COMMUNITY HEALTH SYSTEMS INC
Form 10-Q
November 03, 2015
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2015

Commission file number 001-15925

COMMUNITY HEALTH SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware *(State or other jurisdiction of* *incorporation or organization)*	**13-3893191** *(I.R.S. Employer* *Identification Number)*
4000 Meridian Boulevard **Franklin, Tennessee** *(Address of principal executive offices)*	**37067** *(Zip Code)*

615-465-7000

(Registrant s telephone number)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ   No ¨

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

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

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

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

As of October 27, 2015, there were outstanding 118,188,045 shares of the Registrant s Common Stock, $0.01 par value.

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Community Health Systems, Inc.

Form 10-Q

For the Three and Nine Months Ended September 30, 2015

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)

(In millions, except share and per share data)

(Unaudited)

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Operating revenues (net of contractual allowances and discounts)	$ 5,580	$ 5,538	$ 16,840	$ 15,920
Provision for bad debts	734	758	2,201	2,199
Net operating revenues	4,846	4,780	14,639	13,721
Operating costs and expenses:				
Salaries and benefits	2,240	2,184	6,714	6,397
Supplies	762	730	2,274	2,098
Other operating expenses	1,144	1,118	3,370	3,251
Government settlement and related costs	-	77	1	77
Electronic health records incentive reimbursement	(54)	(88)	(135)	(212)
Rent	115	110	344	319
Depreciation and amortization	288	279	875	815
Amortization of software to be abandoned	-	-	-	75
Total operating costs and expenses	4,495	4,410	13,443	12,820
Income from operations	351	370	1,196	901
Interest expense, net	242	249	723	728
Loss from early extinguishment of debt	-	-	16	73
Equity in earnings of unconsolidated affiliates	(12)	(12)	(51)	(35)
Impairment of long-lived assets	-	-	6	24
Income from continuing operations before income taxes	121	133	502	111

Provision for income taxes	38	39	167	16
Income from continuing operations	83	94	335	95
Discontinued operations, net of taxes:				
(Loss) income from operations of entities sold or held for sale	(5)	1	(22)	(5)
Impairment of hospitals sold or held for sale	-	-	(2)	(23)
Loss on sale, net	(3)	-	(3)	-
(Loss) income from discontinued operations, net of taxes	(8)	1	(27)	(28)
Net income	75	95	308	67
Less: Net income attributable to noncontrolling interests	23	33	67	75
Net income (loss) attributable to Community Health Systems, Inc. stockholders	$ 52	$ 62	$ 241	$ (8)
Basic earnings (loss) per share attributable to Community Health Systems, Inc. common stockholders:				
Continuing operations	$ 0.52	$ 0.55	$ 2.33	$ 0.18
Discontinued operations	(0.07)	0.00	(0.24)	(0.25)
Net income (loss)	$ 0.45	$ 0.55	$ 2.09	$ (0.07)
Diluted earnings (loss) per share attributable to Community Health Systems, Inc. common stockholders:				
Continuing operations	$ 0.51	$ 0.54	$ 2.32	$ 0.18
Discontinued operations	(0.07)	0.00	(0.24)	(0.25)
Net income (loss)	$ 0.44	$ 0.54	$ 2.08	$ (0.07)
Weighted-average number of shares outstanding:				
Basic	115,319,986	113,138,663	114,981,457	110,871,066
Diluted	116,368,157	114,343,778	115,845,181	111,757,390

See accompanying notes to the condensed consolidated financial statements.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions)

(Unaudited)

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Net income	$ 75	$ 95	$ 308	$ 67
Other comprehensive (loss) income, net of income taxes:				
Net change in fair value of interest rate swaps, net of tax	(21)	11	(22)	20
Net change in fair value of available-for-sale securities, net of tax	(9)	(5)	(10)	(2)
Amortization and recognition of unrecognized pension cost components, net of tax	1	1	2	1
Other comprehensive (loss) income	(29)	7	(30)	19
Comprehensive income	46	102	278	86
Less: Comprehensive income attributable to noncontrolling interests	23	33	67	75
Comprehensive income attributable to Community Health Systems, Inc. stockholders	$ 23	$ 69	$ 211	$ 11

See accompanying notes to the condensed consolidated financial statements.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except share data)

(Unaudited)

	September 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 186	$ 509
Patient accounts receivable, net of allowance for doubtful accounts of $3,825 and $3,504 at September 30, 2015 and December 31, 2014, respectively	3,686	3,409
Supplies	572	557
Prepaid income taxes	-	30
Deferred income taxes	345	341
Prepaid expenses and taxes	215	192
Other current assets (including assets of hospitals held for sale of $5 and $38 at September 30, 2015 and December 31, 2014, respectively)	548	528
Total current assets	5,552	5,566
Property and equipment	14,688	14,264
Less accumulated depreciation and amortization	(4,624)	(4,095)
Property and equipment, net	10,064	10,169
Goodwill	8,972	8,951
Other assets, net (including assets of hospitals held for sale of $32 and $90 at September 30, 2015 and December 31, 2014, respectively)	2,601	2,735
Total assets	$ 27,189	$ 27,421
LIABILITIES AND EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 240	$ 235
Accounts payable	1,214	1,293
Income tax payable	102	-
Deferred income taxes	23	23

Accrued interest		163		227
Accrued liabilities (including liabilities of hospitals held for sale of $1 and $10 at September 30, 2015 and December 31, 2014, respectively)		1,412		1,811
Total current liabilities		3,154		3,589
Long-term debt		16,647		16,681
Deferred income taxes		847		845
Other long-term liabilities		1,696		1,692
Total liabilities		22,344		22,807
Redeemable noncontrolling interests in equity of consolidated subsidiaries		522		531
EQUITY				
Community Health Systems, Inc. stockholders equity:				
Preferred stock, $.01 par value per share, 100,000,000 shares authorized; none issued		-		-
Common stock, $.01 par value per share, 300,000,000 shares authorized; 119,158,604 shares issued and 118,183,055 shares outstanding at September 30, 2015, and 117,701,087 shares issued and 116,725,538 shares outstanding at December 31, 2014		1		1
Additional paid-in capital		2,122		2,095
Treasury stock, at cost, 975,549 shares at September 30, 2015 and December 31, 2014		(7)		(7)
Accumulated other comprehensive loss		(93)		(63)
Retained earnings		2,218		1,977
Total Community Health Systems, Inc. stockholders equity		4,241		4,003
Noncontrolling interests in equity of consolidated subsidiaries		82		80
Total equity		4,323		4,083
Total liabilities and equity	$	27,189	$	27,421

See accompanying notes to the condensed consolidated financial statements.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Cash flows from operating activities:		
Net income	$ 308	$ 67
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	876	897
Government settlement and related costs	1	77
Stock-based compensation expense	44	36
Loss on sale, net	4	-
Impairment of long-lived assets and hospitals sold or held for sale	8	46
Loss from early extinguishment of debt	16	73
Excess tax benefit relating to stock-based compensation	-	(4)
Other non-cash expenses, net	22	34
Changes in operating assets and liabilities, net of effects of acquisitions and divestitures:		
Patient accounts receivable	(291)	(299)
Supplies, prepaid expenses and other current assets	(72)	(39)
Accounts payable, accrued liabilities and income taxes	(239)	(189)
Other	(62)	(60)
Net cash provided by operating activities	615	639
Cash flows from investing activities:		
Acquisitions of facilities and other related equipment	(41)	(3,041)
Purchases of property and equipment	(696)	(560)
Proceeds from disposition of hospitals and other ancillary operations	87	12
Proceeds from sale of property and equipment	13	40
Purchases of available-for-sale securities	(127)	(198)
Proceeds from sales of available-for-sale securities	123	191
Increase in other investments	(136)	(387)
Net cash used in investing activities	(777)	(3,943)
Cash flows from financing activities:		
Proceeds from exercise of stock options	24	42
Repurchase of restricted stock shares for payroll tax withholding requirements	(20)	(11)

Deferred financing costs and other debt-related costs	(30)	(272)
Excess tax benefit relating to stock-based compensation	-	4
Proceeds from noncontrolling investors in joint ventures	-	10
Redemption of noncontrolling investments in joint ventures	(18)	(8)
Distributions to noncontrolling investors in joint ventures	(69)	(74)
Borrowings under credit agreements	3,464	8,348
Issuance of long-term debt	-	4,000
Proceeds from receivables facility	112	204
Repayments of long-term indebtedness	(3,624)	(9,091)
Net cash (used in) provided by financing activities	(161)	3,152
Net change in cash and cash equivalents	(323)	(152)
Cash and cash equivalents at beginning of period	509	373
Cash and cash equivalents at end of period	$ 186	$ 221
Supplemental disclosure of cash flow information:		
Interest payments	$ (752)	$ (661)
Income tax (payments) refunds, net	$ (10)	$ 89

See accompanying notes to the condensed consolidated financial statements.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements of Community Health Systems, Inc. (the Parent or Parent Company) and its subsidiaries (the Company) as of September 30, 2015 and December 31, 2014 and for the three-month and nine-month periods ended September 30, 2015 and 2014, have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). In the opinion of management, such information contains all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for such periods. All intercompany transactions and balances have been eliminated. The results of Health Management Associates, Inc. (HMA) are included from January 27, 2014, the date of the HMA merger. The results of operations for the three and nine months ended September 30, 2015, are not necessarily indicative of the results to be expected for the full fiscal year ending December 31, 2015. Certain information and disclosures normally included in the notes to condensed consolidated financial statements have been condensed or omitted as permitted by the rules and regulations of the Securities and Exchange Commission (the SEC). The Company believes the disclosures are adequate to make the information presented not misleading. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2014, contained in the Company s Annual Report on Form 10-K filed with the SEC on February 25, 2015 (2014 Form 10-K).

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

During the nine months ended September 30, 2014, the Company made the decision to sell several smaller hospitals and entered into definitive agreements to sell two hospitals. Subsequent to September 30, 2014, the Company made the decision to sell one additional hospital (which was subsequently sold during the nine months ended September 30, 2015), which was reported as discontinued operations at December 31, 2014. The condensed consolidated statements of income for the three and nine months ended September 30, 2014 have been restated to reclassify the results of operations for this hospital that was owned in 2014 to discontinued operations.

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

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

The Company estimates the allowance for doubtful accounts by reserving a percentage of all self-pay accounts receivable without regard to aging category, based on collection history, adjusted for expected recoveries and any anticipated changes in trends. For all other non-self-pay payor categories, the Company reserves 100% of all accounts aging over 365 days from the date of discharge. The Company collects substantially all of its third-party insured receivables, which include receivables from governmental agencies.

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

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

Operating revenues, net of contractual allowances and discounts (but before the provision for bad debts), recognized during the three and nine months ended September 30, 2015 and 2014, were as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	**2014**	**2015**	**2014**
Medicare	$ 1,334	$ 1,344	$ 4,115	$ 3,971
Medicaid	663	638	1,865	1,682
Managed Care and other third-party payors	2,870	2,828	8,763	8,137
Self-pay	713	728	2,097	2,130
Total	$ 5,580	$ 5,538	$ 16,840	$ 15,920

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

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

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

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

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

The Company recognized approximately $54 million and $88 million for the three months ended September 30, 2015 and 2014, respectively, and $135 million and $212 million for the nine months ended September 30, 2015 and 2014, respectively, of incentive reimbursement for HITECH incentives from Medicare and Medicaid related to certain of the Company s hospitals and for certain of the Company s employed physicians that have demonstrated meaningful use of certified EHR technology or have completed attestations to their adoption or implementation of certified EHR technology. These incentive reimbursements are presented as a reduction of operating costs and expenses on the condensed consolidated statements of income. The Company received cash related to the incentive reimbursement for HITECH incentives of approximately $7 million and $8 million for the three months ended September 30, 2015 and 2014, respectively, and $71 million and $95 million for the nine months ended September 30, 2015 and 2014, respectively. At September 30, 2015, $2 million was recorded as deferred revenue as all criteria for gain recognition had not been met. The Company recorded no deferred revenue in connection with the receipt of these cash payments at September 30, 2014.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

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

In April 2015, the FASB issued ASU 2015-03, which requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct reduction from the carrying amount of that debt liability, consistent with the accounting for debt discounts. The ASU did not change the measurement or recognition guidance for debt issuance costs. This ASU is effective for fiscal years beginning after December 31, 2015, with early adoption permitted. The Company plans to adopt this ASU on January 1, 2016, and does not anticipate that such adoption will have a material effect on its consolidated financial position, results of operations, or cash flows.

