of Company goals	-	0.0%
	Total Achievement	-	147.0%
	Total Achievement Limited to Maximum Award Attainable	300.0%	147.0%
W. Larry Cash, President of Financial Services	Company EBITDA	100.0%	60.0%
	Company Continuing Operations EPS	35.0%	0.0%
	Company Net Revenues	10.0%	8.0%
	Total Shareholder Return	20.0%	5.0%
	Target	165.0%	73.0%
	Performance Improvement Awarded	25.0%	25.0%
	Overachievement of Company goals	-	0.0%
	Total Achievement	-	98.0%
	Total Achievement Limited to Maximum Award Attainable	200.0%	98.0%
William S. Hussey President, Division Operations	Division Hospital EBITDA	70.0%	56.0%
	Company EBITDA	20.0%	12.0%
	Company Continuing Operations EPS	15.0%	0.0%
	Division Hospital EBITDA Margin Improvement	5.0%	5.0%
	Division Hospital Revenue	5.0%	0.0%
	Division Hospital Same-Store Adjusted Admissions Growth	5.0%	0.0%
	Clinic Operating Results	10.0%	10.0%
	Target	130.0%	83.0%
	Performance Improvement Awarded	10.0%	10.0%
	Overachievement of Company goals	-	0.0%
	Total Achievement	-	93.0%
Total Achievement Limited to Maximum Award Attainable	150.0%	93.0%	
David L. Miller President and Chief Operating Officer	Division Hospital EBITDA	70.0%	42.0%
	Company EBITDA	20.0%	12.0%
	Company Continuing Operations EPS	15.0%	0.0%
	Division Hospital EBITDA Margin Improvement	5.0%	0.0%

Edgar Filing: COMMUNITY HEALTH SYSTEMS INC - Form DEF 14A

Division Hospital Revenue	5.0%	0.0%
Division Hospital Same-Store Adjusted Admissions Growth	5.0%	0.0%
Clinic Operating Results	10.0%	10.0%
Target	130.0%	64.0%
Performance Improvement Awarded	10.0%	9.0%
Overachievement of Company goals	-	0.0%
Total Achievement	-	73.0%
Total Achievement Limited to Maximum Award Attainable	150.0%	73.0%

Thomas D. Miller President, Division Operations	Division Hospital EBITDA	70.0%	42.0%
	Company EBITDA	20.0%	12.0%
	Company Continuing Operations EPS	15.0%	0.0%
	Division Hospital EBITDA Margin Improvement	5.0%	0.0%
	Division Hospital Revenue	5.0%	0.0%
	Division Hospital Same-Store Adjusted Admissions Growth	5.0%	0.0%
	Clinic Operating Results	10.0%	9.4%
	Target	130.0%	63.4%
	Performance Improvement Awarded	10.0%	9.0%
	Overachievement of Company goals	-	0.0%
	Total Achievement	-	72.4%
	Total Achievement Limited to Maximum Award Attainable	150.0%	72.4%

## **Table of Contents**

### ***Long-term Incentives***

Equity awards are designed to reward the executives for their longer-term contributions to the success and growth of the Company and are directly linked to maximizing stockholder value. They also serve as a key retention tool, bridging annual base salary and incentive compensation payments to retirement and other end-of-service compensation benefits. Long-term incentives comprise a very important part of the Company's executive compensation program.

Equity-based incentive awards are made pursuant to the Company's 2009 Stock Option and Award Plan, as amended and restated in 2013. This plan provides for a wide variety of stock-based compensation awards, including incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, performance awards and other share-based awards. The Company has only made awards in the form of non-qualified stock options and restricted stock, as these types of awards are most consistently used by the Company's peer group and are thus deemed to provide the most competitive compensation element for long-term incentive compensation.

