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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2014

Commission file number 001-15925

COMMUNITY HEALTH SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

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

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 July 27, 2014, there were outstanding 115,575,088 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 Six Months Ended June 30, 2014

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except share data)

(Unaudited)

	June 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 389	$ 373
Patient accounts receivable, net of allowance for doubtful accounts of $3,495 and $2,438 at June 30, 2014 and December 31, 2013, respectively	3,121	2,323
Supplies	550	371
Prepaid income taxes	193	107
Deferred income taxes	317	101
Prepaid expenses and taxes	203	127
Other current assets (including assets of hospitals held for sale of $83 and $40 at June 30, 2014 and December 31, 2013, respectively)	624	345
Total current assets	5,397	3,747
Property and equipment	14,590	10,462
Less accumulated depreciation and amortization	(3,773)	(3,411)
Property and equipment, net	10,817	7,051
Goodwill	8,519	4,424
Other assets, net (including assets of hospitals held for sale of $170 and $94 at June 30, 2014 and December 31, 2013, respectively)	2,537	1,895
Total assets	$ 27,270	$ 17,117
LIABILITIES AND EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 209	$ 167
Accounts payable	1,000	949
Deferred income taxes	-	3
Accrued interest	233	112
Accrued liabilities (including liabilities of hospitals held for sale of $37 and $24 at June 30, 2014 and December 31, 2013,	1,727	1,227

respectively)				
Total current liabilities		3,169		2,458
Long-term debt		16,722		9,286
Deferred income taxes		1,043		906
Other long-term liabilities		1,782		977
Total liabilities		22,716		13,627
Redeemable noncontrolling interests in equity of consolidated subsidiaries		689		358
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; 116,491,729 shares issued and 115,516,180 shares outstanding at June 30, 2014, and 95,987,032 shares issued and 95,011,483 shares outstanding at December 31, 2013		1		1
Additional paid-in capital		2,021		1,256
Treasury stock, at cost, 975,549 shares at June 30, 2014 and December 31, 2013		(7)		(7)
Accumulated other comprehensive loss		(55)		(67)
Retained earnings		1,815		1,885
Total Community Health Systems, Inc. stockholders equity		3,775		3,068
Noncontrolling interests in equity of consolidated subsidiaries		90		64
Total equity		3,865		3,132
Total liabilities and equity	$	27,270	$	17,117

See accompanying notes to the condensed consolidated financial statements.

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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 June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Operating revenues (net of contractual allowances and discounts)	$ 5,531	$ 3,711	$ 10,420	$ 7,450
Provision for bad debts	752	520	1,456	997
Net operating revenues	4,779	3,191	8,964	6,453
Operating costs and expenses:				
Salaries and benefits	2,228	1,528	4,225	3,076
Supplies	738	493	1,371	986
Other operating expenses	1,120	713	2,141	1,405
Electronic health records incentive reimbursement	(84)	(24)	(124)	(43)
Rent	111	70	210	139
Depreciation and amortization	282	192	537	381
Amortization of software to be abandoned	33	-	75	-
Total operating costs and expenses	4,428	2,972	8,435	5,944
Income from operations	351	219	529	509
Interest expense, net	255	154	478	310
Loss from early extinguishment of debt	-	-	73	1
Equity in earnings of unconsolidated affiliates	(11)	(9)	(22)	(24)
Impairment of long-lived assets	-	-	24	-
Income (loss) from continuing operations before income taxes	107	74	(24)	222
Provision (benefit) for income taxes	32	21	(24)	70
Income from continuing operations	75	53	-	152
Discontinued operations, net of taxes:				
Loss from operations of entities held for sale	-	(6)	(5)	(9)

Impairment of hospitals held for sale		(5)		-		(22)		-
Loss from discontinued operations, net of taxes		(5)		(6)		(27)		(9)
Net income (loss)		70		47		(27)		143
Less: Net income attributable to noncontrolling interests		28		17		43		34
Net income (loss) attributable to Community Health Systems, Inc. stockholders	$	42	$	30	$	(70)	$	109
Basic earnings (loss) per share attributable to Community Health Systems, Inc. common stockholders(1):								
Continuing operations	$	0.42	$	0.39	$	(0.39)	$	1.28
Discontinued operations		(0.04)		(0.06)		(0.25)		(0.10)
Net income (loss)	$	0.37	$	0.32	$	(0.64)	$	1.19
Diluted earnings (loss) per share attributable to Community Health Systems, Inc. common stockholders(1):								
Continuing operations	$	0.42	$	0.38	$	(0.39)	$	1.27
Discontinued operations		(0.04)		(0.06)		(0.25)		(0.10)
Net income (loss)	$	0.37	$	0.32	$	(0.64)	$	1.17
Weighted-average number of shares outstanding:								
Basic		112,598,899		92,866,370		109,617,014		91,939,641
Diluted		113,474,169		94,109,368		109,617,014		93,025,402

(1) Total per share amounts may not add due to rounding.

See accompanying notes to the condensed consolidated financial statements.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In millions)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income (loss)	$ 70	$ 47	$ (27)	$ 143
Other comprehensive income, net of income taxes:				
Net change in fair value of interest rate swaps, net of tax	-	21	9	37
Net change in fair value of available-for-sale securities, net of tax	3	-	3	2
Amortization and recognition of unrecognized pension cost components, net of tax	-	-	-	1
Other comprehensive income	3	21	12	40
Comprehensive income (loss)	73	68	(15)	183
Less: Comprehensive income attributable to noncontrolling interests	28	17	43	34
Comprehensive income (loss) attributable to Community Health Systems, Inc. stockholders	$ 45	$ 51	$ (58)	$ 149

See accompanying notes to the condensed consolidated financial statements.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Cash flows from operating activities:		
Net (loss) income	$ (27)	$ 143
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	617	387
Stock-based compensation expense	22	19
Impairment of long-lived assets and hospitals held for sale	46	-
Loss from early extinguishment of debt	73	1
Excess tax benefit relating to stock-based compensation	(3)	(6)
Other non-cash expenses, net	19	27
Changes in operating assets and liabilities, net of effects of acquisitions and divestitures:		
Patient accounts receivable	(166)	(106)
Supplies, prepaid expenses and other current assets	38	15
Accounts payable, accrued liabilities and income taxes	(55)	(180)
Other	(50)	9
Net cash provided by operating activities	514	309
Cash flows from investing activities:		
Acquisitions of facilities and other related equipment	(3,041)	(10)
Purchases of property and equipment	(361)	(295)
Proceeds from disposition of certain ancillary operations	12	-
Proceeds from sale of property and equipment	3	2
Purchases of available-for-sale securities	(137)	-
Proceeds from sales of available-for-sale securities	123	-
Increase in other investments	(251)	(135)
Net cash used in investing activities	(3,652)	(438)
Cash flows from financing activities:		
Proceeds from exercise of stock options	14	104
Repurchase of restricted stock shares for payroll tax withholding requirements	(11)	(15)
Stock buy-back	-	(27)
Deferred financing costs and other debt-related costs	(269)	(1)

Excess tax benefit relating to stock-based compensation		3		6
Proceeds from noncontrolling investors in joint ventures		10		-
Redemption of noncontrolling investments in joint ventures		(6)		-
Distributions to noncontrolling investors in joint ventures		(44)		(38)
Borrowings under credit agreements		7,488		296
Issuance of long-term debt		4,000		-
Proceeds from receivables facility		133		300
Repayments of long-term indebtedness		(8,164)		(633)
Net cash provided by (used in) financing activities		3,154		(8)
Net change in cash and cash equivalents		16		(137)
Cash and cash equivalents at beginning of period		373		388
Cash and cash equivalents at end of period	$	389	$	251
Supplemental disclosure of cash flow information:				
Interest payments	$	(352)	$	(296)
Income tax (paid), net of refunds received	$	73	$	(70)

See accompanying notes to the condensed consolidated financial statements.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements of Community Health Systems, Inc. (the Parent or Parent Company) and its subsidiaries (the Company) as of June 30, 2014 and December 31, 2013 and for the three-month and six-month periods ended June 30, 2014 and June 30, 2013, 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 six months ended June 30, 2014, are not necessarily indicative of the results to be expected for the full fiscal year ending December 31, 2014. Certain information and disclosures normally included in the notes to 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, 2013, contained in the Company s Annual Report on 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 three months ended March 31, 2014, the Company made the decision to sell certain of its smaller hospitals and entered into definitive agreements to sell two hospitals. During the three months ended June 30, 2014, the Company made the decision to sell an additional hospital. The condensed consolidated statement of income for the three and six months ended June 30, 2013 has been restated to reclassify the results of operations for several hospitals that were owned or leased in 2013 to discontinued operations. The condensed consolidated balance sheet as of December 31, 2013 has been restated to present the hospitals that were owned or leased in 2013 as held for sale for comparative purposes with the June 30, 2014 presentation.

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 its hospitals patients.

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 percentage used to reserve for all self-pay accounts is based on the Company s collection history. The Company collects substantially all of its third-party insured receivables, which include receivables from governmental agencies.

Collections are impacted by the economic ability of patients to pay and the effectiveness of the Company s collection efforts. Significant changes in payor mix, business office operations, economic conditions or trends in federal and state governmental healthcare coverage could affect the Company s collection of accounts receivable and the estimates of the collectability of future accounts receivable. The process of estimating the allowance for doubtful accounts requires the Company to estimate the collectability of self-pay accounts receivable, which is primarily based on its collection history, adjusted for expected recoveries and any anticipated changes in collection trends. 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, and the impact of recent acquisitions and dispositions.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

Operating revenues, net of contractual allowances and discounts (but before the provision for bad debts), recognized during the three and six months ended June 30, 2014 and 2013 were as follows (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Medicare	$ 1,418	$ 915	$ 2,714	$ 1,888
Medicaid	586	389	1,043	714
Managed Care and other third-party payors	2,823	1,897	5,248	3,838
Self-pay	704	510	1,415	1,010
Total	$ 5,531	$ 3,711	$ 10,420	$ 7,450

Electronic Health Records Incentive Reimbursement. The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act (HITECH). These provisions were designed to promote the use of electronic health records (EHR) technology and established the requirements for a Medicare and Medicaid incentive payments program beginning in 2011 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 $84 million and $24 million for the three months ended June 30, 2014 and 2013 respectively, and $124 million and $43 million during the six months ended June 30, 2014 and 2013, 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 $25 million and $38 million for the three months ended June 30, 2014 and 2013, respectively, and $87 million and $83 million for the six months ended June, 30, 2014 and 2013, respectively. As of June 30, 2014 and 2013, $15 million and $50 million, respectively, were recorded as deferred revenue as all criteria for gain recognition had not been met.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

Professional Liability Insurance for the Hospitals Acquired in the HMA Merger. Reserves for self-insured professional liability indemnity claims and related expenses, including attorneys fees and other related costs of litigation that have been incurred and will be incurred in the future, are determined using actuarially-based techniques and methodologies. The data used to develop such reserves is based on asserted and unasserted claim information that has been accumulated by the Company s incident reporting system, historical loss payment patterns and industry trends. The Company uses a wholly-owned captive insurance subsidiary and a risk retention group subsidiary which were acquired during the HMA merger and are domiciled in the Cayman Islands and South Carolina, respectively, to self-insure a significant portion of its professional liability risks for the hospitals acquired in the HMA merger. Those insurance subsidiaries, which are collectively referred to as the Insurance Subsidiaries, provide (i) claims-made coverage to all of the hospitals and other healthcare facilities acquired in the HMA merger and (ii) occurrence-basis coverage to most of the physicians employed by the hospitals and other healthcare facilities acquired in the HMA merger. The employed physicians not covered by the Insurance Subsidiaries generally maintain claims-made policies with unrelated third party insurance companies. To mitigate the exposure of the program covering the hospitals and other healthcare facilities acquired in the HMA merger, the Insurance Subsidiaries buy claims-made reinsurance policies from unrelated third parties for claims above self-retention levels of $10 million or $15 million per claim, depending on the policy year. Effective June 1, 2014, the claims-made policy for the hospitals acquired in the HMA merger and the occurrence-based policy for most of the physicians employed by the hospitals and other healthcare facilities acquired in the HMA merger were canceled. Such hospitals and physicians are now covered through the Company s existing professional liability program that is described below.