2. ACCOUNTING FOR STOCK-BASED COMPENSATION

Stock-based compensation awards have been granted under the Community Health Systems, Inc. Amended and Restated 2000 Stock Option and Award Plan, amended and restated as of March 20, 2013 (the 2000 Plan), and the Community Health Systems, Inc. 2009 Stock Option and Award Plan, amended and restated as of March 19, 2014 (the 2009 Plan).

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

The 2009 Plan provides for the grant of incentive stock options intended to qualify under Section 422 of the IRC and for the grant of stock options which do not so qualify, stock appreciation rights, restricted stock, restricted stock units, performance-based shares or units and other share awards. Persons eligible to receive grants under the 2009 Plan include the Company s directors, officers, employees and consultants. To date, all options granted under the 2009 Plan have been nonqualified stock options for tax purposes. Generally, vesting of these granted options occurs in one-third increments on each of the first three anniversaries of the award date. Options granted in 2011 or later have a 10-year contractual term. As of September 30, 2015, 3,198,243 shares of unissued common stock were reserved for future grants under the 2009 Plan.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Effect on income from continuing operations before income taxes	$ (15)	$ (13)	$ (44)	$ (36)
Effect on net income	$ (9)	$ (8)	$ (26)	$ (22)

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

At September 30, 2015, $73 million of unrecognized stock-based compensation expense related to outstanding unvested restricted stock and restricted stock units (the terms of which are summarized below) was expected to be recognized over a weighted-average period of 23 months. There is no expense to be recognized related to stock options. There were no modifications to awards during the three or nine months ended September 30, 2015 and 2014.

Options outstanding and exercisable under the 2000 Plan and the 2009 Plan as of September 30, 2015, and changes during each of the three-month periods following December 31, 2014, were as follows (in millions, except share and per share data):

	Shares	Weighted-Average Exercise Price		Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value as of September 30, 2015	
Outstanding at December 31, 2014	1,953,727	$	32.94			
Granted	-		-			
Exercised	(452,959)		38.77			
Forfeited and cancelled	-		-			
Outstanding at March 31, 2015	1,500,768		31.18			
Granted	-		-			
Exercised	(128,270)		34.01			
Forfeited and cancelled	(1,000)		32.28			
Outstanding at June 30, 2015	1,371,498		30.92			
Granted	-		-			
Exercised	(43,697)		33.03			
Forfeited and cancelled	-		-			
Outstanding at September 30, 2015	1,327,801	$	30.85	4.3 years	$	16
	1,327,801	$	30.85	4.3 years	$	16

Exercisable at
September 30, 2015

No stock options were granted during the three or nine months ended September 30, 2015 and 2014. The aggregate intrinsic value (the number of in-the-money stock options multiplied by the difference between the Company s closing stock price on the last trading day of the reporting period ($42.77) and the exercise price of the respective stock options) in the table above represents the amount that would have been received by the option holders had all option holders exercised their options on September 30, 2015. This amount changes based on the market value of the Company s common stock. The aggregate intrinsic value of options exercised during the three months ended September 30, 2015 and 2014 was $2 million and $12 million, respectively. The aggregate intrinsic value of options exercised during the nine months ended September 30, 2015 and 2014 was $9 million and $15 million, respectively. The aggregate intrinsic value of options vested and expected to vest approximates that of the outstanding options.

The Company has also awarded restricted stock under the 2000 Plan and the 2009 Plan to its directors and employees of certain subsidiaries. The restrictions on these shares generally lapse in one-third increments on each of the first three anniversaries of the award date. Certain of the restricted stock awards granted to the Company s senior executives contain a performance objective that must be met in addition to any time-based vesting requirements. If the performance objective is not attained, the awards will be forfeited in their entirety. Once the performance objective has been attained, restrictions will lapse in one-third increments on each of the first three anniversaries of the award date. In addition, 835,000 restricted stock awards granted March 1, 2014 have a performance objective that is measured based on the realization of synergies related to the HMA merger over a two-year period that began on February 1, 2014. The performance objective could be met in part in the first year or in whole or in part over such two-year period. Depending on the degree of attainment of the performance objective, restrictions may lapse on a portion of the award grant over the first three anniversaries of the award date at a level dependent upon the amount of synergies realized. If the synergies related to the HMA merger did not reach a certain level, then the awards would have been forfeited in their entirety. Based on the synergy levels attained in the first annual measurement period ended on January 31, 2015, the performance objective for the first measurement period was met, and one-third of the awards vested on March 1, 2015. Notwithstanding the above-mentioned performance objectives and vesting requirements, the restrictions with respect to restricted stock granted under the 2000 Plan and the 2009 Plan will lapse earlier in the event of death, disability or termination of employment by the Company for any reason other than for cause of the holder of the restricted stock, or change in control of the Company. Restricted stock awards subject to performance standards that have not yet been satisfied are not considered outstanding for purposes of determining earnings per share until the performance objectives have been satisfied.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

Restricted stock outstanding under the 2000 Plan and the 2009 Plan as of September 30, 2015, and changes during each of the three-month periods following December 31, 2014, were as follows:

	Shares	Weighted-Average Grant Date Fair Value
Unvested at December 31, 2014	2,760,639	$ 39.82
Granted	1,223,500	47.72
Vested	(1,115,006)	37.45
Forfeited	-	-
Unvested at March 31, 2015	2,869,133	44.11
Granted	-	-
Vested	(12,351)	35.21
Forfeited	(13,334)	41.32
Unvested at June 30, 2015	2,843,448	44.16
Granted	10,000	54.07
Vested	(13,862)	39.65
Forfeited	-	-
Unvested at September 30, 2015	2,839,586	44.22

Restricted stock units (RSUs) have been granted to the Company s outside directors under the 2000 Plan and the 2009 Plan. On February 27, 2013, each of the Company s outside directors received a grant under the 2009 Plan of 3,596 RSUs. On March 1, 2014, each of the Company s outside directors received a grant under the 2009 Plan of 3,614 RSUs. On March 1, 2015, each of the Company s outside directors received a grant under the 2009 Plan of 3,504 RSUs. Vesting of these RSUs occurs in one-third increments on each of the first three anniversaries of the award date.

RSUs outstanding under the 2000 Plan and the 2009 Plan as of September 30, 2015, and changes during each of the three-month periods following December 31, 2014, were as follows:

	Shares	Weighted-Average Grant Date Fair Value
Unvested at December 31, 2014	49,362	$ 36.07

Granted	21,024	47.70
Vested	(27,708)	31.76
Forfeited	-	-
Unvested at March 31, 2015	42,678	44.59
Granted	-	-
Vested	-	-
Forfeited	-	-
Unvested at June 30, 2015	42,678	44.59
Granted	-	-
Vested	-	-
Forfeited	-	-
Unvested at September 30, 2015	42,678	44.59

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

3. COST OF REVENUE

Substantially all of the Company s operating costs and expenses are cost of revenue items. Operating costs that could be classified as general and administrative by the Company would include the Company s corporate office costs at its Franklin, Tennessee office and Naples, Florida office (which was the headquarters of HMA prior to the closing of the HMA merger), which collectively were $68 million and $89 million for the three months ended September 30, 2015 and 2014, respectively, and $202 million and $248 million for the nine months ended September 30, 2015 and 2014, respectively. During the three and nine months ended September 30, 2015, corporate office costs from the Naples, Florida office were lower than the three and nine months ended September 30, 2014 due to the integration of the HMA corporate functions. Included in these corporate office costs is stock-based compensation of $15 million and $13 million for the three months ended September 30, 2015 and 2014, respectively, and $44 million and $36 million for the nine months ended September 30, 2015 and 2014, respectively.

4. USE OF ESTIMATES

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

5. ACQUISITIONS AND DIVESTITURES

Acquisitions

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

Excluding acquisition and integration expenses related to the acquisition of HMA, approximately $2 million of acquisition costs related to prospective and closed acquisitions were expensed during each of the three months ended September 30, 2015 and 2014, respectively, and $6 million and $10 million during the nine months ended September 30, 2015 and 2014, respectively, and are included in other operating expenses on the condensed consolidated statements of income. During the nine months ended September 30, 2015, approximately $1 million of acquisition and integration expenses related to the HMA merger were recognized, and approximately $11 million and $89 million of acquisition and related integration expense related to the HMA acquisition were recognized during the three and nine months ended September 30, 2014, respectively.

Effective November 1, 2014, the Company entered into and closed on a restructuring agreement related to the joint venture between an affiliate of the Company and an affiliate of Novant Health, Inc. (Novant), the non-profit joint venture partner. Through this joint venture, Novant owned an indirect noncontrolling interest in Lake Norman Regional Medical Center (Lake Norman), one of the former HMA hospitals. The HMA merger triggered a change in control provision in the operating agreement of this joint venture, requiring the Company to purchase the 30% noncontrolling interest in Lake Norman held by Novant for the higher of fair value or $150 million. As part of the restructuring agreement, on November 3, 2014, the Company paid Novant (1) $150 million for its 30% noncontrolling interest in Lake Norman, (2) approximately $4 million to acquire Upstate Carolina Medical Center (125 licensed beds) in Gaffney, South Carolina, and (3) approximately $5 million to settle prior claims with Novant. The amounts paid to Novant to acquire the noncontrolling interest in Lake Norman and to settle prior claims were recognized as part of the opening balance sheet in the purchase accounting for HMA. Based upon our final purchase price allocation relating to this acquisition as of September 30, 2015, no goodwill has been recorded related to the acquisition of Upstate Carolina Medical Center.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

On October 1, 2014, one or more subsidiaries of the Company completed the acquisition of Natchez Regional Medical Center (179 licensed beds) in Natchez, Mississippi. The total cash consideration paid at closing for long-lived assets was $10 million. As part of the closing, the Company also paid $8 million as a prepayment for future property taxes that will be applied to the tax liability for the next 17 years. Based upon our final purchase price allocation relating to this acquisition as of September 30, 2015, no goodwill has been recorded.

Effective April 1, 2014, one or more subsidiaries of the Company completed the acquisition of Sharon Regional Health System in Sharon, Pennsylvania. This healthcare system includes Sharon Regional (258 licensed beds) and other outpatient and ancillary services. The total cash consideration paid for long-lived assets and working capital was approximately $67 million and $1 million, respectively, with additional consideration of $9 million assumed in liabilities, for a total consideration of $77 million. Based upon the Company s purchase price allocation relating to this acquisition as of September 30, 2015, approximately $8 million of goodwill has been recorded.

