

COMMUNITY HEALTH SYSTEMS INC

Form 10-Q

May 01, 2019

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)**

**OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended March 31, 2019**

**Commission file number 001-15925**

**COMMUNITY HEALTH SYSTEMS, INC.**

*(Exact name of registrant as specified in its charter)*

**Delaware**

*(State or other jurisdiction of*

*incorporation or organization)*

**4000 Meridian Boulevard**

**Franklin, Tennessee**

*(Address of principal executive offices)*

**13-3893191**

*(I.R.S. Employer*

*Identification Number)*

**37067**

*(Zip Code)*

**615-465-7000**

*(Registrant's telephone number)*

Securities registered pursuant to Section 12(b) of the Act:

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Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$.01 par value	CYH	New York Stock Exchange

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 every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer	Accelerated filer	Smaller reporting company
Non-accelerated filer		Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 April 25, 2019, there were outstanding 118,062,944 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 Months Ended March 31, 2019**

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Table of Contents**COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF LOSS***(In millions, except share and per share data)**(Unaudited)*

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
<i>Net operating revenues</i>	\$ 3,376	\$ 3,689
<i>Operating costs and expenses:</i>		
Salaries and benefits	1,542	1,648
Supplies	558	616
Other operating expenses	811	911
Government and other legal settlements and related costs	5	5
Electronic health records incentive reimbursement	-	(1)
Lease cost and rent	80	89
Depreciation and amortization	153	181
Impairment and (gain) loss on sale of businesses, net	38	28
Total operating costs and expenses	3,187	3,477
<i>Income from operations</i>	189	212
Interest expense, net	257	228
Loss from early extinguishment of debt	31	4
Equity in earnings of unconsolidated affiliates	(5)	(7)
Loss before income taxes	(94)	(13)
Provision for (benefit from) income taxes	7	(7)
<i>Net loss</i>	(101)	(6)
Less: Net income attributable to noncontrolling interests	17	19
Net loss attributable to Community Health Systems, Inc. stockholders	\$ (118)	\$ (25)
<i>Loss per share attributable to Community Health Systems, Inc. common stockholders:</i>		
Basic	\$ (1.04)	\$ (0.22)

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Diluted	\$	(1.04)	\$	(0.22)
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*Weighted-average number of shares outstanding:*

Basic	113,257,608	112,291,496
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Diluted	113,257,608	112,291,496
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See accompanying notes to the condensed consolidated financial statements.

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**COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

*(In millions)*

*(Unaudited)*

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
Net loss	\$ (101)	\$ (6)
Other comprehensive (loss) income, net of income taxes:		
Net change in fair value of interest rate swaps, net of tax	(2)	18
Net change in fair value of available-for-sale securities, net of tax	2	(2)
Amortization and recognition of unrecognized pension cost components, net of tax	-	1
Other comprehensive income	-	17
Comprehensive (loss) income	(101)	11
Less: Comprehensive income attributable to noncontrolling interests	17	19
Comprehensive loss attributable to Community Health Systems, Inc. stockholders	\$ (118)	\$ (8)

See accompanying notes to the condensed consolidated financial statements.

**Table of Contents****COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS***(In millions, except share data)**(Unaudited)*

	March 31, 2019	December 31, 2018
<b>ASSETS</b>		
<i>Current assets:</i>		
Cash and cash equivalents	\$ 277	\$ 196
Patient accounts receivable	2,360	2,352
Supplies	397	402
Prepaid income taxes	3	3
Prepaid expenses and taxes	197	196
Other current assets	361	400
Total current assets	3,595	3,549
<i>Property and equipment</i>	10,331	10,301
Less accumulated depreciation and amortization	(4,245)	(4,162)
Property and equipment, net	6,086	6,139
<i>Goodwill</i>	4,553	4,559
<i>Deferred income taxes</i>	66	69
<i>Other assets, net</i>	2,009	1,543
Total assets	\$ 16,309	\$ 15,859
<b>LIABILITIES AND STOCKHOLDERS DEFICIT</b>		
<i>Current liabilities:</i>		
Current maturities of long-term debt	\$ 205	\$ 204
Current operating lease liabilities	143	-
Accounts payable	863	887
Accrued liabilities:		
Employee compensation	628	627
Accrued interest	250	206
Other	419	468
Total current liabilities	2,508	2,392
<i>Long-term debt</i>	13,385	13,392
<i>Deferred income taxes</i>	29	26