Professional Liability Insurance for All Other Community Health Systems, Inc. Hospitals. The Company is primarily self-insured for professional liability claims; however, the Company obtains excess insurance that transfers the risk of loss to a third-party insurer for claims in excess of self-insured retentions. The Company s excess insurance is underwritten on a claims-made basis. For claims reported prior to June 1, 2002, substantially all of the Company s professional and general liability risks were subject to a less than $1 million per occurrence self-insured retention and for claims reported from June 1, 2002 through June 1, 2003, these self-insured retentions were $2 million per occurrence. Substantially all claims reported after June 1, 2003 and before June 1, 2005 are self-insured up to $4 million per claim. Substantially all claims reported on or after June 1, 2005 and before June 1, 2014 are self-insured up to $5 million per claim. Substantially all claims reported on or after June 1, 2014 are self-insured up to $10 million per claim. Management on occasion has selectively increased the insured risk at certain hospitals based upon insurance pricing and other factors and may continue that practice in the future. Excess insurance for all hospitals has been purchased through commercial insurance companies and generally covers the Company for liabilities in excess of the self-insured retentions. The excess coverage consists of multiple layers of insurance, the sum of which totals up to $95 million per occurrence and in the aggregate for claims reported on or after June 1, 2003, up to $145 million per occurrence and in the aggregate for claims reported on or after January 1, 2008 and up to $195 million per occurrence and in the aggregate for claims incurred and reported after June 1, 2010. For certain policy years prior to June 1, 2014, if the first aggregate layer of excess coverage becomes fully utilized, then the Company s self-insured retention will increase to $10 million per claim for any subsequent claims in that policy year until the Company s total aggregate coverage is met.

Effective January 1, 2008, the hospitals acquired from Triad Hospitals, Inc. (Triad) are insured on a claims-made basis as described above and through commercial insurance companies as described above for substantially all claims occurring on or after January 1, 2002 and reported on or after January 1, 2008. Substantially all losses for the former Triad hospitals in periods prior to May 1999 were insured through a wholly-owned insurance subsidiary of HCA Holdings Inc. (HCA), Triad s owner prior to that time, and excess loss policies maintained by HCA. HCA has agreed to indemnify the former Triad hospitals in respect of claims covered by such insurance policies arising prior to May 1, 1999. After May 1, 1999 through December 31, 2006, the former Triad hospitals obtained insurance coverage on a claims incurred basis from HCA s wholly-owned insurance subsidiary, with excess coverage obtained from other carriers that is subject to certain deductibles. Effective for claims incurred after December 31, 2006, Triad began insuring its claims from $1 million to $5 million through its wholly-owned captive insurance company, replacing the coverage provided by HCA. Substantially all claims occurring during 2007 were self-insured up to $10 million per claim.

New Accounting Pronouncements. In May 2014, the Financial Accounting Standards Board 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 is effective for fiscal years beginning after December 15, 2016. The Company will adopt this ASU on January 1, 2017 and is currently evaluating 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.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

2. ACCOUNTING FOR STOCK-BASED COMPENSATION

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

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 June 30, 2014, 5,126,598 shares of unissued common stock were reserved for future grants under the 2009 Plan, which includes the 4,000,000 additional shares reserved for future grants approved by the Company s stockholders on May 20, 2014 in conjunction with the March 19, 2014 amendment of the 2009 Plan.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Effect on income from continuing operations before income taxes	$ (12)	$ (9)	$ (22)	$ (19)

Effect on net income	$ (8)	$ (6)	$ (14)	$ (12)

At June 30, 2014, $89 million of unrecognized stock-based compensation expense was expected to be recognized over a weighted-average period of 29 months. Of that amount, $1 million related to outstanding unvested stock options was expected to be recognized over a weighted-average period of 8 months and $88 million 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 29 months. There were no modifications to awards during the three or six months ended June 30, 2014 and 2013.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

Options outstanding and exercisable under the 2000 Plan and the 2009 Plan as of June 30, 2014, and changes during each of the three-month periods following December 31, 2013, were as follows (in millions, except share and per share data):

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value as of June 30, 2014
Outstanding at December 31, 2013	3,737,545	$ 34.88		
Granted	-	-		
Exercised	(174,462)	35.01		
Forfeited and cancelled	(7,672)	34.61		
Outstanding at March 31, 2014	3,555,411	34.87		
Granted	-	-		
Exercised	(226,961)	37.54		
Forfeited and cancelled	(5,337)	25.71		
Outstanding at June 30, 2014	3,323,113	$ 34.71	3.7 years	$ 35
Exercisable at June 30, 2014	3,207,858	$ 35.23	3.5 years	$ 33

No stock options were granted during the three or six months ended June 30, 2014 and 2013. 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 ($45.37) and the exercise price of the respective stock options) in the table above represents the amount that would have been received by the option holders had all option holders exercised their options on June 30, 2014. 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 June 30, 2014 and 2013 was $1 million and $10 million, respectively. The aggregate intrinsic value of options exercised during the six months ended June 30, 2014 and 2013 was $3 million and $29 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, a restricted stock award grant dated March 1, 2014 has a performance objective that is measured based on the realization of synergies related to the HMA merger over a two-year period. The performance objective may be met in part in the first year or in whole or in part over the 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 do not reach a certain level, then the awards will be forfeited in their entirety. 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 are not considered outstanding for purposes of determining earnings per share until the performance objectives have been satisfied.

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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 June 30, 2014, and changes during each of the three-month periods following December 31, 2013, were as follows:

	Shares	Weighted-Average Grant Date Fair Value
Unvested at December 31, 2013	1,607,489	$ 35.13
Granted	1,943,000	41.19
Vested	(818,877)	34.65
Forfeited	(2,007)	34.82
Unvested at March 31, 2014	2,729,605	39.59
Granted	36,000	38.26
Vested	(4,709)	25.50
Forfeited	-	-
Unvested at June 30, 2014	2,760,896	39.59

Restricted stock units (RSUs) have been granted to the Company s outside directors under the 2000 Plan and the 2009 Plan. On February 16, 2012, each of the Company s outside directors received a grant under the 2009 Plan of 6,645 RSUs. 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. Vesting of these shares of 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 June 30, 2014, and changes during each of the three-month periods following December 31, 2013, were as follows:

	Shares	Weighted-Average Grant Date Fair Value
Unvested at December 31, 2013	55,536	$ 31.33
Granted	21,684	41.51
Vested	(27,858)	30.87
Forfeited	-	-
Unvested at March 31, 2014	49,362	36.07
Granted	-	-

Vested	-	-
Forfeited	-	-
Unvested at June 30, 2014	49,362	36.07

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 were $85 million and $48 million for the three months ended June 30, 2014 and 2013, respectively, and $159 million and $93 million for the six months ended June 30, 2014 and 2013, respectively. Included in these amounts is stock-based compensation expense of $12 million and $9 million for the three months ended June 30, 2014 and 2013, respectively, and $22 million and $19 million for the six months ended June 30, 2014 and 2013, respectively.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

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.

Approximately $28 million and $3 million of acquisition and related integration costs related to prospective and closed acquisitions were expensed during the three months ended June 30, 2014 and 2013, respectively, and $86 million and $4 million during the six months ended June 30, 2014 and 2013, respectively, and are included in other operating expenses on the condensed consolidated statements of income.

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 $8 million assumed in liabilities, for a total consideration of $76 million. Based upon the Company s preliminary purchase price allocation relating to this acquisition as of June 30, 2014, approximately $7 million of goodwill has been recorded. The preliminary allocation of the purchase price has been determined by the Company based on available information and is subject to settling amounts related to purchased working capital and final appraisals of tangible and intangible assets. Adjustments to the purchase price allocation are not expected to be material.

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

$12 million assumed in liabilities, for a total consideration of $208 million. The value of the noncontrolling interest at acquisition was $10 million. Based upon the Company s preliminary purchase price allocation relating to this acquisition as of June 30, 2014, approximately $2 million of goodwill has been recorded. The preliminary allocation of the purchase price has been determined by the Company based on available information and is subject to settling amounts related to purchased working capital and final appraisals of tangible and intangible assets. Adjustments to the purchase price allocation are not expected to be material.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

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. HMA owned and operated 71 hospitals in 15 states in non-urban communities located primarily in the southeastern United States. On a combined basis, after taking into account the acquisition, the Company owns and operates 206 hospitals in 29 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: (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 preliminary fair values. The purchase price represented a premium over the fair value of the net tangible and identifiable intangible assets acquired for reasons such as:

- expanded the number of markets in which the Company operates in existing states;
- extended and strengthened the Company s hospital and physician networks;
- many support functions will be centralized; and
- duplicate corporate functions will be eliminated.

The table below summarizes the calculation of consideration paid and preliminary allocations of the purchase price (including assumed liabilities and long-term debt assumed and repaid at closing) for the HMA merger (in millions):

Cash paid	$ 2,778
Shares issued	736
Contingent value right	17

Total consideration	$ 3,531
Current assets	$ 1,315
Property and equipment	3,764
Goodwill	4,083
Intangible assets	93
Other long-term assets	160
Liabilities	(5,529)
Noncontrolling interests	(355)
Total identifiable net assets	$ 3,531

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

The allocation process requires the analysis of acquired fixed assets, contracts, contractual commitments, and legal contingencies to identify and record the fair value of all assets acquired and liabilities assumed. The values of certain assets and liabilities are based on preliminary valuations and estimates and are subject to adjustment as additional information is obtained. Such additional information includes, but is not limited to: valuations and physical counts of property and equipment, valuations of acquired intangible assets, analysis of physician income guarantee contracts, analysis of cost report settlements, valuation of contractual commitments and valuation of deferred tax accounts. Material adjustments to goodwill may result upon the completion of these matters. All goodwill related to HMA is recorded in the hospital operations reporting unit.