The Company believes annual grants that create an appropriate (i.e., market competitive) mix of compensation elements more directly and effectively align the interests of management with those of stockholders. Under the Company's compensation philosophy, all grants of both non-qualified stock options and restricted stock awards vest in one-third increments on each of the first three anniversary dates of the grant date, which further serves to align this compensation program element with the interests of investors. The Compensation Committee reviews and adjusts annually the size and mix of award types. The named executive officers' restricted stock awards include a component of qualified performance-based compensation; these awards are forfeited in their entirety if the performance measures for the relevant calendar year are not attained. To the extent that performance measures for the grants in a given year are attained, such grants are also subject to time-based restrictions, which lapse in one-third increments on each of the first three anniversaries of the applicable grant date.

The 2013 performance-based restricted stock awards to the named executive officers were subject to the same type of performance criteria as were the 2012 and prior year awards; they require the satisfaction of one of two performance measures, either 75% of the low-end target range of 2013 earnings per share from continuing operations, or the attainment of 90% of the 2013 net operating revenue low-end target range, both as projected in February 2013. These awards would have been forfeited in their entirety if neither target was attained, but if either target was attained, then the performance-based criteria would have been met and the awards' time-based restrictions would lapse in one-third increments on each of the first three anniversary dates of the grants.

In 2013, the Compensation Committee eliminated the use of stock options for long-term incentives. The restricted stock awards for 2013, which had been reduced in 2012, were adjusted to account for the elimination of stock options.

On March 3, 2014, we filed a Current Report on Form 8-K that reported the base compensation, incentive cash compensation plans (unchanged) and stock awards (performance-based restricted stock awards and special performance-based restricted stock awards that vest only if the Company achieves certain cost savings ( synergies ) from the HMA merger transaction).

In 2013, the Company amended and restated the 2009 Stock Option and Award Plan to increase the number of plan shares available for award by 3,000,000, to include residual shares (both then unissued and any shares that are or may be forfeited and returned) from the Community Health Systems, Inc. 2000 Stock Option and Award Plan, as amended and restated, and to include provisions recommended by governance organizations and proxy advisory services as best practices for such plans. No further shares will be awarded under the 2000 Stock Option and Award Plan. Awards previously made under the 2000 Stock Option and Award Plan remain outstanding in accordance with the terms of the 2000 Stock Option and Award Plan and the relevant grant agreement. The stockholders approved these stock plan amendments at the 2013 Annual Meeting of Stockholders. On March 19, 2014, the Company amended and restated the 2009 Stock Option and Award Plan to increase the number of plan shares available for award by 4,000,000.

---

## **Table of Contents**

### ***Benefits***

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

### ***Retirement and Deferred Compensation Benefits***

The Company's named executive officers also participate in executive compensation arrangements available only to specified officers of the Company and certain key employees of its subsidiaries. These plans include the Supplemental Executive Retirement Plan (the SERP), the Supplemental 401(k) Plan and the Deferred Compensation Plan, each of which is a non-qualified plan under the IRC. The benefits under these plans are made available to the named executive officers to encourage and reward their continued service through their most productive years.

The provision of a retirement benefit is necessary to remain competitive with the Company's business peer group, and is thus an important element for the recruitment and retention of executives. Effective January 1, 2003, while the Company's stock ownership and the Board of Directors were controlled by affiliates of Forstmann Little & Co., the Company adopted the SERP for the benefit of our officers and key employees of our subsidiaries. This plan is a non-contributory non-qualified defined benefit plan that provides for the payment of benefits from the general funds of the Company. The Compensation Committee of our Board of Directors administers this plan and all determinations and decisions made by the Compensation Committee are final, conclusive and binding upon all participants. In particular, the defined benefit provided under the SERP is intended to supplement the incentives provided by the other elements of the executive compensation program, for which the maximum provision of benefits is limited to three years.

The SERP generally provides that, when a participant retires after his or her normal retirement date (age 65), he or she will be entitled to an annual retirement benefit equal to (i) the participant's Annual Retirement Benefit, reduced by (ii) the sum of the actuarial equivalent of the participant's monthly amount of Social Security old age and survivor disability insurance benefits payable to the participant commencing at his or her unreduced Social Security retirement age (the Social Security Benefit).