Effective April 1, 2014, one or more subsidiaries of the Company completed the acquisition of a 95% interest in Munroe Regional Medical Center (421 licensed beds) in Ocala, Florida and its other outpatient and ancillary services through a joint venture arrangement with an affiliate of a regional not-for-profit healthcare system, which acquired the remaining 5% interest. The total cash consideration paid for long-lived assets plus prepaid rent on the leased property and working capital was approximately $192 million and $4 million, respectively, with additional consideration of $11 million assumed in liabilities, for a total consideration of $207 million. The value of the noncontrolling interest at acquisition was $10 million. Based upon the Company s purchase price allocation relating to this acquisition as of September 30, 2015, approximately $11 million of goodwill has been recorded.

HMA Merger

On January 27, 2014, the Company completed the HMA merger by acquiring all the outstanding shares of HMA s common stock for approximately $7.3 billion, including the assumption of approximately $3.8 billion of existing indebtedness, for consideration for each share of HMA s common stock consisting of $10.50 in cash, 0.06942 of a share of the Company s common stock, and one contingent value right (CVR). The CVR entitles the holder to receive a cash payment of up to $1.00 per CVR (subject to downward adjustment but not below zero), subject to the final resolution of certain legal matters pertaining to HMA, as defined in the CVR agreement. At the time of the completion of the HMA merger, HMA owned and operated 71 hospitals in 15 states in non-urban communities located primarily in the southeastern United States.

In connection with the HMA merger, the Company and CHS/Community Health Systems, Inc. (CHS) entered into a third amendment and restatement of its credit facility, providing for additional financing and recapitalization of certain of the Company s term loans. In addition, the Company and CHS also issued in connection with the HMA merger: (i) $1.0 billion aggregate principal amount of 5.125% Senior Secured Notes due 2021 and (ii) $3.0 billion aggregate principal amount of 6.875% Senior Notes due 2022.

The total consideration of the HMA merger has been allocated to the assets acquired and liabilities assumed based upon their respective fair values, resulting in approximately $4.5 billion of goodwill resulting from the final purchase price allocation at December 31, 2014. The purchase price represented a premium over the fair value of the net tangible and identifiable intangible assets acquired for reasons such as:

- the expansion of the number of markets in which the Company operates in existing states;
- the extension and strengthening of the Company s hospital and physician networks;
- the centralization of many support functions; and
- the elimination of duplicate corporate functions.

Other Acquisitions

During the nine months ended September 30, 2015, the Company paid approximately $35 million to acquire the operating assets and related businesses of certain physician practices, clinics and other ancillary businesses that operate within the communities served by the Company s affiliated hospitals. In connection with these acquisitions, during 2015, the Company allocated approximately $18 million of the consideration paid to property and equipment and net working capital and the remainder, approximately $17 million consisting of intangible assets that do not qualify for separate recognition, to goodwill.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

Discontinued Operations

In April 2014, FASB issued ASU 2014-08, which changes the requirements for reporting discontinued operations. A discontinued operation continues to include a component of an entity or a group of components of an entity, or a business activity. However, in a shift reflecting stakeholder concerns that too many disposals of small groups of assets that were recurring in nature qualified for reporting as discontinued operations, a disposal of a component of an entity or a group of components of an entity will be required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity s operations and financial results. A business or nonprofit activity that, on acquisition, meets the criteria to be classified as held for sale will still be a discontinued operation. Additional disclosures will be required for significant components of the entity that are disposed of or are held for sale but do not qualify as discontinued operations. This ASU is effective for fiscal years beginning after December 15, 2014 and is to be applied on a prospective basis for disposals or components initially classified as held for sale after that date. The Company adopted this ASU on January 1, 2015 and the adoption did not have a material impact on the Company s consolidated financial position, results of operations and cash flows as of and for the three and nine months ended September 30, 2015. The financial results for divestitures or hospitals held for sale at December 31, 2014, prior to the Company s adoption of ASU 2014-08, are summarized below.

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

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

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

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

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

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

Effective July 31, 2015, one or more subsidiaries of the Company sold certain assets used in the operation of Payson Regional Medical Center (44 licensed beds) in Payson, Arizona (Payson) to Banner Health for approximately $20 million in cash. The Company previously operated Payson under the terms of an operating lease with Mogollon Health Alliance, Inc., an Arizona nonprofit corporation, that expired on July 31, 2015. The lease termination and sale closed effective July 31, 2015. Pursuant to the Company s adoption of ASU 2014-08, this divestiture does not meet the requirement for presentation in discontinued operations. Income from continuing operations for the nine months ended September 30, 2015 includes an impairment charge of approximately $6 million related to the write-off of the allocated reporting unit goodwill for this hospital.

During the year ended December 31, 2014, the Company made the decision to sell and began actively marketing several smaller hospitals, which are classified as held for sale at September 30, 2015. In addition, HMA entered into a definitive agreement to sell Williamson Memorial Hospital (76 licensed beds) located in Williamson, West Virginia prior to the HMA merger, and the Company has continued the effort to divest this facility. In connection with management s decision to sell these facilities and the sale of the seven hospitals noted above during 2015 (each of which was held for sale at December 31, 2014), the Company has classified the results of operations of the above mentioned hospitals as discontinued operations in the accompanying condensed consolidated statements of income, and classified these hospitals as held for sale in the accompanying condensed consolidated balance sheet.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

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

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Net operating revenues	$ 19	$ 116	$ 92	$ 319
Loss from operations of entities sold or held for sale before income taxes	(8)	-	(35)	(6)
Impairment of hospitals sold or held for sale	-	-	(2)	(29)
Loss on sale, net	(3)	-	(3)	-
Loss from discontinued operations, before taxes	(11)	-	(40)	(35)
Income tax benefit	(3)	(1)	(13)	(7)
Loss from discontinued operations, net of taxes	$ (8)	$ 1	$ (27)	$ (28)

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

6. PLANNED SPIN-OFF OF QUORUM HEALTH CORPORATION

On August 3, 2015, the Company announced a plan to spin off 38 hospitals and Quorum Health Resources into Quorum Health Corporation (QHC), an independent, publicly-traded corporation. The transaction, which would be effected through the distribution of common stock to the Company s shareholders, is intended to be tax free to the Company and its shareholders, and is expected to close in the first quarter of 2016. The completion of the spin-off is subject to the effectiveness of QHC s registration statement on Form 10, requisite regulatory approvals, execution of operational transition agreements, the receipt of opinions of tax, legal and valuation advisors (including as to the tax-free nature of the transaction), market conditions and final Board approval. QHC filed an Amendment No. 1 to Form 10 on October 16, 2015 (the Form 10 has not yet become effective), which filing contains information regarding the contemplated spin-off and the anticipated business of QHC. The Form 10 is available on the SEC s website but is not incorporated by reference into this Quarterly Report on Form 10-Q. There can be no assurance regarding the ultimate timing of the spin-off, or that it will be completed.

7. INCOME TAXES

The total amount of unrecognized benefit that would affect the effective tax rate, if recognized, was approximately $5 million as of September 30, 2015. A total of approximately $2 million of interest and penalties is included in the amount of the liability for uncertain tax positions at September 30, 2015. It is the Company s policy to recognize interest and penalties related to unrecognized benefits in its condensed consolidated statements of income as income tax expense.

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

The Company, or one of its subsidiaries, files income tax returns in the United States federal jurisdiction and various state jurisdictions. The Company has extended the federal statute of limitations through December 31, 2015 for Triad Hospitals, Inc. for the tax periods ended December 31, 1999, December 31, 2000, April 30, 2001, June 30, 2001, December 31, 2001, December 31, 2002, December 31, 2003, December 31, 2004, December 31, 2005, December 31, 2006 and July 25, 2007. With few exceptions, the Company is no longer subject to state income tax examinations for years prior to 2011. The Company s federal income tax returns for the 2009 and 2010 tax years are currently under examination by the Internal Revenue Service. The Company believes the results of these examinations will not be material to its consolidated results of operations or consolidated financial position. The Company has extended the federal statute of limitations through June 30, 2016 for Community Health Systems, Inc. for the tax periods ended December 31, 2007, 2008, 2009 and 2010, and through September 6, 2016 for the tax period ended December 31, 2011.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

The Company s effective tax rates were 31.3% and 29.4% for the three months ended September 30, 2015 and 2014, respectively, and 33.3% and 14.5% for the nine months ended September 30, 2015 and 2014, respectively. The increase in the Company s effective tax rate for the three months ended September 30, 2015, when compared to the three months ended September 30, 2014, is primarily related to a disproportionate decrease in income from continuing operations before income taxes, when compared to the decrease in net income attributable to noncontrolling interests for those same periods, which is not tax affected in the Company s consolidated financial statements. The increase in the Company s effective tax rate for the nine months ended September 30, 2015, when compared to the nine months ended September 30, 2014, is primarily related to a disproportionate substantial increase in income from continuing operations before income taxes, when compared to a decrease in net income attributable to noncontrolling interests for those same periods, which is not tax affected in the Company s consolidated financial statements. Including the expense related to income attributable to noncontrolling interests, the effective tax rate for the nine months ended September 30, 2015 and 2014 would have been 38.4% and 44.6%, respectively.

Cash paid for income taxes, net of refunds received, resulted in net cash paid of $1 million and a net cash refund of $16 million during the three months ended September 30, 2015 and 2014, respectively, and net cash paid of $10 million and a net cash refund of $89 million during the nine months ended September 30, 2015 and 2014, respectively.

8. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

The changes in the carrying amount of goodwill for the nine months ended September 30, 2015 are as follows (in millions):

Balance as of December 31, 2014	$	8,951
Goodwill acquired as part of acquisitions during current year		17
Consideration and purchase price allocation adjustments for prior year s acquisitions and other adjustments		10
Impairment of goodwill allocated to hospitals held for sale		(6)
Balance as of September 30, 2015	$	8,972

Goodwill is allocated to each identified reporting unit, which is defined as an operating segment or one level below the operating segment (referred to as a component of the entity). Management has determined that the Company s operating segments and hospital management services operations meet the criteria to be classified as reporting units. At September 30, 2015, the hospital operations reporting unit, the home care agency operations reporting unit and the hospital management services reporting unit had approximately $8.9 billion, $47 million and $33 million, respectively, of goodwill.

Goodwill is evaluated for impairment at the same time every year and when an event occurs or circumstances change that, more likely than not, reduce the fair value of the reporting unit below its carrying value. There is a two-step method for determining goodwill impairment. Step one is to compare the fair value of the reporting unit with the unit s carrying amount, including goodwill. If this test indicates the fair value is less than the carrying value, then step two is required to compare the implied fair value of the reporting unit s goodwill with the carrying value of the reporting unit s goodwill. The Company performed its last annual goodwill evaluation during the fourth quarter of 2014. No impairment was indicated by this evaluation. The next annual goodwill evaluation will be performed during the fourth quarter of 2015.

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

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

Intangible Assets

No intangible assets other than goodwill were acquired during the nine months ended September 30, 2015. The gross carrying amount of the Company s other intangible assets subject to amortization was $77 million and $76 million at September 30, 2015 and December 31, 2014, respectively, and the net carrying amount was $29 million at September 30, 2015 and $39 million at December 31, 2014. The carrying amount of the Company s other intangible assets not subject to amortization was $129 million and $131 million at September 30, 2015 and December 31, 2014, respectively. Other intangible assets are included in other assets, net on the Company s condensed consolidated balance sheets. Substantially all of the Company s intangible assets are contract-based intangible assets related to operating licenses, management contracts, or non-compete agreements entered into in connection with prior acquisitions.