Net operating revenues and income from continuing operations before income taxes and allocation of both interest and corporate overhead from hospitals acquired from HMA from the date of acquisition through June 30, 2014 was approximately $2.5 billion and $216 million, respectively. The following unaudited pro forma results of operations of the Company for the six months ended June 30, 2014 and 2013 assume that the HMA merger occurred at the beginning of the periods presented. The pro forma amounts include certain adjustments, including interest expense, depreciation and taxes. The pro forma amounts for the six months ended June 30, 2014 were adjusted to exclude approximately $65 million of certain nonrecurring acquisition and related integration costs incurred by the Company. Pro forma amounts for the six months ended June 30, 2013 were adjusted to include these costs. The pro forma net loss for the six months ended June 30, 2014 includes a charge for the early extinguishment of debt of $73 million before taxes and $45 million after taxes, or $0.41 per share (diluted). The pro forma results do not include adjustments related to cost savings or other synergies that are anticipated as a result of the HMA merger.

These unaudited pro forma results are not necessarily indicative of the actual results of operations (in millions, except per share data).

	Six Months Ended June 30,	
	2014	**2013**
Pro forma net operating revenues	$ 9,339	$ 9,389
Pro forma net (loss) income attributable to Community Health Systems, Inc. stockholders	(97)	70
Pro forma net (loss) income per share attributable to Community Health Systems, Inc. common stockholders:		
Basic	$ (0.86)	$ 0.63
Diluted	$ (0.86)	$ 0.63

Other Acquisitions

During the six months ended June 30, 2014, the Company paid approximately $5 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 its hospitals. In connection with these acquisitions, during 2014, the Company allocated approximately $3 million of the consideration paid to property and equipment and net working capital and the remainder, approximately $2 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

During the six months ended June 30, 2014, the Company made the decision to sell certain of its smaller hospitals, which are classified as held for sale at June 30, 2014. Two other hospitals are required to be divested by the Federal Trade Commission as a condition of its approval of the HMA merger: Riverview Regional Medical Center (281 licensed beds) located in Gadsden, Alabama, and Carolina Pines Regional Medical Center (116 licensed beds) located in Hartsville, South Carolina. 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. The Company has entered into a definitive agreement to sell one of its other hospitals and has begun actively marketing the sale of several other hospitals during the six months ended June 30, 2014. In connection with management s decision to sell these facilities, the Company has classified the results of operations of the above mentioned hospitals as discontinued operations in the accompanying condensed consolidated statements of income.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	**2013**	**2014**	**2013**
Net operating revenues	$ 101	$ 45	$ 180	$ 95
Income (loss) from operations of entities held for sale before income taxes	-	(10)	(4)	(14)
Impairment of hospitals held for sale before income taxes	(6)	-	(29)	-
Loss from discontinued operations, before taxes	(6)	(10)	(33)	(14)
Income tax benefit	(1)	(4)	(6)	(5)
Loss from discontinued operations, net of taxes	$ (5)	$ (6)	$ (27)	$ (9)

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

In April 2014, the Financial Accounting Standards Board 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 are 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 will adopt this ASU on January 1, 2015 and is currently evaluating the impact on its consolidated financial position, results of operations and cash flows.

6. INCOME TAXES

The total amount of unrecognized benefit that would affect the effective tax rate, if recognized, was approximately $15 million as of June 30, 2014. A total of approximately $8 million of interest and penalties is included in the amount of the liability for uncertain tax positions at June 30, 2014. 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.

The Company believes it is reasonably possible that approximately $2 million of its unrecognized tax benefit may be recognized within the next 12 months as a result of a lapse of the statute limitations and settlements with taxing authorities.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

The Company, or one of its subsidiaries, files income tax returns in the United States federal jurisdiction and various state jurisdictions. The Company has extended the federal statute of limitations through December 31, 2014 for Triad 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 2010. The Company s federal income tax returns for the 2009 and 2010 tax years are currently under examination by the Internal Revenue Service (IRS). The Company believes the results of these examinations will not be material to its consolidated results of operations or consolidated financial position. During the year ended December 31, 2013, the IRS concluded its examination of the federal tax return of Community Health Systems, Inc. for the tax periods ended December 31, 2007 and 2008. The results of these examinations did not have a material effect on the Company s consolidated results of operations or consolidated financial position. The Company has extended the federal statute of limitations through December 31, 2014 for Community Health Systems, Inc. for the tax periods ended December 31, 2007 and 2008, and through June 30, 2015 for the tax periods ended December 31, 2009 and 2010.

The Company has recorded a preliminary purchase price allocation in connection with the HMA merger resulting in goodwill of approximately $4.1 billion, which is not tax deductible for income tax purposes. Goodwill consists of the excess of the purchase price over the fair market value of the acquired assets. The purchase price allocation is preliminary and subject to change as additional information is obtained during the measurement period.

The Company s effective tax rates were 30.0% and 28.2% for the three months ended June 30, 2014 and 2013, respectively, and 98.3% and 31.5% for the six months ended June 30, 2014 and 2013, respectively. The increase in the Company s effective tax rate for the three months ended June 30, 2014 is primarily related to non-deductible transaction costs associated with the HMA merger. The increase in the Company s effective tax rate for the six months ended June 30, 2014 is primarily related to the transaction fees and loss from early extinguishment of debt related to the HMA merger, creating a loss before income taxes, whereas the provision for income taxes also includes the tax utility of the income attributable to noncontrolling interests, which is disproportionate to the reported loss before income taxes. Including the expense related to income attributable to noncontrolling interests, the effective tax rate for the six months ended June 30, 2014 and 2013 would have been 35.8% and 37.2%, respectively.

Cash paid for income taxes, net of refunds received, resulted in net cash paid of $6 million and $71 million during the three months ended June 30, 2014 and 2013, respectively, and a net refund of $73 million and net cash paid of $70 million during the six months ended June 30, 2014 and 2013, respectively.

7. GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill for the six months ended June 30, 2014 are as follows (in millions):

Balance as of December 31, 2013	$	4,424
Goodwill acquired as part of acquisitions during current year		4,095

Balance as of June 30, 2014	$	8,519

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 June 30, 2014, the hospital operations reporting unit, the home care agency operations reporting unit, and the hospital management services reporting unit had approximately $8.4 billion, $44 million and $33 million, respectively, of goodwill.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

Goodwill is evaluated for impairment at the same time every year and when an event occurs or circumstances change that, more likely than not, reduce the fair value of the reporting unit below its carrying value. There is a two-step method for determining goodwill impairment. Step one is to compare the fair value of the reporting unit with the unit s carrying amount, including goodwill. If this test indicates the fair value is less than the carrying value, then step two is required to compare the implied fair value of the reporting unit s goodwill with the carrying value of the reporting unit s goodwill. The Company performed its last annual goodwill evaluation during the fourth quarter of 2013. No impairment was indicated by this evaluation. The next annual goodwill evaluation will be performed during the fourth quarter of 2014.

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.

Approximately $93 million of intangible assets other than goodwill were acquired during the six months ended June 30, 2014. These acquired intangibles represent the Company s initial estimate of the fair value of the contract-based intangible assets related to the certificates of need and Medicare licenses obtained in the HMA merger. As previously discussed, this estimated amount is subject to change pending the completion of the valuation and appraisal analysis currently in process. The gross carrying amount of the Company s other intangible assets subject to amortization was $58 million at June 30, 2014 and $51 million at December 31, 2013, and the net carrying amount was $30 million at June 30, 2014 and $21 million at December 31, 2013. The carrying amount of the Company s other intangible assets not subject to amortization was $130 million and $50 million at June 30, 2014 and December 31, 2013, 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 amortization period for the intangible assets subject to amortization is approximately six years. There are no expected residual values related to these intangible assets. Amortization expense on these intangible assets was $3 million and $1 million during the three months ended June 30, 2014 and 2013, respectively, and $4 million and $3 million during the six months ended June 30, 2014 and 2013, respectively. Amortization expense on intangible assets is estimated to be $4 million for the remainder of 2014, $8 million in 2015, $7 million in 2016, $3 million in 2017, $2 million in 2018, $2 million in 2019 and $4 million thereafter.

The gross carrying amount of capitalized software for internal use was approximately $1.3 billion and $988 million at June 30, 2014 and December 31, 2013, respectively, and the net carrying amount considering accumulated amortization was approximately $681 million and $560 million at June 30, 2014 and December 31, 2013, 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 June 30, 2014, there was approximately $109 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 $78 million and $35 million during the three months ended June 30, 2014 and 2013, respectively, and $161 million and $65 million during the six months ended June 30, 2014 and 2013, respectively. Amortization expense on capitalized internal-use software is estimated to be $86 million for the remainder of 2014, $156 million in 2015, $118 million in 2016, $76 million in 2017, $60 million in 2018, $51 million in 2019 and $134 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 three months ended June 30, 2014, the Company recorded the acceleration of amortization of approximately $33 million related to shortening the remaining useful life of software currently in use with an expected abandonment date of July 1, 2014. During the six months ended June 30, 2014, the Company recorded an impairment charge of approximately $24 million related to software in-process that has been abandoned at June 30, 2014 and the acceleration of amortization of approximately $75 million.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

8. EARNINGS PER SHARE

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Numerator:				
Income from continuing operations, net of taxes	$ 75	$ 53	$ -	$ 152
Less: Income from continuing operations attributable to noncontrolling interests	28	17	43	34
Income (loss) from continuing operations attributable to Community Health Systems, Inc. common stockholders basic and diluted	$ 47	$ 36	$ (43)	$ 118
Loss from discontinued operations, net of taxes	$ (5)	$ (6)	$ (27)	$ (9)
Less: Loss from discontinued operations attributable to noncontrolling interests	-	-	-	-
Loss from discontinued operations attributable to Community Health Systems, Inc. common stockholders basic and diluted	$ (5)	$ (6)	$ (27)	$ (9)
Denominator:				
Weighted-average number of shares outstanding basic	112,598,899	92,866,370	109,617,014	91,939,641
Effect of dilutive securities:				
Restricted stock awards	267,529	413,785	-	312,323
Employee stock options	596,766	811,858	-	759,890
Other equity-based awards	10,975	17,355	-	13,548

Weighted-average number of shares outstanding diluted	113,474,169	94,109,368	109,617,014	93,025,402

The Company generated a loss from continuing operations attributable to Community Health Systems, Inc. common stockholders for the six months ended June 30, 2014, so the effect of dilutive securities is not considered because their effect would be antidilutive. If the Company had generated income from continuing operations during the six months ended June 30, 2014, the effect of restricted stock awards, employee stock options, and other equity-based awards on the diluted shares calculation would have been an increase in shares of 726,929 shares.