<i>Long-term operating lease liabilities</i>	495	-
<i>Other long-term liabilities</i>	977	1,008
<i>Total liabilities</i>	17,394	16,818
<i>Redeemable noncontrolling interests in equity of consolidated subsidiaries</i>	505	504
<b>STOCKHOLDERS DEFICIT</b>		
<i>Community Health Systems, Inc. stockholders deficit:</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; 118,073,278 shares issued and outstanding at March 31, 2019, and 116,248,376 shares issued and outstanding at December 31, 2018	1	1
Additional paid-in capital	2,007	2,017
Accumulated other comprehensive loss	(10)	(10)
Accumulated deficit	(3,661)	(3,543)
Total Community Health Systems, Inc. stockholders deficit	(1,663)	(1,535)
<i>Noncontrolling interests in equity of consolidated subsidiaries</i>	73	72
<i>Total stockholders deficit</i>	(1,590)	(1,463)
<i>Total liabilities and stockholders deficit</i>	\$ 16,309	\$ 15,859

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)*

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
<i>Cash flows from operating activities:</i>		
Net loss	\$ (101)	\$ (6)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	153	181
Government and other legal settlements and related costs	5	5
Stock-based compensation expense	3	4
Impairment and (gain) loss on sale of businesses, net	38	28
Loss from early extinguishment of debt	31	4
Other non-cash expenses, net	36	12
Changes in operating assets and liabilities, net of effects of acquisitions and divestitures:		
Patient accounts receivable	(10)	(66)
Supplies, prepaid expenses and other current assets	14	(21)
Accounts payable, accrued liabilities and income taxes	23	(33)
Other	(59)	(2)
Net cash provided by operating activities	133	106
<i>Cash flows from investing activities:</i>		
Acquisitions of facilities and other related businesses	(4)	(8)
Purchases of property and equipment	(121)	(170)
Proceeds from disposition of hospitals and other ancillary operations	161	11
Proceeds from sale of property and equipment	-	3
Purchases of available-for-sale securities and equity securities	(15)	(19)
Proceeds from sales of available-for-sale securities and equity securities	32	34
Increase in other investments	(34)	(28)
Net cash provided by (used in) investing activities	19	(177)
<i>Cash flows from financing activities:</i>		
Repurchase of restricted stock shares for payroll tax withholding requirements	(1)	(1)
Deferred financing costs and other debt-related costs	(25)	(11)
Proceeds from noncontrolling investors in joint ventures	1	-
Redemption of noncontrolling investments in joint ventures	(1)	(3)

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Distributions to noncontrolling investors in joint ventures	(27)	(23)
Borrowings under credit agreements	12	10
Issuance of long-term debt	1,840	-
Proceeds from ABL facility	25	49
Repayments of long-term indebtedness	(1,895)	(89)
Net cash used in financing activities	(71)	(68)
<i>Net change in cash and cash equivalents</i>	81	(139)
<i>Cash and cash equivalents at beginning of period</i>	196	563
<i>Cash and cash equivalents at end of period</i>	\$ 277	\$ 424
<i>Supplemental disclosure of cash flow information:</i>		
Interest payments	\$ (189)	\$ (212)
Income tax refunds (payments), net	\$ -	\$ -

See accompanying notes to the condensed consolidated financial statements.

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**COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES**

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

**1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**

The unaudited condensed consolidated financial statements of Community Health Systems, Inc. (the Parent or Parent Company ) and its subsidiaries (the Company ) as of March 31, 2019 and December 31, 2018 and for the three-month periods ended March 31, 2019 and 2018, have been prepared in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ). In the opinion of management, such information contains all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for such periods. All intercompany transactions and balances have been eliminated. The results of operations for the three months ended March 31, 2019, are not necessarily indicative of the results to be expected for the full fiscal year ending December 31, 2019. Certain information and disclosures normally included in the notes to condensed consolidated financial statements have been condensed or omitted as permitted by the rules and regulations of the Securities and Exchange Commission (the SEC ). The Company believes the disclosures are adequate to make the information presented not misleading. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2018, contained in the Company s Annual Report on Form 10-K filed with the SEC on February 21, 2019 ( 2018 Form 10-K ).

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

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

*Revenue Recognition.* On January 1, 2018, the Company adopted the new revenue recognition accounting standard issued by the Financial Accounting Standards Board ( FASB ) and codified in the FASB Accounting Standards Codification ( ASC ) as topic 606 ( ASC 606 ). The revenue recognition standard in ASC 606 outlines a single comprehensive model for recognizing revenue as performance obligations, defined in a contract with a customer as goods or services transferred to the customer in exchange for consideration, are satisfied. The standard also requires expanded disclosures regarding the Company s revenue recognition policies and significant judgments employed in the determination of revenue.