The weighted-average remaining amortization period for the intangible assets subject to amortization is approximately four years. There are no expected residual values related to these intangible assets. Amortization expense on these intangible assets was $4 million and $5 million during the three months ended September 30, 2015 and 2014, respectively, and $7 million and $8 million during the nine months ended September 30, 2015 and 2014, respectively. Amortization expense on intangible assets is estimated to be $3 million for the remainder of 2015, $14 million in 2016, $3 million in 2017, $2 million in 2018, $2 million in 2019, $2 million in 2020 and $3 million thereafter.

The gross carrying amount of capitalized software for internal use was approximately $1.4 billion and $1.5 billion at September 30, 2015 and December 31, 2014, respectively, and the net carrying amount considering accumulated amortization was approximately $753 million and $790 million at September 30, 2015 and December 31, 2014, respectively. The estimated amortization period for capitalized internal-use software is generally three years, except for capitalized costs related to significant system conversions, which is generally eight to ten years. There is no expected residual value for capitalized internal-use software. At September 30, 2015, there was approximately $17 million of capitalized costs for internal-use software that is currently in the development stage and will begin amortization once the software project is complete and ready for its intended use. Amortization expense on capitalized internal-use software was $49 million and $48 million during the three months ended September 30, 2015 and 2014, respectively, and $155 million and $209 million during the nine months ended September 30, 2015 and 2014, respectively. Amortization expense on capitalized internal-use software is estimated to be $53 million for the remainder of 2015, $210 million in 2016, $148 million in 2017, $86 million in 2018, $64 million in 2019, $61 million in 2020 and $131 million thereafter.

In connection with the HMA merger, the Company further analyzed its intangible assets related to internal-use software used in certain of its hospitals for patient and clinical systems, including software required to meet criteria for meaningful use attestation and ICD-10 compliance. This analysis resulted in management reassessing its usage of certain software products and rationalizing that, with the addition of the HMA hospitals in the first quarter of 2014, those software applications were going to be discontinued and replaced with new applications that better integrate meaningful use and ICD-10 compliance, are more cost effective and can be implemented at a greater efficiency of scale over future implementations. During the nine months ended September 30, 2014, the Company recorded an impairment charge of approximately $24 million related to software in-process that was abandoned at June 30, 2014 and the acceleration of amortization of approximately $75 million related to shortening the remaining useful life of software abandoned by July 1, 2014.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

9. EARNINGS PER SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Numerator:				
Income from continuing operations, net of taxes	$ 83	$ 94	$ 335	$ 95
Less: Income from continuing operations attributable to noncontrolling interests, net of taxes	23	33	67	75
Income from continuing operations attributable to Community Health Systems, Inc. common stockholders basic and diluted	$ 60	$ 61	$ 268	$ 20
(Loss) income from discontinued operations, net of taxes	$ (8)	$ 1	$ (27)	$ (28)
Less: Loss from discontinued operations attributable to noncontrolling interests, net of taxes	-	-	-	-
(Loss) income from discontinued operations attributable to Community Health Systems, Inc. common stockholders basic and diluted	$ (8)	$ 1	$ (27)	$ (28)
Denominator:				
Weighted-average number of shares outstanding basic	115,319,986	113,138,663	114,981,457	110,871,066
Effect of dilutive securities:				
Restricted stock awards	593,713	506,345	405,395	292,414
Employee stock options	439,717	679,748	448,679	582,216
Other equity-based awards	14,741	19,022	9,650	11,694
Weighted-average number of shares outstanding diluted	116,368,157	114,343,778	115,845,181	111,757,390

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	**2014**	**2015**	**2014**
Dilutive securities outstanding not included in the computation of earnings per share because their effect is antidilutive:				
Employee stock options and restricted stock awards	-	-	-	630,333

10. STOCKHOLDERS EQUITY

Authorized capital shares of the Company include 400,000,000 shares of capital stock consisting of 300,000,000 shares of common stock and 100,000,000 shares of preferred stock. Each of the aforementioned classes of capital stock has a par value of $0.01 per share. Shares of preferred stock, none of which were outstanding as of September 30, 2015, may be issued in one or more series having such rights, preferences and other provisions as determined by the Board of Directors without approval by the holders of common stock.

On December 10, 2014, the Company adopted a new open market repurchase program for up to 5,000,000 shares of the Company s common stock, not to exceed $150 million in repurchases. The repurchase program will expire at the earliest of three years from the commencement date, when the maximum number of shares has been repurchased, or when the maximum dollar amount of repurchases has been expended. During the nine months ended September 30, 2015, the Company did not repurchase and retire any shares under this program.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

With the exception of a cash dividend of $0.25 per share paid by the Company in December 2012, historically, the Company has not paid any cash dividends. Subject to certain exceptions, the Company s Credit Facility limits the Company s ability to pay dividends and/or repurchase stock to an amount not to exceed $200 million in the aggregate plus an additional $25 million in any particular year plus the aggregate amount of proceeds from the exercise of stock options. The indentures governing the senior and senior secured notes also limit the Company s ability to pay dividends and/or repurchase stock. As of September 30, 2015, under the most restrictive test under these agreements (and subject to certain exceptions), the Company has approximately $467 million remaining available with which to pay permitted dividends and/or repurchase shares of stock or its senior and senior secured notes.

The following schedule presents the reconciliation of the carrying amount of total equity, equity attributable to the Company, and equity attributable to the noncontrolling interests for the nine-month period ended September 30, 2015 (in millions):

		Community Health Systems, Inc. Stockholders						
	Redeemable Noncontrolling Interest	Common Stock	Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Noncontrolling Interest	Total Stockholders Equity
Balance, December 31, 2014	$ 531	$ 1	$ 2,095	$ (7)	$ (63)	$ 1,977	$ 80	$ 4,083
Comprehensive income	50	-	-	-	(30)	241	17	228
Distributions to noncontrolling interests, net of contributions	(50)	-	-	-	-	-	(19)	(19)
Purchase of subsidiary shares from noncontrolling interests	(8)	-	(16)	-	-	-	6	(10)
Disposition of less-than-wholly owned hospital	(8)	-	-	-	-	-	-	-
Other reclassifications of noncontrolling interests	(1)	-	-	-	-	-	1	1
Noncontrolling interests in acquired entity	3	-	-	-	-	-	(3)	(3)
Adjustment to redemption value of redeemable noncontrolling interests	5	-	(5)	-	-	-	-	(5)
Issuance of common stock in connection with the exercise of stock options	-	-	24	-	-	-	-	24
Cancellation of restricted stock for tax withholdings on vested shares	-	-	(20)	-	-	-	-	(20)
Share-based compensation	-	-	44	-	-	-	-	44

Balance, September 30, 2015	$ 522	$ 1	$ 2,122	$ (7)	$ (93)	$ 2,218	$ 82	$ 4,323

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

	Nine Months Ended September 30, 2015
Net income attributable to Community Health Systems, Inc. stockholders	$ 241
Transfers to the noncontrolling interests:	
Net decrease in Community Health Systems, Inc. paid-in capital for purchase of subsidiary partnership interests	(16)
Net transfers to the noncontrolling interests	(16)
Change to Community Health Systems, Inc. stockholders equity from net income attributable to Community Health Systems, Inc. stockholders and transfers to noncontrolling interests	$ 225

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

11. EQUITY INVESTMENTS

As of September 30, 2015, the Company owned equity interests of 27.5% in four hospitals in Las Vegas, Nevada, and 26.1% in one hospital in Las Vegas, Nevada, in which Universal Health Systems, Inc. owns the majority interest, and an equity interest of 38.0% in three hospitals in Macon, Georgia, in which HCA Holdings Inc. owns the majority interest.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	**2014**	**2015**	**2014**
Revenues	$ 368	$ 334	$ 1,115	$ 1,005
Operating costs and expenses	329	303	962	893
Income from continuing operations before taxes	39	31	153	112

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

In March 2005, the Company began purchasing items, primarily medical supplies, medical equipment and pharmaceuticals, under an agreement with HealthTrust Purchasing Group, L.P. (HealthTrust), a group purchasing organization in which the Company is a noncontrolling partner. As part of the HMA merger, the Company acquired HMA s ownership in HealthTrust. As of September 30, 2015, the Company had a 24.7% ownership interest in HealthTrust.

The Company s investment in all of its unconsolidated affiliates was $487 million and $470 million at September 30, 2015 and December 31, 2014, respectively, and is included in other assets, net in the accompanying condensed consolidated balance sheets. Included in the Company s results of operations is the Company s equity in pre-tax earnings from all of its investments in unconsolidated affiliates, which was $12 million and $12 million for the three months ended September 30, 2015 and 2014, respectively, and $51 million and $35 million for the nine months ended September 30, 2015 and 2014, respectively.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

12. LONG-TERM DEBT

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

	September 30, 2015	December 31, 2014
Credit Facility:		
Term A Loan	$ 875	$ 950
Term D Loan	-	4,555
Term E Loan	-	1,660
Term F Loan	1,692	-
Term G Loan	1,596	-
Term H Loan	2,937	-
Revolving credit loans	56	-
8% Senior Notes due 2019	2,015	2,018
7 ⅛% Senior Notes due 2020	1,200	1,200
5 ⅛% Senior Secured Notes due 2018	1,600	1,600
5 ⅛% Senior Secured Notes due 2021	1,000	1,000
6 ⅞% Senior Notes due 2022	3,000	3,000
Receivables Facility	615	614
Capital lease obligations	195	228
Other	106	91
Total debt	16,887	16,916
Less current maturities	(240)	(235)
Total long-term debt	$ 16,647	$ 16,681

Credit Facility

The Company s wholly-owned subsidiary, CHS, has senior secured financing under a credit facility with a syndicate of financial institutions led by Credit Suisse, as administrative agent and collateral agent. In connection with the HMA merger, the Company and CHS entered into a third amendment and restatement of its credit facility (the Credit Facility), providing for additional financing and recapitalization of certain of the Company s term loans, including (i) the replacement of the revolving credit facility with a new $1.0 billion revolving facility maturing in 2019 (the Revolving Facility), (ii) the addition of a new $1.0 billion Term A facility due 2019 (the Term A Facility), (iii) a Term D facility in an aggregate principal amount equal to approximately $4.6 billion due 2021 (which included certain term C loans that were converted into such Term D facility (collectively, the Term D Facility)), (iv) the conversion of certain term C loans into Term E Loans and the borrowing of new Term E Loans in an aggregate principal amount of approximately $1.7 billion due 2017 and (v) the addition of flexibility commensurate with the Company s post-acquisition structure. In addition to funding a portion of the consideration in connection with the HMA merger, some of the proceeds of the Term A Facility and Term D Facility were used to refinance the outstanding $637 million existing term A facility due 2016 and the $60 million of term B loans due 2014, respectively. The Revolving Facility includes a subfacility for letters of credit. On March 9, 2015, CHS entered into Amendment No. 1 and Incremental Term Loan Assumption Agreement to refinance the existing Term E Loans due 2017 into Term F Loans due 2018, in an original aggregated principal amount of $1.7 billion. On May 18, 2015, CHS entered into an Incremental Term Loan Assumption Agreement to provide for a new $1.6 billion incremental Term G facility and a new approximately $2.9 billion incremental Term H facility. The proceeds of the Term G facility and Term H facility were used to repay the Company s existing Term D facility in full.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

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

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

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

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

The Credit Facility contains customary representations and warranties, subject to limitations and exceptions, and customary covenants restricting the Company s and its subsidiaries ability, subject to certain exceptions, to, among other things (1) declare dividends, make distributions or redeem or repurchase capital stock, (2) prepay, redeem or repurchase other debt, (3) incur liens or grant negative pledges, (4) make loans and investments and enter into acquisitions and joint ventures, (5) incur additional indebtedness or provide certain guarantees, (6) make capital expenditures, (7) engage in mergers, acquisitions and asset sales, (8) conduct transactions with affiliates, (9) alter the nature of the Company s businesses, (10) grant certain guarantees with respect to physician practices, (11) engage in sale and leaseback transactions or (12) change the Company s fiscal year. The Company is also required to comply with specified financial covenants (consisting of a maximum secured net leverage ratio and an interest coverage ratio) and various affirmative covenants. The Company was in compliance with all such covenants at September 30, 2015.