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2014	**2013**	**2014**	**2013**
Dilutive securities outstanding not included in the computation of earnings per share because their effect is antidilutive:				
Employee stock options and restricted stock awards	-	-	945,500	-

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

9. STOCKHOLDERS EQUITY

Authorized capital shares of the Company include 400,000,000 shares of capital stock consisting of 300,000,000 shares of common stock and 100,000,000 shares of preferred stock. Each of the aforementioned classes of capital stock has a par value of $0.01 per share. Shares of preferred stock, none of which were outstanding as of June 30, 2014, 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.

Historically, the Company has not paid any cash dividends. In December 2012, the Company declared and paid a special dividend of $0.25 per share to holders of its common stock at the close of business as of December 17, 2012, which totaled approximately $23 million. The Company did not pay a cash dividend in 2013 or in the six months ended June 30, 2014 and does not anticipate the payment of any other cash dividends in the foreseeable future. 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 June 30, 2014, under the most restrictive test under these agreements, the Company has approximately $401 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 six-month period ended June 30, 2014 (in millions):

		Community Health Systems, Inc. Stockholders						
	Redeemable Noncontrolling Interests	**Common Stock**	**Additional Paid-In Capital**	**Treasury Stock**	**Accumulated Other Comprehensive (Loss) Income**	**Retained Earnings**	**Noncontrolling Interests**	**Total Equity**
Balance, December 31, 2013	$ 358	$ 1	$ 1,256	$ (7)	$ (67)	$ 1,885	$ 64	$ 3,132
Comprehensive income	33	-	-	-	12	(70)	10	(48)
Distributions to noncontrolling interests, net of contributions	(29)	-	-	-	-	-	(15)	(15)
Purchase of subsidiary shares from	(6)	-	-	-	-	-	-	-

noncontrolling interests								
Noncontrolling interests in acquired entity	334	-	-	-	-	-	31	31
Adjustment to redemption value of redeemable noncontrolling interests	(1)	-	1	-	-	-	-	1
Issuance of common stock in connection with the exercise of stock options	-	-	14	-	-	-	-	14
Issuance of shares in exchange for HMA common stock	-	-	736	-	-	-	-	736
Cancellation of restricted stock for tax withholdings on vested shares	-	-	(11)	-	-	-	-	(11)
Excess tax benefit from exercise of stock options	-	-	3	-	-	-	-	3
Share-based compensation	-	-	22	-	-	-	-	22
Balance, June 30, 2014	$ 689	$ 1	$ 2,021	$ (7)	$ (55)	$ 1,815	$ 90	$ 3,865

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

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

		Six Months Ended June 30, 2014
Net loss attributable to Community Health Systems, Inc. stockholders	$	(70)
Transfers to the noncontrolling interests:		
Net decrease in Community Health Systems, Inc. paid-in capital for purchase of subsidiary partnership interests		-
Net transfers to the noncontrolling interests		-
Change to Community Health Systems, Inc. stockholders equity from net loss attributable to Community Health Systems, Inc. stockholders and transfers to noncontrolling interests	$	(70)

10. EQUITY INVESTMENTS

As of June 30, 2014, 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 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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues	$ 339	$ 320	$ 672	$ 636
Operating costs and expenses	297	268	591	551
Income from continuing operations before taxes	42	52	81	84

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 June 30, 2014, the Company had a 25.9% ownership interest in HealthTrust.

The Company s investment in all of its unconsolidated affiliates was $441 million and $422 million at June 30, 2014 and December 31, 2013, 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 $11 million and $9 million for the three months ended June 30, 2014 and 2013, respectively, and $22 million and $24 million for the six months ended June 30, 2014 and 2013, respectively.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

11. LONG-TERM DEBT

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

	June 30, 2014	December 31, 2013
Credit Facility:		
Term loan A	$ 983	$ 637
Term loan B	-	60
Term loan C	-	3,353
Term loan D	4,578	-
Term loan E	1,668	-
Revolving credit loans	-	-
8% Senior Notes due 2019	2,019	2,020
7 1/8% Senior Notes due 2020	1,200	1,200
5 1/8% Senior Secured Notes due 2018	1,600	1,600
5 1/8% Senior Secured Notes due 2021	1,000	-
6 7/8% Senior Notes due 2022	3,000	-
Receivables Facility	607	500
Capital lease obligations	209	46
Other	67	37
Total debt	16,931	9,453
Less current maturities	(209)	(167)
Total long-term debt	$ 16,722	$ 9,286

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. Prior to the HMA merger, this credit facility included a $750 million term loan A facility due October 25, 2016, a term loan B due July 25, 2014, a term loan C due January 25, 2017 and a $750 million revolving credit facility for working capital and general corporate purposes.

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 includes 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.

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 D Facility and the Term E 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 D Facility will be 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 obligor 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.

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

As of June 30, 2014, the availability for additional borrowings under the Credit Facility was approximately $1.0 billion 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 in an aggregate principal amount of $1.5 billion, which CHS has not yet accessed. As of June 30, 2014, the weighted-average interest rate under the Credit Facility, excluding swaps, was 4.4%.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

As of June 30, 2014, the Company had letters of credit issued, primarily in support of potential insurance-related claims and certain bonds, of approximately $83 million.

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, 2014, CHS is entitled, at its option, to redeem a portion of the 8% Senior Notes (not to exceed 35% of the outstanding principal amount) at a redemption price equal to 108% of the principal amount of the notes redeemed plus accrued and unpaid interest, with the proceeds from certain public equity offerings. 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.

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

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

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, 2015, CHS is entitled, at its option, to redeem a portion of the 7 1/8% Senior Notes (not to exceed 35% of the outstanding principal amount) at a redemption price equal to 107.125% of the principal amount of the notes redeemed plus accrued and unpaid interest, with the proceeds from certain public equity offerings. 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:

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.

Except as set forth below, CHS is not entitled to redeem the 2018 Senior Secured Notes prior to August 15, 2015.

Prior to August 15, 2015, CHS is entitled, at its option, to redeem a portion of the 2018 Senior Secured Notes (not to exceed 35% 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 public equity offerings. Prior to August 15, 2015, CHS may redeem some or all of the 2018 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 2018 Senior Secured Notes indenture. 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 %

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

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

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

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

Pursuant to a registration rights agreement entered into at the time of the issuance of the 2021 Senior Secured Notes, the Company is (i) required to file with the SEC a registration statement with respect to an offer to exchange the 2021 Senior Secured Notes for a new issue of debt securities registered under the 1933 Act with terms substantially identical to those of the 2021 Senior Secured Notes and, subject to certain exceptions, consummate, within 365 days after the date of the original issuance of the 2021 Senior Secured Notes, such exchange offer, and (ii) in certain circumstances, file a shelf registration statement for the resale of the 2021 Senior Secured Notes. If the Company fails to satisfy its registration obligations under the registration rights agreement, then it will be required to pay additional interest to the holders of the 2021 Senior Secured Notes at a rate of 0.25% for the first 90 day period after such date and thereafter it will be increased by an additional 0.25% for each subsequent 90 day period that elapses, provided that the aggregate increase in such annual interest rate may in no event exceed 1.0% per annum.

6 7⁄8% Senior Notes due 2022

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

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

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

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

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

Pursuant to a registration rights agreement entered into at the time of the issuance of the 6 7/8% Senior Notes, the Company is (i) required to file with the SEC a registration statement with respect to an offer to exchange the 6 7/8% Senior Notes for a new issue of debt securities registered under the 1933 Act with terms substantially identical to those of the 6 7/8% Senior Notes and, subject to certain exceptions, consummate, within 365 days after the date of the original issuance of the 6 7/8% Senior Notes, such exchange offer, and (ii) in certain circumstances, file a shelf registration statement for the resale of the 6 7/8% Senior Notes. If the Company fails to satisfy its registration obligations under the registration rights agreement, then it will be required to pay additional interest to the holders of the 6 7/8% Senior Notes at a rate of 0.25% for the first 90 day period after such date and thereafter it will be increased by an additional 0.25% for each subsequent 90 day period that elapses, provided that the aggregate increase in such annual interest rate may in no event exceed 1.0% per annum.

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, 2016, 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 June 30, 2014 totaled $607 million and are classified as long-term debt on the condensed consolidated balance sheet. At June 30, 2014, the carrying amount of Receivables included in the Receivables Facility totaled approximately $1.2 billion and is included in patient accounts receivable on the condensed consolidated balance sheet.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

Loss from Early Extinguishment of Debt

The financing transactions discussed above resulted in a loss from early extinguishment of debt of $73 million and $1 million for the six months ended June 30, 2014 and 2013, respectively, and an after-tax loss of $45 million and less than $1 million for the six months ended June 30, 2014 and 2013, respectively.

Other Debt

As of June 30, 2014, other debt consisted primarily of the mortgage obligation on the Company s corporate headquarters and other obligations maturing in various installments through 2028.

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 14 separate interest swap agreements in effect at June 30, 2014, with an aggregate notional amount for currently effective swaps of $2.0 billion, and six forward-starting swap agreements with an aggregate notional amount of $1.4 billion. On each of these swaps, the Company receives a variable rate of interest based on the three-month LIBOR in exchange for the payment of a fixed rate of interest. The Company currently pays, on a quarterly basis, interest on the Revolving Facility and the Term A Facility at a rate per annum equal to LIBOR plus 275 basis points. Loans in respect of the Term D Facility and the Term E Facility accrue interest at a rate per annum equal to LIBOR plus 325 basis points. The Term D Facility is also subject to a 100 basis point LIBOR floor and a 200 basis point Alternate Base Rate floor. See Note 12 for additional information regarding these swaps.

The Company paid interest of $178 million and $147 million on borrowings during the three months ended June 30, 2014 and 2013, respectively, and $352 million and $296 million on borrowings during the six months ended June 30, 2014 and 2013, respectively.

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments has been estimated by the Company using available market information as of June 30, 2014 and December 31, 2013, 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):

	June 30, 2014		December 31, 2013	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Cash and cash equivalents	$ 389	$ 389	$ 373	$ 373
Available-for-sale securities	264	264	65	65
Trading securities	52	52	38	38
Liabilities:				
Contingent Value Right (CVR)	18	18	-	-

Credit Facility	7,229	7,270	4,050	4,085
8% Senior Notes	2,019	2,198	2,020	2,172
7 ⅛% Senior Notes	1,200	1,306	1,200	1,246
2018 Senior Secured Notes	1,600	1,680	1,600	1,662
2021 Senior Secured Notes	1,000	1,029	-	-
6 ⅞% Senior Notes	3,000	3,180	-	-
Receivables Facility and other debt	674	674	537	537

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

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 13. 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, which are validated through publicly available subscription services such as Bloomberg where relevant.

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

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

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

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

Credit Facility. Estimated fair value is based on 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 average bid and ask price as quoted by the bank who served as an underwriter in the sale of these notes.

7 1/8% Senior Notes. Estimated fair value is based on the average bid and ask price as quoted by the bank who served as an underwriter in the sale of these notes.

2018 Senior Secured Notes. Estimated fair value is based on the average bid and ask price as quoted by the bank who served as an underwriter in the sale of these notes.

