

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
*(State or other jurisdiction of
incorporation or organization)*

13-3893191
*(I.R.S. Employer
Identification Number)*

**4000 Meridian Boulevard
Franklin, Tennessee**
(Address of principal executive offices)

37067
(Zip Code)

615-465-7000
(Registrant's telephone number)

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

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

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

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

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

As of July 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)

ASSETS	June 30, 2014	December 31, 2013
<i>Current assets:</i>		
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	<u>5,397</u>	<u>3,747</u>
Property and equipment	14,590	10,462
Less accumulated depreciation and amortization	(3,773)	(3,411)
Property and equipment, net	<u>10,817</u>	<u>7,051</u>
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	<u>\$ 27,270</u>	<u>\$ 17,117</u>
LIABILITIES AND EQUITY		
<i>Current liabilities:</i>		
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, respectively)	1,727	1,227
Total current liabilities	<u>3,169</u>	<u>2,458</u>
Long-term debt	16,722	9,286
Deferred income taxes	1,043	906
Other long-term liabilities	1,782	977
Total liabilities	<u>22,716</u>	<u>13,627</u>
Redeemable noncontrolling interests in equity of consolidated subsidiaries	689	358
<i>EQUITY</i>		
<i>Community Health Systems, Inc. stockholders' equity:</i>		
Preferred stock, \$.01 par value per share, 100,000,000 shares authorized; none issued	-	-
Common stock, \$.01 par value per share, 300,000,000 shares authorized; 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	<u>3,775</u>	<u>3,068</u>
Noncontrolling interests in equity of consolidated subsidiaries	90	64
Total equity	<u>3,865</u>	<u>3,132</u>
Total liabilities and equity	<u>\$ 27,270</u>	<u>\$ 17,117</u>

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,		Six Months Ended June 30,	
	2014	2013	2014	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
<i>Net operating revenues</i>	<u>4,779</u>	<u>3,191</u>	<u>8,964</u>	<u>6,453</u>
<i>Operating costs and expenses:</i>				
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	<u>4,428</u>	<u>2,972</u>	<u>8,435</u>	<u>5,944</u>
<i>Income from operations</i>	<u>351</u>	<u>219</u>	<u>529</u>	<u>509</u>
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	<u>75</u>	<u>53</u>	<u>-</u>	<u>152</u>
<i>Discontinued operations, net of taxes:</i>				
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	<u>(5)</u>	<u>(6)</u>	<u>(27)</u>	<u>(9)</u>
<i>Net income (loss)</i>	<u>70</u>	<u>47</u>	<u>(27)</u>	<u>143</u>
Less: Net income attributable to noncontrolling interests	28	17	43	34
Net income (loss) attributable to Community Health Systems, Inc. stockholders	<u>\$ 42</u>	<u>\$ 30</u>	<u>\$ (70)</u>	<u>\$ 109</u>
<i>Basic earnings (loss) per share attributable to Community Health Systems, Inc. common stockholders(1):</i>				
Continuing operations	\$ 0.42	\$ 0.39	\$ (0.39)	\$ 1.28
Discontinued operations	(0.04)	(0.06)	(0.25)	(0.10)
Net income (loss)	<u>\$ 0.37</u>	<u>\$ 0.32</u>	<u>\$ (0.64)</u>	<u>\$ 1.19</u>
<i>Diluted earnings (loss) per share attributable to Community Health Systems, Inc. common stockholders(1):</i>				
Continuing operations	\$ 0.42	\$ 0.38	\$ (0.39)	\$ 1.27
Discontinued operations	(0.04)	(0.06)	(0.25)	(0.10)
Net income (loss)	<u>\$ 0.37</u>	<u>\$ 0.32</u>	<u>\$ (0.64)</u>	<u>\$ 1.17</u>
<i>Weighted-average number of shares outstanding:</i>				
Basic	<u>112,598,899</u>	<u>92,866,370</u>	<u>109,617,014</u>	<u>91,939,641</u>
Diluted	<u>113,474,169</u>	<u>94,109,368</u>	<u>109,617,014</u>	<u>93,025,402</u>

(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		Six Months Ended	
	June 30,		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	<u>\$ 45</u>	<u>\$ 51</u>	<u>\$ (58)</u>	<u>\$ 149</u>

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	2013
<i>Cash flows from operating activities:</i>		
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	<u>514</u>	<u>309</u>
<i>Cash flows from investing activities:</i>		
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	<u>(3,652)</u>	<u>(438)</u>
<i>Cash flows from financing activities:</i>		
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	<u>3,154</u>	<u>(8)</u>
<i>Net change in cash and cash equivalents</i>	16	(137)
<i>Cash and cash equivalents at beginning of period</i>	373	388
<i>Cash and cash equivalents at end of period</i>	<u>\$ 389</u>	<u>\$ 251</u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest payments	<u>\$ (352)</u>	<u>\$ (296)</u>
Income tax (paid), net of refunds received	<u>\$ 73</u>	<u>\$ (70)</u>

See accompanying notes to the condensed consolidated financial statements.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements of Community Health Systems, Inc. (the “Parent” or “Parent Company”) and its subsidiaries (the “Company”) as of 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.

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	<u>\$ 5,531</u>	<u>\$ 3,711</u>	<u>\$10,420</u>	<u>\$7,450</u>

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.

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	<u>3,323,113</u>	<u>\$ 34.71</u>	<u>3.7 years</u>	<u>\$ 35</u>
Exercisable at June 30, 2014	<u>3,207,858</u>	<u>\$ 35.23</u>	<u>3.5 years</u>	<u>\$ 33</u>

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.

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	<u>2,760,896</u>	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	<u>49,362</u>	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.

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.

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	<u>\$ 3,531</u>
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	<u>\$ 3,531</u>

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	<u>\$ 101</u>	<u>\$ 45</u>	<u>\$ 180</u>	<u>\$ 95</u>
Income (loss) from operations of entities held for sale before income taxes	-	(10)	(4)	(14)
Impairment of hospitals held for sale before income taxes	<u>(6)</u>	<u>-</u>	<u>(29)</u>	<u>-</u>
Loss from discontinued operations, before taxes	(6)	(10)	(33)	(14)
Income tax benefit	<u>(1)</u>	<u>(4)</u>	<u>(6)</u>	<u>(5)</u>
Loss from discontinued operations, net of taxes	<u>\$ (5)</u>	<u>\$ (6)</u>	<u>\$ (27)</u>	<u>\$ (9)</u>

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.

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	\$	<u>8,519</u>

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.

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	<u>\$ 47</u>	<u>\$ 36</u>	<u>\$ (43)</u>	<u>\$ 118</u>
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	<u>\$ (5)</u>	<u>\$ (6)</u>	<u>\$ (27)</u>	<u>\$ (9)</u>
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	<u>113,474,169</u>	<u>94,109,368</u>	<u>109,617,014</u>	<u>93,025,402</u>

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	-

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							Total Equity
	Redeemable Noncontrolling Interests	Common Stock	Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Noncontrolling Interests	
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 noncontrolling interests	(6)	-	-	-	-	-	-	-
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	<u>\$ 689</u>	<u>\$ 1</u>	<u>\$ 2,021</u>	<u>\$ (7)</u>	<u>\$ (55)</u>	<u>\$ 1,815</u>	<u>\$ 90</u>	<u>\$ 3,865</u>

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	<u>\$ (70)</u>

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.

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	<u>\$ 16,722</u>	<u>\$ 9,286</u>

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%.

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 1/8% Senior Notes due 2020

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

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 %

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

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 Agric le 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.

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 1/8% 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 7/8% 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.

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.

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):

<u>Derivatives in Cash Flow Hedging Relationships</u>	<u>Amount of Pre-Tax (Gain) Loss Recognized in OCI (Effective Portion)</u>			
	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
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):

<u>Location of Loss Reclassified from AOCL into Income (Effective Portion)</u>	<u>Amount of Pre-Tax Loss Reclassified from AOCL into Income (Effective Portion)</u>			
	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
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):

	<u>Asset Derivatives</u>				<u>Liability Derivatives</u>			
	<u>June 30, 2014</u>		<u>December 31, 2013</u>		<u>June 30, 2014</u>		<u>December 31, 2013</u>	
	<u>Balance Sheet Location</u>	<u>Fair Value</u>	<u>Balance Sheet Location</u>	<u>Fair Value</u>	<u>Balance Sheet Location</u>	<u>Fair Value</u>	<u>Balance Sheet Location</u>	<u>Fair Value</u>
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).

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	<u>\$ 4,779</u>	<u>\$ 3,191</u>	<u>\$ 8,964</u>	<u>\$ 6,453</u>
Income (loss) from continuing operations before income taxes:				
Hospital operations	\$ 116	\$ 130	\$ 246	\$ 337
Corporate and all other	(9)	(56)	(270)	(115)
Total	<u>\$ 107</u>	<u>\$ 74</u>	<u>\$ (24)</u>	<u>\$ 222</u>

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	<u>\$ (47)</u>	<u>\$ 10</u>	<u>\$ (18)</u>	<u>\$ (55)</u>

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
Amounts reclassified from accumulated other comprehensive income (loss)	35	-	1	36
Net current-period other comprehensive income	37	2	1	40
Balance as of June 30, 2013	\$ (79)	\$ 7	\$ (33)	\$ (105)

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):

Amount reclassified from AOCL			
Details about accumulated other comprehensive income (loss) components	Three Months Ended June 30, 2014	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
	<u>\$ (12)</u>	<u>\$ (23)</u>	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
	<u>\$ -</u>	<u>\$ -</u>	Net of tax

Amount reclassified from AOCL			
Details about accumulated other comprehensive income (loss) components	Three Months Ended June 30, 2013	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
	<u>\$ (17)</u>	<u>\$ (35)</u>	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
	<u>\$ (1)</u>	<u>\$ (1)</u>	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.

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.

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	<u>\$ 284</u>	<u>\$ 42</u>	<u>\$ 122</u>

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.

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 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.

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	<u>\$ 4,824</u>	<u>\$ 34,679</u>	<u>\$ 26,252</u>	<u>\$ 18,686</u>	<u>\$ (57,171)</u>	<u>\$ 27,270</u>
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	<u>\$ 4,824</u>	<u>\$ 34,679</u>	<u>\$ 26,252</u>	<u>\$ 18,686</u>	<u>\$ (57,171)</u>	<u>\$ 27,270</u>

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	<u>\$ 3,981</u>	<u>\$ 19,020</u>	<u>\$ 18,925</u>	<u>\$ 10,745</u>	<u>\$ (35,554)</u>	<u>\$ 17,117</u>
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	<u>\$ 3,981</u>	<u>\$ 19,020</u>	<u>\$ 18,925</u>	<u>\$ 10,745</u>	<u>\$ (35,554)</u>	<u>\$ 17,117</u>

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

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	<u>\$ 30</u>	<u>\$ 30</u>	<u>\$ 22</u>	<u>\$ 6</u>	<u>\$ (58)</u>	<u>\$ 30</u>

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
Loss from early extinguishment of debt	-	73	-	-	-	73
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)

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	<u>\$ 109</u>	<u>\$ 109</u>	<u>\$ 113</u>	<u>\$ 11</u>	<u>\$ (233)</u>	<u>\$ 109</u>

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	<u>\$ 45</u>	<u>\$ 45</u>	<u>\$ 61</u>	<u>\$ 16</u>	<u>\$ (122)</u>	<u>\$ 45</u>

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	<u>\$ 51</u>	<u>\$ 51</u>	<u>\$ 22</u>	<u>\$ 6</u>	<u>\$ (79)</u>	<u>\$ 51</u>

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	<u>\$ (58)</u>	<u>\$ (58)</u>	<u>\$ 30</u>	<u>\$ (9)</u>	<u>\$ 37</u>	<u>\$ (58)</u>

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	<u>\$ 149</u>	<u>\$ 149</u>	<u>\$ 116</u>	<u>\$ 11</u>	<u>\$ (276)</u>	<u>\$ 149</u>

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

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)
Changes in intercompany balances with affiliates, net	15	221	(209)	(27)	-	-
Borrowings under credit agreements	-	275	20	1	-	296
Issuance of long-term debt	-	-	-	-	-	-
Proceeds from receivables facility	-	-	-	300	-	300
Repayments of long-term indebtedness	-	(500)	(14)	(119)	-	(633)
Net cash provided by (used in) financing activities	83	(4)	(203)	116	-	(8)
Net change in cash and cash equivalents	-	-	(140)	3	-	(137)
Cash and cash equivalents at beginning of period	-	-	272	116	-	388
Cash and cash equivalents at end of period	\$ -	\$ -	\$ 132	\$ 119	\$ -	\$ 251

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read this discussion together with our unaudited condensed consolidated financial statements and the accompanying notes included herein.

Throughout this Quarterly Report on Form 10-Q, we refer to Community Health Systems, Inc., or the Parent Company, and its consolidated subsidiaries in a simplified manner and on a collective basis, using words like "we," "our," "us" and the "Company". This drafting style is suggested by the Securities and Exchange Commission, or SEC, and is not meant to indicate that the publicly-traded Parent Company or any particular subsidiary of the Parent Company 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.

Executive Overview

We are one of the largest publicly-traded operators of hospitals in the United States in terms of number of facilities and net operating revenues. We provide healthcare services through the hospitals that we own and operate in non-urban and selected urban markets throughout the United States. We generate revenues by providing a broad range of general and specialized hospital healthcare services and other outpatient services to patients in the communities in which we are located. As of June 30, 2014, included in continuing operations are 198 hospitals that we owned or leased, comprised of 194 general acute care hospitals and four stand-alone rehabilitation or psychiatric hospitals. In addition to our hospitals and related businesses, we own and operate home care agencies, located primarily in markets where we also operate a hospital. Also, through our wholly-owned subsidiary, Quorum Health Resources, LLC, or QHR, we provide management and consulting services to non-affiliated general acute care hospitals located throughout the United States. For the hospitals and home care agencies that we own and operate, we are paid for our services by governmental agencies, private insurers and directly by the patients we serve. For our management and consulting services, we are paid by the non-affiliated hospitals utilizing our services.

On January 27, 2014, we and one of our wholly-owned subsidiaries completed the acquisition of Health Management Associates, Inc., or HMA, by acquiring all the outstanding shares of common stock of HMA, or HMA common stock, for approximately \$7.3 billion, including the assumption of approximately \$3.8 billion of indebtedness, consisting of a combination of cash and Parent Company common stock. Each share of HMA common stock issued and outstanding immediately prior to the effective time of the HMA merger was converted into the right to receive \$10.50 in cash, 0.06942 of a share of the Parent Company's common stock, and one contingent value right, or CVR, which entitles the holder of each CVR to receive a cash payment of \$1.00 per share, following and conditioned upon the final resolution of certain legal matters involving HMA, subject to downward adjustments relating to the amount of certain losses arising out of or relating to such legal matters. At the time of the completion of the HMA merger, HMA owned and operated 71 hospitals in 15 states in non-urban communities located primarily in the southeastern United States. During the three and six months ended June 30, 2014, we recognized approximately \$22 million and \$78 million of acquisition and integration expenses related to the HMA merger, respectively.

In connection with the HMA merger, the Parent Company and CHS/Community Health Systems, Inc., or CHS, entered into a third amendment and restatement of its credit facility, or Credit Facility, providing for additional financing and recapitalization of certain of our term loans. In addition, we 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.

We believe the HMA merger will benefit us since it expanded the number of markets we serve and reduced our concentration of credit risk and other risks in any one state. We also believe that synergies obtained from eliminating duplicate corporate functions and centralizing many support functions will allow us to improve HMA's margins. This merger also extends and strengthens our hospital and physician networks. Operating results and statistical data for the three and six-month periods ended June 30, 2014, include comparative information for the operations of the acquired HMA hospitals from January 27, 2014, the date of the HMA merger. Throughout this executive overview and management's discussion and analysis, same-store operating results and statistical data for both the three and six months ended June 30, 2014 and 2013 is hereinafter defined to include the hospitals acquired in the HMA merger. For the hospitals acquired in the HMA merger, this same-store information reflects the periods from February through June 2014 and 2013 for the six-month comparisons and from April through June 2014 and 2013 for the three-month comparisons, in each case as if they were owned during both comparable periods. For all hospitals owned throughout both periods, the same-store operating results and statistical data reflects the indicated three-month and six-month periods. In addition, the same-store comparisons exclude our hospitals that have previously been classified as discontinued operations for accounting purposes.

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In addition, during the six months ended June 30, 2014, we completed the acquisition of a hospital in Sharon, Pennsylvania as well as a hospital in Ocala, Florida with the hospital in Ocala, Florida being acquired through a long-term prepaid lease executed in conjunction with a joint venture arrangement with an affiliate of a regional not-for-profit healthcare system.

Our net operating revenues for the three months ended June 30, 2014, increased \$1.6 billion to approximately \$4.8 billion compared to approximately \$3.2 billion for the three months ended June 30, 2013. We had income from continuing operations before noncontrolling interests of \$75 million during the three months ended June 30, 2014, compared to income of \$53 million for the three months ended June 30, 2013. Income from continuing operations before noncontrolling interests included an after-tax charge of \$8 million for acquisition and integration expenses from the HMA merger, an after-tax charge of \$21 million for the acceleration of amortization of software to be abandoned, and an after-tax charge of \$6 million for legal expenses related to the HMA legal proceedings underlying the CVR agreement. Consolidated inpatient admissions for the three months ended June 30, 2014, increased 47.8%, compared to the three months ended June 30, 2013, and consolidated adjusted admissions for the three months ended June 30, 2014 increased 51.6%, compared to the three months ended June 30, 2013. These increases were primarily due to the HMA merger during 2014. Same-store inpatient admissions for the three months ended June 30, 2014, decreased 4.8%, compared to the three months ended June 30, 2013, and same-store adjusted admissions for the three months ended June 30, 2014 decreased 1.2%, compared to the three months ended June 30, 2013.

Our net operating revenues for the six months ended June 30, 2014, increased \$2.5 billion to approximately \$9.0 billion compared to approximately \$6.5 billion for the six months ended June 30, 2013. We had a nominal loss from continuing operations before noncontrolling interests during the six months ended June 30, 2014, compared to income of \$152 million for the six months ended June 30, 2013. Loss from continuing operations before noncontrolling interests included an after-tax charge of \$45 million for loss from early extinguishment of debt, \$41 million after-tax expense for acquisition and integration expenses from the HMA merger, an after-tax charge of \$47 million for the acceleration of amortization on software to be abandoned, an after-tax charge of \$15 million for impairment of software costs taken out of service and an \$8 million after-tax charge for the HMA legal proceedings underlying the CVR agreement. Consolidated inpatient admissions for the six months ended June 30, 2014, increased 36.1%, compared to the six months ended June 30, 2013, and consolidated adjusted admissions for the six months ended June 30, 2014 increased 40.1%, compared to the six months ended June 30, 2013. These increases were primarily due to the HMA merger during 2014. Same-store inpatient admissions for the six months ended June 30, 2014, decreased 6.3%, compared to the six months ended June 30, 2013, and same-store adjusted admissions for the six months ended June 30, 2014 decreased 3.2%, compared to the six months ended June 30, 2013.

Self-pay revenues represented approximately 12.8% and 13.7% of our net operating revenues, net of contractual allowances and discounts (but before provision for bad debts), for the three months ended June 30, 2014 and 2013, respectively, and 13.6% for both of the six-month periods ended June 30, 2014 and 2013. The amount of foregone revenue related to providing charity care services as a percentage of net operating revenues was approximately 3.0% and 5.1% for the three months ended June 30, 2014 and 2013, respectively, and 3.3% and 5.2% for the six months ended June 30, 2014 and 2013, respectively. Direct and indirect costs incurred by us in providing charity care services were approximately 0.5% and 0.9% of net operating revenues for each of the three-month and six-month periods ended June 30, 2014 and 2013, respectively.

The Patient Protection and Affordable Care Act of 2010, or the Reform Legislation, mandates that substantially all U.S. citizens maintain medical insurance coverage, which has begun to increase the number of persons with access to health insurance in the United States. The Reform Legislation expands health insurance coverage through a combination of public program expansion and private sector health insurance reforms.

Based on the Congressional Budget Office projections issued in February of 2014, the Reform Legislation could result in 13 million and 25 million formerly uninsured Americans gaining insurance coverage by the end of 2014 and 2016, respectively. In an April 2014 report, the CBO projects, by the end of 2016, a 45% reduction in the number of nonelderly Americans who remain uninsured due to the effects on insurance coverage from the Reform Legislation. The 29 states in which we operate hospitals include nine of the 10 states with the highest percentage of nonelderly uninsured people from among the state's nonelderly population. More broadly, the 29 states in which we operate hospitals include 26 of the 30 states with the highest percentage of nonelderly uninsured people from among the state's nonelderly population.

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As a result of a 2012 Supreme Court decision, states may opt out of the Medicaid coverage expansion provisions of the Reform Legislation without losing existing federal Medicaid funding. Some states have opted not to expand their Medicaid programs, but could decide at a later date to expand their Medicaid programs. In states that do not expand their Medicaid programs, the number of uninsured patients at our hospitals will likely decline by a smaller margin as compared to our expectations when the Reform Legislation was first adopted. Of the 29 states in which we operate hospitals, 12 states are expanding their Medicaid programs. At this time, the other 17 states are not expanding Medicaid coverage. Florida, Indiana, Pennsylvania, Tennessee and Texas, where we operated a significant number of hospitals as of June 30, 2014, are five of the states that have not expanded Medicaid coverage. Three of the states in which we operate that have not expanded Medicaid, including Pennsylvania, are evaluating options such as waiver plans to operate an alternative Medicaid expansion plan.

Our hospitals are well positioned to participate in the provider networks of various QHPs offering plan options on the health insurance exchanges. As of June 30, 2014, 196 of our 198 hospitals in continuing operations participated in a health insurance exchange agreement, 90% of our hospitals possessed two or more contracts, 87% of our hospitals had a contract with the first or second lowest cost bronze plans (QHPs with a 60% actuarial value), and 90% of our hospitals had a contract with the first or second lowest cost silver plans (QHPs with a 70% actuarial value). Most of our exchange reimbursement arrangements reflect a slight discount to that of commercial rates.

The Reform Legislation also makes a number of other changes to Medicare and Medicaid, such as reductions to the Medicare annual market basket update for federal fiscal years 2010 through 2019, a productivity offset to the Medicare market basket update which began October 1, 2011, and a reduction to the Medicare and Medicaid disproportionate share payments, that could adversely impact the reimbursement received under these programs.

Also included in the Reform Legislation are provisions aimed at reducing fraud, waste and abuse in the healthcare industry. These provisions allocate significant additional resources to federal enforcement agencies and expand the use of private contractors to recover potentially inappropriate Medicare and Medicaid payments. The Reform Legislation amends several existing federal laws, including the Medicare Anti-Kickback Statute and the False Claims Act, making it easier for government agencies and private plaintiffs to prevail in lawsuits brought against healthcare providers. These amendments also make it easier for potentially severe fines and penalties to be imposed on healthcare providers accused of violating applicable laws and regulations.

We believe the expansion of private sector and Medicaid coverage will, over time, increase our reimbursement related to providing services to individuals who were previously uninsured, which should reduce our expense from uncollectible accounts receivable. The various provisions in the Reform Legislation that directly or indirectly affect reimbursement are scheduled to take effect over a number of years. Over time, we believe the net impact of the overall changes as a result of the Reform Legislation will have a positive effect on our net operating revenues. Other provisions of the Reform Legislation, such as requirements related to employee health insurance coverage, should increase our operating costs. Because of the many variables involved, including clarifications and modifications resulting from the rule-making process, the development of agency guidance and future judicial interpretations, whether and how many states decide to expand or not to expand Medicaid coverage, the number of uninsured who elect to purchase health insurance coverage, budgetary issues at federal and state levels, and the potential for delays in the implementation of some of the provisions of the Reform Legislation, we may not be able to realize the positive impact the Reform Legislation may otherwise have on our business, results of operations, cash flow, capital resources and liquidity. Furthermore, we cannot predict whether we will be able to modify certain aspects of our operations to offset any potential adverse consequences from the Reform Legislation.

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In a number of markets, we have partnered with local physicians in the ownership of our facilities. Such investments have been permitted under an exception to the federal physician self-referral law, or Stark Law, that allows physicians to invest in an entire hospital (as opposed to individual hospital departments). The Reform Legislation changed the “whole hospital” exception to the Stark Law. The Reform Legislation permits existing physician investments in a whole hospital to continue under a “grandfather” clause if the arrangement satisfies certain requirements and restrictions, but physicians are now prohibited, from the time the Reform Legislation became effective, from increasing the aggregate percentage of their ownership in the hospital. The Reform Legislation also restricts the ability of existing physician-owned hospitals to expand the capacity of their facilities.

In addition, 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, or HITECH. These provisions were designed to promote the use of electronic health records, or 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. These payments are intended to incentivize the meaningful use of EHR. Rules adopted in July 2010 by the Department of Health and Human Services established an initial set of standards and certification criteria. Our hospital facilities have been implementing EHR technology on a facility-by-facility basis since 2011. We anticipate recognizing incentive reimbursement related to the Medicare or Medicaid incentives as we are able to implement the certified EHR technology and meet the defined “meaningful use criteria,” and information from completed cost report periods is available from which to calculate the incentive reimbursement. The timing of recognizing incentive reimbursement will not correlate with the timing of recognizing operating expenses and incurring capital costs in connection with the implementation of EHR technology which may result in material period-to-period changes in our future results of operations. Beginning in 2015, eligible hospitals and professionals that have not demonstrated meaningful use of certified EHR technology and have not applied and qualified for a hardship exception are subject to penalties. For eligible hospitals, the penalty would be a reduced market basket update to the inpatient prospective payment system standardized amount in 2015 and each subsequent fiscal year. For eligible professionals, the penalty would be a 1% per year cumulative reduction applied to the Medicare physician fee schedule amount for covered professional services, subject to a cap of 5%.

Although we believe that our hospital facilities will be in compliance with the meaningful use standards by 2015, there can be no assurance that all of our facilities will be in compliance and therefore not subject to the penalty provisions of HITECH. We recognized approximately \$84 million and \$24 million during the three months ended June 30, 2014 and 2013, respectively, and \$124 million and \$43 million for the six months ended June 30, 2014 and 2013, respectively, of incentive reimbursement for HITECH incentive reimbursements from Medicare and Medicaid related to certain of our hospitals and for certain of our employed physicians, which are presented as a reduction of operating expenses.

As a result of our current levels of cash, available borrowing capacity, long-term outlook on our debt repayments, the refinancing of our term loans and our continued projection of our ability to generate cash flows, we anticipate that we will be able to invest the necessary capital in our business over the next twelve months and into the foreseeable future. We believe there continues to be ample opportunity for growth in substantially all of our markets by decreasing the need for patients to travel outside their communities for healthcare services. Furthermore, we continue to benefit from synergies from our acquisitions and will continue to strive to improve operating efficiencies and procedures in order to improve our profitability at all of our hospitals.

Sources of Revenue

The following table presents the approximate percentages of operating revenues, net of contractual allowances and discounts (but before provision for bad debts), by payor source for the periods indicated. The data for the periods presented are not strictly comparable due to the effect that hospital acquisitions have had on these statistics.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Medicare	25.6 %	24.7 %	26.0%	25.3 %
Medicaid	10.6	10.5	10.0	9.6
Managed Care and other third-party payors	51.0	51.1	50.4	51.5
Self-pay	12.8	13.7	13.6	13.6
Total	100.0 %	100.0 %	100.0 %	100.0 %

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As shown above, we receive a substantial portion of our revenues from the Medicare and Medicaid programs. Included in Managed Care and other third-party payors is operating revenues from insurance companies with which we have insurance provider contracts, Medicare managed care, insurance companies for which we do not have insurance provider contracts, workers' compensation carriers and non-patient service revenue, such as rental income and cafeteria sales. In the future, we generally expect revenues received from the Medicare and Medicaid programs to increase due to the general aging of the population. In addition, the Reform Legislation, currently in effect, should increase the number of insured patients, which, in turn, should reduce revenues from self-pay patients and reduce our provision for bad debts. The Reform Legislation, however, imposes significant reductions in amounts the government pays Medicare managed care plans. The trend toward increased enrollment in Medicare managed care may adversely affect our operating revenue growth. Other provisions in the Reform Legislation impose minimum medical-loss ratios and require insurers to meet specific benefit requirements. Furthermore, in the normal course of business, managed care programs, insurance companies and employers actively negotiate the amounts paid to hospitals. The trend toward increased enrollment in managed care may adversely affect our operating revenue growth. There can be no assurance that we will retain our existing reimbursement arrangements or that these third-party payors will not attempt to further reduce the rates they pay for our services.

Net operating revenues include amounts estimated by management to be reimbursable by Medicare and Medicaid under prospective payment systems and provisions of cost-based reimbursement and other payment methods. In addition, we are reimbursed by non-governmental payors using a variety of payment methodologies. Amounts we receive for the treatment of patients covered by Medicare, Medicaid and non-governmental payors are generally less than the standard billing rates. We account for the differences between the estimated program reimbursement rates and the standard billing rates as contractual allowance adjustments, which we deduct from gross revenues to arrive at net operating revenues. Final settlements under some of these programs are subject to adjustment based on administrative review and audit by third parties. We account for adjustments to previous program reimbursement estimates as contractual allowance adjustments and report them in the periods that such adjustments become known. Contractual allowance adjustments related to final settlements and previous program reimbursement estimates impacted net operating revenues and net income (loss) by an insignificant amount in each of the three-month and six-month periods ended June 30, 2014 and 2013.