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

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

As of September 30, 2015, the availability for additional borrowings under the Credit Facility, after taking into account the $56 million outstanding at that date, was approximately $944 million pursuant to the Revolving Facility, of which $83 million was set aside for outstanding letters of credit. CHS has the ability to amend the Credit Facility to provide for one or more tranches of term loans or increases in the Revolving Facility in an aggregate principal amount of $1.5 billion, which CHS has not yet accessed. As of September 30, 2015, the weighted-average interest rate under the Credit Facility, excluding swaps, was 4.2%.

8% Senior Notes due 2019

On November 22, 2011, CHS completed its offering of $1.0 billion aggregate principal amount of 8% Senior Notes due 2019 (the 8% Senior Notes), which were issued in a private placement. The net proceeds from this issuance, together with available cash on hand, were used to finance the purchase of up to $1.0 billion aggregate principal amount of CHS then outstanding 8 7/8% Senior Notes and related fees and expenses. On March 21, 2012, CHS completed the secondary offering of an additional $1.0 billion aggregate principal amount of 8% Senior Notes, which were issued in a private placement (at a premium of 102.5%). The net proceeds from this issuance were used to finance the purchase of approximately $850 million aggregate principal amount of CHS then outstanding 8 7/8% Senior Notes, to pay related fees and expenses and for general corporate purposes. The 8% Senior Notes bear interest at 8% per annum, payable semiannually in arrears on May 15 and November 15, commencing May 15, 2012. Interest on the 8% Senior Notes accrues from the date of original issuance. Interest is calculated on the basis of a 360-day year comprised of twelve 30-day months.

Except as set forth below, CHS is not entitled to redeem the 8% Senior Notes prior to November 15, 2015.

Prior to November 15, 2015, CHS may redeem some or all of the 8% Senior Notes at a redemption price equal to 100% of the principal amount of the notes redeemed plus accrued and unpaid interest, if any, plus a make-whole premium, as described in the 8% Senior Notes indenture. On and after November 15, 2015, CHS is entitled, at its option, to redeem all or a portion of the 8% Senior Notes upon not less than 30 nor more than 60 days notice, at the following redemption prices (expressed as a percentage of principal amount on the redemption date), plus accrued and unpaid interest, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the periods set forth below:

Period	**Redemption Price**
November 15, 2015 to November 14, 2016	104.000%
November 15, 2016 to November 14, 2017	102.000%
November 15, 2017 to November 15, 2019	100.000%

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

7 1/8% Senior Notes due 2020

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

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

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

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

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

5 $^1/_8$% Senior Secured Notes due 2018

On August 17, 2012, CHS completed an underwritten public offering under its automatic shelf registration filed with the SEC of $1.6 billion aggregate principal amount of 5 $^1/_8$% Senior Secured Notes due 2018 (the 2018 Senior Secured Notes). The net proceeds from this issuance, together with available cash on hand, were used to finance the prepayment of $1.6 billion of the outstanding term loans due 2014 under the Credit Facility and related fees and expenses. The 2018 Senior Secured Notes bear interest at 5.125% per annum, payable semiannually in arrears on August 15 and February 15, commencing February 15, 2013. Interest on the 2018 Senior Secured Notes accrues from the date of original issuance. Interest is calculated on the basis of a 360-day year comprised of twelve 30-day months. The 2018 Senior Secured Notes are secured by a first-priority lien subject to a shared lien of equal priority with certain other obligations, including obligations under the Credit Facility, and subject to prior ranking liens permitted by the indenture governing the 2018 Senior Secured Notes on substantially the same assets, subject to certain exceptions, that secure CHS obligations under the Credit Facility.

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

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

5 $^1/_8$% Senior Secured Notes due 2021

On January 27, 2014, CHS issued $1.0 billion aggregate principal amount of 5 $^1/_8$% Senior Secured Notes due 2021 (the 2021 Senior Secured Notes) in connection with the HMA merger, which were issued in a private placement. The net proceeds from this issuance were used to finance the HMA merger. The 2021 Senior Secured Notes bear interest at 5.125% per annum, payable semiannually in arrears on February 1 and August 1, commencing August 1, 2014. Interest on the 2021 Senior Secured Notes accrues from the date of original issuance. Interest is calculated on the basis of a 360-day year comprised of twelve 30-day months. The 2021 Senior Secured Notes are secured by a first-priority lien, subject to a shared lien of equal priority with certain other obligations, including obligations under the Credit Facility, and subject to prior ranking liens permitted by the indenture governing the 2021 Senior Secured Notes, on substantially the same assets, subject to certain exceptions, that secure CHS obligations under the Credit Facility.

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

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

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

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

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

6 ⅞% Senior Notes due 2022

On January 27, 2014, CHS issued $3.0 billion aggregate principal amount of 6 ⅞% Senior Notes due 2022 (the 6⅞% Senior Notes) in connection with the HMA merger, which were issued in a private placement. The net proceeds from this issuance were used to finance the HMA merger. The 6 ⅞% Senior Notes bear interest at 6.875% per annum, payable semiannually in arrears on February 1 and August 1, commencing August 1, 2014. Interest on the 6 ⅞% Senior Notes accrues from the date of original issuance. Interest is calculated on the basis of a 360-day year comprised of twelve 30-day months.

Except as set forth below, CHS is not entitled to redeem the 6 ⅞% Senior Notes prior to February 1, 2018.

Prior to February 1, 2018, CHS is entitled, at its option, to redeem a portion of the 6 ⅞% Senior Notes (not to exceed 40% of the outstanding principal amount) at a redemption price equal to 106.875% of the principal amount of the notes redeemed plus accrued and unpaid interest, with the proceeds from certain public equity offerings. Prior to February 1, 2018, CHS may redeem some or all of the 6 ⅞% Senior Notes at a redemption price equal to 100% of the principal amount of the notes redeemed plus accrued and unpaid interest, if any, plus a make-whole premium, as described in the 6 ⅞% Senior Notes indenture. On and after February 1, 2018, CHS is entitled, at its option, to redeem all or a portion of the 6 ⅞% Senior Notes upon not less than 30 nor more than 60 days notice, at the following redemption prices (expressed as a percentage of principal amount on the redemption date), plus accrued and unpaid interest, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the periods set forth below:

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

Pursuant to a registration rights agreement entered into at the time of the issuance of the 6 ⅞% Senior Notes, as a result of an exchange offer made by CHS, all of the 6 ⅞% Senior Notes issued in January 2014 were exchanged in

October 2014 for new notes (the 6 ⅞% Exchange Notes) having terms substantially identical in all material respects to the 6 ⅞% Senior Notes (except that the exchange notes were issued under a registration statement pursuant to the 1933 Act). References to the 6 ⅞% Senior Notes shall be deemed to be the 6 ⅞% Exchange Notes unless the context provides otherwise.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

Receivables Facility

On March 21, 2012, CHS and certain of its subsidiaries entered into an accounts receivable loan agreement (the Receivables Facility) with a group of lenders and banks, Credit Agricolé Corporate and Investment Bank, as a managing agent and as the administrative agent, and The Bank of Nova Scotia, as a managing agent. On March 7, 2013, CHS and certain of its subsidiaries amended the Receivables Facility to add an additional managing agent, The Bank of Tokyo-Mitsubishi UFJ, Ltd., to increase the size of the facility from $300 million to $500 million and to extend the scheduled termination date. Additional subsidiaries of the Company also agreed to participate in the Receivables Facility as of that date. On March 31, 2014, CHS and certain of its subsidiaries amended the Receivables Facility to increase the size of the facility from $500 million to $700 million and to extend the scheduled termination date. Additional subsidiaries of the Company also agreed to participate in the Receivables Facility as of that date. The existing and future non-self pay patient-related accounts receivable (the Receivables) for certain of the Company s hospitals serves as collateral for the outstanding borrowings under the Receivables Facility. The interest rate on the borrowings is based on the commercial paper rate plus an applicable interest rate spread. Unless earlier terminated or subsequently extended pursuant to its terms, the Receivables Facility will expire on March 21, 2017, subject to customary termination events that could cause an early termination date. The Company maintains effective control over the Receivables because, pursuant to the terms of the Receivables Facility, the Receivables are sold from certain of the Company s subsidiaries to CHS, which then sells or contributes the Receivables to a special-purpose entity that is wholly-owned by CHS. The wholly-owned special-purpose entity in turn grants security interests in the Receivables in exchange for borrowings obtained from the group of third-party lenders and banks of up to $700 million outstanding from time to time based on the availability of eligible Receivables and other customary factors. The group of third-party lenders and banks do not have recourse to the Company or its subsidiaries beyond the assets of the wholly-owned special-purpose entity that collateralizes the loan. The Receivables and other assets of the wholly-owned special-purpose entity will be available first and foremost to satisfy the claims of the creditors of such entity. The outstanding borrowings pursuant to the Receivables Facility at September 30, 2015 totaled $615 million and are classified as long-term debt on the condensed consolidated balance sheet. At September 30, 2015, the carrying amount of Receivables included in the Receivables Facility totaled approximately $1.3 billion and is included in patient accounts receivable on the condensed consolidated balance sheet.

The Company has transitioned all of its hospitals to the ICD-10 coding system, which was required of all healthcare providers covered by the Health Insurance Portability and Accountability Act (HIPAA). This transition continues to involve a significant focus on our technology and information systems, as well as costs related to training of hospital employees and providers and corporate support staff involved with coding and billing. As noted in the Company s risk factors in the 2014 Form 10-K, the potential for delay in billing and collection on patient receivables resulting from these changes or from new payment systems and processes implemented by third-party payors could have an adverse effect on the quality of receivables that serve as collateral under the Receivables Facility, resulting in a potential default or repayment of outstanding borrowings. Should such a repayment of borrowings under the Receivables Facility be required, the Company has availability, and expects that it will continue to have availability, under its Revolving Facility to provide sufficient financial resources and liquidity to fund the repayment.

Loss from Early Extinguishment of Debt

The financing transactions discussed above resulted in a loss from the early extinguishment of debt was $16 million and $73 million for the nine months ended September 30, 2015 and 2014, respectively, and an after-tax loss of $10 million and $45 million for the nine months ended September 30, 2015 and 2014, respectively.

Other Debt

As of September 30, 2015, other debt consisted primarily of the mortgage obligation on the Company s corporate headquarters and other obligations maturing in various installments through 2020.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

To limit the effect of changes in interest rates on a portion of the Company s long-term borrowings, the Company is a party to 13 separate interest swap agreements in effect at September 30, 2015, with an aggregate notional amount for currently effective swaps of $3.0 billion, and two forward-starting swap agreements with an aggregate notional amount of $500 million. On each of these swaps, the Company receives a variable rate of interest based on the three-month LIBOR in exchange for the payment of a fixed rate of interest. The Company currently pays, on a quarterly basis, interest on the Revolving Facility and the Term A Facility at a rate per annum equal to LIBOR plus 2.75%. Loans in respect of the Term F Facility accrue interest at a rate per annum equal to LIBOR plus 3.25%. The Term G Loan and Term H Loan accrue interest at a rate per annum equal to LIBOR plus 2.75% and 3.00%, in the case of LIBOR borrowings, respectively, and Alternate Base Rate plus 1.75% and 2.00%, respectively, in the case of Alternate Base Rate Borrowings. The Term G Loan and the Term H Loan are subject to a 1.00% LIBOR floor and a 2.00% Alternate Base Rate floor. See Note 13 for additional information regarding these swaps.