The Company applied the modified retrospective approach to all contracts when adopting ASC 606. As a result, upon the Company s adoption of ASC 606 the majority of what was previously classified as the provision for bad debts in the statement of operations is now reflected as implicit price concessions (as defined in ASC 606) and therefore is included as a reduction to net operating revenues. For changes in credit issues not assessed at the date of service, the Company prospectively recognizes those amounts in other operating expenses on the statement of operations. Other than these changes in presentation on the consolidated statement of operations, the adoption of ASC 606 did not have

a material impact on the consolidated results of operations for the year ended December 31, 2018 or the three months ended March 31, 2019, and the Company does not expect it to have a material impact on its consolidated results of operations on a prospective basis.

As part of the adoption of ASC 606, the Company elected two of the available practical expedients provided for in the standard. First, the Company does not adjust the transaction price for any financing components as those were deemed to be insignificant. Additionally, the Company expenses all incremental customer contract acquisition costs as incurred because such costs are not material and would be amortized over a period less than one year.

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

Net operating revenues are recorded at the transaction price estimated by the Company to reflect the total consideration due from patients and third-party payors in exchange for providing goods and services in patient care. These services are considered to be a single performance obligation and have a duration of less than one year. Revenues are recorded as these goods and services are provided. The transaction price, which involves significant estimates, is determined based on the Company's standard charges for the goods and services provided, with a reduction recorded for price concessions related to third party contractual arrangements as well as patient discounts and other patient price concessions. During the year ended December 31, 2018 and the three months ended March 31, 2019, the impact of changes to the inputs used to determine the transaction price was considered immaterial to the current period.

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 & Medicaid Services ( CMS ) and are funded with a combination of state and federal resources, including, in certain instances, fees or taxes levied on the providers. Under these supplemental programs, the Company recognizes 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 fees, taxes or other program-related costs are reflected in other operating expenses.

The Company's net operating revenues during the three months ended March 31, 2019 and 2018 have been presented in the following table based on an allocation of the estimated transaction price with the patient between the primary patient classification of insurance coverage (in millions):

		<b>Three Months Ended</b>	
		<b>March 31,</b>	
		<b>2019</b>	<b>2018</b>
Medicare	\$	889	\$ 1,033
Medicaid		428	459
Managed Care and other third-party payors		2,025	2,117
Self-pay		34	80
<b>Total</b>	<b>\$</b>	<b>3,376</b>	<b>\$ 3,689</b>

**Patient Accounts Receivable**

Patient accounts receivable are recorded at net realizable value based on certain assumptions determined by each payor. For third-party payors including Medicare, Medicaid, and Managed Care, the net realizable value is based on the estimated contractual reimbursement percentage, which is based on current contract prices or historical paid claims data by payor. For self-pay accounts receivable, which includes patients who are uninsured and the patient

responsibility portion for patients with insurance, the net realizable value is determined using estimates of historical collection experience without regard to aging category. These estimates are adjusted for estimated conversions of patient responsibility portions, expected recoveries and any anticipated changes in trends.

Patient accounts receivable can be impacted by the effectiveness of the Company's collection efforts. Additionally, significant changes in payor mix, business office operations, economic conditions or trends in federal and state governmental healthcare coverage could affect the net realizable value of accounts receivable. The Company also continually reviews the net realizable value of accounts receivable by monitoring historical cash collections as a percentage of trailing net operating revenues, as well as by analyzing current period net revenue and admissions by payor classification, aged accounts receivable by payor, days revenue outstanding, the composition of self-pay receivables between pure self-pay patients and the patient responsibility portion of third-party insured receivables and the impact of recent acquisitions and dispositions.

Final settlements for some payors and programs are subject to adjustment based on administrative review and audit by third parties. As a result of these final settlements, the Company has recorded amounts due to third-party payors of \$148 million and \$144 million as of March 31, 2019 and December 31, 2018, respectively, and these amounts are included in accrued liabilities-other in the accompanying condensed consolidated balance sheets. Amounts due from third-party payors were \$142 million and \$155 million as of March 31, 2019 and December 31, 2018, respectively, and are included in other current assets in the accompanying condensed consolidated balance sheets. Substantially all Medicare and Medicaid cost reports are final settled through 2015.

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**COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES**

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

**Charity Care**

In the ordinary course of business, the Company renders services to patients who are financially unable to pay for hospital care. The Company's policy is to not pursue collections for such amounts; therefore, the related charges for those patients who are financially unable to pay and that otherwise do not qualify for reimbursement from a governmental program are not reported in net operating revenues, and are thus classified as charity care. The Company determines amounts that qualify for charity care primarily based on the patient's household income relative to the federal poverty level guidelines, as established by the federal government.