For this purpose, the Annual Retirement Benefit means an amount equal to the average of the last five full years of service preceding the participant's termination of employment, then multiplied by the lesser of (i) 60% or (ii) a percentage equal to 2% multiplied by the participant's years of service. Benefits are paid in a single lump sum. The benefit is reduced for the Social Security Benefit. Employees who retire with fewer than 25 years of service receive a reduced benefit. Generally, named executive officers receive one year of credited service for each year of actual service. In March 2004, the then Compensation Committee of the Board of Directors, in an effort to achieve peer pay equality using a mechanism that would also maximize retention, caused the SERP to be amended to credit both Mr. Smith and Mr. Cash with two years of service for each year of actual service. This change occurred at a time when the Company was controlled by affiliates of Forstmann Little & Co. (through the ownership of greater than 46,000,000 shares of the Company's Common Stock) and all members of the Board of Directors and the Compensation Committee were nominated by Forstmann Little & Co. None of the Forstmann Little & Co. affiliates continued to serve on the Board of Directors or its committees following the sale of their position in the Company during 2004. In 2008, the Compensation Committee and the Board voted to amend the SERP to terminate this practice after 25 years of service had been credited. Since reaching 25 years of credited service, Mr. Smith and Mr. Cash have each received one year of credited service for each year of actual service; no additional years of service will be credited once the maximum (30 years) has been reached.

In the event of a change in control of the Company, all participants who have been credited with five or more years of service will be credited with an additional three years of service (not to exceed the maximum of 30 years of service) for purposes of determining the benefit. In addition, the benefit accrued by any such participant will become fully vested and be paid out as soon as administratively feasible in a single lump sum payment following such change in control. Upon such payment to all participants, the SERP will terminate.

The Company's named executive officers are also eligible to participate in and contribute to the Company's non-qualified Deferred Compensation Plan. Employees' voluntary contributions to this plan are tax deferred, but are subject to the claims of the general creditors of the Company. A separate



---

**Table of Contents**

supplemental 401(K) plan also exists, but employees are no longer eligible to contribute additional amounts to the non-qualified Supplemental 401(k) Plan. The individual asset balances remaining in this plan are eligible for investment earnings to the named executive officers and employees. These plans do not play a significant role in the Company's executive compensation program. Effective for 2009, no Company contributions are made to the Deferred Compensation Plan and the named executive officers are limited to the matching provisions of the tax-qualified 401(k) plan.

***Perquisites***

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

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

The Company operates aircraft to facilitate the operation of its business. The Board of Directors has adopted a policy that requires the Chief Executive Officer to use the Company's aircraft for both his business and personal travel. From time to time, the other named executive officers are also permitted to use the Company's aircraft for their personal use. The incremental cost of personal air travel attributable to each named executive officer's personal aircraft usage has been included in the Summary Compensation table below and is taxed to the executive without gross-up based on Internal Revenue Service (IRS) guidelines.

***Termination of Service and Severance Arrangements***

The Company's severance policy provides that Messrs. Smith and Cash are entitled to receive twenty-four (24) months of their base salary (the other named executive officers are entitled to receive twelve (12) months of their then base salary) upon a termination without cause. In addition, upon a termination without cause, each of the named executive officers would be entitled to receive a pro-rated portion of their cash incentive compensation for the year of termination (based on actual results, when determined) and under their restricted stock award agreements, the lapse schedule is fully accelerated. Upon termination, the named executive officers are entitled to continuation health insurance coverage under the Consolidated Omnibus Budget Reconciliation Act by so electing and paying the then active employee premium amount. The period of this benefit is equal to the number of months of severance payment, i.e., twenty-four (24) months for Messrs. Smith and Cash and twelve (12) months for the other named executive officers.

As described above, each of the named executive officers is party to an A&R CIC Agreement, which provides benefits only upon both a change in control of the Company and qualifying termination of employment. In the event that a named executive officer is entitled to receive payment pursuant to his or her A&R CIC Agreement, that executive officer will not be eligible to participate in the Company's severance policy.

In addition to the benefits payable under the life insurance policy or the long-term disability policy described above, in the event a named executive officer dies or is permanently disabled while in the employ of the Company, vesting is fully accelerated for all grants under the 2000 Stock Option and Award Plan and the 2009 Stock Option and Award Plan.