The payment rates under the Medicare program for hospital inpatient and outpatient acute care services are based on a prospective payment system, depending upon the diagnosis of a patient's condition. These rates are indexed for inflation annually, although increases have historically been less than actual inflation. On August 19, 2013, CMS issued the final rule to adjust this index by 2.5% for hospital inpatient acute care services that are reimbursed under the prospective payment system. The final rule also made other payment adjustments that, coupled with the 0.5% multifactor productivity reduction and a 0.3% reduction to hospital inpatient rates implemented pursuant to the Reform Legislation, yielded an estimated net 0.5% increase in reimbursement for hospital inpatient acute care services beginning October 1, 2013. CMS also implemented new admission and medical review criteria for inpatient services commonly known as the "two midnight rule." Under the rule, Medicare beneficiaries are only to be admitted as inpatients when there is a reasonable expectation that the hospital care is medically necessary and will be required across two midnights, absent unusual circumstances. Compliance with the two midnight rule was required beginning October 1, 2013 and will become subject to Recovery Audit Contractor audits beginning April 1, 2015. Reductions in the rate of increase or overall reductions in Medicare reimbursement may cause a decline in the growth of our net operating revenues.

Currently, several states utilize supplemental reimbursement programs for the purpose of providing reimbursement to providers to offset a portion of the cost of providing care to Medicaid and indigent patients. These programs are designed with input from the Centers for Medicare and Medicaid Services, or CMS, and are funded with a combination of state and federal resources, including, in certain instances, fees or taxes levied on the providers. Similar programs are also being considered by other states. After these supplemental programs are signed into law, we recognize revenue and related expenses in the period in which amounts are estimable and collection is reasonably assured. Reimbursement under these programs is reflected in net operating revenues and included as Medicaid revenue in the table above, and fees, taxes or other program related costs are reflected in other operating expenses.

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Results of Operations

Our hospitals offer a variety of services involving a broad range of inpatient and outpatient medical and surgical services. These include general acute care, emergency room, general and specialty surgery, critical care, internal medicine, obstetrics, diagnostic services, psychiatric and rehabilitation services. The strongest demand for hospital services generally occurs during January through April and the weakest demand for these services occurs during the summer months. Accordingly, eliminating the effect of new acquisitions, our net operating revenues and earnings are historically highest during the first quarter and lowest during the third quarter. Same-store operating results include the hospitals acquired in the HMA merger. For the hospitals acquired in the HMA merger, this same-store information reflects the periods from February through June 2014 and 2013 for the six-month comparisons and from April through June 2014 and 2013 for the three-month comparisons, in each case as if they were owned during both comparable periods. For all hospitals owned throughout both periods, the same-store information reflects the indicated three-month and six-month periods.

The following tables summarize, for the periods indicated, selected operating data.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(Expressed as a percentage of net operating revenues)			
Consolidated (a):				
Net operating revenues	100.0 %	100.0 %	100.0 %	100.0 %
Operating expenses (b)	(86.0)	(87.1)	(87.3)	(86.2)
Depreciation and amortization	(6.6)	(6.0)	(6.8)	(5.9)
Income from operations	7.4	6.9	5.9	7.9
Interest expense, net	(5.3)	(4.8)	(5.3)	(4.8)
Loss from early extinguishment of debt	-	-	(0.8)	-
Equity in earnings of unconsolidated affiliates	0.2	0.3	0.2	0.4
Impairment of long-lived assets	-	-	(0.3)	-
Income (loss) from continuing operations before income taxes	2.3	2.4	(0.3)	3.5
(Provision) benefit for income taxes	(0.7)	(0.7)	0.3	(1.1)
Income (loss) from continuing operations	1.6	1.7	0.0	2.4
Loss from discontinued operations, net of taxes	(0.1)	(0.2)	(0.3)	(0.2)
Net income (loss)	1.5	1.5	(0.3)	2.2
Less: Net income attributable to noncontrolling interests	(0.6)	(0.6)	(0.5)	(0.5)
Net income (loss) attributable to Community Health Systems, Inc. stockholders	<u>0.9 %</u>	<u>0.9 %</u>	<u>(0.8) %</u>	<u>1.7 %</u>

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	Three Months Ended June 30, 2014	Six Months Ended June 30, 2014
Percentage increase (decrease) from same period prior year (a):		
Net operating revenues	49.8 %	38.9 %
Admissions	47.8	36.1
Adjusted admissions (c)	51.6	40.1
Average length of stay	-	-
Net income (loss) attributable to Community Health Systems, Inc. (d)	40.0	(164.2)
Same-store percentage increase (decrease) from same period prior year (a)(e):		
Net operating revenues	0.4 %	(1.7)%
Admissions	(4.8)	(6.3)
Adjusted admissions (c)	(1.2)	(3.2)

- (a) We have restated our prior period financial statements and statistical results to reflect the reclassification as discontinued operations for the hospitals held for sale at June 30, 2014.
- (b) Operating expenses include salaries and benefits, supplies, other operating expenses, electronic health records incentive reimbursement and rent.
- (c) Adjusted admissions is a general measure of combined inpatient and outpatient volume. We computed adjusted admissions by multiplying admissions by gross patient revenues and then dividing that number by gross inpatient revenues.
- (d) Includes loss from discontinued operations.
- (e) Includes former HMA hospitals for the months of February through June 2014 and 2013 with respect to the above six-month comparisons and the months of April through June 2014 and 2013 with respect to the above three-month comparisons. For all hospitals owned throughout both periods, the same-store operating results and statistical data reflects the indicated three-month and six-month periods.

Three Months Ended June 30, 2014 Compared to Three Months Ended June 30, 2013

Net operating revenues increased \$1.6 billion to approximately \$4.8 billion for the three months ended June 30, 2014, from approximately \$3.2 billion for the three months ended June 30, 2013. During the three months ended June 30, 2014, net operating revenues from hospitals acquired in 2014 contributed approximately \$1.6 billion and net operating revenues from hospitals owned throughout both periods contributed approximately \$33 million to this increase. On a same-store basis, net operating revenues increased 0.4% during the three months ended June 30, 2014.

On a consolidated basis, inpatient admissions increased by 47.8% and adjusted admissions increased by 51.6% during the three months ended June 30, 2014. These increases were primarily due to the HMA merger during 2014. On a same-store basis, inpatient admissions decreased by 4.8% and adjusted admissions decreased by 1.2% during the three months ended June 30, 2014. This decrease in same-store inpatient admissions was reflective of fewer flu and respiratory-related admissions, fewer admissions in short stays including the impact from the two-midnight rule and lower admissions due to service closures in a few of our hospitals during the three months ended June 30, 2014, as compared to the three months ended June 30, 2013.

Operating expenses, excluding depreciation and amortization, as a percentage of net operating revenues, decreased from 87.1% for the three months ended June 30, 2013 to 86.0% for the three months ended June 30, 2014 primarily due to the changes in operating expenses described below. Salaries and benefits, as a percentage of net operating revenues, decreased from 47.9% for the three months ended June 30, 2013 to 46.6% for the three months ended June 30, 2014. This decrease in salaries and benefits, as a percentage of net operating revenues, was primarily due to productivity improvement from integrating HMA into our operations. Supplies, as a percentage of net operating revenues, remained consistent at 15.4% for both of the three-month periods ended June 30, 2014 and 2013. Other operating expenses, as a percentage of net operating revenues, increased from 22.4% for the three months ended June 30, 2013 to 23.5% for the three months ended June 30, 2014. This increase in other operating expenses, as a percentage of net operating revenues, was primarily due to increases in expenses related to achieving meaningful use compliance and acquisition and integration-related expenses, primarily related to the HMA merger. Rent, as a percentage of net operating revenues, increased from 2.2% for the three months ended June 30, 2013 to 2.3% for the three months ended June 30, 2014. This increase in rent was primarily due to an increase in the number of leased assets from the hospitals acquired in the HMA merger.

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Electronic health records incentive reimbursements represent those incentives under the HITECH Act for which the recognition criterion has been met. We recognized approximately \$84 million and \$24 million of incentive reimbursements, or 1.8% and 0.8% of net operating revenues, for the three months ended June 30, 2014 and 2013, respectively. We received cash payments of \$25 million and \$38 million for these incentives during the three 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. Operating expenses, including depreciation and amortization, incurred related to the installation and adoption of electronic health records as a percentage of net operating revenues were 1.4% and 0.9% for the three months ended June 30, 2014 and 2013, respectively, of which depreciation and amortization represented 0.5% of net operating revenues for both of the three-month periods ended June 30, 2014 and 2013.

Depreciation and amortization, including \$33 million of amortization of software to be abandoned, as a percentage of net operating revenues, increased from 6.0% for the three months ended June 30, 2013 to 6.6% for the three months ended June 30, 2014. This increase was due primarily to the shortening of the remaining useful life of software currently in use with an expected abandonment date of July 1, 2014.

Interest expense, net, increased by \$101 million from \$154 million for the three months ended June 30, 2013, to \$255 million for the three months ended June 30, 2014. An increase in our average outstanding debt during 2014, primarily due to the additional debt incurred to acquire HMA, resulted in an increase in interest expense of \$113 million. This increase in interest expense was partially offset by a decrease in interest rates during 2014, compared to 2013, which resulted in a decrease in interest expense of \$12 million.

Equity in earnings of unconsolidated affiliates, as a percentage of net operating revenues, decreased from 0.3% for the three months ended June 30, 2013 to 0.2% for the three months ended June 30, 2014.

The net results of the above mentioned changes resulted in income from continuing operations before income taxes increasing \$33 million from \$74 million for the three months ended June 30, 2013 to \$107 million for the three months ended June 30, 2014.

Provision for income taxes from continuing operations increased from \$21 million for the three months ended June 30, 2013 to \$32 million for the three months ended June 30, 2014 due to the increase in income from continuing operations before income taxes. Our effective tax rates were 30.0% and 28.2% for the three months ended June 30, 2014 and 2013, respectively. The increase in our effective tax rate is primarily related to non-deductible transaction costs associated with the HMA merger.

Income from continuing operations, as a percentage of net operating revenues, decreased from 1.7% for the three months ended June 30, 2013 to 1.6% for the three months ended June 30, 2014.

Net income, as a percentage of net operating revenues, remained consistent at 1.5% for both of the three-month periods ended June 30, 2014 and 2013.

Net income attributable to noncontrolling interests, as a percentage of net operating revenues, remained consistent at 0.6% for both of the three-month periods ended June 30, 2014 and 2013.

Net income attributable to Community Health Systems, Inc. was \$42 million for the three months ended June 30, 2014, compared to \$30 million for the three months ended June 30, 2013, an increase of 40%. This increase for the three months ended June 30, 2014 was primarily attributable to a decrease in operating expenses as a percentage of net operating revenues, partially offset by increased depreciation and amortization expense from the acceleration of amortization of software to be abandoned, as discussed above.

Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013

Net operating revenues increased \$2.5 billion to approximately \$9.0 billion for the six months ended June 30, 2014, from approximately \$6.5 billion for the six months ended June 30, 2013. Net operating revenues from hospitals acquired in 2014 contributed \$2.7 billion to this increase, offset by a decrease of \$236 million in net operating revenues from hospitals owned throughout both periods. On a same-store basis, net operating revenues decreased 1.7% during the six months ended June 30, 2014.

On a consolidated basis, inpatient admissions increased by 36.1% and adjusted admissions increased by 40.1% during the six months ended June 30, 2014. These increases were primarily due to the HMA merger during 2014. On a same-store basis, inpatient admissions decreased by 6.3% and adjusted admissions decreased by 3.2% during the six months ended June 30, 2014. This decrease in same-store inpatient admissions was reflective of lower admissions from the impact of the severe winter weather, fewer flu and respiratory-related admissions, fewer admissions in short stays including the impact from the two-midnight rule, lower readmissions and lower admissions due to service closures in a few of our hospitals during the six months ended June 30, 2014, as compared to the six months ended June 30, 2013.

Operating expenses, excluding depreciation and amortization, as a percentage of net operating revenues, increased from 86.2% for the six months ended June 30, 2013 to 87.3% for the six months ended June 30, 2014 primarily due to the changes in operating expenses described below. Salaries and benefits, as a percentage of net operating revenues, decreased from 47.7% for the six months ended June 30, 2013 to 47.1% for the six months ended June 30, 2014. This decrease in salaries and benefits, as a percentage of net operating revenues, was primarily due to productivity improvement from integrating HMA into our operations. Supplies, as a percentage of net operating revenues, remained consistent at 15.3% for both of the six-month periods ended June 30, 2014 and 2013. Other operating expenses, as a percentage of net operating revenues, increased from 21.7% for the six months ended June 30, 2013 to 24.0% for the six months ended June 30, 2014. This increase in other operating expenses, as a percentage of net operating revenues, was primarily due to increased acquisition and integration-related expenses, primarily related to the HMA merger, and expenses associated with the severe winter weather such as snow removal and additional fuel costs. Rent, as a percentage of net operating revenues, increased from 2.2% for the six months ended June 30, 2013 to 2.3% for the six months ended June 30, 2014. This increase in rent was primarily due to an increase in the number of leased assets from the hospitals acquired in the HMA merger.

Electronic health records incentive reimbursements represent those incentives under the HITECH Act for which the recognition criterion has been met. We recognized approximately \$124 million and \$43 million of incentive reimbursements, or 1.4% and 0.7% of net operating revenues, for the six months ended June 30, 2014 and 2013, respectively. We received cash payments of \$87 million and \$83 million for these incentives during 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. Operating expenses, including depreciation and amortization, incurred related to the installation and adoption of electronic health records as a percentage of net operating revenues were 1.1% and 0.7% for the six months ended June 30, 2014 and 2013, respectively, of which depreciation and amortization represented 0.5% and 0.4% of net operating revenues for the six months ended June 30, 2014 and 2013, respectively.

Depreciation and amortization, including \$75 million of amortization of software to be abandoned, as a percentage of net operating revenues, increased from 5.9% for the six months ended June 30, 2013 to 6.8% for the six months ended June 30, 2014. This increase was due primarily to the shortening of the remaining useful life of software currently in use with an expected abandonment date of July 1, 2014.

Interest expense, net, increased by \$168 million from \$310 million for the six months ended June 30, 2013, to \$478 million for the six months ended June 30, 2014. An increase in our average outstanding debt during 2014, primarily due to the additional debt incurred to acquire HMA, resulted in an increase in interest expense of \$176 million. In addition, an increase in interest expense of \$1 million occurred as a result of less interest being capitalized during 2014, as compared to 2013, because the prior year period had more major construction projects. These increases in interest expense were partially offset by a decrease in interest rates during 2014, compared to 2013, which resulted in a decrease in interest expense of \$9 million.

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The loss from early extinguishment of debt of \$73 million was recognized during the six months ended June 30, 2014 after the repayment of the outstanding term loans under the Credit Facility. The loss from early extinguishment of debt of \$1 million was recognized during the six months ended June 30, 2013 after the repayment of \$207 million of the outstanding term loans under the Credit Facility.

Equity in earnings of unconsolidated affiliates, as a percentage of net operating revenues, decreased from 0.4% for the six months ended June 30, 2013 to 0.2% for the six months ended June 30, 2014.

In connection with the HMA merger, we further analyzed our intangible assets related to internal-use software used in certain of our 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. Because of this decision by executive management of the Company, an impairment charge of approximately \$24 million was recorded during the six months ended June 30, 2014.

The net results of the above mentioned changes resulted in income from continuing operations before income taxes decreasing \$246 million from \$222 million for the six months ended June 30, 2013 to a loss of \$24 million for the six months ended June 30, 2014.

Provision for income taxes from continuing operations decreased from \$70 million for the six months ended June 30, 2013 to an income tax benefit of \$24 million for the six months ended June 30, 2014 due to the decrease in income from continuing operations before income taxes. Our effective tax rates were 98.3% and 31.5% for the six months ended June 30, 2014 and 2013, respectively. The increase in our 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.

Income from continuing operations, as a percentage of net operating revenues, decreased from 2.4% for the six months ended June 30, 2013 to a nominal net loss of 0% for the six months ended June 30, 2014.

Net income, as a percentage of net operating revenues, decreased from 2.2% for the six months ended June 30, 2013 to a net loss of 0.3% for the six months ended June 30, 2014.

Net income attributable to noncontrolling interests, as a percentage of net operating revenues, remained consistent at 0.5% for both of the six-month periods ended June 30, 2014 and 2013.

Net income attributable to Community Health Systems, Inc. was \$109 million for the six months ended June 30, 2013, compared to a net loss of \$70 million for the six months ended June 30, 2014, a decrease of 164.2%. This decrease for the six months ended June 30, 2014 was primarily attributable to an increase in operating expenses, including depreciation and amortization, as a percentage of net operating revenues, which were impacted by lower volumes during the six months, loss from early extinguishment of debt and impairment of long-lived assets, as discussed above.

Liquidity and Capital Resources

Net cash provided by operating activities increased \$205 million, from approximately \$309 million for the six months ended June 30, 2013 to approximately \$514 million for the six months ended June 30, 2014. The increase in cash provided by operating activities is a result of the net impact of the decline in net income of \$170 million, offset by a \$230 million increase to depreciation and amortization and an increase of \$116 million in the non-cash charges to income primarily for loss from early extinguishment of debt and the impairment of long-lived assets and hospitals held for sale. Cash from operating activities also had a decline in working capital items of approximately \$29 million, net of the effect of opening balances from the HMA merger. Total cash paid for interest during the six months ended June 30, 2014 was approximately \$352 million and approximately \$73 million was received as net refunds for income taxes. Included in net cash provided by operating activities for the six months ended June 30, 2014 is \$87 million of cash received for HITECH incentive reimbursements, compared to \$83 million for the six months ended June 30, 2013.

The cash used in investing activities increased \$3.2 billion, from approximately \$438 million for the six months ended June 30, 2013 to approximately \$3.7 billion for the six months ended June 30, 2014. The increase in cash used in investing activities was due to an increase in cash paid for acquisitions of facilities and other related equipment of \$3.0 billion as a result of the acquisition of HMA (which owned and operated 71 hospitals) and two additional hospitals in the current period compared to no hospital acquisitions in the first six months of 2013, an increase in the cash used for the purchase of property and equipment of \$66 million, the net impact of the purchases and sales of available-for-sale securities of \$14 million and an increase in cash used for other investments of \$116 million. These increases were offset by an increase in the proceeds from sale of property and equipment of \$1 million and the proceeds from disposition of ancillary operations of \$12 million. Included in cash outflows for other investments for the six months ended June 30, 2014 is approximately \$148 million of capital expenditures related to the purchase and implementation of certified EHR technology, including implementation of Cerner software at several hospital locations. The remaining cash outflows for other investments consists primarily of purchases and development of other internal-use software and payments made under non-employee physician recruiting agreements of \$103 million. We anticipate being able to fund future routine capital expenditures with cash flows generated from operations.

Our net cash provided by financing activities was \$3.2 billion for the six months ended June 30, 2014, compared to net cash used in financing activities of \$8 million for the six months ended June 30, 2013. The increase in cash provided by financing activities, in comparison to the prior year, is primarily due to an increase in borrowings of our long-term debt, net of repayments, and the issuance of long-term debt, which was partially offset by payments for deferred financing costs and other debt-related costs, a decrease in proceeds from the receivables facility, and a decrease in proceeds from the exercise of stock options.

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Capital Expenditures

Cash expenditures for purchases of facilities and other related equipment were \$3.0 billion for the six months ended June 30, 2014, compared to \$10 million for the six months ended June 30, 2013. The expenditures during the six months ended June 30, 2014 were primarily related to the purchase price paid by us in the acquisition of HMA (which owned and operated 71 hospitals), the acquisition of two additional hospitals, and the purchase of several surgery centers, physician practices and other ancillary services. The expenditures during the six months ended June 30, 2013 were for the purchase of surgery centers and other physician practices.

Excluding the cost to construct replacement hospitals, our cash expenditures for routine capital for the six months ended June 30, 2014 totaled \$359 million, compared to \$259 million for the six months ended June 30, 2013. These capital expenditures related primarily to the purchase of additional equipment, minor renovations and information systems infrastructure. Costs to construct replacement hospitals for the six months ended June 30, 2014 totaled \$2 million, compared to \$36 million for the six months ended June 30, 2013. The costs to construct replacement hospitals for the six months ended June 30, 2014 and 2013 represent planning and construction costs for the two replacement hospitals discussed below.

Pursuant to a hospital purchase agreement in effect as of June 30, 2014, we have committed to build a replacement facility in York, Pennsylvania by July 2017. Construction costs, including equipment costs, for the York replacement facility are currently estimated to be approximately \$100 million. In addition, in October 2008, after the purchase of the noncontrolling owner's interest in our Birmingham, Alabama facility, we initiated the purchase of a site, which includes a partially constructed hospital structure, for a potential replacement to our existing Birmingham facility. In September 2010, we received approval of our request for a certificate of need, or CON, from the Alabama Certificate of Need Review Board. This CON was challenged in the Alabama state circuit and appellate courts, but the CON was upheld by the Supreme Court of Alabama in May 2013, eliminating any further appeals. Our estimated construction costs, including the acquisition of the site and equipment costs, are approximately \$280 million for the Birmingham replacement facility.

Capital Resources

Net working capital was approximately \$2.2 billion at June 30, 2014, compared to \$1.3 billion at December 31, 2013, an increase of \$939 million, primarily due to the net working capital acquired from the HMA merger with the remainder primarily attributable to an increase in accounts receivable and a decrease in accounts payable due to timing of collections and payments. We also had an increase in cash due primarily to financing activities during the six months ended June 30, 2014.

We have 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 on January 27, 2014, CHS entered into a third amendment and restatement, or the Amendment, of its existing credit agreement, dated as of July 25, 2007, as amended and restated as of November 5, 2010 and as of February 2, 2012, among the Parent Company, CHS, the lenders party thereto and Credit Suisse AG, as administrative agent and collateral agent. The Amendment provides for (i) the replacement of the revolving credit facility with a new \$1.0 billion revolving facility maturing in 2019, or the Revolving Facility, (ii) the addition of a new \$1.0 billion Term A facility due 2019, or the Term A Facility, (iii) a Term D facility in an aggregate principal amount equal to \$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 \$1.7 billion and (v) the addition of flexibility commensurate with our 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 also includes a subfacility for letters of credit.

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The loans under the Credit Facility bear interest on the outstanding unpaid principal amount at a rate equal to an applicable percentage plus, at our 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 0.5% or (3) the adjusted LIBOR rate 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 us and our 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 us and our subsidiaries, subject to certain exceptions, and (3) 50%, subject to reduction to a lower percentage based on our leverage ratio (as defined in the Credit Facility generally as the ratio of total debt on the date of determination to our 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 our obligations under the Credit Facility are unconditionally guaranteed by Community Health Systems, Inc. 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 Community Health Systems, Inc., CHS and each subsidiary guarantor, including equity interests held by us or any subsidiary guarantor, but excluding, among others, the equity interests of non-significant subsidiaries, syndication subsidiaries, securitization subsidiaries and joint venture subsidiaries.

We have 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. We are obligated to pay commitment fees of 0.50% per annum (subject to adjustment based upon our 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 our and our subsidiaries' ability, subject to certain exception, 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 our businesses, (10) grant certain guarantees with respect to physician practices, (11) engage in sale and leaseback transactions or (12) change our fiscal year. We and our subsidiaries are 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.

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Events of default under the Credit Facility include, but are not limited to, (1) our 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 our Credit Facility was \$1.0 billion pursuant to the Revolving Facility, of which \$83 million was set aside for outstanding letters of credit. We believe that these funds, along with internally generated cash and continued access to the bank credit and capital markets, will be sufficient to finance future acquisitions, capital expenditures and working capital requirements through the next 12 months and into the foreseeable future.

In connection with the consummation of the HMA merger, CHS issued: (i) \$1.0 billion aggregate principal amount of 5.125% Senior Secured Notes due 2021, or the 2021 Senior Secured Notes, pursuant to an indenture, as supplemented, dated as of January 27, 2014, collectively, the Secured Indenture, by and among CHS, the Parent Company, the other guarantors from time to time party thereto, Regions Bank, as trustee, and Credit Suisse AG, as collateral agent, or the Collateral Agent and (ii) \$3.0 billion aggregate principal amount of 6.875% Senior Notes due 2022, or the 6 7/8% Senior Notes, pursuant to an indenture, as supplemented, dated as of January 27, 2014, collectively, the Unsecured Indenture, by and among CHS, the Parent Company, the other guarantors from time to time party thereto, and Regions Bank, as trustee, or the Unsecured Indenture.

The 2021 Senior Secured Notes are senior secured obligations of CHS and are guaranteed on a senior secured basis by us, CHS and certain of CHS's subsidiaries. The 2021 Senior Secured Notes mature on August 1, 2021, and bear interest at a rate of 5.125% per annum, payable semi-annually in arrears in cash on February 1 and August 1 of each year, beginning on August 1, 2014. CHS is entitled to redeem some or all of the 2021 Senior Secured Notes at any time on or after February 1, 2017 at the redemption prices set forth in the Secured Indenture, plus accrued and unpaid interest, if any. In addition, prior to February 1, 2017, CHS may redeem some or all of the 2021 Senior Secured Notes at a price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, plus a "make-whole" premium, as set forth in the Secured Indenture. CHS is entitled to redeem up to 40% of the aggregate principal amount of the 2021 Senior Secured Notes until February 1, 2017 with the net proceeds from certain equity offerings at the redemption price set forth in the Secured Indenture. The Secured Indenture also contains covenants that, among other things, subject to various qualifications and exceptions, limit the ability of CHS and certain of CHS's subsidiaries to: incur or guarantee additional indebtedness; pay dividends or make other restricted payments; make certain investments; create or incur certain liens; sell assets and subsidiary stock; transfer all or substantially all of their assets or enter into merger or consolidation transactions; and enter into transactions with affiliates.

The 6 7/8% Senior Notes are senior unsecured obligations of CHS and are guaranteed on a senior basis by the Parent Company, CHS and certain of CHS's subsidiaries. The 6 7/8% Senior Notes mature on February 1, 2022, and bear interest at a rate of 6.875% per annum, payable semi-annually in arrears in cash on February 1 and August 1 of each year, beginning on August 1, 2014. CHS is entitled to redeem some or all of the 6 7/8% Senior Notes at any time on or after February 1, 2018 at the redemption prices set forth in the Unsecured Indenture, plus accrued and unpaid interest, if any. In addition, prior to February 1, 2018, CHS may redeem some or all of the 6 7/8% Senior Notes at a price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, plus a "make-whole" premium, as set forth in the Unsecured Indenture. CHS is entitled to redeem up to 40% of the aggregate principal amount of the 6 7/8% Senior Notes until February 1, 2017 with the net proceeds from certain equity offerings at the redemption price set forth in the Unsecured Indenture. The Unsecured Indenture also contains covenants that, among other things, subject to various qualifications and exceptions, limit the ability of CHS, and certain of its subsidiaries to: incur or guarantee additional indebtedness; pay dividends or make other restricted payments; make certain investments; create or incur certain liens; sell assets and subsidiary stock; transfer all or substantially all of their assets or enter into merger or consolidation transactions; and enter into transactions with affiliates.

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On March 21, 2012, CHS completed the secondary offering of \$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. On March 21, 2012, CHS completed the cash tender offer for \$850 million of the then \$1.8 billion aggregate outstanding principal amount of 8 7/8% Senior Notes.

On July 18, 2012, CHS completed an underwritten public offering under our automatic shelf registration filed with the SEC of \$1.2 billion aggregate principal amount of 7 1/8% Senior Notes due 2020. The net proceeds of the offering were used to finance the purchase or redemption of the then outstanding \$934 million principal amount plus accrued interest of the 8 7/8% Senior Notes, to pay for consents delivered in connection therewith, to pay related fees and expenses, and for general corporate purposes.

On August 17, 2012, CHS completed an underwritten public offering under our automatic shelf registration filed with the SEC of \$1.6 billion aggregate principal amount of 5 1/8% Senior Secured Notes due 2018. The 5 1/8% 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 5 1/8% Senior Secured Notes on substantially the same assets, subject to certain exceptions, that secure CHS' obligations under the Credit Facility. The net proceeds of the offering, 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.

On March 21, 2012, through certain of its subsidiaries, CHS entered into an accounts receivable loan agreement, or the Receivables Facility, with a group of lenders and banks, Credit Agricole Corporate and Investment Bank, as a managing agent and as the administrative agent, and The Bank of Nova Scotia, as a managing agent. On March 7, 2013, CHS and certain of its subsidiaries amended the Receivables Facility to add an additional managing agent, The Bank of Tokyo-Mitsubishi UFJ, Ltd., to increase the size of the facility from \$300 million to \$500 million and to extend the scheduled termination date. Additional subsidiaries also agreed to participate in the Receivables Facility as of that date. On March 31, 2014, CHS and certain of its subsidiaries amended the Receivables Facility to increase the size of the facility from \$500 million to \$700 million and to extend the scheduled termination date. Additional subsidiaries also agreed to participate in the Receivables Facility as of that date. The existing and future non-self pay patient-related accounts receivable, or the Receivables, for certain hospitals of CHS and its subsidiaries serve as collateral for the outstanding borrowings under the Receivables Facility. The interest rate on the borrowings is based on the commercial paper rate plus an applicable interest rate spread. Unless earlier terminated or subsequently extended pursuant to its terms, the Receivables Facility will expire on March 21, 2016, subject to customary termination events that could cause an early termination date. CHS maintains effective control over the Receivables because, pursuant to the terms of the Receivables Facility, the Receivables are sold from certain of CHS' subsidiaries to CHS, and CHS then sells or contributes the Receivables to a special-purpose entity that is wholly-owned by CHS. The wholly-owned special-purpose entity in turn grants security interests in the Receivables in exchange for borrowings obtained from the group of third-party lenders and banks of up to \$700 million outstanding from time to time based on the availability of eligible Receivables and other customary factors. The group of third-party lenders and banks do not have recourse to CHS or its subsidiaries beyond the assets of the wholly-owned special-purpose entity that collateralizes the loan. The Receivables and other assets of the wholly-owned special-purpose entity will be available first and foremost to satisfy the claims of the creditors of such entity. The outstanding borrowings pursuant to the Receivables Facility at June 30, 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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As of June 30, 2014, we are currently a party to the following interest rate swap agreements to limit the effect of changes in interest rates on approximately 25.5% of our variable rate debt. On each of these swaps, we receive a variable rate of interest based on the three-month LIBOR, in exchange for the payment by us of a fixed rate of interest. We currently pay, 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.