The Company paid interest of $293 million and $308 million on borrowings during the three months ended September 30, 2015 and 2014, respectively, and $752 million and $661 million on borrowings during the nine months ended September 30, 2015 and 2014, respectively.

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments has been estimated by the Company using available market information as of September 30, 2015 and December 31, 2014, and valuation methodologies considered appropriate. The estimates presented are not necessarily indicative of amounts the Company could realize in a current market exchange
(in millions):

	September 30, 2015		December 31, 2014	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Cash and cash equivalents	$ 186	$ 186	$ 509	$ 509
Available-for-sale securities	268	268	280	280
Trading securities	56	56	55	55
Liabilities:				
Contingent Value Right	2	2	6	6
Credit Facility	7,156	7,158	7,165	7,143
8% Senior Notes	2,015	2,085	2,018	2,139
7 ⅛% Senior Notes	1,200	1,261	1,200	1,282
2018 Senior Secured Notes	1,600	1,640	1,600	1,655
2021 Senior Secured Notes	1,000	1,026	1,000	1,041
6 ⅞% Senior Notes	3,000	3,077	3,000	3,194

Receivables Facility and other debt	722	722	705	705

The estimated fair value is determined using the methodologies discussed below in accordance with accounting standards related to the determination of fair value based on the U.S. GAAP fair value hierarchy as discussed in Note 14. The estimated fair value for financial instruments with a fair value that does not equal its carrying value is considered a Level 1 valuation. The Company utilizes the market approach and obtains indicative pricing from the administrative agent to the Credit Facility to determine fair values or through publicly available subscription services such as Bloomberg where relevant.

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

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

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

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

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

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

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

7 1/8% Senior Notes. Estimated fair value is based on the closing market price for these notes.

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

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

6 7/8% Senior Notes. Estimated fair value is based on the closing market price for these notes.

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

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

The Company assesses the effectiveness of its hedge instruments on a quarterly basis. For the nine months ended September 30, 2015 and 2014, the Company completed an assessment of the cash flow hedge instruments and determined the hedges to be highly effective. The Company has also determined that the ineffective portion of the hedges do not have a material effect on the Company s consolidated financial position, operations or cash flows. The counterparties to the interest rate swap agreements expose the Company to credit risk in the event of nonperformance. However, at September 30, 2015, all of the swap agreements entered into by the Company were in a net liability position such that the Company would be required to make the net settlement payments to the counterparties; the Company does not anticipate nonperformance by those counterparties. The Company does not hold or issue derivative financial instruments for trading purposes.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

Interest rate swaps consisted of the following at September 30, 2015:

Swap #	Notional Amount (in millions)	Fixed Interest Rate	Termination Date	Fair Value (in millions)
1	$ 300	3.447%	August 6, 2016	$ 8
2	100	3.401%	August 19, 2016	3
3	200	3.429%	August 19, 2016	5
4	200	3.500%	August 30, 2016	5
5	100	3.005%	November 30, 2016	3
6	200	2.055%	July 25, 2019	7
7	200	2.059%	July 25, 2019	7
8	400	1.882%	August 30, 2019	5
9	200	2.515%	August 30, 2019	7
10	200	2.613%	August 30, 2019	8
11	300	2.041%	August 30, 2020	4
12	300	2.738%	August 30, 2020	14
13	300	2.892%	August 30, 2020	16
14	300	2.363%	January 27, 2021	6 (1)
15	200	2.368%	January 27, 2021	4 (1)

(1) This interest rate swap becomes effective February 29, 2016.

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

Assuming no change in September 30, 2015 interest rates, approximately $59 million of interest expense resulting from the spread between the fixed and floating rates defined in each interest rate swap agreement will be recognized during the next 12 months. If interest rate swaps do not remain highly effective as a cash flow hedge, the derivatives gains or losses resulting from the change in fair value reported through OCI will be reclassified into earnings.

The following tabular disclosure provides the amount of pre-tax (loss) gain recognized as a component of OCI during the three and nine months ended September 30, 2015 and 2014 (in millions):

	Amount of Pre-Tax (Loss) Gain Recognized in OCI (Effective Portion)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
Derivatives in Cash Flow Hedging Relationships	**2015**	**2014**	**2015**	**2014**
Interest rate swaps	$ (41)	$ 2	$ (61)	$ (20)

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

The following tabular disclosure provides the location of the effective portion of the pre-tax loss reclassified from accumulated other comprehensive loss (AOCL) into interest expense on the condensed consolidated statements of income during the three and nine months ended September 30, 2015 and 2014 (in millions):

Location of Loss Reclassified from AOCL into Income (Effective Portion)	Amount of Pre-Tax Loss Reclassified from AOCL into Income (Effective Portion)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Interest expense, net	$ 9	$ 15	$ 27	$ 51

The fair values of derivative instruments in the condensed consolidated balance sheets as of September 30, 2015 and December 31, 2014 were as follows (in millions):

	Asset Derivatives				Liability Derivatives			
	September 30, 2015		December 31, 2014		September 30, 2015		December 31, 2014	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments	Other assets, net	$ -	Other assets, net	$ -	Other long-term liabilities	$ 102	Other long-term liabilities	$ 68

14. FAIR VALUE

Fair Value Hierarchy

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

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

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

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

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

In instances where the determination of the fair value hierarchy measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment of factors specific to the asset or liability. Transfers between levels within the fair value hierarchy are recognized by the Company on the date of the change in circumstances that requires such transfer. There were no transfers between levels during 2015 or 2014.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

The following table sets forth, by level within the fair value hierarchy, the financial assets and liabilities recorded at fair value on a recurring basis as of September 30, 2015 and December 31, 2014 (in millions):

	September 30, 2015	Level 1	Level 2	Level 3
Available-for-sale securities	$ 268	$ 148	$ 120	$ -
Trading securities	56	56	-	-
Total assets	$ 324	$ 204	$ 120	$ -
Contingent Value Right (CVR)	$ 2	$ 2	$ -	$ -
CVR-related liability	263	-	-	263
Fair value of interest rate swap agreements	102	-	102	-
Total liabilities	$ 367	$ 2	$ 102	$ 263

	December 31, 2014	Level 1	Level 2	Level 3
Available-for-sale securities	$ 280	$ 151	$ 129	$ -
Trading securities	55	55	-	-
Total assets	$ 335	$ 206	$ 129	$ -
Contingent Value Right (CVR)	$ 6	$ 6	$ -	$ -
CVR-related liability	265	-	-	265
Fair value of interest rate swap agreements	68	-	68	-
Total liabilities	$ 339	$ 6	$ 68	$ 265

Available-for-sale Securities

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

Contingent Value Right (CVR)

The CVR represents the estimate of the fair value for the contingent consideration paid to HMA shareholders as part of the HMA merger. The CVR is listed on the NASDAQ and the valuation at September 30, 2015 is based on the quoted trading price for the CVR on the last day of the period. Changes in the estimated fair value of the CVR are recorded through the condensed consolidated statement of income.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

CVR-related Liability

The CVR-related legal liability represents the Company s estimate of fair value at September 30, 2015 of the liability associated with the legal matters assumed in the HMA merger that were not previously accrued by HMA. No liability was recorded at September 30, 2015 in accrued liabilities in the accompanying condensed consolidated balance sheet in respect of claims that were previously recorded by HMA as a probable contingency. To develop the estimate of fair value, the Company engaged an independent third-party valuation firm to measure the liability. The valuation was made utilizing the Company s estimates of future outcomes for each legal case and simulating future outcomes based on the timing, probability and distribution of several scenarios using a Monte Carlo simulation model. Other inputs were then utilized for discounting the liability to the measurement date. The HMA legal matters underlying this fair value estimate were evaluated by management to determine the likelihood and impact of each of the potential outcomes. Using that information, as well as the potential correlation and variability associated with each case, a fair value was determined for the estimated future cash outflows to conclude or settle the HMA legal matters included in the analysis, excluding legal fees (which are expensed as incurred). Because of the unobservable nature of the majority of the inputs used to value the liability, the Company has classified the fair value measurement as a Level 3 measurement in the fair value hierarchy.

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

Fair Value of Interest Rate Swap Agreements

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

The Company incorporates CVAs to appropriately reflect both its own nonperformance or credit risk and the respective counterparty s nonperformance or credit risk in the fair value measurements. In adjusting the fair value of its interest rate swap agreements for the effect of nonperformance or credit risk, the Company has considered the impact of any netting features included in the agreements. The CVA on the Company s interest rate swap agreements at September 30, 2015 resulted in a decrease in the fair value of the related liability of $6 million and an after-tax adjustment of $4 million to OCI. The CVA on the Company s interest rate swap agreements at December 31, 2014 resulted in a decrease in the fair value of the related liability of $4 million and an after-tax adjustment of $2 million to OCI.

The majority of the inputs used to value the Company s interest rate swap agreements, including the forward interest rate curves and market perceptions of the Company s credit risk used in the CVAs, are observable inputs available to a market participant. As a result, the Company has determined that the interest rate swap valuations are classified in Level 2 of the fair value hierarchy.

15. SEGMENT INFORMATION

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

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

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

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

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Net operating revenues:				
Hospital operations	$ 4,805	$ 4,727	$ 14,494	$ 13,555
Corporate and all other	41	53	145	166
Total	$ 4,846	$ 4,780	$ 14,639	$ 13,721
Income (loss) from continuing operations before income taxes:				
Hospital operations	$ 212	$ 254	$ 781	$ 517
Corporate and all other	(91)	(121)	(279)	(406)
Total	$ 121	$ 133	$ 502	$ 111

16. OTHER COMPREHENSIVE INCOME

The following tables present information about items reclassified out of accumulated other comprehensive income (loss) by component for the three and nine months ended September 30, 2015 and 2014 (in millions, net of tax):

	Change in Fair Value of Interest Rate Swaps	Change in Fair Value of Available for Sale Securities	Change in Unrecognized Pension Cost Components	Accumulated Other Comprehensive Income (Loss)
Balance as of June 30, 2015	$ (44)	$ 6	$ (26)	$ (64)
Other comprehensive income (loss) before reclassifications	(27)	(9)	-	(36)
Amounts reclassified from accumulated other comprehensive income (loss)	6	-	1	7
Net current-period other comprehensive income	(21)	(9)	1	(29)
Balance as of September 30, 2015	$ (65)	$ (3)	$ (25)	$ (93)

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

	Change in Fair Value of Interest Rate Swaps	Change in Fair Value of Available for Sale Securities	Change in Unrecognized Pension Cost Components	Accumulated Other Comprehensive Income (Loss)
Balance as of December 31, 2014	$ (43)	$ 7	$ (27)	$ (63)
Other comprehensive (loss) income before reclassifications	(39)	(10)	-	(49)
Amounts reclassified from accumulated other comprehensive income (loss)	17	-	2	19
Net current-period other comprehensive income	(22)	(10)	2	(30)
Balance as of September 30, 2015	$ (65)	$ (3)	$ (25)	$ (93)

	Change in Fair Value of Interest Rate Swaps	Change in Fair Value of Available for Sale Securities	Change in Unrecognized Pension Cost Components	Accumulated Other Comprehensive Income (Loss)
Balance as of June 30, 2014	$ (47)	$ 10	$ (18)	$ (55)
Other comprehensive (loss) income before reclassifications	1	(5)	1	(3)
Amounts reclassified from accumulated other comprehensive income (loss)	10	-	-	10
Net current-period other comprehensive income	11	(5)	1	7
Balance as of September 30, 2014	$ (36)	$ 5	$ (17)	$ (48)