***Additional Executive Compensation Policies***

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

**Table of Contents**

	<b>Value of Common Stock Owned</b>
<b>Position with the Company</b>	
Chairman/Chief Executive Officer	5.0x
Non-Management Members of the Board of Directors	5.0x
Presidents/Executive Vice Presidents	3.0x
Division Presidents and Other Officers named in the Proxy	3.0x
Other Officers above Vice President	1.5x
Vice Presidents	1.0x

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

Stock that counts towards satisfaction of the Company's Stock Ownership Guidelines includes: (i) Common Stock held outright by the participant or his or her immediate family members living in the same household; (ii) restricted stock issued and held as part of an executive's or director's long-term compensation, whether or not vested; (iii) Common Stock underlying vested Community Health Systems, Inc. stock options; and (iv) Common Stock acquired on stock option exercises that the participant continues to hold. The Governance and Nominating Committee of the Board of Directors reviews each participant's progress and compliance with the applicable guidelines and may grant any hardship waivers or exceptions (e.g., in the event of a divorce) as it deems necessary and appropriate. All officers and directors were in compliance with the Stock Ownership Guidelines as of December 31, 2013.

***Prohibition on Pledging and Speculative Stock Transactions***

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

**Tax Considerations**

Section 162(m) of the IRC limits the Company's ability to deduct certain compensation in excess of \$1 million paid to the Company's Chief Executive Officer and to certain of the Company's other named executive officers. This limitation does not apply to compensation that qualifies under applicable regulations as performance-based. The Company aims to design the performance-based compensation paid to its named executive officers so that it will satisfy the requirements for deductibility under Section 162(m). The Compensation Committee considers Section 162(m) when making compensation decisions, but other considerations, such as providing the Company's named executive officers with competitive and adequate incentives to remain with and increase the Company's business operations, financial performance and prospects, as well as rewarding extraordinary contributions, also significantly factor into the Compensation Committee's decisions. The Compensation Committee has and expects to continue to authorize payment of compensation to the Company's named executive officers outside the deductibility limitation of Section 162(m) under certain circumstances.

**Table of Contents****Financial Accounting Standards Board Accounting Standards Codification Topic 718 ( ASC 718 )**

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

**Executive Compensation Tables****Summary Compensation Table**

The following table includes information regarding our named executive officers' total compensation earned during the years ended December 31, 2013, 2012 and 2011. This table is prepared in accordance with SEC regulations and does not reflect the actual value of any stock-based compensation that might be realized by any executive.

Name and Position	Year	Salary (\$)	Bonus (\$)	Plan Based Awards		Change in Pension Value and		All Other Compensation (\$)	Total Compensation (\$)
				Restricted Stock Awards (\$)	Option Awards (\$)	Non-equity Incentive Plan Compensation (\$)	Nonqualified Deferred Compensation Earnings (\$)		
Wayne T. Smith Chairman of the Board and Chief Executive Officer	2013	1,400,000	-	5,213,750	-	2,058,000	-	163,972	8,835,772
	2012	1,400,000	-	2,107,000	319,200	4,200,000	8,994,615	240,374	17,261,189
	2011	1,400,000	-	7,592,000	479,500	3,945,200	8,026,359	141,435	21,584,494
W. Larry Cash President of Financial Services and Chief Financial Officer	2013	750,000	-	2,085,500	-	735,000	410,992	68,341	4,049,833
	2012	750,000	-	842,800	198,200	1,500,000	4,111,870	100,258	7,503,128
	2011	750,000	-	3,036,800	283,000	1,395,000	3,199,292	65,206	8,729,298
William S. Hussey President - Division Operations	2013	612,000	-	1,042,750	-	569,160	325,099	28,819	2,577,828
	2012	612,000	-	421,400	79,280	709,920	1,212,405	30,540	3,065,545
	2011	612,000	-	1,518,400	113,200	858,636	1,024,825	30,365	4,177,426
				20,000					
David L. Miller President and Chief Operating Officer	2013	612,000	50,000	1,042,750	-	446,760	166,309	27,303	2,345,122
	2012	612,000	-	421,400	79,280	810,900	1,896,990	43,628	3,864,198
	2011	612,000	-	1,518,400	113,200	853,740	1,512,965	28,453	4,638,758
Thomas D. Miller President - Division Operations	2013	612,000	-	1,042,750	-	442,966	281,979	22,865	2,402,560
	2012	612,000	50,000	421,400	79,280	826,200	656,773	36,340	2,681,993
	2011	612,000	-	1,518,400	113,200	813,960	471,825	19,097	3,548,482