These charity care services are estimated to be \$141 million and \$114 million for the three months ended March 31, 2019 and 2018, respectively, representing the value (at the Company's standard charges) of these charity care services that are excluded from net operating revenues. The estimated cost incurred by the Company to provide these charity care services to patients who are unable to pay was approximately \$15 million and \$14 million during the three months ended March 31, 2019 and 2018, respectively. The estimated cost of these charity care services was determined using a ratio of cost to gross charges and applying that ratio to the gross charges associated with providing care to charity patients for the period.

*Leases.* On January 1, 2019, the Company adopted the cumulative accounting standard updates initially issued by the FASB in February 2016 that amend the accounting for leases and are codified as ASC 842. These changes to the lease accounting model require operating leases be recorded on the balance sheet through recognition of a liability for the discounted present value of future fixed lease payments and a corresponding right-of-use ( ROU ) asset. The Company's accounting for finance leases remained substantially unchanged from its prior accounting for capital leases. The ROU asset recorded at commencement of the lease represents the right to use the underlying asset over the lease term in exchange for the lease payments. Leases with an initial term of 12 months or less and do not have an option to purchase the underlying asset that is deemed reasonably certain to exercise are not recorded on the balance sheet; rather, rent expense for these leases is recognized on a straight-line basis over the lease term, or when incurred if a month-to-month lease. When readily determinable, the Company uses the interest rate implicit in a lease to determine the present value of future lease payments. For leases where the implicit rate is not readily determinable, the Company's incremental borrowing rate is utilized. The Company calculates its incremental borrowing rate on a quarterly basis using a third-party financial model that estimates the rate of interest the Company would have to pay to borrow an amount equal to the total lease payments on a collateralized basis over a term similar to the lease. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The Company elected the amended transition requirements allowed for by the FASB in Accounting Standards Update ( ASU ) 2018-11, which provide entities relief by allowing them not to recast prior comparative periods from the adoption of ASC 842. As a result, the prior year comparative financial statements have not been restated to reflect the adoption of ASC 842. Additionally, the Company elected the package of practical expedients available in ASC 842 upon adoption whereby an entity need not reassess expired contracts for lease identification or classification as a finance or operating lease, or for the reassessment of initial direct costs. The Company has not elected the practical expedient to use hindsight to determine the lease term for its leases at transition. Certain of the Company's lease agreements have lease and non-lease components, which for the majority of leases the Company accounts for separately when the actual lease and non-lease components are determinable. For equipment leases with immaterial

non-lease components incorporated into the fixed rent payment, the Company accounts for the lease and non-lease components as a single lease component in determining the lease payment. Additionally, for certain equipment leases such as copiers, the Company applies a portfolio approach to effectively record the operating lease liability and ROU asset.

The adoption of ASC 842 had a material impact on the Company's condensed consolidated balance sheet through the recording of the operating lease liabilities and related ROU assets for leases in effect at January 1, 2019, but the adoption did not have a material impact on the Company's condensed consolidated statement of loss or condensed consolidated statement of cash flows for the three months ended March 31, 2019. The Company recorded approximately \$673 million of operating lease liabilities and ROU assets on January 1, 2019 upon adoption of ASC 842, with no impact on accumulated deficit.

*Accounting for the Impairment or Disposal of Long-Lived Assets.* During the three months ended March 31, 2019, the Company recorded a total combined impairment charge and loss on disposal of approximately \$38 million to reduce the carrying value of closed hospitals and certain hospitals that have been deemed held for sale based on the difference between the carrying value of the hospital disposal groups compared to estimated fair value less costs to sell. Included in the carrying value of the hospital disposal groups at March 31, 2019 is a net allocation of approximately \$8 million of goodwill allocated from the hospital operations reporting unit goodwill based on a calculation of the disposal groups' relative fair value compared to the total reporting unit. The Company will continue to evaluate the potential for further impairment of the long-lived assets of underperforming hospitals as well as evaluating offers for potential sales. Based on such analysis, additional impairment charges may be recorded in the future.



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**COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES**

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

During the three months ended March 31, 2018, the Company recorded a total combined impairment charge and loss on disposal of approximately \$28 million to reduce the carrying value of certain hospitals that have been deemed held for sale based on the difference between the carrying value of the hospital disposal groups compared to estimated fair value less costs to sell. Included in the carrying value of the hospital disposal groups at March 31, 2018 is a net allocation of approximately \$25 million of goodwill allocated from the hospital operations reporting unit goodwill based on a calculation of the disposal groups' relative fair value compared to the total reporting unit.