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 swaps that were in effect prior to the HMA merger remain in effect after the refinancing for the HMA merger and will continue to be used to limit the effects of changes in interest rates on portions of our amended credit facility.

The Credit Facility and/or the Notes contain various covenants that limit our ability to take certain actions including; among other things, our ability to:

- incur, assume or guarantee additional indebtedness;
- issue redeemable stock and preferred stock;

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- repurchase capital stock;
- make restricted payments, including paying dividends and making investments;
- redeem debt that is junior in right of payment to the Notes;
- create liens without securing the Notes;
- sell or otherwise dispose of assets, including capital stock of subsidiaries;
- enter into agreements that restrict dividends from subsidiaries;
- merge, consolidate, sell or otherwise dispose of substantial portions of our assets;
- enter into transactions with affiliates and
- guarantee certain obligations.

In addition, our Credit Facility contains restrictive covenants and requires us to maintain specified financial ratios and satisfy other financial condition tests. Our ability to meet these restricted covenants and financial ratios and tests can be affected by events beyond our control, and we cannot assure you that we will meet those tests. A breach of any of these covenants could result in a default under our Credit Facility and/or the Notes. Upon the occurrence of an event of default under our Credit Facility or the Notes, all amounts outstanding under our Credit Facility and the Notes may become immediately due and payable and all commitments under the Credit Facility to extend further credit may be terminated.

We believe that internally generated cash flows, availability for additional borrowings under our Credit Facility of \$1.0 billion (consisting of a \$1.0 billion Revolving Facility, of which \$83 million is set aside for outstanding letters of credit) and our 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, and our continued access to the bank credit and capital markets will be sufficient to finance acquisitions, capital expenditures and working capital requirements through the next 12 months. We believe these same sources of cash, borrowings under our Credit Facility as well as access to bank credit and capital markets will be available to us beyond the next 12 months and into the foreseeable future.

On May 24, 2012, we filed a universal automatic shelf registration statement on Form S-3ASR, as amended on June 7, 2012, that will permit us, from time to time, in one or more public offerings, to offer debt securities, common stock, preferred stock, warrants, depository shares, or any combination of such securities. The shelf registration statement will also permit our subsidiary, CHS, to offer debt securities that would be guaranteed by us, from time to time in one or more public offerings. The terms of any such future offerings would be established at the time of the offering.

The ratio of earnings to fixed charges is a measure of our ability to meet our fixed obligations related to our indebtedness. The following table shows the ratio of earnings to fixed charges for the six months ended June 30, 2014:

	Six Months Ended June 30, 2014
Ratio of earnings to fixed charges (1)	0.93 x

(1) Fixed charges include interest expensed and capitalized during the year plus an estimate of the interest component of rent expense. There are no shares of preferred stock outstanding. See Exhibit 12 filed as part of this Report for the calculation of this ratio.

[Table of Contents](#)**Off-balance Sheet Arrangements**

Our consolidated operating results for the six months ended June 30, 2014 and 2013, included \$80 million and \$81 million, respectively, of net operating revenues generated from four hospitals operated by us under operating lease arrangements at June 30, 2014. In addition, income (loss) from continuing operations with respect to these operating lease arrangements included \$2 million and \$3 million for the six months ended June 30, 2014 and 2013, respectively. In accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP, the respective assets and the future lease obligations under these arrangements are not recorded on our condensed consolidated balance sheet. Lease costs under these arrangements are included in rent expense and totaled approximately \$5 million for both of the six-month periods ended June 30, 2014 and 2013. The current terms of these operating leases expire between May 2015 and June 2022, not including lease extension options. If we allow these leases to expire, we would no longer generate revenues nor incur expenses from these hospitals.

In the past, we have utilized operating leases as a financing tool for obtaining the operations of specified hospitals without acquiring, through ownership, the related assets of the hospital and without a significant outlay of cash at the front end of the lease. We utilize the same operating strategies to improve operations at those hospitals held under operating leases as we do at those hospitals that we own. We have not entered into any operating leases for hospital operations since December 2000.

Noncontrolling Interests

We have sold noncontrolling interests in certain of our subsidiaries or acquired subsidiaries with existing noncontrolling interest ownership positions. In conjunction with the HMA merger, we acquired 29 hospitals containing minority ownership interests ranging from less than 1% to 40%. We do not believe these minority ownerships are material to our financial position or results of operations. As of June 30, 2014, we have hospitals in 37 of the markets we serve, with noncontrolling physician ownership interests ranging from less than 1% to 40%, including two hospitals that also have a non-profit entity as a partner. In addition, we have 14 other hospitals with noncontrolling interests owned by non-profit entities. Redeemable noncontrolling interests in equity of consolidated subsidiaries was \$689 million and \$358 million as of June 30, 2014 and December 31, 2013, respectively, and noncontrolling interests in equity of consolidated subsidiaries was \$90 million and \$64 million as of June 30, 2014 and December 31, 2013, respectively. The amount of net income attributable to noncontrolling interests was \$28 million and \$17 million for the three months ended June 30, 2014 and 2013, respectively, and \$43 million and \$34 million for the six months ended June 30, 2014 and 2013, respectively. As a result of the change in the Stark Law "whole hospital" exception included in the Reform Legislation, we are not permitted to introduce physician ownership at any of our wholly-owned hospital facilities or increase the aggregate percentage of physician ownership in any of our existing hospital joint ventures in excess of the aggregate physician ownership level held at the time of the adoption of the Reform Legislation.

Reimbursement, Legislative and Regulatory Changes

Ongoing legislative and regulatory efforts could reduce or otherwise adversely affect the payments we receive from Medicare and Medicaid. Within the statutory framework of the Medicare and Medicaid programs, including programs currently unaffected by the Reform Legislation, there are substantial areas subject to administrative rulings, interpretations and discretion which may further affect payments made under those programs, and the federal and state governments might, in the future, reduce the funds available under those programs or require more stringent utilization and quality reviews of hospital facilities. Additionally, there may be a continued rise in managed care programs and additional restructuring of the financing and delivery of healthcare in the United States. These events could cause our future financial results to decline. We cannot estimate the impact of Medicare and Medicaid reimbursement changes that have been enacted or are under consideration. We cannot predict whether additional reimbursement reductions will be made or whether any such changes would have a material adverse effect on our business, financial conditions, results of operations, cash flow, capital resources and liquidity.

Inflation

The healthcare industry is labor intensive. Wages and other expenses increase during periods of inflation and when labor shortages occur in the marketplace. In addition, our suppliers pass along rising costs to us in the form of higher prices. We have implemented cost control measures, including our case and resource management program, to curb increases in operating costs and expenses. We have generally offset increases in operating costs by increasing reimbursement for services, expanding services and reducing costs in other areas. However, we cannot predict our ability to cover or offset future cost increases, particularly any increases in our cost of providing health insurance benefits to our employees as a result of the Reform Legislation.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of our condensed consolidated financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and potentially result in materially different results under different assumptions and conditions. We believe that our critical accounting policies are limited to those described below.

Third-party Reimbursement

Net operating revenues include amounts estimated by management to be reimbursable by Medicare and Medicaid under prospective payment systems and provisions of cost-reimbursement and other payment methods. In addition, we are reimbursed by non-governmental payors using a variety of payment methodologies. Amounts we receive for treatment of patients covered by these programs are generally less than the standard billing rates. Contractual allowances are automatically calculated and recorded through our internally developed "automated contractual allowance system." Within the automated system, actual Medicare DRG data and payors' historical paid claims data are utilized to calculate the contractual allowances. This data is automatically updated on a monthly basis. All hospital contractual allowance calculations are subjected to monthly review by management to ensure reasonableness and accuracy. We account for the differences between the estimated program reimbursement rates and the standard billing rates as contractual allowance adjustments, which we deduct from gross revenues to arrive at operating revenues (net of contractual allowances and discounts). The process of estimating contractual allowances requires us to estimate the amount expected to be received based on payor contract provisions. The key assumption in this process is the estimated contractual reimbursement percentage, which is based on payor classification and historical paid claims data. Due to the complexities involved in these estimates, actual payments we receive could be different from the amounts we estimate and record. If the actual contractual reimbursement percentage under government programs and managed care contracts differed by 1% at June 30, 2014 from our estimated reimbursement percentage, net loss for the six months ended June 30, 2014 would have changed by approximately \$72 million, and net accounts receivable at June 30, 2014 would have changed by \$115 million. Final settlements under some of these programs are subject to adjustment based on administrative review and audit by third parties. We account for adjustments to previous program reimbursement estimates as contractual allowance adjustments and report them in the periods that such adjustments become known. Contractual allowance adjustments related to final settlements and previous program reimbursement estimates impacted net operating revenues and net income (loss) by an insignificant amount in each of the three-month and six-month periods ended June 30, 2014 and 2013.

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Allowance for Doubtful Accounts

Substantially all of our accounts receivable are related to providing healthcare services to our hospitals' patients. Collection of these accounts receivable is our primary source of cash and is critical to our operating performance. Our primary collection risks relate to uninsured patients and outstanding patient balances for which the primary insurance payor has paid some but not all of the outstanding balance, with the remaining outstanding balance (generally deductibles and co-payments) owed by the patient. At the point of service, for patients required to make a co-payment, we generally collect less than 15% of the related revenue. For all procedures scheduled in advance, our policy is to verify insurance coverage prior to the date of the procedure. Insurance coverage is not verified in advance of procedures for walk-in and emergency room patients.

We estimate 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, we reserve 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 our collection history. We believe that we collect substantially all of our 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 our collection efforts. Significant changes in payor mix, business office operations, economic conditions or trends in federal and state governmental healthcare coverage could affect our collection of accounts receivable. The process of estimating the allowance for doubtful accounts requires us to estimate the collectability of self-pay accounts receivable, which is primarily based on our collection history, adjusted for expected recoveries and any anticipated changes in collection trends. Significant change in payor mix, business office operations, economic conditions, trends in federal and state governmental healthcare coverage or other third-party payors could affect our estimates of accounts receivable collectability. If the actual collection percentage differed by 1% at June 30, 2014 from our estimated collection percentage as a result of a change in expected recoveries, net loss for the six months ended June 30, 2014 would have changed by \$42 million, and net accounts receivable at June 30, 2014 would have changed by \$68 million. We also continually review our 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.

Our policy is to write-off gross accounts receivable if the balance is under \$10.00 or when such amounts are placed with outside collection agencies. We believe this policy accurately reflects our ongoing collection efforts and is consistent with industry practices. We had approximately \$3.7 billion and \$3.0 billion at June 30, 2014 and December 31, 2013, respectively, being pursued by various outside collection agencies. We expect to collect less than 3%, net of estimated collection fees, of the amounts being pursued by outside collection agencies. As these amounts have been written-off, they are not included in our gross accounts receivable or our allowance for doubtful accounts. Collections on amounts previously written-off are recognized as a reduction to bad debt expense when received. However, we take into consideration estimated collections of these future amounts written-off in evaluating the reasonableness of our allowance for doubtful accounts.

All of the following information is derived from our hospitals, excluding clinics, unless otherwise noted.

Patient accounts receivable from our hospitals represent approximately 95% of our total consolidated accounts receivable.

Days revenue outstanding was 59 days at June 30, 2014 and 67 days at December 31, 2013. Our target range for days revenue outstanding is from 53 to 63 days.

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Total gross accounts receivable (prior to allowance for contractual adjustments and doubtful accounts) was approximately \$17.5 billion as of June 30, 2014 and approximately \$10.9 billion as of December 31, 2013.

The approximate percentage of total gross accounts receivable (prior to allowances for contractual adjustments and doubtful accounts) summarized by payor is as follows:

	<u>June 30, 2014</u>	<u>December 31, 2013</u>
Insured receivables	62.2 %	59.8 %
Self-pay receivables	37.8	40.2
Total	<u>100.0 %</u>	<u>100.0 %</u>

Goodwill and Other Intangibles

Goodwill represents the excess of the fair value of the consideration conveyed in the acquisition over the fair value of net assets acquired. 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. We performed our 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.

Impairment or Disposal of Long-Lived Assets

Whenever events or changes in circumstances indicate that the carrying values of certain long-lived assets may be impaired, we project the undiscounted cash flows expected to be generated by these assets. If the projections indicate that the reported amounts are not expected to be recovered, such amounts are reduced to their estimated fair value based on a quoted market price, if available, or an estimate based on valuation techniques available in the circumstances.

Professional Liability Claims

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 our incident reporting system, historical loss payment patterns and industry trends. Such long-term liabilities have been discounted to their estimated present values. Management selects a discount rate that represents a risk-free interest rate correlating to the period when the claims are projected to be paid. We use 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 our 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.

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Professional Liability Insurance for All Other Community Health Systems Hospitals. As part of our business of owning and operating hospitals, we are subject to legal actions alleging liability on our part. We accrue for losses resulting from such liability claims, as well as loss adjustment expenses that are out-of-pocket and directly related to such liability claims. These direct out-of-pocket expenses include fees of outside counsel and experts. We do not accrue for costs that are part of our corporate overhead, such as the costs of our in-house legal and risk management departments. The losses resulting from professional liability claims primarily consist of estimates for known claims, as well as estimates for incurred but not reported claims. The estimates are based on specific claim facts, our historical claim reporting and payment patterns, the nature and level of our hospital operations, and actuarially determined projections. The actuarially determined projections are based on our actual claim data, including historic reporting and payment patterns which have been gathered over approximately a 20-year period. As discussed below, since we purchase excess insurance on a claims-made basis that transfers risk to third-party insurers, the liability we accrue does include an amount for the losses covered by our excess insurance. We also record a receivable for the expected reimbursement of losses covered by our excess insurance. Since we believe that the amount and timing of our future claims payments are reliably determinable, we discount the amount we accrue for losses resulting from professional liability claims using the risk-free interest rate corresponding to the timing of our expected payments.

The net present value of the projected payments was discounted using a weighted-average risk-free rate of 1.6%, 1.2% and 1.2% in 2013, 2012 and 2011, respectively. This liability is adjusted for new claims information in the period such information becomes known to us. Professional malpractice expense includes the losses resulting from professional liability claims and loss adjustment expense, as well as paid excess insurance premiums, and is presented within other operating expenses in the accompanying condensed consolidated statements of income.

Our processes for obtaining and analyzing claims and incident data are standardized across all of our hospitals and have been consistent for many years. We monitor the outcomes of the medical care services that we provide and for each reported claim, we obtain various information concerning the facts and circumstances related to that claim. In addition, we routinely monitor current key statistics and volume indicators in our assessment of utilizing historical trends. The average lag period between claim occurrence and payment of a final settlement is between four and five years, although the facts and circumstances of individual claims could result in the timing of such payments being different from this average. Since claims are paid promptly after settlement with the claimant is reached, settled claims represent less than 1.0% of the total liability at the end of any period.

For purposes of estimating our individual claim accruals, we utilize specific claim information, including the nature of the claim, the expected claim amount, the year in which the claim occurred and the laws of the jurisdiction in which the claim occurred. Once the case accruals for known claims are determined, information is stratified by loss layers and retentions, accident years, reported years, geography, and claims relating to the acquired Triad Hospitals, Inc., or Triad, hospitals versus claims relating to our other hospitals. Several actuarial methods are used against this data to produce estimates of ultimate paid losses and reserves for incurred but not reported claims. Each of these methods uses our company-specific historical claims data and other information. This company-specific data includes information regarding our business, including historical paid losses and loss adjustment expenses, historical and current case loss reserves, actual and projected hospital statistical data, a variety of hospital census information, employed physician information, professional liability retentions for each policy year, geographic information and other data.

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Based on these analyses, we determine our estimate of the professional liability claims. The determination of management's estimate, including the preparation of the reserve analysis that supports such estimate, involves subjective judgment of management. Changes in reserving data or the trends and factors that influence reserving data may signal fundamental shifts in our future claim development patterns or may simply reflect single-period anomalies. Even if a change reflects a fundamental shift, the full extent of the change may not become evident until years later. Moreover, since our methods and models use different types of data and we select our liability from the results of all of these methods, we typically cannot quantify the precise impact of such factors on our estimates of the liability. Due to our standardized and consistent processes for handling claims and the long history and depth of our company-specific data, our methodologies have produced reliably determinable estimates of ultimate paid losses.

We are primarily self-insured for these claims; however, we obtain excess insurance that transfers the risk of loss to a third-party insurer for claims in excess of our self-insured retentions. Our excess insurance is underwritten on a claims-made basis. For claims reported prior to June 1, 2002, substantially all of our 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 us 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 incurred and reported after January 1, 2008 and up to \$195 million per occurrence and in the aggregate for claims 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 self-insured retention will increase to \$10 million per claim for any subsequent claims in that policy year until our total aggregate coverage is met.

Effective January 1, 2008, the former Triad hospitals 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 1, 1999 were insured through a wholly-owned insurance subsidiary of HCA Holdings, Inc., or 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. From 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.

There have been no significant changes in our estimate of the reserve for professional liability claims during the three and six months ended June 30, 2014.

Income Taxes

We must make estimates in recording provision for income taxes, including determination of deferred tax assets and deferred tax liabilities and any valuation allowances that might be required against the deferred tax assets. We believe that future income will enable us to realize certain deferred tax assets, subject to the valuation allowance we have established.

The total amount of unrecognized benefit that would impact 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 liability for uncertain tax positions at June 30, 2014. It is our policy to recognize interest and penalties related to unrecognized benefits in our condensed consolidated statements of income as income tax expense.

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We believe it is reasonably possible that approximately \$2 million of our 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.

We, or one or more of our subsidiaries, file income tax returns in the United States federal jurisdiction and various state jurisdictions. We have extended the federal statute of limitations through December 31, 2013 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, we are no longer subject to state income tax examinations for years prior to 2009. Our federal income tax returns for the 2009 and 2010 tax years are currently under examination by the Internal Revenue Service, or IRS. We believe the results of these examinations will not be material to our 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 our consolidated results of operations or consolidated financial position. We have 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.

Recent Accounting Pronouncements

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

In May 2014, the Financial Accounting Standards Board issued 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. We will adopt this ASU on January 1, 2017 and are currently evaluating the impact on our revenue recognition policies, procedures and control framework and the resulting impact on our consolidated financial position, results of operations and cash flows.

FORWARD-LOOKING STATEMENTS

Some of the matters discussed in this report include forward-looking statements. Statements that are predictive in nature, that depend upon or refer to future events or conditions or that include words such as "expects," "anticipates," "intends," "plans," "believes," "estimates," "thinks," and similar expressions are forward-looking statements. These statements involve known and unknown risks, uncertainties, and other factors that may cause our actual results and performance to be materially different from any future results or performance expressed or implied by these forward-looking statements. These factors include the following:

- general economic and business conditions, both nationally and in the regions in which we operate,
- implementation and effect of adopted and potential federal and state healthcare reform legislation and other federal, state or local laws or regulations affecting the healthcare industry,
- the extent to which states support increases, decreases or changes in Medicaid programs, implement healthcare exchanges or alter the provision of healthcare to state residents through regulation or otherwise,
- risks associated with our substantial indebtedness, leverage and debt service obligations,

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- demographic changes,
- changes in, or the failure to comply with, governmental regulations,
- potential adverse impact of known and unknown government investigations, audits, and Federal and State False Claims Act litigation and other legal proceedings,
- our ability, where appropriate, to enter into and maintain managed care provider arrangements and the terms of these arrangements,
- changes in, or the failure to comply with, managed care provider contracts, which could result in, among other things, disputes and changes in reimbursements, both prospectively and retroactively,
- changes in inpatient or outpatient Medicare and Medicaid payment levels,
- the effects related to the continued implementation of the sequestration spending reductions and the potential for future deficit reduction legislation,
- increases in the amount and risk of collectability of patient accounts receivable,
- the efforts of insurers, healthcare providers and others to contain healthcare costs,
- our ongoing ability to demonstrate meaningful use of certified electronic health record technology and recognize income for the related Medicare or Medicaid incentive payments,
- increases in wages as a result of inflation or competition for highly technical positions and rising supply costs due to market pressure from pharmaceutical companies and new product releases,
- liabilities and other claims asserted against us, including self-insured malpractice claims,
- competition,
- our ability to attract and retain, at reasonable employment costs, qualified personnel, key management, physicians, nurses and other healthcare workers,
- trends toward treatment of patients in less acute or specialty healthcare settings, including ambulatory surgery centers or specialty hospitals,
- changes in medical or other technology,
- changes in U.S. GAAP,
- the availability and terms of capital to fund additional acquisitions or replacement facilities or other capital expenditures,
- our ability to successfully make acquisitions or complete divestitures,
- our ability to successfully integrate any acquired hospitals, including those of HMA, or to recognize expected synergies from acquisitions,
- the impact of the acquisition of HMA on third-party relationships,
- the impact of seasonal severe weather conditions,
- our ability to obtain adequate levels of general and professional liability insurance,
- timeliness of reimbursement payments received under government programs, and
- the other risk factors set forth in our annual report on Form 10-K for the year ended December 31, 2013 and our other public filings with the SEC.

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Although we believe that these forward-looking statements are based upon reasonable assumptions, these assumptions are inherently subject to significant regulatory, economic and competitive uncertainties and contingencies, which are difficult or impossible to predict accurately and may be beyond the control of the Company. Accordingly, the Company cannot give any assurance that its expectations will in fact occur and cautions that actual results may differ materially from those in the forward-looking statements. Given these uncertainties, prospective investors are cautioned not to place undue reliance on these forward-looking statements. These forward-looking statements are made as of the date of this filing. The Company undertakes no obligation to revise or update any forward-looking statements, or to make any other forward-looking statements, whether as a result of new information, future events or otherwise.

Item 3. *Quantitative and Qualitative Disclosures about Market Risk*

We are exposed to interest rate changes, primarily as a result of our Credit Facility which bears interest based on floating rates. In order to manage the volatility relating to the market risk, we entered into interest rate swap agreements described under the heading “Liquidity and Capital Resources” in Part I, Item 2 of this Quarterly Report on Form 10-Q. We utilize risk management procedures and controls in executing derivative financial instrument transactions. We do not execute transactions or hold derivative financial instruments for trading purposes. Derivative financial instruments related to interest rate sensitivity of debt obligations are used with the goal of mitigating a portion of the exposure when it is cost effective to do so. As interest rate swap agreements expire throughout the year, we will become more subject to variable interest rates during 2014.

A 1% change in interest rates on variable rate debt in excess of that amount covered by interest rate swaps would have resulted in interest expense fluctuating approximately \$15 million and \$5 million for the three months ended June 30, 2014 and 2013, respectively, and \$26 million and \$9 million for the six months ended June 30, 2014, respectively.

Item 4. *Controls and Procedures*

Our Chief Executive Officer and Chief Financial Officer, with the participation of other members of management, have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended, or the Exchange Act), as of the end of the period covered by this report. Based on such evaluations, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective (at the reasonable assurance level) to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Following the completion of the HMA merger on January 27, 2014, we have been in the process of analyzing the systems of disclosure controls and procedures and internal controls over financial reporting of the HMA hospitals and other operations, and have been integrating them within our broader framework of controls. Since the SEC’s rules allow us to exclude these acquired hospitals and operations from our internal controls assessment and evaluation of disclosure controls that are subsumed by such internal controls in respect of periods ending on or prior to the first anniversary of the HMA merger, we have excluded HMA’s operations from our evaluation of such disclosure controls, and changes in our internal controls, for the period covered by this report. We plan to complete this evaluation and integration within the required SEC time frame and report any changes in internal controls in our first annual report in which our assessment of internal controls with respect to the acquired operations of HMA is included.

There are no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2014 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we receive inquiries or subpoenas from state regulators, state Medicaid Fraud Control units, fiscal intermediaries, the Centers for Medicare and Medicaid Services and the Department of Justice regarding various Medicare and Medicaid issues. In addition to the subpoenas discussed below, we are currently responding to subpoenas and administrative demands concerning certain cardiology procedures, medical records and policies at a New Mexico hospital, a civil investigative demand concerning cardiology devices at a Pennsylvania hospital, a request for medical records at an Arizona hospital regarding transfers to a higher level of care, a request for medical records concerning dialysis treatment at a Virginia hospital and a request for medical records at a Tennessee hospital. In addition, we are subject to other claims and lawsuits arising in the ordinary course of our business. Some pending or threatened proceedings against us may involve potentially substantial amounts as well as the possibility of civil, criminal, or administrative fines, penalties, or other sanctions, which could be material. Settlements of suits involving Medicare and Medicaid issues routinely require both monetary payments as well as corporate integrity agreements. Additionally, qui tam or “whistleblower” actions initiated under the civil False Claims Act may be pending but placed under seal by the court to comply with the False Claims Act’s requirements for filing such suits. Also, from time to time, we detect issues of non-compliance with Federal healthcare laws pertaining to claims submission and reimbursement practices and/or financial relationships with physicians. We avail ourselves of various mechanisms to address potential overpayments arising out of these issues, including repayment of claims, rebilling of claims, and participation in voluntary disclosure protocols offered by the Centers for Medicare and Medicaid Services and the Office of the Inspector General. Participating in voluntary repayments and voluntary disclosure protocols can have the potential for significant settlement obligations or even enforcement action.

The following legal proceedings are described in detail because, although they may not be required to be disclosed in this Part II, Item 1 under SEC rules, due to the nature of the business of the Company, these matters may be relevant to security holders. Certain of the matters are also discussed under Footnote 16 “Contingencies.”

Community Health Systems, Inc. Legal Proceedings

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

Our 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, we 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 us that it believed that we and three of our 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 our 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. We continue 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.

Multi-provider National Department of Justice Investigations

Kyphoplasty. Kyphoplasty is a surgical spine procedure that returns a compromised vertebra (either from trauma or osteoporotic disease process) to its previous height, reducing or eliminating severe pain. We were first made aware of this investigation in June 2008, when two of our hospitals received document request letters from the United States Attorney’s Office for the Western District of New York. Subsequently, additional hospitals (a total of five) also received requests for documents and/or medical records. The investigation covers the period of January 1, 2002 through June 9, 2008. This investigation is part of a national investigation and is related to a qui tam settlement between the same United States Attorney’s office and the manufacturer and distributor of the Kyphon product, which is used in performing the kyphoplasty procedure. We are cooperating with the investigation and we are continuing to evaluate and discuss this matter with the federal government.

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Implantable Cardioverter Defibrillators (ICDs). We were first made aware of this investigation in September 2010, when we received a letter from the Civil Division of the United States Department of Justice. The letter advised us 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. We continue to fully cooperate with the government in this investigation and have 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. We are in the process of reviewing our medical records in light of the guidance contained in this document.

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

In April 2011, we received a document subpoena from the United States Department of Health and Human Services office of the Inspector General, or OIG, in connection with an investigation of possible improper claims submitted to Medicare and Medicaid. The subpoena was directed to all of our hospitals and requested documents concerning emergency department processes and procedures, including our 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 our relationships with emergency department physicians, including financial arrangements.

We are currently in negotiations with the Department of Justice about resolving its claims in connection with the Department's investigation into the Company's short stay hospital admissions for the years 2005-2010, as well as its investigation at our hospital in Laredo, Texas described below. Based on those negotiations, which are not final, we believe that a reserve of \$102 million is sufficient to cover the federal government's claims for Medicare, Tricare, and Medicaid admissions, certain claims specifically related to our hospital in Laredo, Texas, and other related legal expenses. This reserve is not meant to include third party legal expenses. We are also negotiating a corporate integrity agreement with the Office of the Inspector General of the Department of Health and Human Services.

The following matters, although initiated independently of the Department of Justice's April 2011 subpoena, are factually related in some manner to that subpoena and are grouped here for clarity.

Laredo, Texas Department of Justice Investigation. In December 2009, we received a document subpoena from OIG requesting documents related to our hospital in Laredo, Texas. The categories of documents requested included case management, resource management, admission criteria, patient medical records, coding, billing, compliance, the Joint Commission accreditation, physician documentation, payments to referral sources, transactions involving physicians, disproportionate share hospital status and audits by the hospital's Quality Improvement organization. In January 2010, we received a "request for information or assistance" from OIG's Office of Investigation requesting patient medical records from this facility for certain Medicaid patients with extended lengths of stay. We continue to cooperate fully with this investigation.

Texas Attorney General Investigation of Emergency Department Procedures and Billing. In November 2010, we were served with substantially identical Civil Investigative Demands (CIDs) from the Office of Attorney General, State of Texas for all 18 of our affiliated Texas hospitals. The subject of the requests concerns emergency department procedures and billing. We have complied with these requests and provided all documentation and reports requested. We continue to cooperate fully with this investigation.