## Edgar Filing: COMMUNITY HEALTH SYSTEMS INC - Form DEF 14A

- (1) Amounts represent cash-based salary and bonus compensation. Total cash-based compensation for the year ended December 31, 2013 was as follows: Mr. Smith, \$3,458,000; Mr. Cash, \$1,485,000; Mr. Hussey, \$1,181,160; Mr. D. Miller, \$1,108,760; and Mr. T. Miller, \$1,054,966.
- (2) The dollar amount shown in the table above represents the fair value of restricted shares on their respective grant dates: February 27, 2013 (\$41.71 per share; February 16, 2012 (\$21.07 per share) and February 23, 2011 (\$37.96 per share. The grant date fair value of restricted shares included in the table above is based on a 100 percent probability of meeting the performance conditions. The grant date fair value was computed in accordance with ASC 718. The market value for the restricted stock awards on their respective first vesting dates were as follows: \$42.25 per share on February 27, 2014 for awards granted on February 27, 2013; \$42.29 per share on February 16, 2013 for awards granted on February 16, 2012 and \$24.69 per share on February 23, 2012 for awards granted on February 23, 2011.
- (3) The dollar amount shown in the table above represents the fair value of stock options on their respective grant dates: February 16, 2012 and February 23, 2011. No options were granted in

**Table of Contents**

2013. The grant date fair value was computed in accordance with ASC 718. Assumptions used in the calculation of these amounts are included in Note 2 of the consolidated financial statements included in the Company's Annual Report on Form 10-K filed with the SEC on February 26, 2014 for the year ended December 31, 2013. The market value for the option awards on their respective first vesting dates were as follows: \$42.29 per share on February 16, 2013 for awards granted on February 16, 2012; \$24.69 per share on February 23, 2012 for awards granted on February 23, 2011.

- (4) Represents the actuarial increase in the present value of the named executive officer's benefit under the SERP using interest rate and mortality rate assumptions consistent with those used in the Company's financial statements and includes amounts which the named executive officers may not currently be entitled to receive because such amounts are not vested. The change in the pension value in 2013 is primarily attributable to the impact of current year non-equity incentive plan compensation on the calculation of benefits under the Plan, the adoption of provisions in the plan to comply with Section 409A of the IRC and a decrease in the assumed discount rates, based on the rate of return on high-quality fixed income investments with similar periods to maturity. From 12/31/12 to 12/31/13, the change in SERP value for Mr. Smith was (\$1,350,000). Since, the total net change from plans may not decrease the value of other compensation in the summary compensation table, the net total change for Mr. Smith in the table is 0. The non-qualified deferred compensation plan earnings contained no above-market or preferential portion of earnings for 2013, 2012 or 2011.

- (5) All Other Compensation for the year ended December 31, 2013 consists of the following:

Name	Long-Term Disability Premiums (\$)	401(k) Plan Employer Matching Contributions (\$)	Life Insurance Premiums (\$)	Use of Corporate Aircraft (\$)	Membership/Dues (\$)
Wayne T. Smith	4,450	8,925	53,217	92,415	4,965
W. Larry Cash	4,450	8,925	17,299	37,667	-
William S. Hussey	4,450	8,925	15,444	-	-
David L. Miller	4,450	8,925	13,928	-	-
Thomas D. Miller	4,850	8,925	9,091	-	-