	Change in Fair Value of Interest Rate Swaps	Change in Fair Value of Available for Sale Securities	Change in Unrecognized Pension Cost Components	Accumulated Other Comprehensive Income (Loss)
Balance as of December 31, 2013	$ (56)	$ 7	$ (18)	$ (67)
Other comprehensive (loss) income before reclassifications	(13)	(2)	-	(15)

Amounts reclassified from accumulated other comprehensive income (loss)	33	-	1	34
Net current-period other comprehensive income	20	(2)	1	19
Balance as of September 30, 2014	$ (36)	$ 5	$ (17)	$ (48)

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

The following tables present a subtotal for each significant reclassification to net income out of accumulated other comprehensive income (loss) and the line item affected in the accompanying condensed consolidated statement of income for the three and nine months ended September 30, 2015 and 2014 (in millions):

Details about accumulated other comprehensive income (loss) components	Amount reclassified from AOCL Three Months Ended September 30, 2015	Amount reclassified from AOCL Nine Months Ended September 30, 2015	Affected line item in the statement where net income is presented
Gains and losses on cash flow hedges			
Interest rate swaps	$ (9)	$ (27)	Interest expense, net
	3	10	Tax benefit
	$ (6)	$ (17)	Net of tax
Amortization of defined benefit pension items			
Prior service costs	$ -	$ (1)	Salaries and benefits
Actuarial losses	(1)	(2)	Salaries and benefits
	(1)	(3)	Total before tax
	-	1	Tax benefit
	$ (1)	$ (2)	Net of tax

Details about accumulated other comprehensive income (loss) components	Amount reclassified from AOCL Three Months Ended September 30, 2014	Amount reclassified from AOCL Nine Months Ended September 30, 2014	Affected line item in the statement where net income is presented
Gains and losses on cash flow hedges			
Interest rate swaps	$ (15)	$ (51)	Interest expense, net
	5	18	Tax benefit
	$ (10)	$ (33)	Net of tax
Amortization of defined benefit pension items			

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

17. CONTINGENCIES

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

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

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

Effective upon the closing of the spin-off, the Company anticipates it will agree to indemnify QHC for certain liabilities relating to outcomes or events occurring prior to the closing of the spin-off, including (i) certain claims and proceedings with respect to QHC s healthcare facilities known to be outstanding on or prior to the closing date of the spin-off and (ii) certain claims, proceedings and investigations by governmental authorities or private plaintiffs related to activities occurring at or related to QHC s healthcare facilities prior to the closing date of the spin-off, but only to the extent, in the case of clause (ii), that such claims are covered by insurance policies maintained by the Company, including professional liability and employer practices. In this regard, the Company will continue to be responsible for HMA Legal Matters (as defined below) covered by the CVR agreement that relate to the portion of our business that will be held by QHC upon the closing of the spin-off, and any amounts payable by the Company in connection therewith will continue to reduce the amount payable by the Company in respect of the CVRs. Notwithstanding the foregoing, we anticipate that the Company will not indemnify QHC in respect of any claims or proceedings arising out of or related to the business operations of Quorum Health Resources, LLC at any time.

HMA Legal Matters and Related CVR

The CVR agreement entitles the holder to receive a one-time cash payment of up to $1.00 per CVR, subject to downward adjustment based on the final resolution of certain litigation, investigations (whether formal or informal, including subpoenas), or other actions or proceedings related to HMA or its affiliates existing on or prior to July 29, 2013 (the date of the Company s merger agreement with HMA) as more specifically provided in the CVR agreement (all such matters are referred to as the HMA Legal Matters), which include, but are not limited to, investigation and litigation matters as previously disclosed by HMA in public filings with the SEC and/or as described in more detail below. The adjustment reducing the ultimate amount paid to holders of the CVR is determined based on the amount of losses incurred by the Company in connection with the HMA Legal Matters as more specifically provided in the CVR agreement, which generally includes the amount paid for damages, costs, fees and expenses (including, without limitation, attorneys fees and expenses), and all fines, penalties, settlement amounts, indemnification obligations and other liabilities (all such losses are referred to as HMA Losses). If the aggregate amount of HMA Losses exceeds a deductible of $18 million, then the amount payable in respect of each CVR shall be reduced (but not below zero) by an amount equal to the quotient obtained by dividing: (a) the product of (i) all losses in excess of the deductible and (ii) 90%; by (b) the number of CVRs outstanding on the date on which final resolution of the existing litigation occurs. There are 264,544,053 CVRs outstanding as of the date hereof. If total HMA Losses (including HMA Losses that have occurred to date as noted in the table below) exceed approximately $312 million, then the holders of the CVRs will not be entitled to any payment in respect of the CVRs.

The CVRs do not have a finite payment date. Any payments the Company makes under the CVR agreement will be payable within 60 days after the final resolution of the HMA Legal Matters. The CVRs are unsecured obligations of CHS and all payments under the CVRs will be subordinated in right of payment to the prior payment in full of all of the Company s senior obligations (as defined in the CVR agreement), which include outstanding indebtedness of the Company (subject to certain exceptions set forth in the CVR agreement) and the HMA Losses. The CVR agreement permits the Company to acquire all or some of the CVRs, whether in open market transactions, private transactions or otherwise. As of September 30, 2015, the Company had acquired no CVRs.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

The following table represents the impact of legal expenses paid or incurred to date and settlements paid or deemed final as of September 30, 2015 on the amounts owed to CVR holders (in millions):

		Allocation of Expenses and Settlements Paid		
	Total Expenses and Settlement Cost	Deductible	CHS Responsibility at 10%	Reduction to Amount Owed to CVR Holders at 90%
As of December 31, 2014	$ 24	$ 18	$ -	$ 6
Settlements paid	25	-	3	22
Legal expenses incurred and/or paid during the nine months ended September 30, 2015	7	-	1	6
As of September 30, 2015	$ 56	$ 18	$ 4	$ 34

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

Underlying the CVR agreement are a number of claims included in the HMA Legal Matters asserted against HMA. The Company has recorded a liability in connection with those claims as part of the acquired assets and liabilities at the date of acquisition pursuant to the provisions of Financial Accounting Standards Board Accounting Standards Codification Topic 805 Business Combinations. For the estimate of the Company s liabilities associated with the HMA Legal Matters that will be covered by the CVR and were not previously accrued by HMA, the Company recorded a liability of $284 million as part of the acquisition accounting for the HMA merger based on the Company s estimate of fair value of such liabilities as of the date of acquisition. The decrease in this liability during the nine months ended September 30, 2015 was approximately $2 million and the fair value of such liabilities of $263 million as of September 30, 2015 is recorded in other long-term liabilities on the accompanying condensed consolidated balance sheet. As of September 30, 2015, there is currently no accrual recorded for the probable contingency claims underlying the CVR agreement. The estimated liability for probable contingency claims underlying the CVR agreement that was previously recorded by HMA, and reflected in the purchase accounting for HMA as an acquired liability has been settled and was paid during the nine months ended September 30, 2015. In addition, although legal fees are not included in the amounts currently accrued, such legal fees are taken into account in determining HMA Losses under the CVR agreement. Certain significant HMA Legal Matters underlying these liabilities are discussed in greater detail below.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

HMA Matters Recorded at Fair Value

Medicare/Medicaid Billing Lawsuits

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

Summary of Recorded Amounts

The table below presents a reconciliation of the beginning and ending liability balances (in millions) during the nine months ended September 30, 2015 with respect to the Company s fair value determination in connection with HMA

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

	CVR Related Liability at Fair Value	CVR Related Liability for Probable Contingencies	Other Probable Contingencies
Balance as of December 31, 2014	$ 265	$ 29	$ 125
Expense (income)	6	(12)	15
Cash payments	(8)	(17)	(114)
Balance as of September 30, 2015	$ 263	$ -	$ 26

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

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

In the aggregate, attorneys fees and other costs incurred but not included in the table above related to probable contingencies, and CVR-related contingencies accounted for at fair value, totaled $2 million and $10 million for the three months ended September 30, 2015 and 2014, respectively, and $8 million and $24 million for the nine months ended September 30, 2015 and 2014, respectively, and are included in other operating expenses in the accompanying condensed consolidated statements of income.

Matters for which an Outcome Cannot be Assessed

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

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

Shareholder Derivative Actions. Three purported shareholder derivative actions have also been filed in the United States District Court for the Middle District of Tennessee; Plumbers and Pipefitters Local Union No. 630 Pension Annuity Trust Fund v. Wayne T. Smith, et al., filed May 24, 2011; Roofers Local No. 149 Pension Fund v. Wayne T. Smith, et al., filed June 21, 2011; and Lambert Sweat v. Wayne T. Smith, et al., filed October 5, 2011. These three cases allege breach of fiduciary duty arising out of allegedly improper inpatient admission practices, mismanagement, waste and unjust enrichment. These cases have been consolidated into a single, consolidated action. The plaintiffs filed an operative amended derivative complaint in these three consolidated actions on March 15, 2012. The Company s motion to dismiss was argued on June 13, 2013. On September 27, 2013, the court issued an order granting in part and denying in part the Company s motion to dismiss. An initial case management order was entered on November 11, 2014, but no trial date has been set. Discovery is continuing. The Company believes all of the plaintiffs claims are without merit and will vigorously defend them.

18. SUBSEQUENT EVENTS

The Company evaluated all material events occurring subsequent to the balance sheet date for events requiring disclosure or recognition in the condensed consolidated financial statements.

On October 16, 2015, the Company announced that one or more of its subsidiaries had executed a definitive agreement to sell substantially all of the assets of Bartow Regional Medical Center (72 licensed beds) in Bartow, Florida, along with related outpatient services, to subsidiaries of BayCare Health System, Inc. for approximately $60 million in cash. The divestiture is expected to close by the end of 2015, subject to customary regulatory approvals and closing conditions. The transaction is not expected to have a material impact on the financial results of the Company.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

19. SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION

The Senior Notes due 2019, 2020 and 2022, which are senior unsecured obligations of CHS, and the 5 ⅛% Senior Secured Notes due 2018 and 2021 (collectively, the Notes) are guaranteed on a senior basis by the Company and by certain of its existing and subsequently acquired or organized 100% owned domestic subsidiaries. The Notes are fully and unconditionally guaranteed on a joint and several basis, with exceptions considered customary for such guarantees, limited to the release of the guarantee when a subsidiary guarantor s capital stock is sold, or a sale of all of the subsidiary guarantor s assets used in operations. The following condensed consolidating financial statements present Community Health Systems, Inc. (as parent guarantor), CHS (as the issuer), the subsidiary guarantors, the subsidiary non-guarantors and eliminations. These condensed consolidating financial statements have been prepared and presented in accordance with SEC Regulation S-X Rule 3-10 Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered.