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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). This lawsuit was originally filed under seal in January 2009. The suit is brought under the False Claims Act and alleges that Lutheran Hospital of Indiana billed the Medicare program for (a) false 23 hour observation after outpatient surgeries and procedures, and (b) intentional assignment of inpatient status to one-day stays for cases that do not meet Medicare criteria for inpatient intensity of service or severity of illness. In December 2010, the government filed a notice that it declined to intervene in this suit. On April 22, 2011, a joint motion was filed by the relator and the Department of Justice to extend the period of time for the relator to serve us in the case to allow the government more time to decide if it will intervene in the case. The motion to stay was granted, as have subsequent joint motions, and the stay is currently continued until July 22, 2014. The original motion and subsequent filings gave insight to the fact that there are other qui tam complaints in other jurisdictions and that the government was consolidating its investigations and working cooperatively with other investigative bodies (including the Attorney General of the State of Texas). The government also confirmed that it considers the allegations made in the complaint styled Tenet Healthcare Corporation vs. Community Health Systems, Inc., et al. filed in the United States District Court for the Northern District of Texas, Dallas Division on April 11, 2011 to be related to the government's consolidated investigation. We are cooperating fully with the government in its investigations.

Shelbyville, Tennessee OIG Subpoena. In May 2011, we received a subpoena from the Houston Office of OIG requesting 71 patient medical records from our hospital in Shelbyville, Tennessee. We provided the requested records and have met with the government regarding this matter. We continue to cooperate fully with this investigation.

SEC Subpoena. In May 2011, we received a subpoena from the SEC requesting documents related to or requested in connection with the various inquiries, lawsuits and investigations regarding, generally, emergency room admissions or observation practices at our hospitals. The subpoena also requested documents relied upon by us in responding to the Tenet litigation, as well as other communications about the Tenet litigation. As with all government investigations, we are cooperating fully with the SEC.

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 our common stock between July 27, 2006 and April 11, 2011 and allege that misleading statements resulted in artificially inflated prices for our 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. Our motion to dismiss this case has been fully briefed and is pending before the court. We believe 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. Our 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 our motion to dismiss. On October 14, 2013, we 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. We believe all of the plaintiffs' claims are without merit and will vigorously defend them.

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Other Government Investigations

Easton, Pennsylvania – Urologist. On June 13, 2011, our hospital in Easton, Pennsylvania received a document subpoena from the Philadelphia office of the United States Department of Justice. The documents requested included medical records for certain urological procedures performed by a non-employed physician who is no longer on the medical staff and other records concerning the hospital's relationship with the physician. Certain procedures performed by the physician had been previously reviewed and appropriate repayments had been made. We are cooperating fully with the government in this investigation.

Hattiesburg, Mississippi – Allegiance Health Management, Inc. On February 23, 2012, our hospital in Hattiesburg, Mississippi received a document subpoena from OIG relating to its relationship with Allegiance Health Management, Inc., or Allegiance, a company that provides intensive outpatient psychiatric, or IOP, services to its patients. The subpoena seeks information concerning the hospital's financial relationship with Allegiance, medical records of patients receiving IOP services, and other documents relating to Allegiance such as agreements, policies and procedures, audits, complaints, budgets, financial analyses and identities of those delivering services. We are cooperating fully with this investigation.

Qui Tam Cases – Government Declined Intervention

On June 2, 2011, an order was entered unsealing a relator's qui tam complaint in the matter of *U.S. ex rel. Wood M. Deming, MD, individually and on behalf of Regional Cardiology Consultants, PC v. Jackson-Madison County General Hospital, an Affiliate of West Tennessee Healthcare, Regional Hospital of Jackson, a Division of Community Health Systems Professional Services Corporation, James Moss, individually, Timothy Puthoff, individually, Joel Perchik, MD, individually, and Elie H. Korban, MD, individually*. The action is pending in the Western District of Tennessee, Jackson Division. Regional Hospital of Jackson is an affiliated hospital and Mr. Puthoff is a former chief executive officer there. The Order recited that the United States had elected to intervene to a limited degree only concerning the claims against Dr. Korban for false and fraudulent billing for allegedly unnecessary stent procedures and for causing the submission of false claims by the hospitals. On July 28, 2011, we were served by the relator. On June 12, 2013, the government and Dr. Korban filed an advisory that they had reached a "handshake" settlement of all claims pled by the government. On December 17, 2013, the government filed a notice of settlement with Dr. Korban. We believe the claims against our hospital are without merit and we are vigorously defending this case.

On August 8, 2012, an order was entered unsealing a relator's qui tam complaint in the matter of *U.S. and N.M. ex rel. Sally Hansen v. Mimbres Memorial Hospital, et al.* This action is pending in the United States District Court for New Mexico. This case cites alleged quality control failures as violations of the Clinical Laboratory Improvement Amendments of 1988 as the basis for a False Claims Act suit. Both the U.S. government and the New Mexico state government declined to intervene in this case. We filed a motion to dismiss and the relator filed an amended complaint. Both the U.S. government and the New Mexico state government have now declined to intervene on this amended complaint. On June 12, 2013, we filed a motion to dismiss the amended complaint. The relator also voluntarily dismissed Community Health Systems, Inc., without prejudice. Our motion to dismiss was granted on November 21, 2013 and relator's motion for reconsideration of that decision was denied on January 24, 2014. On February 21, 2014, relator filed a notice of appeal to the Tenth Circuit Court of Appeals. We believe the claim against our hospital is without merit and we are vigorously defending this case.

On December 20, 2013, we became aware of a case styled *U.S. ex rel. Macler v. Pinnacle Partners in Medicine, et. al* (including our affiliated facility, Pottstown Memorial Medical Center, Pottstown, Pennsylvania), filed on April 17, 2013 in the Eastern District of Pennsylvania. The complaint alleges that certain patients did not receive a post-anesthesia visit as required by the Medicare Conditions of Participation and Pennsylvania law. The Department of Justice has declined to intervene in this case and the case was unsealed on or about December 19, 2013. We previously had not been aware of this case nor had any knowledge of any government investigation of the allegations. We have not been served with a complaint, but would anticipate that we will vigorously defend it if the case is pursued by the relator.

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On February 4, 2014, a redacted case then styled (Sealed Party) v. Pottstown Hospital Co., LLC d/b/a Pottstown Memorial Medical Center and Community Health Systems, Inc. was filed in the Eastern District of Pennsylvania. On May 6, 2014, the district court ordered the seal lifted. The relator is Alan E. Cooper, M.D. The complaint alleges the hospital traded on call agreements for referrals. There is no indication that the Department of Justice has intervened in this matter. This matter was previously reported in prior filings in the Legal Proceedings section as subpoenas to two Pennsylvania hospitals and one of our subsidiaries concerning on call agreements and physician directorships. On June 5, 2014, we filed motions to dismiss the complaint and on June 30, 2014 the relator filed his response. Oral argument has not yet been set. We anticipate that we will vigorously defend this matter if it is pursued by the government or the relator.

On July 15, 2014, we became aware of a previously unknown qui tam styled U.S. ex rel. McFeeters v. Northwest Hospital, LLC d/b/a Northwest Medical Center and Community Health Systems, Inc. pending in the Middle District of Tennessee and originally filed on May 16, 2013. On July 10, 2014, the United States filed its Notice of Election to Decline Intervention. The complaint alleges the hospital misbilled physical therapy treatment time units. We will vigorously defend this matter.

Commercial Litigation and Other Lawsuits

Becker v. Community Health Systems, Inc. d/b/a Community Health Systems Professional Services Corporation d/b/a Community Health Systems d/b/a Community Health Systems PSC, Inc. d/b/a Rockwood Clinic P.S. and Rockwood Clinic, P.S. (Superior Court, Spokane, Washington). This suit was filed on February 29, 2012, by a former chief financial officer at Rockwood Clinic in Spokane, Washington. Becker claims he was wrongfully terminated for allegedly refusing to certify a budget for Rockwood Clinic in 2012. On February 29, 2012, he also filed an administrative complaint with the Department of Labor, Occupational Safety and Health Administration alleging that he is a whistleblower under Sarbanes-Oxley; a response was filed on May 21, 2012. At a hearing on July 27, 2012, the court dismissed Community Health Systems, Inc. from this case and has subsequently certified the case for an interlocutory appeal of the denial to dismiss his employer and the management company. The appellate court accepted the interlocutory appeal and it was argued on April 30, 2014 and is currently under advisement. We are vigorously defending this action.

Eliel Ntakirutimana, M.D. and Anesthesia Healthcare Partners of Laredo, P.A., Jose Berlioz, M.D. and Jose Berlioz, M.D., P.A. d/b/a Safari Pediatrics v. Laredo Texas Hospital Company, L.P. d/b/a Laredo Medical Center, CHS/Community Health Systems, Inc., Webb Hospital Corporation, Community Health Systems Professional Services Corporation, Community Health Systems, Inc., Abraham "Abe" Martinez, Argelia "Argie" Martinez, Michael Portacci, Wayne Smith, Timothy P. Adams, and Timothy Schmidt. On December 28, 2012, two physicians and each of their professional associations, who previously contracted as independent contractors with Laredo Medical Center under contracts that could be terminated without cause upon certain written notice, filed a first amended complaint. The first amended complaint alleged claims for breaches of contracts, unjust enrichment, violation of the Texas Theft Liability Act, negligence, breach of fiduciary duty, knowing participation in breach of fiduciary duty, defamation and business disparagement, R.I.C.O., economic duress/coercion, tortious interference with contracts or prospective business relations, conspiracy, respondent superior, actual and apparent authority, ratification, vice-principal liability, and joint enterprise liability. The first amended complaint, in part, alleges facts concerning payments made by Dr. Eliel Ntakirutimana to former Laredo Medical Center CEO, Abe Martinez, who is also a defendant in the suit. On October 23, 2013, an Order staying the case until further notice was entered.

Certain Legal Proceedings Related to HMA

Medicare/Medicaid Billing Lawsuits

On January 11, 2010, HMA and one of its subsidiaries were named in a qui tam lawsuit entitled United States of America ex rel. J. Michael Mastej v. Health Management Associates, Inc. et al. in the U.S. District Court for the Middle District of Florida, Tampa Division. The plaintiff's complaint alleged that, among other things, the defendants erroneously submitted claims to Medicare and that those claims were falsely certified to be in compliance with Section 1877 of the Social Security Act of 1935 (commonly known as the "Stark law") and the Anti-Kickback Statute. The plaintiff's complaint further alleged that the defendants' conduct violated the False Claims Act. The plaintiff seeks recovery of all Medicare and Medicaid reimbursement that the defendants received as a result of the alleged false certifications and treble damages under the False Claims Act, as well as a civil penalty for each Medicare and Medicaid claim supported by such alleged false certifications. On August 18, 2010, the plaintiff filed a first amended complaint that was similar to the original complaint. On February 23, 2011, the case was transferred to the U.S. District Court for the Middle District of Florida, Fort Myers Division. On May 5, 2011, the plaintiff filed a second amended complaint, which was similar to the first amended complaint. On May 17, 2011, the defendants moved to dismiss the second amended complaint for failure to state a claim with the particularity required and failure to state a claim upon which relief can be granted. On January 26, 2012, the United States gave notice of its decision not to intervene in this lawsuit. On February 16, 2012, the court granted the defendants' motion to dismiss, without prejudice. The court's order permitted the plaintiff to file an amended complaint. On March 8, 2012, the plaintiff filed a third amended

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complaint, which was similar to the first amended complaint and the second amended complaint. On March 26, 2012, the defendants moved to dismiss the third amended complaint on the same bases set forth in earlier motions to dismiss. On March 19, 2013, the U.S. District Court for the Middle District of Florida, Tampa Division, dismissed the third amended complaint with prejudice. On March 28, 2013, the United States of America filed a motion to clarify that the dismissal with prejudice did not relate to the United States. On April 4, 2013, the defendants filed an opposition to the United States' motion for clarification. The Government's motion remains pending at this time. On April 16, 2013, the plaintiff filed a motion for relief from judgment and for leave to amend the complaint, and a proposed fourth amended complaint. On April 18, 2013, the plaintiff filed a notice of appeal. On May 2, 2013, the defendants filed an opposition to the plaintiff's motion for relief from judgment and for leave to amend the complaint for the fourth time. On July 10, 2013, the court denied plaintiff's motion for relief from judgment and for leave to amend the complaint for the fourth time. The case is now on appeal to the Eleventh Circuit Court of Appeals. On August 26, 2013, plaintiff submitted his initial brief and, on October 15, 2013, defendants filed their answer brief. The appeal was argued on May 21, 2014 and is currently under advisement. We intend to vigorously defend HMA and its subsidiary against the allegations in this matter.

On July 31, 2013, a qui tam lawsuit captioned United States ex rel. Williams v. Health Management Associates, Inc. was unsealed in the U.S. District Court for the Middle District of Georgia. The complaint alleges that HMA and Walton Regional Medical Center, as well as Tenet Healthcare Corp. and several of its hospitals, engaged in a kickback scheme with Clinica de la Mama, a prenatal clinic, whereby Clinica de la Mama would provide translation and eligibility services in exchange for the referral of Medicaid patients to the defendant hospitals. The State of Georgia filed a similar complaint alleging that these referrals violated the Georgia False Medical Claims Act, the Georgia Medical Assistance Act, and various state laws. HMA has moved to dismiss the relator and State complaints, and its motion is currently pending before the Court. On March 18, 2014, the United States filed a complaint in intervention alleging that the relationship between Clinica de la Mama and Walton violated the federal False Claims Act and common law unjust enrichment and payment by mistake. On June 24, 2014, our motion to dismiss was denied. We deny the allegations in these complaints and intend to defend against these claims.

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. We intend to defend against the allegations in these matters, but will also be cooperating with the government in the ongoing investigation of these allegations.

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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 we are cooperating 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.

During September 2010, HMA received a letter from the DOJ indicating that an investigation was being conducted to determine whether certain HMA hospitals improperly submitted claims for the implantation of 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. We are 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, we are 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, we are unable to determine the potential impact, if any, that will result from the final resolution of the investigation.

On February 22, 2012 and February 24, 2012, OIG served subpoenas on certain HMA hospitals relating to those hospitals' relationships with Allegiance. Allegiance, which is unrelated to HMA, is a post-acute healthcare management company that provides 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. We intend 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.

Securities and Exchange Commission Investigation

On April 25, 2013, HMA received a subpoena from the SEC, issued pursuant to an investigation, requesting documents related to accounts receivable, billing write-downs, contractual adjustments, reserves for doubtful accounts, and accounts receivable aging, and revenue from Medicare, Medicaid and from privately insured or uninsured patients. On June 5, 2013, HMA received a supplemental subpoena from the SEC which requests additional financial reports. Subsequent subpoenas have been directed to us, our accountants, the former accountants for HMA and certain individuals. This investigation is ongoing and we are unable to determine the potential impact, if any, of this investigation.

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Class Action and Derivative Action Lawsuits

On April 30, 2012, two class action lawsuits that were brought against HMA and certain of its then executive officers, one of whom was at that time also a director, were consolidated in the U.S. District Court for the Middle District of Florida under the caption *In Re: Health Management Associates, Inc., et al.* and three pension fund plaintiffs were appointed as lead plaintiffs. On July 30, 2012, the lead plaintiffs filed an amended consolidated complaint purportedly on behalf of stockholders who purchased HMA's common stock during the period from July 27, 2009, through January 9, 2012. The amended consolidated complaint (i) alleges that HMA made false and misleading statements in certain public disclosures regarding its business and financial results and (ii) asserts claims for violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended. Among other things, the plaintiffs claim that HMA inflated its earnings by engaging in fraudulent Medicare billing practices that entailed admitting patients to observation status when they should not have been admitted at all and to inpatient status when they should have been admitted to observation status. The plaintiffs seek unspecified monetary damages. On October 22, 2012, the defendants moved to dismiss the plaintiffs' amended consolidated complaint for failure to state a claim or plead facts required by the Private Securities Litigation Reform Act. The plaintiffs filed an unopposed stipulation and proposed order to suspend briefing on the defendants' motion to dismiss because they intended to seek leave of court to file a proposed second amended consolidated complaint. On December 15, 2012, the court entered an order approving the stipulation and providing a schedule for briefing with respect to the proposed amended pleadings. On February 25, 2013, the plaintiffs filed a second amended consolidated complaint, which asserted substantially the same claims as the amended consolidated complaint. As of August 15, 2013, the defendants' motion to dismiss the second amended complaint for failure to state a claim and plead facts required by the Private Securities Litigation Reform Act was fully briefed and awaiting the Court's decision. On May 22, 2014, the court granted the motion to dismiss and on June 20, 2014 the plaintiffs appealed to the Eleventh Circuit. We intend to vigorously defend against the allegations in this lawsuit. We are unable to predict the outcome or determine the potential impact, if any, that could result from its final resolution.

Wrongful Termination Lawsuits

Meyer v. Health Management Associates, Inc. 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, 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. We intend to vigorously defend against the wrongful termination allegations made by Mr. Meyer.

William J. Shoen vs. Health Management Associates, Inc. Shoen, former Chairman of the Board of HMA, filed suit against HMA on June 27, 2014 alleging breach of contract for a lump sum termination payment, certain airplane usage rights and underpayment of his SERP. He also seeks declaratory judgment that he and his spouse are entitled to lifetime health insurance benefits. On July 25, 2014, the matter was removed to the United States District Court for the Middle District of Florida. We will vigorously defend this matter.

Jeffery D. Hamby, M.D. v. EmCare Physician Providers, Inc., Health Management Associates, Inc., Joni Carmack, M.D. and Michael Wheelis, M.D. Circuit Court Crawford County, Arkansas. Hamby, who worked in the emergency department at HMA affiliate Summit Medical Center (AK) and was employed by independent contractor EmCare, filed suit alleging wrongful termination by EmCare at the behest of HMA. On January 13, 2014, the court granted HMA's motion to dismiss which dismissal Hamby has now appealed. We will continue to vigorously defend this matter.

Management of Significant Legal Proceedings

In accordance with our governance documents, including our Governance Guidelines and the charter of the Audit and Compliance Committee, our management of significant legal proceedings is overseen by the independent members of the Board of Directors and, in particular, the Audit and Compliance Committee. The Audit and Compliance Committee is charged with oversight of compliance, regulatory and litigation matters, and enterprise risk management. Management has been instructed to refer all significant legal proceedings and allegations of financial statement fraud, error, or misstatement to the Audit and Compliance Committee for its oversight and evaluation. Consistent with New York Stock Exchange and Sarbanes-Oxley independence requirements, the Audit and Compliance Committee is comprised entirely of individuals who are independent of Company management, and all three members of the Audit and Compliance Committee are “audit committee financial experts” as defined in the Exchange Act.

In addition, the Audit and Compliance Committee and the other independent members of the Board of Directors oversee the functions of the voluntary compliance program, including its auditing and monitoring functions and confidential disclosure program. In recent years, the voluntary compliance program has addressed the potential for a variety of billing errors that might be the subject of audits and payment denials by the CMS Recovery Audit Contractors’ permanent project, including MS-DRG coding, outpatient hospital and physician coding and billing, and medical necessity for services (including a focus on hospital stays of very short duration). Efforts by management, through the voluntary compliance program, to identify and limit risk from these government audits have included significant policy and guidance revisions, training and education, and auditing.

Since April 2011, our Audit and Compliance Committee and/or Board of Directors has met, on average, monthly to review the status of the lawsuits and investigations relating to allegations of improper billing for inpatient care at our hospitals and to oversee management in connection with our investigation and defense of these matters. Following the consummation of the HMA merger, these meetings have been expanded to include the review and oversight of the legal proceedings related to HMA that are covered by the CVR. At many of those meetings, the independent members of the Board of Directors have met in separate session, first with outside counsel handling the investigations and lawsuits, and then alone, to discuss their duties and oversight of these matters. The independent members of our Board of Directors remain fully engaged in the oversight of these matters.

Item 1A. Risk Factors

There have been no material changes with regard to risk factors previously disclosed in our most recent annual report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Historically, we have not paid any cash dividends. In December 2012, we declared and paid a special dividend of \$0.25 per share to holders of our common stock at the close of business as of December 17, 2012, which totaled approximately \$23 million. We have not paid any dividends since this time, and we do not anticipate paying any other cash dividends in the foreseeable future. Our Credit Facility limits our 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 our senior and senior secured notes also limit our ability to pay dividends and/or repurchase stock. As of June 30, 2014, under the most restrictive test under these agreements, we have approximately \$401 million available with which to pay permitted dividends and/or repurchase shares of our stock or our Notes.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

<u>No.</u>	<u>Description</u>
4.1	Eighth Supplemental Indenture relating to CHS/Community Health Systems, Inc.'s 8.000% Senior Notes due 2019, dated as of June 30, 2014, by and among CHS/Community Health Systems, Inc., the guarantors party thereto and Regions Bank, as successor Trustee
4.2	Fifth Supplemental Indenture relating to CHS/Community Health Systems, Inc.'s 7.125% Senior Notes due 2020, dated as of June 30, 2014, by and among CHS/Community Health Systems, Inc., the guarantors party thereto and Regions Bank, as Trustee
4.3	Fifth Supplemental Indenture relating to CHS/Community Health Systems, Inc.'s 5.125% Senior Secured Notes due 2018, dated as of June 30, 2014, by and among CHS/Community Health Systems, Inc., the guarantors party thereto, Regions Bank, as Trustee and Credit Suisse AG, as Collateral Agent
4.4	Second Supplemental Indenture relating to CHS/Community Health Systems, Inc.'s 5.125% Senior Secured Notes due 2021, dated as of June 30, 2014, by and among CHS/Community Health Systems, Inc., the guarantors party thereto, Regions Bank, as Trustee and Credit Suisse AG, as Collateral Agent
4.5	Second Supplemental Indenture relating to CHS/Community Health Systems, Inc.'s 6.875% Senior Notes due 2022, dated as of June 30, 2014, by and among CHS/Community Health Systems, Inc., the guarantors party thereto and Regions Bank, as Trustee
10.1	Community Health Systems, Inc. 2004 Employee Performance Incentive Plan, as amended and restated as of February 26, 2014
10.2	Community Health Systems, Inc. 2009 Stock Option and Award Plan, as amended and restated as of March 19, 2014
12	Computation of Ratio of Earnings to Fixed Charges
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

COMMUNITY HEALTH SYSTEMS, INC.
(Registrant)

By: /s/ Wayne T. Smith
Wayne T. Smith
Chairman of the Board and
Chief Executive Officer
(principal executive officer)

By: /s/ W. Larry Cash
W. Larry Cash
President of Financial Services, Chief
Financial Officer and Director
(principal financial officer)

By: /s/ Kevin J. Hammons
Kevin J. Hammons
Senior Vice President and Chief
Accounting Officer
(principal accounting officer)

Date: August 1, 2014

Index to Exhibits

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4.2	Fifth Supplemental Indenture relating to CHS/Community Health Systems, Inc.'s 7.125% Senior Notes due 2020, dated as of June 30, 2014, by and among CHS/Community Health Systems, Inc., the guarantors party thereto and Regions Bank, as Trustee
4.3	Fifth Supplemental Indenture relating to CHS/Community Health Systems, Inc.'s 5.125% Senior Secured Notes due 2018, dated as of June 30, 2014, by and among CHS/Community Health Systems, Inc., the guarantors party thereto, Regions Bank, as Trustee and Credit Suisse AG, as Collateral Agent
4.4	Second Supplemental Indenture relating to CHS/Community Health Systems, Inc.'s 5.125% Senior Secured Notes due 2021, dated as of June 30, 2014, by and among CHS/Community Health Systems, Inc., the guarantors party thereto, Regions Bank, as Trustee and Credit Suisse AG, as Collateral Agent
4.5	Second Supplemental Indenture relating to CHS/Community Health Systems, Inc.'s 6.875% Senior Notes due 2022, dated as of June 30, 2014, by and among CHS/Community Health Systems, Inc., the guarantors party thereto and Regions Bank, as Trustee
10.1	Community Health Systems, Inc. 2004 Employee Performance Incentive Plan, as amended and restated as of February 26, 2014
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101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

EIGHTH SUPPLEMENTAL INDENTURE (this “**Supplemental Indenture**”), dated as of June 30, 2014, among CHS/COMMUNITY HEALTH SYSTEMS, INC., a Delaware corporation (the “**Issuer**”), each of the parties identified as a New Subsidiary Guarantor on the signature pages hereto (each, a “**New Subsidiary Guarantor**” and collectively, the “**New Subsidiary Guarantors**”) and REGIONS BANK, as successor Trustee under the Indenture (the “**Trustee**”).

WITNESSETH:

WHEREAS, each of the Issuer, the Guarantors and the Trustee have heretofore executed and delivered an Indenture as amended, supplemented, waived or otherwise modified (the “**Indenture**”), dated as of November 22, 2011, providing for the issuance of the 8.000% Senior Notes due 2019 (the “**Securities**”);

WHEREAS, each of the undersigned New Subsidiary Guarantors has deemed it advisable and in its best interest to execute and deliver this Supplemental Indenture, and to become a New Subsidiary Guarantor under the Indenture; and

WHEREAS, pursuant to Section 9.01(4) of the Indenture, the Trustee, the Issuer and the New Subsidiary Guarantors are authorized to execute and deliver this Supplemental Indenture.

NOW THEREFORE, in consideration of the foregoing and for good and valuable consideration, the receipt of which is hereby acknowledged, the Issuer, the New Subsidiary Guarantors and the Trustee mutually covenant and agree for the equal and ratable benefit of the Holders of the Securities as follows:

SECTION 1. Capitalized Terms. Capitalized terms used herein but not defined shall have the meanings assigned to them in the Indenture.

SECTION 2. Guaranties. Each New Subsidiary Guarantor hereby agrees to guarantee the Issuer’s obligations under the Securities on the terms and subject to the conditions set forth in Article 10 of the Indenture and to be bound by all other applicable provisions of the Indenture as a Subsidiary Guarantor.

SECTION 3. Ratification of Indenture; Supplemental Indentures Part of Indenture. Except as expressly amended hereby, the Indenture is in all respects ratified and confirmed and all the terms, conditions and provisions thereof shall remain in full force and effect. This Supplemental Indenture shall form a part of the Indenture for all purposes, shall inure to the benefit of the Trustee and every Holder of Securities heretofore or hereafter authenticated and the Issuer, the Trustee and every Holder of Securities heretofore or hereafter authenticated and delivered shall be bound hereby.

SECTION 4. Governing Law. **THIS SUPPLEMENTAL INDENTURE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.**

SECTION 5. Trustee Makes No Representation. The Trustee makes no representation as to the validity or sufficiency of this Supplemental Indenture.

SECTION 6. Counterparts. The parties may sign any number of copies of this Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement. The exchange of copies of this Supplemental Indenture and of signature pages by facsimile or other electronic transmission shall constitute effective execution and delivery of this Supplemental Indenture as to the parties hereto and may be used in lieu of the original Supplemental Indenture for all purposes. Signatures of the parties hereto transmitted by facsimile or other electronic transmission shall be deemed to be their original signatures for all purposes.

SECTION 7. Effect of Headings. The Section headings herein are for convenience only and shall not effect the construction of this Supplemental Indenture.

[Signature page follows]

IN WITNESS WHEREOF, the parties have caused this Supplemental Indenture to be duly executed as of this 30th day of June, 2014.

CHS/Community Health Systems, Inc.,
a Delaware corporation

By: /s/ Rachel A. Seifert
Rachel A. Seifert
Executive Vice President, Secretary and General Counsel

Anniston HMA, LLC,
an Alabama limited liability company

By: /s/ Rachel A. Seifert
Rachel A. Seifert
Executive Vice President and Secretary

Health Management General Partner I, LLC,
a Delaware limited liability company

By: /s/ Rachel A. Seifert
Rachel A. Seifert
Executive Vice President and Secretary

HMA Services GP, LLC,
a Delaware limited liability company

By: /s/ Rachel A. Seifert
Rachel A. Seifert
Executive Vice President and Secretary

Hospital Management Services of Florida, LP,
a Florida limited partnership

By: HMA Services GP, LLC, its general partner

By: /s/ Rachel A. Seifert
Rachel A. Seifert
Executive Vice President and Secretary

Sharon Pennsylvania Holdings, LLC,
a Delaware limited liability company

By: /s/ Rachel A. Seifert
Rachel A. Seifert
Executive Vice President and Secretary

Sharon Pennsylvania Hospital Company, LLC,
a Delaware limited liability company

By: /s/ Rachel A. Seifert
Rachel A. Seifert
Executive Vice President and Secretary

Tennessee HMA Holdings, LP,
a Delaware limited partnership

By: Health Management General
Partner I, LLC, its general partner

By: /s/ Rachel A. Seifert
Rachel A. Seifert
Executive Vice President and Secretary

Regions Bank, as Trustee

By: /s/ Paul Williams
Paul Williams
Vice President

FIFTH SUPPLEMENTAL INDENTURE (this “**Supplemental Indenture**”), dated as of June 30, 2014, among CHS/COMMUNITY HEALTH SYSTEMS, INC., a Delaware corporation (the “**Issuer**”), each of the parties identified as a New Subsidiary Guarantor on the signature pages hereto (each, a “**New Subsidiary Guarantor**” and collectively, the “**New Subsidiary Guarantors**”) and REGIONS BANK, as Trustee under the Indenture (the “**Trustee**”).

WITNESSETH:

WHEREAS, each of the Issuer, the Guarantors and the Trustee have heretofore executed and delivered an Indenture as amended, supplemented, waived or otherwise modified (the “**Indenture**”), dated as of July 18, 2012, providing for the issuance of the 7.125% Senior Notes due 2020 (the “**Securities**”);

WHEREAS, each of the undersigned New Subsidiary Guarantors has deemed it advisable and in its best interest to execute and deliver this Supplemental Indenture, and to become a New Subsidiary Guarantor under the Indenture; and

WHEREAS, pursuant to Section 9.01(4) of the Indenture, the Trustee, the Issuer and the New Subsidiary Guarantors are authorized to execute and deliver this Supplemental Indenture.