**Table of Contents****Grants of Plan-Based Awards**

The following table sets forth the actual number of stock options and restricted stock awards granted under the 2009 Stock Option and Award Plan, including the grant date fair value of these awards, and the range of potential payment under the 2004 Employee Performance Incentive Plan for the named executive officers for the year ended December 31, 2013. There can be no assurance that the grant date fair value of options and restricted stock awards will ever be realized.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units (\$)	All Other Option Awards: Number of Underlying Securities (\$ (2))	Exercise or Base Price of Awards Per Share (\$ (3))	Grant Date Fair Value of Stock and Option Awards (\$ (4))
		Threshold (\$)	Target (\$ (1))	Maximum (\$)	Threshold (#)	Target (# (1))	Maximum (#)				
Wayne T. Smith	2/27/2013										0
	2/27/2013	-	3,710,000	4,200,000	-	125,000	-	-	-	41.71	5,213,750
W. Larry Cash	2/27/2013										0
	2/27/2013	-	1,237,500	1,500,000	-	50,000	-	-	-	41.71	2,085,500
William S. Hussey	2/27/2013										0
	2/27/2013	-	795,600	918,000	-	25,000	-	-	-	41.71	1,042,750
David L. Miller	2/27/2013										0
	2/27/2013	-	795,600	918,000	-	25,000	-	-	-	41.71	1,042,750
Thomas D. Miller	2/27/2013										0
	2/27/2013	-	795,600	918,000	-	25,000	-	-	-	41.71	1,042,750

(1) With respect to the February 27, 2013 grant of restricted stock, the performance measure was achievement of 90% of the low end of the range of projected net revenues as stated in the Company's earnings release filed with the SEC on Form 8-K on February 21, 2013. Since this performance criteria was met, the awards time-based restrictions will lapse in one-third increments on each of the first three anniversaries of the grant date. In the event of a change in control of the Company, as defined in our 2009 Stock Option and Award Plan, all such restricted stock shall vest and the restrictions shall lapse immediately.

(2) No options were granted in 2013.

(3) Closing market value of the shares of our Common Stock on February 27, 2013, the date of grant. The closing market value of the shares of our Common Stock at December 31, 2013 was \$39.27.

(4)

## Edgar Filing: COMMUNITY HEALTH SYSTEMS INC - Form DEF 14A

Represents the grant date fair value calculated under ASC 718, and as presented in our audited consolidated financial statements included in our Annual Report on Form 10-K for the 2013 fiscal year. The fair value of the stock option awards for financial reporting purposes will likely vary from the actual amount ultimately realized by the named executive officers based on a number of factors. These factors include our actual operating performance, stock price fluctuations, differences from the valuation assumptions used, and the timing of exercise or applicable vesting.

**Table of Contents****Outstanding Equity Awards at Fiscal Year End**

The following table shows outstanding stock option awards classified as exercisable and unexercisable and unvested restricted stock awards as of December 31, 2013 for the named executive officers.

Name	Option Awards					Stock Awards				
	Number of Securities Underlying Unexercised Options Exercisable (#) (1)	Number of Securities Underlying Unexercised Options (#) (2)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$ (3))	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)	
Wayne T. Smith	100,000	-	-	\$ 37.2100	2/27/2015					
	500,000	-	-	\$ 40.4100	7/24/2015					
	200,000	-	-	\$ 32.2800	2/26/2018					
	50,000	-	-	\$ 18.1800	2/24/2019					
	50,000	-	-	\$ 33.9000	2/23/2020					
	33,333	16,667	-	\$ 37.9600	2/22/2021					
	13,333	26,667	-	\$ 21.0700	2/15/2022	259,451	10,188,641	-	-	
W. Larry Cash	60,000	-	-	\$ 37.2100	2/27/2015					
	200,000	-	-	\$ 40.4100	7/24/2015					
	60,000	-	-	\$ 32.2800	2/26/2018					
	20,000	-	-	\$ 18.1800	2/24/2019					
	25,000	-	-	\$ 33.9000	2/23/2020					
	16,666	8,334	-	\$ 37.9600	2/22/2021					
	6,666	13,334	-	\$ 21.0700	2/15/2022	103,781	4,075,480	-	-	
William S. Hussey	10,000	-	-	\$ 37.2100	2/27/2015					
	100,000	-	-	\$ 40.4100	7/24/2015					
	20,000	-	-	\$ 32.2800	2/26/2018					
	10,000	-	-	\$ 33.9000	2/23/2020					
	6,666	3,334	-	\$ 37.9600	2/22/2021					
	2,666	5,334	-	\$ 21.0700	2/15/2022	51,892	2,037,799	-	-	
David L. Miller	100,000	-	-	\$ 40.4100	7/24/2015					
	6,666	3,334	-	\$ 37.9600	2/22/2021					
	2,666	5,334	-	\$ 21.0700	2/15/2022	51,892	2,037,799	-	-	
Thomas D. Miller	6,666	3,334	-	\$ 37.9600	2/22/2021					
	2,666	5,334	-	\$ 21.0700	2/15/2022	51,892	2,037,799	-	-	