*New Accounting Pronouncements.* In August 2018, the FASB issued ASU 2018-15 to provide guidance on the accounting for implementation costs incurred in a cloud computing arrangement that is accounted for as a service contract. This ASU requires entities to account for such costs consistent with the guidance on capitalizing costs associated with developing or obtaining internal-use software. The ASU is effective for all entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the impact that adoption of this ASU will have on its consolidated financial position and results of operations.

**2. ACCOUNTING FOR STOCK-BASED COMPENSATION**

Stock-based compensation awards have been granted under the Community Health Systems, Inc. Amended and Restated 2000 Stock Option and Award Plan, amended and restated as of March 20, 2013 (the "2000 Plan"), and the Community Health Systems, Inc. Amended and Restated 2009 Stock Option and Award Plan, which was amended and restated as of March 14, 2018 and approved by the Company's stockholders at the annual meeting of stockholders held on May 15, 2018 (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 since 2008 have a 10-year contractual term. 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 March 31, 2019, 4,948,119 shares of unissued common stock were reserved for future grants under the 2009 Plan.

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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):

	<b>Three Months Ended March 31,</b>			
	<b>2019</b>		<b>2018</b>	
Effect on loss before income taxes	\$	(3)	\$	(4)
Effect on net loss	\$	(2)	\$	(3)

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

At March 31, 2019, \$22 million of unrecognized stock-based compensation expense related to outstanding unvested restricted stock and restricted stock units (the terms of which are summarized below) was expected to be recognized over a weighted-average period of 28 months. Of that amount, \$2 million related to outstanding unvested stock options was expected to be recognized over a weighted-average period of 35 months and \$20 million related to outstanding unvested restricted stock and restricted stock units was expected to be recognized over a weighted-average period of 27 months. There were no modifications to awards during the three months ended March 31, 2019 and 2018.

The fair value of stock options was estimated using the Black Scholes option pricing model with the following assumptions and weighted-average fair values during the three months ended March 31, 2019:

	<b>Three Months Ended March 31, 2019</b>
Expected volatility	66.6%
Expected dividends	-
Expected term	6 years
Risk-free interest rate	2.6%

In determining the expected term, the Company examined concentrations of option holdings and historical patterns of option exercises and forfeitures, as well as forward-looking factors, in an effort to determine if there were any discernable employee populations. From this analysis, the Company identified two primary employee populations, one consisting of certain senior executives and the other consisting of substantially all other recipients.

The expected volatility rate was estimated based on historical volatility. In determining expected volatility, the Company also reviewed the market-based implied volatility of actively traded options of its common stock and determined that historical volatility utilized to estimate the expected volatility rate did not differ significantly from the implied volatility.

The expected term computation is based on historical exercise and cancellation patterns and forward-looking factors, where present, for each population identified. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of the grant. The pre-vesting forfeiture rate is based on historical rates and forward-looking factors for each population identified. The Company adjusts the estimated forfeiture rate to its actual experience.

Table of Contents**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 March 31, 2019, and changes during the three-month period following December 31, 2018, 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 March 31, 2019
Outstanding at December 31, 2018	624,938	\$ 31.21		
Granted	646,500	4.99		
Exercised	-	-		
Forfeited and cancelled	(92,301)	25.57		
Outstanding at March 31, 2019	1,179,137	\$ 17.27	6.2 years	\$ -
Exercisable at March 31, 2019	532,637	\$ 32.18	1.8 years	\$ -

The weighted-average grant date fair value of stock options granted during the three months ended March 31, 2019 was \$3.08. No stock options were granted during the three months ended March 31, 2018. The aggregate intrinsic value (calculated as the number of in-the-money stock options multiplied by the difference between the Company's closing stock price on the last trading day of the reporting period (\$3.73) 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 March 31, 2019. This amount changes based on the market value of the Company's common stock. There were no options exercised during the three months ended March 31, 2019 and 2018. 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 2009 Plan to employees of certain subsidiaries. With respect to time-based vesting restricted stock that has been awarded under the 2009 Plan, the restrictions on these shares have generally lapsed in one-third increments on each of the first three anniversaries of the award date. In addition, certain of the restricted stock awards granted to the Company's senior executives have contained performance objectives required to be met in addition to any time-based vesting requirements. If the applicable performance objectives are not attained, these awards will be forfeited in their entirety. For such performance-based awards granted prior to March 1, 2017, performance objectives were measured over a one-year period, and, provided the target performance objective was attained, restrictions lapsed in one-third increments on each of the first three anniversaries of the award date. For performance-based awards granted on or after March 1, 2017, the performance objectives have