2021 Senior Secured Notes. Estimated fair value is based on the average bid and ask price as quoted by the bank who served as an underwriter in the sale of these notes.

6 7/8% Senior Notes. Estimated fair value is based on the average bid and ask price as quoted by the bank who served as an underwriter in the sale of 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 six months ended June 30, 2014 and 2013, the Company completed an assessment of the cash flow hedge instruments and determined the hedges to be highly effective. The Company has also determined that the ineffective portion of the hedges do not have a material effect on the Company s consolidated financial position, operations or cash flows. The counterparties to the interest rate swap agreements expose the Company to credit risk in the event of nonperformance. However, at June 30, 2014, 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 June 30, 2014:

Swap #	Notional Amount (in millions)	Fixed Interest Rate	Termination Date	Fair Value of Liability (in millions)
1	$ 100	5.231%	July 25, 2014	$ -
2	100	5.231%	July 25, 2014	-
3	200	5.160%	July 25, 2014	1
4	75	5.041%	July 25, 2014	-
5	125	5.022%	July 25, 2014	1
6	100	2.621%	July 25, 2014	-
7	100	3.110%	July 25, 2014	-
8	100	3.258%	July 25, 2014	-
9	200	2.693%	October 26, 2014	2
10	300	3.447%	August 8, 2016	18
11	200	3.429%	August 19, 2016	12
12	100	3.401%	August 19, 2016	6
13	200	3.500%	August 30, 2016	12
14	100	3.005%	November 30, 2016	5
15	200	2.055%	July 25, 2019	3 (1)
16	200	2.059%	July 25, 2019	4 (2)
17	200	2.613%	August 30, 2019	2 (3)
18	200	2.515%	August 30, 2019	1 (4)
19	300	2.892%	August 30, 2020	5 (5)
20	300	2.738%	August 30, 2020	2 (6)

(1) This interest rate swap becomes effective July 25, 2014.

(2) This interest rate swap becomes effective July 25, 2014.

(3) This interest rate swap becomes effective August 30, 2015.

(4) This interest rate swap becomes effective August 28, 2015.

(5) This interest rate swap becomes effective August 30, 2015.

(6) This interest rate swap becomes effective August 28, 2015.

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 June 30, 2014 interest rates, approximately $36 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.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

The following tabular disclosure provides the amount of pre-tax (gain) loss recognized as a component of OCI during the three and six months ended June 30, 2014 and 2013 (in millions):

Derivatives in Cash Flow Hedging Relationships	Amount of Pre-Tax (Gain) Loss Recognized in OCI (Effective Portion)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Interest rate swaps	$ (19)	$ 6	$ (22)	$ 4

The following tabular disclosure provides the location of the effective portion of the pre-tax loss reclassified from accumulated other comprehensive loss (AOCL) into interest expense on the condensed consolidated statements of income during the three and six months ended June 30, 2014 and 2013 (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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Interest expense, net	$ 18	$ 27	$ 36	$ 54

The fair values of derivative instruments in the condensed consolidated balance sheets as of June 30, 2014 and December 31, 2013 were as follows (in millions):

	Asset Derivatives				Liability Derivatives			
	June 30, 2014		December 31, 2013		June 30, 2014		December 31, 2013	
	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	$ 74	Other long-term liabilities	$ 124

13. 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).

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

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.

The following table sets forth, by level within the fair value hierarchy, the financial assets and liabilities recorded at fair value on a recurring basis as of June 30, 2014 and December 31, 2013 (in millions):

	June 30, 2014	Level 1	Level 2	Level 3
Available-for-sale securities	$ 264	$ 130	$ 134	$ -
Trading securities	52	52	-	-
Total assets	$ 316	$ 182	$ 134	$ -
Contingent Value Right (CVR)	$ 18	$ 18	$ -	$ -
CVR-related legal liability	284	-	-	284
Fair value of interest rate swap agreements	74	-	74	-
Total liabilities	$ 376	$ 18	$ 74	$ 284

	December 31, 2013	Level 1	Level 2	Level 3
Available-for-sale securities	$ 65	$ 65	$ -	$ -
Trading securities	38	38	-	-
Total assets	$ 103	$ 103	$ -	$ -

Fair value of interest rate swap agreements	$	88	$	-	$	88	$	-
Total liabilities	$	88	$	-	$	88	$	-

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.

The CVR represents the estimate of the fair value for the contingent consideration paid to HMA shareholders as part of the HMA merger. The CVR is listed on the NASDAQ and the valuation at June 30, 2014 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 in future periods through the statement of income (loss).

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

The CVR-related legal liability represents the Company s estimate of fair value at June 30, 2014 of the liability associated with the legal matters assumed in the HMA merger that were not previously accrued by HMA. In addition, a liability of $42 million is recorded 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 statement of income (loss).

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 June 30, 2014 resulted in a decrease in the fair value of the related liability of $4 million and an after-tax adjustment of $3 million to OCI. The CVA on the Company s interest rate swap agreements at December 31, 2013 resulted in a decrease in the fair value of the related liability of $1 million and an after-tax adjustment of less than $1 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.

14. 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.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

Substantially all of the assets acquired in the HMA merger are recorded as part of the hospital operations segment. 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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net operating revenues:				
Hospital operations	$ 4,714	$ 3,150	$ 8,840	$ 6,368
Corporate and all other	65	41	124	85
Total	$ 4,779	$ 3,191	$ 8,964	$ 6,453
Income (loss) from continuing operations before income taxes:				
Hospital operations	$ 116	$ 130	$ 246	$ 337
Corporate and all other	(9)	(56)	(270)	(115)
Total	$ 107	$ 74	$ (24)	$ 222

15. OTHER COMPREHENSIVE INCOME

The following tables present information about items reclassified out of accumulated other comprehensive income (loss) by component for the three and six months ended June 30, 2014 and 2013 (in millions, net of tax):

	Change in Fair Value of Interest Rate Swaps	Change in Fair Value of Available for Sale Securities	Change in Unrecognized Pension Cost Components	Accumulated Other Comprehensive Income (Loss)
Balance as of March 31, 2014	$ (47)	$ 7	$ (18)	$ (58)
Other comprehensive (loss) income before reclassifications	(12)	3	-	(9)
Amounts reclassified from accumulated other comprehensive income (loss)	12	-	-	12
Net current-period other comprehensive income	-	3	-	3

Balance as of June 30, 2014	$ (47)	$ 10	$ (18)	$ (55)

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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, 2013	$ (56)	$ 7	$ (18)	$ (67)
Other comprehensive (loss) income before reclassifications	(14)	3	-	(11)
Amounts reclassified from accumulated other comprehensive income (loss)	23	-	-	23
Net current-period other comprehensive income	9	3	-	12
Balance as of June 30, 2014	$ (47)	$ 10	$ (18)	$ (55)

	Change in Fair Value of Interest Rate Swaps	Change in Fair Value of Available for Sale Securities	Change in Unrecognized Pension Cost Components	Accumulated Other Comprehensive Income (Loss)
Balance as of March 31, 2013	$ (100)	$ 7	$ (33)	$ (126)
Other comprehensive income before reclassifications	4	-	-	4
Amounts reclassified from accumulated other comprehensive income (loss)	17	-	-	17
Net current-period other comprehensive income	21	-	-	21
Balance as of June 30, 2013	$ (79)	$ 7	$ (33)	$ (105)

	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, 2012	$ (116)	$ 5	$ (34)	$ (145)
Other comprehensive income before reclassifications	2	2	-	4
	35	-	1	36

Amounts reclassified from accumulated other comprehensive income (loss)				
Net current-period other comprehensive income	37	2	1	40
Balance as of June 30, 2013	$ (79)	$ 7	$ (33)	$ (105)

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

The following table presents 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 during the three and six months ended June 30, 2014 and 2013 (in millions):

Details about accumulated other comprehensive income (loss) components	Amount reclassified from AOCL Three Months Ended June 30, 2014	Amount reclassified from AOCL Six Months Ended June 30, 2014	Affected line item in the statement where net income is presented
Gains and losses on cash flow hedges			
Interest rate swaps	$ (18)	$ (36)	Interest expense, net
	6	13	Tax benefit
	$ (12)	$ (23)	Net of tax
Amortization of defined benefit pension items			
Prior service costs	$ -	$ -	Salaries and benefits
Actuarial losses	-	(1)	Salaries and benefits
	-	(1)	Total before tax
	-	1	Tax benefit
	$ -	$ -	Net of tax

Details about accumulated other comprehensive income (loss) components	Amount reclassified from AOCL Three Months Ended June 30, 2013	Amount reclassified from AOCL Six Months Ended June 30, 2013	Affected line item in the statement where net income is presented
Gains and losses on cash flow hedges			
Interest rate swaps	$ (27)	$ (54)	Interest expense, net
	10	19	Tax benefit
	$ (17)	$ (35)	Net of tax

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

16. CONTINGENCIES

The Company is a party to various legal, regulatory and governmental proceedings incidental to its business. Although the outcome of these proceedings cannot be predicted with certainty, the Company does not believe that any ultimate liability with respect to these actions to which the Company is currently a party will have a material adverse effect on the Company s consolidated financial position, cash flows or results of operations.

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 matters 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.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

HMA Legal Matters and Related CVR

The CVR agreement entitles the holder to receive a 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 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. Based on the 264,544,053 CVRs outstanding, if total HMA Losses do not exceed $18 million, the maximum payment to holders of the CVRs would be approximately $265 million.

The CVRs do not have a finite payment date. Any payments the Company makes under the CVR agreement will be payable within 60 days after the final resolution of the HMA Legal Matters. The CVRs are unsecured obligations of CHS and all payments under the CVRs will be subordinated in right of payment to the prior payment in full of all of the Company s senior obligations (as defined in the CVR agreement), which include outstanding indebtedness of the Company (subject to certain exceptions set forth in the CVR agreement) and the HMA Losses. The CVR agreement permits the Company to acquire all or some of the CVRs, whether in open market transactions, private transactions or otherwise. As of June 30, 2014, the Company had acquired no CVRs.

The following table represents the impact of legal expenses paid or incurred to date and settlements paid or deemed final as of June 30, 2014 on the amounts owed to CVR holders (in millions):

	Deductible	CHS Responsibility at 10%	Reduction to Amount Owed to CVR Holders at 90%	Total Expenses and Settlement Cost
As of January 27, 2014	$ -	$ -	$ -	$ -
Settlements paid	-	-	-	-
Legal expenses incurred and/or paid during the six months ended June 30, 2014	12	-	-	12

As of June 30, 2014	$	12	$	-	$	-	$	12

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 under 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. The change in this liability from the date of acquisition until June 30, 2014 was immaterial and the fair value of $284 million is recorded in other long-term liabilities on the accompanying condensed consolidated balance sheet. The remaining portion of the estimated liability for claims underlying the CVR agreement had been previously recorded by

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

HMA, as a probable contingency, and has been reflected as an acquired liability. This amount is $42 million and is recorded in accrued liabilities on the accompanying condensed consolidated balance sheet. In addition, although legal fees (which are expensed as incurred) associated with the HMA Legal Matters are not taken into account in connection with the $284 million fair value determination or $42 million accrual noted above, 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.