## Edgar Filing: COMMUNITY HEALTH SYSTEMS INC - Form DEF 14A

- (1) These options were fully vested as of December 31, 2013.
- (2) Vesting of unexercisable options occurred or will occur, subject to the terms of the 2009 Stock Option and Award Plan, on February 23, 2014 for options expiring on February 22, 2021, in equal increments on February 16, 2014 and February 16, 2015 for options expiring on February 15, 2022.
- (3) The dollar value in the table above represents the market value of shares of the Company's Common Stock on December 31, 2013 (\$39.27 per share) and consists of unvested awards from the following grants set forth in the table below.

**Table of Contents**

Name	Date Granted	Unvested Restricted Shares
Wayne Smith	2/23/2011	66,667
	2/16/2012	66,667
	12/28/2012	1,117
	2/27/2013	125,000
W. Larry Cash	2/23/2011	26,667
	2/16/2012	26,667
	12/28/2012	447
	2/27/2013	50,000
William S. Hussey	2/23/2011	13,334
	2/16/2012	13,334
	12/28/2012	224
	2/27/2013	25,000
David L. Miller	2/23/2011	13,334
	2/16/2012	13,334
	12/28/2012	224
	2/27/2013	25,000
Thomas D. Miller	2/23/2011	13,334
	2/16/2012	13,334
	12/28/2012	224
	2/27/2013	25,000

Vesting of these awards occurred or will occur, subject to the terms of the 2009 Stock Option and Award Plan, in one-third increments on each of the first three (3) anniversaries of the dates of grants for grants on February 23, 2011, February 16, 2012 and February 27, 2013. Awards dated December 28, 2012, related to a dividend payment made on that date, have the same vesting schedule as the awards granted on February 16, 2012.

**Option Exercises and Stock Vested**

The following table sets forth certain information regarding options exercised for the named executive officers along with the number of stock awards that vested during the year ended December 31, 2013.

Name	Stock Options		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized Upon Exercise or Vesting (\$)	Number of Shares Acquired on Vesting (#)	Value Realized Upon Vesting (\$)
Wayne T. Smith	200,000	1,529,822	168,055	7,016,296
W. Larry Cash	115,000	881,359	67,222	2,806,519
William S. Hussey	120,000	1,369,262	33,610	1,403,218
David L. Miller	90,000	853,024	33,610	1,403,218
Thomas D. Miller	80,000	643,489	33,610	1,403,218

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



**Table of Contents****Pension Benefits**

The table below shows the present value of accumulated benefits payable to each of the named executive officers as of December 31, 2013, including the number of years of service credited to each such named executive officer. Under the Company's SERP, the present value is determined by using discount rate and mortality rate assumptions consistent with those described in the footnotes of the Company's audited consolidated financial statements for the year ended December 31, 2013, included in the Company's Annual Report on Form 10-K filed with the SEC on February 26, 2014.