NOW THEREFORE, in consideration of the foregoing and for good and valuable consideration, the receipt of which is hereby acknowledged, the Issuer, the New Subsidiary Guarantors and the Trustee mutually covenant and agree for the equal and ratable benefit of the Holders of the Securities as follows:

SECTION 1. Capitalized Terms. Capitalized terms used herein but not defined shall have the meanings assigned to them in the Indenture.

SECTION 2. Guaranties. Each New Subsidiary Guarantor hereby agrees to guarantee the Issuer’s obligations under the Securities on the terms and subject to the conditions set forth in Article 10 of the Indenture and to be bound by all other applicable provisions of the Indenture as a Subsidiary Guarantor.

SECTION 3. Ratification of Indenture: Supplemental Indentures Part of Indenture. Except as expressly amended hereby, the Indenture is in all respects ratified and confirmed and all the terms, conditions and provisions thereof shall remain in full force and effect. This Supplemental Indenture shall form a part of the Indenture for all purposes, shall inure to the benefit of the Trustee and every Holder of Securities heretofore or hereafter authenticated and the Issuer, the Trustee and every Holder of Securities heretofore or hereafter authenticated and delivered shall be bound hereby.

SECTION 4. Governing Law. **THIS SUPPLEMENTAL INDENTURE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.**

SECTION 5. Trustee Makes No Representation. The Trustee makes no representation as to the validity or sufficiency of this Supplemental Indenture.

SECTION 6. Counterparts. The parties may sign any number of copies of this Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement. The exchange of copies of this Supplemental Indenture and of signature pages by facsimile or other electronic transmission shall constitute effective execution and delivery of this Supplemental Indenture as to the parties hereto and may be used in lieu of the original Supplemental Indenture for all purposes. Signatures of the parties hereto transmitted by facsimile or other electronic transmission shall be deemed to be their original signatures for all purposes.

SECTION 7. Effect of Headings. The Section headings herein are for convenience only and shall not effect the construction of this Supplemental Indenture.

[Signature page follows]

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CHS/Community Health Systems, Inc.,
a Delaware corporation

By: /s/ Rachel A. Seifert
Rachel A. Seifert
Executive Vice President, Secretary and General Counsel

Anniston HMA, LLC,
an Alabama limited liability company

By: /s/ Rachel A. Seifert
Rachel A. Seifert
Executive Vice President and Secretary

Health Management General Partner I, LLC,
a Delaware limited liability company

By: /s/ Rachel A. Seifert
Rachel A. Seifert
Executive Vice President and Secretary

HMA Services GP, LLC,
a Delaware limited liability company

By: /s/ Rachel A. Seifert
Rachel A. Seifert
Executive Vice President and Secretary

Hospital Management Services of Florida, LP,
a Florida limited partnership

By: HMA Services GP, LLC, its general partner

By: /s/ Rachel A. Seifert
Rachel A. Seifert
Executive Vice President and Secretary

Sharon Pennsylvania Holdings, LLC,
a Delaware limited liability company

By: /s/ Rachel A. Seifert
Rachel A. Seifert
Executive Vice President and Secretary

Sharon Pennsylvania Hospital Company, LLC,
a Delaware limited liability company

By: /s/ Rachel A. Seifert
Rachel A. Seifert
Executive Vice President and Secretary

Tennessee HMA Holdings, LP,
a Delaware limited partnership

By: Health Management General Partner I, LLC, its
general partner

By: /s/ Rachel A. Seifert
Rachel A. Seifert
Executive Vice President and Secretary

Regions Bank, as Trustee

By: /s/ Paul Williams
Paul Williams
Vice President

FIFTH SUPPLEMENTAL INDENTURE (this “**Supplemental Indenture**”), dated as of June 30, 2014, among CHS/COMMUNITY HEALTH SYSTEMS, INC., a Delaware corporation (the “**Issuer**”), each of the parties identified as a New Subsidiary Guarantor on the signature pages hereto (each, a “**New Subsidiary Guarantor**” and collectively, the “**New Subsidiary Guarantors**”), REGIONS BANK, as Trustee under the Indenture (the “**Trustee**”) and Credit Suisse AG (the “**Collateral Agent**”).

WITNESSETH:

WHEREAS, each of the Issuer, the Guarantors and the Trustee have heretofore executed and delivered to the Trustee an Indenture as amended, supplemented, waived or otherwise modified (the “**Indenture**”), dated as of August 17, 2012, providing for the issuance of the 5.125% Senior Secured Notes due 2018 (the “**Securities**”);

WHEREAS, each of the undersigned New Subsidiary Guarantors has deemed it advisable and in its best interest to execute and deliver this Supplemental Indenture, and to become a New Subsidiary Guarantor under the Indenture; and

WHEREAS, pursuant to Section 9.01(4) of the Indenture, the Trustee, the Collateral Agent, the Issuer and the New Subsidiary Guarantors are authorized to execute and deliver this Supplemental Indenture.

NOW THEREFORE, in consideration of the foregoing and for good and valuable consideration, the receipt of which is hereby acknowledged, the Issuer, the New Subsidiary Guarantors and the Trustee mutually covenant and agree for the equal and ratable benefit of the Holders of the Securities as follows:

SECTION 1. Capitalized Terms. Capitalized terms used herein but not defined shall have the meanings assigned to them in the Indenture.

SECTION 2. Guaranties. Each New Subsidiary Guarantor hereby agrees to guarantee the Issuer’s obligations under the Securities on the terms and subject to the conditions set forth in Article 10 of the Indenture and to be bound by all other applicable provisions of the Indenture as a Subsidiary Guarantor.

SECTION 3. Ratification of Indenture; Supplemental Indentures Part of Indenture. Except as expressly amended hereby, the Indenture is in all respects ratified and confirmed and all the terms, conditions and provisions thereof shall remain in full force and effect. This Supplemental Indenture shall form a part of the Indenture for all purposes, shall inure to the benefit of the Trustee and every Holder of Securities heretofore or hereafter authenticated and the Issuer, the Trustee and every Holder of Securities heretofore or hereafter authenticated and delivered shall be bound hereby.

SECTION 4. Governing Law. **THIS SUPPLEMENTAL INDENTURE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.**

SECTION 5. Trustee Makes No Representation. The Trustee makes no representation as to the validity or sufficiency of this Supplemental Indenture.

SECTION 6. Counterparts. The parties may sign any number of copies of this Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement. The exchange of copies of this Supplemental Indenture and of signature pages by facsimile or other electronic transmission shall constitute effective execution and delivery of this Supplemental Indenture as to the parties hereto and may be used in lieu of the original Supplemental Indenture for all purposes. Signatures of the parties hereto transmitted by facsimile or other electronic transmission shall be deemed to be their original signatures for all purposes.

SECTION 7. Benefits Acknowledged. Each New Subsidiary Guarantor's Note Guarantee is subject to the terms and conditions set forth in the Indenture. Each New Subsidiary Guarantor acknowledges that it will receive direct and indirect benefits from the financing arrangements contemplated by the Indenture and this Supplemental Indenture and that the guarantee and waivers made by it pursuant to its Note Guarantee are knowingly made in contemplation of such benefits.

SECTION 8. Effect of Headings. The Section headings herein are for convenience only and shall not effect the construction of this Supplemental Indenture.

[Signature page follows]

IN WITNESS WHEREOF, the parties have caused this Supplemental Indenture to be duly executed as of this 30th day of June, 2014.

CHS/Community Health Systems, Inc.,
a Delaware corporation

By: /s/ Rachel A. Seifert
Rachel A. Seifert
Executive Vice President, Secretary and General Counsel

Anniston HMA, LLC,
an Alabama limited liability company

By: /s/ Rachel A. Seifert
Rachel A. Seifert
Executive Vice President and Secretary

Health Management General Partner I, LLC,
a Delaware limited liability company

By: /s/ Rachel A. Seifert
Rachel A. Seifert
Executive Vice President and Secretary

HMA Services GP, LLC,
a Delaware limited liability company

By: /s/ Rachel A. Seifert
Rachel A. Seifert
Executive Vice President and Secretary

Hospital Management Services of Florida, LP,
a Florida limited partnership

By: HMA Services GP, LLC, its general partner

By: /s/ Rachel A. Seifert
Rachel A. Seifert
Executive Vice President and Secretary

Sharon Pennsylvania Holdings, LLC,
a Delaware limited liability company

By: /s/ Rachel A. Seifert
Rachel A. Seifert
Executive Vice President and Secretary

Sharon Pennsylvania Hospital Company, LLC,
a Delaware limited liability company

By: /s/ Rachel A. Seifert
Rachel A. Seifert
Executive Vice President and Secretary

Tennessee HMA Holdings, LP,
a Delaware limited partnership

By: Health Management General Partner I, LLC, its
general partner

By: /s/ Rachel A. Seifert
Rachel A. Seifert
Executive Vice President and Secretary

Regions Bank, as Trustee

By: /s/ Paul Williams
Paul Williams
Vice President

Credit Suisse AG, as Collateral Agent

By: /s/ Robert Hetu
Name: Robert Hetu
Title: Authorized Signatory

By: /s/ Michael Spaight
Name: Michael Spaight
Title: Authorized Signatory

SECOND SUPPLEMENTAL INDENTURE, (this "Supplemental Indenture") dated as of June 30, 2014, by and among CHS/Community Health Systems, Inc., a Delaware corporation ("Issuer"), the parties that are signatories hereto as Guarantors (each a "Guaranteeing Subsidiary"), Credit Suisse AG, as Collateral Agent, and Regions Bank, as Trustee under the Indenture referred to below.

WITNESSETH:

WHEREAS, each of the Issuer, the Guarantors and the Trustee have heretofore executed and delivered an indenture dated as of January 27, 2014 (as amended, supplemented, waived or otherwise modified, the "Indenture"), providing for the issuance on such date of an aggregate principal amount of \$1,000,000,000 of 5.125% Senior Secured Notes due 2021 (the "Notes") of the Issuer;

WHEREAS, the Indenture provides that the Guaranteeing Subsidiaries shall execute and deliver to the Trustee and the Collateral Agent a supplemental indenture pursuant to which the Guaranteeing Subsidiaries shall unconditionally guarantee all of the Issuer's Obligations under the Notes and the Indenture on the terms and conditions set forth herein and under the Indenture (the "Note Guarantee"), each on the terms and conditions set forth herein; and

WHEREAS, pursuant to Section 9.1 of the Indenture, the Issuer, any Guarantor and the Trustee are authorized to execute and deliver this Supplemental Indenture to amend or supplement the Indenture, without the consent of any Holder;

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Issuer, the Guaranteeing Subsidiaries and the Trustee mutually covenant and agree for the benefit of the Trustee, the Collateral Agent and the Holders of the Notes as follows:

ARTICLE I
DEFINITIONS

SECTION 1.1. Defined Terms. As used in this Supplemental Indenture, terms defined in the Indenture or in the preamble or recitals hereto are used herein as therein defined. The words "herein," "hereof" and "hereby" and other words of similar import used in this Supplemental Indenture refer to this Supplemental Indenture as a whole and not to any particular section hereof.

ARTICLE II
AGREEMENT TO BE BOUND; GUARANTEE

SECTION 2.1. Agreement to be Bound. Each of the Guaranteeing Subsidiaries hereby becomes a party to the Indenture as a "Guarantor" and as such will have all of the rights and be subject to all of the obligations and agreements of a "Guarantor" under the Indenture.

SECTION 2.2. Guarantee. Each of the Guaranteeing Subsidiaries agrees, on a joint and several basis with all the existing Guarantors, to fully, unconditionally and irrevocably Guarantee to each Holder of the Notes, the Trustee and the Collateral Agent the Guaranteed Obligations pursuant to Article X of the Indenture as and to the extent provided for therein.

ARTICLE III
MISCELLANEOUS

SECTION 3.1. Notices. All notices and other communications to the Guarantors shall be given as provided in the Indenture.

SECTION 3.2. Merger and Consolidation. Each Guaranteeing Subsidiary shall not sell or otherwise dispose of all or substantially all of its assets to, or consolidate with or merge with or into, another Person (other than the Issuer or any Restricted Subsidiary that is a Guarantor or becomes a Guarantor concurrently with the transaction) except in accordance with Section 4.1(e) of the Indenture.

SECTION 3.3. Release of Guarantee. The Note Guarantees hereunder may be released in accordance with Section 10.2 of the Indenture.

SECTION 3.4. Parties. Nothing expressed or mentioned herein is intended or shall be construed to give any Person, firm or corporation, other than the Holders and the Trustee, any legal or equitable right, remedy or claim under or in respect of this Supplemental Indenture or the Indenture or any provision herein or therein contained

SECTION 3.5. Governing Law. This Supplemental Indenture shall be governed by, and construed in accordance with, the laws of the State of New York.

SECTION 3.6. Severability. In case any provision in this Supplemental Indenture shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby and such provision shall be ineffective only to the extent of such invalidity, illegality or unenforceability.

SECTION 3.7. Benefits Acknowledged. Each Guaranteeing Subsidiary's Note Guarantee is subject to the terms and conditions set forth in the Indenture. Each Guaranteeing Subsidiary acknowledges that it will receive direct and indirect benefits from the financing arrangements contemplated by the Indenture and this Supplemental Indenture and that the guarantee and waivers made by it pursuant to its Note Guarantee are knowingly made in contemplation of such benefits.

SECTION 3.8. Ratification of Indenture; Supplemental Indentures Part of Indenture. Except as expressly amended hereby, the Indenture is in all respects ratified and confirmed and all the terms, conditions and provisions thereof shall remain in full force and effect. This Supplemental Indenture shall form a part of the Indenture for all purposes, and every Holder of Notes heretofore or hereafter authenticated and delivered shall be bound hereby.

SECTION 3.9. The Trustee and the Collateral Agent. Neither the Trustee nor the Collateral Agent make any representation or warranty as to the validity or sufficiency of this Supplemental Indenture or with respect to the recitals contained herein, all of which recitals are made solely by the other parties hereto.

SECTION 3.10. Counterparts. The parties hereto may sign any number of copies of this Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement. The exchange of copies of this Supplemental Indenture and of signature pages by facsimile or other electronic transmission shall constitute effective execution and delivery of this Supplemental Indenture as to the parties hereto and may be used in lieu of the original Supplemental Indenture for all purposes. Signatures of the parties hereto transmitted by facsimile or other electronic transmission shall be deemed to be their original signatures for all purposes.

SECTION 3.11. Execution and Delivery. Each Guaranteeing Subsidiary agrees that its Note Guarantee shall remain in full force and effect notwithstanding any absence on each Note of a notation of any such Note Guarantee.

SECTION 3.12. Headings. The headings of the Articles and the Sections in this Supplemental Indenture are for convenience of reference only and shall not be deemed to alter or affect the meaning or interpretation of any provisions hereof.

[Signature page follows]

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed as of the date first above written.

Anniston HMA, LLC,
an Alabama limited liability company

By: /s/ Rachel A. Seifert
Rachel A. Seifert
Executive Vice President and Secretary

Health Management General Partner I, LLC,
a Delaware limited liability company

By: /s/ Rachel A. Seifert
Rachel A. Seifert
Executive Vice President and Secretary

HMA Services GP, LLC,
a Delaware limited liability company

By: /s/ Rachel A. Seifert
Rachel A. Seifert
Executive Vice President and Secretary

Hospital Management Services of Florida, LP,
a Florida limited partnership

By: HMA Services GP, LLC, its general partner

By: /s/ Rachel A. Seifert
Rachel A. Seifert
Executive Vice President and Secretary

Sharon Pennsylvania Holdings, LLC,
a Delaware limited liability company

By: /s/ Rachel A. Seifert
Rachel A. Seifert
Executive Vice President and Secretary

Sharon Pennsylvania Hospital Company, LLC,
a Delaware limited liability company

By: /s/ Rachel A. Seifert
Rachel A. Seifert
Executive Vice President and Secretary

Tennessee HMA Holdings, LP,
a Delaware limited partnership

By: Health Management General Partner I, LLC, its general partner

By: /s/ Rachel A. Seifert
Rachel A. Seifert
Executive Vice President and Secretary

Acknowledged by:

CHS/Community Health Systems, Inc.

By: /s/ Rachel A. Seifert

Rachel A. Seifert

Executive Vice President, Secretary and General Counsel

Regions Bank,
as Trustee

By: /s/ Paul Williams
Paul Williams
Vice President

Credit Suisse AG,
as Collateral Agent

By: /s/ Robert Hetu
Name: Robert Hetu
Title: Authorized Signatory

By: /s/ Michael Spaight
Name: Michael Spaight
Title: Authorized Signatory

SECOND SUPPLEMENTAL INDENTURE, (this "Supplemental Indenture") dated as of June 30, 2014, by and among CHS/Community Health Systems, Inc., a Delaware corporation ("Issuer"), the parties that are signatories hereto as Guarantors (each a "Guaranteeing Subsidiary") and Regions Bank, as Trustee under the Indenture referred to below.

WITNESSETH:

WHEREAS, each of the Issuer, the Guarantors and the Trustee have heretofore executed and delivered an indenture dated as of January 27, 2014 (as amended, supplemented, waived or otherwise modified, the "Indenture"), providing for the issuance on such date of an aggregate principal amount of \$3,000,000,000 of 6.875% Senior Secured Notes due 2022 (the "Notes") of the Issuer;

WHEREAS, the Indenture provides that the Guaranteeing Subsidiaries shall execute and deliver to the Trustee a supplemental indenture pursuant to which the Guaranteeing Subsidiaries shall unconditionally guarantee all of the Issuer's Obligations under the Notes and the Indenture on the terms and conditions set forth herein and under the Indenture (the "Note Guarantee"), each on the terms and conditions set forth herein; and

WHEREAS, pursuant to Section 9.1 of the Indenture, the Issuer, any Guarantor and the Trustee are authorized to execute and deliver this Supplemental Indenture to amend or supplement the Indenture, without the consent of any Holder;

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Issuer, the Guaranteeing Subsidiaries and the Trustee mutually covenant and agree for the benefit of the Trustee and the Holders of the Notes as follows:

ARTICLE I

DEFINITIONS

SECTION 1.1. Defined Terms. As used in this Supplemental Indenture, terms defined in the Indenture or in the preamble or recitals hereto are used herein as therein defined. The words "herein," "hereof" and "hereby" and other words of similar import used in this Supplemental Indenture refer to this Supplemental Indenture as a whole and not to any particular section hereof.

ARTICLE II

AGREEMENT TO BE BOUND; GUARANTEE

SECTION 2.1. Agreement to be Bound. Each of the Guaranteeing Subsidiaries hereby becomes a party to the Indenture as a "Guarantor" and as such will have all of the rights and be subject to all of the obligations and agreements of a "Guarantor" under the Indenture.

SECTION 2.2. Guarantee. Each of the Guaranteeing Subsidiaries agrees, on a joint and several basis with all the existing Guarantors, to fully, unconditionally and irrevocably Guarantee to each Holder of the Notes and the Trustee the Guaranteed Obligations pursuant to Article X of the Indenture as and to the extent provided for therein.

ARTICLE III
MISCELLANEOUS

SECTION 3.1. Notices. All notices and other communications to the Guarantors shall be given as provided in the Indenture.

SECTION 3.2. Merger and Consolidation. Each Guaranteeing Subsidiary shall not sell or otherwise dispose of all or substantially all of its assets to, or consolidate with or merge with or into, another Person (other than the Issuer or any Restricted Subsidiary that is a Guarantor or becomes a Guarantor concurrently with the transaction) except in accordance with Section 4.1(e) of the Indenture.

SECTION 3.3. Release of Guarantee. The Note Guarantees hereunder may be released in accordance with Section 10.2 of the Indenture.

SECTION 3.4. Parties. Nothing expressed or mentioned herein is intended or shall be construed to give any Person, firm or corporation, other than the Holders and the Trustee, any legal or equitable right, remedy or claim under or in respect of this Supplemental Indenture or the Indenture or any provision herein or therein contained

SECTION 3.5. Governing Law. This Supplemental Indenture shall be governed by, and construed in accordance with, the laws of the State of New York.

SECTION 3.6. Severability. In case any provision in this Supplemental Indenture shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby and such provision shall be ineffective only to the extent of such invalidity, illegality or unenforceability.

SECTION 3.7. Benefits Acknowledged. Each Guaranteeing Subsidiary's Note Guarantee is subject to the terms and conditions set forth in the Indenture. Each Guaranteeing Subsidiary acknowledges that it will receive direct and indirect benefits from the financing arrangements contemplated by the Indenture and this Supplemental Indenture and that the guarantee and waivers made by it pursuant to its Note Guarantee are knowingly made in contemplation of such benefits.

SECTION 3.8. Ratification of Indenture; Supplemental Indentures Part of Indenture. Except as expressly amended hereby, the Indenture is in all respects ratified and confirmed and all the terms, conditions and provisions thereof shall remain in full force and effect. This Supplemental Indenture shall form a part of the Indenture for all purposes, and every Holder of Notes heretofore or hereafter authenticated and delivered shall be bound hereby.

SECTION 3.9. The Trustee. The Trustee makes no representation or warranty as to the validity or sufficiency of this Supplemental Indenture or with respect to the recitals contained herein, all of which recitals are made solely by the other parties hereto.

SECTION 3.10. Counterparts. The parties hereto may sign any number of copies of this Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement. The exchange of copies of this Supplemental Indenture and of signature pages by facsimile or other electronic transmission shall constitute effective execution and delivery of this Supplemental Indenture as to the parties hereto and may be used in lieu of the original Supplemental Indenture for all purposes. Signatures of the parties hereto transmitted by facsimile or other electronic transmission shall be deemed to be their original signatures for all purposes.

SECTION 3.11. Execution and Delivery. Each Guaranteeing Subsidiary agrees that its Note Guarantee shall remain in full force and effect notwithstanding any absence on each Note of a notation of any such Note Guarantee.

SECTION 3.12. Headings. The headings of the Articles and the Sections in this Supplemental Indenture are for convenience of reference only and shall not be deemed to alter or affect the meaning or interpretation of any provisions hereof.

[Signature page follows]

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed as of the date first above written.

Anniston HMA, LLC,
an Alabama limited liability company

By: /s/ Rachel A. Seifert
Rachel A. Seifert
Executive Vice President and Secretary

Health Management General Partner I, LLC,
a Delaware limited liability company

By: /s/ Rachel A. Seifert
Rachel A. Seifert
Executive Vice President and Secretary

HMA Services GP, LLC,
a Delaware limited liability company

By: /s/ Rachel A. Seifert
Rachel A. Seifert
Executive Vice President and Secretary

Hospital Management Services of Florida, LP,
a Florida limited partnership

By: HMA Services GP, LLC, its general partner

By: /s/ Rachel A. Seifert
Rachel A. Seifert
Executive Vice President and Secretary

Sharon Pennsylvania Holdings, LLC,
a Delaware limited liability company

By: /s/ Rachel A. Seifert
Rachel A. Seifert
Executive Vice President and Secretary

Sharon Pennsylvania Hospital Company, LLC,
a Delaware limited liability company

By: /s/ Rachel A. Seifert
Rachel A. Seifert
Executive Vice President and Secretary

Tennessee HMA Holdings, LP,
a Delaware limited partnership

By: Health Management General Partner I, LLC, its
general partner

By: /s/ Rachel A. Seifert
Rachel A. Seifert
Executive Vice President and Secretary

Acknowledged by:

CHS/Community Health Systems, Inc.

By: /s/ Rachel A. Seifert

Rachel A. Seifert

Executive Vice President, Secretary and General Counsel

Regions Bank,
as Trustee

By: /s/ Paul Williams
Paul Williams
Vice President

COMMUNITY HEALTH SYSTEMS, INC.

2004 EMPLOYEE PERFORMANCE INCENTIVE PLAN
(AS AMENDED AND RESTATED AS OF FEBRUARY 26, 2014)

February 26, 2014

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COMMUNITY HEALTH SYSTEMS, INC.
2004 EMPLOYEE PERFORMANCE INCENTIVE PLAN
(AS AMENDED AND RESTATED AS OF FEBRUARY 26, 2014)

ARTICLE I
PURPOSE

The purpose of the Community Health Systems, Inc. 2004 Employee Performance Incentive Plan (As Amended and Restated as of February 26, 2014) (the “**Plan**”) is to promote the interests of Community Health Systems, Inc. (the “**Company**”) and its stockholders by providing additional compensation as incentive to certain employees of the Company or its subsidiaries and affiliates who contribute materially to the success of the Company. This Plan is an amendment and restatement of the Community Health Systems, Inc. 2004 Employee Performance Incentive Plan established by the Company on January 1, 2004, and as subsequently amended. The Company intends that, in part, certain Awards issued under the Plan satisfy the requirements for “performance-based compensation” within the meaning of Section 162(m)(4)(C) of the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder (collectively, the “**Code**”).

ARTICLE II
DEFINITIONS

The following terms when used in the Plan shall, for the purposes of the Plan, have the following meanings:

- 2.1 “**Award**” shall mean bonus incentive compensation paid in cash.
- 2.2 “**Beneficiary**” means the person, persons or estate entitled to receive payment under the Plan following a Participant’s death.
- 2.3 “**Board**” shall mean the Board of Directors of the Company.
- 2.4 “**Cause**” shall mean the Participant’s (i) intentional failure to perform reasonably assigned duties, (ii) dishonesty or willful misconduct in the performance of duties, (iii) involvement in a transaction in connection with the performance of duties to the Company which transaction is adverse to the interests of the Company and which is engaged in for personal profit or (iv) willful violation of any law, rule or regulation in connection with the performance of duties (other than traffic violations or similar offenses).
- 2.5 “**Code**” shall have the meaning set forth in Article I.
- 2.6 “**Committee**” shall have the meaning set forth in Section 3.3.
- 2.7 “**Company**” shall have the meaning set forth in Article I.

2.8 **“Covered Employee”** shall have the meaning set forth in Code Section 162(m)(3), including Treasury Regulation Section 1.162-27(c)(2).

2.9 **“Determination Date”** means the earlier of: (a) the 90th day of the Performance Period, or (b) the date as of which 25% of the Performance Period has elapsed. The Determination Date shall be a date on which the outcome of the Performance Goals are substantially uncertain.

2.10 **“Deferred Bonus Award”** shall mean any Award whose payment has been designated by the Plan Administrator or Committee to be deferred as set forth in Section 5.2.

2.11 **“Fiscal Year”** shall mean the Company’s accounting year of 12 months commencing on January 1st of each year and ending the following December 31st.

2.12 **“Mid-Year Participant”** shall mean any Participant in the Plan who does not commence participation on the first day of the Fiscal Year.

2.13 **“Operating Unit”** shall mean any hospital or group of hospitals, clinic or group of clinics, medical office building or group of medical office buildings, nursing facility or group of nursing facilities, any other operating unit designated by the Plan Administrator or the Committee (as applicable) or any combination of any of the foregoing.

2.14 **“Outside Director”** shall mean a director of the Company who is an “outside director” within the meaning of Treasury Regulation Section 1.162-27(e)(3).

2.15 **“Participant”** shall mean an employee of the Company as may be designated by the Chief Executive Officer and the Chief Financial Officer of the Company (or by the Committee with respect to a Covered Employee) to participate in the Plan with respect to each Fiscal Year.

2.16 **“Participation Period”** shall mean the period of time during which an individual is actually a Participant in the Plan for any Fiscal Year.

2.17 **“Performance-Based Compensation”** shall mean any Award that is intended to constitute “performance-based compensation” within the meaning of Section 162(m)(4)(C) of the Code and the Treasury Regulations promulgated thereunder.

2.18 **“Performance Objective”** shall mean one or more performance goals based on the criteria described in Section 4.4 and established as described herein with respect to an individual Participant for the Fiscal Year.

2.19 **“Plan”** shall have the meaning set forth in Article I.

2.20 **“Plan Administrator”** shall have the meaning set forth in Section 3.2.

2.21 **“Pro-Rata Award”** shall have the meaning set forth in Section 5.8.

2.22 **“Qualifying Termination”** shall mean the termination of the Participant’s employment due to death, disability, termination without Cause, and, if such Participant is a party to a change in control agreement with the Company and “good reason” is defined in the change in control agreement, a termination by the Participant for “good reason” as such term is defined in the Participant’s change in control agreement.

2.23 **“Regulations”** shall have the meaning set forth in Section 3.4.

2.24 **“Section 409A”** shall mean Section 409A of the Code and the applicable Treasury Regulations and guidance promulgated thereunder.

2.25 **“Treasury Regulation”** shall mean a regulation promulgated by the United States Department of the Treasury.

ARTICLE III ADMINISTRATION

3.1 Remuneration payable under the Plan is intended to constitute Performance-Based Compensation for those Participants who are Covered Employees under the Plan, and the Plan shall be construed and administered in accordance with such intention. The Committee shall be authorized to exercise discretion under this Plan in respect of a Covered Employee only to the extent that such exercise will not cause an Award held by a Covered Employee to fail to constitute Performance-Based Compensation.

3.2 The Plan shall be administered, under the supervision of the Board, by the Chief Executive Officer and the Chief Financial Officer of the Company (collectively, the **“Plan Administrator”**), except as otherwise provided herein.

3.3 Notwithstanding Section 3.2, for Participants who are Covered Employees, the Plan shall be administered by the Compensation Committee of the Board (the **“Committee”**). The Committee shall consist of not fewer than two (2) members of the Board, each of whom is an Outside Director.