been measured cumulatively over a three-year period. With respect to performance-based awards granted on or after March 1, 2017, if the applicable target performance objective is met at the end of the three-year period, then the portion of the restricted stock award subject to such performance objective will vest in full on the third anniversary of the award date. Additionally, for these awards, based on the level of achievement for the applicable performance objective within the parameters specified in the award agreement, the number of shares to be issued in connection with the vesting of the award may be adjusted to decrease or increase the number of shares specified in the original award. Notwithstanding the above-mentioned performance objectives and vesting requirements, the restrictions with respect to restricted stock granted under the 2009 Plan may 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 objectives that have not yet been satisfied are not considered outstanding for purposes of determining earnings per share until the performance objectives have been satisfied.

Restricted stock outstanding under the 2009 Plan as of March 31, 2019, and changes during the three-month period following December 31, 2018, were as follows:

	<b>Shares</b>	<b>Weighted- Average Grant Date Fair Value</b>
Unvested at December 31, 2018	3,308,907	\$ 7.00
Granted	1,958,000	4.97
Vested	(983,986)	9.17
Forfeited	(57,335)	6.37
Unvested at March 31, 2019	4,225,586	5.56

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

Restricted stock units ( RSUs ) have been granted to the Company's outside directors under the 2000 Plan and the 2009 Plan. On March 1, 2018, each of the Company's outside directors received a grant under the 2009 Plan of 37,118 RSUs. On March 1, 2019, each of the Company's outside directors received a grant under the 2009 Plan of 34,068 RSUs. Each of the 2018 and 2019 grants had a grant date fair value of approximately \$170,000. Vesting of these RSUs occurs in one-third increments on each of the first three anniversaries of the award date or upon the director's earlier cessation of service on the board, other than for cause.

RSUs outstanding under the 2009 Plan as of March 31, 2019, and changes during the three-month period following December 31, 2018, were as follows:

	<b>Shares</b>	<b>Weighted-Average Grant Date Fair Value</b>
Unvested at December 31, 2018	397,906	\$ 6.17
Granted	306,612	4.99
Vested	(162,942)	7.42
Forfeited	-	-
Unvested at March 31, 2019	541,576	5.13

**3. COST OF REVENUE**

Substantially all of the Company's operating costs and expenses are cost of revenue items. Operating costs that could be classified as general and administrative by the Company would include the Company's corporate office costs at its Franklin, Tennessee office, which were \$43 million and \$51 million for the three months ended March 31, 2019 and 2018, respectively. Included in these corporate office costs is stock-based compensation of \$3 million and \$4 million for the three months ended March 31, 2019 and 2018, respectively.

**4. USE OF ESTIMATES**

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

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

Acquisition and integration expenses related to prospective and closed acquisitions included in other operating expenses on the condensed consolidated statements of loss were \$1 million and less than \$1 million for the three months ended March 31, 2019 and 2018, respectively.

During the three months ended March 31, 2019, one or more subsidiaries of the Company paid approximately \$4 million to acquire the operating assets and related businesses of certain physician practices, clinics and other ancillary businesses that operate within the communities served by the Company's affiliated hospitals. In connection with these acquisitions, during the three months ended March 31, 2019, the Company allocated approximately \$2 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. No hospitals were acquired in 2018 or during the three months ended March 31, 2019.

***Divestitures***

The following table provides a summary of hospitals that the Company divested during the three months ended March 31, 2019 and the year ended December 31, 2018:

<b>Hospital</b>	<b>Buyer</b>	<b>City, State</b>	<b>Licensed Beds</b>	<b>Effective Date</b>
<b><u>2019 Divestitures:</u></b>				
Chester Regional Medical Center	Medical University Hospital Authority	Chester, SC	82	March 1, 2019
Carolinas Hospital System - Florence	Medical University Hospital Authority	Florence, SC	396	March 1, 2019

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Springs Memorial Hospital	Medical University Hospital Authority	Lancaster, SC	225	March 1, 2019
Carolinas Hospital System - Marion	Medical University Hospital Authority	Mullins, SC	124	March 1, 2019
Memorial Hospital of Salem County	Community Healthcare Associates, LLC	Salem, NJ	126	January 31, 2019
Mary Black Health System - Spartanburg	Spartanburg Regional Healthcare System	Spartanburg, SC	207	January 1, 2019
Mary Black Health System - Gaffney	Spartanburg Regional Healthcare System	Gaffney, SC	125	January 1, 2019