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

Name	Plan Name	Number of Years of Credited Service (#)	Present Value of Accumulated Benefit (\$)	Payments During Last Fiscal Year (\$)
Wayne T. Smith	SERP	29.50	42,281,242	-
W. Larry Cash	SERP	28.75	17,988,715	-
William S. Hussey	SERP	10.58	4,072,375	-
David L. Miller	SERP	16.08	6,375,431	-
Thomas D. Miller	SERP	6.42	1,732,743	-

- (1) Named executive officers receive one year of credited service for each year of actual service. As discussed further in Retirement and Defined Compensation Benefits on page 38 of this Proxy Statement, under the SERP, both Mr. Smith and Mr. Cash were formerly credited with two years of service for each year of actual service. This component of the SERP was adopted by the Compensation Committee in March 2004, while the Company's stock ownership and Board of Directors were controlled by affiliates of Forstmann Little & Co. In 2008, the Compensation Committee and the Board voted to amend the SERP to terminate this practice after 25 years of service had been credited. Since reaching 25 years of credited service, Mr. Smith and Mr. Cash have each received one year of credited service for each year of actual service; no additional service will be credited once the maximum (30 years) has been reached.

**Non-qualified Deferred Compensation**

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

Edgar Filing: COMMUNITY HEALTH SYSTEMS INC - Form DEF 14A

Distributions from the plan are in a lump sum payment as soon as administratively feasible, but no earlier than 10 days and no later than 45 days following the date on which the participant is entitled to receive the distribution. The participant also has the option to make an election to delay the time of

**Table of Contents**

payments in five (5) annual installments or in ten (10) annual installments. The election for the deferral may not be made less than 12 months prior to the date of the first scheduled payment. An election relating to the form of payment may be made as permitted under Section 409A of the IRC.

<b>Name</b>	<b>Executive Contributions in Last FY (\$ (1))</b>	<b>Aggregate Earnings(Losses) in Last FY (\$ (2))</b>	<b>Aggregate Withdrawals/ Distributions (\$)</b>	<b>Aggregate Balance at Last FYE (\$ (3))</b>
Wayne T. Smith	-	673,091	-	7,070,485
W. Larry Cash	-	385,151	-	1,675,279
William S. Hussey	122,400	61,605	-	1,254,178
David L. Miller	-	48,848	-	198,253
Thomas D. Miller	185,130	165,151	-	1,103,226 (4)

(1) Contributions from 2013 salary. These amounts are also included as compensation in the Summary Compensation Table.

(2) Investment earnings for 2013.

(3) Plan Balance as of December 31, 2013.

(4) The year end balance for Thomas D. Miller included balances in the CHS Def Comp Plan of \$936,078 and a balance from the old Triad Def Comp Plan, currently CHS NQDCP of \$167,148.

**Table of Contents****Potential Payments upon Termination or Change in Control**

The table below sets forth potential payments and/or benefits that would be provided to our current named executive officers upon termination of employment or a change in control. These amounts are the incremental or enhanced amounts that a named executive officer would receive that is in excess of those benefits that the Company would generally provide to other employees under the same circumstances. These amounts are estimates only and are based on the assumption that the terminating event or a change in control, as applicable, occurred on December 31, 2013. The closing price of the Company's Common Stock was \$39.27 on that date.

Named Executive Officer	Cash Severance (\$)	Acceleration of Options (\$)	Equity Incentive Plan Awards				Outplacement Counseling and Related Benefits (\$)	Excise Tax Gross Up (\$)	Total \$
			Acceleration of Restricted Stock (\$)	Retirement Benefit - SERP (\$)	Health and Welfare Benefits (\$)				
<b>Wayne T. Smith</b>									
Voluntary termination	-	-	-	40,391,432	-	-	-	-	40,391,432
Involuntary Termination	7,000,000	507,173	10,188,641	40,391,432	-	-	-	-	58,087,246
Change in control of the company	16,800,000	507,173	10,188,641	41,778,305	25,672	25,000	-	-	69,324,791
<b>W. Larry Cash</b>									
Voluntary termination	-	-	-	17,085,658	-	-	-	-	17,085,658
Involuntary Termination	3,000,000	253,596	4,075,480	17,085,658	-	-	-	-	24,414,734
Change in control of the company	6,750,000	253,596	4,075,480	18,123,469	25,672	25,000	-	-	29,253,217
<b>William S. Hussey</b>									
Voluntary termination	-	-	-	3,886,781	-	-	-	-	3,886,781
Involuntary Termination	-	-	-	-	-	-	-	-	-