3.4 The Plan Administrator (or, with respect to any Covered Employee, the Committee) may, from time to time, (i) adopt rules and regulations (**“Regulations”**) for carrying out the provisions and purposes of the Plan and make such determinations, not inconsistent with the terms of the Plan, as the Plan Administrator (or the Committee, if applicable) shall deem appropriate, and (ii) alter, amend or revoke any Regulation so adopted.

3.5 The interpretation and construction of any provision of the Plan by the Plan Administrator (or, with respect to any Covered Employee, the Committee) shall be final and conclusive.

3.6 No member of the Board, including members of the Committee, nor the Chief Executive Officer or the Chief Financial Officer of the Company, shall be liable for any action, failure to act, determination or interpretation made in good faith with respect to this Plan or any transaction hereunder or for any action, failure to act, determination or interpretation made by

another member, officer, agent or employee of the Board, the Committee or the Company in administering this Plan. The Company hereby agrees to indemnify each member of the Board, including members of the Committee, and the Chief Executive Officer and the Chief Financial Officer of the Company, for all costs and expenses and, to the extent permitted by applicable law, any liability incurred in connection with defending against, responding to, negotiating for the settlement of or otherwise dealing with any claim, cause of action or dispute of any kind arising by reason of an event(s) described in the immediately preceding sentence.

ARTICLE IV

PERFORMANCE INCENTIVE AWARDS

4.1 For each Fiscal Year of the Company, the Plan Administrator (or, with respect to any Covered Employee, the Committee) shall determine the following:

- (a) The employees who will participate in the Plan for such Fiscal Year;
- (b) The basis(es) for determining the amount of the Awards to such Participants;
- (c) The Performance Objectives applicable to an Award; and
- (d) Whether the Award will be a Deferred Bonus Award.

With respect to Participants who are not Covered Employees, the basis(es) for determining the amount of the Awards shall be dependent upon the attainment by the Company of specified Performance Objectives, as further described in Section 4.4. With respect to Participants who are Covered Employees, the basis(es) for determining the amount of the Awards is set forth in Section 4.2. The Plan Administrator (or, with respect to any Covered Employee, the Committee) shall decide at the time of the grant of an Award whether the Award will be a Deferred Bonus Award subject to the provisions set forth in Section 5.2.

Participants may be granted more than one Award in respect of any Fiscal Year, which Awards may be subject to the attainment of different Performance Objectives or may be subject to different payment criteria (e.g., a Deferred Bonus Award may be granted in addition to an Award that is not a Deferred Bonus Award and may be subject to the same or different Performance Objectives).

4.2 For each Participant who is a Covered Employee, the Committee shall establish in writing one or more objectively determinable Performance Objectives based on the criteria described in Section 4.4 of the Plan no later than the Determination Date and at a time when the achievement of such Performance Objective (or Objectives) is substantially uncertain.

In establishing objectively determinable Performance Objectives, the Committee shall also state, in terms of an objective formula or standard, the method for computing the amount of the Award payable to the Covered Employee if a Performance Objective(s) is attained. In addition, the formula or standard shall specify the individual Covered Employee or class of Covered Employees to which it applies. No Award shall be paid to a Covered Employee unless

the Committee determines and certifies in writing, prior to the payment of such Award and in accordance with Section 162(m)(4)(C)(iii) of the Code, that the Performance Objectives applicable to the Covered Employee have been achieved.

4.3 For any Participant who is not a Covered Employee, Performance Objectives, whether quantitative or qualitative, may be established. The Plan Administrator shall establish the specific targets for the selected measures.

4.4 Performance criteria for Awards under the Plan shall be one or more of the following Performance Objectives:

(1) Financial Performance Criteria:

- a. Earnings per share;
- b. Continuing operations earnings per share;
- c. Operating income;
- d. Gross income;
- e. Net income (before or after taxes);
- f. Cash flows from operating activities;
- g. Gross profit;
- h. Gross profit return on investment;
- i. Gross margin return on investment;
- j. Gross margin;
- k. Operating margin;
- l. Working capital;
- m. Earnings before interest and taxes;
- n. Earnings before interest, tax, depreciation and amortization (“EBITDA”), adjusted EBITDA, and EBITDA-based goals, including (without limitation) EBITDA target, divisional hospital EBITDA, adjusted or modified EBITDA, EBITDA margin, and EBITDA margin improvement;
- o. Return on equity;
- p. Return on assets;
- q. Return on capital;

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- r. Return on invested capital;
 - s. Net revenues;
 - t. Divisional hospital revenue;
 - u. Gross revenues;
 - v. Revenue growth;
 - w. Annual recurring revenues;
 - x. Recurring revenues;
 - y. Service revenues;
 - z. License revenues;
 - aa. Cash receipts targets;
 - bb. Sales or market share;
 - cc. Total shareholder return;
 - dd. Total shareholder return percentile rank target;
 - ee. Non-self pay admissions growth;
 - ff. Division hospital non-self pay admissions growth;
 - gg. Economic value added;
 - hh. Specified objectives with regard to limiting the level of increase in all or a portion of the Company's bank debt or other long-term or short-term public or private debt or other similar financial obligations of the Company, which may be calculated net of cash balances and/or other offsets and adjustments as may be established by the Committee in its sole discretion;
 - ii. Bad debt expense;
 - jj. Uncompensated care expense;
 - kk. The fair market value or trading price of a share of stock;
 - ll. Valuations or trading prices of other securities issued by the Company or its subsidiaries;
 - mm. Days net revenue in net patient accounts receivable;

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- nn. The growth in the value of an investment in the stock assuming the reinvestment of dividends; and/or
 - oo. Reduction in operating expenses.
- (2) Qualitative Performance Criteria:
- a. Physician and mid-level provider recruitment;
 - b. Capital expenditures;
 - c. Capital expenditures within the established capital budget;
 - d. Overall clinical compliance;
 - e. Clinic operating results;
 - f. Physician practice (clinic) operations improvement;
 - g. Meaningful use reimbursement;
 - h. Peer group performance in volume, revenue, earnings growth, and stock price appreciation;
 - i. Key operating statistics;
 - j. Case/resource management program;.
 - k. Productivity management;
 - l. Quality indicators/clinical compliance;
 - m. Patient safety;
 - n. Operating expenses per equivalent patient day;
 - i. Operating expenses are all income statement expenses excluding rent, depreciation, amortization, management fee expense and interest expense;
 - ii. Equivalent patient days is a method of adjusting the number of patient days to compensate for outpatient service rendered;
 - o. Performance improvements;
 - p. Adjusted admissions growth;
 - q. Exceeding industry performance; and/or

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- r. Discretionary. An amount equal to a specified percentage of each Participant's salary or a lump sum amount may be awarded based upon other objective or (other than a Covered Employee) subjective criteria that recognize accomplishments of a Participant during the year. Focus will be on quality, service, regulatory compliance, and accomplishment of specific unique projects, among other items.

Performance Objectives may be set at a specific level or may be expressed as relative to prior performance or to the performance of one or more other entities or external indices and may be expressed in terms of a progression within a specified range. Performance Objectives may also be based upon individual Participant performance goals, as determined by the Plan Administrator or, if applicable, the Committee, in its sole discretion. The Plan Administrator or, in the case of a Covered Employee, the Committee, may at the time Performance Objectives are determined for a Fiscal Year, or at any time prior to the final determination of Awards in respect of that Fiscal Year and only to the extent permitted under Section 162(m) of the Code without adversely affecting the treatment of the Award as Performance-Based Compensation, provide for the manner in which performance will be measured against the Performance Objectives (or to the extent permitted under Section 162(m) of the Code without adversely affecting the treatment of an Award as Performance-Based Compensation, may adjust the Performance Objectives) to reflect the impact of (i) any stock dividend or split, recapitalization, combination or exchange of shares or other similar changes in the Company's stock, (ii) specified corporate transactions (iii) special charges, (iv) changes in tax law or accounting standards required by generally accepted accounting principles, (v) changes in government reimbursement policies, (vi) event(s) either not directly related to the operations of the Company or not within reasonable control of the Company's management; and (vii) other extraordinary or nonrecurring events.

In addition, and notwithstanding anything to the contrary contained herein, Awards that are not intended to qualify as "performance-based compensation" under Section 162(m)(4)(C) of the Code may be based on the performance goals set forth herein or on such other performance goals as determined by the Plan Administrator in its sole discretion. With respect to Awards that are intended to qualify as "performance-based compensation" under Section 162(m)(4)(C) of the Code, to the extent permitted under Section 162(m) of the Code (including, without limitation, compliance with any requirements for stockholder approval), the Committee may also:

- (a) designate additional business criteria on which the performance goals may be based; or
- (b) adjust, modify or amend the aforementioned business criteria.

Where applicable, for purposes of making any determinations in respect of any Performance Objective, performance will generally be determined in accordance with generally accepted accounting principles, consistently applied.

4.5 Subject to Section 3.1, at any time after the commencement of a Fiscal Year for which Performance Objectives have been determined, but prior to the close thereof, the Plan Administrator may, in its discretion, add Participants, decrease targets, or increase or add to an Award(s).

ARTICLE V

PAYMENT OF PERFORMANCE INCENTIVE AWARDS

5.1 Payment of Awards. Subject to Section 5.2 and such forfeitures of Awards and other conditions as are provided in the Plan, the Awards made to Participants shall be paid as follows:

As soon as practicable after the end of the Fiscal Year, the Plan Administrator (or, with respect to any Covered Employee, the Committee) shall determine the extent to which Awards have been earned on the basis of the actual performance in relation to the Performance Objectives as established for that Fiscal Year. Once determined, an Award shall be paid to a Participant only to the extent that the Participant met the targets for his or her Award as set forth in the Performance Criteria for his or her Award. Notwithstanding the foregoing, a lump sum discretionary Award may be paid to a Participant who is not a Covered Employee at any time during the Fiscal Year. No Awards shall be paid to a Covered Employee unless and until the Committee has certified in writing and in accordance with Section 162(m)(4)(C) of the Code that the Performance Objectives established with respect to the Covered Employee have been achieved. Subject to the foregoing, Awards or Pro-Rata Awards shall be paid at such time or times as are determined by the Plan Administrator or Committee; provided that, subject to Section 5.8, in no event shall the payment of any Awards or Pro-Rata Awards under the terms of the Plan be made to a Participant or Beneficiary later than 2 1/2 months following the end of the Fiscal Year for which such Award or Pro-Rata Award has been determined.

5.2 Payment of Deferred Bonus Awards. Subject to such other conditions as are provided in the Plan, the Deferred Bonus Awards shall be paid as follows:

- (a) As soon as practicable after the end of the Fiscal Year, the Plan Administrator (or, with respect to any Covered Employee, the Committee) shall determine the extent to which Awards designated as Deferred Bonus Awards have been earned on the basis of the actual performance in relation to the Performance Objective as established for that Fiscal Year. Once determined, a Deferred Bonus Award shall be paid to a Participant only to the extent that the Participant met the targets for his or her Deferred Bonus Award as set forth in the Performance Criteria for his or her Deferred Bonus Award. No Deferred Bonus Awards shall be paid to a Covered Employee unless and until the Committee has certified in writing that the Performance Objectives established with respect to the Covered Employee have been achieved. Subject to the foregoing, Deferred Bonus Awards shall be paid on such date or dates following the Fiscal Year in which such Deferred Bonus Award had been determined and shall be subject to such continued employment requirements as the Plan Administrator or, in the case of a Covered Employee, the Committee shall determine at the time the Deferred Bonus Award is granted.

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- (b) Notwithstanding the foregoing, (i) if a Pro-Rata Deferred Bonus Award becomes payable pursuant to Section 5.8 hereof, then such Pro-Rata Deferred Bonus Award shall be paid to the Participant or Beneficiary no later than 2 ½ months following the end of the Fiscal Year for which such Deferred Bonus Award has been determined, and (ii) if a Qualifying Termination occurs after the end of the Fiscal Year in respect of which a Deferred Bonus Award is earned, the Deferred Bonus Award shall be paid to the Participant or Beneficiary within 30 days after the later of (x) the date of such termination, or (y) the date that the amount of the Deferred Bonus Award is determined pursuant to Section 5.2(a).
- (c) If the short-term deferral exemption under Section 409A is unavailable, the Deferred Bonus Awards shall be granted and administered in a manner that complies with Section 409A, including the requirement that a Participant's election to defer payment of a Deferred Bonus Award shall be made prior to the year in which such Deferred Bonus Award is earned. Payment of any Deferred Bonus Award shall be made only on a fixed date or dates or upon the occurrence of specified events permitted under Section 409A all of which shall be established at the time the Award is granted. Payment of Deferred Bonus Awards may not be further deferred beyond the payment date or dates specified in the Award at the time it is granted and may not be accelerated except as may be permitted under Section 409A.

5.3 The maximum amount that any individual Participant may receive relating to Awards made in respect of the performance in any Fiscal Year may not exceed ten million dollars (\$10,000,000).

5.4 There shall be deducted from all payments of Awards any taxes required to be withheld by any government entity and paid over to any such government entity in respect of any such payment. Unless otherwise elected by the Participant, such deductions shall be at the established withholding tax rate. Participants may elect to have the deduction of taxes cover the amount of any applicable tax (the amount of withholding tax plus the incremental amount determined on the basis of the highest marginal tax rate applicable to such Participant).

5.5 Subject to Section 4.2 of the Plan, any individual other than a Covered Employee who becomes a Participant in the Plan due to employment, transfer or promotion during a Fiscal Year shall be eligible to receive a partial Award based upon the Participant's base salary for the Participant's Participation Period and his or her level of achievement in relation to Performance Objectives for the entire Fiscal Year or such shorter period established by the Plan Administrator or Committee. In no event, however, shall partial Awards be made to any Participant with a Participation Period in respect of any Fiscal Year of less than three months, except for discretionary awards under Section 4.4(2)(r).

5.6 With respect to any Participant who is not a Covered Employee, Awards may be adjusted for partial year responsibility, multiple facility responsibility and reassignments of a duration of at least three consecutive months.

5.7 Except as provided in Section 5.8, no Award shall be paid to a Participant who is not employed by the Company on the last day of the Fiscal Year for which an Award is to be or was earned.

5.8 If a Participant's employment is terminated in a Qualifying Termination prior to the payment of an Award (including a Deferred Bonus Award), the Participant shall receive an Award (including a Deferred Bonus Award, if applicable) based upon his or her level of achievement in relation to the Performance Objectives established for the entire Fiscal Year multiplied by a fraction, the numerator of which is the number of days in the Participation Period and the denominator of which is 365 (a "Pro-Rata Award"). If such termination occurs after the end of the applicable Fiscal Year but before the payment of the Award, such fraction shall be one (1). With respect to Covered Employees, no Pro-Rata Award shall be paid unless and until the applicable Performance Objective(s) has been attained and the Committee has certified such attainment. Pro-Rata Awards (including Deferred Bonus Awards) payable pursuant to this Section 5.8 shall be paid in accordance with Sections 5.1 and 5.2, as applicable. Notwithstanding the foregoing, if a Participant is a party to an agreement or is a participant in any other plan that provides for a pro-rata payment of any Award under this Plan, the application of this Section 5.8 shall not result in a duplication of payment to the Participant under circumstances in which an Award is payable pursuant to this Section 5.8.

5.9 Notwithstanding anything contained in the Plan to the contrary, the Plan Administrator, or in the case of a Covered Employee, the Committee, in its sole discretion may reduce the amount of any Award whose Performance Objectives are based on one or more of the "qualitative performance criteria" listed in Section 4.4(2) for any Participant to any amount, including zero, prior to the end of the Fiscal Year for which such Award is earned.

5.10 Payment of each Award to a Participant shall be subject to the following provisions and conditions:

- (a) No Participant shall have any right or interest, whether vested or otherwise, in the Plan or in any Award thereunder, contingent or otherwise, unless and until all of the terms, conditions and provisions of the Plan and the Regulations that affect such Participant have been satisfied. Nothing contained in the Plan or in the Regulations shall require the Company to segregate cash or other property for purposes of payment of Awards under the Plan. Neither the adoption of the Plan nor its operation shall in any way affect the rights and power of the Company to dismiss and/or discharge any employee at any time.
- (b) No rights under the Plan, contingent or otherwise, shall be assignable or subject to any encumbrance, pledge or charge of any nature.

ARTICLE VI
MISCELLANEOUS

6.1 By accepting any benefits under the Plan, each Participant shall be conclusively deemed to have indicated acceptance and ratification of, and consent to, any action taken or decision made under the Plan by the Company, the Board, the Plan Administrator, the Committee or any other committee appointed by the Board.

6.2 Any action taken or decision made by the Company, the Board, the Plan Administrator, the Committee, or any other committee appointed by the Board in the exercise of this power shall be final, binding and conclusive upon the Company, the Participants, the Beneficiaries, and all other persons having any interest therein.

6.3 The Board, the Plan Administrator, the Committee, or any other committee appointed by the Board may rely upon any information supplied to them by any officer of the Company and may rely upon the advice of counsel in connection with the administration of the Plan and shall be fully protected in relying upon such information or advice.

6.4 The Board may alter, amend, suspend or terminate the Plan; provided, however, that, except as permitted by the Plan, no such alteration, amendment, suspension or termination shall impair or adversely alter any Awards theretofore granted under the Plan, except with the consent of the respective Participant; and provided further, however, that, to the extent necessary under any applicable law, no such alteration, amendment, suspension or termination shall be effective unless approved by the shareholders of the Company in accordance with applicable law or regulation.

6.5 As illustrative of the limitations of liability of the Company, but not intended to be exhaustive thereof, nothing in the Plan shall be construed to:

- (a) Give any person any right to participate in the Plan other than at the sole discretion of the Plan Administrator or Committee, as applicable;
- (b) Give any person any rights whatsoever with respect to an Award except as specifically provided in this Plan;
- (c) Limit in any way the right of the Company to terminate the employment of any person at any time; or
- (d) Be evidence of any agreement or understanding, expressed or implied, that the Company will employ any person at any particular rate of compensation or for any particular period of time.

6.6 Except as to matters of federal law, the Plan and the rights of all persons claiming hereunder shall be construed and determined in accordance with the laws of the State of Delaware without giving effect to conflicts of laws principles thereof.

6.7 This Amended and Restated Plan will be effective for all Fiscal Years beginning with 2014 by action of the Board conditioned on and subject to approval of the Plan by a vote of the holders of a majority of the securities of the Company present in person or by proxy at a duly held stockholders meeting at which a quorum representing a majority of all outstanding voting stock is present. The Committee is authorized to make no Awards to Covered Employees in respect of the 2019 Fiscal Year or any later Fiscal Year if the Plan has not been reapproved by the Company's stockholders at its first meeting of stockholders during 2019, if such approval is necessary for such Awards to constitute Performance-Based Compensation.

6.8 The Plan and the granting of Awards shall be subject to all applicable federal and state laws, rules and regulations, and to such approvals by any regulatory or governmental agency as may be required.

6.9 A person's rights and interests under the Plan, including any Award previously made to such person or any amounts payable under the Plan may not be assigned, pledged, or transferred, except in the event of the Participant's death, to a designated Beneficiary in accordance with the Plan, or in the absence of such designation, by will or the laws of descent or distribution.

6.10 Nothing in the Plan or in any notice of any Award shall confer upon any person the right to continue in the employment of the Company or any Affiliate or affect the right of the Company or any Affiliate to terminate the employment of any Participant.

6.11 Nothing contained in the Plan, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind or a fiduciary relationship between the Company and any Participant, Beneficiary or legal representative or any other person. To the extent that a person acquires a right to receive payment of an Award under the Plan, such right shall be no greater than the right of an unsecured general creditor of the Company. All payments to be made hereunder shall be paid from the general funds of the Company and no special or separate fund shall be established and no segregation of assets shall be made to assure payment of such amounts except as expressly set forth in the Plan. The Plan is not intended to be subject to the Employee Retirement Income Security Act of 1974, as amended.

6.12 It is intended that payments under the Plan qualify as short-term deferrals exempt from the requirements of Section 409A. In the event that any Award does not qualify for treatment as an exempt short-term deferral, it is intended that such amount will be paid in a manner that satisfies the requirements of Section 409A. The Plan and the terms of any Award shall be interpreted and construed accordingly. To the extent that payment of any Award is contingent upon a Participant's execution a release and the applicable time period within which a release must be executed spans two taxable years, such Award shall be payable during the second taxable year. The Participant's right to receive any installment payments pursuant to the Plan shall be treated as a right to receive a series of separate and distinct payments. If a Participant is a "specified employee" for purposes of Section 409A, the payment upon a termination of employment of any Award which is subject to Section 409A shall not be paid until one day after the date which is six (6) months from the date of termination.

6.13 In the event that any provision of the Plan shall be considered illegal or invalid for any reason, such illegality or invalidity shall not affect the remaining provisions of the Plan, but shall be fully severable, and the Plan shall be construed and enforced as if such illegal or invalid provision had never been contained therein.

6.14 In the event the Board determines that a significant restatement of the Company's financial results or other Company metrics for any of the three prior fiscal years for which audited financial statements have been prepared is required and (i) such restatement is the result of fraud or misconduct and (ii) the Award amount would have been lower had the results or metrics been properly calculated, the Committee has the authority to obtain reimbursement from any Participant responsible for the fraud or willful misconduct resulting in the restatement. Such reimbursement shall consist of any portion of any Award previously paid that is greater than it would have been if calculated based upon the restated financial results or metrics.

Community Health Systems, Inc.

2009 STOCK OPTION AND AWARD PLAN

(As Adopted March 24, 2009 and Amended and Restated March 18, 2011, March 20, 2013 and March 19, 2014)

1. Purpose.

The purpose of this Plan is to strengthen Community Health Systems, Inc., a Delaware corporation (the "Company"), and its Subsidiaries by providing an incentive to its and their employees, officers, consultants and directors and thereby encouraging them to devote their abilities and industry to the success of the Company's and its Subsidiaries' business enterprises. It is intended that this purpose be achieved by extending to employees (including future employees who have received a formal written offer of employment), officers, consultants and directors of the Company and its Subsidiaries an added long-term incentive for high levels of performance and unusual efforts through the grant of Incentive Stock Options, Non-qualified Stock Options, Stock Appreciation Rights, Performance Units, Performance Shares, Share Awards, Restricted Stock and Restricted Stock Units (as each term is herein defined).

2. Definitions.

For purposes of the Plan:

2.1 "2000 Stock Option and Award Plan" means the Community Health Systems, Inc. 2000 Stock Option and Award Plan, as amended and restated March 20, 2013.

2.2 "Affiliate" means any entity, directly or indirectly, controlled by, controlling or under common control with the Company or any corporation or other entity acquiring, directly or indirectly, all or substantially all the assets and business of the Company, whether by operation of law or otherwise.

2.3 "Agreement" means the written agreement between the Company and an Optionee or Grantee evidencing the grant of an Option or Award and setting forth the terms and conditions thereof.

2.4 "Award" means a grant of Restricted Stock, Restricted Stock Units, a Stock Appreciation Right, a Performance Award, a Share Award or any or all of them.

2.5 "Board" means the Board of Directors of the Company.

2.6 "Cause" means, except as otherwise set forth herein,

(a) in the case of an Optionee or Grantee whose employment with the Company or a Subsidiary is subject to the terms of an employment agreement between such Optionee or Grantee and the Company or Subsidiary, which employment agreement includes a definition of "Cause", the term "Cause" as used in this Plan or any Agreement shall have the meaning set forth in such employment agreement during the period that such employment agreement remains in effect; and

(b) in all other cases, (i) intentional failure to perform reasonably assigned duties, (ii) dishonesty or willful misconduct in the performance of duties, (iii) involvement in a transaction in connection with the performance of duties to the Company or any of its Subsidiaries which transaction is adverse to the interests of the Company or any of its Subsidiaries and which is engaged in for personal profit or (iv) willful violation of any law, rule or regulation in connection with the performance of duties (other than traffic violations or similar offenses); *provided, however*, that following a Change in Control clause (i) of this Section 2.6(b) shall not constitute "Cause."

2.7 "Change in Capitalization" means any increase or reduction in the number of Shares, or any change (including, but not limited to, in the case of a spin-off, dividend or other distribution in respect of Shares, a change in value) in the Shares or exchange of Shares for a different number or kind of shares or other securities of the Company or another corporation, by reason of a reclassification, recapitalization, merger, consolidation, reorganization, spin-off, split-up, issuance of warrants or rights or debentures, stock dividend, stock split or reverse stock split, cash dividend, property dividend, extraordinary cash dividend, combination or exchange of shares, repurchase of shares, change in corporate structure or otherwise.

2.8 A "Change in Control" shall mean the occurrence of any of the following, unless otherwise determined by the Committee in the applicable Agreement or other written agreement approved by the Committee:

(a) An acquisition (other than directly from the Company) of any voting securities of the Company (the "Voting Securities") by any "Person" (as the term person is used for purposes of Section 13(d) or 14(d) of the Exchange Act), immediately after which such Person has "Beneficial Ownership" (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of more than fifty percent (50%) of the then outstanding Shares or the combined voting power of the Company's then outstanding Voting Securities; *provided, however*, that in determining whether a Change in Control has occurred pursuant to this Section 2.8(a), Shares or Voting Securities which are acquired in a "Non-Control Acquisition" (as hereinafter defined) shall not constitute an acquisition which would cause a Change in Control. A "Non-Control Acquisition" shall mean an acquisition by (i) an employee benefit plan (or a trust forming a part thereof) maintained by (A) the Company or (B) any corporation or other Person the majority of the voting power, voting equity securities or equity interest of which is owned, directly or indirectly, by the Company (for purposes of this definition, a "Related Entity"), (ii) the Company or any Related Entity, or (iii) any Person in connection with a "Non-Control Transaction" (as hereinafter defined);

(b) The individuals who, as of March 20, 2013, are members of the Board (the "Incumbent Board"), cease for any reason to constitute at least a majority of the members of the Board or, following a Merger (as hereinafter defined) which results in a Parent Corporation (as hereinafter defined), the board of directors of the ultimate Parent Corporation; *provided, however*, that if the election, or nomination for election by the Company's common stockholders, of any new director was approved by a vote of at least two-thirds of the Incumbent Board, such new director shall, for purposes of this Plan, be considered a member of the Incumbent Board; *provided further*, however, that no individual shall be considered a member of the Incumbent Board if such individual initially assumed office as a result of the actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board (a "Proxy Contest") including by reason of any agreement intended to avoid or settle any Proxy Contest; or

(c) The consummation of:

(i) A merger, consolidation or reorganization with or into the Company or in which securities of the Company are issued (a "Merger"), unless such Merger is a "Non-Control Transaction." A "Non-Control Transaction" shall mean a Merger where:

(A) the stockholders of the Company immediately before such Merger own directly or indirectly immediately following such Merger at least fifty percent (50%) of the combined voting power of the outstanding voting securities of (x) the corporation resulting from such Merger (the "Surviving Corporation"), if fifty percent (50%) or more of the combined voting power of the then outstanding voting securities of the Surviving Corporation is not Beneficially Owned, directly or indirectly, by another Person (a "Parent Corporation"), or (y) if there is one or more than one Parent Corporation, the ultimate Parent Corporation; and

(B) the individuals who were members of the Incumbent Board immediately prior to the execution of the agreement providing for such Merger constitute at least a majority of the members of the board of directors of (x) the Surviving Corporation, if there is no Parent Corporation, or (y) if there is one or more than one Parent Corporation, the ultimate Parent Corporation;

(ii) A complete liquidation or dissolution of the Company; or

(iii) The sale or other disposition of all or substantially all of the assets of the Company to any Person (other than a transfer to a Related Entity or under conditions that would constitute a Non-Control Transaction with the disposition of assets being regarded as a Merger for this purpose or the distribution to the Company's stockholders of the stock of a Related Entity or any other assets).

Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because any Person (the "Subject Person") acquired Beneficial Ownership of more than the permitted amount of the then outstanding Shares or Voting Securities as a result of the acquisition of Shares or Voting Securities by the Company which, by reducing the number of Shares or Voting Securities then outstanding, increases the proportional number of shares Beneficially Owned by the Subject Persons, provided that if a Change in Control would occur (but for the operation of this sentence) as a result of the acquisition of Shares or Voting Securities by the Company, and after such share acquisition by the Company, the Subject Person becomes the Beneficial Owner of any additional Shares or Voting Securities which increases the percentage of the then outstanding Shares or Voting Securities Beneficially Owned by the Subject Person, then a Change in Control shall occur.

If an Optionee's or Grantee's employment is terminated by the Company without Cause prior to the date of a Change in Control but the Optionee or Grantee reasonably demonstrates that the termination (A) was at the request of a third party who has indicated an intention or taken steps reasonably calculated to effect a change in control or (B) otherwise arose in connection with, or in anticipation of, a Change in Control which has been threatened or proposed, such termination shall be deemed to have occurred after a Change in Control for purposes of this Plan provided a Change in Control shall actually have occurred.

2.9 "Code" means the Internal Revenue Code of 1986, as amended.

2.10 "Committee" means a committee, as described in Section 3.1, appointed by the Board from time to time to administer the Plan and to perform the functions set forth herein.

2.11 "Company" means Community Health Systems, Inc.

2.12 "Director" means a director of the Company.

2.13 "Disability" means:

(a) in the case of an Optionee or Grantee whose employment with the Company or a Subsidiary is subject to the terms of an employment agreement between such Optionee or Grantee and the Company or Subsidiary, which employment agreement includes a definition of "Disability", the term "Disability" as used in this Plan or any Agreement shall have the meaning set forth in such employment agreement during the period that such employment agreement remains in effect;

(b) in the case of an Optionee or Grantee to whom Section 2.13(a) does not apply and who participates in the Company's long-term disability plan, if any, the term "Disability" as used in such plan; or

(c) in all other cases, a physical or mental infirmity which impairs the Optionee's or Grantee's ability to perform substantially all his or her duties for a period of ninety-one (91) consecutive days.