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 recently 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 recently partially 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. The Company intends to defend against the allegations in these matters, but will also be cooperating with the government in the ongoing investigation of these allegations.

During September 2010, HMA received a letter from the Department of Justice (DOJ) indicating that an investigation was being conducted to determine whether certain HMA hospitals improperly submitted claims for the implantation of implantable cardioverter defibrillators (ICDs). The DOJ s investigation covers the period commencing with Medicare s expansion of coverage for ICDs in 2003 to the present. The letter from the DOJ further indicates that the claims submitted by HMA s hospitals for ICDs and related services need to be reviewed to determine if Medicare coverage and payment was appropriate. During 2010, the DOJ sent similar letters and other requests to a large number of unrelated hospitals and hospital operators across the country as part of a nation-wide review of ICD billing under the Medicare program. The Company is cooperating with the DOJ in its ongoing investigation, which could potentially give rise to claims against HMA and/or certain of its subsidiary hospitals under the False Claims Act or other statutes, regulations or laws. Additionally, the Company is conducting an internal review of hospital medical records related to ICDs that are the subject of the DOJ investigation. To date, the DOJ has not asserted any monetary or other claims against HMA or its hospitals in this matter and, at this time, the Company is unable to determine the potential impact, if any, that will result from the final resolution of the investigation.

Wrongful Termination Lawsuit

In October 2011, a wrongful termination action was commenced against HMA by Paul Meyer, HMA s former Director of Compliance in the Circuit Court in Broward County, Florida. In the lawsuit, Meyer v. Health Management Associates, Inc., the plaintiff seeks unspecified compensatory and punitive damages. HMA has asserted that Mr. Meyer was terminated after insubordinately refusing to cooperate with HMA s efforts to comply with its obligations under a government subpoena by refusing to return documents belonging to HMA that were in his possession. HMA has filed a counterclaim against Mr. Meyer for breach of contract, conversion and breach of duty of loyalty. The trial in this matter is scheduled to begin on September 8, 2014. The Company intends to vigorously defend against the wrongful termination allegations made by Mr. Meyer.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

Probable Contingencies - HMA

OIG Investigation of Certain HMA Hospitals Relationships with Allegiance

On February 22, 2012 and February 24, 2012, the United States Department of Health and Human Services office of the Inspector General (OIG) served subpoenas on certain HMA hospitals relating to those hospitals relationships with Allegiance Health Management, Inc. (Allegiance). Allegiance, which is unrelated to HMA, is a post-acute healthcare management company that provides intensive outpatient psychiatric (IOP) services to patients. The HMA hospitals that were served subpoenas were: (i) Central Mississippi Medical Center in Jackson, Mississippi; (ii) Crossgates River Oaks Hospital in Brandon, Mississippi; (iii) Davis Regional Medical Center in Statesville, North Carolina; (iv) Lake Norman Regional Medical Center in Mooresville, North Carolina; (v) the Medical Center of Southeastern Oklahoma in Durant, Oklahoma; and (vi) Natchez Community Hospital in Natchez, Mississippi. Each of those hospitals has or had a contract with Allegiance. Among other things, the subpoenas seek: (i) documents related to the hospitals financial relationships with Allegiance; (ii) documents related to patients who received IOP services from Allegiance at the HMA hospitals, including their patient medical records; (iii) documents relating to complaints or concerns regarding Allegiance s IOP services at the HMA hospitals; (iv) documents relating to employees, physicians and therapists who were involved with the IOP services provided by Allegiance at the HMA hospitals; and (v) other documents related to Allegiance, including leases, contracts, policies and procedures, training documents, budgets and financial analyses. The period of time covered by the subpoenas is January 1, 2008 through the date of subpoena compliance. The Company will continue to cooperate with the investigations. Prior to the HMA merger, HMA determined that a liability for this claim was probable and a liability was recorded by HMA during the quarter ended December 31, 2013, which was assumed as part of the HMA merger.

Department of Justice Investigation of Kyphoplasty Procedures at Certain HMA Hospitals

Several HMA hospitals received letters during 2009 requesting information in connection with a DOJ investigation relating to kyphoplasty procedures. Kyphoplasty is a minimally invasive spinal procedure used to treat vertebral compression fractures. The DOJ is currently investigating hospitals and hospital operators in multiple states to determine whether certain Medicare claims for kyphoplasty were incorrect when billed as an inpatient service rather than as an outpatient service. The DOJ s investigation originated with a False Claims Act lawsuit against Kyphon, Inc., the company that developed the kyphoplasty procedure. The requested information has been provided to the DOJ and the Company is continuing to cooperate with the investigation. Prior to the HMA merger, HMA determined that a liability for this claim was probable and an incremental liability was recorded by HMA during the quarter ended December 31, 2013, which was assumed as part of the HMA merger.

Probable Contingencies - CHS

Department of Justice Investigation of Medicare Short-Stay Admissions from Emergency Departments of CHS Hospitals

In April 2011, the Company received a document subpoena from OIG in connection with an investigation of possible improper claims submitted to Medicare and Medicaid. The subpoena was directed to all of the Company s hospitals and requested documents concerning emergency department processes and procedures, including the hospitals use of the Pro-MED Clinical Information System, a third-party software system that assists with the management of patient care and provides operational support and data collection for emergency department management. The subpoena also sought information about the Company s relationships with emergency department physicians, including financial arrangements.

The Company is currently in negotiations with the Department of Justice about resolving the DOJ s claims in connection with its investigation into the Company s short stay hospital admissions for the years 2005-2010, as well as their investigation at the Company s hospital in Laredo, Texas. Based on those negotiations, which are not final, the Company believes that a reserve of $102 million is sufficient to cover the federal government s claims for Medicare, Tricare, and Medicaid admissions (including the claims described in the Legal Proceedings section in Part II, Item 1 of this Quarterly Report on Form 10-Q related to United States ex rel. and Reuille vs. Community Health Systems Professional Services Corporation and Lutheran Musculoskeletal Center, LLC d/b/a Lutheran Hospital (United States District Court for the Northern District of Indiana, Fort Wayne Division) and the May 2011 subpoena identified as Shelbyville, Tennessee OIG Subpoena), certain claims specifically related to the Company s hospital in Laredo, Texas, and other related legal expenses. This reserve is not meant to include third party legal expenses. The Company is also negotiating a corporate integrity agreement with the Office of the Inspector General of the Department of Health and Human Services.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

Summary of Recorded Amounts

There are a number of legal 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. Due to the uncertainties and difficulty in predicting the ultimate resolution of these contingencies, the actual amount could differ from the estimated amount; however, the Company does not believe a change in estimate for any of these matters would be material.

The table below presents a reconciliation of the beginning and ending liability balances during the six months ended June 30, 2014 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. These accruals do not include the Company s estimated legal fees associated with such matters, which are expensed as incurred (in millions):

	CVR Related Liability at Fair Value	CVR Related Liability for Probable Contingencies	Other Probable Contingencies
Balance as of December 31, 2013	$ -	$ -	$ 119
Assumed liabilities for HMA contingencies	284	42	6
Expense	-	-	4
Cash payments	-	-	(7)
Balance as of June 30, 2014	**$ 284**	**$ 42**	**$ 122**

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 $9 million and less than $1 million for the three months ended June 30, 2014 and 2013, respectively, and $13 million and less than $1 million for the six months ended June 30, 2014 and 2013, respectively, and are included in other operating expenses in the accompanying condensed consolidated statements of income.

Reasonably Possible Contingencies

For the legal matter below, the Company believes that a negative outcome is reasonably possible, but the Company is unable to determine an estimate of the possible loss or a range of loss.

U.S. ex rel. Baker vs. Community Health Systems, Inc. (United States District Court for the District of New Mexico)

The Company s knowledge of this matter originated in early 2006 with correspondence from the Civil Division of the Department of Justice requesting documents in an investigation it was conducting involving the Company. The inquiry related to the way in which different state Medicaid programs apply to the federal government for matching or supplemental funds that are ultimately used to pay for a small portion of the services provided to Medicaid and indigent patients. These programs are referred to by different names, including intergovernmental payments, upper payment limit programs, and Medicaid disproportionate share hospital payments. For approximately three years, the Company provided the Department of Justice with requested documents, met with its personnel on numerous occasions and otherwise cooperated in its investigation. During the course of the investigation, the Civil Division notified the Company that it believed that the Company and three of its New Mexico hospitals caused the State of New Mexico to submit improper claims for federal funds, in violation of the Federal False Claims Act. This investigation has culminated in the federal government s intervention in the referenced qui tam lawsuit, which alleges that the Company s New Mexico hospitals caused to be filed false claims from the period of August 2000 through June 2011. Two of the Parent Company s subsidiaries are also defendants in this lawsuit. The Company continues to vigorously defend this action. On December 4-5, 2013, the district court judge heard oral arguments on both sides motions for summary judgment. By telephone conference on December 19, 2013, he advised the parties that, with respect to the core motions for summary judgment, he was denying all parties motions, concluding that there were issues of fact to be determined at trial. Court ordered mediation began on March 12, 2014 and remains open. A trial date of October 14, 2014 has been assigned.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

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.

Implantable Cardioverter Defibrillators (ICDs). The Company was first made aware of this investigation in September 2010, when the Company received a letter from the Civil Division of the United States Department of Justice. The letter advised the Company that an investigation was being conducted to determine whether certain hospitals have improperly submitted claims for payment for ICDs. The period of time covered by the investigation was 2003 to 2010. The Company continues to fully cooperate with the government in this investigation and has provided requested records and documents. On August 30, 2012, the Department of Justice issued a document entitled, Medical Review Guidelines/Resolution Model, which sets out, for the purposes of this investigation, the patient conditions and criteria for the medical necessity of the implantation of ICDs in Medicare beneficiaries and how the Department of Justice will enforce the repayment obligations of hospitals. The Company is in the process of reviewing its medical records in light of the guidance contained in this document.

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. The Company s motion to dismiss this case has been fully briefed and is pending before the court. 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. On October 14, 2013, the Company filed for a Motion for Reconsideration of the Order Granting in Part and Denying in Part the Motion to Dismiss, a Motion to Stay Discovery, and an unopposed Motion for Extension of Time to File an Answer. The Company believes all of the plaintiffs claims are without merit and will vigorously defend them.

17. 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 July 11, 2014, the Company announced that one or more subsidiaries of the Company have executed a definitive agreement to acquire substantially all of the assets of Natchez Regional Medical Center (179 licensed beds) in Natchez, Mississippi for approximately $10 million, plus net working capital. Natchez Regional Medical Center voluntarily filed for Chapter 9 bankruptcy in March 2014. The definitive agreement is subject to approval of the bankruptcy court and an auction of Natchez Regional Medical Center.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

18. SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION

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

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

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

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

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

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

The Company s intercompany activity consists primarily of daily cash transfers for purposes of cash management, the allocation of certain expenses and expenditures paid for by the Parent on behalf of its subsidiaries, and the push down of investment in its subsidiaries. This activity also includes the intercompany transactions between consolidated entities as part of the Receivables Facility that is further discussed in Note 11. 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, the Company sells and/or repurchases noncontrolling interests in consolidated subsidiaries, which may change subsidiaries between guarantors and non-guarantors. Amounts for prior periods are revised to reflect the status of guarantors or non-guarantors as of June 30, 2014.