2018 Divestitures:

Sparks Regional Medical Center	Baptist Health	Fort Smith, AR	492	November 1, 2018
Sparks Medical Center - Van Buren	Baptist Health	Van Buren, AR	103	November 1, 2018
AllianceHealth Deaconess	INTEGRIS Health	Oklahoma City, OK	238	October 1, 2018
Munroe Regional Medical Center	Adventist Health System	Ocala, FL	425	August 1, 2018
Tennova Healthcare - Dyersburg Regional	West Tennessee Healthcare	Dyersburg, TN	225	June 1, 2018
Tennova Healthcare - Regional Jackson	West Tennessee Healthcare	Jackson, TN	150	June 1, 2018
Tennova Healthcare - Volunteer Martin	West Tennessee Healthcare	Martin, TN	100	June 1, 2018
Williamson Memorial Hospital	Mingo Health Partners, LLC	Williamson, WV	76	June 1, 2018
Byrd Regional Hospital	Allegiance Health Management	Leesville, LA	60	June 1, 2018
Tennova Healthcare - Jamestown	Rennova Health, Inc.	Jamestown, TN	85	June 1, 2018
Bayfront Health Dade City	Adventist Health System	Dade City, FL	120	April 1, 2018



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

A discontinued operation in U.S. GAAP is a disposal that represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. Additional disclosures are required for significant components of the entity that are disposed of or are held for sale but do not qualify as discontinued operations. The divestitures above do not meet the criteria for reporting as discontinued operations and are included in continuing operations for the three months ended March 31, 2019 and 2018.

The following table discloses amounts included in the condensed consolidated balance sheet for the hospitals classified as held for sale as of March 31, 2019 and December 31, 2018 (in millions):

	<b>March 31, 2019</b>	<b>December 31, 2018</b>
Other current assets	\$ 4	\$ 21
Other assets, net	14	154
Accrued liabilities	-	44

***Other Hospital Closures***

During the three months ended December 31, 2018, the Company completed the planned closure of Tennova Physicians Regional Medical Center in Knoxville, Tennessee and Tennova Lakeway Regional Medical Center in Morristown, Tennessee. The Company recorded an impairment charge of approximately \$12 million during the three months ended March 31, 2019 to further adjust the fair value of the supplies, inventory and long-lived assets of these hospitals, including property and equipment and capitalized software costs, based on the Company's updated evaluation of their estimated fair value and future utilization and consideration of costs to dispose of such assets.

**6. INCOME TAXES**

The total amount of unrecognized benefit that would affect the effective tax rate, if recognized, was approximately \$7 million as of March 31, 2019. A total of approximately \$4 million of interest and penalties is included in the amount of the liability for uncertain tax positions at March 31, 2019. It is the Company's policy to recognize interest and penalties related to unrecognized benefits in its condensed consolidated statements of loss as income tax expense.

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

The Company's federal income tax returns for the 2009 and 2010 tax years have been settled with the Internal Revenue Service. The results of these examinations were not material to the Company's consolidated results of operations or consolidated financial position. The Company's federal income tax returns for the 2014 and 2015 tax years remain under examination by the Internal Revenue Service. The Company believes the results of these examinations will not be material to its consolidated results of operations or consolidated financial position. The Company has extended the federal statute of limitations through June 30, 2019 for Community Health Systems, Inc. for the tax periods ended

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December 31, 2007, 2008, 2009 and 2010, and through December 31, 2019 for the tax periods ended December 31, 2014 and 2015.

The Company's effective tax rates were (7.4)% and 53.8% for the three months ended March 31, 2019 and 2018, respectively. The difference in the Company's effective tax rate for the three months ended March 31, 2019, when compared to the three months ended March 31, 2018, was primarily due to the increase in valuation allowance recognized on IRC Section 163(j) interest carryforwards.

Cash paid for income taxes, net of refunds received, resulted in a net refund of less than \$1 million during both of the three-month periods ended March 31, 2019 and 2018.

Table of Contents**COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****7. GOODWILL AND OTHER INTANGIBLE ASSETS*****Goodwill***

The changes in the carrying amount of goodwill for the three months ended March 31, 2019 are as follows (in millions):

Balance, as of December 31, 2018		
Goodwill	\$	7,373
Accumulated impairment losses		(2,814)
		4,559
Goodwill acquired as part of acquisitions during current year		2
Goodwill allocated to hospitals held for sale		(8)
Balance, as of March 31, 2019		
Goodwill		7,367
Accumulated impairment losses		(2,814)
	\$	4,553

Goodwill is allocated to each identified reporting unit, which is defined as an operating segment or one level below the operating segment (referred to as a component of the entity). Management has determined that the Company's operating segments meet the criteria to be classified as reporting units. At March 31, 2019, the Company had approximately \$4.6 billion of goodwill recorded.