2.14 "Division" means any of the operating units or divisions of the Company designated as a Division by the Committee.

2.15 "Dividend Equivalent Right" means a right to receive all or some portion of the cash dividends that are or would be payable with respect to Shares.

2.16 "Eligible Individual" means any of the following individuals who is designated by the Committee as eligible to receive Options or Awards subject to the conditions set forth herein: (a) any director, officer or employee of the Company or a Subsidiary, (b) any individual to whom the Company or a Subsidiary has extended a formal, written offer of employment, or (c) any consultant or advisor of the Company or a Subsidiary.

2.17 "Exchange Act" means the Securities Exchange Act of 1934, as amended.

2.18 "Fair Market Value" on any date means the closing sales prices of the Shares on such date on the principal national securities exchange on which such Shares are listed or admitted to trading, or, if such Shares are not so listed or admitted to trading, the closing sales prices of the Shares as reported by The Nasdaq Stock Market at the close of the primary trading session on such dates and, in either case, if the Shares were not traded on such date, on the next preceding day on which the Shares were traded. In the event that Fair Market Value cannot be determined in a manner described above, the Fair Market Value shall be the value established by the Board in good faith and, in the case of an Incentive Stock Option, in accordance with Section 422 of the Code.

2.19 For purposes of this Plan,

(a) "Good Reason" shall mean the occurrence after a Change in Control of any of the following events or conditions:

(1) a change in the Optionee's or Grantee's status, title, position or responsibilities (including reporting responsibilities) which, in the Optionee's or Grantee's reasonable judgment, represents an adverse change from the Optionee's or Grantee's status, title, position or responsibilities as in effect immediately prior thereto; the assignment to the Optionee or Grantee of any duties or responsibilities which, in the Optionee's or Grantee's reasonable judgment, are inconsistent with the Optionee's or Grantee's status, title, position or responsibilities; or any removal of the Optionee or Grantee from or failure to reappoint or reelect the Optionee or Grantee to any of such offices or positions, except in connection with the termination of the Optionee's or Grantee's employment for Disability, Cause, as a result of the Optionee's or Grantee's death or by the Optionee or Grantee other than for Good Reason;

(2) a reduction in the Optionee's or Grantee's annual base salary below the amount as in effect immediately prior to the Change in Control;

(3) the relocation of the offices of the Optionee's or Grantee's place of employment to a location more than twenty-five (25) miles from the location of such employment immediately prior to such Change in Control, or requiring the Grantee to be based anywhere other than such offices, except to the extent the Grantee was not previously assigned to a principal location and except for required travel on business to the extent substantially consistent with the Optionee's or Grantee's business travel obligations at the time of the Change in Control;

(4) the failure to pay to the Optionee or Grantee any portion of the Optionee's or Grantee's current compensation or to pay to the Optionee or Grantee any portion of an installment of deferred compensation under any deferred compensation program of the Company or any of its Subsidiaries in which the Optionee or Grantee participated, within seven (7) days of the date such compensation is due;

(5) the failure to (A) continue in effect (without reduction in benefit level, and/or reward opportunities) any material compensation or employee benefit plan in which the Optionee or Grantee was participating immediately prior to the Change in Control, unless a substitute or replacement plan has been implemented which provides substantially identical compensation or benefits to the Optionee or Grantee or (B) provide the Optionee or Grantee with compensation and benefits, in the aggregate, at least equal (in terms of benefit levels and/or reward opportunities) to those provided for under each other compensation or employee benefit plan, program and practice in which the Optionee or Grantee was participating immediately prior to the Change in Control; or

(6) the failure of the Company to obtain from its successors or assigns the express assumption and agreements required under Section 13 hereof.

(b) Any event or condition described in Section 2.19(a)(1), (2), (3), (4), or (6) which occurs at any time prior to the date of a Change in Control and (A) which occurred after the Company entered into a definitive agreement, the consummation of which would constitute a Change in Control or (B) which the Optionee or Grantee reasonably

demonstrates was at the request of a third party who has indicated an intention or has taken steps reasonably calculated to effect a Change in Control, shall constitute Good Reason for purposes of this Agreement, notwithstanding that it occurred prior to a Change in Control.

2.20 "Grantee" means a person to whom an Award has been granted under the Plan.

2.21 "Incentive Stock Option" means an Option satisfying the requirements of Section 422 of the Code and designated by the Committee as an Incentive Stock Option.

2.22 "Non-employee Director" means a director of the Company who is a "non-employee director" within the meaning of Rule 16b-3 promulgated under the Exchange Act.

2.23 "Non-qualified Stock Option" means an Option which is not an Incentive Stock Option.

2.24 "Option" means a Non-qualified Stock Option, an Incentive Stock Option or either or both of them.

2.25 "Optionee" means a person to whom an Option has been granted under the Plan.

2.26 "Outside Director" means a director of the Company who is an "outside director" within the meaning of Section 162(m) of the Code and the regulations promulgated thereunder.

2.27 "Parent" means any corporation which is a parent corporation within the meaning of Section 424(e) of the Code with respect to the Company.

2.28 "Performance Awards" means Performance Units, Performance Shares or either or both of them.

2.29 "Performance-Based Compensation" means any Option or Award that is intended to constitute "performance based compensation" within the meaning of Section 162(m)(4)(C) of the Code and the regulations promulgated thereunder.

2.30 "Performance Cycle" means the time period specified by the Committee at the time Performance Awards are granted during which the performance of the Company, a Subsidiary or a Division will be measured.

2.31 "Performance Objectives" has the meaning set forth in Section 9.

2.32 "Performance Shares" means Shares issued or transferred to an Eligible Individual under Section 9.

2.33 "Performance Units" means performance units granted to an Eligible Individual under Section 9.

2.34 "Plan" means Community Health Systems, Inc. 2009 Stock Option and Award Plan, as amended and restated from time to time.

2.35 "Restricted Stock" means Shares issued or transferred to an Eligible Individual pursuant to Section 8.1.

2.36 "Restricted Stock Unit" means rights granted to an Eligible Individual under Section 8.2 representing a number of hypothetical Shares.

2.37 "Share Award" means an Award of Shares granted pursuant to Section 10.

2.38 "Shares" means shares of the Common Stock of the Company, par value \$.01 per share, and any other securities into which such shares are changed or for which such shares are exchanged.

2.39 "Stock Appreciation Right" means a right to receive all or some portion of the increase in the value of the Shares as provided in Section 7 hereof.

2.40 "Subsidiary" means (i) except as provided in subsection (ii) below, any corporation which is a subsidiary corporation within the meaning of Section 424(f) of the Code with respect to the Company, and (ii) in relation to the eligibility to receive Options or Awards other than Incentive Stock Options and continued employment for purposes of Options and Awards (unless the Committee determines otherwise), any entity, whether or not incorporated, in which the Company directly or indirectly owns 50% or more of the outstanding equity or other ownership interests.

2.41 "Successor Corporation" means a corporation, or a Parent or Subsidiary thereof within the meaning of Section 424(a) of the Code, which issues or assumes a stock option in a transaction to which Section 424(a) of the Code applies.

2.42 "Ten-Percent Stockholder" means an Eligible Individual, who, at the time an Incentive Stock Option is to be granted to him or her, owns (within the meaning of Section 422(b)(6) of the Code) stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company, a Parent or a Subsidiary.

3. Administration.

3.1 The Plan shall be administered by the Committee, which shall hold meetings at such times as may be necessary for the proper administration of the Plan. The Committee shall keep minutes of its meetings. If the Committee consists of more than one (1) member, a quorum shall consist of not fewer than two (2) members of the Committee and a majority of a quorum may authorize any action. Any decision or determination reduced to writing and signed by a majority of all of the members of the Committee shall be as fully effective as if made by a majority vote at a meeting duly called and held. The Committee shall consist of at least one (1) Director and may consist of the entire Board; provided, however, that (A) with respect to any Option or Award granted to an Eligible Individual who is subject to Section 16 of the Exchange Act, the Committee shall consist of at least two (2) Directors each of whom shall be a Non-employee Director and (B) to the extent necessary for any Option or Award intended to qualify as Performance-Based Compensation to so qualify, the Committee shall consist of at least two (2) Directors, each of whom shall be an Outside Director. For purposes of the preceding sentence, if any member of the Committee is neither a Non-employee Director nor an Outside Director but recuses himself or herself or abstains from voting with respect to a particular action taken by the Committee, then the Committee, with

respect to that action, shall be deemed to consist only of the members of the Committee who have not recused themselves or abstained from voting. Subject to applicable law, the Committee may delegate its authority under the Plan to any other person or persons.

3.2 No member of the Committee shall be liable for any action, failure to act, determination or interpretation made in good faith with respect to this Plan or any transaction hereunder. The Company hereby agrees to indemnify each member of the Committee for all costs and expenses and, to the extent permitted by applicable law, any liability incurred in connection with defending against, responding to, negotiating for the settlement of or otherwise dealing with any claim, cause of action or dispute of any kind arising in connection with any actions in administering this Plan or in authorizing or denying authorization to any transaction hereunder.

3.3 Subject to the express terms and conditions set forth herein, the Committee shall have the power from time to time to:

(a) determine those Eligible Individuals to whom Options shall be granted under the Plan and the number of such Options to be granted, prescribe the terms and conditions (which need not be identical) of each such Option, including the exercise price per Share, the vesting schedule and the duration of each Option, and make any amendment or modification to any Option Agreement consistent with the terms of the Plan;

(b) select those Eligible Individuals to whom Awards shall be granted under the Plan, determine the number of Shares in respect of which each Award is granted, the terms and conditions (which need not be identical) of each such Award, and make any amendment or modification to any Award Agreement consistent with the terms of the Plan;

(c) construe and interpret the Plan and the Options and Awards granted hereunder, establish, amend and revoke rules and regulations for the administration of the Plan, including, but not limited to, correcting any defect or supplying any omission, or reconciling any inconsistency in the Plan or in any Agreement, in the manner and to the extent it shall deem necessary or advisable, including so that the Plan and the operation of the Plan comply with Rule 16b-3 under the Exchange Act, the Code to the extent applicable and other applicable law, and otherwise make the Plan fully effective. All decisions and determinations by the Committee in the exercise of this power shall be final, binding and conclusive upon the Company, its Subsidiaries, the Optionees and Grantees, and all other persons having any interest therein;

(d) determine the duration and purposes for leaves of absence which may be granted to an Optionee or Grantee on an individual basis without constituting a termination of employment or service for purposes of the Plan;

(e) exercise its discretion with respect to the powers and rights granted to it as set forth in the Plan; and

(f) generally, exercise such powers and perform such acts as are deemed necessary or advisable to promote the best interests of the Company with respect to the Plan.

3.4 The Committee may delegate to one or more officers of the Company the authority to grant Options or Awards to Eligible Individuals (other than to himself or herself) and/or determine the number of Shares subject to each Option or Award (by resolution that specifies the total number of Shares subject to the Options or Awards that may be awarded by the officer and the terms of any such Options or Awards, including the exercise price), provided that such delegation is made in accordance with the Delaware General Corporation Law and with respect to Options and Awards that are not intended to qualify as Performance-Based Compensation and that are not made to executive officers of the Company covered by Rule 16b-3 under the Exchange Act.

4. Shares Subject to the Plan; Grant Limitations.

4.1 Shares Subject to the Plan. The maximum number of Shares that may be made the subject of Options and Awards granted under the Plan is:

- and
- (a) 4,000,000 Shares added to the Plan as a result of the amendment and restatement dated March 19, 2014;
 - (b) 8,506,615¹ Shares in the Plan, as amended and restated March 20, 2013;
 - (c) for a total of 12,506,615 Shares.

The Company shall reserve for the purposes of the Plan, out of its authorized but unissued Shares or out of Shares held in the Company's treasury, or partly out of each, such number of Shares as shall be determined by the Board. Following the approval by the holders of a majority of the securities of the Company entitled to vote thereon, in accordance with the applicable laws, of the modifications to the Plan approved by the Board on March 20, 2013, no further grants may be made under the 2000 Stock Option and Award Plan, but Options and Awards made under the 2000 Stock Option and Award Plan shall remain outstanding in accordance with their terms.

4.2 Shares Returned to the Plan. Whenever any outstanding Option or Award or portion thereof granted pursuant to the 2000 Stock Option and Award Plan and outstanding as of March 20, 2013 would have again been available for grant as an Option or Award pursuant to Section 4.3 of the 2000 Stock Option and Award Plan as in effect on March 20, 2013, the number of Shares allocable to the expired, canceled, forfeited, settled or otherwise terminated portion of such Option or Award, determined in accordance with Section 4.3 of the 2000 Stock Option and Award Plan, shall be added to the maximum number of Shares available to be granted as Options or Awards granted hereunder, not to exceed 4,803,545 additional Shares

4.3 Grant Limitations. The following grant limitations shall apply when making Awards pursuant to the Plan:

- (a) When aggregated with Options and Awards granted under the 2000 Stock Option and Award Plan in any calendar year, no Eligible Individual (other than a Director) may be granted Options in respect of more than 1,000,000 Shares, or Options or Awards in the aggregate in respect of more than 1,000,000 Shares,

¹ Section 4.1(c) of the Plan, as amended and restated on March 20, 2013, stated that 808,799 shares, representing the Shares remaining for issuance under the 2000 Stock Option and Award Plan, as amended and restated on March 20, 2013, were being made available for grants under the Plan. The correct number of such shares was subsequently determined to be 806,615. Section 4.1(b) above reflects the correct amount.

(b) When aggregated with Options and Awards granted under the 2000 Stock Option and Award Plan in any calendar year, no Director may be granted Options in respect of more than 100,000 Shares, or Options or Awards in the aggregate in respect of more than 100,000 Shares,

(c) The maximum grant date fair value of all Awards granted during any calendar year to a single Director who is not also an employee of the Company or a Subsidiary shall not exceed \$1,000,000, and

(d) In no event shall more than an aggregate of 30,000 Shares be issued upon the exercise of Incentive Stock Options granted under the Plan.

4.4 Fungible Plan Design. Upon the granting of an Option or an Award, the number of Shares available under Section 4.1 for the granting of further Options and Awards shall be reduced as follows:

(a) In connection with the granting of an Option or an Award, the number of Shares shall be reduced by the number of Shares in respect of which the Option or Award is granted or denominated.

(b) Stock Appreciation Rights to be settled in shares of Common Stock shall be counted in full against the number of shares available for award under the Plan, regardless of the number of Exercise Gain Shares issued upon settlement of the Stock Appreciation Right.

(c) Notwithstanding the foregoing, Awards granted in the form of Restricted Stock (including Restricted Stock Units), Performance Awards (including Shares issued in respect to Performance Awards), and other Awards that are granted as "full value awards" shall reduce the number of shares that may be the subject to Options and Awards under the Plan by 1.52 Shares for each Share subject to such an Award.

4.5 Whenever any outstanding Option or Award or portion thereof expires, is canceled, is forfeited, or is otherwise terminated for any reason without having been exercised or payment having been made in respect of the Option or Award (or such portion thereof to which the expiration, forfeiture, or other termination occurs), the Shares allocable to the expired, canceled, forfeited, or otherwise terminated portion of the Option or Award may again be the subject of Options or Awards granted hereunder. With regard to Awards referred to in Section 4.4(c), for each Share subject to an Award that is cancelled, forfeited, settled in cash or otherwise terminated as provided in the foregoing sentence, 1.52 Shares may again be the subject of Options or Awards under the Plan. Notwithstanding the foregoing, the following events shall not result in any increase in Shares available for issuance of Options or Awards under the Plan or such Shares again becoming available for issuance of Options or Awards:

(a) Withholding of Shares to pay Taxes on any Option or Award,

(b) Tendering of Shares to pay for Option exercise prices (i.e., net settlement of Shares), and

(c) The purchase of Shares on the open market as a result of Option exercises.

4.6 Unless otherwise determined by the Committee, in no event shall an Option or Award not subject to performance-based conditions have a vesting schedule resulting in such Option or Award vesting in full prior to the third anniversary of the grant date. For purposes of clarity, this restriction will not prohibit any Option or Award from having partial vesting dates prior to the third anniversary of the grant date in accordance with a proportionate vesting schedule determined at the discretion of the Committee, so long as such Option or Award does not vest in full prior to the third anniversary of the grant date.

5. Option Grants for Eligible Individuals.

5.1 Authority of Committee. Subject to the provisions of the Plan, the Committee shall have full and final authority to select those Eligible Individuals who will receive Options, and the terms and conditions of the grant to such Eligible Individuals shall be set forth in an Agreement. Incentive Stock Options may be granted only to Eligible Individuals who are employees of the Company or any Subsidiary.

5.2 Exercise Price. The purchase price or the manner in which the exercise price is to be determined for Shares under each Option shall be determined by the Committee and set forth in the Agreement; *provided, however*, that the exercise price per Share under each Non-qualified Stock Option and each Incentive Stock Option shall not be less than 100% of the Fair Market Value of a Share on the date the Option is granted (110% in the case of an Incentive Stock Option granted to a Ten-Percent Stockholder).

5.3 Maximum Duration. Options granted hereunder shall be for such term as the Committee shall determine, provided that an Incentive Stock Option shall not be exercisable after the expiration of ten (10) years from the date it is granted (five (5) years in the case of an Incentive Stock Option granted to a Ten-Percent Stockholder) and a Non-qualified Stock Option shall not be exercisable after the expiration of ten (10) years from the date it is granted; provided, however, that unless the Committee provides otherwise, an Option (other than an Incentive Stock Option) may, upon the death of the Optionee prior to the expiration of the Option, be exercised for up to one (1) year following the date of the Optionee's death even if such period extends beyond ten (10) years from the date the Option is granted. The Committee may, subsequent to the granting of any Option, extend the term thereof, but in no event shall the term as so extended exceed the maximum term provided for in the preceding sentence.

5.4 Vesting. Subject to Section 5.10, each Option shall become exercisable in such installments (which need not be equal) and at such times as may be designated by the Committee and set forth in the Agreement. To the extent not exercised, installments shall accumulate and be exercisable, in whole or in part, at any time after becoming exercisable, but not later than the date the Option expires. The Committee may accelerate the exercisability of any Option or portion thereof at any time.

5.5 Deferred Delivery of Option Shares. The Committee may, in its discretion, permit Optionees to elect to defer the issuance of Shares upon the exercise of one or more Non-qualified Stock Options granted pursuant to the Plan. The terms and conditions of such deferral shall be determined at the time of the grant of the Option or thereafter and shall be set forth in the Agreement evidencing the Option.

5.6 Limitations on Incentive Stock Options. To the extent that the aggregate Fair Market Value (determined as of the date of the grant) of Shares with respect to which Incentive Stock Options granted under the Plan and “incentive stock options” (within the meaning of Section 422 of the Code) granted under all other plans of the Company or its Subsidiaries (in either case determined without regard to this Section 5.6) are exercisable by an Optionee for the first time during any calendar year exceeds \$100,000, such Incentive Stock Options shall be treated as Non-qualified Stock Options. In applying the limitation in the preceding sentence in the case of multiple Option grants, Options which were intended to be Incentive Stock Options shall be treated as Non-qualified Stock Options according to the order in which they were granted such that the most recently granted Options are first treated as Non-qualified Stock Options.

5.7 Non-Transferability. No Option shall be transferable by the Optionee otherwise than by will or by the laws of descent and distribution or, in the case of an Option other than an Incentive Stock Option, pursuant to a domestic relations order (within the meaning of Rule 16a-12 promulgated under the Exchange Act), and an Option shall be exercisable during the lifetime of such Optionee only by the Optionee or his or her guardian or legal representative. Notwithstanding the foregoing, the Committee may set forth in the Agreement evidencing an Option (other than an Incentive Stock Option), at the time of grant or thereafter, that the Option may be transferred to members of the Optionee’s immediate family, to trusts solely for the benefit of such immediate family members and to partnerships in which such family members and/or trusts are the only partners, and for purposes of this Plan, a transferee of an Option shall be deemed to be the Optionee. For this purpose, immediate family means the Optionee’s spouse, parents, children, stepchildren and grandchildren and the spouses of such parents, children, stepchildren and grandchildren. The terms of an Option shall be final, binding and conclusive upon the beneficiaries, executors, administrators, heirs and successors of the Optionee.

5.8 Method of Exercise. The exercise of an Option shall be made only by a written notice delivered in person or by mail to the Secretary of the Company at the Company’s principal executive office, specifying the number of Shares to be exercised and, to the extent applicable, accompanied by payment therefor and otherwise in accordance with the Agreement pursuant to which the Option was granted; *provided, however*, that Options may not be exercised by an Optionee following a hardship distribution to the Optionee to the extent such exercise is prohibited under the Community Health Systems, Inc. 401(k) Plan. The exercise price for any Shares purchased pursuant to the exercise of an Option shall be paid in either of the following forms (or any combination thereof): (a) cash or (b) the transfer, either actually or by attestation, to the Company of Shares owned by the Optionee prior to the exercise of the Option, such transfer to be upon such terms and conditions as determined by the Committee or (c) a combination of cash and the transfer of Shares; *provided, however*, that the Committee may determine that the exercise price shall be paid only in cash. In addition, Options may be exercised through a registered broker-dealer pursuant to such cashless exercise procedures which are, from time to time, deemed acceptable by the Committee. Any Shares transferred to the Company as payment of the exercise price under an Option shall be valued at their Fair Market Value on the day of exercise of such Option. If requested by the Committee, the Optionee shall deliver the Agreement evidencing the Option to the Secretary of the Company who shall endorse thereon a notation of such exercise and return such Agreement to the Optionee. No fractional Shares (or cash in lieu thereof) shall be issued upon exercise of an Option and the number of Shares that may be purchased upon exercise shall be rounded to the nearest number of whole Shares.

5.9 Rights of Optionees. No Optionee shall be deemed for any purpose to be the owner of any Shares subject to any Option unless and until (a) the Option shall have been exercised pursuant to the terms thereof, (b) the Company shall have issued and delivered Shares to the Optionee, and (c) the Optionee's name shall have been entered as a stockholder of record on the books of the Company. Thereupon, the Optionee shall have full voting, dividend and other ownership rights with respect to such Shares, subject to such terms and conditions as may be set forth in the applicable Agreement.

5.10 Effect of Change in Control. Section 13(b) shall control the treatment of any Options outstanding at the time of a Change in Control. Any Options that are exercisable as of a Change in Control shall remain exercisable for a period ending not before the earlier of (x) the six (6) month anniversary of the Change in Control or (y) the expiration of the stated term of the Option.

5.11 Prohibition of Cashing-Out of Underwater Options. The Committee shall be prohibited from making a cash payment in cancellation of all or part of an Option with an exercise price in excess of the Fair Market Value of a Share on the effective date of such cash payment.

6. [intentionally omitted].

7. Stock Appreciation Rights.

The Committee may in its discretion, either alone or in connection with the grant of an Option, grant Stock Appreciation Rights in accordance with the Plan, the terms and conditions of which shall be set forth in an Agreement. If granted in connection with an Option, a Stock Appreciation Right shall cover the same Shares covered by the Option (or such lesser number of Shares as the Committee may determine) and shall, except as provided in this Section 7, be subject to the same terms and conditions as the related Option.

7.1 Time of Grant. A Stock Appreciation Right may be granted (a) at any time if unrelated to an Option, or (b) if related to an Option, either at the time of grant or at any time thereafter during the term of the Option.

7.2 Stock Appreciation Right Related to an Option.

(a) Exercise. A Stock Appreciation Right granted in connection with an Option shall be exercisable at such time or times and only to the extent that the related Option is exercisable, and will not be transferable except to the extent the related Option may be transferable. A Stock Appreciation Right granted in connection with an Incentive Stock Option shall be exercisable only if the Fair Market Value of a Share on the date of exercise exceeds the exercise price specified in the related Incentive Stock Option Agreement. In no event shall a Stock Appreciation Right related to an Option have a term of greater than ten (10) years.

(b) Amount Payable. Upon the exercise of a Stock Appreciation Right related to an Option, the Grantee shall be entitled to receive an amount determined by multiplying (i) the excess of the Fair Market Value of a Share on the date of exercise of such Stock Appreciation Right over the per Share exercise price under the related Option, by (ii) the number of Shares as to which such Stock Appreciation Right is being exercised. Notwithstanding the foregoing, the Committee may limit in any manner the amount payable with respect to any Stock Appreciation Right by including such a limit in the Agreement evidencing the Stock Appreciation Right at the time it is granted.

(c) Treatment of Related Options and Stock Appreciation Rights Upon Exercise. Upon the exercise of a Stock Appreciation Right granted in connection with an Option, the Option shall be canceled to the extent of the number of Shares as to which the Stock Appreciation Right is exercised, and upon the exercise of an Option granted in connection with a Stock Appreciation Right, the Stock Appreciation Right shall be canceled to the extent of the number of Shares as to which the Option is exercised or surrendered.

7.3 Stock Appreciation Right Unrelated to an Option. The Committee may grant to Eligible Individuals Stock Appreciation Rights unrelated to Options. Stock Appreciation Rights unrelated to Options shall contain such terms and conditions as to exercisability (subject to Section 7.7), vesting and duration as the Committee shall determine, but in no event shall they have a term of greater than ten (10) years. Upon exercise of a Stock Appreciation Right unrelated to an Option, the Grantee shall be entitled to receive an amount determined by multiplying (a) the excess of the Fair Market Value of a Share on the date of exercise of such Stock Appreciation Right over the Fair Market Value of a Share on the date the Stock Appreciation Right was granted, by (b) the number of Shares as to which the Stock Appreciation Right is being exercised. Notwithstanding the foregoing, the Committee may limit in any manner the amount payable with respect to any Stock Appreciation Right by including such a limit in the Agreement evidencing the Stock Appreciation Right at the time it is granted.

7.4 Non-Transferability. No Stock Appreciation Right shall be transferable by the Grantee otherwise than by will or by the laws of descent and distribution or pursuant to a domestic relations order (within the meaning of Rule 16a-12 promulgated under the Exchange Act), and such Stock Appreciation Right shall be exercisable during the lifetime of such Grantee only by the Grantee or his or her guardian or legal representative. The terms of such Stock Appreciation Right shall be final, binding and conclusive upon the beneficiaries, executors, administrators, heirs and successors of the Grantee.

7.5 Method of Exercise. Stock Appreciation Rights shall be exercised by a Grantee only by a written notice delivered in person or by mail to the Secretary of the Company at the Company's principal executive office, specifying the number of Shares with respect to which the Stock Appreciation Right is being exercised. If requested by the Committee, the Grantee shall deliver the Agreement evidencing the Stock Appreciation Right being exercised and the Agreement evidencing any related Option to the Secretary of the Company who shall endorse thereon a notation of such exercise and return such Agreement to the Grantee.

7.6 Form of Payment. Payment of the amount determined under Sections 7.2(b) or 7.3 may be made in the discretion of the Committee solely in whole Shares in a number determined at their Fair Market Value on the date of exercise of the Stock Appreciation Right, or solely in cash, or in a combination of cash and Shares. If the Committee decides to make full payment in Shares and the amount payable results in a fractional Share, payment for the fractional Share will be made in cash.

7.7 Effect of Change in Control. Section 13(b) shall control the treatment of any Stock Appreciation Rights outstanding at the time of a Change in Control. Any Stock Appreciation Rights that are exercisable as of a Change in Control shall remain exercisable for a period ending not before the earlier of (x) the six (6) month anniversary of the Change in Control or (y) the expiration of the stated term of the Stock Appreciation Right.

8. Restricted Stock and Restricted Stock Units.

8.1 Restricted Stock. The Committee may grant Awards to Eligible Individuals of Restricted Stock, which shall be evidenced by an Agreement between the Company and the Grantee. Each Agreement shall contain such restrictions, terms and conditions as the Committee may, in its discretion, determine and (without limiting the generality of the foregoing) such Agreements may require that an appropriate legend be placed on Share certificates. Awards of Restricted Stock shall be subject to the terms and provisions set forth below in this Section 8.1.

(a) Rights of Grantee. Shares of Restricted Stock granted pursuant to an Award hereunder shall be issued in the name of the Grantee as soon as reasonably practicable after the Award is granted provided that the Grantee has executed an Agreement evidencing the Award, the appropriate blank stock powers and, in the discretion of the Committee, an escrow agreement and any other documents which the Committee may require as a condition to the issuance of such Shares. If a Grantee shall fail to execute the Agreement evidencing a Restricted Stock Award, or any documents which the Committee may require within the time period prescribed by the Committee at the time the Award is granted, the Award shall be null and void. At the discretion of the Committee, Shares issued in connection with a Restricted Stock Award shall be deposited together with the stock powers with an escrow agent (which may be the Company) designated by the Committee. Unless the Committee determines otherwise and as set forth in the Agreement, upon delivery of the Shares to the escrow agent, the Grantee shall have all of the rights of a stockholder with respect to such Shares, including the right to vote the Shares and to receive all dividends or other distributions paid or made with respect to the Shares.

(b) Non-Transferability. Until all restrictions upon the Shares of Restricted Stock awarded to a Grantee shall have lapsed in the manner set forth in Section 8.1(c), such Shares shall not be sold, transferred or otherwise disposed of and shall not be pledged or otherwise hypothecated.

(c) Lapse of Restrictions.

(1) Generally. Restrictions upon Shares of Restricted Stock awarded hereunder shall lapse at such time or times and on such terms and conditions as the Committee may determine. The Agreement evidencing the Award shall set forth any such restrictions.