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

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

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

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

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

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

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

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

Condensed Consolidating Statement of Income

Three Months Ended September 30, 2015

	Parent Guarantor	Issuer	Other Guarantors	Non - Guarantors	Eliminations	Consolidated
			(In millions)			
perating evenues (net of ontractual llowances and iscounts)	$ -	$ (5)	$ 3,493	$ 2,092	$ -	$ 5,580
rovision for ad debts	-	-	417	317	-	734
et operating evenues	-	(5)	3,076	1,775	-	4,846
perating costs nd expenses:						
alaries and enefits	-	-	1,254	986	-	2,240
upplies	-	-	497	265	-	762
ther operating xpenses	-	-	801	343	-	1,144
lectronic ealth records ncentive eimbursement	-	-	(44)	(10)	-	(54)
ent	-	-	62	53	-	115
epreciation nd mortization	-	-	202	86	-	288
otal operating osts and xpenses	-	-	2,772	1,723	-	4,495
ncome from perations	-	(5)	304	52	-	351

nterest xpense, net		-		26		206		10		-	242
oss from early xtinguishment f debt		-		-		-		-		-	-
quity in arnings of nconsolidated ffiliates		(52)		(70)		(16)		-		126	(12)
ncome from ontinuing perations efore income axes		52		39		114		42		(126)	121
rovision for benefit from) ncome taxes		-		(13)		43		8		-	38
ncome from ontinuing perations		52		52		71		34		(126)	83
Discontinued perations, net f taxes:											
oss from perations of ntities sold or eld for sale		-		-		(1)		(4)		-	(5)
oss on sale, et		-		-		(1)		(2)		-	(3)
oss from iscontinued perations, net f taxes		-		-		(2)		(6)		-	(8)
Net income		52		52		69		28		(126)	75
ess: Net ncome ttributable to oncontrolling nterests		-		-		-		23		-	23
Net income ttributable to Community Health Systems, nc. tockholders	$	52	$	52	$	69	$	5	$	(126)	$ 52

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

Condensed Consolidating Statement of Income

Three Months Ended September 30, 2014

	Parent Guarantor	Issuer	Other Guarantors	Non - Guarantors	Eliminations	Consolidated
			(In millions)			
)perating evenues (net f contractual llowances and iscounts)	$ -	$ (5)	$ 3,405	$ 2,138	$ -	$ 5,538
rovision for ad debts	-	-	461	297	-	758
let operating evenues	-	(5)	2,944	1,841	-	4,780
)perating costs nd expenses:						
alaries and enefits	-	-	1,200	984	-	2,184
upplies	-	-	467	263	-	730
)ther operating xpenses	-	-	722	396	-	1,118
overnment ettlement and elated costs	-	-	77	-	-	77
lectronic ealth records ncentive eimbursement	-	-	(63)	(25)	-	(88)
ent	-	-	57	53	-	110
)epreciation nd mortization	-	-	186	93	-	279
otal operating osts and xpenses	-	-	2,646	1,764	-	4,410

ncome from perations	-	(5)	298	77	-	370
nterest xpense, net	-	13	219	17	-	249
Equity in arnings of nconsolidated ffiliates	(62)	(65)	(34)	-	149	(12)
ncome from ontinuing perations efore income axes	62	47	113	60	(149)	133
Provision for benefit from) ncome taxes	-	(15)	44	10	-	39
ncome from ontinuing perations	62	62	69	50	(149)	94
Discontinued perations, net f taxes:						
ncome from perations of ntities sold or eld for sale	-	-	(5)	6	-	1
ncome from iscontinued perations, net f taxes	-	-	(5)	6	-	1
Net income	62	62	64	56	(149)	95
Less: Net ncome ttributable to oncontrolling nterests	-	-	-	33	-	33
Net income ttributable to Community Health ystems, Inc. tockholders	$ 62	$ 62	$ 64	$ 23	$ (149)	$ 62

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

Condensed Consolidating Statement of Income

Nine Months Ended September 30, 2015

	Parent Guarantor	Issuer	Other Guarantors	Non - Guarantors	Eliminations	Consolidated
			(In millions)			
perating evenues (net of ontractual llowances and iscounts)	$ -	$ (14)	$ 10,524	$ 6,330	$ -	$ 16,840
rovision for ad debts	-	-	1,308	893	-	2,201
et operating evenues	-	(14)	9,216	5,437	-	14,639
perating costs nd expenses:						
alaries and enefits	-	-	3,712	3,002	-	6,714
upplies	-	-	1,481	793	-	2,274
ther operating xpenses	-	-	2,274	1,096	-	3,370
overnment ettlement and elated costs	-	-	1	-	-	1
lectronic ealth records ncentive eimbursement	-	-	(103)	(32)	-	(135)
ent	-	-	183	161	-	344
epreciation nd mortization	-	-	603	272	-	875
mortization of oftware to be bandoned	-	-	-	-	-	-

otal operating osts and xpenses	-	-	8,151	5,292	-	13,443
ncome from perations	-	(14)	1,065	145	-	1,196
nterest xpense, net	-	74	614	35	-	723
oss from early xtinguishment f debt	-	16	-	-	-	16
quity in arnings of nconsolidated ffiliates	(241)	(310)	(49)	-	549	(51)
mpairment of ong-lived ssets	-		6	-	-	6
ncome from ontinuing perations efore income axes	241	206	494	110	(549)	502
rovision for benefit from) ncome taxes	-	(35)	186	16	-	167
ncome from ontinuing perations	241	241	308	94	(549)	335
Discontinued perations, net f taxes:						
oss from perations of ntities sold or eld for sale	-	-	(4)	(18)	-	(22)
mpairment of ospitals sold r held for sale	-	-	(2)	-	-	(2)
oss on sale, et	-	-	1	(4)	-	(3)
oss from iscontinued perations, net f taxes	-	-	(5)	(22)	-	(27)

Net income		241		241		303		72		(549)		308
Less: Net income attributable to noncontrolling interests		-		-		-		67		-		67
Net income attributable to Community Health Systems, Inc. stockholders	$	241	$	241	$	303	$	5	$	(549)	$	241

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

Condensed Consolidating Statement of (Loss) Income

Nine Months Ended September 30, 2014

	Parent Guarantor	Issuer	Other Guarantors	Non - Guarantors	Eliminations	Consolidated
			(In millions)			
perating evenues (net of ontractual llowances and iscounts)	$ -	$ (13)	$ 9,900	$ 6,033	$ -	$ 15,920
rovision for ad debts	-	-	1,397	802	-	2,199
let operating evenues	-	(13)	8,503	5,231	-	13,721
perating costs nd expenses:						
alaries and enefits	-	-	3,583	2,814	-	6,397
upplies	-	-	1,362	736	-	2,098
ther operating xpenses	-	-	2,083	1,168	-	3,251
overnment ettlement and elated costs	-	-	77	-	-	77
lectronic ealth records ncentive eimbursement	-	-	(147)	(65)	-	(212)
ent	-	-	170	149	-	319
epreciation nd mortization	-	-	572	243	-	815
mortization of oftware to be bandoned	-	-	45	30	-	75

otal operating osts and xpenses	-	-	7,745	5,075	-	12,820
ncome from perations	-	(13)	758	156	-	901
nterest xpense, net	-	84	596	48	-	728
oss from early xtinguishment f debt	-	73	-	-	-	73
quity in arnings of nconsolidated ffiliates	8	(97)	(43)	-	97	(35)
mpairment of ong-lived ssets	-	-	24	-	-	24
oss from ontinuing perations efore income axes	(8)	(73)	181	108	(97)	111
rovision for benefit from) ncome taxes	-	(65)	69	12	-	16
ncome from ontinuing perations	(8)	(8)	112	96	(97)	95
Discontinued perations, net f taxes:						
oss from perations of ntities sold or eld for sale	-	-	(21)	16	-	(5)
mpairment of ospitals sold r held for sale	-	-	-	(23)	-	(23)
oss from iscontinued perations, net f taxes	-	-	(21)	(7)	-	(28)
Net (loss) ncome	(8)	(8)	91	89	(97)	67
ess: Net ncome	-	-	-	75	-	75

ttributable to oncontrolling nterests												
Net (loss) ncome ttributable to Community Health Systems, nc. tockholders	$	(8)	$	(8)	$	91	$	14	$	(97)	$	(8)

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

Condensed Consolidating Statement of Comprehensive Income

Three Months Ended September 30, 2015

	Parent Guarantor	Issuer	Other Guarantors	Non - Guarantors	Eliminations	Consolidated
			(In millions)			
et income	$ 52	$ 52	$ 69	$ 28	$ (126)	$ 75
her mprehensive come (loss), net income taxes:						
et change in fair lue of interest te swaps	(21)	(21)	-	-	21	(21
et change in fair lue of ailable-for-sale curities	(9)	(9)	(9)	-	18	(9
mortization and cognition of recognized nsion cost mponents	1	1	1	-	(2)	1
her mprehensive come (loss)	(29)	(29)	(8)	-	37	(29
omprehensive come	23	23	61	28	(89)	46
ess: omprehensive come ributable to ncontrolling erests	-	-	-	23	-	23

omprehensive come ributable to ommunity ealth Systems, c. stockholders	$	23	$	23	$	61	$	5	$	(89)	$	23

Condensed Consolidating Statement of Comprehensive Income

Three Months Ended September 30, 2014

	Parent Guarantor		Issuer		Other Guarantors		Non - Guarantors		Eliminations		Consolidated	
					(In millions)							
et income	$	62	$	62	$	64	$	56	$	(149)	$	95
her mprehensive come (loss), net income taxes:												
et change in fair lue of interest te swaps		11		11		-		-		(11)		11
et change in fair lue of ailable-for-sale curities		(5)		(5)		(5)		-		10		(5
mortization and cognition of recognized nsion cost mponents		1		1		1		-		(2)		1
her mprehensive come (loss)		7		7		(4)		-		(3)		7
omprehensive come		69		69		60		56		(152)		102
ess: omprehensive come ributable to ncontrolling terests		-		-		-		33		-		33
omprehensive come	$	69	$	69	$	60	$	23	$	(152)	$	69

ributable to ommunity ealth Systems, c. stockholders

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

Condensed Consolidating Statement of Comprehensive Income

Nine Months Ended September 30, 2015

	Parent Guarantor	Issuer	Other Guarantors	Non - Guarantors	Eliminations	Consolidated
			(In millions)			
et income	$ 241	$ 241	$ 303	$ 72	$ (549)	$ 308
her mprehensive come (loss), net income taxes:						
et change in fair lue of interest te swaps	(22)	(22)	-	-	22	(22
et change in fair lue of ailable-for-sale curities	(10)	(10)	(10)	-	20	(10
mortization and cognition of recognized nsion cost mponents	2	2	2	-	(4)	2
her mprehensive come (loss)	(30)	(30)	(8)	-	38	(30
omprehensive come	211	211	295	72	(511)	278
ss: omprehensive come ributable to ncontrolling erests	-	-	-	67	-	67

omprehensive come ributable to ommunity ealth Systems, c. stockholders	$	211	$	211	$	295	$	5	$	(511)	$	211

Condensed Consolidating Statement of Comprehensive Income

Nine Months Ended September 30, 2014

	Parent Guarantor		Issuer		Other Guarantors		Non - Guarantors		Eliminations		Consolidated	
					(In millions)							
et (loss) income	$	(8)	$	(8)	$	91	$	89	$	(97)	$	67
her mprehensive come (loss), net income taxes:												
et change in fair lue of interest te swaps		20		20		-		-		(20)		20
et change in fair lue of ailable-for-sale curities		(2)		(2)		(2)		-		4		(2
mortization and cognition of recognized nsion cost mponents		1		1		1		-		(2)		1
her mprehensive come (loss)		19		19		(1)		-		(18)		19
omprehensive come		11		11		90		89		(115)		86
ess: omprehensive come ributable to ncontrolling erests		-		-		-		75		-		75
omprehensive come	$	11	$	11	$	90	$	14	$	(115)	$	11

ributable to ommunity ealth Systems, c. stockholders

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

Condensed Consolidating Balance Sheet

September 30, 2015

	Parent Guarantor	Issuer	Other Guarantors	Non - Guarantors	Eliminations	Consolidated
			(In millions)			
			ASSETS			
Current assets:						