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

Condensed Consolidating Balance Sheet

June 30, 2014

	Parent Guarantor	Issuer	Other Guarantors	Non - Guarantors	Eliminations	Consolidated
			(In millions)			
ASSETS						
Current assets:						
Cash and cash equivalents	$ -	$ -	$ 206	$ 183	$ -	$ 389
Patient accounts receivable, net of allowance for doubtful accounts	-	-	1,056	2,065	-	3,121
Supplies	-	-	370	180	-	550
Prepaid income taxes	193	-	-	-	-	193
Deferred income taxes	317	-	-	-	-	317
Prepaid expenses and taxes	-	-	149	54	-	203
Other current assets	-	-	277	347	-	624
Total current assets	510	-	2,058	2,829	-	5,397
Intercompany receivable	1,179	16,522	3,087	7,869	(28,657)	-
Property and equipment, net	-	-	7,126	3,691	-	10,817
Goodwill	-	-	5,267	3,252	-	8,519

Other assets, net		-		319		1,778		1,045		(605)		2,537
Net investment in subsidiaries		3,135		17,838		6,936		-		(27,909)		-
Total assets	$	4,824	$	34,679	$	26,252	$	18,686	$	(57,171)	$	27,270
LIABILITIES AND EQUITY												
Current liabilities:												
Current maturities of long-term debt	$	-	$	146	$	54	$	9	$	-	$	209
Accounts payable		-		-		718		282		-		1,000
Deferred income taxes		-		-		-		-		-		-
Accrued interest		-		232		-		1		-		233
Accrued liabilities		4		-		1,216		507		-		1,727
Total current liabilities		4		378		1,988		799		-		3,169
Long-term debt		-		15,903		127		692		-		16,722
Intercompany payable		-		14,450		19,396		15,226		(49,072)		-
Deferred income taxes		1,043		-		-		-		-		1,043
Other long-term liabilities		2		812		1,190		383		(605)		1,782
Total liabilities		1,049		31,543		22,701		17,100		(49,677)		22,716
Redeemable noncontrolling interests in equity of consolidated subsidiaries		-		-		-		689		-		689
Equity:												
Community Health												

Systems, Inc. stockholders equity:											
Preferred stock		-		-		-		-		-	-
Common stock		1		-		-		-		-	1
Additional paid-in capital		2,021		1,150		1,284		656		(3,090)	2,021
Treasury stock, at cost		(7)		-		-		-		-	(7)
Accumulated other comprehensive (loss) income		(55)		(55)		(13)		-		68	(55)
Retained earnings		1,815		2,041		2,280		151		(4,472)	1,815
Total Community Health Systems, Inc. stockholders equity		3,775		3,136		3,551		807		(7,494)	3,775
Noncontrolling interests in equity of consolidated subsidiaries		-		-		-		90		-	90
Total equity		3,775		3,136		3,551		897		(7,494)	3,865
Total liabilities and equity	$	4,824	$	34,679	$	26,252	$	18,686	$	(57,171)	$ 27,270

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

Condensed Consolidating Balance Sheet

December 31, 2013

	Parent Guarantor	Issuer	Other Guarantors	Non - Guarantors	Eliminations	Consolidated
			(In millions)			
ASSETS						
Current assets:						
Cash and cash equivalents	$ -	$ -	$ 238	$ 135	$ -	$ 373
Patient accounts receivable, net of allowance for doubtful accounts	-	-	866	1,457	-	2,323
Supplies	-	-	256	115	-	371
Prepaid income taxes	107	-	-	-	-	107
Deferred income taxes	101	-	-	-	-	101
Prepaid expenses and taxes	-	-	98	29	-	127
Other current assets	-	-	262	83	-	345
Total current assets	208	-	1,720	1,819	-	3,747
Intercompany receivable	579	9,541	4,534	3,810	(18,464)	-
Property and equipment, net	-	-	4,657	2,394	-	7,051
Goodwill	-	-	2,530	1,894	-	4,424

Other assets, net		-		144		1,454		828		(531)		1,895
Net investment in subsidiaries		3,194		9,335		4,030		-		(16,559)		-
Total assets	$	3,981	$	19,020	$	18,925	$	10,745	$	(35,554)	$	17,117
LIABILITIES AND EQUITY												
Current liabilities:												
Current maturities of long-term debt	$	-	$	152	$	13	$	2	$	-	$	167
Accounts payable		-		-		734		215		-		949
Deferred income taxes		3		-		-		-		-		3
Accrued interest		-		111		-		1		-		112
Accrued liabilities		4		-		871		352		-		1,227
Total current liabilities		7		263		1,618		570		-		2,458
Long-term debt		-		8,718		51		517		-		9,286
Intercompany payable		-		6,226		13,060		8,266		(27,552)		-
Deferred income taxes		906		-		-		-		-		906
Other long-term liabilities		-		619		671		218		(531)		977
Total liabilities		913		15,826		15,400		9,571		(28,083)		13,627
Redeemable noncontrolling interests in equity of consolidated subsidiaries		-		-		-		358		-		358
Equity:												
Community Health												

Systems, Inc. stockholders equity:												
Preferred stock		-		-		-		-		-		-
Common stock		1		-		-		-		-		1
Additional paid-in capital		1,256		1,175		1,274		595		(3,044)		1,256
Treasury stock, at cost		(7)		-		-		-		-		(7)
Accumulated other comprehensive (loss) income		(67)		(67)		(11)		-		78		(67)
Retained earnings		1,885		2,086		2,262		157		(4,505)		1,885
Total Community Health Systems, Inc. stockholders equity		3,068		3,194		3,525		752		(7,471)		3,068
Noncontrolling interests in equity of consolidated subsidiaries		-		-		-		64		-		64
Total equity		3,068		3,194		3,525		816		(7,471)		3,132
Total liabilities and equity	$	3,981	$	19,020	$	18,925	$	10,745	$	(35,554)	$	17,117

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

Condensed Consolidating Statement of Income

Three Months Ended June 30, 2014

	Parent Guarantor	Issuer	Other Guarantors	Non - Guarantors	Eliminations	Consolidated
			(In millions)			
Operating revenues (net of contractual allowances and discounts)	$ -	$ (5)	$ 3,387	$ 2,149	$ -	$ 5,531
Provision for bad debts	-	-	456	296	-	752
Net operating revenues	-	(5)	2,931	1,853	-	4,779
Operating costs and expenses:						
Salaries and benefits	-	-	1,240	988	-	2,228
Supplies	-	-	481	257	-	738
Other operating expenses	-	-	703	417	-	1,120
Electronic health records incentive reimbursement	-	-	(61)	(23)	-	(84)
Rent	-	-	59	52	-	111
Depreciation and amortization			200	82		282
Amortization of software to be abandoned	-	-	19	14	-	33
Total operating costs and expenses	-	-	2,641	1,787	-	4,428
Income from operations	-	(5)	290	66	-	351
Interest expense, net	-	31	206	18	-	255
	-	-	-	-	-	-

Loss from early extinguishment of debt												
Equity in earnings of unconsolidated affiliates		(42)		(61)		(24)		-		116		(11)
Income from continuing operations before income taxes		42		25		108		48		(116)		107
Provision for (benefit from) income taxes		-		(17)		42		7		-		32
Income from continuing operations		42		42		66		41		(116)		75
Discontinued operations, net of taxes:												
Loss from operations of entities held for sale		-		-		(8)		8		-		-
Impairment of hospitals held for sale		-		-		-		(5)		-		(5)
Loss from discontinued operations, net of taxes		-		-		(8)		3		-		(5)
Net income (loss)		42		42		58		44		(116)		70
Less: Net income attributable to noncontrolling interests		-		-		-		28		-		28
Net income (loss) attributable to Community Health Systems, Inc. stockholders	$	42	$	42	$	58	$	16	$	(116)	$	42

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

Condensed Consolidating Statement of Income

Three Months Ended June 30, 2013

	Parent Guarantor	Issuer	Other Guarantors	Non - Guarantors	Eliminations	Consolidated
			(In millions)			
Operating revenues (net of contractual allowances and discounts)	$ -	$ (4)	$ 2,389	$ 1,326	$ -	$ 3,711
Provision for bad debts	-	-	375	145	-	520
Net operating revenues	-	(4)	2,014	1,181	-	3,191
Operating costs and expenses:						
Salaries and benefits	-	-	899	629	-	1,528
Supplies	-	-	324	169	-	493
Other operating expenses	-	-	461	252	-	713
Electronic health records incentive reimbursement	-	-	(16)	(8)	-	(24)
Rent	-	-	40	30	-	70
Depreciation and amortization	-	-	129	63	-	192
Total operating costs and expenses	-	-	1,837	1,135	-	2,972
Income from operations	-	(4)	177	46	-	219
Interest expense, net	-	(11)	141	24	-	154
Loss from early extinguishment of debt	-	-	-	-	-	-
Equity in earnings of unconsolidated affiliates	(30)	(24)	(13)	-	58	(9)

Income from continuing operations before income taxes		30		31		49		22		(58)		74
Provision for (benefit from) income taxes		-		1		18		2		-		21
Income from continuing operations		30		30		31		20		(58)		53
Discontinued operations, net of taxes:												
(Loss) income from operations of entities held for sale		-		-		(9)		3		-		(6)
Impairment of hospitals held for sale		-		-		-		-		-		-
Loss from discontinued operations, net of taxes		-		-		(9)		3		-		(6)
Net income (loss)		30		30		22		23		(58)		47
Less: Net income attributable to noncontrolling interests		-		-		-		17		-		17
Net income (loss) attributable to Community Health Systems, Inc. stockholders	$	30	$	30	$	22	$	6	$	(58)	$	30

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

Condensed Consolidating Statement of Loss

Six Months Ended June 30, 2014

	Parent Guarantor	Issuer	Other Guarantors	Non - Guarantors	Eliminations	Consolidated
			(In millions)			
Operating revenues (net of contractual allowances and discounts)	$ -	$ (9)	$ 6,519	$ 3,910	$ -	$ 10,420
Provision for bad debts	-	-	938	518	-	1,456
Net operating revenues	-	(9)	5,581	3,392	-	8,964
Operating costs and expenses:						
Salaries and benefits	-	-	2,393	1,832	-	4,225
Supplies	-	-	899	472	-	1,371
Other operating expenses	-	-	1,369	772	-	2,141
Electronic health records incentive reimbursement	-	-	(84)	(40)	-	(124)
Rent	-	-	114	96	-	210
Depreciation and amortization	-	-	388	149	-	537
Amortization of software to be abandoned	-	-	45	30	-	75
Total operating costs and expenses	-	-	5,124	3,311	-	8,435
Income from operations	-	(9)	457	81	-	529
Interest expense, net	-	71	376	31	-	478
	-	73	-	-	-	73