(2) Effect of Change in Control. Section 13(b) shall control the treatment of any Shares of Restricted Stock then outstanding in the event of a Change in Control.

(d) Treatment of Dividends. At the time an Award of Shares of Restricted Stock is granted, the Committee may, in its discretion, determine that the payment to the Grantee of dividends, or a specified portion thereof, declared or paid on such Shares by the Company shall be (a) deferred until the lapsing of the restrictions imposed upon such Shares and (b) held by the Company for the account of the Grantee until such time. In the event that dividends are to be deferred, the Committee shall determine whether such dividends are to be reinvested in Shares (which shall be held as additional Shares of Restricted Stock) or held in cash. If deferred dividends are to be held in cash, there may be credited at the end of each year (or portion thereof) interest on the amount of the account at the beginning of the

year at a rate per annum as the Committee, in its discretion, may determine. Payment of deferred dividends in respect of Shares of Restricted Stock (whether held in cash or as additional Shares of Restricted Stock), together with interest accrued thereon, if any, shall be made upon the lapsing of restrictions imposed on the Shares in respect of which the deferred dividends were paid, and any dividends deferred (together with any interest accrued thereon) in respect of any Shares of Restricted Stock shall be forfeited upon the forfeiture of such Shares.

(e) Delivery of Shares. Upon the lapse of the restrictions on Shares of Restricted Stock, the Committee shall cause a stock certificate to be delivered to the Grantee with respect to such Shares, free of all restrictions hereunder.

8.2 Restricted Stock Units. The Committee may grant to Eligible Individuals Awards of Restricted Stock Units, which shall be evidenced by an Agreement. Each such Agreement shall contain such restrictions, terms and conditions as the Committee may, in its discretion, determine. Awards of Restricted Stock Units shall be subject to the terms and provisions set forth below in this Section 8.2.

(a) Payment of Awards. Each Restricted Stock Unit shall represent the right of a Grantee to receive a payment upon vesting of the Restricted Stock Unit or on any later date specified by the Committee equal to the Fair Market Value of a Share as of the date the Restricted Stock Unit was granted, the vesting date or such other date as determined by the Committee at the time the Restricted Stock Unit was granted. The Committee may, at the time a Restricted Stock Unit is granted, provide a limitation on the amount payable in respect of each Restricted Stock Unit. The Committee may provide for the settlement of Restricted Stock Units in cash or with Shares having a Fair Market Value equal to the payment to which the Grantee has become entitled.

(b) Effect of Change in Control. Section 13(b) shall control the treatment of any Restricted Stock Units then outstanding in the event of a Change in Control.

9. Performance Awards.

9.1 Performance Units. The Committee, in its discretion, may grant Awards of Performance Units to Eligible Individuals, the terms and conditions of which shall be set forth in an Agreement between the Company and the Grantee; provided that, when aggregated with Performance Awards granted under the 2000 Stock Option and Award Plan in any calendar year, no Eligible Individual may be granted Performance Awards in the aggregate in respect of more than 1,000,000 Shares. Contingent upon the attainment of specified Performance Objectives within the Performance Cycle, Performance Units represent the right to receive payment as provided in Section 9.1(b) of (i) the Fair Market Value of a Share on the date the Performance Unit was granted, the date the Performance Unit became vested or any other date specified by the Committee or (ii) a percentage (which may be more than 100%) of the amount described in clause (i) depending on the level of Performance Objective attainment; *provided, however*, that the Committee may at the time a Performance Unit is granted specify a maximum amount payable in respect of a vested Performance Unit. Each Agreement shall specify the number of Performance Units to which it relates, the Performance Objectives which must be satisfied in order for the Performance Units to vest and the Performance Cycle within which such Performance Objectives must be satisfied.

(a) Vesting and Forfeiture. Subject to Sections 9.3(c) and 9.4, a Grantee shall become vested with respect to the Performance Units to the extent that the Performance Objectives set forth in the Agreement are satisfied for the Performance Cycle.

(b) Payment of Awards. Subject to Section 9.3(c), payment to Grantees in respect of vested Performance Units shall be made as soon as practicable after the last day of the Performance Cycle to which such Award relates unless the Agreement evidencing the Award provides for the deferral of payment, in which event the terms and conditions of the deferral shall be set forth in the Agreement. Subject to Section 9.4, such payments may be made entirely in Shares valued at their Fair Market Value, entirely in cash, or in such combination of Shares and cash as the Committee in its discretion shall determine at any time prior to such payment, *provided, however*, that if the Committee in its discretion determines to make such payment entirely or partially in Shares of Restricted Stock, the Committee must determine the extent to which such payment will be in Shares of Restricted Stock and the terms of such Restricted Stock at the time the Award is granted.

9 . 2 Performance Shares. The Committee, in its discretion, may grant Awards of Performance Shares to Eligible Individuals, the terms and conditions of which shall be set forth in an Agreement between the Company and the Grantee. Each Agreement may require that an appropriate legend be placed on Share certificates. Awards of Performance Shares shall be subject to the following terms and provisions:

(a) Rights of Grantee. The Committee shall provide at the time an Award of Performance Shares is made the time or times at which the actual Shares represented by such Award shall be issued in the name of the Grantee; *provided, however*, that no Performance Shares shall be issued until the Grantee has executed an Agreement evidencing the Award, the appropriate blank stock powers and, in the discretion of the Committee, an escrow agreement and any other documents which the Committee may require as a condition to the issuance of such Performance Shares. If a Grantee shall fail to execute the Agreement evidencing an Award of Performance Shares, the appropriate blank stock powers and, in the discretion of the Committee, an escrow agreement and any other documents which the Committee may require within the time period prescribed by the Committee at the time the Award is granted, the Award shall be null and void. At the discretion of the Committee, Shares issued in connection with an Award of Performance Shares shall be deposited together with the stock powers with an escrow agent (which may be the Company) designated by the Committee. Except as restricted by the terms of the Agreement, upon delivery of the Shares to the escrow agent, the Grantee shall have, in the discretion of the Committee, all of the rights of a stockholder with respect to such Shares, including the right to vote the Shares and to receive all dividends or other distributions paid or made with respect to the Shares.

(b) Non-Transferability. Until any restrictions upon the Performance Shares awarded to a Grantee shall have lapsed in the manner set forth in Section 9.2(c) or 9.4, such Performance Shares shall not be sold, transferred or otherwise disposed of and shall not be pledged or otherwise hypothecated, nor shall they be delivered to the Grantee. The Committee may also impose such other restrictions and conditions on the Performance Shares, if any, as it deems appropriate.

(c) Lapse of Restrictions. Subject to Sections 9.3(c) and 9.4, restrictions upon Performance Shares awarded hereunder shall lapse and such Performance Shares shall become vested at such time or times and on such terms, conditions and satisfaction of Performance Objectives as the Committee may, in its discretion, determine at the time an Award is granted.

(d) Treatment of Dividends. At the time the Award of Performance Shares is granted, the Committee may, in its discretion, determine that the payment to the Grantee of dividends, or a specified portion thereof, declared or paid on Shares represented by such Award which have been issued by the Company to the Grantee shall be (i) deferred until the lapsing of the restrictions imposed upon such Performance Shares and (ii) held by the Company for the account of the Grantee until such time. In the event that dividends are to be deferred, the Committee shall determine whether such dividends are to be reinvested in shares of Stock (which shall be held as additional Performance Shares) or held in cash. If deferred dividends are to be held in cash, there may be credited at the end of each year (or portion thereof) interest on the amount of the account at the beginning of the year at a rate per annum as the Committee, in its discretion, may determine. Payment of deferred dividends in respect of Performance Shares (whether held in cash or in additional Performance Shares), together with interest accrued thereon, if any, shall be made upon the lapsing of restrictions imposed on the Performance Shares in respect of which the deferred dividends were paid, and any dividends deferred (together with any interest accrued thereon) in respect of any Performance Shares shall be forfeited upon the forfeiture of such Performance Shares.

(e) Delivery of Shares. Upon the lapse of the restrictions on Performance Shares awarded hereunder, the Committee shall cause a stock certificate to be delivered to the Grantee with respect to such Shares, free of all restrictions hereunder.

9.3 Performance Objectives.

(a) Establishment. Performance Objectives for Performance Awards may be expressed in terms of (i) earnings per Share, (ii) net revenue, (iii) adjusted EBITDA (iv) Share price, (v) pre-tax profits, (vi) net earnings, (vii) return on equity or assets, (viii) operating income, (ix) EBITDA margin, (x) EBITDA margin improvement, (xi) bad debt expense, (xii) cash receipts, (xiii) uncompensated care expense, (xiv) days in net revenue in net patient accounts receivable, (xv) gross income, (xvi) net income (before or after taxes), (xvii) cash flow; (xviii) gross profit, (xix) gross profit return on investment, (xx) gross margin return on investment, (xxi) gross margin; (xxii) operating margin, (xxiii) working capital, (xxiv) earnings before interest and taxes, (xxv) return on capital, (xxvi) return on invested capital, (xxvii) revenue growth, (xxviii) annual recurring revenues, (xxix) recurring revenues, (xxx) total shareholder return, (xxxii) specified objectives with regard to limiting the level of increase in all or a portion of the Company's bank debt or other long-term or short-term public or private debt or other similar financial obligations of the Company, which may be calculated net of cash balances and/or other offsets and adjustments as may be established by the Committee in its sole discretion, (xxxiii) reduction in operating expenses, or (xxxiv) any combination of the foregoing. Performance Objectives may be in respect of the performance of the Company, any of its Subsidiaries, any of its Divisions or any combination thereof. Performance Objectives may be absolute or relative (to prior performance of the Company or to the performance of one or more other entities or external indices) and may be expressed in terms of a progression within a specified range. The Performance Objectives with respect to a Performance Cycle shall be established in writing by the Committee by the earlier of (x) the date on which a quarter of the Performance Cycle has elapsed or (y) the date which is ninety (90) days after the commencement of the Performance Cycle, and in any event while the performance relating to the Performance Objectives remain substantially uncertain.

(b) Effect of Certain Events. At the time of the granting of a Performance Award, or at any time thereafter, in either case to the extent permitted under Section 162(m) of the Code and the regulations thereunder without adversely affecting the treatment of the Performance Award as Performance-Based Compensation, the Committee may provide for the manner in which performance will be measured against the Performance Objectives (or may adjust the Performance Objectives) to reflect the impact of specified corporate transactions, accounting or tax law changes and other extraordinary or nonrecurring events.

(c) Determination of Performance. Prior to the vesting, payment, settlement or lapsing of any restrictions with respect to any Performance Award that is intended to constitute Performance-Based Compensation made to a Grantee who is subject to Section 162(m) of the Code, the Committee shall certify in writing that the applicable Performance Objectives have been satisfied to the extent necessary for such Award to qualify as Performance Based Compensation.

9.4 Effect of Change in Control. Section 13(b) shall control the treatment of any Performance Units then outstanding in the event of a Change in Control.

9.5 Non-Transferability. Until the vesting of Performance Units or the lapsing of any restrictions on Performance Shares, as the case may be, such Performance Units or Performance Shares shall not be sold, transferred or otherwise disposed of and shall not be pledged or otherwise hypothecated.

10. Share Awards. The Committee may grant a Share Award to any Eligible Individual on such terms and conditions as the Committee may determine in its sole discretion. Share Awards may be made as additional compensation for services rendered by the Eligible Individual or may be in lieu of cash or other compensation to which the Eligible Individual is entitled from the Company.

11. Effect of a Termination of Employment.

The Agreement evidencing the grant of each Option and each Award shall set forth the terms and conditions applicable to such Option or Award upon a termination or change in the status of the employment of the Optionee or Grantee by the Company, a Subsidiary or a Division (including a termination or change by reason of the sale of a Subsidiary or a Division), which shall be as the Committee may, in its discretion, determine at the time the Option or Award is granted or thereafter.

12. Adjustment Upon Changes in Capitalization.

(a) In the event of a Change in Capitalization, the Committee shall conclusively determine the appropriate adjustments, if any, to (i) the maximum number and class of Shares or other stock or securities with respect to which Options or Awards may be granted under the Plan, (ii) the number and class of Shares or other stock or securities which are subject to outstanding Options or Awards granted under the Plan and the exercise price therefor, if applicable, and (iii) the Performance Objectives.

(b) Any such adjustment in the Shares or other stock or securities (a) subject to outstanding Incentive Stock Options (including any adjustments in the exercise price) shall be made in such manner as not to constitute a modification as defined by Section

424(h)(3) of the Code and only to the extent permitted by Sections 422 and 424 of the Code or (b) subject to outstanding Options or Awards that are intended to qualify as Performance-Based Compensation shall be made in such a manner as not to adversely affect the treatment of the Options or Awards as Performance-Based Compensation. In addition, (a) no adjustment to any Option or Award that is not subject to Section 409A of the Code shall be made in a manner that would subject the Option or Award to Section 409A of the Code and (b) any adjustment to an Option or Award that is subject to Section 409A of the Code shall be made only in a manner and to the extent permitted by Section 409A of the Code.

(c) If, by reason of a Change in Capitalization, a Grantee of an Award shall be entitled to, or an Optionee shall be entitled to exercise an Option with respect to, new, additional or different shares of stock or securities of the Company or any other corporation, such new, additional or different shares shall thereupon be subject to all of the conditions, restrictions and performance criteria which were applicable to the Shares subject to the Award or Option, as the case may be, prior to such Change in Capitalization.

13. Effect of Certain Transactions; Effect of Change in Control.

(a) Effect of Certain Transactions. Subject to Sections 5.10, 7.7, 8.2(b) and 9.4 or as otherwise provided in an Agreement, in the event of (a) the liquidation or dissolution of the Company or (b) a merger or consolidation of the Company (a "Transaction"), the Plan and the Options and Awards issued hereunder shall continue in effect in accordance with their respective terms, except that following a Transaction either (i) each outstanding Option or Award shall be treated as provided for in the agreement entered into in connection with the Transaction or (ii) if not so provided in such agreement, each Optionee and Grantee shall be entitled to receive in respect of each Share subject to any outstanding Options or Awards, as the case may be, upon exercise of any Option or payment or transfer in respect of any Award, the same number and kind of stock, securities, cash, property or other consideration that each holder of a Share was entitled to receive in the Transaction in respect of a Share; *provided, however*, that such stock, securities, cash, property, or other consideration shall remain subject to all of the conditions, restrictions and performance criteria which were applicable to the Options and Awards prior to such Transaction. For the avoidance of doubt, the Committee may, without the consent of any Optionee or Grantee, provide for the cancellation of outstanding Awards in connection with a Transaction in exchange for the payment in cash or property equal in value to the Fair Market Value of the Shares underlying such Awards, less, in the case of Options, the aggregate exercise price thereof; *provided* that Options with an aggregate exercise price that is equal to or in excess of the aggregate Fair Market Value of the Shares underlying such Options may be cancelled in connection with such Transaction without any consideration being paid in respect thereof. The treatment of any Option or Award as provided in this Section 13(a) shall be conclusively presumed to be appropriate for purposes of Section 12.

(b) Effect of Change in Control. Notwithstanding any other provision of the Plan to the contrary, in the event of a Change in Control, the following provisions of this Section 13(b) shall apply except to the extent an Option or Award Agreement provides for a different treatment (in which case the Option or Award Agreement shall govern and this Section 13(b) shall not be applicable):

(i) If and to the extent that outstanding Options or Awards under the Plan (A) are assumed by the successor corporation (or affiliate thereto) or continued or (B) are replaced with equity awards that preserve the existing value of the Options or

Awards at the time of the Change in Control and provide for subsequent payout in accordance with a vesting schedule and Performance Objectives, as applicable, that are the same or more favorable to the Participants than the vesting schedule and Performance Objectives applicable to the Options or Awards, then all such Options or Awards or such substitutes thereof shall remain outstanding and be governed by their respective terms and the provisions of the Plan, subject to Section 13(b)(iv) below.

(ii) If and to the extent that outstanding Options or Awards under the Plan are not assumed, continued or replaced in accordance with Section 13(b)(i) above, then upon the Change in Control the following treatment (referred to as "Change-in-Control Treatment") shall apply to such Options or Awards: (A) outstanding Options and Stock Appreciation Rights shall immediately vest and become exercisable; (B) the restrictions and other conditions applicable to outstanding Restricted Shares, Restricted Stock Units and Stock Awards, including vesting requirements, shall immediately lapse; such Awards shall be free of all restrictions and fully vested; and, with respect to Restricted Stock Units, shall be payable immediately in accordance with their terms or, if later, as of the earliest permissible date under Code Section 409A; and (C) outstanding Performance Awards granted under the Plan shall immediately vest and shall become immediately payable in accordance with their terms as if the Performance Objectives have been achieved at the target performance level.

(iii) If and to the extent that outstanding Options or Awards under the Plan are not assumed, continued or replaced in accordance with Section 13(b)(i) above, then in connection with the application of the Change-in-Control Treatment set forth in Section 13(b)(ii) above, the Board may, in its sole discretion, provide for cancellation of such outstanding Awards at the time of the Change in Control in which case a payment of cash, property or a combination thereof shall be made to each such Optionee or Grantee upon the consummation of the Change in Control that is determined by the Board in its sole discretion and that is at least equal to the excess (if any) of the value of the consideration that would be received in such Change in Control by the holders of the Company's securities relating to such Options or Awards over the exercise or purchase price (if any) for such Options or Awards (except that, in the case of an Option or Stock Appreciation Right, such payment shall be limited as necessary to prevent the Option or Stock Appreciation Right from being subject to the excise tax under Code Section 409A).

(iv) If and to the extent that (A) outstanding Options or Awards are assumed, continued or replaced in accordance with Section 13(b)(i) above and (B) a Optionee's or Grantee's employment with, or performance of services for, the Company or any of its Subsidiaries or successors is terminated by the Company or such Subsidiary or successor for any reasons other than Cause or by such Optionee or Grantee for Good Reason, in each case, within the two-year period commencing on the Change in Control, then, as of the date of such Participant's termination, the Change-in-Control Treatment set forth in Section 13(b)(ii) above shall apply to all assumed or replaced Options or Awards of such Participant then outstanding.

(v) Outstanding Options or Stock Appreciation Rights that are assumed, continued or replaced in accordance with Section 13(b)(i) may be exercised by the Optionee or Grantee in accordance with the applicable terms and conditions of such Option or Award as set forth in the applicable Agreement or elsewhere; provided, however, that Options or Stock Appreciation Rights that become exercisable in accordance with Section 13(b)(iv) may be exercised until the expiration of the original full term of such Option or Stock Appreciation Right notwithstanding the other original terms and conditions of such Award, to the extent allowed without such Option or Stock Appreciation Right becoming subject to the excise tax under Code Section 409A).

14. Interpretation.

Following the required registration of any equity security of the Company pursuant to Section 12 of the Exchange Act:

(a) The Plan is intended to comply with Rule 16b-3 promulgated under the Exchange Act and the Committee shall interpret and administer the provisions of the Plan or any Agreement in a manner consistent therewith. Any provisions inconsistent with such Rule shall be inoperative and shall not affect the validity of the Plan.

(b) Unless otherwise expressly stated in the relevant Agreement, each Option, Stock Appreciation Right and Performance Award granted under the Plan is intended to be Performance-Based Compensation. The Committee shall not be entitled to exercise any discretion otherwise authorized hereunder with respect to such Options or Awards if the ability to exercise such discretion or the exercise of such discretion itself would cause the compensation attributable to such Options or Awards to fail to qualify as Performance-Based Compensation.

(c) To the extent that any legal requirement of Section 16 of the Exchange Act or Section 162(m) of the Code as set forth in the Plan ceases to be required under Section 16 of the Exchange Act or Section 162(m) of the Code, that Plan provision shall cease to apply.

15. Termination and Amendment of the Plan or Modification of Options and Awards.

15.1 Plan Amendment or Termination. The Plan shall terminate on the day preceding the tenth anniversary of the date of its most recent adoption by the Board and no Option or Award may be granted thereafter. The Board may sooner terminate the Plan and the Board may at any time and from time to time amend, modify or suspend the Plan; *provided, however*, that:

(a) no such amendment, modification, suspension or termination shall impair or adversely alter any Options or Awards theretofore granted under the Plan, except with the written consent of the Optionee or Grantee, nor shall any amendment, modification, suspension or termination deprive any Optionee or Grantee of any Shares which he or she may have acquired through or as a result of the Plan; and

(b) to the extent necessary under any applicable law, regulation or exchange requirement no amendment shall be effective unless approved by the stockholders of the Company in accordance with applicable law, regulation or exchange requirement.

15.2 Modification of Options and Awards. No modification of an Option or Award shall adversely alter or impair any rights or obligations under the Option or Award without the written consent of the Optionee or Grantee, as the case may be.

15.3 No Repricing of Options or Stock Appreciation Rights. The Committee shall have no authority to make any adjustment (other than in connection with a stock dividend, recapitalization or other transaction where an adjustment is permitted or required under the

terms of the Plan) or amendment, and no such adjustment or amendment shall be made, that reduces or would have the effect of reducing the exercise price of an Option or Stock Appreciation Right previously granted under the Plan, whether through amendment, cancellation or replacement grants, or other means (including without limitation the buyout for cash of any Option or Stock Appreciation Right that has a fair market value that is less than the strike price for said Option or Stock Appreciation Right), unless the Company's stockholders shall have approved such adjustment or amendment.

16. Non-Exclusivity of the Plan.

The adoption of the Plan by the Board shall not be construed as amending, modifying or rescinding any previously approved incentive arrangement or as creating any limitations on the power of the Board to adopt such other incentive arrangements as it may deem desirable, including, without limitation, the granting of stock options otherwise than under the Plan, and such arrangements may be either applicable generally or only in specific cases.

17. Limitation of Liability.

As illustrative of the limitations of liability of the Company, but not intended to be exhaustive thereof, nothing in the Plan shall be construed to:

- (a) give any person any right to be granted an Option or Award other than at the sole discretion of the Committee;
- (b) give any person any rights whatsoever with respect to Shares except as specifically provided in the Plan;
- (c) limit in any way the right of the Company or any Subsidiary to terminate the employment of any person at any time; or
- (d) be evidence of any agreement or understanding, expressed or implied, that the Company will employ any person at any particular rate of compensation or for any particular period of time.

18. Regulations and Other Approvals; Governing Law.

18.1 Except as to matters of federal law, the Plan and the rights of all persons claiming hereunder shall be construed and determined in accordance with the laws of the State of Delaware without giving effect to conflicts of laws principles thereof.

18.2 The obligation of the Company to sell or deliver Shares with respect to Options and Awards granted under the Plan shall be subject to all applicable laws, rules and regulations, including all applicable federal and state securities laws, and the obtaining of all such approvals by governmental agencies as may be deemed necessary or appropriate by the Committee.

18.3 The Board may make such changes as may be necessary or appropriate to comply with the rules and regulations of any government authority, or to obtain for Eligible Individuals granted Incentive Stock Options the tax benefits under the applicable provisions of the Code and regulations promulgated thereunder.

18.4 Each Option and Award is subject to the requirement that, if at any time the Committee determines, in its discretion, that the listing, registration or qualification of Shares issuable pursuant to the Plan is required by any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the grant of an Option or Award or the issuance of Shares, no Options or Awards shall be granted or payment made or Shares issued, in whole or in part, unless listing, registration, qualification, consent or approval has been effected or obtained free of any conditions as acceptable to the Committee.

18.5 Notwithstanding anything contained in the Plan or any Agreement to the contrary, in the event that the disposition of Shares acquired pursuant to the Plan is not covered by a then current registration statement under the Securities Act of 1933, as amended (the "Securities Act"), and is not otherwise exempt from such registration, such Shares shall be restricted against transfer to the extent required by the Securities Act and Rule 144 or other regulations thereunder. The Committee may require any individual receiving Shares pursuant to an Option or Award granted under the Plan, as a condition precedent to receipt of such Shares, to represent and warrant to the Company in writing that the Shares acquired by such individual are acquired without a view to any distribution thereof and will not be sold or transferred other than pursuant to an effective registration thereof under the Securities Act or pursuant to an exemption applicable under the Securities Act or the rules and regulations promulgated thereunder. The certificates evidencing any such Shares shall be appropriately amended or have an appropriate legend placed thereon to reflect their status as restricted securities as aforesaid.

18.6 Compliance With Section 409A. All Options and Awards granted under the plan are intended either not to be subject to Section 409A of the Code or, if subject to Section 409A of the Code, to be administered, operated and construed in compliance with Section 409A of the Code and any guidance issued thereunder. Notwithstanding this or any other provision of the Plan to the contrary, the Committee may amend the Plan or any Option or Award granted hereunder in any manner, or take any other action, that it determines, in its sole discretion, is necessary, appropriate or advisable to cause the Plan or any Option or Award granted hereunder to comply with Section 409A and any guidance issued thereunder. Any such action, once taken, shall be deemed to be effective from the earliest date necessary to avoid a violation of Section 409A and shall be final, binding and conclusive on all Eligible Individuals and other individuals having or claiming any right or interest under the Plan.

19. Miscellaneous.

19.1 Multiple Agreements. The terms of each Option or Award may differ from other Options or Awards granted under the Plan at the same time or at some other time. The Committee may also grant more than one Option or Award to a given Eligible Individual during the term of the Plan, either in addition to, or in substitution for, one or more Options or Awards previously granted to that Eligible Individual.

19.2 Beneficiary Designation. Each Optionee or Grantee may, from time to time, name one or more individuals (each, a "Beneficiary") to whom any benefit under the Plan is to be paid or who may exercise any rights of the Optionee or Grantee under any Option or Award granted under the Plan in the event of the Optionee's or Grantee's death before he or she receives any or all of such benefit or exercises such Option. Each such designation shall revoke all prior designations by the same Optionee or Grantee, shall be in a form prescribed by the Company, and will be effective only when filed by the Optionee or Grantee in writing with

the Company during the Optionee's or Grantee's lifetime. In the absence of any such designation, benefits remaining unpaid at the Optionee's or Grantee's death and rights to be exercised following the Optionee's or Grantee's death shall be paid to or exercised by the Optionee's or Grantee's estate.

19.3 Withholding of Taxes.

(a) At such times as an Optionee or Grantee recognizes taxable income in connection with the receipt of Shares or cash hereunder (a "Taxable Event"), the Optionee or Grantee shall pay to the Company an amount equal to the federal, state and local income taxes and other amounts as may be required by law to be withheld by the Company in connection with the Taxable Event (the "Withholding Taxes") prior to the issuance, or release from escrow, of such Shares or the payment of such cash. The Company shall have the right to deduct from any payment of cash to an Optionee or Grantee an amount equal to the Withholding Taxes in satisfaction of the obligation to pay Withholding Taxes. The Committee may provide in an Agreement evidencing an Option or Award at the time of grant or thereafter that the Optionee or Grantee, in satisfaction of the obligation to pay Withholding Taxes to the Company, may elect to have withheld a portion of the Shares issuable to him or her pursuant to the Option or Award having an aggregate Fair Market Value equal to the Withholding Taxes. In the event Shares are withheld by the Company to satisfy any obligation to pay Withholding Taxes, such Shares shall be retired and cancelled and shall not thereafter be available to grant an Option or Award with respect thereto.

(b) If an Optionee makes a disposition, within the meaning of Section 424(c) of the Code and regulations promulgated thereunder, of any Share or Shares issued to such Optionee pursuant to the exercise of an Incentive Stock Option within the two-year period commencing on the day after the date of the grant or within the one-year period commencing on the day after the date of transfer of such Share or Shares to the Optionee pursuant to such exercise, the Optionee shall, within ten (10) days of such disposition, notify the Company thereof, by delivery of written notice to the Company at its principal executive office.

19.4 Effective Date. The effective date of this Plan shall be March 19, 2014, subject only to the approval by the holders of a majority of the securities of the Company entitled to vote thereon, in accordance with the applicable laws, within twelve (12) months of the adoption of the Plan by the Board.

**STATEMENT RE: COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(DOLLARS IN MILLIONS)**

	Six Months Ended June 30, 2014
Earnings	
Income from continuing operations before provision for income taxes	\$ (24)
Income from equity investees	(23)
Distributed income from equity investees	10
Interest and amortization of deferred finance costs	478
Amortization of capitalized interest	5
Implicit rental interest expense	52
Total Earnings	\$ 498
Fixed Charges	
Interest and amortization of deferred finance costs	\$ 478
Capitalized interest	5
Implicit rental interest expense	52
Total Fixed Charges	\$ 535
Ratio of Earnings to Fixed Charges	0.93 x

**CERTIFICATION PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

Exhibit 31.1

I, Wayne T. Smith, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Community Health Systems, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 1, 2014

/s/ Wayne T. Smith

Wayne T. Smith
Chairman of the Board and
Chief Executive Officer

**CERTIFICATION PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

Exhibit 31.2

I, W. Larry Cash, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Community Health Systems, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 1, 2014

/s/ W. Larry Cash
W. Larry Cash
President of Financial Services,
Chief Financial Officer and Director

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Community Health Systems, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Wayne T. Smith, Chairman of the Board and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Wayne T. Smith

Wayne T. Smith

Chairman of the Board and Chief Executive Officer

August 1, 2014

A signed original of this written statement required by Section 906 has been provided to Community Health Systems, Inc. and will be retained by Community Health Systems, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Community Health Systems, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, W. Larry Cash, President of Financial Services, Chief Financial Officer and Director of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ W. Larry Cash

W. Larry Cash

President of Financial Services, Chief Financial Officer and Director

August 1, 2014

A signed original of this written statement required by Section 906 has been provided to Community Health Systems, Inc. and will be retained by Community Health Systems, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