Goodwill is evaluated for impairment annually 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. During 2017, the Company early adopted ASU 2017-04, which allows a company to record a goodwill impairment when the reporting unit's carrying value exceeds the fair value determined in step one. The Company performed its annual goodwill impairment evaluation during the fourth quarter of 2018 using the October 31, 2018 measurement date, which evaluation indicated no impairment. The next annual goodwill evaluation will be performed during the fourth quarter of 2019 with an October 31, 2019 measurement date, or sooner if the Company identifies certain indicators of impairment.

The Company estimates the fair value of the related reporting units using both a discounted cash flow model as well as a market multiple model. The cash flow forecasts are adjusted by an appropriate discount rate based on the Company's estimate of a market participant's weighted-average cost of capital. These models are both based on the

Company's best estimate of future revenues and operating costs and are reconciled to the Company's consolidated market capitalization, with consideration of the amount a potential acquirer would be required to pay, in the form of a control premium, in order to gain sufficient ownership to set policies, direct operations and control management decisions.

While no impairment was indicated in the Company's most recent annual goodwill evaluation as of the October 31, 2018 measurement date, the reduction in the Company's fair value and the resulting goodwill impairment charges recorded in 2016 and 2017 reduced the carrying value of the Company's hospital operations reporting unit to an amount equal to its estimated fair value. This increases the risk that future declines in fair value could result in goodwill impairment. The determination of fair value in the Company's goodwill impairment analysis is based on an estimate of fair value for each reporting unit utilizing known and estimated inputs at the evaluation date. Some of those inputs include, but are not limited to, the most recent price of the Company's common stock or fair value of long-term debt, estimates of future revenue and expense growth, estimated market multiples, expected capital expenditures, income tax rates, and costs of invested capital. Future estimates of fair value could be adversely affected if the actual outcome of one or more of these assumptions changes materially in the future, including further decline in the Company's stock price or fair value of long-term debt, lower than expected hospital volumes, higher market interest rates or increased operating costs. Such changes impacting the calculation of fair value could result in a material impairment charge in the future.

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

No intangible assets other than goodwill were acquired during the three months ended March 31, 2019. The gross carrying amount of the Company's other intangible assets subject to amortization was \$1 million at both March 31, 2019 and December 31, 2018, and the net carrying amount was less than \$1 million at both March 31, 2019 and December 31, 2018. The carrying amount of the Company's other intangible assets not subject to amortization was \$66 million and \$67 million at March 31, 2019 and December 31, 2018, 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, tradenames, or non-compete agreements entered into in connection with prior acquisitions.

The weighted-average remaining amortization period for the intangible assets subject to amortization is approximately two years. There are no expected residual values related to these intangible assets. Amortization expense on these intangible assets was less than \$1 million for both of the three-month periods ended March 31, 2019 and 2018. Amortization expense on intangible assets is estimated to be less than \$1 million for the remainder of 2019 and in 2020 through 2022.

The gross carrying amount of capitalized software for internal use was approximately \$1.2 billion at both March 31, 2019 and December 31, 2018, and the net carrying amount was approximately \$339 million and \$355 million at March 31, 2019 and December 31, 2018, 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 March 31, 2019, there was approximately \$52 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 \$30 million and \$36 million during the three months ended March 31, 2019 and 2018, respectively. Amortization expense on capitalized internal-use software is estimated to be \$87 million for the remainder of 2019, \$107 million in 2020, \$58 million in 2021, \$36 million in 2022, \$25 million in 2023, \$14 million in 2024 and \$12 million thereafter.

**8. EARNINGS PER SHARE**

The following table sets forth the components of the denominator for the computation of basic and diluted (loss) earnings per share attributable to Community Health Systems, Inc. common stockholders:

		<b>Three Months Ended</b>	
		<b>March 31,</b>	
		<b>2019</b>	<b>2018</b>
Weighted-average number of shares outstanding	basic	113,257,608	112,291,496
Effect of dilutive securities:			

Restricted stock awards	-	-
Employee stock options	-	-
Other equity-based awards	-	-

Weighted-average number of shares outstanding	diluted	113,257,608	112,291,496
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The Company generated a loss attributable to Community Health Systems, Inc. common stockholders for the three-month periods ended March