Loss from early extinguishment of debt						
Equity in earnings of unconsolidated affiliates	70	(31)	(9)	-	(52)	(22)
Impairment of long-lived assets	-	-	24	-	-	24
(Loss) income from continuing operations before income taxes	(70)	(122)	66	50	52	(24)
Provision for (benefit from) income taxes	-	(52)	25	3	-	(24)
(Loss) income from continuing operations	(70)	(70)	41	47	52	-
Discontinued operations, net of taxes:						
(Loss) income from operations of entities held for sale	-	-	(14)	9	-	(5)
Impairment of hospitals held for sale	-	-	-	(22)	-	(22)
Loss from discontinued operations, net of taxes	-	-	(14)	(13)	-	(27)
Net (loss) income	(70)	(70)	27	34	52	(27)
Less: Net income attributable to noncontrolling interests	-	-	-	43	-	43
Net (loss) income attributable to Community Health Systems, Inc. stockholders	$ (70)	$ (70)	$ 27	$ (9)	$ 52	$ (70)

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

Condensed Consolidating Statement of Income

Six Months Ended June 30, 2013

	Parent Guarantor	Issuer	Other Guarantors	Non - Guarantors	Eliminations	Consolidated
			(In millions)			
Operating revenues (net of contractual allowances and discounts)	$ -	$ (7)	$ 4,780	$ 2,677	$ -	$ 7,450
Provision for bad debts	-	-	707	290	-	997
Net operating revenues	-	(7)	4,073	2,387	-	6,453
Operating costs and expenses:						
Salaries and benefits	-	-	1,800	1,276	-	3,076
Supplies	-	-	644	342	-	986
Other operating expenses	-	-	894	511	-	1,405
Electronic health records incentive reimbursement	-	-	(27)	(16)	-	(43)
Rent	-	-	79	60	-	139
Depreciation and amortization	-	-	256	125	-	381
Total operating costs and expenses	-	-	3,646	2,298	-	5,944
Income from operations	-	(7)	427	89	-	509
Interest expense, net	-	3	268	39	-	310
Loss from early extinguishment of debt	-	1	-	-	-	1
Equity in earnings of unconsolidated affiliates	(109)	(117)	(31)	-	233	(24)
Impairment of long-lived assets	-	-	-	-	-	-
Income from continuing operations before income taxes	109	106	190	50	(233)	222
Provision for (benefit from) income taxes	-	(3)	67	6	-	70
Income from continuing operations	109	109	123	44	(233)	152
Discontinued operations, net of taxes:						
(Loss) income from operations of entities held for sale	-	-	(10)	1	-	(9)

Impairment of hospitals held for sale	-	-	-	-	-	-
Loss from discontinued operations, net of taxes	-	-	(10)	1	-	(9)
Net income (loss)	109	109	113	45	(233)	143
Less: Net income attributable to noncontrolling interests	-	-	-	34	-	34
Net income (loss) attributable to Community Health Systems, Inc. stockholders	$ 109	$ 109	$ 113	$ 11	$ (233)	$ 109

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

Condensed Consolidating Statement of Comprehensive Income

Three Months Ended June 30, 2014

	Parent Guarantor	Issuer	Other Guarantors	Non - Guarantors	Eliminations	Consolidated
			(In millions)			
Net income	$ 42	$ 42	$ 58	$ 44	$ (116)	$ 70
Other comprehensive income (loss), net of taxes						
Net change in fair value of interest rate swaps	-	-	-	-	-	-
Net change in fair value of available-for-sale securities	3	3	3	-	(6)	3
Amortization and recognition of unrecognized pension cost components	-	-	-	-	-	-
Other comprehensive income (loss)	3	3	3	-	(6)	3
Comprehensive income	45	45	61	44	(122)	73
Less: Comprehensive income attributable to noncontrolling interests	-	-	-	28	-	28
Comprehensive income attributable to Community Health Systems, Inc. stockholders	$ 45	$ 45	$ 61	$ 16	$ (122)	$ 45

Condensed Consolidating Statement of Comprehensive Income

Three Months Ended June 30, 2013

Parent Guarantor	Issuer	Other Guarantors	Non - Guarantors	Eliminations	Consolidated

	(In millions)					
Net income	$ 30	$ 30	$ 22	$ 23	$ (58)	$ 47
Other comprehensive income (loss), net of taxes						
Net change in fair value of interest rate swaps	21	21	-	-	(21)	21
Net change in fair value of available-for-sale securities	-	-	-	-	-	-
Amortization and recognition of unrecognized pension cost components	-	-	-	-	-	-
Other comprehensive income (loss)	21	21	-	-	(21)	21
Comprehensive income	51	51	22	23	(79)	68
Less: Comprehensive income attributable to noncontrolling interests	-	-	-	17	-	17
Comprehensive income attributable to Community Health Systems, Inc. stockholders	$ 51	$ 51	$ 22	$ 6	$ (79)	$ 51

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

Condensed Consolidating Statement of Comprehensive Loss

Six Months Ended June 30, 2014

	Parent Guarantor	Issuer	Other Guarantors	Non - Guarantors	Eliminations	Consolidated
			(In millions)			
Net (loss) income	$ (70)	$ (70)	$ 27	$ 34	$ 52	$ (27)
Other comprehensive income, net of income taxes:						
Net change in fair value of interest rate swaps, net of tax	9	9	-	-	(9)	9
Net change in fair value of available-for-sale securities, net of tax	3	3	3	-	(6)	3
Amortization and recognition of unrecognized pension cost components, net of tax	-	-	-	-	-	-
Other comprehensive income	12	12	3	-	(15)	12
Comprehensive (loss) income	(58)	(58)	30	34	37	(15)
Less: Comprehensive income attributable to noncontrolling interests	-	-	-	43	-	43
Comprehensive (loss) income attributable to Community Health Systems, Inc. stockholders	$ (58)	$ (58)	$ 30	$ (9)	$ 37	$ (58)

Condensed Consolidating Statement of Comprehensive Income

Six Months Ended June 30, 2013

	Parent Guarantor	Issuer	Other Guarantors	Non - Guarantors	Eliminations	Consolidated
			(In millions)			
Net income	$ 109	$ 109	$ 113	$ 45	$ (233)	$ 143
Other comprehensive income, net of income taxes:						
Net change in fair value of interest rate swaps, net of tax	37	37	-	-	(37)	37
Net change in fair value of available-for-sale securities, net of tax	2	2	2	-	(4)	2
Amortization and recognition of unrecognized pension cost components, net of tax	1	1	1	-	(2)	1
Other comprehensive income	40	40	3	-	(43)	40
Comprehensive income	149	149	116	45	(276)	183
Less: Comprehensive income attributable to noncontrolling interests	-	-	-	34	-	34
Comprehensive income attributable to Community Health Systems, Inc. stockholders	$ 149	$ 149	$ 116	$ 11	$ (276)	$ 149

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

Condensed Consolidating Statement of Cash Flows

Six Months Ended June 30, 2014

	Parent Guarantor	Issuer	Other Guarantors	Non - Guarantors	Eliminations	Consolidated
			(In millions)			
Net cash (used in) provided by operating activities	$ 69	$ 196	$ 392	$ (143)	$ -	$ 514
Cash flows from investing activities:						
Acquisitions of facilities and other related equipment	-	-	(2,828)	(213)	-	(3,041)
Purchases of property and equipment	-	-	(282)	(79)	-	(361)
Proceeds from disposition of ancillary operations	-	-	-	12	-	12
Proceeds from sale of property and equipment	-	-	2	1	-	3
Purchases of available-for-sale securities	-	-	-	(137)	-	(137)
Proceeds from sales of available-for-sale securities	-	-	-	123	-	123
Increase in other investments	-	-	(185)	(66)	-	(251)
Net cash used in investing activities	-	-	(3,293)	(359)	-	(3,652)
Cash flows from financing activities:						
Proceeds from exercise of stock options	14	-	-	-	-	14
Repurchase of restricted stock shares for payroll tax withholding requirements	(11)	-	-	-	-	(11)
Stock buy-back	-	-	-	-	-	-
Deferred financing costs and other-debt related costs	-	(269)	-	-	-	(269)

Excess tax benefit relating to stock-based compensation	3	-	-	-	-	3
Proceeds from noncontrolling investors in joint ventures	-	-	-	10	-	10
Redemption of noncontrolling investments in joint ventures	-	-	-	(6)	-	(6)
Distributions to noncontrolling investors in joint ventures	-	-	-	(44)	-	(44)
Changes in intercompany balances with affiliates, net	(75)	(3,282)	2,855	502	-	-
Borrowings under credit agreements	-	7,455	20	13	-	7,488
Issuance of long-term debt	-	4,000	-	-	-	4,000
Proceeds from receivables facility	-	-	-	133	-	133
Repayments of long-term indebtedness	-	(8,100)	(6)	(58)	-	(8,164)
Net cash provided by (used in) financing activities	(69)	(196)	2,869	550	-	3,154
Net change in cash and cash equivalents	-	-	(32)	48	-	16
Cash and cash equivalents at beginning of period	-	-	238	135	-	373
Cash and cash equivalents at end of period	$ -	$ -	$ 206	$ 183	$ -	$ 389

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COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

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

Condensed Consolidating Statement of Cash Flows

Six Months Ended June 30, 2013

	Parent Guarantor	Issuer	Other Guarantors	Non - Guarantors	Eliminations	Consolidated
			(In millions)			
Net cash (used in) provided by operating activities	$ (83)	$ 4	$ 431	$ (43)	$ -	$ 309
Cash flows from investing activities:						
Acquisitions of facilities and other related equipment	-	-	(5)	(5)	-	(10)
Purchases of property and equipment	-	-	(254)	(41)	-	(295)
Proceeds from sale of property and equipment	-	-	1	1	-	2
Purchases of available-for-sale securities	-	-	-	-	-	-
Proceeds from sales of available-for-sale securities	-	-	-	-	-	-
Increase in other investments	-	-	(110)	(25)	-	(135)
Net cash used in investing activities	-	-	(368)	(70)	-	(438)
Cash flows from financing activities:						
Proceeds from exercise of stock options	104	-	-	-	-	104
Repurchase of restricted stock shares for payroll tax withholding requirements	(15)	-	-	-	-	(15)
Stock buy-back	(27)	-	-	-	-	(27)
Deferred financing costs and other-debt related costs	-	-	-	(1)	-	(1)
Excess tax benefit relating to stock-based compensation	6	-	-	-	-	6
Proceeds from noncontrolling investors in joint ventures	-	-	-	-	-	-
Redemption of noncontrolling investments in joint ventures	-	-	-	-	-	-
Distributions to noncontrolling investors in joint ventures	-	-	-	(38)	-	(38)